OTP Bank
Annual Report

otpbank

2017

Summary

Message from the Chairman of the Supervisory Board

With a tradition of more than 60 years on the banking market, OTP Group's business strategy remains focused on generating value for its clients, shareholders and employees through the most efficient, retail-focused universal bank in CEE. The Group endeavours to offer high quality customised services and is constantly seeking to strengthen its innovation skills in order to meet the current and future needs of customers.

In 2017 OTP Group increased its presence on the CEE market, with positive forecasts for further development of all OTP's operations in the region. OTP Group registered the highest consolidated net profit of its history, HUF 284.1 billion (approximately EUR 910 million) versus HUF 201.2 billion posted in 2016. Similarly to the previous year, adjustment items had a limited impact on the annual accounting profit.

The Romanian business continued to increase in 2017, amid an effervescent political and economic landscape. According to the reporting rules of the Group, OTP Bank Romania realized a net profit of HUF 3 billion (RON 45 million) in 2017, which underpins an 80.8% improvement compared to 2016.

Compared to the previous year, the operating income surged by 12%, as a result of stable operating expenses (+1%) and higher total income (+4%), while the net interest income did not change. At the same time, the non-performing loans ratio declined to 13.5% at the end of 2017.

2017 was the year of digitalization, thus OTP Bank Romania focused on developing and improving products and services that will make its customers' life better, more comfortable and easier. In June 2017, the E-loan project was launched, which aims to develop credit origination processes for individuals and SMEs in the on-line environment. A distinct SME project was started as well, aiming to increase the number of clients and loan volumes and to decrease the processing time of applications and credit approvals. Beside Overdraft without real estate guarantees, the Quick loan for working capital and Quick loan for acquisition of equipment are also available online.

We improved our internal operations processes in order keep up with the digital, legal and environmental changes. To support the technological effort, the bank decided to implement a digital archiving solution and an application to streamline and automate workflows, among others. We have also put into effect several complex regulatory projects in order to align with the new international regulations: IFRS9, MiFID II and GDPR.

A strategic objective for OTP Bank Romania is to raise awareness for the need of financial education in the local community. We established the "Right to Education Foundation" back in 2014 when OTP Bank Romania decided to undertake a pioneering role in the financial education of young people, adults and entrepreneurs. In 2017 we offered through the Foundation courses to over 1,600 pupils from 26 schools in Bucharest and countrywide. In October 2017 we opened the first non-formal financial education hub, OK Center, a unique establishment in the local market. The 1,200 sqm space is dedicated to all those who want to update their financial knowledge through innovative methods. The EUR 600,000 investment that made OK Center possible has also strengthened the role and vision we undertook in 2014.

In the future, we will continue to pursue our strategic goal of organic growth on the local market. Our aim is to offer our clients and potential clients high quality financial services customized to their actual needs, and this can only be achieved through constant business development. We will also continue to advocate the cause of financial education as we strongly believe that a healthy society is starting with a solid economic background.

Antal György Kovács
Chairman of the Supervisory Board

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OTP Bank Romania Annual Report

Financial Highlights

2017

FINANCIAL HIGHLIGHTS
MAIN FINANCIAL INDICATORS OF OTP GROUP

Main components of the Statement of recognised income in RON million	2016	2017	Y-o-Y
Consolidated after tax profit	**2,919**	**4,156**	**42%**
Adjustments (total)	**18**	**-40**	**-319%**
Consolidated adjusted after tax profit without the effect of adjustments	**2,900**	**4,197**	**45%**
Pre-tax profit	3,529	4,748	35%
Operating profit	4,843	5,365	11%
Total income	10,615	11,891	12%
Net interest income	7,525	8,076	7%
Net fees and commissions	2,537	3,094	22%
Other net non-interest income	554	722	30%
Operating expenses	-5,773	-6,526	13%
Total risk costs	-1,344	-675	-50%
One off items	30	58	93%
Corporate taxes	-629	-552	-12%
Main components of balance sheet closing balances in RON million	2016	2017	YTD
Total assets	163,564	198,141	21%
Total customer loans (net, FX adjusted)	82,666	104,970	27%
Total customer loans (gross, FX adjusted)	95,890	115,524	20%
Allowances for possible loan losses (FX adjusted)	-13,224	-10,554	-20%
Total customer deposits (FX adjusted)	122,988	153,725	25%
Issued securities	2,144	3,760	75%
Subordinated loans	1,130	1,142	1%
Total shareholders' equity	20,730	24,637	19%
Indicators based on adjusted earnings %	2016	2017	Y-o-Y
ROE (from accounting net earnings)	15.4%	18.5%	3.1%p
ROE (from accounting net earnings, on 12,5% CET1 ratio)	17.6%	22.4%	4.8%p
ROE (from adjusted net earnings)	15.4%	18.7%	3.4%p
ROA (from adjusted net earnings)	1.9%	2.4%	0.5%p
Operating profit margin	3.10%	3.03%	-0.07%p
Total income margin	6.79%	6.71%	-0.09%p
Net interest margin	4.82%	4.56%	-0.26%p
Cost-to-asset ratio	3.70%	3.68%	-0.01%p
Cost/income ratio	54.4%	54.9%	0.5%p
Risk cost to average gross loans	1.14%	0.43%	-0.71%p
Total risk cost-to-asset ratio	0.86%	0.38%	-0.48%p
Effective tax rate	17.8%	11.6%	-6.2%p
Net loan/(deposit+retail bond) ratio (FX adjusted)	66%	68%	2%p
Capital adequacy ratio (consolidated, IFRS) - Basel3	16.0%	14.6%	-1.4%p
Tier1 ratio - Basel3	13.5%	12.7%	-0.9%p
Income other than interest/total income	29.1%	32.1%	3.0%p
EPS diluted (HUF) (from unadjusted net earnings)	765	1,074	40%
EPS diluted (HUF) (from adjusted net earnings)	761	1,085	43%
EPS base (HUF) (from unadjusted net earnings)	765	1,074	40%

Average exchange rate of the HUF (in forint)	2016	2017	Y-o-Y
HUF/RON	69,4	67,7	-2%

MAIN FINANCIAL INDICATORS OF OTP BANK ROMANIA SA

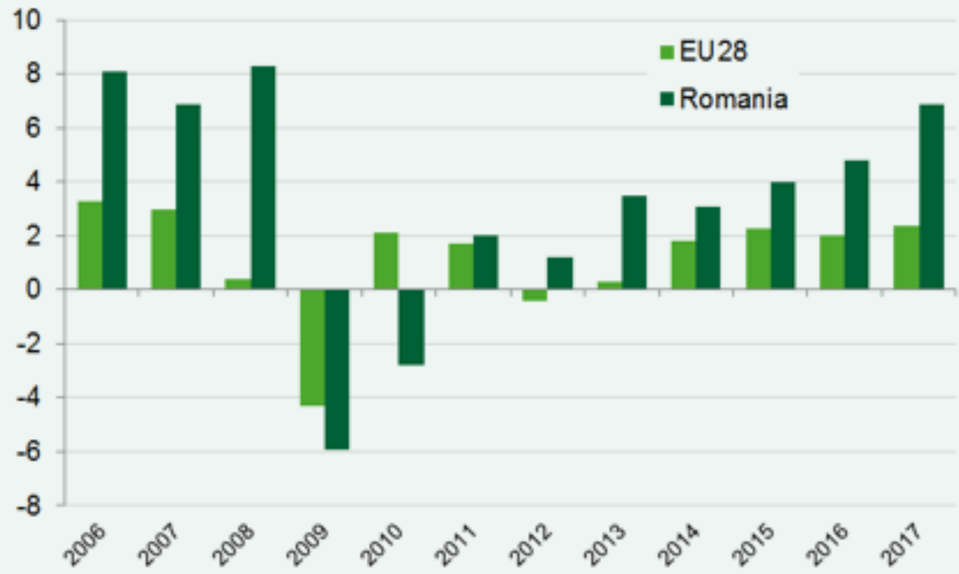
OTP Bank Romania SA Main components of the Statement of recognised income in RON million	2016	2017	Y-o-Y
Profit after tax	**84.2**	**84.5**	100%
Pre-tax profit	92.9	100.8	108%
Operating profit	169.8	122.6	72%
Total income	460.1	411.7	89%
Net interest income	302.5	292.9	97%
Net fees and commissions	48.5	47.0	97%
Other net non-interest income	109.1	71.9	66%
Operating expenses	-290.4	-289.1	100%
Total risk cost	-76.8	-21.8	28%
Corporate taxes	-8.7	-16.3	188%
Main components of balance sheet closing balance in RON million	2016	2017	Y-o-Y
Total assets	8.209	9.145	111%
Total customer loans (net)	**6.260**	**6.917**	**110%**
Total customer loans (gross)	**6.620**	**7.233**	**109%**
Allowances for possible loan losses	-360	-316	88%
Total customer deposits	**6.307**	**6.480**	**103%**
Issued securities	-	-	
Subordinated loans	-	-	
Total shareholders' equity	935	1.152	123%
Indicators based on one-off adjusted earnings %	2016	2017	Y-o-Y
ROE (from adjusted net earnings)	9.3%	8.1%	-1.2%
ROA (from adjusted net earnings)	1.0%	1.0%	0.0%
Operating profit margin	2.1%	1.3%	-0.7%
Total income margin	5.5%	4.7%	-0.7%
Net interest margin	3.6%	3.4%	-0.2%
Cost-to-asset ratio	3.5%	3.3%	-0.1%
Cost/income ratio	63.1%	70.2%	7.1%
Risk cost to average gross loans	1.2%	0.3%	-0.8%
Total risk cost-to-asset ratio	0.9%	0.3%	-0.7%
Effective tax rate	9.3%	16.1%	6.8%
Net loan/(deposit+retail bond) ratio	99%	107%	7.5%
Capital adequacy ratio (IFRS)-Basel3		15.9%	-0.1%
Tier ratio - Basel3		15.9%	-0.1%
Common Equity Tier 1 (CET1) ratio - Basel3		15.9%	-0.1%

MACROECONOMIC AND FINANCIAL ENVIRONMENT

In 2017, Romania's real gross domestic product rose by 6.9%.

This was the fastest increase since the outburst of the financial crisis, as well as one of the largest gains in the EU. Last year's pick-up came after an already impressive 4.8% expansion in 2016, as loose fiscal policy, supportive monetary conditions for most of the year, the rebound of the EZ economy as well as excellent harvest provided extra boost for the economy.

Real GDP growth (%)

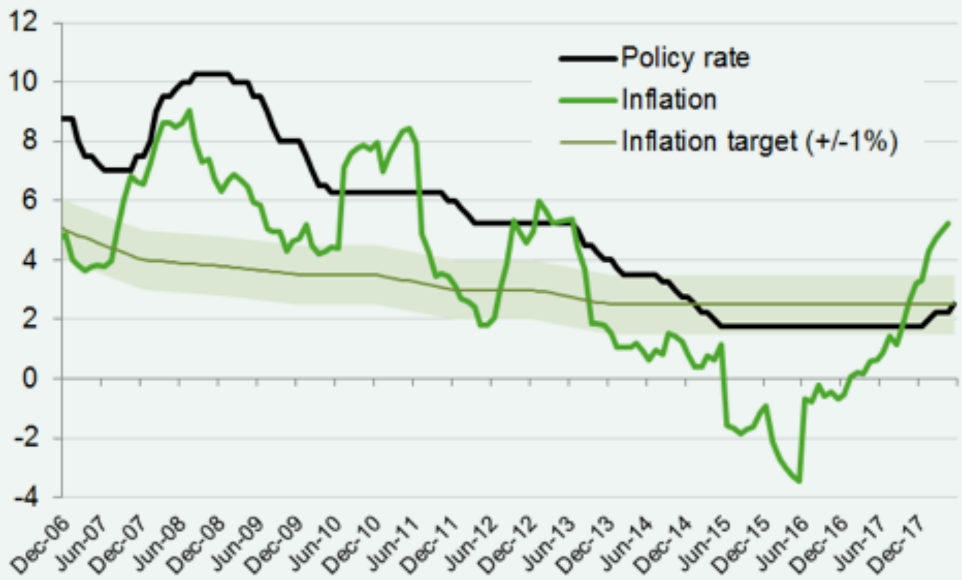


Surse: Eurostat

On the expenditure side, **household consumption** remained the key driver, as owing to the tight labor conditions and on the back of several government measures, disposable income of households increased rapidly. At the same time, gross fixed **investment** provided signs of recovery, despite falling capital expenditures in the public sector. On the other hand, net exports were again negative contributor to GDP growth, as despite the revival of the eurozone economy, **exports** were not able to keep pace with domestic-demand-fueled **imports.**

Turning to the production side, **market services** provided an outstanding performance, with the trade, as well as the IT&C sector registering the most remarkable advances. Similarly, value added **industry** also recorded very strong growth, fueled by external and domestic robust demand. In addition, due to the favorable weather conditions and to some extent owing to structural progress too, **agriculture** output hit a multi-year record high. Nevertheless, the value added of **construction** shrank last year, as the revival of the residential segment was more than offset by disappointing public investments.

NBR policy rate and inflation (%)



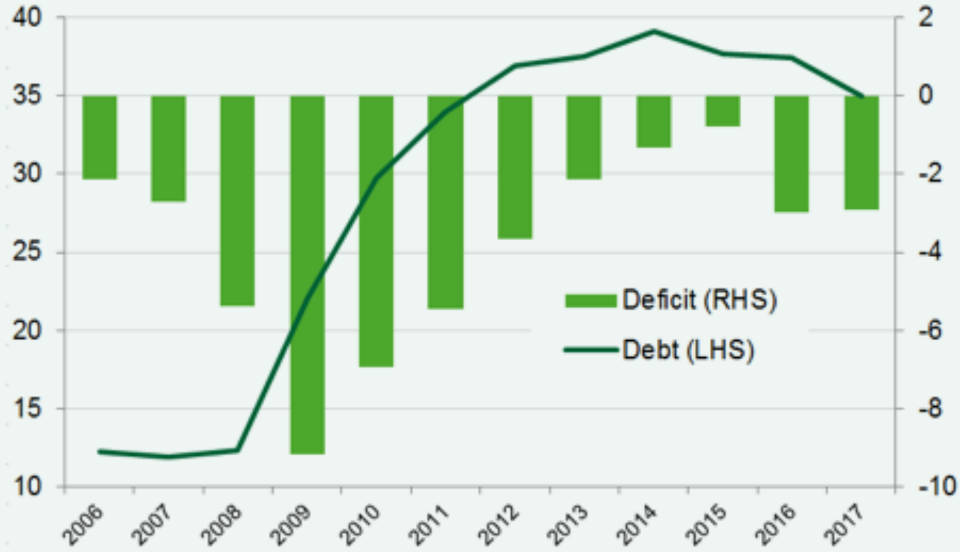
Sources: NIS, NBR

Consumer prices were subdued for an extended period, owing to several tax cuts and low commodity prices. However, Romania's headline **inflation** marked a particularly sharp and broad-based revival last year, and it continued to climb higher in the beginning of 2018 too, propelled by a series of one-off measures and fundamental factors. The fading base effect of earlier tax cuts, fuel excise duty and large regulated price hikes, the surge of crude oil quotations, the depreciation of the leu, as well as shocks in the case of certain food products played an important role in the unexpectedly strong rally of the headline figure. Beside the one-offs, fundamental factors, like the particularly strong domestic demand and rapidly rising unit labor costs also contributed to the upswing.

In order to curb price expectations and also to mitigate overheating concerns, Romania's central bank have started the **monetary policy** normalization process earlier than most of its peers. In the second half of 2017, the NBR narrowed the symmetrical interest rate corridor around the policy rate twice. Accordingly, the interest rate on the standing deposit facility rose by 50 bps to 0.75%. On the back of the normalization measures, but also owing to a transitory liquidity squeeze, ROBOR rates rose significantly in last autumn. Since the beginning of this year, the central bank has raised the policy rate in three equal steps from 1.75% to 2.50%, as well as it organized deposit tenders too, in order to sterilize the excess liquidity of the market. As a result, interbank lending rates have risen by almost 200 basis points on average since August 2017.

In the first half of 2017, **government securities' yields** registered rather modest variation, however, yields climbed higher in the second half of the year, among others, due to the increasing worries around the pro-cyclical fiscal policy, political noise, rebounding consumer price inflation and the launch of the monetary policy normalization process. Simultaneously, the overheating fears coupled with some uncertainties around the outlook of the NBR's FX-regime, put pressure on the leu's exchange rate, with the **EUR/RON** reaching an all-time high. Nonetheless, in the beginning of 2018, the central bank's tightening steps helped the EUR/RON to stabilize.

Government deficit and debt (% of GDP)



Sources: Eurostat, NIS

In 2017, Romanian authorities managed to keep the **government deficit** a touch below the 3% ceiling, as the burden of the fiscal stimulus measures on the budget balance were mitigated by significantly lower public investments and other several correction measures (e.g. extra dividends from majority state-owned companies and the re-introduction of the special excise duty on fuels). In addition, the very favorable macroeconomic conditions also helped to keep the gap under control. At the same time, **public debt** shrank by 2.4 percentage points, to 35.0% of GDP. This was one of the lowest levels in the EU.

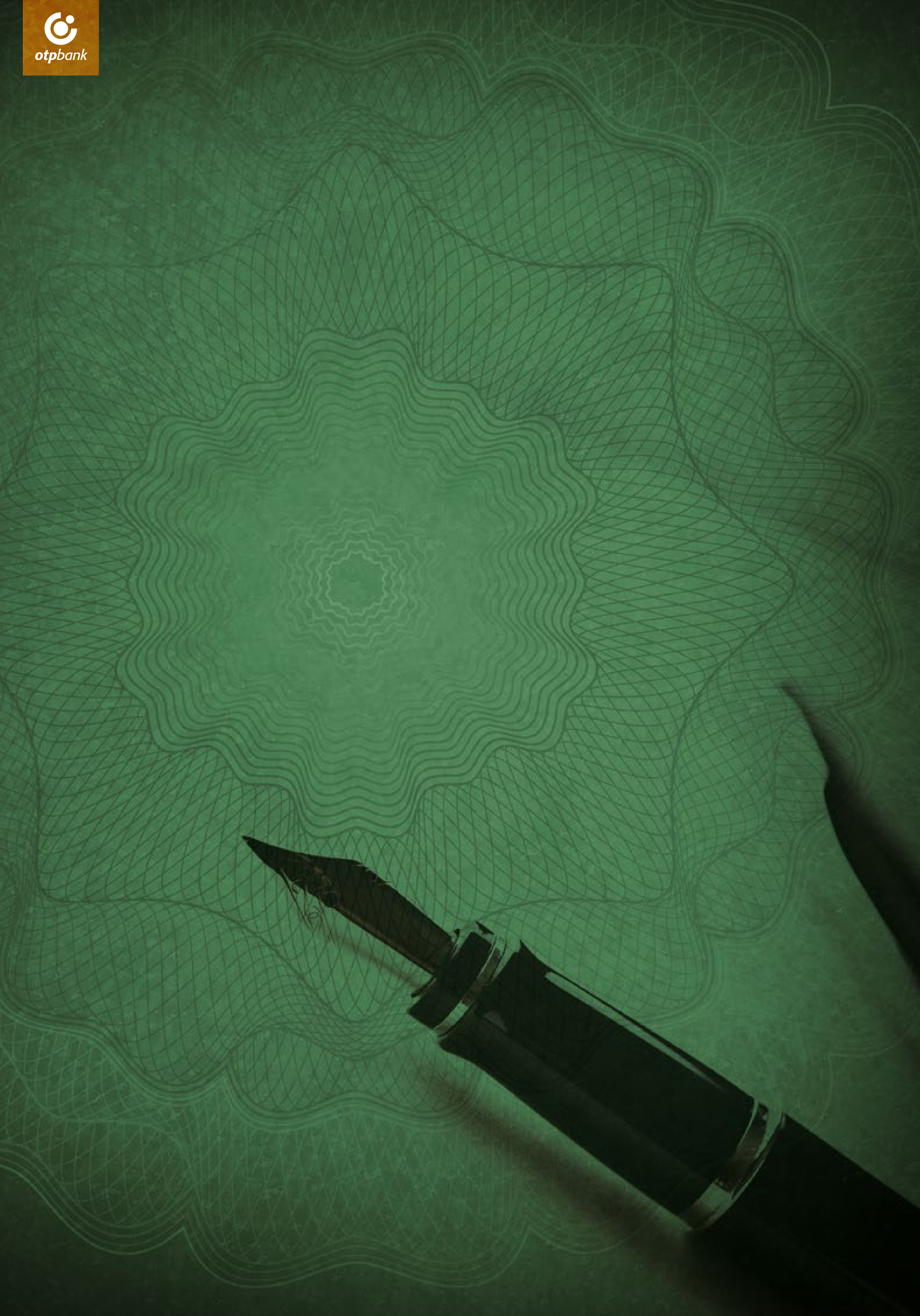
The downward trajectory of the **current account** balance continued in 2017 too, as domestic-demand-fueled imports' growth outpaced that of exports. Nevertheless, last year's 3.3% deficit was still covered by foreign direct investment flows as well as transfers from the EU. Meanwhile, the country's **external debt** (measured as percent of GDP) continued to ease.

Private loans and deposits (RON bn)

Source: NBR

The strong performance of the economy as well as the low interest rate environment helped non-government credit to expand by 5.6%, up from 2016's 1.2% increase. The pick-up was broad-based, as all three main segments posted positive growth rates for the first time since 2008. Housing credit remained the primary driver (13.2%), supported also by the 'First Home' government scheme. Meanwhile, consumer and company loans rose by 1.9% and 3.2% respectively. It is important to add that RON-denominated credit continued to increase swiftly (15.8%), while FX loans shrank further. At the same time, the system level NPL ratio decreased by 3.2 percentage-points to 6.4%. Private deposits grew by 10.4%, helping the loan-to-deposit ratio to ease further.

The strengthening lending activity coupled with lower risk cost helped the sector's profitability to improve, with the system-wide ROE (return on equity) indicator climbing to 12.7%, versus 10.4% in 2016. Simultaneously, capital adequacy remained high, ending last year at 15.9%.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OTP Bank Romania Annual Report

Business Result

2017

Business Results

HISTORY OF OTP BANK ROMANIA

The predecessor of OTP Group, the National Savings Bank, was established in Hungary, in 1949, as a nation-wide, state-owned banking entity. In 1990, the National Savings Bank became a public company, with a share capital of HUF 23 billion. Its name was changed to the National Savings and Commercial Bank. Subsequently, non-banking activities were separated from the bank, along with their supporting organizational units.

OTP Bank's privatization began in 1995. As a result of three public offers, along with the introduction of the bank's shares into the Budapest Stock Exchange, the state's ownership in the bank decreased to a single voting preference share. Currently, the bank is characterized by dispersed ownership of mostly private and institutional (financial) investors. After the privatization process, OTP Bank started its international expansion, targeting countries in the CEE region, which offer great economic growth potential, similar to that of its domestic market. OTP Bank has completed several successful acquisitions, becoming a key player in the region. Besides Hungary, OTP Group currently operates in other countries in the region, via its subsidiaries: Bulgaria (DSK Group Bank), Croatia (OTP Banka Hrvatska), Romania (OTP Bank Romania), Serbia (OTP Banka Srbija), Slovakia (OTP Banka Slovensko), Ukraine (OTP Bank Ukraina), Montenegro (Crnogorska Komercijalna Banka) and Russia (OTP Bank Russia; TOUCH Bank).

OTP Group entered the Romanian financial banking market in 2004, by purchasing 99.99% of RoBank, which afterwards became OTP Bank Romania. 2005 was the year when OTP Bank Romania entered the retail market, thus launching its first products for individuals:

personal loan, personal loan with mortgage, overdraft, banking deposit and current account. 12 new units were opened in 2005, as well. Seven types of banking cards were launched in 2006, designed both for individuals and companies. Two of them were absolute premiers on the local market: the first co-branded credit card issued with MOL Romania and the first transparent credit card. At the end of the third quarter of 2007, the total assets of OTP Bank Romania increased by 15.9%. In only one month, December 2007, 20 new branches were opened, OTP Bank Romania reaching the significant number of 104 brunches.

2008 was the first profitable year in the history of OTP Bank Romania. Thus, the bank recorded an operating income increase of 65.5%. 2008 also marked a significant increase of assets, loans and deposit volumes. Compared to 2007, the total assets have increased with 24%, the volume of loans rose by almost 50%, while the deposits volume has increased with 20%. 2009 and 2010 were difficult years for the players on the banking market. During these crisis years, OTP Group's main targets (hence OTP Bank Romania's targets) were stability, liquidity and profitability.

The Romanian subsidiary of OTP Group ended the year 2011 with a positive financial performance, according to the original report submitted to the Budapest Stock Exchange. The bank registered a profit of RON 13 million after tax, while the operating result remained stable during the year.

During 2012, OTP Bank Romania further consolidated its position on the local market, turning challenges into real opportunities to develop. In 2013, the bank employed a prudent strategy, but at the same time, took advantage of the extending loans volume and of the fact that OTP Bank Romania is a self-financed bank. On July 30th, 2014, OTP Bank Romania signed the contract for the acquisition of 100% of Millennium Bank Romania, a subsidiary of Banco Comercial Portugues. The value of the transaction amounted to EUR 39 million. Millennium Bank Romania had nearly 80 thousand clients and its network consisted of 56 units and 58 ATMs, with a strong concentration in Bucharest.

While the acquisition was completed in January 2015, the integration process was finalized in November 2015. Following the integration, the market share of OTP Bank Romania rose to approximately 2% in terms of assets. The total number of branches in Romania increased by 24 units during 2015, while the new portfolio of customers reached more than 426,000 clients, with a 13% increase compared to the portfolio served before the acquisition.

In December 2015, OTP Bank Romania launched a conversion program for its retail CHF mortgage borrowers. The program emphasized the bank's wish to re-establish a strong and healthy long-term relationship with its customers, by always looking for those pragmatic solutions, adapted to the economic realities of the market. The program was continued in 2016, and more than 70% of the bank's customers with Swiss franc loans paid a lower rate when they accepted the offer proposed by the bank. The offer initiated by the bank meant a financial effort of RON 425 million.

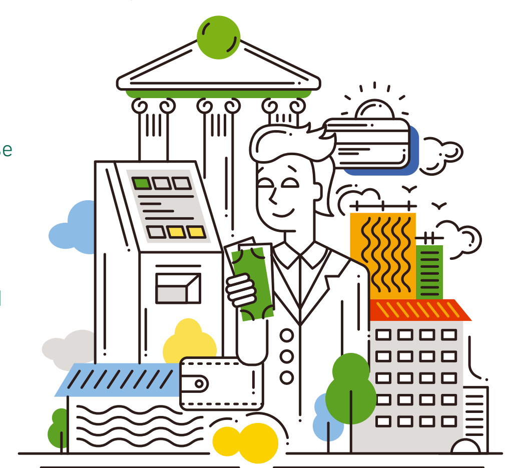
However, OTP Bank Romania continued to thrive and achieved a net profit of HUF 1.65 billion (RON 24 million) in 2016 - an increase of 12% compared to 2015. At the same time, the bank continued to develop its portfolio of banking products by creating solutions dedicated to individuals, businesses and SMEs, as well as digital applications and the development of internet banking.

2017 was also a productive year for the OTP Bank subsidiary in Romania, which posted the highest net profit in history: HUF 3 billion (RON 45 million), a remarkable improvement of 80.8% compared to 2016. The Bank dedicated 2017 to innovation and improved its digital services for both customers and internal operations. An important event was the signing of an acquisition agreement for 99.28% of Banca Romaneasca's assets, held by National Bank of Greece. Although the acquisition did not materialize, OTP Bank's management remains committed to strengthening its presence on the Romanian market through organic growth or new acquisitions.

OTP BANK ROMANIA'S APPROACH

OTP Bank Romania is distinguished by a realistic approach to the environment where it operates, and this can be noticed not only in the strategic plans, but also at micro level, through the products and services offered, tailored to the current needs of the clients.

For 13 years we have been part of the banking system in Romania, during which we managed to prove ourselves as a strong, stable and reliable partner for our clients, collaborators

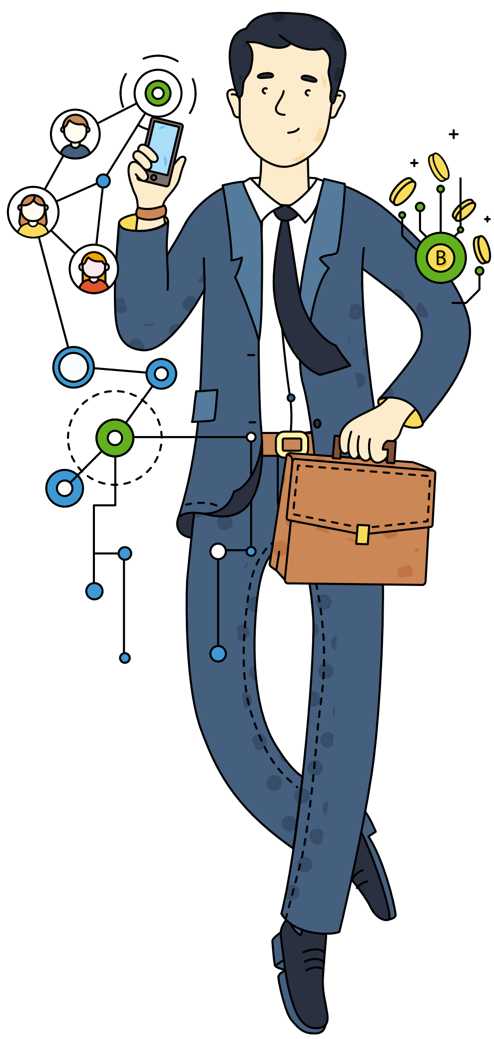


and employees. Every year we have added to our portfolio a new achievement that we are proud of.

In 2017, we launched the possibility for SMEs and self-employed entities to quickly access and streamline online accounts and credit products without real estate collateral.

Investing in projects with social value is an important goal for us. Thus, in 2017, we inaugurated, together with the "Right to Education Foundation", the first non-formal financial education center in Romania.

Further we aim to offer a full range of top quality financial services by operating in a prudent and transparent manner and through constant innovation. We base our success on customer's trust, built on the understanding of their local and regional needs, and on the professionalism of our employees, which we support in their development.



Romania is one of the most attractive markets in the region, so our decisions are meant to support local bank development and strategic objectives of the group.

TARGETS

In 2017 the activity of OTP Bank Romania was marked by the consolidation of the financial products and services portfolio, that serves the contemporary needs of clients, from individuals to companies or private banking customers. Through this expansion, we are getting closer to the goal we are continuously pursuing: to become a reliable partner for our clients through customized services for each one of them.

We plan to continue to acquire transactional customers for whom OTP Bank Romania is the best choice. We assume our role as a financial mentor through which we promise to connect customers to growth opportunities. This also implies delivering innovative and pragmatic solutions, in an ever more mobile time and space.

In the same time, we continue to assume the pioneering role in financial education provided to young people, adults and entrepreneurs. In this regard, we want to build a responsible financial culture that assures a balanced risk appetite and contributes overall to actual society needs.

We found this way of thinking essential for our success. In 2018 we plan to grow organically, and this can only be achieved by cultivating excellence at all levels.

OBJECTIVES

In 2017, we managed to implement an ambitious plan to improve customer experience with the bank and operational efficiency: OTP Bank's Digitalization and Customer Experience Program, with more distinct projects.

Our future objective revolves around the desire for organic growth. This plan will materialize through the ongoing consolidation programs of OTP Bank Romania launched in 2017 and the initiation of new ones. Among these, we mention: **the SME project** meant to increase the number of clients and streamline processes, the **digitalization program**, which includes the implementation of the Customer Relationship Management application, the Business Process Management application and the Digital Archive Management solution.

We will also pay greater attention to financial education for both children and adults through the Right to Education Foundation's projects.

STRATEGIC PROJECTS OF OTP BANK ROMANIA

The year 2017 saw the beginning of several projects meant to support the digitization and constant updating efforts of the bank's business and IT platforms.

During this period, several large-scale projects have been launched, both out of the need to support the business activity of the organization and to meet regulatory requirements.

In this respect, the projects carried out in 2017 covered most of the business and operational areas of the bank, being aligned with the bank's strategy. Moreover, the coverage area of the projects has been extended, this year, outside the bank, comprising one of the bank's subsidiaries.

The main business development and process optimization projects implemented in 2017 were:

- **The project for the implementation of commercial factoring**, a project that has conducted to the development of new factoring products: Domestic Factoring with and without recourse and Export Factoring, to meet the needs of corporate clients. The project assured the implementation of a completely new application meant to support the activity as well as new business flows related to it;
- **Recalibrating e-Products project** by enriching the lending product range that can be contracting using Internet Banking platform by adding two new lending without real estate collateral. As such, beside Overdraft without real estate guarantees, the Quick loan for working capital and Quick loan for acquisition of equipment are also available online. Also the flow for opening online current account and contract a package of products and services was recalibrated in order to provide two new types of packages and services for private entrepreneurs;
- **The credit card revival project,** designed to remodel this product and improve sales area results, in line with the results and recommendations of the Master Card consulting project, from the beginning of 2016;
- **The project for the implementation of the Capone application,** to support better the retail collection processes through a new IT application.

In addition to the projects completed in 2017, a series of business growth initiatives launched this year will continue to be implemented in 2018:

- **The Finance and Planning Division optimization project,** designed to make several improvements to the specific activities performed in the Division with the goal of automating or optimizing several activities, decreasing the time alloted to time-sensitive processes and to clarify and detail the processes within the Division;;
- **The digitization program** that includes the building of a Customer Relationship Management (CRM) platform that will gradually introduce all the tools, technologies and processes to manage, improve, or facilitate sales, support and related interactions with customers and prospects, individuals as well as private entrepreneurs and companies;

- In the same digitization program, a **Business Process Management** (BPM) application will be implemented to streamline and automate business processes, starting with on-boarding workflows for private individuals as well as for private entrepreneur and companies. Also in the objective is the implementation on the new platform of the lending flows, starting with private individuals and continuing with private entrepreneurs and companies;

- In order to support the digitization effort, the bank decided to acquire and implement a digital archiving solution, materialized in the **Digital Archive Management Implementation Project** (ECM), a solution that will work with other applications to support the digitalization process of the organization.

Apart from the business projects, several regulatory projects were started and carried out largely during 2017. Among these, the most important ones were:

- The **IFRS9 project**, aiming at alignment with the new international accounting standards;

- The **PSD2 project** for the implementation of the European Directive 2015/2366, also called the Payment Services Directive 2 (PSD2);

- The **GDPR projec**t for the implementation of the European Regulation on Personal Data Protection (European Regulation 2016/679);

- The **MiFID II project** to implement the Markets in Financial Instruments Directive II (MiFID II), which aims to strengthen retail investor protection throughout the European Union.

OTPDIREKT

Internet Banking, SmartBank, Contact Center, SMS Alerts and Push Notification

OTPdirekt is a high-quality service package, which perfectly fits to the modern lifestyle. It is a comfortable, omni-channel fast and secure alternative that allows customers to carry out transactions and receive information about the accounts, without having to come to the bank's territorial units, in conditions of utmost security. OTPdirekt is the service through which OTP Bank Romania offers its clients the possibility to access their banking accounts 24 hours a day, through four channels:

1. **OTPdirekt – Internet Banking (transactions and information)**

Available 24 hours out of 24, 7 days a week, the Internet Banking service brings all the information about the customer's accounts to an 'enter' distance. The commissions for payments can be two times smaller than those in the OTP Bank's territorial units, while the account balance interrogation and the account statement are free of charge. The following functions are available through the Internet Banking service:

- check the account's balance;
- check transaction history;
- transfers in RON or foreign currencies to beneficiaries who have accounts at any bank from Romania or abroad;
- standing orders;
- foreign exchanges;
- transfers between the same customer's accounts;
- opening/ viewing/ closing deposits;
- account balance generated in files that can be printed or saved on the user's computer;
- special payments model for utility bills;
- detailed information about loans, insurance policies information, incoming and outgoing debit instruments) and collateral deposits (through Electronic RM menu);
- importing domestic or foreign payments

from a file (e.g. inter-banking payments, payments representing treasury rates and taxes, transfers to beneficiaries who have accounts opened at OTP Bank Romania etc.);

- creating models of domestic payments;
- models of foreign currency payments;
- sending and receiving messages to/ from the bank: modifying card limits, online payment activation, report lost/ stolen card;
- personal financial tool - MyMentor; settings budgets and new goals, transaction categorization;
- account opening;
- self-reset and unblocking for the access code to internet banking;
- SMS Alerts and Push Notification configuration;
- Money Magnet: transferring money from other banks to OTP Bank accounts, using debit cards issued by other banks in Romania.

2. OTPdirekt – SmartBank (transactions and information)

Secured application downloaded from Google Play, Apple Store and Windows Store that allows clients to access information about their financial situation and to make transactions via a smartphone. The following functions are available:

- check the account 's balance;
- check transaction history;
- transfers in RON, transfers between own accounts;
- foreign payments to OTP Bank clients;
- foreign exchanges;
- create deposits;
- closing deposits;
- cards information menu;
- loans information menu;
- Money Magnet: online transfer of money from other banks to OTP Bank accounts, using debit cards issued by other banks in Romania;
- My Mentor: list of transaction, categorization;
- ATM and branch locator of OTP Bank Romania;
- foreign exchange rates;
- bank contact;
- received messages;
- languages: RO/ EN/ HU.

3. OTPdirekt – Contact Center (transactions and information)

With OTPdirekt - Contact Center, one phone call is enough to find out any information regarding OTP Bank or to order transactions and operations on your accounts. The bank representatives can be reached free of charge in all networks, by calling 0800.88.22.88. Contact Center can be contacted also from international networks and through local networks at operator's costs also, by dialing +4021.308.57.10. The Contact Center can be reached from Monday to Friday, starting 08:30 until 21:00 (local Romanian time).

Besides general information regarding OTP Bank, through OTPdirekt – Contact Center, customers can find out anything they want about the bank's financial products and services, about the exchange rates, standard commissions and many others. If a customer already has an OTP Bank account, then he can choose:

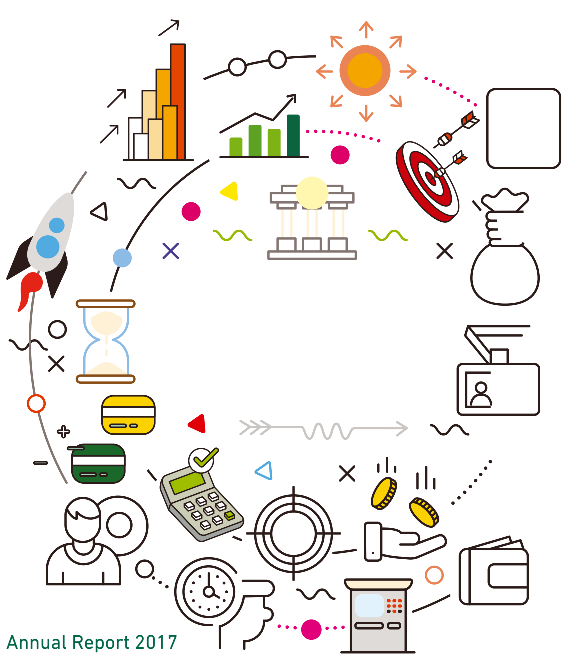
- to obtain specific information (private) regarding his financial status (accounts, deposits, credits, taxes, commissions, special offers etc.);
- to perform transactions/ operations: opening current accounts, transfers and payments in RON or foreign currencies, exchange, card blocking, opening/ closing deposits, closing/ ending/ modifying/ suspending an intra–banking direct debit payment.

4. OTPdirekt – SMS/PUSH Alerts (information only)

OTPdirekt – SMS/PUSH Alerts refers to sending alerts in the form of SMS to the mobile telephone numbers indicated by the client, according to the contract signed with OTP Bank Romania, or in the form of a PUSH message to the smartphone with the SmartBank application installed.

The alerts received through a SMS/PUSH notification can be of several types, depending on the client needs:

- account balance: this alert sends to the client the balance for the account selected in the contract, at the requested date;
- account control: the client is informed about the activities on the current account (crediting/ debiting of the account, regardless of the reason), having full control on his account, in real time;
- card control: sends an alert immediately after the card is involved in a transaction (POS/ online payments/ cash withdrawals) or security inquiry (incorrect PIN/ CVC);
- NBR Exchange Rate: this alert will send, daily, the NBR quotations (from Monday to Friday), after 13:00 o'clock (after the official exchange rates are supplied by NBR);
- debit instruments for payment: the alert will be sent in real time immediately after the information for the instrument is verified in the system. It is useful for the clients to better manage their payment instruments;
- electronic RM: are sent only for legal entities, to be notified concerning: maturity of credit facilities, commissions, loan installments, loans interests, deposits that reach their maturity. Together with the alert sent on the mobile phone, the customers will also be notified through the alerts received on the Internet Banking interface;
- deposits maturity: this alert sends SMS/ PUSH notification three working days before the deposit maturity, regardless of type of deposit or its maturity option. The alert contains information regarding the amount of the deposit, the account alias, interest rate, maturity option and maturity date;
- garnishment alert: this alert is available both for individuals, legal entities and private entrepreneur clients and will be sent to client in the same day when the garnishment will be constituted, starting with 08:00 PM. The alert is detailed and offer information about: the amount of garnishment, type of garnishment, no. of file for the garnishment and exchange rate.



The number of OTPdirekt – Internet Banking and Contact Center users, on December 31, 2017, was 126,063, divided as follows:

- private individuals: 107,281
- legal entities: 18,782

The number of OTPdirekt – SMS Alerts contracts, on December 31, 2017, was 71,716 divided as follows:

- private individuals: 64,557
- legal entities: 7,159

The number of SMSs messages sent to the clients during 2017 was 8,485,516.

The number of calls to the Contact Center received in 2017 was 125,842.

The number of transactions through OTPdirekt – Contact Center was 13, and through OTPdirekt - Internet Banking 2,364,061 by the end of 2017.

The SmartBank application was launched on December 7, 2012, and until the end of 2017, it registered 36,528 users.

The transaction volume through OTPdirekt was of:

- Contact Center: 14,237 EUR;
- Internet Banking: 6,441,735,884 EUR.

BANK CARDS BUSINESS

In 2017, OTP Bank Romania managed to further increase its bank card portfolio through steady organic growth.

OTP Bank expanded the card acquiring business on Merchant POS segment and succeeded to continuously improve the quality of the card-related products and services offered to its customers. At the end of 2017, the merchant POS network reached over **4,200 POSs,** with focus on the expansion of the new contactless POS terminals, replacing the older "non-contactless" models.

As of December 2017, the active bank card portfolio of OTP Bank Romania increased with **12.4%** compared to previous year. The debit card segment represents 95%, while the credit cards stand for around 5% of the total bank cards portfolio. The cards new sales in 2017 mainly consisted of salary cards, pension cards and SME business cards, as the strategic focus of the bank was on attracting new "income transfer" clients, as well as micro and small companies, through a wide range of competitive packages, addressed both to individuals and legal entities.

The total volume of bank cards transactions performed by the OTP Bank cardholders in 2017 reached **RON 2,486 million,** which marked a stable increase of **14%** compared to previous year. On the card acquiring side, the Merchant POS transactions volume registered a solid increase of **32.3%** in 2017, reaching **RON 1,440 million.**

Among the most important OTP Bank Romania card related projects in 2017, we mention the expansion of the contactless debit cards portfolio, as well as the launching of a new Mastercard Co-brand credit card, adding-up to the already competitive credit card products and services of the bank.

Currently, OTP Bank Romania offers one of the most comprehensive card product portfolios on the Romanian market, consisting of the following main products:

- MasterCard "Flat" and "Standard" (RON & EUR) - debit cards for individuals;
- Visa Business "Silver" and "Electron" (RON & EUR) - debit cards for companies;
- MasterCard "Standard" and Visa "Transparent" - credit cards for individuals;
- Visa Electron "Junior Plus" and "Junior Max" (RON & EUR) - debit cards for individuals;
- VISA Electron "Sapientia" - co-branded debit card;
- VISA "Gold" - credit card for individuals (premium);

- MasterCard “OTP-MOL” - co-branded credit card;
- MasterCard Platinum - credit card (Private Banking);
- Visa Business “Silver” - credit card for SMEs.

INDIVIDUALS (LIABILITIES AND LOANS)

In 2017, the main activities were associated with increasing the portfolio of clients both for liabilities and lending side. In the same time, the main challenge was to maintain the quality of the existing portfolio of loans, while increasing the portfolio of new consumer loans of the bank.

Loans

During 2017, OTP Bank Romania continuously offered lending solutions through dedicated campaigns or by adjusting the existing products to the market practice and to the clients need and also through periodically updates of the pricing conditions for its lending offer for the customers.

On the lending segment, according to the bank’s strategy, OTP Bank Romania focused on maintaining a good quality of the portfolio, by offering to the clients with financial problems solutions of rescheduling/ suspension of loan payments, part of the Credit Protection Program.

Depending on the loan purpose and the specific collateral required, individuals lending products of OTP Bank Romania are divided in two main categories:

- loans for real estate investments;
- consumer loans.

1. Loans for real estate investments

Mortgage loan for acquisition (ML). The purpose of this loan is full or partial acquisition of houses or flats and also refinancing mortgage loans previously contracted from other banks. In 2017, the bank kept as loan currency only the RON, in line with market development which practically moved decisively to LCY lending and also considering the legal constraints. The minimum loan amount is 1,000 EUR (RON equivalent) and maximum is 200,000 EUR (RON equivalent). The minimum granting period is of 6 months and the maximum 360 months. The collateral accepted is 1st rank mortgage on the purchased property and property insurance assigned in favor of OTP Bank Romania.

The market new sales continued to be concentrated on “First home” loans and various big banks had also very competitive prices for mortgage loans in RON.

In this respect, OTP Bank continued to promote the ML in RON launched in Q4 2014 having competitive features and smart pricing scheme, through the Spring and Autumn campaigns launched in 2017. The best price is accessible only with full cross-sell, OTP Bank Romania’s strategic objective being to maintain the competitiveness on the ML market.

2. Consumer loans

Personal loan without Mortgage (PL). This product is addressed to individual clients, Romanians or foreign citizens with Romanian residence and the purpose of this loan without collateral is to cover the general customers’ needs. OTP Bank Romania accepts a wide variety of eligible incomes and it offers the loan only in RON. The offer of personal loan includes different subtype of products (special pricing for personal loans for refinancing, personal loan with income transfer, etc.), with different pricing scheme in order to be in line with the market and to better cover the clients’ needs. The maximum loan amount is:

- 44.000 RON or
- 66.000 RON/ 88.000 RON for the applications that meet some predefined conditions.

OTP Bank Romania’s strategic objective for 2017 remained to attract higher quality clientele, with income transfer, increased cross-sell potential and better risk figures. Also, considering the clients expectations and the general orientation of the market toward digitalization, starting with Q3 2017, OBR launched the first e-loan product for individuals, suitable for the online channel that supports immediate reply from the bank for the clients applying for a loan.

Personal Loan with Mortgage. This product is addressed to individual persons, Romanians or foreign citizens with Romanian residence, with the purpose to cover the general needs of the clients. The product is also available for refinancing any type of loans previously granted by other banks or by OTP Bank Romania.

The personal loan with mortgage can be granted in RON or EUR, with a minimum loan amount of 1,000 EUR (RON equivalent) and a maximum of 200,000 EUR (RON equivalent).

The accepted collaterals are 1st rank mortgage on a property, an inferior mortgage rank is acceptable only if the superior ranks are in favor of OTP Bank Romania.

Overdraft. This product meets the universal expenses on short term – the clients benefit of all the advantages of a consumer loan into a revolving credit line with maximum flexibility.

Clients must monthly reimburse only the calculated interest of the used funds. The maximum limit for the overdraft facility is 20,000 RON and this product is addressed mainly to customers receiving their monthly salary in accounts opened at OTP Bank Romania.

Liabilities

Taking into consideration the market evolution, the strategy of the bank and the fact that customers' demands are continuously changing, OTP Bank Romania is periodically updating the pricing conditions and the characteristics of the liabilities products, in a constant effort to decrease the cost of funds and to improve the LCR ratios.

During 2017, one of the main strategic tasks, besides increasing the volume of saving products and retain the attracted volumes, was to readdress retail customers in a specific manner. Thus, in order to have a client centric approach based on a specific number of factors like: usage and attitude related to banking products, choice criteria, motivations, lifestyle etc., OTP Bank launched in Q4 2017 (October) the modular structures of products and services. These modular structures consist in a different "base" for each identified client segment, to which will be attached one or more "options" consisting in multiple benefits for different products or services. Also, the amount of income transferred by segment each month and the number of debit card POS transactions will discount the price of the entire build-on component puzzle, resulting a monthly variable cost for the client.

The liabilities products for individuals offered by OTP Bank Romania are divided into the following categories:

- term deposits;
- savings account;
- junior account;
- current account;
- OTP Express service;
- automatic saving tool service;
- modular structures of products and services.

Term deposits. The term deposits are saving products with fixed interest rates until maturity. The standard maturities offered by OTP Bank Romania for term deposits are of 1, 2, 3, 6, 9, 12, 18 and 24 months, but the bank also offers to its clients the possibility to have flexible maturities calculated in days, in the range of 30 to 365 days. The currencies used for deposit openings are: RON, EUR, USD, HUF, GBP and CHF. There are no commissions for opening, closing or withdrawing, in case withdraws are made at the deposit maturity date (except the deposits with maturity less than one month and the term deposits with maturity of one month, for which the commission is levied for withdrawing from current account, including at the deposit maturity).

The minimum amount for opening a deposit is RON/ USD/ EUR/ GBP 100 and HUF 25,000. For standard term deposits, clients have the possibility of automatic administration of deposits, by choosing at the deposit opening moment one of the three options available for maturity:

- automatic deposit renewal with interest

capitalization - the deposit will be automatically extended by the bank for an equal number of months with the initial option, using the interest rates valid on the renewal date of the deposit, while the accumulated interest for the previous period will be added to the initial deposit;
- automatic deposit renewal without capitalization - the deposit will be automatically extended by the bank for an equal number of months, with the initial option, using the interest rate valid on the renewal date of the deposit, while the accumulated interest for the previous period will be transferred into the current account;
- automatic deposit liquidation – the bank transfers the deposit amount and the appropriate interest in the client's current account.

OTP Bank Romania also offers different types of term deposits with special characteristics, such as higher interest rates than standard using the bonuses concept, or the flexible maturities chosen by clients:

- **Anniversary Term Deposit** – clients benefit of a bonus over the interest rate if they open a term deposit during their birthday month;
- **Term Deposit for Retirees** – based on the latest pension coupon or the bank account statement in original (not older than 2 months), a retiree can benefit of a bonus over the interest rate when opening a term deposit. This facility is available for clients just within Retirees Package;
- **OTPdirekt Term Deposits** – clients benefit of a bonus over the interest rate if they open a term deposit through the Internet Banking platform;
- **Term Deposit with Flexible Maturity** – this deposit offers the possibility for each client to choose his own maturity, depending on the established personal objectives;
- **Term Deposit with Progressive Interest Rate** – the interest rate progressively increases each month (for 6 or 12 months);
- **OTP Sincron Hybrid Term Deposit** – term deposit opened for 6, 9, 12, 18 or 24 months, in RON, EUR and USD, after a prior investment in the following investment funds: OTP AvantisRO, OTP Obligatiuni, OTP Euro Bond, OTP ComodisRO, OTP Global Mix, OTP Dollar Bond, OTP Euro Premium Return and OTP Premium Return distributed by the Bank. The OTP Sincron product allows deposits only according to the fund currency.

Savings Account is a hybrid product that combines the advantages of the high interest rate of a term deposit product with the flexibility of the current account. The interest rate is fixed, calculated on a daily basis and registered in the saving account in the last working day of each month. There are four available currencies: RON, EUR, USD and HUF. Customers are allowed to cash a deposit and withdraw without restrictions, to make inter/intra-banking transfers, to transfer funds only to the owned current accounts opened at OTP Bank Romania and to automatically reimburse credit instalments from the savings accounts. The savings account can be also accessed through a debit card issued in the name of the account's holder or his/ her empowered.

Junior Account is a savings account opened on the child's name with additional attached facilities. It is available in RON, EUR, USD and HUF. The interest rate is fixed and paid in tranches. With a larger amount, the client receives a higher interest, thus having the advantage of obtaining a higher interest rate compared to the current account.

Types of Junior accounts:

- Junior Start, designed for children under 14 years;
- Junior Plus, created for teenagers between 14 and 18 years. The client has the possibility to also use a Junior Plus debit card;
- Junior Max, created for youth aged between 18 and 25 years. Clients also have the possibility to use a Junior Max debit card.

Current Account. On amounts placed on the current account, the clients receive the sight deposits interest rate. A current account can be opened in RON, EUR, USD, HUF, GBP or CHF. The customer can attach the following services to the current accounts: Overdraft, Debit Card, Direct Debit, OTPdirekt – Internet Banking, SmartBank, Contact Center and SMS Alerts.

OTP Express service allows individuals and legal entities to make remittances (EUR, USD and HUF) from the accounts opened at OTP Bank Romania to OTP Bank Nyrt clients or to any bank from OTP Group, in a very short time and at advantageous costs. There is no minimum amount for a transfer through OTP Express. Cut-off time for accept remittances in territorial units through OTP Express service is: for normal payment, 16:00 (the beneficiary account is credited next day); for urgent payment, 11:00 (the beneficiary account is credited same day).

Automatic Saving Tool service is a flexible service, which allows customers by means of a contract, to set a periodical transfer of a certain amount of money into the saving account, term deposits or open-end funds managed by OTP Asset Management Romania SAI S.A., without the need of coming to the bank each time for performing such transactions. In this way, clients can start developing a portfolio of savings and/ or investment products, with minimum effort, in just a few simple steps. The service is available for RON, USD and EUR. The periodicity of the automatic transfers is very flexible, so the clients may choose a certain frequency (expressed in days or months) for each product selected in the automatic savings tool (junior accounts, saving accounts, term deposits or open-end funds managed by OTP Asset Management Romania SAI S.A.).

Modular structures of products and services represent a flexible package consisting in a base of products and services (a predefined number of products/services, eg: debit card, OTPdirekt, current account) and at least one option (usually represented by benefits for certain products /services) chosen by the customer. Customers are allowed to activate which options suits them best from the ones dedicated to the segment in which they were included and use them for the amount of time they chose. This way, clients are encouraged to pay for usage rather than buy a number of products which they do not fully use.

SMALL AND MEDIUM ENTERPRISES

The SME business line maintained the customer segmentation approach, consolidated in the previous years, by targeting and managing mainly the legal entities with an annual turnover up to EUR 5 million, including all types of private entrepreneur customers.

In 2017, the SME business line has registered an increase of 18% in volumes of new loans sold, maintaining in the same time the complex cross-sell/ up-sell approach.

43% of the total deposits cash management fees were generated by SMEs, confirming the strategic importance of this segment.

We continued to align our products and services for SME and private entrepreneur

customers to general digitalization trends. This way we can provide the fastest and suitable financial and operational solutions through a variety of alternative channels, products and services to meet the clients continuously changing needs.

Thus, our ongoing effort in 2017 was focused on the implementation of innovation solutions in digitalization and development of new products or recalibration of existing products specifically tailored for each client segment, consequent to our goal of building long-term business partnerships with our clients. In this regard:

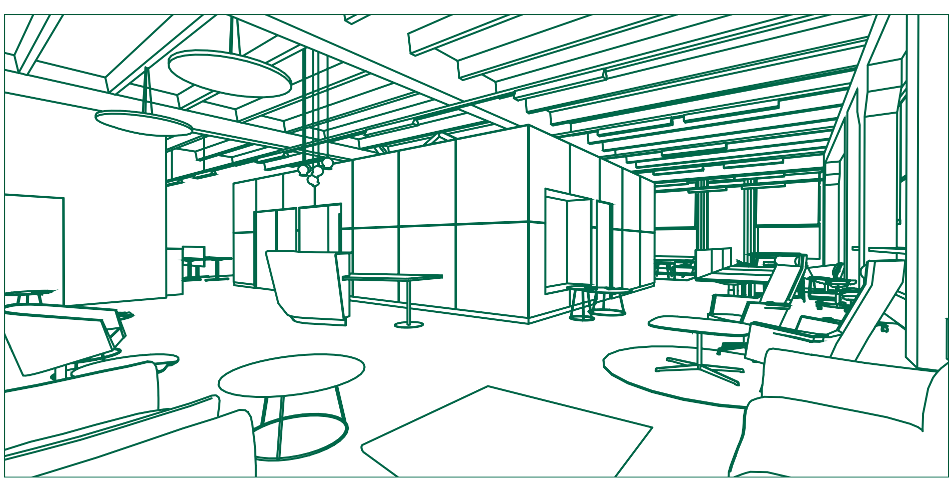
The flow for opening online current account and **contract a package of products and services was recalibrated** in order to provide two new types of packages and services for private entrepreneurs. Moreover, the platform https://www.otpdirekt.ro/cont-imm-rapid/#/landing was redesigned with a modular layout with pages easy to navigate, helping clients to identify the optimal and complete solution for their business by using principle of data minimization, transparency and data security;

- We launched **a very competitive campaign, the best offer** on the market addressed to retailers for contracting POS/E-commerce package;

- The range of online lending products without real estate guarantees was extended. Thus, beside **Overdraft without real estate guarantees,** the **Quick loan for working capital** and **Quick loan for acquisition of equipment** are also available online. The contracting of these loans can be made directly from the bank's Internet Banking platform, based on a fast and simplified flow, the maximum amount of these products being increased, so that the clients have access to financial resources for financing the current activity and equipment acquisition without providing real estate collateral;

- We launched three new semi-standard loans without real estate guarantees (**Overdraft, Credit Line and Cash Loan Non-Revolving)** addressed to SME customers with turnover between EUR 1-5 million with a granted amount of up to EUR 300,000. The main advantages of these loans consist in quick analysis, standard eligibility conditions and no real estate guarantees (only movable mortgage on all the current accounts, surety agreement or promissory note). These new launched products enlarge the diversified offer of financing solutions of OTP Bank Romania SA adapted to each client;

- The characteristics of the standard loans, with real collaterals: **Credit Line, Cash Limit for cheques, promissory notes and invoices, Free Purpose Loan, Investment Loan** were recalibrated and improved. Thus, clients with turnover of up to EUR 1 million can contract a loan up to EUR 300,000 with fast approval and simplified flow;



- In order to consolidate the partnership with **FNGCIMM S.A.-IFN** and ensure the work frame for financing the working capital needs, we concluded a new **Frame Convention- Guarantee limit-OPTIMM Product**. OTP Bank Romania S.A. clients can benefit, with the products of financing the current activity, of a new guarantee instrument, "OPTIMM Product", respectively the guarantee issued by FNGCIMM of maximum 80%, besides the surety contract signed with the associate/ shareholder/ administrator of the beneficiary, without additional collaterals requested;

- Furthermore, starting with the 3rd of January 2017 we signed a new **Frame Convention with EximBank S.A.** to finance SME clients without real estate guarantees. This new partnership supports our effort to sustain the access guarantees instruments of maximum value RON 1.5 million, guarantee percent maximum 80% from loan value in case of **Investment Loan** or maximum 70% in case of **Working Capital** (including letters of guarantee). Moreover, the term for transmitting the Confirmation or rejection of the Notification was reduced taking into consideration that the documentation and flow are simplified.

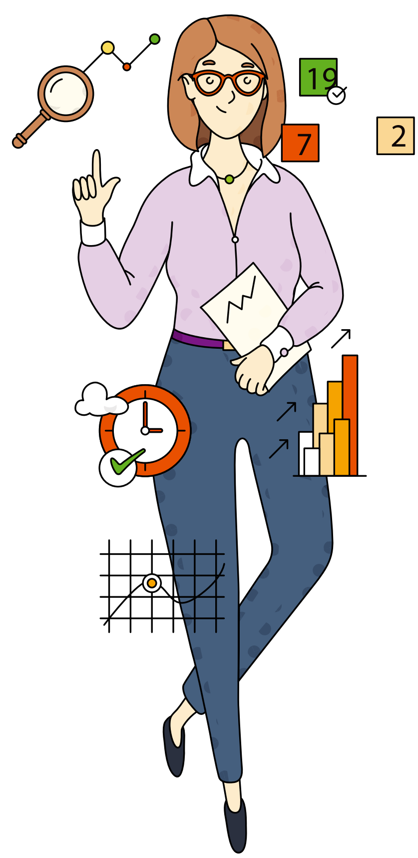
In 2017, agriculture continued to occupy a strategic position in OTP Bank Romania's portfolio and the range of products continued to be enriched with a new, unique financing product in partnership with Groupama S.A: **"Your Season" loan without mortgage** and **"Your Season" loan partially guaranteed**. The products uniqueness consists in the flexibility of guarantee structure by approving these loans only with insurance signed with Groupama for maximum amount of RON 200,000 or approving with Groupama insurance plus 50% collaterals for maximum amount of EUR 200, 000. Moreover, Groupama offers advantages to OTP Bank Romania clients who contract this type of loan, our strategic partnership providing clients the best lending solutions with simple, quick and efficient guarantee structure.

We continue to offer complete solutions through simple and efficient financing products and expert advice. OTP Bank Romania **has increased with 42% of the volume of new Agri financing** granted in 2017 compared to previous year.

SMEs continue to be a strategic segment for OTP Bank Romania and our efforts in supporting this type of clients included developing and improving our product portfolio in term of market requirements, being consistent in supporting the business environment and entrepreneurship.

PRIVATE BANKING

OTP Group has a tradition of more than 20 years in the Private Banking field. The service was first launched in Hungary, back in 1995. Since that moment, this business segment has been permanently improved and the success of this approach is confirmed by continuous and sustained growth in both number of clients and assets under management.



The international recognition highlights our performance: OTP Private Banking was designated again the best private bank in Hungary, in the Global Private Banking Awards, event organized by prestigious publications The Banker and Professional Wealth Management, members of the Financial Times Group. This year, OTP Private Banking received the award "Best Private Bank in Hungary", for the fifth time consecutively.

Our local business benefits from the OTP Group expertise in the Private Banking field. The Private Banking activity in OTP Bank Romania was officially launched in February 2008, as a personalized service offered to high net-worth clients. The main objective of this activity is to increase the added value and exclusivity of the offered products and services, by creating a complete package, carefully tailored and adapted to the characteristics of each client.

In 2015, OTP Bank Romania received the award: "Bank of the Year on Private Banking segment", during a Gala organized by Piata Financiara publication. The recognition considered our local business successful receipt: combining the most appropriate investment and saving solutions, in accordance to clients' financial profiles. The award proves that Private Banking strategy was successful in implementing innovative solutions and tackling new challenges.

Currently, Private Banking service is addressed to customers who invest more than 50,000 EUR in products offered by OTP Bank Romania or cash-in a minimum monthly income of 2,000 EUR in a current account opened at OTP Bank Romania.

An important aspect for the clients included in the Private Banking category is represented by the personalized relationship between them and the dedicated counsellor. In addition, clients are members of a group that benefits from products and services offered in accordance to their profiles, objectives, needs and risk tolerance. All these advantages provide them a special statute.

The Private Banking services of OTP Bank Romania were initially offered through a singular banking unit. However, in order to offer the Private Banking package to the elite clients countrywide, regardless of their location, we extended these services to all territorial units.

Starting 2013, the Private Banking strategy was based on financial advisory, in accordance to each client's individual profile. Thus, depending on client's financial needs and objectives, we were able to offer them adapted solutions, from extra safe savings to more risky instruments.

In the last year, the number of Private Banking clients increased with 30%, while the total assets under management registered an increase of approximately 9%. Consequently, there are good premises for further development and sustainable growth in the Private Banking segment.

CORPORATE BANKING

Corporate Banking provides to the customers a wide range of financial services, using the expertise of different departments and offering tailor made solutions.

Corporate Banking conducts banking activities for **mid and large corporate segment** with high cross sell potential and selectively **project finance** deals (residential projects leveraging the cross sell for mortgage financing).
Corporate lending considers as appealing **sectors agriculture, manufacturing, trading,** with emphasis upon importers-exporters.
Main highlights for 2017:

- Develop the portfolio of active corporate customers, by providing high level quality services, pro-active approach.
- Strengthening the lending activity:
    - RON lending remains the main driver, while FX lending must be enhanced in order to secure FX income (plain vanilla and derivative products);
    - Increase the weight of medium term loan facilities as stable and better priced assets, source of more stable income;
    - Selectively participate in syndicated deals and club loans for the purpose of insuring profitability and market visibility;
    - Close monitoring of the loan portfolio for maintaining a good quality of it.
- Reach the profitability target:
    - ROA principle used in designing the offers;
    - Continuous monitoring of customer profitability and banking competition;
    - Attracting transactional customers as source of current account, fees and commissions;
    - Promoting attractive cash management offers.
- Setup commercial factoring activity within the bank. Factoring represents a full package of services that contain minimum two of the characteristics:
    - Flexible financing;
    - Administration of receivables;
    - Collection services;
    - Coverage of non-payment risk.
- Successful launch of factoring products: Domestic Factoring with and without recourse & Export Factoring.
- Implement VAT split law requirements.
- Digitalization, increase the usage of the Internet Banking service for corporate customers.
- In order to answer the most exigent requests of the corporate customers, we continued to implement tailored-made solutions on the cash management side, confirming once more our strong wish to be a long-term partner for our clients.
- We have done continuous efforts toward improving the quality of client services, mainly through consultative and personalized approach, flexible, transparent and fast solutions.
- Ensuring a sustainable growing presence by:
    - a balanced approach between pricing and risk profile:
        - healthy lending principles: focusing on clients with good financial standing, advancing proper credit structures;
        - the pricing policy, aiming to establish a business partnership based on transparent explanations to the client;
    - customized and consolidated business relationships:
        - quantitatively, by increasing the penetration rate of the bank's product range and emphasizing the up-sell and cross-sale by promoting the wide range of Bank's and Group's products;
        - and also qualitatively, by developing a trustworthy climate at all contact levels with clients in portfolio.
- Improve existing crediting products.

TREASURY

In 2017 Treasury activity was led on a FX market characterized by low volatility. The exchange rate had a linear evolution, the local currency ranging from 4.5000 to 4.6500, losing approx. 4% against Euro, caused by trade balance deterioration, political changes and new fiscal measures.

Local government bonds market was characterized by a medium volatility in the first two quarters of 2017. In first quarter, yields rose rapidly amid the outcome of US Presidential elections and market expectations that the Federal Reserve would decide to increase the key interest rates. Second quarter was characterized by a fall of yields of around 40 bps, due to increased market liquidity and to regional trend. Starting with the third quarter, the National Bank of Romania decided to normalize monetary policy in order to discourage consumption and to temper inflation, which reached 3.32% at the end of 2017. The monetary policy adjustment triggered the aggressive rise on government bonds denominated in RON yields at the year-end, reaching levels that had not been recorded since 2014.

In 2017 interbank trading activity diversified by starting trading fixed income, which contributed to the annual revenue growth of the Treasury Department's revenue by more than 4%, continuing positive annual growth.

The Treasury sales team's activity in collaboration with the bank's business lines led to a 4.7% increase in Treasury sales revenue compared to the previous year. Major contributions to this performance have been done by active sales, as well as the expansion of the regional treasury team that strengthened local presence in territory. The 7% increase in FX sales volumes and 4.7% in the revenues related to this activity was generated by the expansion and diversification of the client portfolio, thus offsetting the contraction trend of the profit margins.

In 2017, special attention was paid to streamlining the flows and updating procedures in order to improve customer services, reduce processing times, and mitigate the operational risks.

The steps towards aligning treasury norms, flows and treasury activities with European legislation (MiFID II, MiFIR, GDPR, etc.) led to the fulfillment of the trading requirements of derivatives as of 1 January 2018.

OTP BANK'S SUBSIDIARIES PRESENT IN ROMANIA

OTP Asset Management Romania

OTP Asset Management Romania is operational since April 2008, being positioned on the local market as an innovative, dynamic, performance oriented and customer centered player. The company aims to satisfy its clients' needs, offering high-quality products and best financial advisory services. Ranked the 6th player on the local market, with assets under management exceeding RON 667 million, the company is serving a large segment of individual and institutional clients. Through the products offered, clients can diversify their investment portfolio in a broad range of asset classes, such as: equities, bonds, T-bills, deposits, capturing the opportunities from the financial markets.

Currently, OTP Asset Management Romania manages nine mutual investment funds, as follows:

- OTP AvantisRO (equity, RON);
- OTP Expert (equity, RON)
- OTP Obligatiuni (bond, RON);
- OTP Dollar Bond (bond, USD);
- OTP Euro Bond (bond, EUR);
- OTP Comodis RO (money market instruments, RON);
- OTP Global Mix (balanced, flexible, RON);
- OTP Premium Return (Absolute-Return, RON);
- OTP Euro Premium Return (Absolute-Return, EUR).

In 2017, OTP Asset Management Romania excelled to transform professionalism into performance and social responsibility. Due to its dynamic and innovative approach, customer centric actions, as well as its constant perseverance of its highly skilled professionals team, the company continued its development path.

Equity funds and those with equity exposure (multi-asset, Absolute-Return), performed highly in 2017, to meet customers' needs in looking for new returns and added value. In 2017, OTP Global Mix obtained 8.14% return, and OTP Premium Return achieved 6.19% return. These results positioned each of the two funds in top ranking in their categories.

An outstanding performance was recorded by OTP AvantisRO fund, based mainly on Bucharest Stock Exchange Romanian listed companies. OTP AvantisRO yielded 21.15% in 2017, by targeting investments in solid companies with a consistent dividend policy. OTP Expert registered a higher yield than the latter, of 28.29%, mainly due to investing in a mix of local and also global companies.

An important pillar of the company's strategy is the active involvement in projects dedicated towards raising the level of financial literacy. Thus, we developed partnerships with multiple parties, such as: Bucharest Stock Exchange, OK Center - Right to Education Foundation, Financial Supervison Authority etc., to raise the awareness towards long term investments through mutual funds. The company grew constantly, as at the centre of its preoccupation stands the ideas generation on how to better serve the customers.

Thereby, at the end of 2017, the total assets under management by the grew by 5%, reaching RON 667 million, while the number of investors increased by 8%, reaching 8,561 individuals and institutional investors. Looking further, the company intends to complete the portfolio of funds, aiming to bring to its customers, a variety range of products, well diversified in terms of geography and currency, seeking to deliver solid performances to meet customers' expectations and continuous changing needs.

OTP Consulting Romania

OTP Consulting Romania SRL was established in 2007 by OTP Bank Romania and the Hungarian consultancy company OTP Hungaro Project. Since then, the company went through an important and continuous development and due to its flexible approach and extensive set of skills it provides clients with the high-quality business value they need.

The wide range of services provided by the company cover financial advisory services, local development consultancy and business and treasury consulting. We offer complex development solutions for companies and local authorities, including trainings and technical assistance, support in identifying new projects and financing sources for these, consultancy services in drawing up different projects, as well as project management services.

In collaboration with local authorities, OTP Consulting Romania implemented more than 20 projects with the theme of environmental protection, especially in the area of water and wastewater and other wastes.

The quality of its consultants is the cornerstone of the company's ability to serve its clients, leading the company also in 2017 to a large number of successful projects.

Also, in partnership with NGOs (LAM Foundation and AGROSIC) OTP Consulting Romania developed a truly innovative concept for small manufacturers in order to develop their food industry marketing, brand share, to sell products online and through a special weekly market. In addition, the small manufacturers receive consulting services and training to acquire the necessary knowledge to enter the market.

OTP Consulting Romania is a partner of EBRD through BAS Business Advisory Service program. The Project, prepared by OTP Consulting Romania for an agriculture company, was promoted as BEST PRACTICE by EBRD.

In 2017, the company has signed over 70 new consulting contracts for project elaboration and management under various financing programs:

- Investments in agricultural holdings
- Agriculture and rural development
- Investments related to cultural heritage protection
- Urban development
- Development strategies and economic analysis

For us it is very important to support innovative start-up and entrepreneurship.

In present, OTP Consulting is involved in 3 projects with European funding in a partnership with the Chamber of Commerce of Romania, with a total value over EUR 10 million.

- "FIA" Project "Become Entrepreneur at Home! Invest in your future!", in partnership with the Chamber of

Commerce of Romania and the League of Romanian Students Abroad (LSRS), with a total budget of EUR 1.7 million, aims to: inform more than 10,000 Romanians in diaspora about opportunities in the field of entrepreneurship, to develop an entrepreneurial training program for at least 220 Romanian trainees in diaspora. The best 22 business plans will be selected for funding of max. EUR 40.000. The aim of the project is to facilitate/ support the return of Romanians from diaspora at home;

- "The Sustainable Entrepreneurship Project in the Center Region", launched in partnership with the Chamber of Commerce of Romania, aims to support entrepreneurial initiatives to develop the economic environment and increase employment in the central region of Romania. The project targets Romanian citizens aged over 18, who live in rural or urban areas in Harghita, Mures, Covasna, Brasov, Sibiu and Alba, who want to set up a non-agricultural business in the urban area. With a total budget of EUR 5 million, the 36 months project is divided as follows: entrepreneurial training programs for 740 young people (12 months) that will conclude with the selection of 89 business plans. In the second stage (18 months), the 89 entrepreneurs will receive business development support and grants of up to EUR 34,200 for each new business;

- "SMART Start-UP Project - Innovative and Sustainable Entrepreneurship in the South Muntenia Region" is launched in partnership with the Chamber of Commerce of Romania and aims to support entrepreneurial initiatives to develop the economic environment and increase employment in the South Muntenia region. The project is dedicated to young people aged over 18 from Arges, Dambovita, Prahova, Teleorman, Calarasi, Ialomita and Giurgiu who want to set up a non-agricultural business in the urban area. The main objective: 570 people formed - ANC accredited entrepreneurship training; selecting, funding and monitoring a number of 72 businesses. With a total budget of EUR 4 million, the 36 months project is divided as follows: entrepreneurial training programs for 570 young people (12 months) that will conclude with the selection of 72 business plans. In the second stage (18 months), the 72 entrepreneurs will receive advice and support for business development and grants of up to EUR 34,000 for each new business.

OTP Consulting is the lead partner in the "FIA" Project "Become Entrepreneur at Home! Invest in your future!" and it is involved with its partners at all stages of the project implementation.

OTP Advisors SRL

OTP Advisors S.R.L. started its activity in July, 2007, under the name of OTP Broker Pensii Private S.R.L. At that moment, OTP Broker Pensii Private S.R.L. was managing the contracts to the private pension fund that OTP Bank Romania S.A. used to own. Starting July 2008, the activity was extended to promoting and distributing banking products and services offered by OTP Bank Romania S.A. The name of the company was changed to OTP Broker de Intermedieri Financiare S.R.L.

In 2012, the company went through a rebranding process and became OTP Advisors

S.R.L., a team of financial advisors focused on providing first class tailor made financial services for private individuals in Romania. The sole shareholders of OTP Advisors S.R.L. is OTP Bank Romania S.A. (100%), member of OTP Group.

In 2017, OTP Advisors S.R.L. has continued its strategy of development and diversifying of all types of products offered by OTP Bank Romania S.A. (mortgage loans and personal loans with mortgage, credit packages and SME).

OTP Advisors S.R.L. developed a national network covering all of the main cities in the country: Bucuresti, Ploiesti, Pitesti, Cluj, Targu Mures, Brasov, Timisoara, Oradea, Sibiu, Iasi, Bacau, Constanta, Arad, Craiova.

By December 31, 2017, OTP Advisors S.R.L. Ígenerated sales volume of the total sales of OTP Bank Romania S.A., on average, as follows: 31% of personal unsecured loans, 19% of mortgages and personal loans with mortgage, 15% of the "First House" mortgages and 54% of credit cards.

OTP Leasing Romania IFN S.A.

OTP Leasing is a financial leasing company providing access to passenger cars, commercial vehicles, and equipment for legal entities.

2017 marked an important moment in the company's existence: OTP Leasing celebrated 10 years of existence on the Romanian market. This anniversary was both an opportunity for evaluation but, above all, a favorable period for setting new directions and invest in the team development.

The business objectives for 2017 geared around the strategy to increase the market quota, supported by the portfolio diversification and the focus to increase the financed goods volume, including by supporting the agricultural domain and the SMEs.
Looking at the results, the company had doubled the financed goods volumes through new contracts, compared to 2016, both in terms of vehicles and equipment. A special mention when it comes to the type of financed vehicles is regarding the fact that, in 2017, OTP Leasing has financed the first electric & hybrid fleet. The client's portfolio includes mainly SMEs, as well as large corporations.

The results were also influenced by the launch of new leasing products, designed having in mind the needs of the major areas OTP Leasing intends to develop even more. The first product developed by the company concerns the agricultural sector - Agri Leasing - and is a solution adapted to clients in this domain, with seasonal payments and adapted costs. The second product - Fast Approval - is addressed to SME clients and it offers an instant verification of the client's eligibility for the passenger car requests. The third offered product - Truck Leasing - comes to support the transportation companies. It is optimized to provide financing solutions for new and second-hand trucks.

Regarding the financing areas, OTP Leasing works with clients from various regions in Romania, the prevailing one's being Bucharest, Iasi, Cluj, Brasov, where OTP Leasing has also local representatives. To these four cities, OTP Leasing has expanded in Timisoara at the end of 2017.

A central point of the strategy for 2017 was represented by the investments in the team, including top management and bringing new key-specialists. Thus, our team grew with over 10 members in areas such as sales, marketing, and quality control.

OTP Factoring SRL

OTP Factoring was founded in 2009, as a member of OTP Bank Group, and has as its main activity the debt management of the receivables portfolios acquired from different Banking and Non-Banking Financial Institutions.

Starting with 2012, the company became one of the best performing on the Romanian market in the field of Debt Management. They are present in five locations: Bucharest, Brasov, Cluj-Napoca, Miercurea Ciuc and Timisoara and are under continuous expansion.

OTP Factoring's mission is to be helpful toward their clients and offer them support in solving their financial issues. This is why they treat each case individually, and thus are to provide the best solutions, even in the case of a forced foreclosure.

OTP Factoring is also a member of the Association for Management of Trade Receivables (AMCC), whose purpose is to promote a healthy business environment and to protect the management activities of the receivables' trade in specific ways.

With help from OTP Factoring, OTP Group's financial market is growing.

Using positive, reasonable and realistic collection techniques, through commitment solutions unique in Romania, the Romanian clients are helped to financially rehabilitate.

Also, professional legal solutions are offered, which ensures the settlement of debts by clients.

ACTIVITIES OF OTHER FOREIGN SUBSIDIARIES OF OTP GROUP

IFRS reports of the main foreign subsidiaries of OTP Group

According to the English version summary of the 2017 Business Report of the Board of Directors.

DSK GROUP (BULGARIA)

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	47,385	47,122	(1)
Income tax	(4,997)	(4,920)	(2)
Profit before income tax	52,381	52,042	(1)
Operating profit	70,113	61,461	(12)
Total income	112,503	108,290	(4)
Net interest income	84,023	72,257	(14)
Net fees and commissions	26,034	27,714	6
Other net non-interest income	2,445	8,319	240
Operating expenses	(42,391)	(46,830)	10
Total provisions	(17,731)	(9,419)	(47)
Provision for possible loan losses	(12,980)	(3,571)	(72)
Other provision	(4,751)	(5,848)	23
Main components of balance sheet Closing balances	2016	2017	%
Total assets	1,852,901	1,925,740	4
Gross customer loans	1,151,210	1,184,871	3
Gross customer loans (FX-adjusted)	1,147,870	1,184,871	3
Retail loans	822,276	827,328	1
Corporate loans	325,594	357,543	10
Allowances for possible loan losses	(142,386)	(109,137)	(23)
Allowances for possible loan losses (FX-adjusted)	(141,931)	(109,137)	(23)
Deposits from customers	1,547,669	1,626,924	5
Deposits from customer (FX-adjusted)	1,534,912	1,626,924	6
Retail deposits	1,319,975	1,453,267	10
Corporate deposits	214,937	173,657	(19)
Liabilities to credit institutions	21,782	4,802	(78)
Total shareholders' equity	247,267	250,296	1
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	131,889	93,936	(29)
90+ days past due loans/gross customer loans	11.5%	7.9%	(3.5)
Cost of risk/average gross loans	1.11%	0.31%	(0.80)
Cost of risk/average (FX-adjusted) gross loans	1.12%	0.31%	(0.81)
Total provisions/90+ days past due loans	108.0%	116.2%	8.2
Performance Indicators	2016	2017	pps
ROA	2.6%	2.5%	(0.1)
ROE	19.8%	20.0%	0.2
Total income margin	6.16%	5.77%	(0.38)
Net interest margin	4.60%	3.85%	(0.75)
Cost/income ratio	37.7%	43.2%	5.6
Net loans to deposits (FX-adjusted)	66%	66%	1
FX rates	2016 HUF	2017 HUF	%
HUF/BGN (closing)	159.0	158.6	0
HUF/BGN (average)	159.3	158.1	(1)

OTP BANK RUSSIA

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	20,535	27,771	35
Income tax	(6,480)	(7,514)	16
Profit before income tax	27,015	35,285	31
Operating profit	61,866	72,015	16
Total income	106,155	125,290	18
Net interest income	91,816	101,326	10
Net fees and commissions	14,098	22,975	63
Other net non-interest income	240	989	312
Operating expenses	(44,289)	(53,276)	20
Total provisions	(34,851)	(36,730)	5
Provision for possible loan losses	(33,988)	(35,880)	6
Other provision	(863)	(850)	(2)
Main components of balance sheet Closing balances	**2016**	**2017**	**%**
Total assets	622,666	638,031	2
Gross customer loans	490,086	531,280	8
Gross customer loans (FX-adjusted)	459,665	531,280	16
Retail loans	422,355	475,007	12
Corporate loans	36,215	56,168	55
Car financing loans	1,095	105	(90)
Gross DPD0-90 customer loans (FX-adjusted)	366,982	447,538	22
Retail loans	335,128	395,997	18
Allowances for possible loan losses	(116,458)	(112,158)	(4)
Allowances for possible loan losses (FX-adjusted)	(109,071)	(112,158)	3
Deposits from customers	345,241	353,306	2
Deposits from customer (FX-adjusted)	323,025	353,306	9
Retail deposits	262,161	284,714	9
Corporate deposits	60,863	68,592	13
Liabilities to credit institutions	91,641	100,404	10
Issued securities	1,038	353	(66)
Subordinated debt	24,778	22,780	(8)
Total shareholders' equity	125,190	135,213	8
Loan Quality	**2016**	**2017**	**%/pps**
90+ days past due loan volume (in HUF million)	99,024	83,742	(15)
90+ days past due loans/gross customer loans	20.2%	15.8%	(4.4)
Cost of risk/average gross loans	8.18%	7.35%	(0.83)
Cost of risk/average (FX-adjusted) gross loans	8.40%	7.38%	(1.01)
Total provisions/90+ days past due loans	117.6%	133.9%	16.3
Performance Indicators	**2016**	**2017**	**pps**
ROA	4.0%	4.6%	0.7
ROE	20.2%	21.0%	0.8
Total income margin	20.59%	20.91%	0.31
Net interest margin	17.81%	16.91%	(0.90)
Cost/income ratio	41.7%	42.5%	0.8
Net loans to deposits (FX-adjusted)	109%	119%	10
FX rates	**2016 HUF**	**2017 HUF**	**%**
HUF/RUB (closing)	4.8	4.5	(6)
HUF/RUB(average)	4.2	4.7	11

TOUCH BANK (RUSSIA)

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(5,898)	(7,391)	25
Income tax	1,468	1,816	24
Profit before income tax	(7,366)	(9,208)	25
Operating profit	(7,328)	(7,519)	3
Total income	(122)	1,958	
Net interest income	209	1,767	746
Net fees and commissions	(349)	160	(146)
Other net non-interest income	17	31	79
Operating expenses	(7,205)	(9,477)	32
Total provisions	(38)	(1,689)	
Provision for possible loan losses	(33)	(1,681)	
Other provision	(5)	(8)	59
Main components of balance sheet Closing balances	**2016**	**2017**	**%**
Total assets	26,141	33,693	29
Gross customer loans	1,609	12,812	696
Gross customer loans (FX-adjusted)	1,511	12,812	748
Retail loans	1,511	12,812	748
Corporate loans	0	0	
Allowances for possible loan losses	(36)	(1,657)	
Allowances for possible loan losses (FX-adjusted)	(34)	(1,657)	
Deposits from customers	20,455	26,352	29
Deposits from customer (FX-adjusted)	19,206	26,352	37
Retail deposits	19,206	26,352	37
Corporate deposits	0	0	
Liabilities to credit institutions	0	0	
Subordinated debt	0	0	
Total shareholders' equity	5,585	7,142	28
Loan Quality	**2016**	**2017**	**%/pps**
90+ days past due loan volume (in HUF million)	5	1,283	
90+ days past due loans/gross customer loans	0.3%	10.0%	9.7
Cost of risk/average gross loans	8.05%	18.70%	
Cost of risk/average (FX-adjusted) gross loans	8.10%	18.78%	
Total provisions/90+ days past due loans		129.1%	
Performance Indicators	**2016**	**2017**	**pps**
Total income margin	(0.79%)	7.02%	7.80
Net interest margin	1.34%	6.33%	4.99
Net loans to deposits (FX-adjusted)	8%	42%	35
FX rates	**2016 HUF**	**2017 HUF**	**%**
HUF/RUB (closing)	4.8	4.5	(6)
HUF/RUB (average)	4.2	4.7	11

OTP BANK UKRAINE

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	10,202	14,120	38
Income tax	(1,477)	(2,954)	100
Profit before income tax	11,679	17,074	46
Operating profit	22,217	18,876	(15)
Total income	37,304	34,595	(7)
Net interest income	26,478	23,060	(13)
Net fees and commissions	8,746	9,716	11
Other net non-interest income	2,080	1,819	(13)
Operating expenses	(15,087)	(15,719)	4
Total provisions	(10,538)	(1,802)	(83)
Provision for possible loan losses	(11,866)	(1,060)	(91)
Other provision	1,328	(742)	
Main components of balance sheet Closing balances	2016	2017	%
Total assets	307,117	312,334	2
Gross customer loans	381,662	287,236	(25)
Gross customer loans (FX-adjusted)	330,200	287,236	(13)
Retail loans	141,749	110,092	(22)
Corporate loans	169,600	158,306	(7)
Car financing loans	18,851	18,838	0
Gross DPD0-90 customer loans (FX-adjusted)	191,098	211,314	11
Retail loans	42,707	44,060	3
Corporate loans	137,555	151,710	10
Car financing loans	10,837	15,544	43
Allowances for possible loan losses	(189,450)	(90,163)	(52)
Allowances for possible loan losses (FX-adjusted)	(164,591)	(90,163)	(45)
Deposits from customers	228,568	234,943	3
Deposits from customer (FX-adjusted)	198,564	234,943	18
Retail deposits	94,151	98,065	4
Corporate deposits	104,413	136,878	31
Liabilities to credit institutions	46,270	33,985	(27)
Total shareholders' equity	24,243	34,079	41
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	160,009	75,922	(53)
90+ days past due loans/gross customer loans	41.9%	26.4%	(15.5)
Cost of risk/average gross loans	3.03%	0.31%	(2.73)
Cost of risk/average (FX-adjusted) gross loans	3.05%	0.31%	(2.74)
Total provisions/90+ days past due loans	118.4%	118.8%	0.4
Performance Indicators	2016	2017	pps
ROA	3.5%	4.6%	1.1
ROE	n.a.	47.1%	
Total income margin	12.71%	11.19%	(1.52)
Net interest margin	9.02%	7.46%	(1.56)
Cost/income ratio	40.4%	45.4%	5.0
Net loans to deposits (FX-adjusted)	83%	84%	0
FX rates	2016 HUF	2017 HUF	%
HUF/UAH (closing)	10.8	9.2	(15)
HUF/UAH(average)	11.0	10.3	(6)

OTP BANK ROMANIA

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	1,655	3,036	83
Income tax	(483)	(916)	90
Profit before income tax	2,138	3,952	85
Operating profit	8,545	9,346	9
Total income	26,644	27,138	2
Net interest income	20,315	19,779	(3)
Net fees and commissions	3,230	3,064	(5)
Other net non-interest income	3,098	4,295	39
Operating expenses	(18,100)	(17,792)	(2)
Total provisions	(6,407)	(5,394)	(16)
Provision for possible loan losses	(5,541)	(5,062)	(9)
Other provision	(866)	(332)	(62)
Main components of balance sheet Closing balances	2016	2017	%
Total assets	588,188	624,060	6
Gross customer loans	524,576	535,140	2
Gross customer loans (FX-adjusted)	508,640	535,140	5
Retail loans	369,275	377,841	2
Corporate loans	139,365	157,298	13
Allowances for possible loan losses	(74,645)	(56,909)	(24)
Allowances for possible loan losses (FX-adjusted)	(70,655)	(56,909)	(19)
Deposits from customers	336,991	337,691	0
Deposits from customer (FX-adjusted)	328,790	337,691	3
Retail deposits	249,773	253,347	1
Corporate deposits	79,017	84,344	7
Liabilities to credit institutions	167,372	196,377	17
Total shareholders' equity	42,510	53,481	26
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	91,328	72,133	(21)
90+ days past due loans/gross customer loans	17.4%	13.5%	(3.9)
Cost of risk/average gross loans	1.05%	0.95%	(0.11)
Cost of risk/average (FX-adjusted) gross loans	1.06%	0.96%	(0.10)
Total provisions/90+ days past due loans	81.7%	78.9%	(2.8)
Performance Indicators	2016	2017	pps
ROA	0.3%	0.5%	0.2
ROE	3.8%	6.8%	3.0
Total income margin	4.46%	4.49%	0.03
Net interest margin	3.40%	3.27%	(0.12)
Cost/income ratio	67.9%	65.6%	(2.4)
Net loans to deposits (FX-adjusted)	133%	142%	8
FX rates	2016 HUF	2017 HUF	%
HUF/RON (closing)	68.5	66.6	(3)
HUF/RON (average)	69.4	67.7	(2)

OTP BANKA HRVATSKA (CROATIA)

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	3,783	17,105	352
Income tax	(865)	(3,742)	333
Profit before income tax	4,648	20,848	349
Operating profit	13,538	28,779	113
Total income	31,442	63,643	102
Net interest income	22,800	44,313	94
Net fees and commissions	5,330	12,603	136
Other net non-interest income	3,312	6,728	103
Operating expenses	(17,904)	(34,864)	95
Total provisions	(8,890)	(7,931)	(11)
Provision for possible loan losses	(5,331)	(7,498)	41
Other provision	(3,560)	(434)	(88)
Main components of balance sheet Closing balances	2016	2017	%
Total assets	649,063	1,821,613	181
Gross customer loans	471,346	1,121,938	138
Gross customer loans (FX-adjusted)	472,217	1,121,938	138
Retail loans	308,539	623,627	102
Corporate loans	163,546	479,610	193
Car financing loans	132	18,700	
Allowances for possible loan losses	(50,051)	(63,752)	27
Allowances for possible loan losses (FX-adjusted)	(50,497)	(63,752)	26
Deposits from customers	515,450	1,395,087	171
Deposits from customer (FX-adjusted)	509,107	1,395,087	174
Retail deposits	443,696	991,776	124
Corporate deposits	65,412	403,312	517
Liabilities to credit institutions	44,141	132,765	201
Total shareholders' equity	74,026	238,935	223
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	57,127	74,325	30
90+ days past due loans/gross customer loans	12.1%	6.6%	(5.5)
Cost of risk/average gross loans	1.15%	0.85%	(0.29)
Cost of risk/average (FX-adjusted) gross loans	1.15%	0.85%	(0.30)
Total provisions/90+ days past due loans	87.6%	85.8%	(1.8)
Performance Indicators	2016	2017	pps
ROA	0.6%	1.3%	0.7
ROE	5.2%	9.3%	4.1
Total income margin	4.89%	4.70%	(0.19)
Net interest margin	3.54%	3.27%	(0.27)
Cost/income ratio	56.9%	54.8%	(2.2)
Net loans to deposits (FX-adjusted)	83%	76%	(7)
FX rates	2016 HUF	2017 HUF	%
HUF/HRK (closing)	41.1	41.6	1
HUF/HRK (average)	41.3	41.4	0

OTP BANKA SLOVENSKO (SLOVAKIA)

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	(2,223)	(2,051)	(8)
Income tax	256	(231)	(190)
Profit before income tax	(2,479)	(1,820)	(27)
Operating profit	6,781	6,616	(2)
Total income	17,893	17,452	(2)
Net interest income	14,257	13,358	(6)
Net fees and commissions	3,272	3,627	11
Other net non-interest income	363	467	29
Operating expenses	(11,112)	(10,836)	(2)
Total provisions	(9,260)	(8,436)	(9)
Provision for possible loan losses	(8,987)	(8,358)	(7)
Other provision	(273)	(78)	(71)
Main components of balance sheet Closing balances	2016	2017	%
Total assets	453,720	452,084	0
Gross customer loans	388,926	382,932	(2)
Gross customer loans (FX-adjusted)	387,825	382,932	(1)
Retail loans	326,617	330,893	1
Corporate loans	61,147	52,010	(15)
Allowances for possible loan losses	(31,462)	(28,098)	(11)
Allowances for possible loan losses (FX-adjusted)	(31,373)	(28,098)	(10)
Deposits from customers	366,976	343,924	(6)
Deposits from customer (FX-adjusted)	365,285	343,924	(6)
Retail deposits	339,899	318,989	(6)
Corporate deposits	25,387	24,935	(2)
Liabilities to credit institutions	8,104	10,020	24
Subordinated debt	6,223	6,205	0
Total shareholders' equity	27,339	32,200	18
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	43,451	35,968	(17)
90+ days past due loans/gross customer loans	11.2%	9.4%	(1.8)
Cost of risk/average gross loans	2.35%	2.17%	(0.18)
Cost of risk/average (FX-adjusted) gross loans	2.37%	2.18%	(0.19)
Total provisions/90+ days past due loans	72.4%	78.1%	5.7
Performance Indicators	2016	2017	pps
ROA	(0.5%)	(0.5%)	0.0
ROE	(7.4%)	(7.6%)	(0.2)
Total income margin	3.95%	3.90%	(0.05)
Net interest margin	3.15%	2.98%	(0.16)
Cost/income ratio	62.1%	62.1%	0.0
Net loans to deposits (FX-adjusted)	98%	103%	6
FX rates	2016 HUF	2017 HUF	%
HUF/EUR (closing)	311.0	310.1	0
HUF/EUR (average)	311.5	308.4	(1)

OTP BANKA SRBIJA (SERBIA)

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	39	(2,904)	
Income tax	34	109	222
Profit before income tax	5	(3,013)	
Operating profit	697	1,360	95
Total income	7,720	10,071	30
Net interest income	5,769	7,235	25
Net fees and commissions	1,653	2,275	38
Other net non-interest income	298	561	88
Operating expenses	(7,023)	(8,711)	24
Total provisions	(692)	(4,373)	532
Provision for possible loan losses	(890)	(3,133)	252
Other provision	198	(1,241)	
Main components of balance sheet Closing balances	2016	2017	%
Total assets	123,279	482,887	292
Gross customer loans	108,704	306,874	182
Gross customer loans (FX-adjusted)	109,565	306,874	180
Retail loans	49,017	155,878	218
Corporate loans	60,548	150,997	149
Allowances for possible loan losses	(26,349)	(19,759)	(25)
Allowances for possible loan losses (FX-adjusted)	(27,107)	(19,759)	(27)
Deposits from customers	78,583	349,553	345
Deposits from customer (FX-adjusted)	79,505	349,553	340
Retail deposits	48,455	238,733	393
Corporate deposits	31,050	110,820	257
Liabilities to credit institutions	8,572	38,397	348
Subordinated debt	2,511	2,505	0
Total shareholders' equity	28,805	80,070	178
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	35,504	28,372	(20)
90+ days past due loans/gross customer loans	32.7%	9.2%	(23.4)
Cost of risk/average gross loans	0.83%	2.64%	1.81
Cost of risk/average (FX-adjusted) gross loans	0.85%	2.64%	1.79
Total provisions/90+ days past due loans	74.2%	69.6%	(4.6)
Performance Indicators	2016	2017	pps
ROA	0.0%	(2.0) %	(2.0)
ROE	0.1%	(9.5) %	(9.6)
Total income margin	6.16%	6.84%	0.68
Net interest margin	4.60%	4.92%	0.31
Cost/income ratio	91.0%	86.5%	(4.5)
Net loans to deposits (FX-adjusted)	104%	82%	(22)
FX rates	2016 HUF	2017 HUF	%
HUF/RSD (closing)	2.5	2.6	4
HUF/RSD (average)	2.5	2.5	1

CRNOGORSKA KOMERCIJALNA BANKA (MONTENEGRO)

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(1,849)	(155)	(92)
Income tax	2	(11)	
Profit before income tax	(1,851)	(144)	(92)
Operating profit	2,684	1,802	(33)
Total income	10,022	9,709	(3)
Net interest income	6,951	6,543	(6)
Net fees and commissions	2,622	3,319	27
Other net non-interest income	449	(153)	
Operating expenses	(7,337)	(7,907)	8
Total provisions	(4,535)	(1,947)	(57)
Provision for possible loan losses	(4,289)	(864)	(80)
Other provision	(246)	(1,083)	339
Main components of balance sheet Closing balances	**2016**	**2017**	**%**
Total assets	197,562	197,590	0
Gross customer loans	143,331	138,485	(3)
Gross customer loans (FX-adjusted)	142,926	138,485	(3)
Retail loans	71,480	72,987	2
Corporate loans	71,446	65,499	(8)
Allowances for possible loan losses	(56,513)	(38,899)	(31)
Allowances for possible loan losses (FX-adjusted)	(56,353)	(38,899)	(31)
Deposits from customers	149,119	152,316	2
Deposits from customer (FX-adjusted)	147,783	152,316	3
Retail deposits	112,614	116,502	3
Corporate deposits	35,169	35,814	2
Liabilities to credit institutions	20,765	17,962	(13)
Subordinated debt	0	0	
Total shareholders' equity	21,188	21,127	0
Loan Quality	**2016**	**2017**	**%/pps**
90+ days past due loan volume (in HUF million)	60,801	43,395	(29)
90+ days past due loans/gross customer loans	42.4%	31.3%	(11.1)
Cost of risk/average gross loans	2.90%	0.63%	(2.27)
Cost of risk/average (FX-adjusted) gross loans	2.93%	0.62%	(2.31)
Total provisions/90+ days past due loans	92.9%	89.6%	(3.3)
Performance Indicators	**2016**	**2017**	**pps**
ROA	-1.0%	-0.1%	0.9
ROE	-7.9%	-0.7%	7.1
Total income margin	5.16%	5.02%	(0.14)
Net interest margin	3.58%	3.38%	(0.19)
Cost/income ratio	73.2%	81.4%	8.2
Net loans to deposits (FX-adjusted)	59%	65%	7
FX rates	**2016 HUF**	**2017 HUF**	**%**
HUF/EUR (closing)	311.0	310.1	0
HUF/EUR (average)	311.5	309.2	(1)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	Note	Year ended December 31, 2017	Year ended December 31, 2016
Interest Income		352,433	368,835
Interest Expense		(59,575)	(66,312)
Net interest income	6	**292,858**	**302,523**
Fee and commission income		71,139	70,797
Fee and commission expense		(24,177)	(22,274)
Net fee and commission income	7	**46,962**	**48,524**
Impairment losses	8	**(21,803)**	**(76,844)**
Net interest, fee and commission income after impairment losses		**318,018**	**274,203**
Trading income, net	9	52,122	43,277
Gains (losses) on derecognition of assets other than held for sale - net		3,797	(6,370)
Gains or losses on financial assets and liabilities designated as at fair value through profit or loss - net		459	374
Other operating income	12	15,473	71,790
Total non- interest income		**71,851**	**109,0714**
Income before non-interest expense		**389,869**	**383,274**
Salaries and related expenses	10	(126,953)	(117,521)
Other administrative expenses	11	(116,244)	(116,551)
Depreciation of tangible and Intangible assets	19	(17,534)	(24,963)
Other operating expenses	12	(28,361)	(31,327)
Total non-interest expense		**(289,092)**	**(290,362)**
Profit / (Loss) before income taxes		**100,776**	**92,912**
Income tax expenses	29	(16,255)	(8,664)
Net Profit for the period		**84,522**	**84,248**
Other comprehensive income			
Revaluation of fixed assets		(3,663)	(2,142)
Revaluation of financial assets available for sale		6,709	(16,298)
Other comprehensive income, net of tax		**3,046**	**(18,440)**
Total comprehensive income for the reporting period		**87,568**	**65,808**
Basic earnings per ordinary share	**31**	**14.71**	**16.12**

These separate financial statements have been authorized for issue by the management in 23rd of March 2018.

László Diósi
Chairman of the Management Board and CEO

Mara Cristea
Member of the Management Board and Deputy CEO

	Note	December 31, 2017	December 31, 2016
ASSETS			
Cash	13	272,902	206,647
Current accounts and deposits at banks	14	99,660	247,404
Accounts with the National Bank of Romania	15	991,488	706,631
Securities held-to-maturity	16	187,986	238,004
Loans and advances to customers, net	18	6,916,906	6,259,873
Loans and advances to banks	17	121	62,653
Investment securities - Available for sale	20	403,014	192,078
Investment securities at fair value through profit and loss	20	4,289	23,369
Investment in Associates and Subsidiaries	21	8,611	8,611
Tangible assets, net		130,566	124,588
Intangible assets, net	19	19,606	13,168
Tangible assets classified as held for sale	19, 4.2.3	5,989	13,322
Investment property, net	19	1,440	2,675
Derivatives	26	2,273	2,654
Current tax asset	29	13,019	13,019
Deffered tax asset	29	32,010	48,845
Other assets, net	22	54,955	45,184
Total assets		**9,144,835**	**8,208,725**
LIABILITIES			
Due to Banks			
Demand deposits from banks	*23*	*11,089*	*96,385*
Term deposits from banks	*23*	*-*	*6,455*
Due to customers			
Demand deposits from customers	*24*	*2,374,577*	*1,804,189*
Term deposits from customers	*24*	*4,105,743*	*4,502,755*
Borrowings	**25**	1,319,004	725,258
Derivates	26	4,911	3,683
Derivatives hedge accounting	27	24,475	-
Provisions	28	48,220	49,829
Other financial liabilities	30	104,854	85,137
Total liabilities		**7,992,873**	**7,273,691**
SHAREHOLDERS' EQUITY			
Share capital, nominal	31	1,379,253	1,254,253
Share capital restatement		42,751	42,751
Total share capital		1,422,004	1,297,004
Accumulated loss		(270,042)	(361,970)
Total shareholders' equity		**1,151,962**	**935,034**
Total liabilities and shareholders' equity		**9,144,835**	**8,208,725**

These separate financial statements have been authorized for issue by the management in 23rd of March 2018.

László Diósi

Chairman of the Management Board and CEO

Mara Cristea

Member of the Management Board and Deputy CEO

	Note	Year ended December 31, 2017	Year ended December 31, 2016
Cash flows from operating activities:			
Net profit		**84,522**	**84,248**
Adjustments for non-cash items:			
Depreciation expenses		17,534	24,963
Impairment losses on loans and advances to customers		34,650	194,343
Impairment losses on sundry transactions		261	(4,566)
Other adjustments		8,763	(95,800)
Income tax paid		-	(8,112)
Valuation of derivative transactions		26,083	(1,030)
Total adjustments for non-cash items		**(211,597)**	**(109,798)**
Net profit adjusted for non-cash items		**(171,813)**	**(194,045)**
Changes in operating assets and liabilities			
(Increase)/decrease of the minimum compulsory reserve at National Bank of Romania		(1,212)	65,288
(Increase) / decrease of loans and advances to customers		(691,683)	(202,514)
(Increase) / decrease of loans and advances to banks		62,533	390,040
(Increase)/ decrease of other assets		(9,252)	(2,316)
Increase / (decrease) of demand deposits		214,601	498,904
Increase/(decrease) of term deposits		(132,975)	(874,765)
Increase/(decrease) of other liabilities		18,938	7,381
Total changes in operating assets and liabilities		**(539,052)**	**(117,983)**
Interest received		357,410	385,032
Interest paid		(58,522)	(73,748)
Net cash provided by / (used in) operating activities		**(367,240)**	**76,063**
Cash flows from financing activities			
Proceeds from / (Purchase of) investments available for sale		(204,228)	27,946
Proceeds from / (Purchase of) sale of investments held to maturity		50,019	(24,139)
Proceeds from / (Purchase of) investments at fair value through profit and loss		19,079	(546)
(Purchase)of tangible and intangible assets, net		(14,223)	(10,651)
Payments for increase in share capital of subsidiaries	21	-	(8,400)
Net cash used in investing activities		**(149,352)**	**(15,791)**
Cash flows from financing activities			
Increase of borrowings		593,746	44,555
Proceeds from issue of shares		125,000	-
Net cash provided by financing activities		**718,746**	**44,555**
Net increase in cash and cash equivalents		**202,154**	**104,827**
Cash and cash equivalents at beginning of period	13	**698,676**	**349,226**
Cash and cash equivalents at end of period	13	**900,830**	**454,052**

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László Diósi

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Mara Cristea

Member of the Management Board and Deputy CEO

	Share Capital	Share capital restatement reserve	Retained earnings/ Accumulated deficit	Total
Balance as of December 31, 2016	**1,254,253**	**42,750**	**(361,970)**	**935,034**
Net income, recognized directly in equity	-	-	11,068	11,068
Net profit for the period ended December 31, 2017	-	-	84,522	84,522
Net change in Tangible Assets Revaluation reserve	-	-	(3,662)	(3,662)
Increase in share capital	125,000	-	-	125,000
Balance as of December 31, 2017	**1,379,253**	**42,750**	**(270,042)**	**1,151,962**

SEPARATE STATEMENT OF CHANGES IN EQUITY	Share Capital	Share capital restatement reserve	Retained earnings/ Accumulated deficit	Total
Balance as of December 31, 2015	**1,254,253**	**42,750**	**(427,777)**	**869,227**
Net expenses, recognized directly in equity	-	-	(16,298)	(16,298)
Net profit for the period ended December 31, 2016	-	-	84,248	84,248
Net change in Tangible Assets Revaluation reserve	-	-	(2,143)	(2,143)
Balance as of December 31, 2016	**1,254,253**	**42,750**	**(361,970)**	**935,034**

These separate financial statements have been authorized for issue by the management in 23rd of March 2018

László Diósi
Chairman of the Management Board and CEO

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Member of the Management Board and Deputy CEO

NOTE 1: GENERAL OVERVIEW ON THE BANK AND ITS OPERATIONS

OTP BANK ROMANIA S.A. (hereinafter the "Bank" or "OTP Romania") was established as a private bank in 1995, under the official name "Banca Comercială RoBank S.A. and Trade Register number J40/10296/1995.

In July 2004, OTP Bank Ltd (Hungary) became the main shareholder of the Bank and in July 2005 the Bank was officially registered with the Romanian Trade Register under the name "OTP Bank Romania S.A."

The Head Office of the Bank is seated in Romania, Bucharest, 66-68 Buzești Street, District 1.

The Bank's tax identification number is RO 7926069.

Members of Statutory and Supervisory Boards as at 31 December 2017:

Directorate:

László Diósi	Chairman of the Management Board and CEO
Gábor Ljubičić	Vice-Chairman of the Management Board and Deputy CEO
György Gáldi	Member of the Management Board and Deputy CEO
Mara Cristea	Member of the Management Board and Deputy CEO
Dragos Ioan Mirica	Member of the Management Board and Deputy CEO

Supervisory Board:

Antal György Kovács	Chairman of the Supervisory Board
Judit Hanusovszky	Vice-Chairman of the Supervisory Board
Enikő Zsakó	Member
Tibor László Csonka	Member
Ildikó Pál-Antal	Independent Member
Dr. Ibolya Rajmonné Veres	Member

Members of Statutory and Supervisory Boards as at 31 December 2016:

Directorate:

László Diósi	Chairman of the Management Board and CEO
Gábor Ljubičić	Vice-Chairman of the Management Board and Deputy CEO
György Gáldi	Member of the Management Board and Deputy CEO
Mara Cristea	Member of the Management Board and Deputy CEO
Dragos Ioan Mirica	Member of the Management Board and Deputy CEO

Supervisory Board:

Antal György Kovács	Chairman of the Supervisory Board
Judit Hanusovszky	Vice-Chairman of the Supervisory Board
Enikő Zsakó	Member
Tibor László Csonka	Member
Ildikó Pál-Antal	Independent Member
Dr. Ibolya Rajmonné Veres	Member

The Bank is managed by the Chief Executive Officer (CEO), who also acts as Chairman of the Board of Directors. In his absence, the CEO is fully represented by his representatives (other members of the Bank's Board of Directors).

Scope of the Business

The Bank holds the banking authorization issued by the National Bank of Romania ("NBR") and carries out business in Romania. The basic activity of the Bank is the provision of a wide range of banking and financial services to various entities, mainly to large and medium enterprises, private individuals and institutional customers.

The Bank's core scope of business, under the Banking authorization from the NBR, is as follows:

- Other activities representing intermediation of money – acceptance of deposits and other repayable funds;
- Lending: consumer credit, mortgage credit, factoring with or without recourse, financing of commercial transactions, including forfeiting;
- Money transfer services;
- Issuing and administering means of payment, such as credit cards, travelers' cheques and other similar means of payments, including issuing of electronic money;
- Issuing guarantees and commitments;
- Trading for own account and/or for account of clients, according to law, in:
    - money market instruments, such as: cheques, bills, promissory notes, certificates of deposit;
    - foreign exchange;
    - transferable securities and other financial instruments;
    - exchange and interest rate instruments;
- Consultancy related to capital structure, business strategy and other related issues, consultancy and other services related to mergers and purchase of undertakings as well as other advice services;
- Intermediation on the inter-banking market;
- Credit reference services related to provision of data and other credit references;
- Safe custody services;
- Operations with precious metals, gems and objects thereof;
- Acquiring of participations in the capital of other entities;

The Bank is authorized to operate any other activities or services that are included in the financial field, abiding by the special laws regulating those activities, where appropriate:

- Depositing assets of investment funds and investment companies;
- Distribution of investment funds' units and investment companies' shares;
- Data processing services, database management or other such services for third parties;
- Carrying out automatic payment operations in the accounts of customers, based on the mandate granted by clients in this respect;
- Safekeeping and administration of the financial instruments;
- Participation in securities issues and other financial instruments by underwriting and selling them or by selling them and the provision of services related to such issues;
- Acting as agent in case of syndicated loan transactions and of the loans granted by non-resident banks;
- Portfolio management and advice;
- Managing portfolio of movable and/or immovable assets, which are the property of the credit institution, but are not used for the performance of its financial activities;

Non-financial mandate or commission operations, especially in the account of other entities within the group the Bank relates, respectively:

- Bank assurance activity, according to the provisions of Law 32/2000 on insurance companies and insurance supervision, with the subsequent amendments and supplements;
- Mandate operations: acting as marketing agent for the voluntary pension funds.

Shareholders' Structure:

The majority shareholder of the Bank, OTP Bank Plc. (Hungary) is listed on the Budapest Stock Exchange and fully consolidates the Financial Statements of OTP Bank Romania S.A. The registered Head Office of the parent company is: 16 Nador Street, Budapest, 1051, Hungary.

As of December 31, 2017, the shareholders' structure of the Bank was modified compared with the end of year 2016, as follows:

December 31, 2017	Percentage of ownership	Number of shares	Amount (RON)
1. OTP Bank Plc	99.9999303971002%	5,746,883	1,379,251,920
2. Merkantil Bank zrt	0.0000696028998%	4	960
Total	**100%**	**5,746,887**	**1,379,252,880**

December 31, 2016	Percentage of ownership	Number of shares	Amount (RON)
1. OTP Bank Plc	99.99992346040119%	5,226,049	1,254,251,760
2. Merkantil Bank zrt	0.00007653959881%	4	960
Total	**100%**	**5,226,053**	**1,254,252,720**

The organizational structure and number of employees

As of 31 December 2017, the Bank operates through its 96 territorial units (including 63 branches and 33 agencies), distributed in all counties of Romania as well as the Bucharest headquarters.

The total number of employees of the Bank as of 31 December 2017 was 1,254 (31 December 2016: 1,199). The average number of employees during 2017 was 1,141 (1,082 in 2016).

NOTE 2: CAPITAL ADEQUACY AND REGULATORY REQUIREMENTS

The Bank calculates capital adequacy based upon the regulations issued by the National Bank of Romania ("NBR"). In the administration of its regulatory capital, the Bank aims to ensure an adequate level of business prudence and assets and liabilities monitoring, as well as to continuously maintain the Bank's regulatory capital above the minimum level required by the NBR. To this extent, the Bank prepares a plan of adequacy of regulatory capital, considering its business objectives and applying the knowledge gained from previous experience.

In 2017, the Bank monitored the development of requirements for regulatory capital and prepared reports on the required levels of the Bank's regulatory capital on a monthly basis. These reports have been submitted periodically to the National Bank of Romania and to the Board of Directors' meetings for periodical analysis.

The Bank complied with the minimum capital adequacy ratio set by the common decision of the supervisory authorities (National Bank of Romania and the Hungarian National Bank) as of 31 December 2017 as well as of 31 December 2016.

Tier 1	**December 31, 2017**	**December 31, 2016**
CET		
Share capital	1,297,003	1,297,003
Retained earnings	(270,041)	(361,970)
Other CET1 elements	(25,010)	(28,230)
Other intangible assets	(19,606)	(13,168)
Deductions	(21,573)	(68,797)
Tier 2		
Deductions	-	-
Own Funds	**960,773**	**824,838**
Own funds requirements for:		
Credit Risk	419,366	352,804
Market Risk	32	1,715
CVA	3	5
Operational Risk	63,988	57,495
OWN FUNDS REQUIREMENTS	**483,389**	**412,019**
CET1 Capital ratio	15.90%	16.02%
T1 Capital ratio	15.90%	16.02%
Total capital ratio	15.90%	16.02%

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below:

3.1 Basis of preparation

The separate financial statements have been prepared using the historical cost model for measuring the elements presented in the statement of financial position except for the following significant items:

- Tangible and intangible assets measured using the revaluation model;
- Assets held for sale measured at the lower of carrying amount and fair value;
- Financial assets available for sale for which there is a method for determining fair value that are measured at fair value through other comprehensive income;
- Financial assets classified as measured at fair value through profit and loss;
- Share capital measured using IAS 29.

The Bank keeps accounting records and prepares statutory financial statements in accordance with Romanian accounting regulations.

Statement of compliance

These separate financial statements include the separate statement of financial position, the separate income statement and other comprehensive income, the separate statement of changes in equity, the separate statement of cash flows and notes to the separate financial statements. The separate financial statements for the period ended as of December 31, 2017 and comparative data for the period ended as of December 31, 2016 have been prepared in accordance with Order 27/2010 approving the Accounting Regulations compliant with International Financial Reporting Standards applicable to credit institutions, issued by the National Bank of Romania and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU). The principal accounting policies applied in preparing these financial statements are set out below and have been applied consistently throughout all the presented financial periods.

The Separate Financial Statements for the period ended as of December 31, 2017 and the comparative data for the period ended as of December 31, 2016 are prepared in Romanian new leu ("RON") and are presented in thousand Romanian new lei ("RON") unless otherwise stated, rounded to the nearest thousand.

The Bank's management assessed the functional currency of the Bank to be RON, which is also the presentation currency of these financial statements.

In 2017 the Bank has applied all the new or revised Standards Interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) of the IASB, that have been adopted by the EU and that are relevant to the work done by the Bank. Their adoption has not resulted in changes in the accounting policies of the Bank, nor the amounts reported for the current year or the previous year.

The Bank decided not to adopt any of the standards or interpretations before the date of their effectiveness which were prepared for issue as at the date of the authorization of these financial statements, but not yet effective.

Standards and Interpretations effective in the current period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) are effective for the current financial period:

- **Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative** – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying forms** – adopted by the EU on 7 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in the financial statements.

Standards and Interpretations issued by IASB and adopted by the EU, but not effective yet

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not effective yet:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying forms** – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

Except for IFRS 9 – Financial instruments standard, presented further below, the Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on its financial statements in the period of initial application.

IFRS 9 Financial Instruments Recognition and Measurement

The Bank analysed the estimated impact of the application of IFRS 9 in accordance with IAS 8, paragraph 30-31.

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual reporting periods commencing on or after 1 January 2018. It contains changes to the requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting.

The identification of gaps between its currently developed methodologies and the IFRS 9 requirements in classification and measurement, impairment and hedge accounting was completed in recent months, with various harmonizing processes required in respect of a measuring significant increase in credit risk (SICR). Finalisation of most of these activities is planned for the first half of 2018, some of them will be finalised by the end of 2018 for the material portfolios.

The most significant part among that which has been not finalized is SICR (in the topic of staging the measurement of increased impairment) being still in progress, for the year end alternative estimations were made.

Classification and measurement

IFRS 9 introduced a new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. The Bank recognizes the financial liabilities on amortized cost except in those cases when the standard requires otherwise, or according to the fair value option the entity chose to recognize the financial instrument on the fair value through profit and loss. Preliminary analyses of the business models and contractual cash flows on the Bank's significant portfolios were performed to determine by product segments those financial instruments that would be measured at amortised cost, at fair value through profit and loss, or at fair value through Other Comprehensive Income.

Hedge accounting

IFRS 9 introduced a substantially revised model for hedge accounting, with enhanced disclosures about risk management activity. The new model aligns accounting treatment with risk management activities, having enabled entities to better reflect these activities in their financial statements. In addition, users of the financial statements are provided with better information about risk management and the effect of hedge accounting on the financial statements.

Impairment

IFRS 9 introduced an expected-loss impairment model instead of the previously applied incurred loss model that requires a more timely recognition of credit losses. The standard requires entities to account for expected credit losses from the moment when financial instruments are first identified.

The use of a new, three stage model was implemented for IFRS 9 purposes. The new impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk, lifetime expected losses will be recognized.

The increased credit-impairment is identified by transactions on the basis of predetermined conditions and beyond this the estimation is made on a portfolio level. Assets where no significant increase of credit risk has been identified will be provisioned based on a 12-month expected loss methodology.

For purchased or originated credit-impaired financial assets, the same lifetime expected loss methodology was extended in order to be able to capture the cumulative changes in lifetime expected credit losses since the initial recognition as a credit-impaired instrument.

The Bank started to further improve its risk management definitions, processes and methodological analysis in line with the expectations of IFRS 9. The Bank has started developing the methodology – using the behavioural scoring model – for the identification of significant increase of credit risk and the calculation of expected credit losses through the use of IFRS 9 compliant risk parameters.

Based on the gap analyses and the changes in methodology, the main principles regarding the IT solutions for IFRS 9 implementation were laid down. Preliminary specifications were prepared and IT implementation was completed mostly in 2017, although there are such rating/scoring models for significant portfolios where the developments have not been finished yet.

The estimation of quantitative impact of IFRS 9 is based on the best estimation of our management as of the date of the issue of these separate financial statements. However, the management of the Bank considers uncertainties exist in respect of certain aspects of the methodology described above, together with interpretations of the standard, and evolving industry practice, and these uncertainties could result in these initial estimates varying to what is ultimately adjusted as of 1 January 2018, and the amount of the variance could be significant.

	Opening balance according	**Efect remăsurare**
Placements with other banks	99,660	No effect
Loans gross	7,232,606	No effect
Impairment losses on loans and advances to customers	(315,700)	Increase between 19% to 25%
Securities of which:		
Securities held-to-maturity	187,986	Decrease below 1% - 3%
Investment securities - Available for sale	403,014	Decrease below 1% - 3%
Investment securities at fair value through profit and loss	4,289	No effect
Loan commitments – off balance sheet item	1,850,226	No effect
Provisions for loan commitments	(7,552)	Increase by 100%

Standards and Interpretations issued by IASB but not yet adopted by the EU

Currently, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB except from the following standards, amendments to the existing standards and interpretations, which were not endorsed as at the date of authorisation of these financial statements:

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying forms (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements in the period of initial application.

3.2 Offsetting

The Bank does not offset assets and liabilities or income and expenses unless there is a legal right to perform or if the offsetting better reflects the economic substance of the transaction. Net settlement of receivables and payables or presentation of assets after deducting the related impairment losses is not considered offsetting.

3.3 Consolidated and Separate Financial Statements

The bank is part of the consolidation perimeter of OTP Group. Consolidated financial statements for all Group entities are prepared by OTP Bank Plc, the parent company with its headquarters set at 16 Nádor Street, 1051 Budapest, Hungary.

OTP Bank Plc is also the immediate consolidating entity of the Bank.

3.3.1 Subsidiaries and affiliates

A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent). Control of the subsidiary is achieved when the Bank has the power to govern the accounting and operating policies of the entity under control in order to obtain benefits from its activities. According to IFRS 10 (Consolidated Financial Statements) a parent company should not prepare consolidated financial statements if and only if:

- the parent is itself a wholly-owned subsidiary the or parent is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about and do not object to the parent company not not preparing consolidated financial statements;
- the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- the parent did not file, nor is it in the process of filing its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market;
- the parent company and any intermediate parent of the parent produces consolidated financial statements available for the public use, that comply with International Financial Reporting Standards.

All the conditions above-mentioned are met and the ultimate parent company OTP Bank Plc is in the process of finalizing the consolidated financial statements as of December 31, 2017, which is expected to be made available to the public on www.otpbank.hu, as of April 2018.

3.3.2 Associates

An associate is an entity over which the Bank has significant influence and which is neither a subsidiary nor an interest in a joint venture. Significant influence implies the power to participate in decisions regarding financial and operating policies of the associate, but not control or joint control over those policies.

The associates are presented in the financial statements at cost less impairment. Further information on the Bank subsidiaries and affiliates are included in Note 21.

3.4 Foreign currency translation

Transactions denominated in foreign currency are recognized at the exchange rate valid at the transaction date. Exchange differences arising from the settlement of foreign currency transactions are included in the income statement at the date of the settlement using the exchange rate valid on that date.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official rate. For reference purposes please find below the exchange rates at the end of the reporting periods, for the major currencies:

	RON / CHF	RON / USD	RON / EUR	RON / 100 HUF
The exchange rate at December 31, 2017	3.9900	3.8915	4.6597	1.5011
The exchange rate at December 31, 2016	4.2245	4.3033	4.5411	1.4627

Unrealized foreign currency gains and losses arising from the translation of monetary assets and liabilities are reflected in the income statement (please refer to Note 9).

3.5 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that future economic benefits will be transferred to the Bank and this can be measured reliably.

3.6 Interest income and expenses

For all financial instruments measured at amortized cost, interest-bearing financial instruments classified as available for sale, interest income and expenses are recorded using the effective interest rate. Interest income and expenses are recognized based on the principal outstanding, using the effective interest rate applicable until to maturity of the asset / liability. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the whole life cycle of the financial instrument to the net book value of the asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but does not account for future losses.

3.7 Fees and commission income and expenses

Fees and commissions are generally recognized as income or expense in the profit or loss account on accrual basis, as they are earned.

Fees and commission income consist mainly of fees received for foreign currency transactions, issuance of guarantees and letters of credit and other banking services (eg SMS notifications, account statements, verifications with the Payment Incidents Bureau, issuing bills of exchange etc.)

Fees and commission expenses consist mainly of fees resulting from card transactions and interbank transactions, regulatory fees or insurance premiums.

Revenue from miscellaneous services performed by the Bank is recognized when the following conditions are met:

- It is probable that the economic benefits associated with the transaction will be generated for the Bank;
- The amount of revenue can be measured reliably;
- The stage of completion of the transaction as at the reporting date can be measured reliably;
- The costs incurred by the transaction and the costs to complete the transaction can be assesed reliably.

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. Therefore, in accordance with IAS 18, the difference is made between:

- **Fees that are integral part of the effective interest rate of a financial instrument**

The calculation of the effective interest rate includes the fees that are directly attributable to the instrument. They are generally recognized as an adjustment to the effective interest rate. However, if the financial instrument is measured at fair value and the changes in fair value are recognized in the profit and loss, then these fees are recognized as revenue at the time of the initial recognition of the instrument.

- **Fees earned as services are provided**

Fees in this category are recognized in the balance sheet as other receivables or other liabilities and are deferred linearly until the the service for with they were charged is fully performed.

Fees resulting from financial services include especially fees charged by the Bank for lending. For example, in case of revolving credit lines (where the borrower has the option to make multiple drawns up to a maximum amount, to repay part of such trenches

and then to re-draw under the same loan agreement), the net fees are recognized on a straight-line basis over the period when the revolving credit line is available.
Commissions for financial guarantees and letters of credit are amortized linearly over the lifetime of the instruments.

- **Fees earned on the execution of a significant act**

In cases when the service provided is determined by performing a significant consideration, the revenue recognition is made at the time of performing the significant consideration.

This also applies to a wide range of standard banking services, related fees (money transfers, currency exchange etc.) and as a result of contracting additional services required by the customer (fee for issuing a copy of the loan agreement, fee for changing a commitment upon the request of the customer etc.).

Such fees are treated as one-off fees related to specific services that are provided by the Bank and therefore accounted for on cash basis.

3.8 Financial assets

3.8.1 Date of recognition

Regular purchases or sales of financial assets are recognized at the settlement date. The settlement date is the date when financial assets are delivered to or by the Bank to the entity that is selling or buying the assets.

3.8.2 Classification

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired or their characteristics. In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Bank classifies its financial assets in the following categories:

- **Loans and advances to customers**

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:
    - Those that the Bank intends to sell immediately or in the near future, after initial recognition, designated at fair value through profit and loss;
    - Those that the Bank, after initial recognition, designates as available for sale;
    - Those for which the Bank may not recover substantially from the the initial investment, for reasons other than the impairment of the loan.

- **Financial assets at fair value through profit and loss (FVTPL)**

An asset designated FVTPL is either a financial asset that is designated on initial recognition as measured at fair value and the changes in fair value are recognized through profit and loss (this recognition is irrevocable) or it is a financial asset classified as held for trading.

The Bank's management has opted for the first category – FVTPL, not classified as held for trading - at the moment of recognition of certain investments in Fund units.

- **Treasury securities - held to maturity**

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Bank has the intention and ability to hold to maturity.

- **Investment securities - available for sale**

Available for sale financial assets are those financial assets that are designated as available for sale or are not classified as loans and advances, investments held-to-maturity or financial assets at fair value through profit and loss.

Available for sale financial assets are non-derivative financial assets that the Bank intends to hold for an indefinite period of time and which may be sold to cover the Bank's liquidity needs or changes in interest rates, exchange rates or equity prices.

3.8.3 Financial instruments - Initial recognition, measurement and derecognition

The Bank initially recognizes its financial assets at fair value plus transaction costs (for financial assets not carried at fair value through profit and loss) that are directly attributable to the acquisition or issue of the financial instrument.

A financial asset is de-recognized when the Bank's right to receive cash flows has expired or when the Bank has transferred all significant risks and rewards resulting from the ownership.

Accordingly, the purchase of financial assets held to maturity or available for sale are recognized on the trade date (the date when the Bank commits to purchase or to sell) and the loans are recognized when cash is transferred to the borrower.

Under IAS 39, the decision to classify a financial instrument as FVTPL has to be made at initial recognition and this choice may not be subsequently revoked. A financial instrument may be, after the initial recognition, designated as FVTPL, only if it meets the conditions specified in IAS 39.

3.8.4 Subsequent measurement and fair value

After initial recognition, a Bank shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

- loans and receivables as defined in Notes 3.8.2, which shall be measured at amortized cost using the effective interest rate method;
- held-to-maturity investments as defined in Note 3.8.2, which shall be measured at amortized cost using the effective interest rate method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which shall be measured at cost. Investments quoted are measured at fair value which represent quoted price on Stock Exchange.

3.8.5 Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The policy related to impairment of loans is specifically disclosed in caption "Loans and advances to customers".

With the exception of Available-for-Sale (AFS) equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

3.9 Loans and advances to customers

At the origination of a financial instrument, it is assumed that the Bank concludes transaction on market terms; therefore, value at which it will be initially recognized in books will be equal to the net cash flow paid or received by the Bank. Loans and receivables are subsequently measured at amortized cost using the effective interest method and are subject to impairment testing.

The Bank recognizes the impairment of financial assets in a separate allowance account rather than directly reducing the carrying amount of the asset.

Consequently, loans are presented on the balance sheet at their outstanding unpaid principal balances net of charge offs, unamortized premiums or discounts, net of deferred fees or costs on originated loans and the allowance for loan losses.

Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognized when cash is advanced to borrowers.

3.9.1 Impairment losses on loans

OTP Bank Romania establishes loans loss allowances and provisions using a methodology of impairment identification and measurement in accordance with IFRS requirements (IAS 39).

3.9.2 Specific Provisions

According to paragraph 64 of IAS 39, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

For determining whether a specific exposure is individually significant (for the risk management process or / and financial reporting), materiality thresholds are established.

Objective evidence about impairment includes observable data that come to the attention of the Bank, including the information regarding the notification stated by the Law for transfer in lieu of payment of certain immovable assets in order to close the obligations contracted and assumed by means of loans.

The computed provision is the difference between the carrying amount of the exposure and the net present value of estimated future cash flows, assuming that the loan will not be repaid and the Bank will initiate the process of executing the collateral. Cash flow projections take into account the estimated repayments of principal and interest, the value of the collateral, less the costs incurred during collections.

To calculate the net present value, the estimated cash flows are discounted using the effective interest method. If the Bank determines that no objective evidence exists to recognize a specific allowance then the exposure is included in a group of assets with similar credit risk characteristics and collectively assesses them for impairment.

Exposures with specific provisions are not included in the group of loans collectively assesed for impairment.

3.9.3 Collective provisions

Under IAS 39 the Bank calculates collective provisions for loans that are not individually significant and for those that are individually significant, but for which there is no objective evidence of impairment at the date of the balance sheet by inclusion in a group with other loans that have similar credit risk characteristics.

As a result of the current approach to credit risk, the main categories of exposures are:

- Consumer loans;
- Loans with mortgage;
- Overdrafts and credit cards.
- Corporate loans
- SME loans

In addition, each category is divided into five groups according to the number of overdue days, as follows: 0 days overdue, 1-30 days overdue, 31-60 days overdue, 61-90 days overdue, 91-365 days overdue more than 1 year overdue.

Collective assessment is based on a transaction-level approach so that each credit assessment is carried out separately, regardless of the number of individual loans granted to a single customer.

The Bank calculates the amount of collective provisions for each exposure based on the parameters listed below:

Probability of default

For a given bucket, probability of default represents the ratio of clients for which default occurred during a given time horizon to the total number of clients which are not in default at the beginning of that horizon.

Recovery indicator

Recovery Indicator provides information on the part of the loans that went into default and healed back to "currenct outstanding loans", usually during a preset period of time.

Loss amounts

Loss amounts resulting from the collective assesment are the loss of the Bank due to late repayment of loans. Such cases involve intensifying the debt recovery process and foreclosure / enforcement of the collaterals.

Exposure at default

The exposure at default (EAD) represents the amount the Bank can expect to lose, on average, until the maturity of the loans. This estimate includes on-balance items as well as off-balance items (credit lines, contingent liabilities and potential future exposure), the latter typically weighted by a credit conversion factor (CCF).

Gross amortized cost

Exposure to default (EAD) equals the gross amortized cost (GAC), which is the carrying amount, before netting with loan loss provision.

3.10 Tangible and intangible assets

Tangible assets consisting of buildings, plant and equipment are initially recognized at cost. Subsequent to initial recognition as assets, the land, the buildings and other tangible assets are revalued.

The Bank carries out revaluation of fixed assets with sufficient regularity to ensure that the carrying amount of these elements is not significantly different from that which would be determined using fair value at the end of the reporting period.

The last revaluation of land and buildings was carried out in the last quarter of 2015 by an independent valuator, the fair value beeing determined based on market values and where market values could not be determined, the independent valuator estimated fair value using an income or a depreciated replacement cost approach.

The evaluation was recognized by modifying the gross value and the accumulated depreciation of each asset so that its carrying amount is also the revalued amount.

If the carrying amount of an asset is increased as a result of the revaluation, the Bank recognizes the increase in other comprehensive income and against equity, by way of revaluation reserves. The increase is recognized in profit and loss to the extent that it reverses a revaluation decrease of the same asset, previously recognized in profit and loss.

If the carrying amount of an asset is impaired as a result of the revaluation, the Bank recognizes the decrease in the Profit and Loss. The decrease is recognized first by reducing the balance of revaluation reserves recorded in other comprehensive income and if the decrease is higher than existing revaluation reserves, than it is recognized in the profit and loss.

The revaluation reserves included in equity, in respect of a fixed asset which is derecognized, is transferred directly to retained earnings.

Intangible assets are revalued, and their value is the revaluation value as at the date of the revaluation, less accumulated depreciation and impairment adjusments recognized over the estimated period of useful life of 1-5 years. They represent licenses and software applications acquired or developed by the Bank.

The Bank includes in this category mainly development of computer software, which is depreciated with the straight-line method over a period of 3 years.

Impairment charges / depreciation of tangible and intangible assets are recognized in the Income statement under caption "Amortization of tangible and intangible assets". Land and works of art are not depreciated. Assets under construction are not amortized until put into use. Maintenance and repairs are recognized in the profit and loss account at the time of their realization and improvements are capitalized to the asset's carrying amount.

All tangible and intangible assets, except land, are depreciated using the straight-line method to allocate their cost over estimated useful lives, as follows:

Type of asset	Lifetime (years)	The rate of depreciation/ expressed in percentage %
ATMs	8	12,5%
Telecommunications equipment	Max 5	20%
Furniture	Max 10	10%
Stationery and Office Equipment	Max 4-5	20% - 25%
Computers	4	25%
Safe deposit boxes	Max 20	5%
Means of conveyance	6	16,7%
Facilities air conditioning	6-8	12.5% - 16.7%
Buildings	Max 50	2% - 10%

The carrying values of property, equipment and software are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the greater of net selling price and value in use, in the valuation of the estimated period of useful life, the future estimation of cash flows are discounted to their present value, using the discount rate before tax, reflecting the market conditions for the value of the asset and its associated risks.

Gains and losses on the disposal / sale of fixed assets are calculated by comparing the sales price with their carrying amounts.

At the end of the financial year, the Bank reviews the carrying amounts of property, plant and the estimated useful lives and depreciation methods. The Bank asseses also the recoverable amount and the impairment loss (if any).

When the carrying amount of premises and equipment is higher than the estimated recoverable amount, the carrying amount is written down to its recoverable amount by recognizing an expense in profit and loss. If the estimated recoverable amount exceeds the carrying amount of an asset for which there was previously recognized an impairment adjustment, the adjustment is reversed in the income account, partially or entirely, depending of the actual case.

An impairment loss of tangible assets other than land and buildings is recognized in profit and loss. An impairment loss of land and buildings is recognized in other comprehensive income until the revaluation surplus previously recognized in the Profit and Loss Account to the extent that the impairment loss exceeding revaluation surplus for that same asset.

At the end of the financial year, the Bank assesses whether there is any indication that an impairment loss recognized in prior periods for an asset no longer exists or has decreased. If any such indication exists, the entity estimates the recoverable amount of the asset. If the estimated recoverable amount exceeds the carrying amount of an asset, a reversal of an impairment loss is recognized.

3.11 Assets held for sale

The Bank clasifies as assets held for sale any assets obtained following the enforcement of collaterals from customers with overdue debts on loans and for which the carrying amount will be recovered mainly through a sale transaction.

The Bank also may classify as assets held for sale fixed assets that it intends to sell and has used them previously for its own activity or that it has had in order to earn rent or for capital gain.

TThe conditions for an asset to be classified as held for sale are:

- Its carrying amount will be recovered mainly through a sale transaction;
- The asset is available for immediate sale;
- There is a plan to sell the asset and a schedule to locate a buyer and the sale is probable;

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Upon initial recognition of an asset designated as held for sale, in case when the asset has been acquired during foreclosure, the fair value is the value of the collateral used for provisioning of loans while the carrying amount of the asset is the value of the collateral. If the carrying amount is greater than the fair value, the value of the asset is written-down to the fair value, by recognizing an adjustment for impairment.

On subsequent measuring, the fair value is determined by further reducing the revalued value (revaluation of tangible assets is made by an authorized evaluator) by the percentage used to determine the recoverable amount for the property pledged as collateral. If the fair value increase compared to previous assessments, the impairment adjustment is released up to the carrying amount of the asset.

After being classified as held for sale, the tangible assets are not amortized.

3.12 Investment property

Investment properties are recognized as assets if, and only if, it is probable that future associated economic benefits be gained by Bank and the investment cost can be measured reliably. An asset can be classified as investment property if it is held to earn rentals or for capital gain.

Initial and subsequent measurements of current assets classified as investment property are carried at cost. Real estate investments are stated at acquisition cost, less accumulated depreciation and impairment adjustments.

3.13 Leasing

A Lease is defined as an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for the agreed period of time.

Leases can be accounted for as finance leases or operating leases, base on the following criteria: if the lease in question is a short-term leasing (operational lease), in which case the payment of rent is recognized in profit and loss and the only impact in the Bank statement of financial position refers to the timing of the payments; if the leasing is similar in nature to that of a funding arrangement for the acquisition of an asset (financial leasing), in which the financial statement presentation the tiebreaker will be the legal form of the transaction and there will considered the economic nature, considering that the asset was purchased by the user of the lease.

3.14 Interest-bearing loans and borrowing costs

Borrowings are initially measured at fair value. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost, with any difference between cost and redemption value being recognized in income over the period of the borrowings.

Costs for the amounts borrowed are recognized in profit and loss in the period in which they occur.

3.15 Derivatives

In the ordinary course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. Generally, derivative financial instruments include currency forward and swap agreements. The Bank mainly uses these financial instruments for business purposes and to hedge its currency exposures associated with transactions in financial markets.

Derivative financial instruments are initially recognised at acquisition cost, which includes transaction expenses and which is subsequently re-measured to fair value.

Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. The Bank adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised.

There is no other credit value (CVA), debit value (DVA) or funding value (FVA) adjustment applied.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit and loss and are included in the separate statement of recognized income for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or unrecognized firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit and loss. The Bank determines the fair value of both hedged item and hedging instrument at the reporting date, recognizes any change in fair value (gain or loss) on the hedging instrument in profit and loss and recognizes the hedging gain or loss on the hedged item in its carrying amount. The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in fair value of the respective hedged items during the period for which the hedge is designated.

The fair value hedge relationship is discontinued prospectively when the hedging instrument expires, is sold, terminated or exercised. If the hedge no longer meets the criteria for hedge accounting the Bank revokes the designation. When the hedge relationship is terminated, and the hedging instrument is not closed out, it is removed from the fair value hedge specific portfolio and recorded as a standalone derivative in another portfolio. Any adjustment arising to the carrying amount of a hedged financial instrument for which the effective interest method is used shall be amortized to profit and loss.

3.16 Taxation

The current tax is the amount of income taxes payable in respect of the taxable profit, computed in accordance with Romanian tax rules and accrued for in the period to which it relates.

Deferred tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The tax rate for both current and deferred tax is 16% (2015: 16%).

Deferred tax assets and liabilities are not recognised if the temporary differences arise from initial recognition, other than in a business combination, of assets and liabilities in a transaction that affects neither the taxable profits nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary differences arise from initial recognition of goodwill.

The temporary differences arise mainly from impairment of loans and advances to customers, tangible and intangible assets, revaluation of available for sale financial assets and tax losses carried forward (see Note 28).

Deferred tax is charged or credited to profit and loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liability is generally recognized for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available within the next 5 years..

3.17 Contingent assets/liabilities

A contingent liability is:

(a) a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or not of one or more uncertain future events not wholly within the control of the Bank;
(b) a present obligation that arises from past events but is not recognized because there is no safety exit cash flows to settle those debts or the amount of debt cannot be assessed.

Contingent liabilities are not recognized in the financial statements, but are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank.

A contingent asset is not recognized in the accompanying financial statements but is disclosed when an inflow of economic benefits is probable.

3.18 Provisions

A provision is recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect in financial statements of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Restructuring

A restructuring provision is recognized when the Bank has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

3.19 Cash and cash equivalents

Cash and cash equivalents comprise balances readily convertible to a known amount of cash on hand, current accounts, deposits and placements with banks and the National Bank of Romania, treasury bills issued by the Government with an original maturity of less than 90 days (if any), including minimum reserves.

3.20 Related parties

A counterparty is considered related to the Bank if:

(a) directly, or indirectly through one or more intermediaries, the party:
- (i) controls, is controlled by, or is under common control with the Bank (this includes parents, subsidiaries and fellow subsidiaries);
- (ii) has an interest in the Bank that gives it significant influence over the Bank; or
- (iii) has joint control over the Bank;

(b) the party is an associate of the Bank (as mentioned in Note 3.3.2);
(c) the party is a joint venture in which the Bank is a venture;
(d) the party is a member of the key management personnel of the Bank or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

3.21 Employee benefits

Short-term employee benefits:
Short-term employee benefits include wages, salaries and social security contributions. Short-term employee benefits are recognized as expenses when the services are rendered.

Post-retirement benefits:
The Bank pays the contribution to the Romanian State funds on behalf of its employees for health care, pension and unemployment benefits.
The Bank's contributions relating to defined contribution plans are charged to income statement in the period to which they relate.

3.22 Subsequent events
Events after the date of the preparation of the financial statements that provide additional information about the Bank's position at balance sheet date and requiring significant corrections of financial data (events that require adjustments) are properly reflected in the financial statements. Events after the date of preparation of financial statements that do not require adjustments are disclosed in the notes.

3.23 Going Concern
These financial statements have been prepared on a going concern basis. The Bank's ability to continue as a going concern is dependent on its ability to generate sufficient future cash flows and profit in order to meet capital requirements, finance normal operations and to comply with regulatory requirements.

Management is confident that financial support will be provided by the shareholders, if required, and that the Bank will be able to generate sufficient future cash flow to continue its operations in the foreseeable future.

3.24 Accounting for the effects of hyperinflation
Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date.

3.25 Basic earnings per share

The Bank reports earnings per share attributable to the holders of ordinary shares. The Bank calculated earnings per share on ordinary shares by dividing profits attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Details of Earnings per Share (EPS) are presented in Note 31.

NOTE 4: RISK MANAGEMENT

The primary risks associated with financial instruments that the Bank faces are:

- market risk – which refers to exposures to market factors as interest rate;
- credit risk;
- liquidity risk;
- operational risk.

The "Risk Management" Note presents information's related to Bank's exposure to each above-mentioned type of risk, its' objectives, policies as well as assessment and management processes.

Bank's risk related policies and management approach are assessed periodically and updated to the changes that occurred on each analyzed area of activity.

Exposure to higher risk Eurozone countries

Concerns about the creditworthiness of certain Eurozone countries persisted during 2017.

Eurozone member states have asserted that they will continue to provide support to countries under the existing financial assistance program until they have regained market access provided they comply with such programs.

In view of limiting potential losses due to country risk exposure, the bank is managing country exposure by means of limits which are set annually and updated periodically according to market evolutions, in compliance with a prudent policy, based on the experience of OTP Bank Plc Hungary.

The Bank has assessed its sovereign and "Corporate" net exposure to these countries not to exceed 5% of its total assets (31 December 2016: 5%).

The Bank believes this exposure is not impaired as of 31 December 2017.

4.1 Market Risk Management

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to the evolution of prices on the market. The market risk is reflected in risk in terms of interest rates, capitals and currency exchange rates.

The Bank's objective in market risk management is to ensure appropriate management of the risks generated by trading activities, through the implementation of procedures, models and adequate application of monitoring and risk control related with trading activities.

In view of limiting potential losses due to market risk exposure, the bank manages market risk exposure by means of a set of limits which shall be set annually and updated periodically according to market conditions, in compliance with a prudent policy, based on the experience of OTP Bank Plc Hungary.

The limits are established according to the

potential loss and the value of the Bank's equity capital. Market risk limits are set up by OTP Bank Plc Hungary and are managed in Market Risk Portal system.
The Operational and Market Risk Department within the Loan and Administration Division has the following responsibilities:

- To monitor the compliance with the existing limits, but also to report any limit exceeding to the Bank's management;
- To revise and submit for approval any application/ request of new limits establishment;
- To prepare and to transmit consolidated reports regarding market risks towards / to the Risk Administration Committee and Board of Directors.

4.1.1 Interest Rate Risk (Banking book)

Interest rate risk is the risk of recording losses or not to achieve expected profits as a result of fluctuations in the level of market interest rates. The management of this risk concerns balance sheet items, as well as off balance sheet items sensitive to changes in interest rates.

OTP Bank Romania S.A. assumes a conservative approach towards risks and has implemented in this regard a risk management system that identifies, evaluates, manages and controls the risks related to its activity in a prudent manner.

Regarding the interest rate risk on the Banking book, the Bank manages its exposure with the aim of limiting the potential losses due to unfavorable fluctuations of the interest rates, in such a way that these losses do not threat the profitability of the Bank, the own funds or the safety of operations.

The Bank grants loans with mainly variable interest rate indexed by reference (e.g.: Euribor, Robor) and aims to harmonize the financing structure with the structure of assets and liabilities so as to maintain a low interest rate risk exposure.

In 2017 the Bank concentrated on local currency loans. On liabilities side, the bank maintained the maturity structure for client deposits.

The monitoring of the exposure to interest rate risk of banking book and the compliance with the internal limits is done at least monthly, within the Asset and Liability Management Committee.

For the assessment of the interest rate risk on the Banking book, the Bank uses re-pricing gap analysis, modified duration analysis and stress test scenarios estimating the possible effects of interest rate changes on bank profits and economic value. The methodology used for measuring the impact of an interest rate shock in the economic value of the Bank is the standardized one from the NBR Reg. No. 5/2013.

At of 31st December 2017, the Bank had a low exposure to the interest rate risk on banking book, 4.08% of own funds (5.48% as of December 2016).

During 2017 the exposure to the interest rate risk on banking book had a stable level, medium-low.

Interest rates on loans granted to customers	December 31, 2017				December 31, 2016			
	CHF	EUR	RON	USD	CHF	EUR	RON	USD
Consumer	12.88	14.65	10.58	13.62	12.49	14.16	11.5	13.34
Personal loans with mortgage	4.5	5.04	4.22	6.33	4.49	5.49	4.88	7.25
Housing	3.86	4.14	3.91	2.53	5.15	4.4	4.12	6.74
Corporate loans	2.14	3.68	4.63	4.91	2.74	4.05	4.88	4.64

Thousand RON	December 31, 2017	December 31, 2016
Impact in the economic value of the Bank of a 200 bp interest rate shock (thousand RON)	39,215	40,616
Own funds (thousand RON) IFRS	960,773	740,670
Exposure (% of Own funds)	4.08%	5.48%
Impact in earnings for one year of a 200 bp interest rate shock (thousand RON)	20,570	18,241
Exposure (% of Own funds)	2.14%	2.46%

The following is a summary of the Bank's interest rate gap position as of December 31, 2017 and also as of December 31, 2016:

December 31, 2017	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
ASSETS						
Accounts with the National Bank of Romania	991,481	-	-	-	-	991,481
Current accounts and deposits at banks	99,660	-	-	-	-	99,660
Investment securities	11,910	-	71,388	236,796	267,840	587,934
Gross loans	1,018,456	2,511,100	3,449,333	128,138	29,749	7,136,776
Total assets	**2,121,507**	**2,511,100**	**3,520,721**	**364,934**	**297,589**	**8,815,851**
LIABILITIES						
Demand deposits from banks	11,089	-	-	-	-	11,089
Demand deposits from customers	270,492	-	2,104,017	-	-	2,374,509
Term deposits from customers	1,428,414	1,803,565	797,908	46,618	19,509	4,096,014
Borrowings	-	1,281,940	36,159	-	-	1,318,099
Total liabilities	**1,709,995**	**3,085,505**	**2,938,084**	**46,618**	**19,509**	**7,799,711**
Net Derivatives & Spot Instruments	265,627	262	-	-	(267,840)	(1,951)
Assets-Liabilities GAP interest rate sensitivity	677,137	(574,143)	582,637	318,316	10,240	1,014,187
Assets-Liabilities cumulative GAP interest rate sensitivity	**677,137**	**102,944**	**685,631**	**1,003,947**	**1,014,187**	

December 31, 2016	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
ASSETS						
Accounts with the National Bank of Romania	706,626	-	-	-	-	706,626
Deposits at banks	222,134	-	-	-	-	222,134
Reverse Repo	-	-	-	-	-	-
Treasury securities (T-Bills & Bonds, Securities)	30,587	-	204,132	187,051	25,889	447,659
Loans, gross	960,604	2,352,231	3,276,572	144,861	43,722	6,777,990
Total assets	**1,919,951**	**2,352,231**	**3,480,704**	**331,912**	**69,611**	**8,154,409**
LIABILITIES						
Interbank Borrowings	102,838	-	44,049	-	-	146,887
Repos & Loans Fin. Institutions	-	-	-	-	-	-
Deposits from customers	1,695,484	2,735,432	847,520	51,206	25,514	5,355,156
Sight deposits & Saving accounts	372,057	-	-	-	-	372,057
Term deposits	1,323,427	2,735,432	847,520	51,206	25,514	4,983,099
Total liabilities	**1,798,322**	**2,735,432**	**891,569**	**51,206**	**25,514**	**5,502,043**
Net Derivatives & Spot Instruments	(1,892)	-	-	-	-	(1,892)
Assets-Liabilities GAP interest rate sensitivity	119,737	(383,201)	2,589,135	280,706	44,097	2,650,474
Assets-Liabilities cumulative GAP interest rate sensitivity	**119,737**	**(263,464)**	**2,325,671**	**2,606,377**	**2,650,474**	

4.1.2 Interest Rate Risk (Trading book)

The interest rate risk refers to the fluctuation in the value of financial instruments included in the trading book due to the changes in the level of market interest rates.

Starting with 2017, limits were approved for trading on interest rate sensitive instruments such as bonds issued by the Romanian Government, interest rate swaps, FX swaps, Money Market deposits and placements. The adequate assessment and monitoring of the resulting interest rate risk is ensured by the set-up of a limits system and the use of appropriate risk management systems.

4.1.3 Currency risk

Currency risk is the risk of loss resulting from changes in the level of foreign exchange rates on the market. The currency fluctuations induce the risk of losses in value in respect to net monetary assets.

The Bank manages its exposure to movements in exchange rates by permanently adjusting its assets and liabilities mix, based on the market movements in exchange rates.

The Bank may trade and take positions in the followings currencies: EUR, USD, GBP, CHF, CAD, JPY, HUF, AUD, SEK, DKK, NOK and PLN.

Regarding the money market and currency market operations, the risk profile is a reduced one, being unitary managed by using Kondor+ and Market Risk Portal provided by OTP Bank Hungary.

The open foreign exchange currency position is managed continuously on an automatic basis within Kondor+ according to the internal rules and also considering the NBR regulations. Within Kondor+ module, there is a VaR system that monitors the currency position at the level of the entire OTP group. The risk measured via the VaR system estimates the potential loss for a certain period for a certain specified level of confidence.

The bank set the following types of limits: bonds position limits, VaR limit, net FX open position limits (per currency and for total) and loss stop limit. These limits are monitored using the Kondor+ and Market Risk Portal systems.

The VaR risk measure estimates the potential loss for a certain period for a specified confidence level. The Bank uses a historical VaR approach (with an Exponentially Weighted Moving Average methodology used for setting weights to P&L observations) which allows to easily aggregate risk factors and trading desk VaR figures, therefore giving the opportunity to calculate Treasury level VaR.

The Bank uses a 1-day 99% VaR number which reflects, with a probability of 99%, that the daily loss will not exceed the reported VaR.

The following is a summary of the Bank's exposure towards currency risk as of December 31, 2017.

December 31, 2017

FX	Assets	Liabilities and equity	Net position of balance sheet	Net position of off-balance sheet	Total	Gains (losses) incurred for a change of +1% in currency exchange rate	Gains (losses) incurred for a change of -1% in currency exchange rate
EUR	3,494,711	2,858,141	636,570	(630,720)	5,850	59	(59)
USD	99,039	316,588	(217,549)	218,398	849	9	(9)
CHF	384,352	188,361	195,991	(186,263)	9,728	97	(97)
HUF	35,912	164,161	(128,249)	128,232	(17)	-	-
OTHER	30,702	24,330	6,372	(5023)	1,349	13	(13)
Total	**4,044,716**	**3,551,581**	**493,135**	**(475,376)**	**17,759**	**178**	**(178)**

December 31, 2016

FX	Assets	Liabilities and equity	Net position of balance sheet	Net position of off-balance sheet	Total	Gains (losses) incurred for a change of +1% in currency exchange rate	Gains (losses) incurred for a change of -1% in currency exchange rate
EUR	2,787,999	2,790,159	(2,160)	158,092	155,932	1,559	(1,559)
USD	99,999	269,614	(169,615)	(56,756)	(226,371)	(2,264)	2,264
CHF	489,255	176,212	313,043	-	313,043	3,130	(3,130)
HUF	11,478	179,235	167,756	(126,294)	(294,050)	(2,941)	2,941
OTHER	29,704	24,743	4,962	-	4,962	50	(50)
Total	**3,418,435**	**3,439,962**	**(21,527)**	**(24,958)**	**(46,485)**	**(465)**	**465**

The assets and liabilities split by currencies, as of December 31, 2017, is presented below:

December 31, 2017	EUR	USD	CHF	HUF	OTHER FCY	Total FCY	RON	Total
ASSETS								
Cash	67,615	7,728	10,302	11,713	28,082	125,440	147,463	272,903
Current accounts and deposits at banks	805,942	-	-	-	-	805,942	185,546	991,488
Accounts with the National Bank of Romania	57,757	3,293	1,607	23,384	2,617	88,658	11,002	99,660
Securities held-to-maturity	-	-	-	-	-	-	187,986	187,986
Loans and advances to customers, net	2,186,632	82,778	371,877	813	-	2,642,100	4,274,806	6,916,906
Loans and advances to banks	59	7	-	-	-	66	55	121
Investment securities - Available for sale	371,054	-	-	-	-	371,054	31,960	403,014
Investment securities at fair value through profit and loss	-	4,289	-	-	-	4,289	-	4,289
Investment in Associates and Subsidiaries	-	-	-	-	-	-	8,611	8,611
Derivatives	1,407	1	-	-	-	1,408	865	2,273
Current tax asset	-	-	-	-	-	-	13,019	13,019
Deffered tax asset	-	-	-	-	-	-	32,010	32,010
Other assets, net	4,245	943	566	2	3	**5,759**	49,196	**54,955**
Total assets	**3,494,711**	**99,039**	**384,352**	**35,912**	**30,702**	**4,044,716**	**4,942,519**	**8,987,235**
LIABILITIES								
Due to Banks	-	-	-	48	-	48	11,041	11,089
Demand deposits from banks	-	-	-	48	-	48	11,041	11,089
Term deposits from banks	-	-	-	-	-	-	-	-
Due to customers	1,853,964	313,814	166,290	142,299	24,308	2,500,675	3,979,645	6,480,320
- Demand deposits from customers	479,635	172,226	43,175	108,705	8,938	812,679	1,561,898	2,374,577
- Term deposits from customers	1,374,329	141,588	123,115	33,594	15,370	1,687,996	2,417,747	4,105,743
Borrowings	968,103	-	-	-	-	968,103	350,901	1,319,004
Derivatives	1,407	1	-	-	-	1,408	3,503	4,911
Derivatives hedge accounting	24,475	-	-	-	-	24,475	-	24,475
Provisions	4,275	338	21,919	-	-	26,532	21,688	48,220
Other financial liabilities	5,917	2,435	152	21,814	22	30,340	74,514	104,854
Total liabilities	**2,858,141**	**316,588**	**188,361**	**164,161**	**24,330**	**3,551,581**	**4,441,292**	**7,992,873**
Net Assets / Liabilities	636,568	(217,549)	195,991	(128,249)	6,372	**493,135**	501,227	**994,362**

The assets and liabilities split by currencies, as of December 31, 2016, is presented below:

December 31, 2016	EUR	USD	CHF	HUF	OTHER FCY	Total FCY	RON	Total
ASSETS								
Cash	42,234	13,057	4,945	11,322	10,016	81,574	125,073	206,647
Current accounts and deposits at banks	113,731	913	17,509	138	4,607	136,898	110,506	247,404
Accounts with the National Bank of Romania	391,541	-	-	-	-	391,541	315,090	706,631
Securities held-to-maturity	-	-	-	-	-	-	238,004	238,004
Loans and advances to customers, net	2,189,912	78,097	465,051	-	-	2,733,060	3,526,813	6,259,873
Loans and advances to banks	43,079	2,808	1,656	-	15,078	62,621	32	62,653
Investment securities - Available for sale	3,615	-	-	-	-	3,615	188,463	192,078
Investment securities at fair value through profit and loss	-	4,670	-	-	-	4,670	18,699	23,369
Investment in Associates and Subsidiaries	-	-	-	-	-	-	8,611	8,611
Derivatives	-	-	-	-	-	-	2,654	2,654
Tax assets	-	-	-	-	-	-	61,864	61,864
Other assets, net	3,639	456	94	5	4	4,198	40,986	45,184
Total assets	**2,787,751**	**100,001**	**489,255**	**11,465**	**29,705**	**3,418,177**	**4,636,798**	**8,054,975**
LIABILITIES								
Due to Banks	-	19,366	-	81	-	19,447	83,393	102,840
- Demand deposits from banks	-	12,911	-	*81*	-	*12,992*	*83,393*	*96,385*
- Term deposits from banks	-	6,455	-	-	-	*6,455*	-	*6,455*
- Due to customers	2,047,822	248,689	154,660	178,926	24,738	2,654,835	3,652,109	6,306,944
Demand deposits from customers	*464,229*	*117,742*	*22,148*	*145,738*	*5,656*	*755,513*	*1,048,676*	*1,804,189*
- Term deposits from customers	*1,583,593*	*130,947*	*132,512*	*33,188*	*19,082*	*1,899,322*	*2,603,433*	*4,502,755*
Borrowings	725,258	-	-	-	-	725,258	-	725,258
Derivatives	-	-	-	-	-	-	3,683	3,683
Provisions	3,665	331	21,461	-	-	25,457	24,372	49,829
Other financial liabilities	13,166	1,228	90	215	4	14,703	70,434	85,137
Other financial liabilities	**2,789,911**	**269,614**	**176,211**	**179,222**	**24,742**	**3,439,700**	**3,833,991**	**7,273,691**
Net Assets / Liabilities	(2,160)	(169,613)	313,044	(167,757)	4,963	**(21,523)**	802,807	**781,284**

4.1.4 Equity Risk

Equity risk is the risk of loss resulting from changes in the level of prices of equity instruments.

The policy of the Bank regarding equity risk management on equity and derivative instruments is not to have open positions on equity instruments.

During 2017 and 2016, the Bank did not hold trading positions on equity instruments.

4.2 Credit Risk Management

The credit risk is associated with the loans granted by the Bank, being the risk that the customer will be unable to fulfil its obligations, thus causing financial losses to the Bank.

The Bank's main objective regarding credit risk management was to maintain the portfolio quality by monitoring the evolution of a set of indicators which are detailed in the Risk Strategy for 2017.

The Bank's main objectives regarding credit risk management are:

- Developing a diversified portfolio, whose performance does not excessively depend on the changes in the position of any particular sector, geographical region or debtor group, that ensures stable profitability on the long run;
- Increasing the profitability of the credit products;
- Credit approval and keeping assumable risks within limits;
- Increasing the capacity to collect overdue receivables;
- Maintaining the solvency indicator within normal limits so that the capital requirement for credit risk is not increasing excessively;
- Maintaining the portfolio quality by monitoring the evolution of a set of indicators which is detailed in Risk Strategy 2017.

The Bank's strategy regarding credit risk management includes:

- Putting a strong emphasis on preventing problems faced by borrowers;
- Improving debt collection;
- Customer loyalty program for individuals by offering new products facilities in accessing credit;
- Encouraging lending activity (in RON) both to private individuals and to companies;
- Involving the territorial network and the Corporate Banking Division in managing the problems customers are facing;
- Monitoring new loan portfolio, especially for new consumer loans to individuals, through at least monthly reports and information presented for the Management Board and Supervisory Board of the Bank.

The credit risk is managed in compliance with lending norms approved by the Board of Directors, based on the risk related type of product.

As part of the overall credit risk management, the credit concentration risk is actively managed using standard tools (e.g. analysis, assessment, setting of internal limits, reporting and use of risk mitigation techniques, as appropriate). The Bank aims not to take any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, selected industry sectors and collateral providers. The system of internal limits is established such that the Bank complies with regulatory limits set in respect of concentration risk.

4.2.1 Individually impaired assets

The Bank regularly re-assesses all credit exposures that have already been specifically provided for, as well as all credit exposures that appear on watchlist and which are classified as individually significant.

The breakdown of these individual provisions recorded for exposures on legal entities, structured by industry is as follows:

Individual provisions for exposure to legal entities	December 31, 2017	December 31, 2016
Construction	27,769	29,148
Hotels and restaurants	-	29
Other Industries (Furniture, Food and beverages, Fashion, Chemical, Forestry)	29,071	48,823
Other services	9,952	15,665
Services	12,394	253
Trade and finance	83,464	82,874
Transportation	3,068	3,699
Total	**165,718**	**180,491**

4.2.2 Collaterals received from customers

The Bank established (acceptance) limits for the granted loans depending on the type of the specific collateral. Examples of restricitions recommended for loans (as percentage out of the collateral value), in correspondence with the client's rating, are described below:

Description of collateral	Acceptance limit value
Balance of account, deposit instrument	100%
Government securities issued in Romania, government-guaranteed securities	95%
Foreign-issued government securities rated in class I-II, government-guaranteed securities	95%
Foreign-issued and Romanian banking debt securities or deposit instruments similar to securities, issued by a bank	
In case of banks rated as I., II. and III.	75%
In case of banks rated as IV. and V.	75%
Romanian and foreign shares listed and traded on the exchange or OTC	50%
Investment units issued by OTP Asset Management	
Investment units with low or medium risk profile (e.g. OTP Obligatiuni, OTP ComodisRo, OTP Euro Bond, OTP Dollar Bond)	80%
Investment units with low or medium risk profile (e.g. OTP Premium Protect)	70%
Investment units with medium to high or high risk profile (e.g. OTP AvantisRo)	60%
Residential property	
First-ranking mortgage	85%
Second-ranking or any subsequent mortgage	85%
Commercial property	
First-ranking mortgage on constructions	
Holiday homes, weekend houses	75%
Offices	75%
Catering establishments (hotel, restaurant, guest-house etc.)	75%
Business sites (warehouses, etc.)	75%
Business outlets	75%
Commercial parts of buildings serving housing purposes (e.g. garages, storage room, business outlets) provided that they are separately marketable	75%
Factory buildings (production facilities, etc.)	60%
Business sites for agricultural purposes (farms, farmsteads, crop storage facilities, animal farming sites)	60%
Flats, houses or other buildings under construction	60%

Description of collateral	Acceptance limit value
First-ranking mortgage on land	
Urban land	75%
Agricultural land	80%
Other types of land	50%
Mortgage on inventories and other unspecified movable property	20%
Mortgage on vehicles (passenger car, motorcycle, commercial vehicle, aircraft, vessel)	50%
Mortgage on technological machines and equipment	40%
Claim against the state	100%
Claim against Agency for Payments and Intervention in Agriculture (APIA) in accordance with the conventions signed between APIA and the Bank	100%
Claims of class I-V against local governments and other budgetary agencies	80%
Claims against other persons or companies or claims arising from contracts relating to commercial services or from contracts relating to transactions with a term no longer than one year	50%
Guarantee or suretyship by the state	100%
The guarantee, suretyship or bill of a bank; letter of credit issued by a company and advised by a bank	
Bank rated as class I., II. and III.	100%
Bank rated as IV. and V.	100%
Joint and several suretyship	
Guarantee funds, credit insurance companies	100%
Municipalities rated as class I-II	100%
Municipalities rated as class III-IV	80%

At the reference date, the Bank has accepted the types of collaterals specified below:

Types of collaterals received for the loan portfolio (book value, capped to the covered exposure)	December 31, 2017	December 31, 2016
Cash collaterals	37,453	53,541
Bank guarantees and cash sureties	120,391	96,755
Guarantees from public administration	5,814	14,412
Revenue assignment	315,560	362,033
Assignment of other receivables	197,897	205,431
Registration of pledge for stock	882,663	701,959
Mortgages	4,103,997	4,742,762
Other	564,119	397,745
Securities - other securities	163,329	51,880
Total	**6,391,223**	**6,626,518**

4.2.3 Foreclosed collaterals

Collaterals repossessed through foreclosure / legal proceedings are classified according to their intended use, either as assets held for sale or investment property.

The net value of assets held for sale decreased during the period, reaching 5,989 thousand as of December 31, 2017 (13,222 thousand as of December 31, 2016) due to the sales of real estate assets worth 4,766 thousand. The Bank sold during the period 4 real estate assets, registred as assets held for sale.

Investment properties are measured initially at cost, including transaction costs in the initial measurement. After initial recognition, the Bank quantifies the investment property using the cost method. The net value of investment property is 1,440 thousand of December 31, 2017 (2,675 thousand as of December 31, 2016).

The movement related to these assets during 2017, is presented below:

a) Net book value of assets held for sale:

Year	Opening balance	Additions	Disposals	Impairment	Closing balance
2017	13,322	621	(4,766)	(3,187)	5,989
2016	13,730	71	(722)	243	13,322

b) The Bank recorded investment grade real estate property held to earn rentals. Investment properties are measured initially at cost. Transaction costs are included in the initial measurement. After initial recognition, the Bank measures investment property using the cost model.

Movements related to these assets during 2017 and 2016 respectively are presented below.

The carrying value of investment property:

Year	Initial	Additions	Disposals	Adjust	Final
2017	2,675	1,248	(2,035)	(448)	1,440
2016	3,373	2	-	(700)	2,675

4.2.4 The quality of loans receivable (within maturity as well as overdue loans receivable)

The structure of loan portfolio by days of delay is shown below, highlighting a clear picture of the quality of financial assets. If there are outstanding amounts (principal, interest etc.) the entire loan is considered past due.

4.2.4.1. Quality of loan portolio (current and overdue)

December 31, 2017	Gross loans with identified Provisions	Provision	TOTAL net loans
within maturity	6,317,656	65,386	6,252,270
0 - 15 days	319,818	9,137	310,681
16 - 30 days	72,096	2,465	69,631
31 - 60 days	93,343	9,519	83,824
61 - 90 days	62,335	11,030	51,305
91 - 180 days	63,473	31,283	32,190
more than 180 days	303,885	186,880	117,005
Total gross	**7,232,606**	**315,700**	**6,916,906**

December 31, 2016	Gross loans with identified Provisions	Provision	TOTAL net loans
within maturity	5,653,594	71,199	5,582,384
0 - 15 days	347,530	22,750	324,780
16 - 30 days	73,317	4,795	68,521
31 - 60 days	114,631	11,830	102,801
61 - 90 days	66,192	13,117	53,075
91 - 180 days	80,984	38,899	42,085
more than 180 days	283,688	197,461	86,227
Total gross	**6,619,936**	**360,052**	**6,259,873**

For certain loans granted to customers, which were overdue for more than 90 days at the reporting dates, the Bank received collaterals of significant higher amounts than the related exposures. Therefore, the total provision recorded by the Bank for these loans is less than the total exposure as at each of the reporting dates.

4.2.4.2. Quality of loans overdue but not impaired

December 31, 2017	Overdue 1 to 30 Days	Overdue more than 30 Days	Gross loans	Provision	Carrying amount
Consumer	88,041	25,761	113,802	7,540	106,262
Corporate	26,598	6,783	33,381	2,666	30,715
Housing	261,019	98,727	359,746	9,408	350,338
Total	**375,658**	**131,271**	**506,929**	**19,614**	**487,315**

December 31, 2016	Overdue 1 to 30 Days	Overdue more than 30 Days	Gross loans	Provision	Carrying amount
Consumer	57,870	35,584	93,455	8,059	85,395
Corporate	18,426	32	18,457	428	18,029
Housing	280,507	136,307	416,814	22,409	394,406
Total	**356,803**	**171,923**	**528,726**	**30,896**	**497,830**

The table above shows the gross loans which are past due but not impaired acordingly to the Bank IFRS provision methodology and are presented based on the collective type of impairment.

4.2.4.3. Quality of loans individually impaired

December 31, 2017	Gross loans	Provision	Carrying amount
Low-fair risk	12,937	3,500	9,438
Watch list	31,764	11,761	20,003
Substandard	14,262	4,735	9,527
Doubtful	8,241	2,506	5,735
Loss	334,780	198,096	136,684
Total	**401,984**	**220,598**	**181,387**

December 31, 2016	Gross loans	Provision	Carrying amount
Low-fare risk	18,676	5,808	12,869
Watch list	31,080	13,691	17,389
Substandard	15,079	3,483	11,596
Doubtful	38,577	13,806	24,771
Loss	318,765	209,183	109,582
Total	**422,177**	**245,971**	**176,207**

4.2.5 Analysis of restructured loans and receivables, gross

Restructured loans, in gross amount of 332,400 thousand as of December 31, 2017 (347,988 as of December 31, 2016), represent loans for which the repayment terms have been rescheduled based on an agreement between the Bank and its clients in order to avoid early overdue payments.

The following table shows the quantitative analysis of the receivable that were classified as restructured loans as at the year-end (principal amounts):

	December 31, 2017		December 31, 2016	
	Gross amount	Provision	Gross amount	Provision
Retail loans	31,223	5,703	44,464	6,647
Overdue up to 30 days	6,348	839	14,150	1,142
Overdue from 31 to 90 days	3,063	700	12,370	2,389
More than 90 days	17,603	10,723	23,420	14,804
Retail loans - TOTAL	**58,237**	**17,965**	**94,405**	**24,982**
SME loans	43,927	6,946	43,921	2,635
Overdue up to 30 days	10,456	960	6,119	851
Overdue from 31 to 90 days	12,785	4,122	6,657	1,329
More than 90 days	48,222	35,155	52,759	40,181
SME loans - TOTAL	**115,389**	**47,183**	**109,456**	**44,996**
Corporate loans	82,498	7,831	45,431	2,923
Overdue up to 30 days	147	39	25,801	4,211
Overdue from 31 to 90 days	-	-	-	-
More than 90 days	76,129	39,370	72,895	41,525
Corporate loans - TOTAL	**158,774**	**47,241**	**144,127**	**48,659**
TOTAL	**332,400**	**112,389**	**347,988**	**118,637**

4.2.6 Concentration of credit risk to counterparties – other banks

The following table presents the counterparty risk related to the deposits placed by the Bank with other credit institutions, based on ratings published by Moody's:

	December 31, 2017		December 31, 2016	
	Amounts in thousands RON equiv.	Moody's Rating for counterparty's country of origin	Amounts in thousands RON equiv.	Moody's Rating for counterparty's country of origin
Danske Bank Aktieselskab	324	Aaa	136	Aaa
Deutsche Bank AG	**951**	**aa**	**470**	**aa**
Mizuho Corporate Bank LTD	157	A1	35	A1
OTP Bank PLC	25,360	Baa3	2,484	Baa3
Powszechna Kasa Oszczednosci Bank Polski Spolka Akcyjna	60	A2	50	A2
Skandinaviska Enskilda Banken AB (PUBL) Stockholm	329	Aaa	325	Aaa
UBS AG (Head Office - Zurich)	1,560	Aaa	17,476	Aaa
Banca Comercială Română S.A.	2,214	Baa3	733	Baa3
Commerzbank AG	3,227	Aaa	1,513	Aaa
JP Morgan Chase Bank National Association	2,432	Aaa	874	Aaa
Royal Bank of Scotland PLC	788	Aa2	1,169	Aa1
Banca de Export-Import a României Eximbank SA	51,255	Baa3	103,575	Baa3
Banca Transilvania S.A.	-	Baa3	-	Baa3
CEC Bank S.A.	-	Baa3	20,001	Baa3
Garanti Bank S.A.	-	Baa3	45,411	Baa3
Patria Bank S.A.	-	Baa3	12,648	Baa3
Credit Europe Bank (Romania) S.A.	-	Baa3	14	Baa3
Banca Comerciala Intesa Sanpaolo Romania S.A.	-	Baa3	20,003	Baa3
Libra Internet Bank S.A.	-	Baa3	6.5	Baa3
Credit Agricole Bank Romania S.A.	11,003	Baa3	-	-
TOTAL	**99,660**		**247,404**	

4.3 Liquidity Risk Management

The liquidity risk is associated either to the difficulty of an entity to raise necessary funds in order to meet all the commitments when they fall due or to the possibility of incurring losses if the entity has to sell assets in unfavorable conditions or has to attract more expensive supplementary funding.

The Bank's objective regarding liquidity risk is to maintain an adequate level of liquidity by ensuring the optimal mix of funding and lending transactions in order to achieve the budget.

As stated on the "Liquidity Management Strategy" and on the "Liquidity Risk Management policy" of the Bank, permanently improved and updated in compliance with the local requirements for a prudent regulation but also, in compliance with group requirements, OTP Bank Romania S.A. has implemented an internal system of identification, measurement, monitoring and control of the liquidity risk, structured on two levels: the current liquidity management – the continuity of the activity in normal conditions (the assurance of cash flows for normal business operations) and the management of liquidity on crisis situations – the continuity of the activity in different crisis conditions.

OTP Bank Romania S.A. manages the liquidity risk considering: the estimation of the cash flows needs and of the operative liquidity, the daily banking book structure, the liquidity GAP – on each currency and overall, the level and the structure of the liquid assets portfolio, the liquidity indicators having early warning limits internally established, the simulation regarding the liquidity indicators levels, the risk assessment on crisis situations by using stress tests.

If the indicators monitored in the reports enumerated above, register an attention or crisis level the Assets and Liabilities Committee evaluates the situation and disposes necessary measures needed for the indicators to revert to normal levels. If the measures taken did not lead to an improvement of the monitored liquidity indicator, the alternative plan for liquidity management in crisis situations will be activated.

Strict monitoring and prudent management of liquidity is supervised by the Assets and Liabilities Management Committee - ALCO.

Liabilities to clients due within one month principally include current accounts from which the clients are authorized to make withdrawals at call. The Bank's historical experience shows, however, that these accounts represent a stable source of funding.

During 2017, the bank obtained new funding from the OTP Group, in cumulated value of 50 mio EUR and 350 mio RON, in order to sustain the activity of granting loans and to improve the available liquidity and the level of LCR.

As of December 31, 2017, the aggregate value for stand-by credit facilities contracted with the parent bank with purposes of use in a liquidity crisis (and unused as of December 31, 2017) represent 1,351,313 thousand RON equivalent (1,316,919 thousand as of December 31, 2016).

The following tables show an analysis of financial assets and liabilities according to their remaining maturities, reflecting the remaining period between the balance sheet date and the contractual maturity date (as of December 31, 2017 and December 31, 2016).

Liquidity gap

December 31, 2017	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	No fixed maturity	Total
ASSETS							
Cash and cash equivalents	272,902	-	-	-	-	-	272,902
Current accounts and deposits at banks	99,660	-	-	-	-	-	99,660
Accounts with the National Bank of Romania	991,488	-	-	-	-	-	991,488
Securities held-to-maturity		-	55,871	132,115	-	-	187,986
Loans and advances to customers, net	604,399	544,733	1,395,052	966,578	3,406,143		6,916,906
Loans and advances to banks	121	-	-	-	-	-	121
Investment securities - Available for sale	-	-	-	-	-	403,014	403,014
Investment securities at fair value through profit and loss	-	-	-	-	-	4,289	4,289
Investment in Associates and Subsidiaries	-	-	-	-	-	8,611	8,611
Derivatives	2,273	-	-	-	-	-	2,273
Other assets, net	-	-	-	-	-	54,955	54,955
Total assets	**1,970,843**	**544,733**	**1,450,923**	**1,098,693**	**3,406,143**	**470,869**	**8,942,205**
LIABILITIES							
Due to Banks	11,089	-	-	-	-	-	11,089
Demand deposits from banks	11,089						11,089
Term deposits from banks	-	-	-	-	-	-	-
Due to customers	3,340,327	1,029,927	1,090,452	981,035	38,579	-	
Demand deposits from customers	2,374,577	-	-	-	-	-	2,374,577
Term deposits from customers	965,750	1,029,927	1,090,452	981,035	38,579	-	4,105,743
Borrowings	-	-	9,040	27,119	1,282,845	-	1,319,004
Derivatives	4,911	-	-	-	-	-	4,911
Derivatives hedge accounting	24,475	-	-	-	-	-	24,475
Provisions	-	-	-	-	-	48,220	48,220
Other financial liabilities	-	-	-	-	-	104,854	104,854
Total liabilities	**3,369,713**	**1,029,927**	**1,099,492**	**1,008,154**	**1,321,424**	**153,074**	**7,981,784**
Net liquidity GAP	**(1,398,870)**	**(485,194)**	**351,431**	**90,539**	**2,084,719**	**317,795**	

Liquidity gap

December 31, 2016	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	No fixed maturity	Total
ASSETS							
Cash and cash equivalents	206,647	-	-	-	-	-	206,647
Current accounts and deposits at banks	247,404	-	-	-	-	-	247,404
Accounts with the National Bank of Romania	706,631	-	-	-	-	-	706,631
Securities held-to-maturity		-	46,637	170,786	20,581	-	238,004
Loans and advances to customers, net	417,700	376,386	1,361,037	1,511,193	2,593,557	-	6,259,873
Loans and advances to banks	62,653	-	-	-	-	-	62,653
Investment securities - Available for sale	-	-	-	-	-	192,078	192,078
Investment securities at fair value through profit and loss	-	-	-	-	-	23,369	23,369
Investment in Associates and Subsidiaries	-	-	-	-	-	8,611	8,611
Derivatives	2,654	-	-	-	-	-	2,654
Other assets, net	-	-	-	-	-	45,184	45,184
Total assets	**1,643,689**	**376,386**	**1,407,674**	**1,681,979**	**2,614,138**	**269,242**	**7,993,108**
LIABILITIES							
Due to Banks	102,840	-	-	-	-	-	102,840
Demand deposits from banks	96,385	-	-	-	-	-	96,385
Term deposits from banks	6,455	-	-	-	-	-	6,455
Due to customers	2,889,839	1,113,741	850,223	927,620	525,521	-	6,306,944
Demand deposits from customers	1,804,189	-	-	-	-	-	1,804,189
Term deposits from customers	1,085,650	1,113,741	850,223	927,620	525,521	-	4,502,755
Borrowings	1	43	8,810	534,760	181,644	-	725,258
Derivatives	3,683	-	-	-	-	-	3,683
Provisions	-	-	-	-	-	49,829	49,829
Other financial liabilities	63,881	-	-	-	-	21,256	85,137
Total liabilities	**3,060,244**	**1,113,784**	**859,033**	**1,462,380**	**707,165**	**71,085**	**7,273,691**
Net liquidity GAP	**(1,416,555)**	**(737,398)**	**548,641**	**219,599**	**1,906,973**	**198,157**	

TTaking into consideration the specificity of the banking activity, deposits taken from non-banking clients have maturities less than 12 months, still, these deposits are renewed in a significant proportion at each maturity date. Client deposits are supplemented by long term Group Funding. Placements made by the Bank other than client loans have a maturity of less than 3 months or are liquid assets than can be sold/used as collateral to finance a potential liquidity shortfall.

For the presentation of Assets and Liabilities based on the remained maturity, the Bank took into consideration all Balance Sheet items, not only the monetary ones.

Fair value of the Bank's Financial Assets and Liabilities

The fair value of the Bank's financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where available, fair value estimates are made based on quoted market prices. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate. Market inputs are used in valuation models to the maximum extent. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly impact on the estimates. Therefore, the estimated market fair values may not be realised in the current sale of the financial instrument.

Management's assessment of fair values

Where the fair value of financial instruments cannot be derived from active market, the Bank establishes fair value by using a valuation technique.
The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.
Deciding on the model inputs requires management judgment.

Cash, amounts due from banks and balances with the National Bank of Romania and placements with other banks

The carrying values of cash and balances with central banks are generally deemed to approximate their fair value.

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral level 2 of the fair value estimate. Provisions are not taken into consideration when calculating fair values.

Loans

Generally, the fair value of variable yield loans that are regularly re-valued approximates their carrying value with no significant changes in credit risks. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit risks.

The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. The fair value of loans does not significantly differ from their book value.

Held-to-Maturity Financial Investments

The fair value of securities recorded in the portfolio is stated at the price determined by valuation techniques based on level 2 of the fair value estimate. For government and banking bonds, whose issuers have rating comparable with the country rating, fair value is calculated using the market yield curve without credit margin. For other types of bonds the credit margin reflecting the issuer's credit risk is applied in addition to the market yield curve.

Amounts due to Banks and Deposits from the National Bank of Romania and Other Banks and Amounts due to Customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable on demand as at the statement of financial position date.

The fair value of term deposits at variable interest rates approximates their carrying values as at the balance sheet date.

The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities level 2 of the fair value estimate.

Amounts owed to customers approximate their fair values as the vast majority of such deposits bear variable interest rates, and the management has the ability to revalue at short notice.

4.4. Operational Risk

Operational risk represents the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

The operational risk management represents identifying, determining/assessing, monitoring and diminishing operational risks. Operational loss event represents an event or incident, as a result of which a process / activity produces or may produce an outcome other than expected, with a negative financial impact / positive impact on the profit or the Bank's capital and is caused by human error or intentional damage, non-compliant or erroneous, incorrect operation of processes / activities, systems or caused by factors other than external credit risk or market risk.

The Bank has a governance framework for operational risk which includes policies and processes for identification, evaluation, analysis, monitoring and control/decreasing operational risk. Policies and procedures are based on the size, nature and complexity of Bank's activities and regularly they are adjusted in function of the profile of operational risk in case of change and external evolutions of the market. Policies and procedures include additional risks prevalent in certain operational activities and cover the periods when the operational risk might increase.

Operational risks are identified in two ways:

a. First, all loss events that actually occurred must be registered (direct loss/ real for the Bank and also collateral losses, derived from unrealized profit);
b. Second, all operational risk situations generating potential losses, which might lead to direct/real financial losses, if they are not identified and corrected, must be identified.

Each organizational unit is responsible with the periodical collection and management of data regarding the operational risk loss events.

The Bank prepares annually the risks self-assessment, with the participation of each organizational unit. The self-assessment allows the identification and assessment of operational risks afferent to the respective year, as well as the measures to be taken for diminishing the loss caused by the occurrence of operational risk events.

The main key indicators for operational risk are:

1. Staff turnover rate;
2. The activity growth rate;
3. Number of legal disputes;
4. The monthly number of reported operational risk generator events;

5. Weight of monthly real (direct) losses due to operational risk reported to Shareholder's equity of the Bank;
6. Number of complaints;
7. Number of complaints closed outside the internal SLA reported by Total number of complaints closed during the month;
8. The number of valid or suspended loans' policies in month reported by Total number of loans' policies in force;
9. Total number of calls answered / Total number of calls received, related to retail collection activity;
10. Total number of calls answered / Total number of calls received, related to "customer care" activity;
11. Total number of (external/ internal) fraud incidents per month, except prevented loan frauds;
12. Total number of IT systems' incidents recorded per month;
13. Total number of overruns for counterparty limits of the Bank per month;
14. Total number of loans approved with deviations (PL) / Total number of new loans approved;
15. Vintage NPL rate in 6th month after disbursement to granted personal loan portfolio - Total number of new PL loans approved with more than 90 DPD bucket (NPL vintage after 6 M) / Total number of new loans approved 6 months ago;
16. Share of newly disbursed/ granted loans getting into 1+ delinquency on first payment (FPD1+) - Total number of personal loans that register delays between 1 and 7 days at the first installment payment/ Total number of personal loans disbursed in month;
17. Cash withdrawals within territorial units and within ATMs;
18. Monthly average weight of term deposits withdrawn before maturity;
19. Annual gross loss due to operational risk / relevant indicator;
20. Weight of year to date real losses due to operational risk/ Total own funds (Risk tolerance).

The banks policy on operational risks enforces:

- Periodical revision of the framework of operational risk management within the Bank;
- Provisioning for operational risk in order to minimize the impact generated by recorded losses from operational risk events at the Banks' level;
- Permanent support for organizational units in order to prepare reports for operational risk;
- Information of organizational units about decisions of Risk Management Committee and Management Board.
- Evaluation of the exposure to operational risk based on the recorded losses history and permanent update of database regarding events which generate losses from operational risks, reported by the organizational units;
- Evaluation of activities and processes, products and sistems by performing annual self-assessment of activities and processes that take place within all organizational units, for reporting the risks already identified during the activity or the potential risks and the control measures to reduce the occurrence or for risk elimination.
- Preparation of scenarios for the continuity of Bank's activity in unpredictible situations. The business continuity plan is one of the instruments used by the Bank for the operational risks management.

The Bank has a historical data base, also aligned to the Group's requirements, where operational risk events monthly reported by all organizational units are centralized. The data base represents an automated system based on a software centralized at the OTP Group's level that helps streamline the reporting activity of operational risk events.

NOTE 5: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarizes the carrying amounts of financial assets and financial liabilities presented on the Bank's balance sheet, and their fair values:

Methods and assumptions in consideration to the fair value of financial instruments:

- **Short term financial assets and liabilities,** defined as those with remaining maturities of 90 days or less - the fair value approximates their carrying amounts due to their short-term maturity. The following instruments were considered predominantly short-term: on the assets side, cash, current account and deposits at banks, accounts with NBR and on the liabilities side demand deposits from banks and demand deposits from customers as well as certain term deposits from customers.
- **Securities held-to-maturity** - the fair value of these instruments is based on yield curves (Please refer to Note 16 for details)
- **Securities available for sale** - quoted securities are presented in accompanying financial statements at their fair value.
- **Loans and advances to customers, net** - the fair value of loans is established using the current market prices for the loan products. The fair value is determined as the present value of future cash flows.
- **Borrowings and deposits from customers granted attracted at variable interest rates** - the fair value of long-term loan contracts is determined as the present value of future cash flows using the zero-coupon yield curves and the intragroup financing margins valid at the valuation date.

	Carrying amount		Fair value	
LINES OF THE BALANCE SHEET	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
FINANCIAL ASSETS				
Cash	272,902	206,647	272,902	206,647
Current accounts and deposits at Banks	99,660	247,404	99,660	247,404
Accounts with the National Bank of Romania	991,488	706,631	991,488	706,631
Securities held-to-maturity	187,986	238,004	199,758	238,004
Loans and advances to customers, net	6,916,906	6,259,873	7,126,156	6,259,873
Loans and advances to banks	121	62,653	121	62,653
Investment securities - Available for sale	403,014	192,078	404,769	192,078
Investment securities at fair value through profit and loss	4,289	23,369	4,289	23,369
Derivatives	2,273	2,654	2,273	2,654
FINANCIAL LIABILITIES				
Demand deposits from banks	11,089	96,385	11,089	96,385
Term deposits from banks	-	6,455	-	6,455
Demand deposits from customers	2,374,577	1,804,189	2,374,577	1,804,189
Term deposits from customers	4,105,743	4,502,755	4,127,470	4,502,755
Borrowings	1,319,004	725,258	1,336,360	725,258
Derivatives	4,911	3,683	4,911	3,683
Derivatives hedge accounting	24,475	-	24,475	-

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: quoted market price in an active market for an identical instrument;
- Level 2: valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments, quoted prices for similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: valuation techniques which are not based on observable inputs.

Financial assets measured at fair value	**December 31, 2017**			
	Level 1	**Level 2**	**Level 3**	**TOTAL**
Financial assets available for sale	-	404,769	-	404,769
Financial assets available for sale	-	396,359	-	396,359
Other securities - Unit Funds	-	8,410	-	8,410
Investment securities at fair value through profit and loss	-	4,289	-	4,289
Derivative financial instruments	-	2,273	-	2,273
Forward transactions	-	63	-	63
FX Swaps	-	798		798
Interest rate swaps	-	1,411	-	1,411
Currency options	-	1	-	1
Financial assets available for sale	**-**	**411,331**	**-**	**411,331**

Financial assets measured at fair value	**December 31, 2016**			
	Level 1	**Level 2**	**Level 3**	**TOTAL**
Financial assets available for sale	-	192,078	-	192,078
Financial assets available for sale	-	191,275	-	191,275
Other securities - Unit Funds	-	803	-	803
Investment securities at fair value through profit and loss	-	23,369	-	23,369
Derivative financial instruments	-	2,654	-	2,654
Forward transactions	-	92	-	92
FX Swaps	-	6	-	6
Interest rate swaps	-	2306	-	2306
Currency options	-	250	-	250
Financial assets available for sale	**-**	**218,101**	**-**	**218,101**

Financial assets for which fair value is disclosed	**December 31, 2017**			
	Level 1	**Level 2**	**Level 3**	**TOTAL**
Cash	272,902	-	-	272,902
Current accounts and deposits at banks	-	99,660	-	99,660
Accounts with the National Bank of Romania	-	991,488	-	991,488
Securities held-to-maturity	-	199,758	-	199,758
Loans and advances to banks	-	121	-	121
Loans and advances to customers, net	-	-	7,126,156	7,126,156
Financial assets for which fair value is disclosed	**272,902**	**1,279,255**	**7,126,156**	**8,690,085**

Financial assets for which fair value is disclosed	December 31, 2016			
	Level 1	Level 2	Level 3	TOTAL
Cash	206,647	-	-	206,647
Current accounts and deposits at banks	-	247,404	-	247,404
Accounts with the National Bank of Romania	-	706,631	-	706,631
Securities held-to-maturity	-	238,004	-	238,004
Loans and advances to banks	-	62,653	-	62,653
Loans and advances to customers, net	-	-	6,259,873	6,259,873
Financial assets for which fair value is disclosed	**206,647**	**1,254,692**	**6,259,873**	**7,721,212**

Financial Liabilities measured at fair value	December 31, 2017			
	Level 1	Level 2	Level 3	TOTAL
Derivative financial instruments				
Forward transactions	-	8	-	8
FX Swaps	-	3,491	-	3,491
Currency options	-	2	-	2
Currency interest rate swaps	-	25,886	-	25,886
Total Financial Liabilities measured at fair value	**-**	**29,387**	**-**	**29,387**

Financial Liabilities measured at fair value	December 31, 2016			
	Level 1	Level 2	Level 3	TOTAL
Derivative financial instruments Forward transactions	-	1,126	-	1,126
Currency options	-	250	-	250
Currency interest rate swaps	-	2,307	-	2,307
Total Financial Liabilities measured at fair value	**-**	**3,683**	**-**	**3,683**

Financial liabilities for which fair value is disclosed	December 31, 2017			
	Level 1	Level 2	Level 3	TOTAL
Due to Banks	-	11,089	-	11,089
Due to customers	-	6,502,047	-	6,502,047
Borrowings	-	1,336,360	-	1,336,360
Total financial liabilities for which fair value is disclosed	**-**	**7,849,496**	**-**	**7,849,496**

Financial liabilities for which fair value is disclosed	December 31, 2016			
	Level 1	Level 2	Level 3	TOTAL
Due to Banks	-	102,840	-	102,840
Due to customers	-	6,306,944	-	6,306,944
Borrowings	-	725,258	-	725,258
Total Financial Liabilities for which fair value is disclosed	**-**	**7,135,042**	**-**	**7,135,042**

NOTE 6: NET INTEREST INCOME

	Year ended December 31, 2017	Year ended December 31, 2016
Interest on loans and advances to customers	340,187	349,249
Total interest on loans	**340,187**	**349,249**
Deposits and accounts with other banks	339	733
Demand deposits and accounts with the Central Bank	327	514
Total interest on deposits with banks	**666**	**1,247**
Reverse repo agreements	696	4,437
Interest on treasury securities, net	10,884	13,902
Total interest income	**352,433**	**368,835**
INTEREST EXPENSE		
Term deposits	46,290	56,117
Demand deposits	1,017	1,715
Total interest on customers' deposits	**47,307**	**57,832**
Interest expense on accounts and deposits with other banks	1,136	236
Interest on other borrowed funds	11,131	8,243
Total interest expense	**59,575**	**66,312**
Net interest income	**292,858**	**302,523**

Interest on loans includes interest on non-performing loans, in amount of 11,329 thousand, for the year ended 31 December 2017 (25,379 thousand for the year ended 31 December 2016).

Interest on loans slightly decreased in 2017 mainly as a consequence of Swiss franc credit conversion program, and due to the decrease trend of interest rates on Romanian banking market.

Interest expense decrease in 2017 was influenced by the decrease of interest rates on customers' deposits, as a result of the decrease in interest rates on local financial market.

NOTE 7: FEES AND COMMISSIONS INCOME AND EXPENSES

FEES AND COMMISSIONS INCOME	Year ended December 31, 2017	Year ended December 31, 2016
Card related fees and commissions	9,604	9,807
Fee income from other services	4,044	3,042
Payment transfers	27,710	34,559
Cash management fees	42	34
Lending business	26,089	16,368
Deposit and turnover fees and commissions	3,651	6,987
Total	**71,139**	**70,797**

FEES AND COMMISSIONS INCOME	Year ended December 31, 2017	Year ended December 31, 2016
Deposit and turnover fee and commission expenses	(2,339)	(2,125)
Expenses on card operations	(19,713)	(18,458)
Other services	(2,124)	(1,691)
Total	**(24,177)**	**(22,274)**

The decrease in net fee commission income is mainly due to a regulatory change: effective from 4Q 2016 banks cannot charge fees on cash withdrawals if it is related to new loan disbursement.

NOTE 8: IMPAIRMENT LOSSES

	Note	Year ended December 31, 2017	Year ended December 31, 2016
Allowance for loans receivable	18	(330,470)	(485,293)
Release of provisions for loans receivable	18	309,806	314,629
Impairment losses on loans and advances to customers		**(20,664)**	**(170,664)**
Impairment losses on other assets			
(Impairment losses) / Release of provision for advances to customers	18	261	(4,566)
(Impairment losses) / Release from sold receivables		(3,538)	(5,615)
(Impairment losses) / Release on other Off BS commitments		334	13,414
(Impairment losses) / Release Operational risk provisions		13	1,021
(Impairment losses) / Release Provisions for litigation risk and CHF loan conversion*		663	75,154
(Impairment losses) / Release Provisions for fixed assets	19	2,355	10,701
(Impairment losses) / Release Provision on Investment property		(3,187)	243
(Impairment losses) / Release Provisions for inventory		-	-
(Impairment losses) / Release Restructuring provision		1,960	3,468
Total (Impairment losses) / Release on other assets provisions		**(1,139)**	**93,820**
Total Impairment losses on loans and other assets		**(21,803)**	**(76,844)**
TOTAL		**(21,803)**	**(76,844)**

Decrease of impairment losses on loans and advances to customers relates mainly to loans for which a notification for debt to asset has been received. After Constitutional Court decision at the begining of 2017 the number of notifications has decreased.

NOTE 9: TRADING INCOME, NET

	Year ended December 31, 2017	Year ended December 31, 2016
Net foreign exchange income	46,592	35,066
Net foreign exchange income related to derivatives	5,530	8,211
Total trading income	**52,122**	**43,277**

NOTE 10: PERSONNEL EXPENSES

The value representing "Salaries" at the end of 2017 and 2016 does not contain management contracts expenses. As of December 31, 2017, the expense with the management contracts was RON 4,490 thousand (RON 4,054 thousand as of 31 December 2016).

	Year ended December 31, 2017	Year ended December 31, 2016
Salaries	(99,046)	(91,484)
Social insurance contributions	(24,552)	(22,574)
Other employee benefits	(3,355)	(3,463)
Salaries	**(126,953)**	**(117,521)**

NOTE 11: OPERATIONAL EXPENSES

	Year ended December 31, 2017	Year ended December 31, 2016
Rent and utilities expenses*	(19,554)	(22,413)
Insurance premiums	(2,621)	(2,167)
Fees for experts and services**	(16,316)	(13,602)
Cards related expenses	(7,459)	(5,452)
Advertising	(10,330)	(9,530)
Taxes***	(15,244)	(23,332)
Other administrative expenses	(44,720)	(40,054)
Total	**(116,244)**	**(116,550)**

* The rent and utilities expenses decreased due to the restructuring network of the bank. There have been closed 4 units.

** Fees for experts and services include the fees paid by the Bank to the statutory audit firm and other companies from their group: audit of statutory financial statements and group reporting package of the Bank and its controlled undertakings: RON 736 thousand (December 31, 2016: RON 653 thousand).
Additional non-audit services were provided by the audit firm, related to consultation on IFRS topics and diagnostics analysis on internal control system, corporate governance and regulatory compliance framework.

** During 2017, the Bank changed the VAT records, from tax expenses to administrative expenses. The annual contribution to Guarantee Scheme and Resolution Fund for 2017 were RON 13,275 thousand compared to 9,436 thousand in 2016.

NOTE 12: OTHER INCOME AND OTHER EXPENSES

	Year ended December 31, 2017	Year ended December 31, 2016
Rent and utilities income	255	1,128
Other non-banking services	2,133	2,260
Insurance premiums	520	768
Other operating income	2,457	3,758
Net income from derecognition of available-for-sale assets*	-	21,834
Net income from derecognition of available-for-sale assets*	24	-
Other income from loans**	10,084	42,043
Total other income	**15,473**	**71,791**
Other operating expenses	(28,361)	(31,327)
Total other expense	**(28,361)**	**(31,327)**
Total, net	**(12,888)**	**40,464**

* In 2016 the revenues from the sale of financial instruments available for sale include the gain on quota share allocated to the Bank related to the transaction of sale of Visa Europe to Visa Inc.

** In "Other income from loans" it is presented the release of fair value adjustments for the CHF loans converted to RON.

NOTE 13: CASH AND CASH EQUIVALENT

	December 31, 2017			December 31, 2016		
	RON	**FCY**	**Total**	**RON**	**FCY**	**Total**
Cash	115,515	125,439	240,954	92,469	81,573	174,042
Cash in ATM	31,948	-	31,948	32,605	-	32,605
Total	**147,463**	**125,439**	**272,902**	**125,074**	**81,573**	**206,647**

For purposes of the statement of cash flows, the Bank considers cash on hand and current accounts at banks as cash and cash equivalents as follows:

	December 31, 2017	December 31, 2016
Cash and cash equivalents	272,902	206,647
Current accounts and deposits at banks	99,660	247,404
Cash at the National Bank of Romania	991,488	706,631
	1,364,050	**1,160,682**
less minimum reserves at National Bank of Romania	(463,219)	(706,631)
Total cash and cash equivalents	**900,831**	**454,051**

NOTE 14: CURRENT ACCOUNTS AND DEPOSITS AT BANKS

	December 31, 2017			December 31, 2016		
	RON	FCY	Total	RON	FCY	Total
Current accounts at banks	-	37,402	37,402	-	25,265	25,265
Deposits at banks	11,002	51,256	62,258	110,506	111,633	222,139
Total	**11,002**	**88,658**	**99,660**	**110,506**	**136,898**	**247,404**

The bank's placements as of 31 December 2017 (as well as of 31 December 2016) are free of any obligation or commitment (not pledged).

The interest rates received by OTP Bank Romania S.A. for current accounts and deposits at banks as at the reporting dates were the following:

	December 31, 2017		December 31, 2016	
	RON	FCY	RON	FCY
Currents accounts with banks			0.00%	0.00%
Deposits at banks	1.25%	(0.30)% - (0.40)%	0.4%-0.65%	(0.35)% - 0.35%

Currents accounts with banks (nostro) are not bearing interest.

Placement with other banks represent short term excess liquidity placed on the money market.

NOTE 15: ACCOUNTS WITH THE NATIONAL BANK OF ROMANIA (NBR)

	December 31, 2017			December 31, 2016		
	RON	FCY	Total	RON	FCY	Total
Current accounts	185,546	805,942	991,488	315,090	391,541	706,631

The National Bank of Romania ("NBR") requires Romanian commercial banks to maintain certain reserves ("mandatory reserve") computed in accordance with specific regulations by applying a percentage to the average balance of other borrowed funds (deposits from clients and borrowings) on a definite period of time and whose withdrawal are restricted. For the application period December 24, 2017 – January 23, 2018, the minimum mandatory reserve was determined at the level of 463,219 thousand RON (December 31, 2016: 462,007 thousand RON).

As of December 31, 2017, the reserve was set up at the following rates:

RON: 8% of the borrowed funds in local currency (December 31, 2016: 8%);

Foreign currency: 8% of the borrowed funds in other than local currency (December 31, 2016: 10%).
The interest rate paid by the National Bank of Romania for minimum mandatory reserve as of December 31, 2017 was as follows:

RON: 0.10% (December 31, 2016: 0.10%)
EUR: 0.02% (December 31, 2016: 0.05%)

NOTE 16: SECURITIES HELD-TO-MATURITY

Treasury securities represent financial instruments held-to-maturity (treasury certificates), issued by the Romanian Ministry of Finance, in RON.

Total treasury securities issued by the Romanian Ministry of Finance held by the Bank as of December 31, 2017 stand for RON 187,986 thousand (RON 238,004 thousand as of December 31, 2016).

From the total of securities held-to-maturity, as of December 31, 2017, RON 55,870 thousand have residual maturity of less than 1 year (RON 46,637 thousand as of December 31, 2016).

The treasury bonds are unencumbered and at the immediate disposal of the Bank as of December 31, 2017 and December 31, 2016.

Moody's ratings available for Romania as of 31.12.2017 were as follows:

- Local currency: Baa3
- Foreign currency: Baa3

The structure of bonds and other fixed-yield securities as of December 31, 2017 and December 31, 2016 was the following:

	December 31, 2017	December 31, 2016
Fixed rate Bonds	187,986	238,004
TOTAL Securities held-to-maturity	**187,986**	**238,004**

NOTE 17: LOANS AND ADVANCES TO BANKS

The loans and advances to banks presented below as of December 31, 2017 are transit amounts to be received from banks.

	December 31, 2017	December 31, 2016
Loans and advances to banks	121	62,653
Total loans and advances to banks	**121**	**62,653**

NOTE 18: LOANS AND ADVANCES TO CUSTOMERS, NET

a) Structure of loans (gross and net amounts)

The item "Loans and advances to customers, net" includes all financial assets which are not classified as "Financial assets at fair value through profit and loss", "Financial assets available for sale" or "Securities held-to-maturity" and has the following structure:

	December 31, 2017	December 31, 2016
Loans, gross	**7,232,606**	**6,619,939**
Impairment losses on loans	(315,700)	(360,066)
Loans, net	**6,916,906**	**6,259,873**

b) Structure of loans by currency (gross and net amounts)

Structure by currency	December 31, 2017			December 31, 2016		
	RON	FCY	Total	RON	FCY	Total
Loans, gross	4,402,673	2,829,933	7,232,606	3,673,020	2,946,921	6,619,949
Impairment losses on loans and advances to customers	(127,867)	(187,833)	(315,700)	(146,209)	(213,857)	(360,066)
Total loans and advances to customers, net	**4,274,806**	**2,642,100**	**6,916,906**	**3,526,811**	**2,733,072**	**6,259,873**

c) Structure of loans by type of customer (net amounts)

	December 31, 2017			
	Total loans	RON	FCY	%
Legal entities	3,161,641	2,171,431	990,210	45.70%
Individuals	3,755,265	2,103,375	1,651,890	54.29%
Total loans and advances to customers, NET	**6,916,906**	**4,274,806**	**2,642,100**	**100%**

	December 31, 2016			
	Total loans	RON	FCY	%
Legal entities	2,696,743	1,832,422	864,309	43.08%
Individuals	3,563,130	1,694,391	1,868,740	56.92%
Total loans and advances to customers, NET	**6,259,873**	**3,526,813**	**2,733,060**	**100%**

d) Concentration by sector for legal entities and by product for individuals

	December 31, 2017	%	December 31, 2016	%
RETAIL	**3,755,265**	**54%**	**3,563,141**	**57%**
Consumer loans	763,349	11%	640,442	32%
Housing	2,991,916	43%	2,922,699	25%
CORPORATE	**3,161,641**	**46%**	**2,696,743**	**43%**
Trade and finance	877,997	13%	830,618	13%
Manufacturing	671,841	10%	646,350	10%
Transportation and communications	209,177	3%	127,654	2%
Services	359,617	5%	98,117	2%
Agriculture and forestry	356,390	5%	177,534	3%
Real estate and construction	539,559	8%	479,800	8%
Other sectors	147,060	2%	336,659	5%
Total loans and advances to customers, net	**6,916,906**	**100%**	**6,259,873**	**100%**

e) Impairment losses

	Impairment for loans and receivable	Impairment for loans and receivable
	December 31, 2017	**December 31, 2016**
Balances at January 1st	**(360,066)**	**(377,926)**
Charge during the year	(330,470)	(485,295)
Release during the year	309,806	329,611
Release of Provisions related to written-off and transferred loans directly through BS accounts	64,317	170,062
Foreign exchange differences impact	713	3,482
Balance at December 31	**(315,700)**	**(360,066)**

For provisioned loans which are sold to other companies (soft collection, in Bank's case) the release of the provision is recorded in correlation to the receivable in the Balance Sheet to its net book value, while the gain / loss realized as a result of receivables selling prices compared to the net book value receivable is recognized in the Profit and Loss Accounts.

In 2017 the Bank sold to a third party a package of impaired loans with a gross value of RON 73,377 thousand at transaction date. The amount received from the buyer was RON 29,322 thousand.

NOTE 19: TANGIBLE AND INTANGIBLE ASSETS, NET

The difference between annual expense depreciation of tangible and intangible assets 2017 versus 2016 is explained as follows:

- 3,145 thousand RON representing write off form the accounting evidence of the year 2016 (e.g.: the improvement made for the rented premises for the closed branches as a result of the restructuring process, the POS, the It's equipments, after performing factual inventories no longer corresponded to the needs of the business and therefore removed from the accounting records);
- 2,033 thousand RON representing write off from the accounting evidence of the year 2017 (e.g. Data Center decommissioning - deteriorated It equipment, ATMs – which following the factual inventory, no longer corresponded to the business needs and were consequently removed from the accounting reports);
- 5,202 thousand RON representing assets that were fully depreciated during the year 2017 (e.g. POS, furniture, safes);
- (2,952) thousand RON representing the depreciation for the assets recognized in accounting evidence in the year 2017.

	Land and Buildings	Furniture and Equipment	Vehicles	Computers	Tangible assets	Tangible assets in progress	Other intangibles	Total
Gross book value January 1st, 2017	**163,036**	**75,341**	**10,885**	**21,239**	**270,501**	**8,043**	**73,474**	**352,018**
Additions	7,038	6,067	1,799	2,423	17,327	21,936	18,348	57,611
Reclasification	-	-	-	178	178	-	(178)	-
Disposals	(8,996)	(6,877)	(565)	(737)	(17,175)	(17,332)	(6,657)	(41,164)
Gross book value December 31, 2017	161,078	74,531	12,119	23,103	270,831	12,647	84,987	368,465
Accumulated depreciation January 1st, 2017	**(69,376)**	**(61,706)**	**(7,149)**	**(15,723)**	**(153,954)**	**-**	**(60,307)**	**(214,261)**
Depreciation charge for 1 year period ended December 31, 2017	(5,831)	(4,018)	(1,076)	(2,597)	(13,522)	-	(5,252)	(18,774)
Accumulated depreciation of disposals	6,067	7,202	565	731	14,565	-	178	14,743
Accumulated depreciation December 31, 2017	**(69,141)**	**(58,522)**	**(7,660)**	**(17,589)**	**(152,911)**	**-**	**(65,381)**	**(218,292)**
Net book value December 31, 2017	**91,937**	**16,010**	**4,458**	**5,516**	**117,920**	**12,647**	**19,606**	**150,173**
Gross book value January 1st, 2016	**200,547**	**87,930**	**9,659**	**26,409**	**324,543**	**1,339**	**93,293**	**403,744**
Additions	909	232	2,301	1,839	5,282	12,214	9,960	32,212
Reclasification	(5)	2,597	-	(2,599)	(7)	-	7	-
Disposals	(38,415)	(15,418)	(1,075)	(4,410)	(59,317)	(5,510)	(29,786)	(83,937)
Gross book value December 31, 2016	163,036	75,341	10,885	21,239	**270,501**	**8,043**	**73,474**	**352,019**

	Land and Buildings	Furniture and Equipment	Vehicles	Computers	Tangible assets	Tangible assets in progress	Other intangibles	Total
Accumulated depreciation January 1st, 2016	**(81,627)**	**(61,373)**	**(7,424)**	**(18,821)**	**(169,246)**	**-**	**(81,780)**	**(251,026)**
Depreciation charge for 1 year period ended December 31, 2016	(7,033)	(11,075)	(746)	(4,742)	**(23,596)**	-	(6,139)	(29,735)
Accumulated depreciation of disposals	19,284	10,741	1,021	7,840	**38,886**	-	27,611	66,497
Accumulated depreciation December 31, 2016	(69,376)	(61,707)	(7,149)	(15,723)	**(153,956)**	**-**	**(60,307)**	**(214,264)**
Net book value December 31, 2016	93,660	13,634	3,736	5,515	**116,545**	**8,043**	**13,168**	**137,755**

NOTE 20: INVESTMENT SECURITIES. AVAILABLE FOR SALE AND AT FAIR VALUE TRHOUGH PROFIT AND LOSS

Investments in securities represent quoted and unquoted shares classified as Available for sale as follows:

Available for sale

The following investment securities are presented in RON	December 31, 2017	December 31, 2016
Unquoted shares, from which	**7,275,359**	**5,712,636**
SNCDD	501	14,320
SWIFT	60,155	60,155
OTP Asset Management SAI S.A.	573,737	573,737
VISA	6,565,876	4,989,334
OTP Factoring SRL	75,060	75,060
SC Aloha Buzz SRL	10	10
SC Favo Consultanta SRL	10	10
SC Tezaur Cont SRL	10	10
Other investments, from which:	**80,000**	**80,000**
"Right to Education" Foundation	80,000	80,000
Investment funds, from which:	**7,620,590**	**7,218,005**
- OTP Premium Return	5,285,563	5,058,573
- OTP Global Mix	2,335,027	2,159,432
Securities, from which	**388,038,238**	**179,067,224**
- Ministry of Finance	382,847,880	173,759,268
- Bucharest City Hall	5,190,358	5,307,956
TOTAL Available for sale investments	**403,014,186**	**192,077,865**

Financial assets at fair value through profit and loss

Amounts in RON	December 31, 2017	December 31, 2016
- OTP Comodis	-	18,699,143
- OTP Dollar Bond	4,289,367	4,669,683
TOTAL Investments at fair value through profit and loss	**4,289,367**	**23,368,826**

For all investments except SWIFT and VISA, the main activity of the not-listed companies is in Romania.

The Bank sold in 2017 the participation on OTP Comodis.

Bank holds investments in fund units of OTP Global Mix, OTP Dollar Bond and OTP Premium Return, common funds managed by OTP Asset Management SAI.

OTP Premium Return has a permissive investment policy and invests in asset such as shares, sovereign bonds, and corporate or municipal bonds, index certificates, money market instruments. Investments are made both in EUR and RON. Fund aims to generate superior returns in comparison to the benchmark of ROBID1Y + 1%

OTP Global Mix has a flexible investment policy and aims at diversifying the portfolio to spread the risk, the fund's assets being invested both in Romanian and foreign equities, as well as sovereign bonds, corporate or municipal bonds or other financial instruments having as underlying asset indices, as well as money market instruments and bank deposits. Assets the fund invests may be denominated in RON or in foreign currencies.

OTP Global Mix is a multi-asset fund (diversified, flexible). Strategic allocation of long-term fund in terms of categories of assets is up to 50% equities (shares) and investment funds, local and international up to 50% in fixed income instruments and / or money market instruments.

OTP Dollar Bond invests in fixed income securities denominated in USD, such as corporate bonds, municipal or State bonds - guaranteed by Member States and / or their public authorities, government securities, bank deposits and other money market instruments.

The Fund intends to invest at least 80% in fixed income and at most 20% in cash and equivalent. Fund investments in other assets will not exceed 10%. The Fund will not invest in shares. Maximum 20% of Fund assets may be invested in convertible bonds. The same limits apply to investments in asset-backed securities / mortgage bonds.

Share in VISA Europe LTD.

The fair value of the VISA Europe Ltd share has been made based on the estimated proceeds consisting in cash and preferred shares to be received by the Bank from Visa Inc following to the transaction made publicly on 2nd of November 2015 by Visa Inc. ("VInc") and Visa Europe Ltd ("VE").

Due to the restrictions imposed by VISA Inc on conversion of preferred shares into common stock quoted on stock exchange and their future trading for a period of 12 years since closing as well as potential impact from existing litigation and future obligations, a reliable fair value for the preferred shares proceeds cannot be established based on actual limited available information.

The transaction mainly consists of upfront consideration of €16.5 billion, consisting of €11.5 billion of cash and preferred stock convertible into Visa Inc. class A common stock valued at €5 billion, where the upfront consideration has been distributed to all Visa Europe members in accordance with the methodology set up by VE Ltd management. The transaction was subject to regulatory approvals and was closed by end of 2nd quarter of 2016.

During 2016, the Bank received the amount of 3,494,947 EUR representing the Bank's up-front consideration, which is based on the contribution to VISA Europe's business (including cash for sale of the ordinary shares(s) of €10 in VISA Europe). Also, the Bank's received 1,268 series C VISA Inc. preffered shares with value 1,159,420 USD (eq 4,989,334 RON) on December 31, 2016. As of 31 December 2017, the value of 1,268 series C VISA Inc. Preffered shares is 6,565,876 RON.

Other companies within OTP Group

OTP Factoring Romania SRL is engaged in the management of the purchased receivables and non-bank financial institutions.

The "Right to Education" Foundation was registered and incorporated on 23 December 2013 by Decision of the General Meeting of Shareholders of October 2013. Bank Foundation was created with the support and experience gained in 20 years of activity of the Foundation Fay, on education pupils and students. The project aims to develop a new dimension and approach in Romania, Bank acting as support for education by creating an institutional and organizational framework.

NOTE 21: INVESTMENT IN ASSOCIATES AND SUBSIDIARIES

	Gross book value as at		Percentage owned as
	December 31, 2017	**December 31, 2016**	**December 31, 2017**
OTP Advisor SRL	4,729	4,729	100%
OTP Consulting Romania SRL	210	210	74.9
OTP Leasing IFN Romania SA	8,401	8,401	60
Total Gross	**13,340**	**13,340**	

Provision	**Provision as at December 31, 2017**	**Provision as at December 31, 2016**
OTP Advisor S.R.L.	(4,729)	(4,729)
Total Net	**8,611**	**8,611**

OTP Leasing Romania IFN S.A. provides leasing for cars and equipment, operating on the market since August 2007. OTP Bank România purchased 59.9922730647% of the share capital of OTP Leasing România, taking over shares from the main shareholder Merkantil Bank Hungary. Both companies are part of OTP Group, Ungaria. The registered office of OTP Leasing Romania IFN S.A. Nicholas Street is Caramfil no. 79, Sector 1, Bucharest.

The value of investment in OTP Advisors SRL on 31 December 2017 was RON 4,729,400 thousand, for which the Bank booked an impairment of RON 4.729.400 thousand, thus the net value being RON 0 thousand

OTP Advisors offers direct sales for the Bank lending products. The registered office of OTP Advisors SRL is located at the following address: Matei Voievod Street no. 40, 2nd district, Bucharest.

The gross value of investment in OTP Consulting Romania SRL has not changed during 2017 compared to 2016.

OTP Consulting Romania SRL provides support services for foreign investments in Romania and advice for local authorities and small and medium sized companies in accessing EU funds and in project implementation.

The registered office of OTP Consulting Romania SRL is located at: Dacia Blvd. no. 83, 1 st. floor, 2nd district, Bucharest.

NOTE 22: OTHER ASSETS, NET

	December 31, 2017	December 31, 2016
Settlement accounts	29,667	20,549
Sundry debtors	10,087	10,507
Prepayments	6,711	6,638
Deferred income	3,472	3,813
Collaterals	1,127	2,183
Advances for tangible & intangible assets	2,870	523
Personnel receivables	9	38
Inventory	259	417
Tax receivables	753	516
Total	**54,955**	**45,184**

The amount from Settlement accounts class mainly represents transit amounts from promissory notes acceptance and transactions from POS. The amounts are settled against clients'accounts in the next days following the reporting period.

NOTE 23: LIABILITIES DUE TO BANKS

	December 31, 2017			December 31, 2016		
	RON	FCY	Total	RON	FCY	Total
Demand deposits from banks	11,041	48	11,089	83,393	12,992	96,385
Term deposits from banks	-	-	-	-	6,455	6,455
Total	**11,041**	**48**	**11,089**	**83,393**	**19,447**	**102,840**

NOTE 24: LIABILITIES DUE TO CUSTOMERS

	December 31, 2017			December 31, 2016		
	RON	FCY	Total	RON	FCY	Total
Customers' current accounts	1,321,919	782,166	2,104,085	1,048,675	755,514	1,804,189
Deposits from customers	2,657,726	1,718,509	4,376,235	2,603,432	1,899,323	4,502,755
Total	**3,979,645**	**2,500,675**	**6,480,320**	**3,652,107**	**2,654,837**	**6,306,944**

Included in layout “Term deposits from customers” are deposits of 1,382 million RON from OTP Financing Netherlands B.V. (RON 1,376 million at 31 December, 2016), member of the mother-company group, with remaining maturities of 1 up to 6 years, for which there are no contractual bindings regarding advance repayment.

The maturity structure of the deposits taken from OTP Financing Netherlands B.V. is as follows:

- 119,700 thousand RON equivalent (30 million EUR) maturing on 23th of December 2020;
- 163,090 thousand RON equivalent (35 million EUR) maturing on 31rd of January 2018;
- 279,582 thousand RON equivalent (60 million EUR) maturing on 30th of July 2018;
- 69,896 thousand RON equivalent (15 million EUR) maturing on 20th of February 2019;
- 250,000 thousand RON maturing on 20st of November 2020;
- 250,000 thousand RON maturing on 22st of November 2021;
- 250,000 thousand RON maturing on 21st of November 2022.

The parent company will continue to provide to the Bank any financial support that might be necessary to comply with the central bank's regulatory requirements.

According to the currency and amount deposited by the clients, the Bank pays interest rates in the following ranges:

Term deposits	December 31, 2017	December 31, 2016
RON	0.00% - 3.5%	0.00% - 3.95%
EUR	0.00% - 2.16%	0.00% - 2.86%
USD	0.05% - 1.59%	0.05% - 1.80%
CHF	0.00% - 0,69%	0.0% - 0.30%
HUF	0.00% - 0.60%	0,00% - 1.55%
GBP	0.00% - 0.60%	0.25% - 1.70%

Saving deposits	December 31, 2017	December 31, 2016
RON	0.00% - 1.40%	0.00% - 0.91%
EUR	0.00% - 0.25%	0.00% - 0.20%
USD	0.00% - 0.40%	0.00% - 0.34%
CHF	0.00%	0.00%
HUF	0.00% - 0.10%	0.00% - 0.30%
GBP	0.00% - 0.25%	0.00%

NOTE 25: BORROWINGS

	December 31, 2017	December 31, 2016
EUROPEAN INVESTMENT BANK *	36,069	44,050
OTP FINANCING NETHERLANDS B.V. **	699,020	681,208
OTP FINANCING MALTA COMPANY LTD. ***	583,915	-
Total	**1,319,004**	**725,258**

* The bank signed in 2016 a contract with the European Investment Bank for the amount of EUR 9,700 thousand (current balance EUR 9,700 thousand) with the purpose of extending funding to small and medium enterprises. As of 31 December 2017, the outstanding amount is EUR 7,760 thousand.

** The loan was taken by OTP Bank Romania S.A. during the merger with Millennium Bank S.A. and represents financing lines for reimbursement received from Banco Comercial Portuges S.A. worth 150,000 thousand EUR. The loan was taken over by OTP Financing Netherlands BV having maturities between 2020 and 2022. Interest rate is EUROBOR 3M + 1.45%.

*** The bank signed in 2017 4 contracts with the OTP Financing Malta Company LTD for the amount of RON 350,000 thousand and EUR 50,000 thousand (232,985 RON equivalent as of 31 December 2017) with the purpose of ensuring optimal liquidity for the bank's activity. The loans have maturities in 2023 (RON loan) and 2024 (EUR loan).

NOTE 26: DERIVATIVES

The fair value of the derivative financial instruments is included in "Derivatives". Changes in their fair value that do not qualify for hedge accounting are recognized in the income statement lines "Trading income, net".

The financial derivative instruments at face and fair values as of December 31, 2017 and December 31, 2016 were as follows:

	December 31, 2017			December 31, 2016		
	Nominal value	Asset	Liability	Nominal value	Asset	Liability
Cross currency interest rate derivatives	-	-	-	172,567	2,306	2,306
Short term currency instruments	1,017,523	2,272	4,910	518,378	98	1,127
Options	21,691	1	1	22,139	250	250
	1,039,214	**2,273**	**4,911**	**713,084**	**2,654**	**3,683**

NOTE 27: DERIVATIVES ASSETS/LIABILITIES DESIGNATED AS HEDGING INSTRUMENTS

The Bank uses interest rates swaps to hedge the foreign currency risks arising from treasury bills and bonds.

	December 31, 2017			December 31, 2016		
	Notional amount	**Asset**	**Liability**	**Notional amount**	**Asset**	**Liability**
Interest Rate Swap Hedging	232,925	-	24,475	-	-	-
	232,925	**-**	**24,475**	**-**	**-**	**-**

NOTE 28: PROVISIONS

	December 31, 2017	December 31, 2016
Discount for conversion loans in CHF	-	4,379
Financial guarantees	7,552	7,875
Litigations	29,371	29,188
Restructuring	98	2,059
Personnel	8,559	6,242
Other risks	2,640	86
Total	**48,220**	**49,829**

The restructuring provisions in amount of 1,901 thousand RON was reversed in 2017, because of its use for territorial network otptimisation. The Bank closed 4 branches.

NOTE 29: INCOME TAX

As of December 31, 2017, the Bank computed the deferred tax using the legal tax rate of 16% (2016: 16%). The method for estimating the tax loss used is to offset future profits. Starting with this date, the Bank expects to be able to use the tax loss carried forward up to limit of the future profits expected for the next 5 years.

Expenses with the income tax comprise:

Description	December 31, 2017	December 31, 2016
Current income tax expense	-	-
Deferred tax release / (charge) to profit and loss	(16,255)	(8,664)
Total income tax release / (charge) to profit and loss	**(16,255)**	**(8,664)**

The deferred tax liability as of December 31, 2017 is presented as follows:

	Temporary difference	Tax effect
Revaluation reserve for tangible and intangible assets	33,747	5,400
Deferred tax liability as of December 31, 2017 - Fair-value adjustment of AFS shares	10,873	1,740
Deferred tax liability as of December 31, 2017		**7,140**

The deferred tax asset at December 31, 2017 is presented as follows:

Description temporary difference	Temporary difference	Tax effect
Difference in depreciation between tax and accounting base for tangible and intangible assets	1,611	258
Deferred tax asset as of December 31, 2017, as a result of the carried forward tax loss, limited to the future estimated profits	195,394	31,263
Deferred tax due to provisions for other risks	45,580	7,293
Deferred tax due to provisions for the conversion project	2,095	336
Deferred tax asset as of December 31, 2017		**39,150**

The total carried forward tax loss is presented as follows:

Description	December 31, 2017	December 31, 2016
Statutory net loss for the current period (a)	**84,521**	**84,247**
Non-taxable income (b)	(48,353)	(197,334)
Non-deductible expenses (c)	87,077	146,215
Other elements similar to Income (d)	-	141,558
Other elements similar to expenses (e)	(19,534)	(27,512)
Legal reserve (f)	(5,039)	(4,645)
Fiscal profit / (loss) of current year (a+b+c+d+e+f)	**98,672**	**142,529**
Tax loss reported by OTP Bank Romania	(587,178)	(835,934)
Total carried forward fiscal loss (fiscal result + tax losses)	**(488,506)**	**(693,405)**

NOTE 30: OTHER LIABILITIES

	December 31, 2017	December 31, 2016
Other due amounts from interbank transactions	37,456	29,508
Other due amounts from transactions with non-banking clients	25,649	17,015
Current taxes	719	8,512
Sundry creditors	15,540	8,844
Unearned income	7,012	10,418
Salaries paid in advance	4,020	-
Expense to be paid	14,378	10,796
Others	80	43
Total	**104,854**	**85,137**

In the category of "Other due amounts from interbank transactions" are included transit operations related to payment orders or other interbanking transactions and in "Other due amounts from transactions with non-banking clients", there are transit amounts due to clients.

NOTE 31: SHARE CAPITAL

	2017 (RON thousand)	2016 (RON thousand)
Share capital as of January 1	**1,254,253**	**1,254,253**
Increase of share capital during the period	125,000.16	-
Share capital at the end of the period	**1,379,252.88**	**1,254,253**
Effect of hyperinflation until 31 December 2003	42,751	42,751
Share capital under IFRS	**1,422,004**	**1,297,004**

Share capital increase of OTP Bank Romania S.A. with the amount of 125,000,160 RON by subscribed and paid cash contribution of shareholder OTP Bank Nyrt.

The reasons of capital increase were:

- compliance with EU regulation and IFRS 9 mitigation effect;
- excess from the current capital increase will be used for the current activity.

As of 31 December 2017, the Bank's share capital amounted 1,379,252,880 thousand and consisted of 5,746,887 registered ordinary shares with face value of 0.24 thousand per share.

All of the shares are ordinary shares and no special rights are attached to them. Voting rights per share are equivalent to the face value per share.

As of 31 December 2017, the Bank's entire share capital was registered at the Commercial Register and fully paid in.

Earnings per share

Income per share attributable to shares of the Bank (there are only common shares issued by the Bank) are computed as net profit for the relevant year attributable to the common shareholders divided by weighted average number of common shares outstanding during the year as follows:

	December 31, 2017	December 31, 2016
Profit after tax in the accounting period	84,522	84,248
Average number of ordinary shares outstanding during the period	5,746,887	5,226,053
Earnings per ordinary share (face value RON 240) in RON	**14.71**	**16.12**

NOTE 32: OFF BALANCE SHEET FINANCIAL COMMITMENTS

Issued guarantees and letters of credit

The Bank issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to that arising from granting of loans. In the event of a claim on the Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Bank.

All letters of credit issued by the Bank are collateralized. As of December 31, 2017, and December 31, 2016, the probability of material loss arising in connection with letters of credit is considered to be remote and accordingly no provision has been established.

The primary purpose of these instruments is to ensure that funds are available to a customer on request. Guarantees and standby letters of credit which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties carry the same credit risk as loans. Documentary and commercial letters of credit which are written undertaking by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralized and because of this carry a lower risk.

Credit commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentiallyexposed to loss an amount equal to the total unused commitments.

However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest since it results from the possibility of unused portions of loan authorizations being drawn by the customer and, secondly from these drawings, subsequently not being repaid as due.

The Bank monitors the term to maturity of credit commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The aggregate amounts of outstanding guarantees, commitments and other off-balance sheet items as of December 31, 2017 and December 31, 2016 are the following:

	December 31, 2017	December 31, 2016
Import letters of credit and other commitments, out of which:	962,514	557,495
Confirmed Letters of credit	*61,701*	*13,840*
Unutilized credit limits	*900,813*	*543,655*
Letters of guarantee and other guarantees	431,469	487,844
Other financial commitments	456,242	462,194
Total guarantees and other financing commitments	**1,850,225**	**1,507,533**

NOTE 33: CONCENTRATION OF ASSETS DUE BY GOVERNMENT AND HELD WITH THE CENTRAL BANK

The assets due by Government and the Central Bank are as follows:

	December 31, 2017	December 31, 2016
Amounts with the National Bank of Romania (Note 15)	991,488	706,631
Treasury Bills (Note 16 and 20)	570,834	453,451
Total	**1,562,322**	**1,160,082**

NOTE 34: RELATED PARTIES

The Bank enters into transactions with related parties which are members of OTP Group in the normal course of the business. All related party transactions were made under substantially similar terms including interest rates and collateral requirements as those prevailing for similar transactions with unrelated parties. The most significant transactions represent time deposits loans and the respective interest and fees received/paid. The volume of related parties transactions outstanding balances and related expense and income for the periods ended December 31, 2017 and December 31, 2016 are presented below:

	Management		**Parent company**		**Other Related parties**	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Assets						
Due from other banks	-	-	25,360	-	-	-
Loans and advances to customers, net	*6,956*	*1526*	-	488	52,365	10,064
Loans and advances to banks, net	-	-	-	-	-	-
Other assets	-	-	*14*	-	538	-
Fair Value of Derivatives Financial Instruments	-	-	-	258	-	-
Investment in Associates and Subsidiaries	-	-	-	-	8,611	9,414
Total assets	**6,956**	**1,526**	**25,374**	**746**	**61,513**	**19,478**
Liabilities						
Due to other banks	-	-	620	134-	376	408
Due to customers	*3,487*	*3,394*	-	-	2,706,486	2,090,292
Other liabilities	-	-	-	-	141	-
Fair Value of Derivatives Financial Instruments	-	-	25,886	3,333	-	-
Total liabilities	**3,487**	**3,394**	**26,506**	**3,467**	**2,707,003**	**2,090,700**
Income statement items						
Interest and Commission income	*114*	-	3,664	55	2451	55
Interest and Commission expenses	*(22)*	-	(6,552)	-59	-36,692	(2,733)
Other income	-	-	-	-	*14*	-
Other expenses	-	-	-	-	-	-
Net result (expense) from derivative deals	-	-	-	1,572	-	-
Total P&L account items	**92.00**	**-**	**(2,888)**	**1,568**	**(34,227)**	**(2,678)**
Other commitments	-	11	1,448,694	1,379,763	372,776	9,697
Off-balance sheet commitments	**-**	**11**	**1,448,694**	**1,379,763**	**-**	**9,697**

Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director (whether executive or otherwise) of the Bank.

The cumulated short term, long term and termination benefits granted to directors and other members of key management during periods ended December 31, 2017 and December 31, 2016 were as follows:

	December 31, 2017	December 31, 2016
Salary for key management personnel	12,178	11,853
Short-term and long-term benefits	4,718	4,163
Termination benefits	286	374
Total benefits for key management personnel	**17,182**	**16,390**

NOTE 35: OPERATING LEASE ARRANGEMENTS

Operated leases relate to leases of locations where the Bank's branches are developing their activity.

The Lease contracts are concluded for periods that vary between 1 year and 10 years. All contracts are subject to yearly market rental review in order to adjust the prices to the market level.

The Bank does not have an option to purchase any of the leased locations at the expiry of the lease periods.

The Bank recognizes the lease payments under operating leases as expenses in the P&L account, on a straight-line basis over the lease term.

The below table shows the future payment obligations according to the rental agreements valid as of end of year:

	December 31, 2017	December 31, 2016
No later than 1 year	1,201	14,290
Later than 1 year and no later than 5 years	57,624	34,508
Later than 5 years	7,369	3,169
Total	**66,194**	**51,967**

NOTE 36: RESTRICTED ASSETS

As of December 31, 2017 and December 31, 2016 the Bank didn't hold any restricted assets, except for the minimum reserve at NBR (please refer to Note 16 for the details about minimum reserves).

NOTE 37: CONTINGENT LIABILITIES

As of December 31, 2017 (and also at the time of issuance of this report) the Bank was involved in several litigations. Complaints against the Bank are received after normal business conducted by the Bank. Bank management believes that debt, if any, from such complaints do not have a material adverse effect on the financial position or results of future operations conducted by the Bank.

NOTE 38: BANK'S ACTIVITY AS AGENT

In 2017, OTP Bank Romania has continued to act as agent for OTP Bank Plc and OTP Mortgage Bank for loans sold to those institutions. Each credit contract is managed and monitored by the Agent in accordance with its usual practice when carrying out its business, OTP Bank Plc and OTP Mortgage Bank paid a monthly fee for the performing of account-keeping and monitoring tasks pertaining to loans transferred. The Agent does not bear any credit risk in relation to these loans.

In the normal course of its business, the Bank sold loans without retaining the risks of a continuous involvement.

The Bank is acting as agent on behalf of OTP Bank Plc, by performing the following activities:

- as Agent Bank records and monitors all collaterals on behalf of clients;
- as a paying agent, the Bank sets interest rates and the period for which they are available, calculates and collects the principal, interest and fees on loans sold;
- the Bank will notify customers of any decision taken under the credit agreement.

"Transferred loans" comprise the total amount remaining outstanding under the credit agreement, together with the attached claims recorded to date and unpaid and fees.

On December 31, 2017, the Bank manages and monitors loans in amount of CHF 790 thousand (3,170 thousand RON equivalent as of 31 December 2017) and EUR 9,430 thousand (43,930 thousand RON equivalent as of 31 December 2017).

NOTE 39: SUBSEQUENT EVENTS

On 4 September 2017, OTP Bank Romania notified the Romanian authorities on its intention for the acquisition of the 99.28% shareholding held by National Bank of Greece S.A. in Romanian Banca Romaneasca S.A. and the acquisition of other Romanian exposures of other subsidiaries of National Bank of Greece S.A. by OTP Bank Romania S.A.

On 13 November 2017 the Romanian Competition Council informed the Bank on their accord on the non-objection regarding the economical concentration that would result following the aquision by OTP Bank Romania S.A of the the 99.28% shareholding held by National Bank of Greece S.A. in Romanian Banca Romaneasca S.A. and the acquisition of other Romanian exposures of other subsidiaries of National Bank of Greece S.A.

On 14 March 2018 the National Bank of Romania notified OTP Bank's Romania that did not grant its approval for the acquisition of the 99.28% shareholding held by National Bank of Greece S.A. in Romanian Banca Romaneasca S.A. and the acquisition of other Romanian exposures of other subsidiaries of National Bank of Greece S.A. by OTP Bank Romania S.A.

These separate financial statements have been authorized for issue by the management in 23rd of March 2018.

László Diósi
Chairman of the Management Board and CEO

Mara Cristea
Member of the Management Board and Deputy CEO

OTP BANK ROMANIA S.A. MANAGEMENT BOARD REPORT CONCERNING THE YEAR ENDED DECEMBER 31, 2017

History

OTP Bank Romania (the Bank) is a subsidiary of OTP Bank, the largest independent banking group in Central and Eastern Europe, with operations in countries such as Hungary, Bulgaria, Croatia, Romania, Russia, Ukraine, Slovakia, Montenegro and Serbia. Active on the Romanian banking market since 2005, OTP Bank has set itself the target to become a powerful, universal bank, offering complete services for both individuals and corporate customers.

Following the conclusion of the sale and purchase of shares of Commercial Bank ROBANK SA in July 2004, all shares of the Bank have been acquired by OTP Group in Hungary. Initially Robank Commercial Bank S.A. was registered with the Trade Register under number J40/10296/1995, based in Bucharest, Unirii Blvd. 59, district 3, and received authorization to operate from the National Bank of Romania under letter no. VII/G/185 in December 1995.

In July 2005 the Bank's name changed from RoBank Romania S.A. to OTP Bank Romania S.A., keeping the same registration number with the Trade Register Starting from March 2005, the new head office of OTP Bank Romania S.A. was established in 66-68 Buzesti St., District 1, Bucharest.

In order to increase its position on the Romanian banking market, in 2015 OTP Bank Romania SA completed the acquisition of Millennium Bank SA shares from Banco Comercial Portugues S.A. and Millennium BCP Participacoes SGPS, Sociedade Unipessoal LDA.

The Bank operates through its registered Head Office and network of branches comprising 96 units out of which 63 branches and 33 agencies.

The shareholders' structure on December 31, 2017 was as follows:

Shareholder	Ownership (%)	No. of shares	Amount (RON)
1. OTP Bank Nyrt	99.9999303971002%	5,746,883	1,379,251,920
2. Merkantil Bank zrt.	0.0000696028998%	4	960
Total	**100%**	**5,746,887**	**1,379,252,880**

Share capital increase of OTP Bank Romania S.A. with the amount of 125,000,160 RON by subscribed and paid cash contribution of shareholder OTP Bank Nyrt.

The reasons of capital increase were:

- EU regulation and IFRS 9 mitigation effect;
- excess from the current capital increase will be used for the current activity.

Economic environment

In 2017, Romania's **GDP** grew by 7.0%, the fastest increase since the outburst of the financial crisis, as well as one of the largest gains in the EU. This pick-up came after an already impressive 4.8% expansion in 2016.

It may be worth mentioning that Romania's economy is in the mature phase of the business cycle, with a series of steroids propelling the country to fire on all cylinders. Loose fiscal policies boosted consumption growth; monetary conditions were unusually accommodative, while the rebound of the EZ economy and favourable weather conditions also helped in 2017. Nonetheless, it seems that the peak is over and the GDP growth pace may slow gradually to more sustainable levels, as the positive impact of several one-off factors fade. It is important to note that on the back of the eye-watering GDP figures, miscalibrated government policy, widening current account gap and rapidly rising inflation, overheating concerns also increased last year.

Household consumption expenditures remained the key driver of the economy, posting 10.3% advance, after disposable incomes continued to grow rapidly owing to significant minimum and public wage hikes as well as the tight labour market. In addition, several levies were scaled back too, including the relief on standard VAT, from 20% to 19%, providing further support to consumption. The good news is that **fixed investment** pointed to some signs of a recovery in the second half of 2017. This came after the disappointment in 2016 and H1 2017, when sluggish public investment weighed on the indicator.

Net exports were again negative contributor to GDP growth last year. Despite the revival of the eurozone economy, **exports** (+9.5%) were not able to keep pace with domestic-demand-fuelled **imports** (+11.1%).

On the production side, **agriculture**'s output (+18.3%) underpinned the already buoyant performance of the economy. Undoubtedly, this outturn was supported by favourable weather conditions, but it seems that some structural progress also could have started to take shape in the sector. At the same time, **market services** continued to fare well (+7.5%), with the IT&C sector recording the highest growth rate (+10.9%). Simultaneously, **industry** got momentum (+8.0%), helped by strong external and domestic demand. On the other hand, **construction** output was sluggish, pointing to a marginal, 0.3% fall. It is important to add that in 2017 the performance of the sector was dragged down by disappointing public investments, offsetting the revival of the residential segment.

Romania's headline **inflation** ended last year at 3.3% YoY, exceeding by a wide margin the level recorded in December 2016 (-0.5% YoY). It may be worth mentioning that consumer price growth hit historical low levels in 2015-2016, driven by aggressive tax cuts and sluggish commodity prices. Nevertheless in 2017, headline inflation accelerated sharply, frequently surprising on the upside, as the impact of earlier one-off measures started to fade out and underlying price pressures showed up. Strong consumption rekindled demand-pull inflation, while rising unit labour costs, higher producer and import prices led to cost-push pressures. In addition, inflation expectations also pointed to a rebound.

On the back of the rapidly changing outlook, overheating fears, and also in order to curb inflation expectations, the NBR started a **tightening cycle** in H2 2017, by narrowing the symmetrical interest rate corridor around the policy rate. This decision, implying a hike of the deposit facility rate, put an end to the era of extra-low interest rates. In autumn 2017, a transitory fall of interbank excess liquidity put further pressure on ROBOR rates.

The **EUR/RON** hit an all-time high last year, primarily fuelled by concerns on pro-cyclical fiscal policies, political noise and less favourable external balance indicators.

Preliminary data showed that the country's **budget deficit** was near the 3% threshold last year. Nevertheless, in order to keep the deficit under control, Romanian authorities sacrificed public investments and enforced several other correction measures, including the re-introduction of the special excise duty on fuels and extra dividends from majority state-owned companies. The surprisingly strong performance of the economy also helped to keep the gap close to the 3% target. Nonetheless, it is important to note that the country's public debt remained low (below 40%).

On the back of the robust domestic demand Romania's **current account deficit** increased to 3.5% of GDP, up from 2.1% a year earlier. However, the gap was offset by FDI inflows and EU funds, helping external debt to fall. At the end of 2017, EU fund absorption provided early signs of a recovery, after achieving a breakthrough in the accreditation process of the 2014-2020 operational programmes. It is worth mentioning too, that the NBR's FX reserve stood at adequate levels, covering easily external short-term debt.

Last year the stock of **non-government loans** increased by 5.6%, up from 2016's 1.2% advance. The acceleration was broad-based, with household (+7.8% vs. +4.7%) and non-financial company credits (+2.2% vs. -3.0%) registering higher growth rates than a year earlier. Housing loans continued to grow swiftly (+13.2% vs. +12.5%), while consumer credit also rose (+1.9% vs. -2.5%). The share of RON-denominated loans increased further as well. At the same time, the **non-performing loan ratio** of Romania's banking system eased to 6.4%, down from 9.6%, on the back of supportive macroeconomic conditions and portfolio cleaning efforts.

In addition, the provisional data of the NBR pointed out that the sector's profitability improved further, with the **ROE** indicator climbing to 12.7%, versus 10.4% in 2016. Simultaneously, capital adequacy remained high, ending last year at 18.9%. This was accompanied by decreasing **loan-to-deposit ratio** too (the ratio fell by around 5 pps, to near 75%), signalling that the sector became more resilient against domestic and external shocks.

Key economic indicators		2016	2017
Real		**2016**	**2017**
Final consumption of households	%	7,4	8,8
Cons. expenditure of housh.	%	7,9	10,3
Public consumption	%	3,1	1,6
Investment	%	-2,0	5,4
Exports	%	8,7	9,5
Imports	%	9,8	11,1
Consumer prices	% annual avg	**-1,5**	**1,3**
***Government sector balance**	in % of GDP	**-3,0**	**-3,0**
***Public debt**	in % of GDP	**37,6**	**36,5**
Current account	in % of GDP	**-2,1**	**-3,5**
Key interest rate	% annual avg	**1,8**	**1,8**
Key interest rate	% end of period	**1,75**	**1,75**
EUR/RON	annual avg	**4,49**	**4,57**
EUR/RON	end of period	**4,54**	**4,66**
Nominal GDP	RON bn.	**762,3**	**856,4**
Unemployment	%	**5,9**	**5,0**
Nominal wage growth	%	**9,9**	**14,8**
Real wage growth	%	**11,7**	**13,3**
Nominal GDP	EUR bn.	**169,8**	**187,5**

* estimation for 2017

EU Financial Perspective 2014–2020

In August 2014, Romanian authorities signed a Partnership Agreement with EC for the 2014–2020 financial period. In order to achieve the economic growth aspirations reflected in the global objective of the agreement, Romania has identified five development challenges: competitiveness and local development, people and society, infrastructure, resources, administration and government. Investments in the priority areas will be instrumental in helping Romania to respond to the priorities of the Europe 2020 Strategy and country-specific recommendations, including corresponding policy reforms in education, employment, social inclusion and public administration.

Summary of OTP Bank Romania's result:

Highilights

- The Bank continued to finance the economy through newly approved loans of 1,744 million RON out of which 37% households and 63% to Companies
- Customer deposits continued to be on focus with the aim of further strengthening the funding base
- Solid capital position, with capital adequacy ratio of 16.02 % in 2017
- Strength a positive, long-term relationship with its clients by running the Swiss franc conversion program through which approximate 7000 loans contracts were converted

STATEMENT OF FINANCIAL POSITION RON thousand	December 31, 2017	December 31, 2016	Variation %
ASSETS			
Cash	272,902	206,647	32.06%
Current accounts and deposits at banks	99,660	247,404	-59.72%
Accounts with the National Bank of Romania	991,488	706,631	40.31%
Securities held-to-maturity	187,986	238,004	-21.01%
Loans and advances to customers, net	6,916,906	6,259,873	10.50%
Loans and advances to banks	121	62,653	-99.81%
Investment securities - Available for sale	403,014	192,078	109.82%
Investment securities at fair value through profit and loss	4,289	23,369	-81.65%
Investment in Associates and Subsidiaries	8,611	8,611	0%
Tangible assets, net	130,566	124,588	4.80%
Intangible assets, net	19,606	13,168	48.89%
Tangible assets classified as held for sale	5,989	13,322	-55.04%
Investment property, net	1,440	2,675	-46.17%
Derivatives	2,273	2,654	-14.36%
Current tax asset	13,019	13,019	0%
Deferred tax asset	32,010	48,845	-34.47
Other assets, net	54,955	45,184	21.62%
Total assets	**9,144,835**	**8,208,725**	**11.40%**
LIABILITIES			
Due to Banks	11,089	102,840	-89.22%
Demand deposits from banks	11,089	96,385	-88.50%
Term deposits from banks	0	6,455	-100.00%
Due to customers	6,480,320	6,306,944	2.75%
Demand deposits from customers	2,374,577	1,804,189	31.61%
Term deposits from customers	4,105,743	4,502,755	-8.82%
Total deposits	6,491,409	6,409,784	1.27%
Borrowings	1,319,004	725,258	81.87%
Derivatives	4,911	3,683	33.34%
Derivatives – Hedging Accounting	24,475	0	0%
Provisions	48,220	49,829	-3.23%
Other financial liabilities	104,854	85,137	23.16%
Total liabilities	**7,992,873**	**7,273,691**	**9.89%**
SHAREHOLDERS' EQUITY			
Share capital			
Share capital, nominal	1,379,253	1,254,253	
Share capital restatement	42,751	42,751	
Total share capital	1,422,004	1,297,004	
Accumulated deficit	(270,042)	(361,970)	
Total shareholders' equity	**1,151,962**	**935,034**	
Total liabilities and shareholders' equity	**9,144,835**	**8,208,725**	

Statement of Financial Position of OTP Bank Romania S.A.

Cash increased by 32.06% compared to December 31, 2016, their weight in the total assets increasing from 2.52% to 2,98%. As of December 31, 2017, they amounted to RON 272,9 million, out of which RON 147,5 million are in local currency. The caption includes **cash in hand and ATMs**.

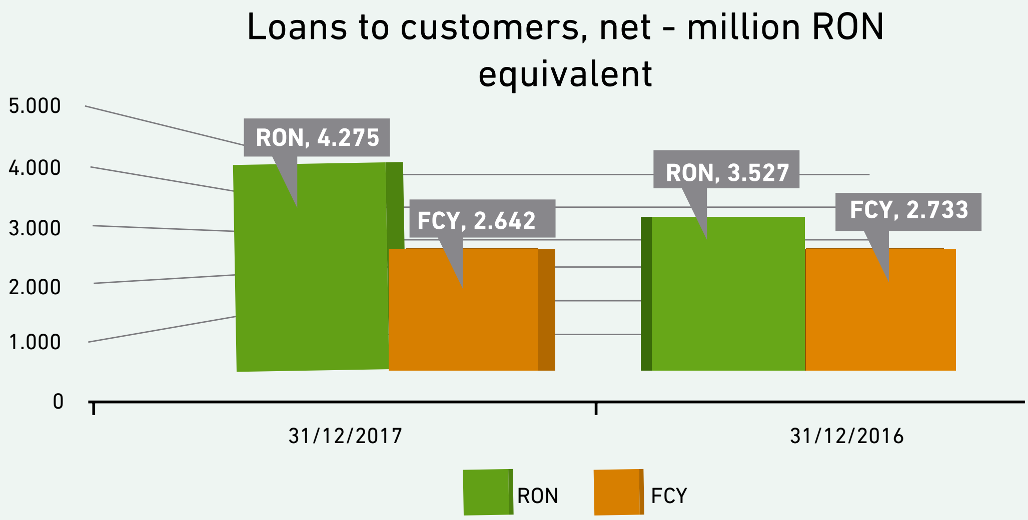
Current accounts and deposits at banks amount to RON 99,7 million (decreased by 59,72%). This item includes **Nostro accounts** (RON 37,4 million) and **term deposits at other credit institutions** (RON 62,3 million).

Accounts with the National Bank of Romania are in amount of RON 991,5 million and represent minimum compulsory reserves. They are computed as a percentage to the daily average outstanding of deposits from banking and non-banking customers, for each period of one month.

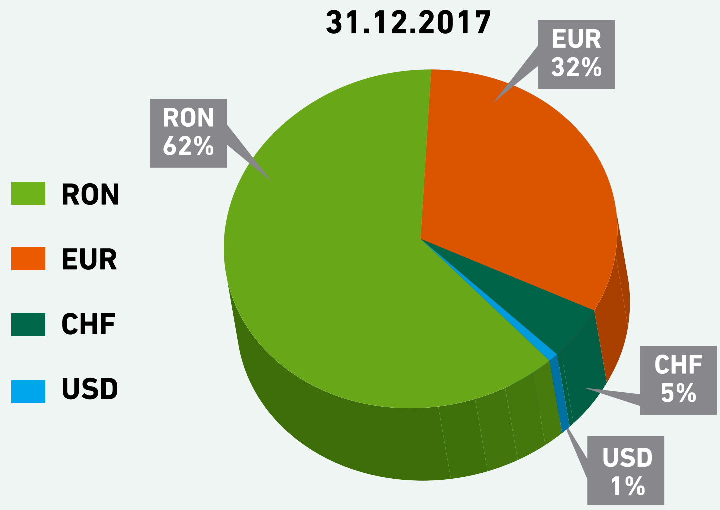
Securities held to maturity, in amount of RON 187,9 million as of December 31, 2017 includes securities issued by Ministry of Finance.From the total of securities held-to-maturity, 55.8 million have residual maturity of less than 1 year. The treasury bonds are unencumbered and at the immediate disposal of the Bank.

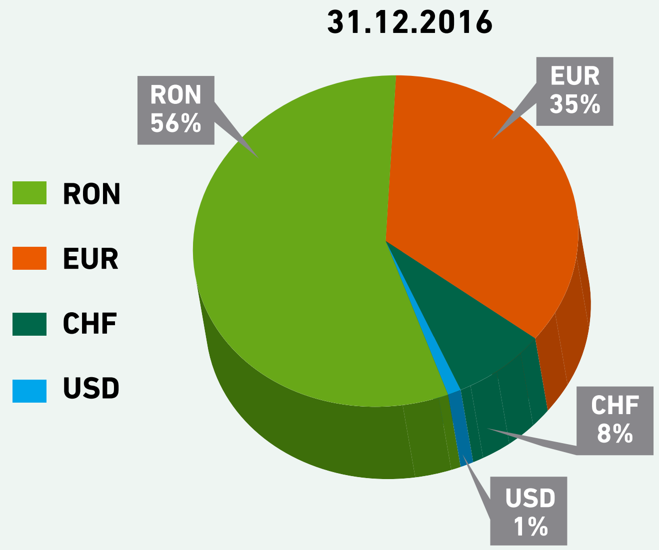
Loans and advances to customers, net are in amount of RON 6,917 million as of December 31, 2017 and presents the following structure:

- Private individuals – RON 3,755 million (RON 3,563 million as of December 31, 2016)
- SME – RON 820 million (RON 819 million as of December 31, 2016)
- Corporate –RON 2,322 million (RON 1,877 million as of December 31, 2016)



Net loans by currency





Investment securities available for sale increased in 2017 by 109,82%, and includes bonds issued by: Ministry of Finance (RON 382,8 million) and Municipal Bucharest City Hall (RON 5.1 million). Also under this item are included unit funds held by the Bank in: OTP Premium Return (RON 5.2 million), OTP Global Mix (RON 2.3 million) as well as Banks' equity investment in OTP Asset Management SAI SA (RON 0.5 million), S.N.C.D.D. (RON 0.5 thousand), VISA (RON 6.5 million), OTP Factoring SRL (RON 75 thousand), SWIFT (RON 60 thousand), Aloha Buzz SRL (RON 0.01 thousand), Favo Consultanta SRL (RON 0.01 thousand), Tezaur Cont SRL (RON 0.01 thousand) and "Dreptul la Educatie" Foundation (RON 80 thousand).

Investment securities at fair value through profit and loss in amount of RON 4.3 million as of December 31, 2017 comprises investment in in **OTP Dollar Bond** unit funds. **OTP Dollar Bond** is an open Investment fund registered on January 28, 2014, managed by OTP Asset Management SAI S.A. The Fund invest mainly in fixed income instruments (T-bills, government, municipal and corporate bonds) issued by EU member states or belonging to EEA, non-member states, but mostly from Central Eastern Europe, bank deposits and certificates of deposit.

Investment in Associates and Subsidiaries remains at the same level as of December 31, 2016 and it represents the Bank's equity investment in OTP Leasing Romania SA in amount of RON 8.4 million. The other equity investments are in OTP Consulting Romania SRL in amount of RON 210 thousand and OTP Advisors SRL of RON 4.7 million gross value for which an impairment in amount of 4.7 million was recognised.

Tangible assets, net are in amount of RON 130,6 million as of December 31, 2017 (RON 124,6 million at 31 December 2016). Tangible assets are recognized using the revaluation method.

Intangible assets, net increased by 48,8% compared to the previous year's balance, having a value of RON 19,6 million as of December 31, 2017.

Investment property, net amounts to RON 1.4 million and contains foreclosed real-estate, formerly collateral for loans granted to customers.

Derivatives (assets) are in amount of RON 2.3 million on December 31, 2017. This caption includes the debit balances of the accounts where the fair value of forward contract is recognized (debit balances represent positive differences when derivatives contracts are evaluated).

Other assets, net increased by 21,62% and are in amount of RON 54,9 million as of December 31, 2017 and represent amounts in transit / settlement: RON 29.7 million (RON 20.6 million as as of December 31, 2016), sundry debtors: RON 10 million (RON 10.5 million as of December 31, 2016), prepayments: RON 6.7 million (RON 6.6 million as of December 31, 2016), deferred income, advances to personnel etc.

Liabilities due to banks decreased by 89% and are in amount of RON 11 million and comprised Loro accounts. The decrease is manly due of new contracts concludes with the OTP Financing Malta Company LTD for the amount of RON 350,000 thousand and EUR 50,000 thousand. On December 2017, the Bank did not have sight and term deposits from banks.

Liabilities due to customers presents the following structure:

- current accounts – RON 2,104 million (RON 1,804 million as of December 31, 2016)
- sight deposits – RON 270,4 million (RON 187,6 million as of December 31,2016)
- term deposits – RON 3.988 million (RON 4,183.4 million as of December 31, 2016)
- collateral deposits – RON 117,6 million (RON 132 million as of December 31, 2016). The deposits

include the associated debts and the amounts to be depreciated.

By segments, the liabilities to customers presents the following structure:

- Private individuals – RON 2,487 million RON (RON 2,441 million as of December 31, 2016)
- SME – RON 2,783 million RON (RON 1,296 million as of December 31, 2016)
- Corporate –1.210 million RON (RON 2,570 million as of December 31, 2016)

Borrowings rise to RON 1.3 billion as of December 31, 2017. Here are comprised the loan from the European Investments Bank (EIB) with an outstanding balance of RON 36 million and the loan OTP Financing Netherlands B.V. of 699 million.

The bank signed in 2017 4 contracts with OTP Financing Malta Company LTD for the amount of RON 350,000 thousand and EUR 50,000 thousand (232,985 RON) with the purpose of ensuring optimal liquidity for the bank's activity.

Derivatives (liabilities) in amount of RON 4.9 million on December 31, 2017 (December 31, 2016 RON 3.7 million) represent negative fair value of derivatives.

Provisions decreased in 2017 by 3,23%. The provisions for loan commitments, financial guarantees and other commitments given are in amount of 7.5 million RON (RON 7.9 million as of December 31, 2016), and the ones for litigations in amount of 29.4 million RON (RON 29.2 million as of December 31, 2016).
Other liabilities are in amount of RON 104.9 million as of December 31, 2017 and include **amounts from transitory accounts** RON 63,1 million; **various contributions to the state budget** of RON 0.7 million ; **sundry creditors** of RON 15.5 million; **unearned income** of RON 7 million; **expenses to be paid** of RON 16.6 million.

Shareholders' equity represents 1.151,9 million, from which:

- Share capital RON 1.379,2 million;
- Share capital restatement: RON 42,8 million;
- Revaluation reserves for fixed assets, net: RON 28,3 million;
- Revaluation reserves for securities available for sale, net: RON 9,1 million;
- Other reserves: 5.9 million;
- Retained earnings RON 317 million;
- Current year's profit of RON 84,5 million.

Income Statement for the year ended December 31, 2017:

SEPARATE INCOME STATEMENT	Note	Year ended December 31, 2017	Year ended December 31, 2016
Interest Income		352,433	368,835
Interest Expense		(59,575)	(66,312)
Net interest income	6	**292,858**	**302,523**
Fee and commission income		71,139	70,797
Fee and commission expense		(24,177)	(22,274)
Net fee and commission income	7	**46,962**	**48,524**
Impairment losses	8	**(21,803)**	**(76,844)**
Net interest, fee and commission income after impairment losses		**318,017**	**274,203**
Trading income, net	9	52,122	43,277
Gains (losses) on derecognition of assets other than held for sale - net		3,797	(6,370)
Gains or losses on financial assets and liabilities designated as at fair value through profit and loss - net		459	374
Other operating income	12	15,473	71,790
Total non- interest income		**71,851**	**109,071**
Income before non-interest expense		**389,868**	**383,274**
Salaries and related expenses	10	(126,953)	(117,521)
Other administrative expenses	11	(116,244)	(116,551)
Depreciation of tangible and Intangible assets		(17,534)	(24,963)
Other operating expenses	12	(28,361)	(31,327)
Total non-interest expense		**(289,092)**	**(290,362)**
Gain from acquisition		0	0
Profit / (Loss) before income taxes		**100,776**	**92,912**
Deferred tax expense	28	(16,255)	(8,664)
Net profit for the period		**84,522**	**84,248**
Net profit after tax		**84,522**	**84,248**
Revaluation of financial assets available for sale		3,046	(18,440)
Total comprehensive profit for the reporting period		**87,568**	**65,808**
Basic earnings/(losses) per ordinary share (face value RON 240) in RON	30	**14.71**	**16.12**

The Income Statement of the bank for the period ended as of December 31.2017, is as follows**:**

Interest income decreased by 4.45 %, mainly linked to:

- loans of RON 340.2 million (RON 349.2 million in 2016),
- placements with other credit institutions and Central Bank RON 0.6 million (RON 1.2 million in 2016)
- securities and reverse repo agreements RON 11.3 million (RON 18.3 million in 2016).

Interest expenses decrease by 10.16%, on back of lower interest rates upon rollovers. The structure of Interest expenses is as follows:

- RON 47.3 million from customers' deposits;
- RON 13.5 million from borrowings;
- RON 1.1 million are related to deposits from banks.

Fee and commission income is in amount of RON 71.1 million (increased by 0.48% compared to 2016) and fee and commission expenses are in amount of RON 24.18 million (increased by 8.54% compared to 2016).

Impairment losses decreased by 71.6% compared to 2016. It relates mainly to loans for which a notification for debt to asset has been received. After the Decision of the Constitutional Court at the begining of 2017 the number of notifications has decreased.

Trading income, net increased by 20.4%, from 43,3 million in 2016 to RON 52,1 million in 2017. This item contains net result from derivatives, concluded mostly with the parent-company and the net result from the revaluation of the open currency position.

Gains (losses) on de-recognition of assets other than held for sale – net are in amount of RON 3.8 million and include mainly losses on the disposal or write-off of tangible and intangible assets during the year (RON 6.4 million in 2016).

Other operating income is in amount of RON 15.4 million. These incomes include **fees for non-banking services** – RON 2.1 million, **incomes from insurance** – RON 0.5 million, **other operating income** – RON 2.5 million, **other income from loans** – RON 10.1 million, and others.

Salaries and related expense are of RON 126,9 million in 2017, increased by 8.03% compared to the previous year (RON 117.5 million).

Other administrative expenses are in amount of RON 116.2 million, decreased by 0.26 % compared to the previous year (RON 116.5 million in 2016).

Depreciation of tangible and intangible assets is of RON 17,5 million as of December 31, 2017, comparing to RON 24,9 million as of December 31, 2016.

The difference between annual expense depreciation of tangible and intangible assets 2017 versus 2016 is explained as follows:

- RON 3,145,734 representing write off form the accounting evidence of the year 2016 (eg: the improvement made for the rented premises for the closed branches as a result of the restructuring process, the Poss-uri, the It's equipments, after performing factual inventories no longer corresponded to the needs of the business and therefore removed from the accounting records);
- RON 2,033,179 representing write off from the accounting evidence of the year 2017 (eg Data Center decommissioning - deteriorating It equipment, atm – which following the factual inventory, no longer corresponded to the business needs and were consequently removed from the accounting reports);
- RON 5,202,267 RON representing assets that were fully depreciated during the year 2017 (eg Pos-uri, furniture, safes);

- RON (2,952,723) representing the depreciation for the assets recognized in accounting evidence in the year 2017.

Other operating expenses are in amount of RON 28,4 million (RON 31,3 million as of December 31, 2016). These include: **fines and penalties** of RON 0.4 million, **sponsorship expenses** of RON 1.6 million, **expenses representing prizes, sales competitions** of RON 2.9 million and **other expenses** of RON 23.4 million.

Net profit/loss for the period is RON 84.5 million in 2017 (RON 84.,2 million in 2016).

Risk management within OTP Bank Romania S.A.

The main risks that the Bank faces include:

- Credit risk;
- Market risk – (interest rate risk, foreign currency risk etc.);
- Liquidity risk;
- Operational risk.

Other risks managed by bank are reputational risk, risk due to outsourced activities and compliance risk.

Credit Risk Management

The credit risk is associated with the loans granted by the Bank, being the risk that the customer will be unable to fulfil its obligations thus causing financial losses to the Bank.

The Bank's main objective regarding credit risk management was to maintain the portfolio quality by monitoring the evolution of a set of indicators which are detailed in the Risk Strategy for 2017.

The Bank's main objectives regarding credit risk management are:

- Developing a diversified portfolio, the performance of which does not excessively depend on the changes in the position of any particular sector, geographical region or debtor group, that ensures stable profitability on the long run;
- Increasing the profitability of the credit products;
- Credit approval and keeping assumable risks within limits;
- Increasing the capacity to collect overdue receivables;
- Maintaining the solvency indicator within normal limits so that the capital requirement for credit risk is not increasing excessively;
- Maintaining the portfolio quality by monitoring the evolution of a set of indicators which is detailed in Risk Strategy 2017.

The Bank's strategy regarding credit risk management includes:

- Putting a strong emphasis on preventing problems faced by borrowers;
- Improving debt collection;
- Customer loyalty program for individuals by offering new products facilities in accessing credit;
- Encouraging lending activity (in RON) both to private individuals and to companies;
- Involving the territorial network and the Corporate Banking Division in managing the problems customers are faced with;
- Monitoring new loan portfolio, especially for new consumer loans to individuals, through reports at least monthly and information presented for the Management Board and Supervisory Board of the Bank.

The credit risk is managed in compliance with lending norms approved by the Board of Directors, based on the risk related type of products.

As part of the overall credit risk management, the credit concentration risk is actively managed using standard tools (e.g. analysis, assessment, setting of internal limits, reporting and use of risk mitigation techniques as appropriate). The Bank aims not to take any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, selected industry sectors and collateral providers. The system of internal limits is established so that the Bank complies with regulatory limits set in respect of concentration risk.

Bank portfolio sensitivity to interest rate risk

The Bank grants loans with mainly variable interest rate indexed by reference (ex.: Euribor, Robor) and aims to harmonize the financing structure with the structure of assets and other liabilities so as to maintain a low interest rate risk exposure.

In 2017 the Bank concentrated on local currency loans. On liabilities side, the bank maintained the maturity structure for client deposits.

The monitoring of the exposure to interest rate risk of banking book and the compliance with the internal limits is done at least monthly, within the Asset and Liability Management Committee.

For the assessment of the interest rate risk on the Banking book, the Bank uses re-pricing gap analysis, modified duration analysis and stress test scenarios estimating the possible effects of interest rate changes on bank profits and economic value. The methodology used for measuring the impact of an interest rate shock in the economic value of the Bank is the standardized one from the NBR Reg. No. 5/2013 with further amendments, adjusted for optionality risk.

As of 31st December 2017, the Bank had a low exposure to the interest rate risk on banking book, 4.49 % of own funds (5.48% as of December 2016).

During 2017 the exposure to the interest rate risk on banking book had a stable level, medium-low.

Interest Rate Risk (Trading book)

The interest rate risk refers to the fluctuation in the value of financial instruments included in the trading book due to the changes in the level of market interest rates.

Starting with 2017, limits were approved for trading on interest rate sensitive instruments such as bonds issued by the Romanian Government, interest rate swaps, FX swaps, Money Market deposits and placements. The adequate assessment and monitoring of the resulting interest rate risk is ensured by the set-up of a limits system and the use of appropriate risk management systems.

Managing the market risk

Market risk is the risk of loss related to balance–sheet and off–balance sheet items due to adverse changes in market prices, such as, for example, stock prices, interest rates, currency exchange rates.
The Bank's objective in market risk management is to ensure appropriate management of the risks generated by trading activities, through the implementation of procedures, models and adequate application of monitoring and risk controls related with trading activities.

In view of limiting potential losses due to market risk exposure, the bank manages market risk exposure by means of a set of limits which shall be set annually and updated periodically according to market conditions, in compliance with a prudent policy, based on the experience of OTP Bank Nyrt Hungary.
The limits are established according to the potential loss and the value of the Bank's equity capital. Market risk limits are set up by OTP Bank Nyrt Hungary and are managed in Market Risk Portal system.

Managing the foreign currency Risk

Currency risk is the risk of loss resulting from changes in the level of exchange rates on the market.
The currency fluctuations induce the risk of losses in value in respect of net monetary assets. The Bank manages its exposure to movements

in exchange rates by permanently adjusting its assets and liabilities mix, based on the market movements in exchange rates. The exposure is monitored daily by the Market Risk Department.

The bank may trade currencies and take positions in the followings currencies: EUR, USD, GBP, CHF, CAD, JPY, HUF, AUD, SEK, DKK, NOK and PLN.

Regarding the money market and currency market operations, the risk profile is a reduced one, being managed by using Kondor+ and Market Risk Portal of OTP Bank Hungary.

The open foreign exchange currency position is managed continuously on automatic basis within Kondor+ according to the internal rules and also considering the NBR regulations. There is a VAR system which monitors this position throughout OTP Group in a module of Kondor+ system. The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level.
The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The "one-day 99% VaR" number used by the bank reflects the 99% probability that the daily loss will not exceed the reported VaR.

Liquidity Risk Management

The liquidity risk is associated either to the difficulty of an entity to raise necessary funds in order to meet all the commitments when they fall due or to the possibility of incurring losses if the entity has to sell assets in unfavourable conditions or has to attract more expensive supplementary funding.

The bank's objective regarding liquidity risk was to maintain an adequate level of liquidity by ensuring the optimal mix of funding and lending transactions in order to achieve the budget.

As stated in the "Liquidity Strategy" and in the "Liquidity risk administration policy" of the bank, permanently improved and updated in compliance with the local requirements for a prudent regulation but also, in compliance with group requirements, OTP Bank Romania S.A. has implemented an internal system of identification, measurement, monitoring and control of the liquidity risk, structured on two levels: the current liquidity management – the continuity of the activity in normal conditions (the assurance of cash flows for normal business operations) and the management of liquidity on crisis situations – the continuity of the activity in different crisis conditions.

OTP Bank Romania S.A. manages the liquidity risk considering: the estimation of the cash flows needs and of the operative liquidity, the daily banking book structure, the liquidity GAP – on each currency and overall, the level and the structure of the liquid assets portfolio, the liquidity indicators – calculated on a daily basis and having early warning limits internally established, the simulation regarding the liquidity indicators levels, the risk assessment on crisis situations by using stress tests.

If the indicators monitored in the above-mentioned reports, register an attention or crisis level the Assets and Liabilities Committee evaluates the situation and disposes necessary measures needed for the indicators to revert to normal levels.
If the measures taken did not lead to an improvement of the monitored liquidity indicator, the alternative plan for liquidity management in crisis situations will be activated.

Strict monitoring and prudent management of liquidity is supervised by the Assets and Liabilities Management Committee (ALCO).

The following tables show an analysis of assets, liabilities and equity according to their remaining maturities, reflecting the remaining period between the balance sheet date and the contractual maturity date (as of December 31, 2017 and December 31, 2016).

Liabilities to clients due within one month principally include current accounts from which the clients are authorized to make withdrawals at call. The Bank's historical experience shows, however, that these accounts represent a stable source of funding.

During 2017, the bank obtained new funding from the OTP Group, in cumulated value of EUR 50 mil. EUR and RON 350 mil. in order to sustain the activity of granting loans and to improve the available liquidity and the level of LCR.

On December 31, 2017 the aggregate value for stand-by credit facilities contracted with the parent bank with purposes of use in a liquidity crisis (and unused as of December 31, 2017) represent 1,351,313 thousand equivalent RON (1,316,919 thousand as of December 31, 2016).

Capital management within OTP Bank Romania S.A.

The Bank manages its capital with the objective of maintaining a strong capital base to support its business activities and to meet capital regulatory requirements in the current period and going forward. The Bank's capital level planning process is based on a regular capital structure analysis and a forecast which takes into account future capital requirements generated by increasing business volumes and future risks as expected by the Bank. This analysis principally leads to adjustments of the level of the Bank's dividend pay-out, identification of future capital needs and maintenance of a balanced capital composition.

Derivative Financial Instruments

In the ordinary course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. Generally, derivative financial instruments include currency forward and swap agreements. The Bank mainly uses these financial instruments for business purposes and to hedge its currency exposures associated with transactions in financial markets.

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised.

MANAGEMENT'S ASSESSMENT OF FAIR VALUES

Where the fair value of financial instruments cannot be derived from active market, the Bank establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Deciding on the model inputs requires judgment.

COMMUNITIES

The Bank approach remained unchanged in 2017: OTP Bank has a business philosophy which it influences the decisions in many aspects of company's life. The Bank has always in mind the social and environmental impacts when it comes to business operations or interactions with his stakeholders. The Bank is committed within core business and beyond: it is connected with the communities it is part of, thus it takes responsibility for them.

Sponsorship policy

As a responsible and active citizen, OTP Bank Romania invests in communities' well-being through sponsorships. It expresses and strengthen his commitment to its values. It builds long term cooperation. The Bank most significant community investment is the "Right to Education" Foundation, aiming to enhance financial literacy.

Financial education is in the center of the Bank social responsibility activities. The Foundation is supported by OTP Bank Romania and OTP Fáy András Foundation, having experience of over 20 years in the field of financial education. The main objective of the Foundation is to improve the financial, economic and managerial skills among secondary school students. At the same time, the Bank is constantly developing and widen both the scope of trainings and of the participants, therefore career management trainings were implemented in 2016.

In 2017, the Bank updated its sponsorship policy, and created clearer and more objective communication of the approval process. At the same time, the key areas of the policy remained unchanged in 2017, so the Bank concentrated its efforts on the following fields:

- OTP Equal Opportunity Program: aims to support disadvantaged groups who need to overcome a drawback – mental or physical handicap, lacking resources to obtain proper education – and also to support children and youth organizations. The Bank attempts to help these groups by improving their quality of life and by integrating them into society;
- OTP Community: supports events, programs that strengthen communities and contribute to the preservation of cultural heritage and further cultural development;
- OTP Sport Program: promotes sports organizations, competitions and leisure activities that require physical and mental stamina, concentration, tactical skills and finely tuned teamwork.

Volunteering

Volunteering is a tradition at OTP Bank Romania and the Bank strives to encourage it continuously.

In 2017:

- The Bank organized "Donate Blood! Save Lives!" events at the headquarters in Bucharest and approximately 40 colleagues participated in each session;
- The Bank carried out the traditional internal campaign, promoting the possibility to give 2% of personal income tax to the nongovernmental sector, especially to the "Right to Education" Foundation.

ENVIRONMENT

The Bank strives to operate in an environmentally friendly way. Reducing our energy, water, paper consumption is also important for saving costs. The Bank electricity supplier ensures that a significant ratio of our consumption derives from renewable resources. Business travel is a significant portion of our environmental impact. At the same time, the Bank used the video conference infrastructure to the full and whenever possible.

As a result of digitalization program, several paperless initiatives were maintained in 2017:

- post mail is replaced by e-mail as much as possible both in internal and external communication;
- the Bank introduced an IT solution for scanning and electronic archiving;
- the e-products eliminate the use of paper in the processes.

Besides the headquarters, Bucharest branches are involved in centralized waste paper collection.

EMPLOYEES

The Bank is aware of the importance of its staff in its success and in achieving its mission.

The Bank started the implementation of the organizational development program and the main objectives of the program are:

- to collaborate better;
- to communicate more efficiently;
- to build a learning culture.

Within the framework of the organizational development program, the Bank placed great emphasis on trainings, especially, on the improvement of communication skills.

HUMAN RIGHTS

The Bank is committed to maintain and improve the systems and processes that enable it to ensure respect for human rights in the operations and management of human resources, its supply chain and its products and services.

The commitments of OTP Bank S.A. regarding human rights are guided by the following conventions, standards and initiatives:

- Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights;
- Fundamental Conventions of the International Labor Organization (ILO), aimed in particular at eliminating forced labor and child labor, discrimination in work, and freedom of association and effective recognition of the right to collective negotiation;
- United Nations Guidelines on Business and Human Rights;
- OECD guidelines for multinational enterprises;

The Bank is determined to act with integrity and in accordance with the applicable laws in all its activities.

One notable example is the Code of Conduct, where OTP is committed to respect human rights and the rules set by the International Labor Organization. The same applies to the policies and processes developed by OTP Bank SA in relation to its obligations to combat money laundering, terrorism and corruption.

THE FIGHT AGAINST CORRUPTION AND BRIBERY

The desire to maintain an adequate and safe internal control environment and the need to protect bank's reputation has determined OTP Bank Romania SA to treat corruption and bribery prevention as a top priority.

No employee or any other empowered person shall ever offer, promise or pay, neither accept any valuable assets, with the purpose to influence public servants or other persons or to obtain an unfair business advantage.

Offering gifts is often part of local culture and traditions, that is why offering gifts in business affairs and in relation to clients might preserve good reputation and enable business cooperation. Usual gifts for business purposes may be offered and accepted within strictly internally regulated limits. Nevertheless, employees are forbidden to offer or accept gifts in such circumstances that might be interpreted as influencing business decision or as bribery.

Business decisions are always taken according to bank's interests and never to favour the personal relationship that can be developed based on the granted gifts or other facilities. Bank's employees are also forbidden to offer – on their labour relationship – any financial or nonfinancial support to any political party, organization, member of representative thereof.

Bank's objectives for 2018

The Bank pursues its medium-term strategy, focused on delivering value to customers through professional excellence, focusing on digitalization and sustainable growth.

The goals of the strategy are to improve shareholders' value and improve profitability and profit, through efficiency and growth, both by its own forces, organically, as well as through acquisitions.

The growth of the bank is to be achieved by increasing the number of active customers, who are generating revenues, with special attention to home-bank customers.

Appealing to customers, the bank targets a higher penetration of internet and mobile banking, a higher usage of online channels for sales, in an overall effort to augment digitalization. The bank will also rely on direct sales agents, a flexible and mobile sales force.

Another strategic objective of the bank is to continue product innovation, in a highly competitive market.
Focusing on deposits collection, the bank will offer targeted products, balancing its need for liquidity and stable funding, with the customer needs for pricing and availability.

Lending to legal entities will continue to address their short and long-term needs, with a new focus on improving the visible result from the recently launched Commercial Factoring product.

Lending for SME will be automatized to a greater extent, via e-loan products. The existing portfolio of products will be extended with dedicated offers for co-financing alongside EU funds or quick loans.

The bank will optimize its lending processes, will invest in software dedicated to customer relationship management and business & processes management.

In line with market conditions, the bank will balance new funding from the customers versus the Group, so as to achieve both short term pricing/interest rates and long-term sustainability.

During 2018 the bank will invest in the OTP brand, by building awareness via marketing campaigns.

The bank will also target its resources, with focus on its employees, and will continue to maintain an adequately motivated and trained staff, properly managed so as to deliver sales and quality targets.

Subsequent events

On 4 September 2017, OTP Bank Romania notified the Romanian authorities on its intention for the acquisition of the 99.28% shareholding held by National Bank of Greece S.A. in Romanian Banca Romaneasca S.A. and the acquisition of other Romanian exposures of other subsidiaries of National Bank of Greece S.A. by OTP Bank Romania S.A.

On 13 November 2017 the Romanian Competition Council informed the Bank on their accord on the non-objection regarding the economical concentration that would result following the aquision by OTP Bank Romania S.A of the the 99.28% shareholding held by National Bank of Greece S.A. in Romanian Banca Romaneasca S.A. and the acquisition of other Romanian exposures of other subsidiaries of National Bank of Greece S.A.

On 14 March 2018 the National Bank of Romania notified OTP Bank's Romania that it did not grant its approval for the acquisition of the 99.28% shareholding held by National Bank of Greece S.A. in Romanian Banca Romaneasca S.A. and the acquisition of other Romanian exposures of other subsidiaries of National Bank of Greece S.A. by OTP Bank Romania S.A.

Proposals

As a consequence of the above presented activity performed during the financial year 2017, OTP Bank Romania S.A.'s Management Board submits to the General Shareholders Meeting approval the following:

- Report of the Management Board regarding the development and performance of OTP BANK ROMANIA S.A.'s activities and its financial position for the financial year ended December 31, 2017;

- Discharging of the members of the Management Board from their duties related to 2017 financial year.

László Diósi

Chairman
of the Management Board and CEO

Mara Cristea

Member
of the Management Board and Deputy CEO

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Deloitte Audit S.R.L.
Şos Nicolae Titulescu nr. 4-8
Intrarea de est,
Etajul 2-zona Deloitte şi etajul 3
Sector 1, 011141, Bucureşti
România

Tel.: +40 21 222 16 61
Fax: +40 21 222 16 60
www.deloitte.ro

INDEPENDENT AUDITOR'S REPORT

To the Shareholders,
OTP Bank Romania S.A.

Report on the Audit of the Separate Financial Statements

Opinion

1. We have audited the separate financial statements of OTP Bank Romania S.A. (the "Bank"), with registered office in 66-68 Buzesti street, District 1, Bucharest, Romania, identified by the unique tax registration code RO 7926069 which comprise the separate statement of financial position as at December 31, 2017, separate income statement and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the separate financial statements.

2. The separate financial statements as at December 31, 2017 are identified as follows:

• Equity	1,151,961,754 RON
• Net profit for the financial year	84,521,620 RON

3. In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at December 31, 2017, and its separate financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs") and National Bank of Romania Order no. 27/2010 for the approval of Accounting regulation in accordance with International Financial Reporting Standards as adopted by the European Union, with subsequent amendments, ("Order 27/2010").

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Impairment of loans and advances to customers	
Nature of the area of focus	***How our audit addressed the key audit matter***
As described in note 23 from separate financial statements the Bank has booked as at 31 December 2017 Impairment allowances of 315.7 mil RON for the Loan and advances to customers in gross amount of 7,232.6 mil RON. *Impairment allowances represent management's estimate of the losses incurred within the loan portfolio at the balance sheet date built on complex assumptions and professional judgements with significant impact in the separate financial position of the Bank.* *As detailed in the Accounting Policies section of the separate financial statements, the impairment allowances are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for significant loans or loans with impairment triggers.* *Collective impairment allowances are calculated based on risk parameters like probability of default (PD), loss given default (LGD) and loss identification period (LIP) which are derived from internal models and historical data of the Bank.* *For specific impairment, professional judgement is required first to timely determine when an impairment event has occurred and then to estimate the expected future cash flows to repay the loan exposure at default. Valuation of collateral is often used to determine expected future cash flows that support recoverable amounts. Such recoveries from collaterals require assumptions and data that with high degree of professional judgement.* *Because of the significance of these professional judgements and the size of loans and advances to customers, the audit of impairment of loans and advances to customers is a key area of focus.*	*We have analysed of the provisioning methodology applied by the Bank and assessed its consistency with requirements of IFRS and National Bank of Romania* Order 27/2010. *<u>Testing of internal controls</u>* *We have challenged the appropriateness of key processes and related controls management has established to support their collective and specific impairment calculations, including:* • *controls for quality assurance of the source data used in developing professional judgements;* • *controls related to timely identification of impairment triggers;* • *controls related to debtors financial performance assessment and estimation of future cash flows.* *For the controls identified to be relevant in addressing the risks, we have tested the design and operating effectiveness of these controls.* *<u>Collective impairment</u>* *In case of collective allowances, we were assessing the impairment methodology of the Bank and analysed if this is inline with IAS 39 – Financial instruments: Recognition and measurement ("IAS 39").* *We have also assessed the input data used in the computation of the risk parameters and recomputed the collective provision based on the risk parameters resulted from the models and loan portfolio at the balance sheet date.* *<u>Specific impairment</u>* *For a sample of loans selected, included in the individual assessment, we have challenged the management expected recoveries and developed our own expectations of a range of reasonable outcomes for the impairment loss allowance based on the detailed loan and counterparty information.* *We also analysed the appropriateness of management's estimates, independently considered in respect of calculation methodologies and economic factors used by the Bank for valuation of collaterals, hair-cut factors for expected recoveries.*

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Interest and Fee Income Recognition	
Nature of the area of focus	***How our audit addressed the key audit matter***
Refer to Note 6 and 7 of the separate financial statements *For the year ended 31 December 2017 the interest income represents RON 352 mil RON and fee and commission income represents 71 mil RON, the main source being loans to customers. These are the main contributors to the operating income of the Bank affecting the Bank's profitability.* *While interest income is accrued over the expected life of the financial instrument using the effective interest rate, the recognition of fee income depends on the nature of the fees as follows:* • *Fees that are directly attributable to the financial instrument are part of the effective interest rate and accrued over the expected life of such an instrument and are presented as interest income.* • *Fees for services provided are recognized when service is provided and are presented as fee and commission income.* • *Fees for the execution of an act are recognized when the act has been completed and are presented as fee and commission income.* *Revenue recognition specifics, a high volume of individually small transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording, resulted in this matter being identified as a key audit matter.*	*We have tested the design and operating effectiveness of the key internal controls and focused on:* • *Interest/fee inputs on customer loans and deposits;* • *Recording/ changes of fees and interest rates;* • *Management oversight and control on interest and fee income, including budget monitoring;* • *IT controls relating to access rights and change management of relevant automated controls with the assistance of our IT specialists.* *We performed also the following procedures with regard to interest and fees revenue recognition:* *We evaluated the accounting treatment performed by the Bank in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standard (IAS 39). We have focused our testing on challenging the correct classification of:* • *Fees that are identified as directly attributable to the financial instrument and are part of the effective interest rate;* • *Fees that are not identified as directly attributable to the financial instrument.* *- We assessed the completeness and accuracy of data used for the calculation of interest and fee income.* *- We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan.* *- We have assessed the interest and fee income by building our own expectation on the revenue and compared with the actual results of the Bank.*

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Other information - Administrator's Report

6. The administrator is responsible for preparation and presentation of the other information. The other information comprises the Administrator's report, which includes the non-financial information declaration, but does not include the separate financial statements and our auditors report thereon.

   Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

   In connection with our audit of the separate financial statements for the year ended 31 December 2017, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

   With respect to the Administrator's report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of the National Bank of Romania Order no. 27/2010, articles 11-13.

   On the sole basis of the procedures performed within the audit of the separate financial statements, in our opinion:

   a) The information included in the Administrator's report for the financial year for which the separate financial statements have been prepared are consistent, in all material respects, with these separate financial statements;

   b) The Administrator's report has been prepared, in all material respects, in accordance with the provisions of the National Bank of Romania Order no. 27/2010, articles 11-13.

   Based on our knowledge and understanding concerning the Bank and its environment gained during the audit on the separate financial statements prepared as at 31 December 2017, we are required to report if we have identified a material misstatement of this Administrator's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

7. Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS and Order 27/2010 and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

8. In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

9. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

10. Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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11. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

    - Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

    - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

    - Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

12. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

13. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

15. We have been appointed by the General Assembly of Shareholders on December 20, 2017 to audit the separate financial statements of OTP Bank Romania S.A. for the financial year ended December 31, 2017, following the tender process organized in 2017 by the Bank. The uninterrupted total duration of our commitment is 14 years, covering the financial years ended 31 December 2004 until the 31 December 2017.

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We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Bank that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.

- We have not provided for the Bank the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014.

The engagement partner on the audit resulting in this independent auditor's report is Petr Pruner.

Petr Pruner, Audit Partner

Registered with the Romanian Chamber of Financial Auditors under no. 4147/11.01.2012

On behalf of:

DELOITTE AUDIT S.R.L.

Registered with the Romanian Chamber of Financial Auditors under no. 25/25.06.2001

4-8 Nicolae Titulescu Road, East Entrance, 2nd Floor – Deloitte area and 3rd Floor, Sector 1, 011141, Bucharest, Romania
March 30, 2018


june
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Subdivision 1

OTP Bank Romania Annual Report

Corporate Governance

2017

Supervisory Board

The Supervisory Board ensures the supervisory function within the Bank, by exercising the permanent control over the Management Board activity and also over its activity of compliance with strategies and policies in force.

The Supervisory Board consists of the Chairman, Vice-Chairman and 4 members.

Mr. Antal György Kovács

Chairman of the Supervisory Board

Mr. Antal György Kovács graduated from Budapest University of Economics as a certified economist. He started his career in banking in 1990 at K&H Bank Ltd. (KBC Group) where between 1993 and 1995 he worked as Branch Manager.

Mr. Kovács joined OTP Bank Plc. in 1995 as County Director for Somogy County and from 1997 he was responsible for Tolna County as well. Between 1998 and 2007 he served as Managing Director of the South-Transdanubian Region of OTP Bank Plc. Since July 2007, Mr. Kovács is Deputy CEO heading the Retail Division of OTP Bank Plc. and exercising professional supervision over the retail business lines of OTP Group's subsidiary banks.

He widened his professional knowledge at the training programs of the International Training Center for Bankers and the World Trade Institute.

Between 2007 and 2012 he was Chairman of the Supervisory Board of OTP Banka Hrvatska and as from December 12, 2012, Mr. Kovács serves as Chairman of the Supervisory Board of OTP Bank Romania S.A. He is Chairman of the Boards of Directors of OTP Mortgage Bank Ltd. and OTP Building Society Ltd., and Chairman of the Supervisory Boards of OTP Fund Management Ltd. and OTP Mobil Kft. Between 2004 and 2016 he was a member of the Supervisory of Board of OTP Bank Plc. Mr. Kovács is a member of OTP Bank Plc.'s Board of Directors since April 2016.

Ms. Judit Hanusovszky

Vice-Chairman of the Supervisory Board

Ms. Judit Hanusovszky graduated from Corvinus University of Budapest with specialization in Finance and Corporate Management. She also obtained a Certificate in Accountancy from Budapest Business School.

Ms. Judit Hanusovszky started her career at OTP Bank Hungary in 2003, as a Consultant at Strategic and Finance Division. Between June 2007 and July 2009, she worked first at Citibank, as Financial Head of card business, then became the CFO of Biggeorges Real Estate Financing Co. She returned to OTP in August 2009 and for 2 years she supported the work of the retail Deputy CEO as a professional assistant. Since September 2012, as the Retail Controlling Director, she is responsible for the Retail Performance Management including the product's and sales channels' performance especially of the branch network, for the headcount capacity management, branch optimization and development based on profitability model and also for the development of its infrastructure. Ms. Judit Hanusovszky became Member of the Supervisory Board of OTP Bank Romania at the end of 2015, and now she fulfills the Vice-Chairman position.

Mr. Tibor László Csonka

Member of the Supervisory Board

Regarding his academic background, in 2002, Tibor László Csonka graduated at Szent István University, Faculty of Economics and Social Sciences, certified agricultural economist.

He joined OTP Bank Hungary in 2002. Initially, he worked as a RM of the Central Hungarian Region in Budapest and after a few months, in 2003, he became a Corporate Customer Relationship Manager at the Corporate Customer Relationship Department. In 2005, he became Corporate Customer Relationships Director of the North – Buda area. Between April 2007 and September 2008, Mr. Csonka was the Sales Director of Budapest Region. Between 2008 and 2011 he was the Deputy Managing Director of the South–Transdanubian Region. From April 2011 until 2014, he was the Senior Managing Director of the Micro and Small Enterprises Department in Budapest. Since May 2014, Mr. Csonka has been leading the reformulated Small and Medium Enterprises Directorate with extended responsibilities as a Senior Managing Director. Besides these positions, since 2011, Tibor László Csonka is member of the Management Board of Merkantil Bank Ltd. and Merkantil Car Ltd. and since 2012 he is a Vice President of Chamber of Commerce and Industry. In 2014, he became member of the Management Board of Garantiqa Credit guarantee Co. Ltd. as well. Mr. Csonka holds the position of member of the Supervisory Board of OTP Bank Romania S.A. since December 2012.

Mrs. Dr. Ibolya Rajmonné Veres

Member of the Supervisory Board

Mrs. Dr. Ibolya Rajmonné Veres joined OTP Bank Hungary in 2007, and since then she is the Head of Retail Consumer Loans. As of 2012, she is a member of the Management Board at Merkantil Bank Zrt., as well as at Merkantil Car Zrt. and from October 2016 member of the Management Board of OTP Faktoring Zrt. Prior to that she was part of the Management Board of CKB, OTP Bank Montenegro in 2009, and Chairman of the Supervisory Board of OTP Mortgage Bank between 2012 and 2014.

She has a Master in Project Management Sciences from Budapest University of Economic Sciences and Public Administration. She got her first degree in Economics at the College of Commerce and Economics, Szolnok.

Mrs. Veres started her career at K&H Bank (subsidiary of KBC), where she filled different positions in the Retail Division. In 2003, Mrs. Veres moved on to Santander Consumer Finance Hungary Zrt. as Managing Director of Sales and Marketing and she was also the Member of the Management Board.

Mrs. Ildikó Pál-Antal

Member of the Supervisory Board

Ildikó Pál-Antal has been Member of the Supervisory Board and President of the Audit Committee since December 2014. She has relevant experience both in administration and financial audit of several non-banking financial institutions of various sizes.

She graduated the Economic Sciences Faculty - Finance and Accounting Section – at Babes-Bolyai University of Cluj-Napoca in 1988, had worked for a short period of time in the Romanian banking system, then as Chief Accountant and Economic Manager for commercial companies. In 2001, Mrs. Ildikó Pál-Antal set up her own company, SC Consulta Carpatica S.R.L, later followed by Transilvania Interconsult IPURL. The companies offers a wide range of services, performing book-keeping and accounting expertise activities, financial audit, tax consultancy, business and management consultancy. Mrs. Ildikó Pál-Antal has obtained several professional qualifications: chartered Accounting Expert (1996), Financial Auditor (2001), Insolvency Practitioner (2005), Tax Consultant (2007) and has been an active member of the respective Romanian national professional bodies since her certification.

Furthermore, she has been a member of the Hungarian Economists' Association in Romania for over a decade, giving full support to its professional activities, and of several local administration bodies in Harghita county.

Mrs. Enikő Zsakó

Member of the Supervisory Board

Mrs. Enikő Zsakó has been Member of the Supervisory Board since December 2007. Between 2004 and 2007 she was Member of the Board of Directors of OTP Bank Romania. Besides this position, Mrs. Enikő Zsakó is also member of the Audit Committee of OTP Bank Russia. She joined OTP Bank Plc. Internal Audit Directorate in 1993. Between 2001 and 2007 she was the Leader of the IT audit area and between 2007 and 2014 the Head of Bank Group Coordination, Analyzing and Methodology Department. In 2014, she was appointed Deputy Managing Director of the Internal Audit Directorate, being responsible especially for the coordination and supervision of the internal audit activities of the OTP group members.

She graduated as Electrical Engineer at the Technical University of Cluj-Napoca in 1985, and as Banking Consultant at the International Banking School in Budapest in 1997. She obtained a postgraduate degree in Economics at the Budapest Business School, Finance and Accounting College in 2008. She has earned the designation of Certified Internal Auditor conferred by the Institute of Internal Auditors, and of Certified Information System Auditor granted by the Information Systems Audit and Control Association. In 2011, Enikő Zsakó was elected chairperson of the Audit Section and in 2014 member of the Supervisory Board of the Hungarian Economic Association.

Management Board

The Management Board ensures the management function within the Bank, through the fulfillment of all the necessary and useful actions for the achievement of the Bank's business objectives.

The Management Board implements the Bank's strategies and policies, delegated duties to middle management/permanent committees and overseas the performance of the delegated responsibilities, remaining in charge of the performance of the Bank in front of the Supervisory Board.

The Management Board consists of Chairman, Vice-Chairman and the other members. The Chairman of the Management Board is the Chief Executive Officer.

Mr. László Diósi

Chairman of the Management Board and CEO

László Diósi has been Chairman of the Management Board and CEO of OTP Bank Romania since May 2007. Starting with September 2005, László Diósi took over the position of Deputy CEO, Head of the Retail Division, after joining OTP Bank Romania as Retail Project Manager, in May 2005. Between 2006 and 2008, he has also been Member of the Administration Council of OTP Garancia Asigurari S.A.

László Diósi is an experienced professional, with high performances in a wide spectrum of bank areas, such as mortgage banking, financial analysis, training, staff coordination, project management, insurances, finances, accounting, facultative private pension funds, management of investments, negotiations.

In terms of education, László Diósi started at the Semmelweis Medical University. After three years, he attended an IT programming course that apparently decided his future career. Later on, he studied at the Finance and Accounting College and graduated with a specialization in Finance. He continued his studies with a business management course that he attended at Chilterns University College – Open Business

School. In 2016 he obtained the Executive MBA degree at University of Reading Henley Business School.

Previous to his coming to Romania, László Diósi held top management or administrative positions in various financial organizations, such as: Chairman of the Board at K&H Pension Fund in Budapest, Hungary (2004-2005); Member of the Administration Council at Argosz Insurance (2004); Chairman of the Supervisory Board at ABN – AMRO Fund Service LTD (2003-2004); Chairman of the Supervisory Board at K&H Asset Management RT (2002), Deputy CEO, Head of Retail Division at K&H Bank, Hungary (2002 - 2004).

Mr. Gábor Ljubičić

Vice-Chairman of the Management Board and Deputy CEO, Head of the Retail Banking Division

Gábor Ljubičić has been Deputy CEO of OTP Bank Romania and head of the Retail Banking Division, since 2007. He is also Vice-Chairman of the Management Board at OTP Bank Romania, since 2012. Gábor Ljubičić has a long career with OTP Group. He joined the Bank in 1986 and initially worked in the branch network as Manager, Branch Network Coordinator and afterwards, as Deputy District Director. Starting with 1997, he led the projects for electronic banking services and later became the Head of the Electronic Services Directorate. Between 2001 and 2007, he occupied various managerial positions at OTP Bank, as Deputy Executive Director for Banking Group and Branch Network Directorate, Executive Director at Downtown Region and Deputy Executive Director for Northern Hungary Region.

Besides these positions, Gábor Ljubičić had other professional assignments, such as: Member of the Board at OTP Mortgage Bank (2003-2007) and Member of the Supervisory Board at OTP Asset Management Romania SAI S.A., since 2008.

Regarding his academic background, Gábor Ljubičić graduated from the College of Finance and Accountancy with Bank specialization, in 1993. He also obtained a Master of Business Administration degree from the University of Corvinus, in 2007 and from the University of Henley School Business, in 2017.

Mr. György Gáldi

Member of the Management Board and Deputy CEO,

Head of Lending and Risk Management Division

György Gáldi has been Head of Lending and Risk Management Division at OTP Bank Romania, since January 2012 and Deputy CEO and Member of the Management Board of OTP Bank Romania, since August 2012. He has an engineering and economist academic background and collected three diplomas of Budapest University of Technology and Budapest University of Economics. Beyond such, he completed several courses among others at several short-term courses at Oxford University, Institute for Management Development Lausanne (1992), Institute for Public-Private Partnerships Washington D.C.

Based on such learning and accumulated professional experience, he has been acting as lecturer of various universities and colleges, focusing mainly on risk management topics and structured and project finance related subjects. He has also participated as speaker, mainly on the same themes, at several Hungarian, European and North-American business forums/ conferences since 1994, making studies, publications, also concerning these topics.

In terms of professional experience, György Gáldi started as a researcher at Budapest University of Technology, followed by a period when he worked as adviser within the Ministry of Transport Communication and Water Management. He started his banking career at K&H Bank Structured and Project Finance area, as Unit Head (1993) and becoming Executive Director (2001), being responsible for a large number of cash-flow based transactions in various sectors (e.g. energy/ power, telecommunications, transport, utilities, real estate etc.), industrial production. Between 2005 and 2007, the responsibility was extended also for the large corporate relationship

management, as well acting as Senior Executive Director. Afterwards, he became Executive Director of MKB Bank Zrt., being responsible for Structured, Real Estate and Project Financing's risk management in 2007 and becoming Chief Risk Officer in October 2008. From April 2009 he was also Deputy CEO and Member of Board of Directors. He acted as Chairman of the bank's central credit committee during 39 months and as member of several other decision making and steering committees, for a longer period of time. He has also fulfilled membership in Board of Directors and in Supervisory Board in various companies since 1994, which are active mainly on various infrastructure/ service industry/ financing sub-sectors.

György Gáldi is in charge among others of (i) intensification of the group-wide collection activities of the OTP Bank in Romania; (ii) the adoption of the risk handling practice best matching time to time developments of the business activity; (iii) introduction of business standards assuring the largest efficiency of the applied risk handling technics and practices.

Mr. Dragoş Ioan Mirică

Member of the Management Board and Deputy CEO, Head of Corporate Banking Division

Dragoş Ioan Mirică has been Member of the Management Board and Deputy CEO, Corporate Banking since February 2013. Starting with 2008, Dragoş Ioan Mirică took the assignment to manage the activity of the corporate business line, after joining OTP Bank Romania as Director of Large Corporate Directorate, in May 2006. Dragoş Ioan Mirică is a highly skilled financial professional with extensive experience in banking and financial institutions, negotiations, business and people management, analytical budgeting activity and financial appraisal. He employs excellent planning skills to ensure consistent, continuous and efficient operations.

With respect to the educational background, Dragoş Ioan Mirică graduated the University Pierre Mendes, Grenoble, France, in 1993 having his Bachelor degree in Business Administration. In 1996, he also graduated the Academy of Economic Studies, Bucharest, the Faculty of Economic Studies in Foreign Languages, French Department, obtaining his license in Business Administration, Finance and Banking. During his career, Dragoş Ioan Mirică held senior administrative and professional positions in several banks acting in Romania, such as UniCredit Bank and BRD-Société Générale and he was involved in business advisory as well.

Mrs. Mara Cristea

Member of the Management Board and Deputy CEO, Head of Finance and Planning Division

Mara Cristea has been a Member of the Management Board and Deputy CEO, Head of Finance and Planning Division of OTP Bank Romania S.A. since October 2016. Mara Cristea is a highly skilled professional with vast knowledge in the financial and banking area, especially in the accounting, reporting and controlling department. Proactive, assertive and detail-oriented are ones of the main characteristics that describe her personality.

Regarding her professional life, Mara Cristea has a long banking career. She started as an accountant at Elisabeta Palace - State Protocol Patrimony in 1990, followed by a long and full of achievements career in the banking domain. Her banking journey began in the first established private bank in Romania, namely Banca Comercială "Ion Țiriac". In April 2006 she took over the position as Director of Financial Accounting Division at Volksbank Romania S.A. and afterwards, starting July 2015, joined OTP Bank Romania S.A. as Director of Accounting.

In terms of academic background, Mara Cristea is a graduate of the Romanian - American University from Bucharest, Romania, with a degree in Finance and Banking. She is also a member of the Chamber of Fiscal Consultants in Romania since 2007 and a member of the Chamber of Financial Auditors in Romania since 2010.


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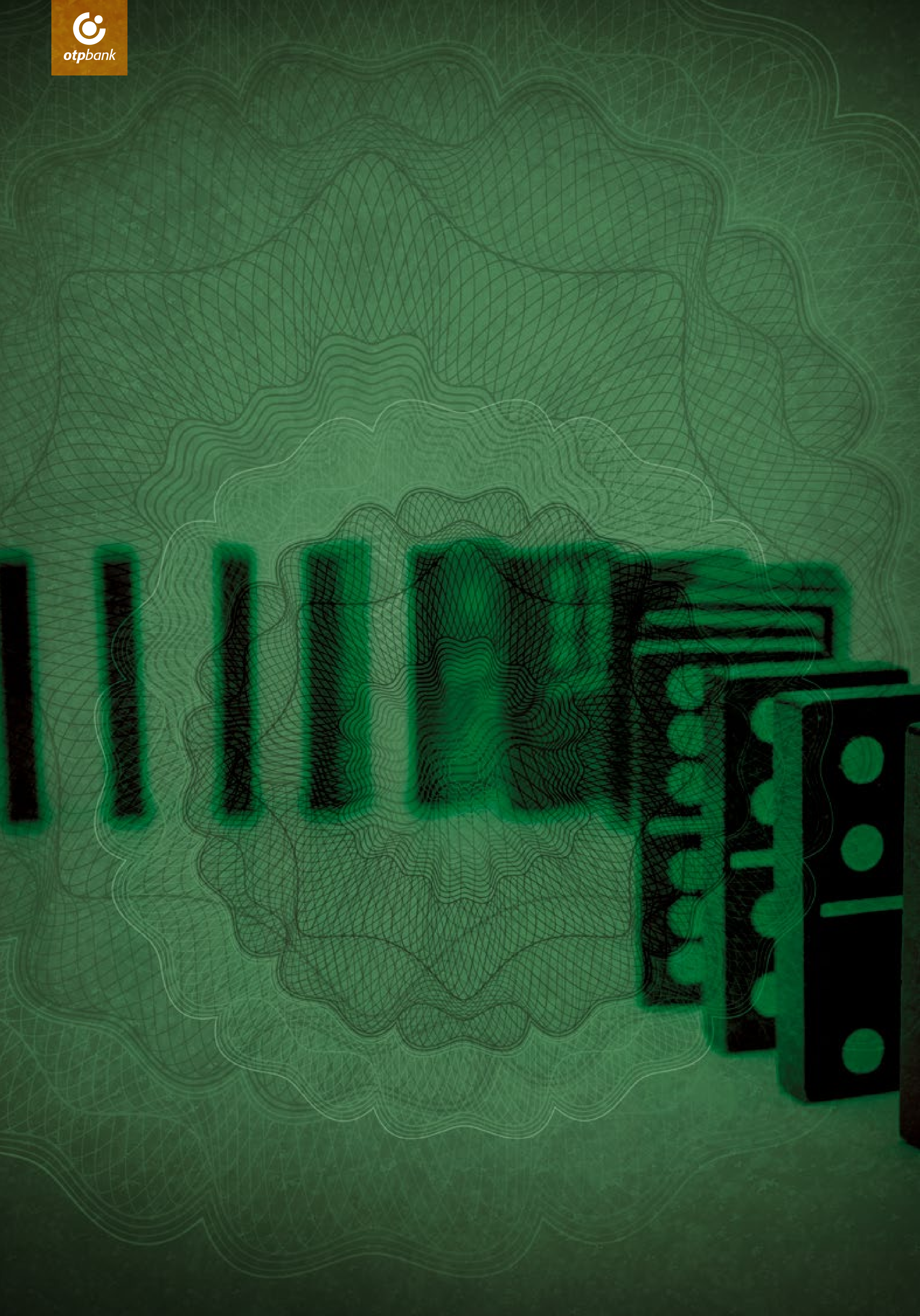
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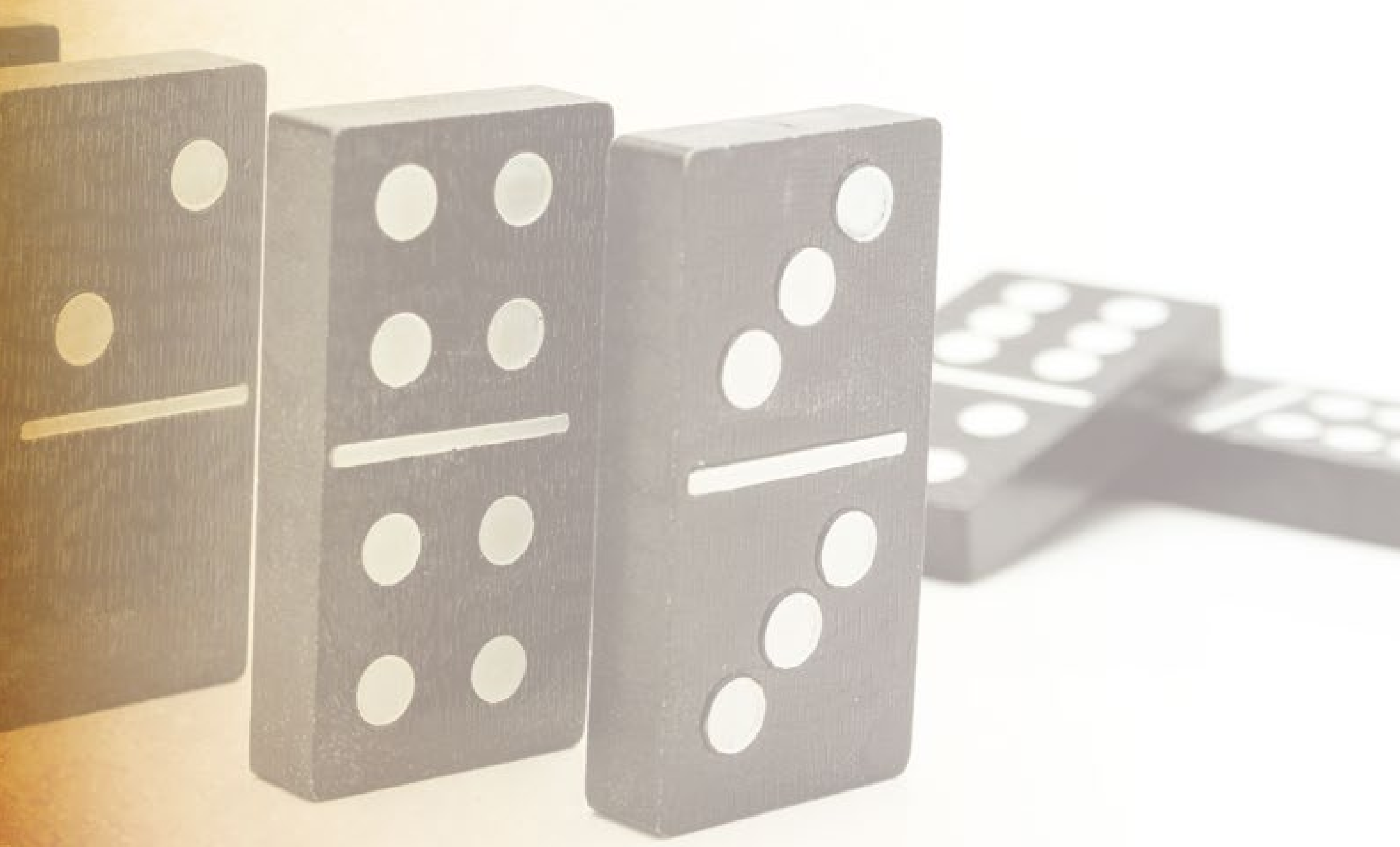
OTP Bank Romania Annual Report

Compliance Function

2017



Compliance Function

The compliance function is one of the three independent control functions within OTP Bank Romania and, during 2017, it was ensured by the Compliance and Security Directorate.

The Compliance and Security Directorate is functionally subordinated to OTP Bank Romania's CEO and its independence is guaranteed by its direct reporting line to OTP Bank Romania's Supervisory Board. At the same time, it also reports to the Audit Committee.

The main roles fulfilled by the compliance function within the bank are:

- to advise the management body on identifying, evaluating, monitoring and reporting of compliance risk associated to the activities performed by the Bank;
- to provide consultancy, monitoring and control on the compliance of the activity carried out with the provisions of the regulatory framework and of the internal regulations;
- to verify that new products and new procedures are compliant with the current legal environment in force and with any amendments included in the adopted normative documents whose provisions will be applicable after.

The fundamental principles of compliance and security, but also the main line of compliance activities are defined in the Compliance and Security Policy of OTP Bank Romania with the purpose of collectively defining, facilitating and supporting the appropriate, legal, secure and prudent functioning of the Bank.

Based on the Compliance and Security Policy, the Bank has developed its regulations and established the necessary tools for implementing the policy, taking into account the complexity of the bank's business and size, the applicable national, European and international regulations, as well as the policy of the group the Bank is part of.

OTP Bank Romania is committed to comply in permanence with the legal requirements for preventing money laundering and terrorism financing.

In order to comply with the legislation applicable regarding anti-money laundering and anti- terrorism financing, OTP Bank Romania S.A. implemented clear internal procedures for establishing the real beneficiary of the funds' source and for the detection of suspicious transactions.

Compliance and Security Directorate provides consultancy to the territorial units and to the structures in the headquarters regarding the situations that may present difficulties from KYC/AML/CFT point of view (real ultimate beneficiary identification, providing notice - for granting high risk products, for launching new products, initiation/continuation of the business relationships with high risk clients, complying with the provisions of the internal regulations on KYC/AML/CFT).

As a result of entering in force of the updated internal norm regarding customer due diligence, prevention of money laundering, combat of terrorism financing, the automatic verification in the bank's system of the political exposure of clients, both residents and non-residents, was implemented. In this manner, the Bank applies the provisions of the new Directive (EU) 2015/849 (4th) regarding the verification of the PEP quality of resident and non-resident clients.

The development and supervision of the money laundering prevention program is a responsibility of the Compliance and Security Directorate, but all Bank's employees, especially those in business areas, are also responsible as a part of the first line of defense.

To ensure efficient customer due diligence process, the Bank uses a risk-based approach.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OTP Bank Romania Annual Report

Corporate Social Responsibility

2017

Corporate Social Responsibility

Corporate Social Responsibility is a business philosophy within OTP Bank, as it influences the decisions we make in many aspects of our company's life. We always keep in mind the social and environmental impact when it comes to our business operations and the interactions with our stakeholders.

Sustainable development meets the present needs, without compromising the ability of future generations to satisfy their own needs. Sustainable development implies economic growth, together with the protection of the society and of the environmental quality.

The most efficient method of development is investing in education, which is already proven in many nations. Nowadays, we are all aware that lifelong learning is not just a saying, but it has become a daily necessity. Without consistent education, neither the survival of a business nor its development can be guaranteed.

Right to Education Foundation

Our educational projects, the "Right to Education" Foundation and the OK Center, are initiatives that are very close to my heart, developed with great energy, animated by the strong desire of each of us to constantly learn something new, by our thirst for knowledge, by the curiosity that we feel when we are confronted with the world's wonders.

The most important message that we wish to convey is our philosophy. We firmly believe that we initiated a project useful to society and that we will be able to plant many seeds which will grow organically and will turn, in time, into forests and will fill our lungs with life-giving oxygen. **László Diósi, Chairman of Right to Education Foundation**

For the last 4 years, the "Right to Education" Foundation has supported and promoted the development of financial, economic and managerial skills among students aged 10 to 18 and made available to the young the psychological instruments needed to consciously plan their careers. All the economic and financial training sessions are focused on acquiring the financial alphabet, are based on the **Edutainment methodology** and respond to secondary objectives, such as: developing teamwork skills, long-term planning and exemplifying risk-taking strategies. At the national level, the Foundation has become a traditional educational partner for over 50 schools in Romania, under the national program "Scoala altfel".

2017 was a year full of challenges and opportunities, so our objectives were divided into primary and secondary.

Among the **primary objectives**, we can count the following:

- increasing the Bank's image and reputation by positioning the Foundation as main CSR project of the Bank;
- increasing the number of teenagers who take part in the Foundation's classes by delivering training sessions for young people under the age of 18;
- launching OK Center with innovative activities that would have positive impact on the management of the Bank's stakeholders.

As for the Foundation's activities in 2017 as main CSR project of the Bank, we mention: the closure of the 2-year regional project under the European program Erasmus+, the

implementation of the project "Doors Open Week for Children", a partnership between the Foundation and the Bank, as well as the launch of OK Center. The last project provided good media coverage, with over 80 articles with positive tone, out of which 50 mentioned the opening of OK Center.

We communicated internally and externally the partnership between the Foundation and the Bank on the project "Doors Open Week for Children", an event organized with the occasion of the International Children Day, dedicated to the employees' children but also to the Bank's clients' kids.

We successfully implemented and closed our first European program: Erasmus+, Career Program - Going Beyond Borders. Erasmus final dissemination event took place in Budapest, in June. 2 Romanian journalists and 3 teachers were part of the Romanian delegation, as special guests, together with other 100 participants at the event. 2 articles appeared in Romanian central press (Adevarul & Wall-Street) and the final report for audit was released. In total, 426 students were trained; 105 of them were primary school students, divided into 13 groups, and 321 were high school students, divided into 26 groups.

As for the actual training activity, we increased organically the number of students we reached with the financial education modules. Over 3,944 students benefited from free financial education trainings through our Foundation. In 2017, over 1,605 students from 26 schools in Bucharest and countrywide, attended the financial education and career orientation classes.

The trainers went, for the first time, in cities such as: Ramnicu Valcea (Valcea), Panciu (Focsani), Gura Humorului (Suceava), Sibiu & Medias, Onesti & Bacau, Rimetea & Alba Iulia, Valenii de Munte (Prahova), Ploiesti, Deva (Hunedoara), Zalau, Arad. Overall, the trainers traveled to 17 counties and 18 cities and interacted with students from 26 schools.

The seminars were received with enthusiasm by students, teachers, parents and partners who were delighted by our educational offer. All of them gave us a positive feedback, considering the courses benefits for the youngsters.

We also had, in August, our traditional training sessions for OBR employees' kids and their friends. As usual, we had great feedback, both from the participants and their parents, our colleagues from the Bank, that actively dedicate their time and knowledge to support us in our mission.

In December we implemented, with the help of the external grant "Bethlen Gabor", an informal conference for teenagers belonging to Hungarian community from Cluj. We aimed, with the "Voce comuna" event, to create a learning environment where teenagers can improve their financial IQ and become more aware of the way they can build their career according to their strengths, hobbies and interests. We also aimed at getting the teenagers in contact with real life and with the expectations of the local employers from the labor market, therefore we invited successful local entrepreneurs to share from their professional experience.

OK Center

The event of the year for the Foundation and the Bank was by far the launching of OK Center, on the 5th of October, on the International Education Day.

The partnership between OTP Bank Romania and The Right to Education Foundation was again fostered by the opening of OK Center, the first non-formal financial education center in Romania. The 1,200 sqm. space is dedicated to all those who want to update their financial knowledge through innovative methods.

The EUR 600,000 investment came to strengthen the pioneering role in the financial education of young people, adults and entrepreneurs, undertaken by OTP Bank Romania in 2014.

OK Center has the role of helping people to improve their money management skills and to become financially accountable, building a culture that provides a balanced appetite for risk. The educational sessions are developed by OTP Fáy András Foundation specialists in Hungary and locally adapted by the Right to Education Foundation.

The center is hosting training and learning sessions, for both children and adults, held by 8 dedicated trainers, as well as events and volunteering activities. The total capacity of the building reaches 190 people, whereas 80 people can learn simultaneously in 4 training rooms, fitted with the latest video projection equipment and sound systems.

In the first week of functioning, the trainers organized at OK Center the first financial training for OTP Community beneficiaries. The 40 children, from Bucharest or from neighboring cities, came from "Ana si Copiii" Association.

One of our favorite projects we have been working on for a long time, OK Center is not just a center for financial education, it is a place where tomorrow's entrepreneurs grow,

design their first ideas and learn concepts that later will be the foundation of their projects. We created a learning environment, simulating real situations. Thus, youngsters can apply practical notions such as taking risks, planning, team work, strategic thinking, financial knowledge, essential ingredients nowadays. For 2018, we expect to receive over 10,000 people opened to invest in self-development.

Nora Dobre, Director, Right to Education Foundation

Our **secondary objectives** were the development of close relationships with teachers and the development and expansion of the group of Ambassadors. Within the European program Erasmus+ Career Program - Going Beyond Borders, 3 teachers from Bucharest, Focsani and Deva went with our team at the dissemination event in Budapest; they also visited OK Center from Budapest. Regarding developing and expanding group of Ambassadors, we launched the program at the end of April (after launch of 2% campaign). At the end of 2017, we had almost 50 Ambassadors, out of which 37 were present at the internal launching event, where they all received pins and were invited to be part of a private discussion group on Facebook. First training sessions and first booking demands in OK Center came out of the recommendations of our Ambassadors.

Our **strategic objectives for 2018** are:

- positioning OK Center as a reference location for financial education activities;
- positioning OTP Bank Romania as the main promoter of financial education with a vision focused on sustainability for the future of Romania;
- creating a follow-up system for former trainees.

In 2018, the main objectives will be translated by implementing financial training sessions for 4,000 children, increasing the number of OK Center visitors up to 10,000, delivering a financial study, implementing relevant indoor and outdoor activities, implementing GDPR, while our secondary objective is opening new financial education centers all over the country.

Sponsorship activity

As a responsible and active institutional citizen, we invest in communities' wellbeing through sponsorships. When choosing the events and initiatives we support, we take into consideration their consistency not only with our business interests, but also with our values.

This type of involvement helps us promote OTP Bank by increasing awareness and building reputation. We contribute in money (directly to the beneficiaries) or in kindness (through the Right to Education Foundation) in return for a public acknowledgement of the support.

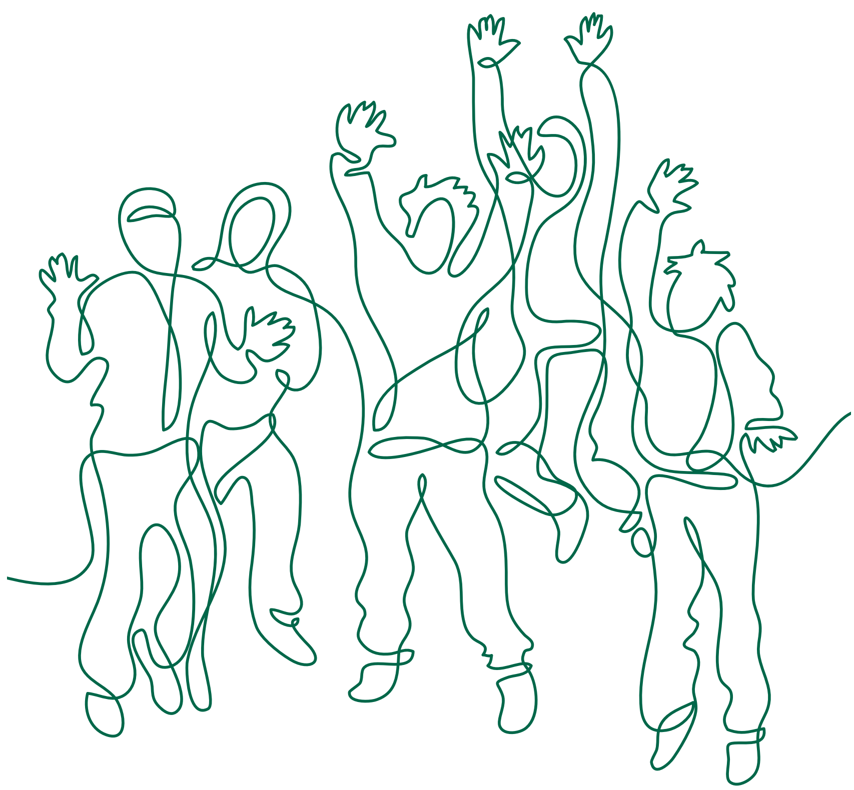
The sponsorship initiatives are developed and implemented under the CSR umbrella:

- **OTP Equal Opportunity Program**: we support disadvantaged groups who need to overcome a drawback – mental or physical handicap, lacking resources to obtain proper education and also children and youth organizations. We attempt to help these groups by improving their life quality and by integrating them in the society;

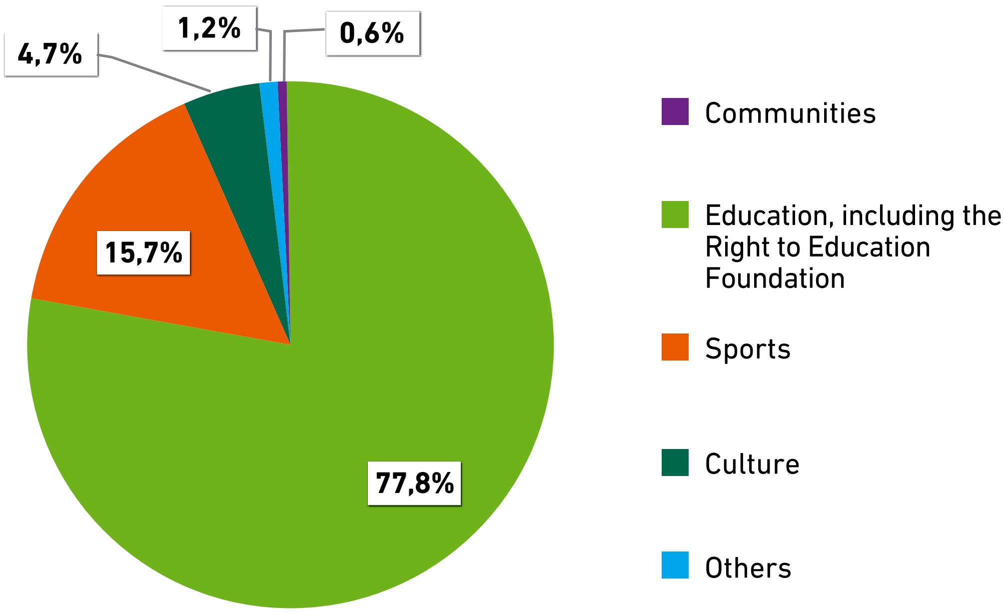
- **OTP Community**: we support events, programs that strengthen communities and contribute to the preservation of cultural heritage and further cultural development;
- **OTP Sport Program**: we promote sports organizations, competitions and leisure activities that require physical and mental stamina, concentration, tactical skills and finely tuned teamwork.

We managed to sustain the budget of sponsorships on a high level and we increased it further, from RON 790,500 RON to RON 1,478,572. Below you can find the sponsorship budget distribution by city:

County	Budget (RON)	% of total budget 2017
Bihor	6,282	0%
Bucharest and Foundation	1,133,966	77%
Cluj	17,659	1%
Covasna	182,492	12%
Harghita	63,600	4%
Arad	5,000	0%
Sibiu	19,760	1%
Mures	22,934	2%
Salaj	17,000	1%
Satu Mare	6,879	0%
Timisoara	3,000	0%
Total budget in 2017	**1,478,572**	**100%**



Sponsorship budget distribution by sponsorship type:



The three most important fields of sponsorship were art and culture, education and sports, where we strengthen our long-term relationships. The main organizations and projects supported in 2017 were:

- "Right to Education" Foundation: support of the maintenance, daily activity of the foundation and OK Center launch;
- Asscociation for Targu Mures - Vásárhelyi Forgatag, where OTP Bank Romania was one of the three main sponsors, with a dedicated space for activities in the Municipal Par and communication sessions held at the Wine Court;
- Mikó Ferenc Association – Szekler Museum of Ciuc, we are the main sponsors of the museum; in 2017 we participated in activities such as: opening of "Artists in noise cannons - Transylvania during World War I", Kallós Zoltán exhibition, "Ice Age" exhibition, Museums Night – 8th edition and publications sponsorship;
- Futball Klub Csíkszereda Association – Junior International Tour, OTP Bank: the event was attended by football teams from countries in the region where OTP Bank is present, such as, Croatia, Ukraine, Hungary and Slovakia, as well as the organizing team in Romania.

OTP Bank Romania S.A.
66-68 Buzesti St. 1, Bucharest, 011017 Romania
Phone: +40(21) 307 57 00 Fax: +40(21) 308 51 80
Call Center: 0800 88 22 88
E-mail: office@otpbank.ro
Internet: www.otpbank.ro