



OTP BANK PLC.

SEPARATE FINANCIAL
STATEMENTS IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY
THE EUROPEAN UNION

FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

OTP BANK PLC.

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OTP BANK PLC.
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016
(in HUF mn)

	Note	30 June 2016	31 December 2015	30 June 2015
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	994,418	1,326,197	1,590,943
Placements with other banks, net of allowance for placement losses	5.	798,371	647,724	635,802
Financial assets at fair value through profit or loss	6.	240,356	252,140	313,503
Securities available-for-sale	7.	1,603,583	1,462,660	1,157,243
Loans, net of allowance for loan losses	8.	1,727,030	1,679,184	1,845,477
Investments in subsidiaries, associates and other investments	9.	672,243	657,531	623,425
Securities held-to-maturity	10.	812,979	824,801	827,606
Property and equipment	11.	61,608	63,440	65,162
Intangible assets	11.	28,929	32,438	32,030
Other assets	12.	<u>152,779</u>	<u>150,261</u>	<u>127,841</u>
TOTAL ASSETS		<u>7,092,296</u>	<u>7,096,376</u>	<u>7,219,032</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	13.	925,834	829,122	1,048,711
Deposits from customers	14.	4,190,578	4,323,239	4,077,449
Liabilities from issued securities	15.	143,959	150,231	160,857
Financial liabilities at fair value through profit or loss	16.	102,077	144,592	280,245
Other liabilities	17.	283,807	300,027	239,966
Subordinated bonds and loans	18.	<u>276,869</u>	<u>266,063</u>	<u>270,866</u>
TOTAL LIABILITIES		<u>5,923,124</u>	<u>6,013,274</u>	<u>6,078,094</u>
Share capital	19.	28,000	28,000	28,000
Retained earnings and reserves	20.	1,151,811	1,064,255	1,121,351
Treasury shares	21.	<u>(10,639)</u>	<u>(9,153)</u>	<u>(8,413)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>1,169,172</u>	<u>1,083,102</u>	<u>1,140,938</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>7,092,296</u>	<u>7,096,376</u>	<u>7,219,032</u>

OTP BANK PLC.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD
ENDED 30 JUNE 2016 (in HUF mn)

	Note	Six month period ended 30 June 2016	Six month period ended 30 June 2015	Year ended 31 December 2015
<i>Interest Income:</i>				
Loans		58,999	66,547	129,575
Placements with other banks, net of allowance for placement losses		50,045	104,157	151,938
Securities available-for-sale		20,785	26,255	50,655
Securities held-to-maturity		20,476	18,865	39,973
Amounts due from banks and balances with National Bank of Hungary		6,828	17,722	26,574
Rental income for operation of investment properties		<u>30</u>	<u>-</u>	<u>60</u>
Total Interest Income		<u>157,163</u>	<u>233,546</u>	<u>398,775</u>
<i>Interest Expense:</i>				
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		54,181	103,895	152,613
Deposits from customers		8,907	18,652	29,744
Liabilities from issued securities		797	962	2,091
Subordinated bonds and loans		8,490	8,205	16,686
Expenses from operation of investment properties		<u>18</u>	<u>-</u>	<u>35</u>
Total Interest Expense		<u>72,393</u>	<u>131,714</u>	<u>201,169</u>
NET INTEREST INCOME		<u>84,770</u>	<u>101,832</u>	<u>197,606</u>
Provision for impairment on loan and placement losses	5.,8.,22.	5,573	16,419	39,548
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		<u>79,197</u>	<u>85,413</u>	<u>158,058</u>
Income from fees and commissions	23.	91,301	95,988	186,030
Expenses from fees and commissions	23.	<u>11,890</u>	<u>11,678</u>	<u>24,304</u>
Net profit from fees and commissions		<u>79,411</u>	<u>84,310</u>	<u>161,726</u>
Foreign exchange gains		1,169	10,294	15,158
Gains on securities, net		34,428	17,458	24,461
Dividend income	9.	90,463	58,591	58,597
Other operating income	24.	2,041	1,054	8,713
Net other operating expenses	24.	(2,000)	(21,360)	(131,179)
-from this: provision for impairment on investments in subsidiaries	9.	(42,270)	(8,465)	(47,470)
-from this: release of provision on contingent liabilities due to regulations related to customer loans	2.26, 24.	<u>-</u>	<u>33,351</u>	<u>42,529</u>
Net operating expense		<u>126,101</u>	<u>66,037</u>	<u>(24,250)</u>
Personnel expenses	24.	45,358	42,519	86,769
Depreciation and amortization	24.	10,398	10,262	21,320
Other administrative expenses	24.	<u>72,392</u>	<u>80,872</u>	<u>141,091</u>
Other administrative expenses		<u>128,148</u>	<u>133,653</u>	<u>249,180</u>
PROFIT BEFORE INCOME TAX		<u>156,561</u>	<u>102,107</u>	<u>46,354</u>
Income tax expense / (benefit)	25.	<u>16,382</u>	<u>2,422</u>	<u>(3,291)</u>
NET PROFIT FOR THE PERIOD		<u>140,179</u>	<u>99,685</u>	<u>49,645</u>
Earnings per share (in HUF)				
Basic	35.	<u>182</u>	<u>358</u>	<u>182</u>
Diluted	35.	<u>181</u>	<u>358</u>	<u>181</u>

The accompanying notes to separate financial statements on pages 9 to 88 form an integral part of these separate financial statements.

OTP BANK PLC.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD
ENDED 30 JUNE 2016 (in HUF mn)

	Note	Six month period ended 30 June 2016	Six month period ended 30 June 2015	Year ended 31 December 2015
NET PROFIT FOR THE PERIOD		<u>140,179</u>	<u>99,685</u>	<u>49,645</u>
Items that may be reclassified subsequently to profit or loss:				
Fair value adjustment of securities available-for-sale		(5,400)	(5,931)	(9,970)
Deferred tax related to securities available-for-sale	25.	<u>1,026</u>	<u>1,127</u>	<u>1,894</u>
Total		<u>(4,374)</u>	<u>(4,804)</u>	<u>(8,076)</u>
NET COMPREHENSIVE INCOME		<u>135,805</u>	<u>94,881</u>	<u>41,569</u>

OTP BANK PLC.
SEPARATE STATEMENT OF CASH-FLOWS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016 (in HUF mn)

	Note	Six month period ended 30 June 2016	Six month period ended 30 June 2015	Year ended 31 December 2015
OPERATING ACTIVITIES				
Profit before income tax		156,561	102,107	46,354
Depreciation and amortization		10,416	10,262	21,355
Provision for impairment on loan and placement losses	5.,8.,22	5,573	16,419	39,548
Provision for impairment on investments in subsidiaries	9.	42,270	8,465	47,470
Provision for impairment on other assets	12.	19	1,913	2,141
Release of provision on off-balance sheet commitments and contingent liabilities	17.	(45,252)	(34,208)	(4,185)
Share-based payment	28.	1,865	1,905	3,810
Unrealised losses on fair value adjustment of securities available-for-sale and held for trading		(11,183)	(6,204)	(12,096)
Unrealised gains / (losses) on fair value adjustment of derivative financial instruments		4,326	(20,163)	(13,701)
<i>Net changes in assets and liabilities in operating activities</i>				
Changes in financial assets at fair value through profit or loss		(29,458)	(20,550)	4,452
Changes in financial liabilities at fair value through profit or loss		(7,711)	(3,392)	(32,611)
Net (increase) / decrease in loans, net of allowance for loan losses		(48,929)	33,888	100,464
Decrease / (increase) in other assets, excluding advances for investments and before provisions for losses		15,732	(31,230)	(43,682)
Net (decrease) / increase in deposits from customers		(132,661)	(157,817)	88,089
Increase in other liabilities		26,893	23,728	56,111
Net (increase) / decrease in the compulsory reserve established by the National Bank of Hungary		(4,667)	2,650	47,712
Dividend income		(90,463)	(58,591)	(58,597)
Income tax paid		<u>(264)</u>	<u>(3,295)</u>	<u>(3,823)</u>
Net cash (used in) / provided by operating activities		<u>(106,933)</u>	<u>(134,113)</u>	<u>288,811</u>
Interest received		142,287	214,944	390,187
Interest paid		(67,436)	(122,680)	(199,393)
INVESTING ACTIVITIES				
Net (increase) / decrease in placements with other banks before allowance for placement losses		(150,648)	76,308	64,385
Purchase securities available-for-sale		(325,314)	(301,122)	(652,482)
Proceeds from sale of securities available-for-sale		187,395	356,676	404,592
Increase in investments in subsidiaries		(56,982)	(27,681)	(100,792)
Decrease in investments in subsidiaries		-	-	-
Dividend income		60,799	58,591	58,597
Increase in securities held-to-maturity		-	(229,113)	(229,114)
Decrease in securities held-to-maturity		14,629	67,922	70,395
Additions to property, equipment and intangible assets		(9,671)	(7,849)	(37,510)
Disposal to property, equipment and intangible assets		3,594	2,896	17,306
Net (increase) / decrease in advances for investments included in other assets		<u>(6)</u>	<u>(1)</u>	<u>3</u>
Net cash used in investing activities		<u>(276,204)</u>	<u>(3,373)</u>	<u>(404,620)</u>

The accompanying notes to separate financial statements on pages 9 to 88 form an integral part of these separate financial statements.

OTP BANK PLC.
SEPARATE STATEMENT OF CASH-FLOWS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016 (in HUF mn) [continued]

	Note	Six month period ended 30 June 2016	Six month period ended 30 June 2015	Year ended 31 December 2015
FINANCING ACTIVITIES				
Net increase / (decrease) in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		96,712	(93,780)	(313,369)
Cash received from issuance of securities		20,221	22,891	51,389
Cash used for redemption of issued securities		(29,389)	(24,977)	(63,473)
Increase / (decrease) in subordinated bonds and loans		10,806	(23,746)	(28,549)
Payments to ICES holders	20.	(735)	(1,003)	(4,133)
Increase in Treasury shares		7,531	15,348	24,641
Decrease in Treasury shares		(12,345)	(20,885)	(34,093)
Dividend paid		<u>(46,110)</u>	<u>(40,547)</u>	<u>(40,473)</u>
Net cash provided by / (used in) financing activities		46,691	(166,699)	(408,060)
Net decrease in cash and cash equivalents		<u>(336,446)</u>	<u>(304,185)</u>	<u>(523,869)</u>
Cash and cash equivalents at the beginning of the year		<u>1,238,858</u>	<u>1,762,727</u>	<u>1,762,727</u>
Cash and cash equivalents at the end of the period		<u>902,412</u>	<u>1,458,542</u>	<u>1,238,858</u>
<i>Analysis of cash and cash equivalents:</i>				
Cash, amounts due from banks and balances with the National Bank of Hungary		1,326,197	1,897,778	1,897,778
Compulsory reserve established by the National Bank of Hungary		<u>(87,339)</u>	<u>(135,051)</u>	<u>(135,051)</u>
Cash and cash equivalents at the beginning of the year		<u>1,238,858</u>	<u>1,762,727</u>	<u>1,762,727</u>
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	994,418	1,590,943	1,326,197
Compulsory reserve established by the National Bank of Hungary	4.	<u>-92,006</u>	<u>(132,401)</u>	<u>(87,339)</u>
Cash and cash equivalents at the end of the period		<u>902,412</u>	<u>1,458,542</u>	<u>1,238,858</u>

OTP BANK PLC.
SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016 (in HUF mn)

	Note	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve ¹	Treasury Shares	Total
Balance as at 1 January 2015		<u>28,000</u>	<u>52</u>	<u>20,897</u>	<u>1,104,723</u>	<u>(55,468)</u>	<u>(7,073)</u>	<u>1,091,131</u>
Net profit for the period		-	-	-	99,685	-	-	99,685
Other comprehensive income		-	-	-	(4,804)	-	-	(4,804)
Share-based payment	28.	-	-	1,905	-	-	-	1,905
Payments to ICES holders	20.	-	-	-	(842)	-	-	(842)
Sale of treasury shares	21.	-	-	-	-	-	15,348	15,348
Loss on sale of treasury shares		-	-	-	(4,197)	-	-	(4,197)
Acquisition of treasury shares	21.	-	-	-	-	-	(16,688)	(16,688)
Dividend for the year 2014		-	-	-	(40,600)	-	-	(40,600)
Balance as at 30 June 2015		<u>28,000</u>	<u>52</u>	<u>22,802</u>	<u>1,153,965</u>	<u>(55,468)</u>	<u>(8,413)</u>	<u>1,140,938</u>
Balance as at 1 January 2016		<u>28,000</u>	<u>52</u>	<u>24,707</u>	<u>1,094,964</u>	<u>(55,468)</u>	<u>(9,153)</u>	<u>1,083,102</u>
Net profit for the period		-	-	-	140,179	-	-	140,179
Other comprehensive income		-	-	-	(4,374)	-	-	(4,374)
Share-based payment	28.	-	-	1,865	-	-	-	1,865
Payments to ICES holders	20.	-	-	-	(586)	-	-	(586)
Sale of treasury shares	21.	-	-	-	-	-	7,531	7,531
Loss on sale of treasury shares		-	-	-	(3,328)	-	-	(3,328)
Acquisition of treasury shares	21.	-	-	-	-	-	(9,017)	(9,017)
Dividend for the year 2015		-	-	-	(46,200)	-	-	(46,200)
Balance as at 30 June 2016		<u>28,000</u>	<u>52</u>	<u>26,572</u>	<u>1,180,655</u>	<u>(55,468)</u>	<u>(10,639)</u>	<u>1,169,172</u>

¹ See Note 17.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. (the "Bank" or "OTP Bank") was established on 31 December 1990, when the previously State-owned company was transformed into a limited liability company. The Bank's registered office address is 16, Nádor Street, Budapest 1051.

In 1995, the shares of the Bank were listed on the Budapest and the Luxembourg Stock Exchanges and were also listed on the SEAQ board on the London Stock Exchange and PORTAL in the USA.

The structure of the Share capital by shareholders (%):

	30 June 2016	31 December 2015
Domestic and foreign private and institutional investors	98%	97%
Employees	1%	2%
Treasury shares	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

The Bank provides a full range of commercial banking services through a nationwide network of 370 branches in Hungary.

Number of the employees of the Bank:

	30 June 2016	31 December 2015
Number of employees	7,789	7,911
Average number of employees	7,839	7,940

1.2. Accounting

The Bank maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

The presentation currency of the Bank is the Hungarian Forint ("HUF").

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial standards. Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). Certain adjustments have been made to the Bank's Hungarian separate statutory accounts (see Note 38), in order to present the separate financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").

The separate financial statements have been prepared in accordance with IFRS as adopted by the EU. IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") which has not been approved by the EU. As the Bank does not apply portfolio hedge accounting under IAS 39, there would be no impact on these separate financial statements, had it been approved by the EU before the preparation of these financial statements.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2016

The following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU are effective for the current period:

- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Agriculture: Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any changes in the Entity’s accounting policies.

1.2.2. New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements no amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018),
- 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 15 “Revenue from Contracts with Customers” and further amendments (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 “Leases” (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 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- 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 was deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 7 “Statement of Cash Flows” - Disclosure Initiative (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 (effective for annual periods beginning on or after 1 January 2017).

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Entity’s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement”, would not significantly impact the financial statements, if applied as at the balance sheet date.

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements except of the application of IFRS 9 and IFRS 16 which might have significant impact on the Bank separate financial statements, the impact is being analysed by the Bank in 2016.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying separate financial statements are summarized below:

2.1. Basis of presentation

These separate financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.

The presentation of separate financial statements in conformity with IFRS requires the Management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future separate financial statements.

2.2. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into HUF that is the presentation currency, at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the separate financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded to the separate statement of recognized income.

2.3. Consolidated financial statements

These financial statements present the separate financial position and results of operations of the Bank. Consolidated financial statements are currently being prepared by the Bank and consolidated net profit for the year and shareholders' equity differs significantly from that presented in these separate financial statements. See Note 2.4 for the description of the method of accounting for investments in subsidiaries and associated companies in these separate financial statements. The consolidated financial statements and the separate financial statements will be published on the same date. As the ultimate parent, OTP Bank is preparing consolidated financial statement of OTP Group.

2.4. Investments in subsidiaries, associated companies and joint ventures

Investments in subsidiaries comprise those investments where OTP Bank, through direct and indirect ownership interest, controls the investee. Control is achieved when the Bank has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.

Associated companies and joint ventures where the Bank has the ability to exercise significant influence are accounted for using the equity method.

Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors. OTP Bank calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash-generating units.

OTP Bank in its strategic plan has taken into consideration the cautious recovery of global economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities held-to-maturity

Investments in securities, traded in active market (with fixed or determinable cash-flows) are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Bank has the expressed intention and ability to hold to maturity (securities held-to-maturity) are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivables over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment.

Such securities comprise mainly securities issued by the Hungarian Government, mortgage bonds and Hungarian Government discounted Treasury Bills.

2.6. Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognized in profit or loss and are included in the separate statement of recognized income for the period. The Bank mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income. During 2015 the Bank has switched over to FIFO¹ inventory valuation method from the weighted average method applied for securities held for trading, which had no significant impact on the separate financial statements. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, shares in non-financial commercial companies, shares in investment funds, shares in venture capital funds and shares in financial institutions.

2.6.2. Derivative financial instruments

In the normal 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 and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Bank both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the 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 as OTP Bank has almost its entire open derivative transactions collateralised. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the separate statement of recognized income for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the separate statement of recognized income.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of spot contracts does not represent the actual market or credit risk associated with these contracts. Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge the exchange rate fluctuations of loans and deposits denominated in foreign currency.

¹ First In First Out

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6.2. Derivative financial instruments [continued]

Foreign exchange swaps and interest rate swaps

The Bank enters into foreign-exchange swap and interest rate swap (IRS) transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consists of a prompt and one or more forward contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

Cross-currency interest rate swaps

The Bank enters into cross-currency interest rate swap (CCIRS) transactions which have special attributes, i.e. the parties exchange the notional amount at the beginning and also at the maturity of the transaction. A special type of these deals is the mark-to-market CCIRS agreements. At this kind of deals the parties – in accordance with the foreign exchange prices – revalue the notional amount during lifetime of the transaction.

Equity and commodity swaps

Equity swaps obligate two parties to exchange more payments calculated with reference periodically reset rates of interest and performance of indices. A specific notional principal amount is the base of the interest calculation. The payment of index return is calculated on the basis of current market price compared to the previous market price. In case of commodity swaps payments are calculated on the basis of the strike price of a predefined commodity compared to its average market price in a period.

Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

Foreign exchange options

A foreign exchange option is a derivative financial instrument that gives the owner the right to exchange money denominated in one currency into another currency at a pre-agreed exchange rate at a specified future date. The transaction, for a fee, guarantees a worst-case exchange rate for the futures purchase of one currency for another. These options protect against unfavourable currency movements while preserving the ability to participate in favourable movements.

2.7. Derivative financial instruments designated as a fair value or cash-flow hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of recognized income along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the separate statement of recognized income. The conditions of hedge accounting applied by the Bank are the following: formally designated as hedge, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.7. Derivative financial instruments designated as a fair value or cash-flow hedge [continued]

Changes in fair value of derivatives that are designated and qualify as cash-flow hedges and that prove to be highly effective in relation to hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in equity are transferred to the separate statement of recognized income and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period. The ineffective element of the hedge is charged directly to the separate statement of recognized income.

The Bank terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation.

2.8. Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be reported in the statement of financial position on a net basis. The Bank does not offset any financial assets and financial liabilities.

2.9. Embedded derivatives

Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) affecting cash-flows or otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative as a stand-alone instrument; and
- The host instrument is not measured at fair or is measured at fair value but changes in fair value are recognised in other comprehensive income.

2.10. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale securities are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognized in other comprehensive income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realised in profit or loss for the applicable period. During 2015 the Bank has switched over to FIFO¹ inventory valuation method from the weighted average method applied for securities held for trading, which had no significant impact on the separate financial statements.

Securities available-for-sale consists of Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in investment funds and venture capital funds, corporate bonds and foreign securities.

The provision for impairment is calculated based on discounted cash-flow methodology for debt instruments and calculated based on fair value on equity instruments, using the expected future cash-flow and original effective interest rate if there is objective evidence of impairment based on significant or prolonged decrease on fair value. Available-for-sale securities are remeasured at fair value based on quoted prices or values derived from cash-flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of the future cash-flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above are measured at cost, less provision for impairment when appropriate. This exception is related only to equity instruments. Impairment on equity AFS securities is accounted only if there is a significant or prolonged decrease in the market value. Impairment losses recognised in profit or loss for equity AFS securities is not reversed through profit or loss.

¹ First In First Out

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.11. Loans, placements with other banks and allowance for loan and placement losses

Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest becomes impaired.

According to IAS 39, initially financial assets shall be recognized at fair value which is usually equal to transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence the Bank is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values is not available on observable markets.

The amount of allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash-flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate.

Allowance for losses on loans and placements with other banks represent management assessment for potential losses in relation to these activities.

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.

If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income. 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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provisions for impairment on loan and placement losses" in the statement of recognized income.

OTP Bank applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IAS 39. If OTP Bank has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence. A loan will be written off if it has overdued or was terminated by the Bank.

The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. In these cases there is no reasonable expectation from the clients to complete contractual cash-flows therefore OTP Bank does not accrue interest income in case of partial write-off.

Loan receivables legally demanded from clients are equal to the former gross amount of the loan before the partial write-off.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the statement of financial position and the consideration received is recorded in Other liabilities or Amounts due to banks and the Hungarian Government, deposits from the National Bank of Hungary and other banks, or Deposits from customers. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the statement of financial position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement.

In the case of security lending transactions the Bank does not recognize or derecognize the securities because it is believed that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.13. Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over their useful lives. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Intangible assets	
Software	15-33.3%
Property rights	16.7%
Property	1-2%
Office equipment and vehicles	9-33.3%

Depreciation and amortization on properties, equipment and intangible assets starts on the day when such assets are placed into service. At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss.

If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

The Bank may conclude contracts for purchasing property, equipment and intangible assets, where the purchase price is settled in foreign currency. By entering into such agreements, firm commitment in foreign currency due on a specified future date arises at the Bank.

Reducing the foreign currency risk caused by firm commitment, forward foreign currency contracts may be concluded to ensure the amount payable in foreign currency on a specified future date on one hand and to eliminate the foreign currency risk arising until settlement date of the contract on the other hand.

In the case of effective hedge the realised profit or loss of hedging instrument is stated as the part of the cost of the hedged asset as it has arisen until recognising the asset and it is tightly connecting to the purchasing.

2.14. Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. In connection to the financial liabilities at fair value through profit or loss, the Bank presents the amount of change in their fair value originated from the changes of market conditions and business environment. Financial liabilities at fair value through profit or loss are either financial liabilities held for trading or they are designated upon initial recognition as at fair value through profit or loss. In the case of financial liabilities measured at amortized cost, fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument. In certain cases the Bank repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the net profit or loss for the period and included in other operating income.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.15. Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the separate statement of recognized income over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

Payments made under operating leases are charged to the separate statement of recognized income on a straight-line basis over the life of the lease terms. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.16. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the separate statement of financial position at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity in the treasury shares. Derecognition of treasury shares is based on the FIFO method.

2.17. Interest income and interest expense

Interest income and expenses are recognised in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. The Bank recognizes interest income when it is assumed that the interest associated with the transaction will flow to the Bank and the amount of the revenue can be reasonably measured. All interest income and expense arising from loans, placements with other banks, securities held for trading, securities available-for-sale, securities held to maturity and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statement.

2.18. Fees and Commissions

Fees and commissions are recognised using effective interest method referring to provisions of IAS 39, when they relate and have to be included in the amortised cost model. Certain fees and commissions that are not involved in the amortised cost model are recognised in the separate statement of recognised income on an accrual basis based on IAS 18.

2.19. Dividend income

The Bank recognizes dividend income in the separate financial statements when its right to receive the payment is established.

2.20. Income tax

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled. Deferred tax assets are recognized by the Bank for the amounts of income tax that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.21. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit and transactions with financial instruments. The provision on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Bank recognizes a provision when it has a present obligation as a result of a past event; 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 obligation.

2.22. Share-based payment and employee benefit

The Bank has applied the requirements of IFRS 2 Share-based Payment.

The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Bank has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in financial statements.

2.23. Separate statement of cash-flows

For the purposes of reporting cash-flows, cash and cash equivalents include cash, due from banks and balances with the NBH. Cash-flows from hedging activities are classified in the same category as the item being hedged. The unrealised gains and losses from the translation of monetary items to the closing foreign exchange rates and the unrealised gains and losses from derivative financial instruments are presented net in the statement of cash-flows for the monetary items which were being revaluated.

2.24. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

At separate level, the Management does not separate and makes decisions based on different segments; the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the business and geographical segments.

The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, other subsidiaries, Corporate Centre.

2.25. Comparative figures

There were no changes in prior period data due to either prior period error or change in accounting policies. In some notes certain amounts in the separate financial statements for the year ended 31 December 2015 have been restructured within the particular note to conform to the current year presentation but these amounts are not significant.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE
APPLICATION OF ACCOUNTING POLICIES

The presentation of separate financial statements in conformity with IFRS requires the Management of the Group to make judgements about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgements include:

3.1. Impairment on loans and placements

The Bank regularly assesses its loan portfolio for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Provisioning involves many uncertainties about the outcome of those risks and requires the Management of the Bank to make many subjective judgements in estimating the loss amounts. An impairment loss is incurred when there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset ('a loss event'), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the Bank on the basis of estimates based on historical parameters. The adopted methodology used for estimating impairment allowances is in line with the further possibilities of accumulations of historic impairment data from the existing information systems and applications. As a consequence, acquiring new data by the Bank could affect the level of impairment allowances in the future.

3.2. Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. for correlations, volatilities, etc). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.

IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3. Provisions

Provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 17.)

A provision is recognized by the Bank when it has a present obligation as a result of a past event, 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.

Provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities, for commitments to extend credit, provision for warranties arising from banking activities and provision for Confirmed letter of credit.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 4: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF mn)

	30 June 2016	31 December 2015
Cash on hand:		
In HUF	90,801	76,320
In foreign currency	<u>7,415</u>	<u>6,483</u>
	<u>98,216</u>	<u>82,803</u>
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	409,491	1,200,884
In foreign currency	<u>486,108</u>	<u>40,818</u>
	<u>895,599</u>	<u>1,241,702</u>
Accrued interest	<u>603</u>	<u>1,692</u>
Total	<u>994,418</u>	<u>1,326,197</u>
Compulsory reserve	92,006	87,339
Rate of the compulsory reserve	2%	2%

NOTE 5: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn)

	30 June 2016	31 December 2015
Within one year:		
In HUF	467,516	426,484
In foreign currency	<u>140,651</u>	<u>166,623</u>
	<u>608,167</u>	<u>593,107</u>
Over one year		
In HUF	169,761	40,592
In foreign currency	<u>18,702</u>	<u>12,736</u>
	<u>188,463</u>	<u>53,328</u>
Total placements	<u>796,630</u>	<u>646,435</u>
Accrued interest	<u>1,771</u>	<u>1,318</u>
Provision for impairment on placement losses	<u>(30)</u>	<u>(29)</u>
Total	<u>798,371</u>	<u>647,724</u>

An analysis of the change in the provision for impairment on placement losses is as follows:

	30 June 2016	31 December 2015
Balance as at 1 January	29	26
Provision for the year	<u>1</u>	<u>3</u>
Closing balance	<u>30</u>	<u>29</u>

Interest conditions of placements with other banks (%):

	30 June 2016	31 December 2015
Placements with other banks in HUF	0%-3.84%	2.35%-5.85%
Placements with other banks in foreign currency	(1.2%)-7.5%	0.02%-10%
Average interest of placements with other banks	1.48%	1.43%

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	30 June 2016	31 December 2015
<i>Securities held for trading:</i>		
Shares	82,800	71,779
Government bonds	20,279	12,613
Hungarian government interest bearing Treasury Bills	13,466	7,768
Hungarian government discounted Treasury Bills	1,372	366
Mortgage bonds	109	94
Securities issued by credit institutions	53	-
Other securities	<u>1,649</u>	<u>510</u>
Subtotal	<u>119,728</u>	<u>93,130</u>
Accrued interest	<u>411</u>	<u>433</u>
Total	<u>120,139</u>	<u>93,563</u>
<i>Derivative financial instruments:</i>		
CCIRS and mark-to-market CCIRS ¹	62,349	102,125
Interest rate swaps	38,170	33,869
Foreign currency swaps	7,300	14,352
Other derivative transactions ²	<u>12,398</u>	<u>8,231</u>
Subtotal	<u>120,217</u>	<u>158,577</u>
Total	<u>240,356</u>	<u>252,140</u>
Interest conditions and the remaining maturities of securities held for trading are as follows:		
	30 June 2016	31 December 2015
Within five years:		
variable interest	1,654	2,194
fixed interest	<u>14,931</u>	<u>15,188</u>
	<u>16,585</u>	<u>17,382</u>
Over five years:		
variable interest	2,215	5
fixed interest	<u>17,669</u>	<u>3,614</u>
	<u>19,884</u>	<u>3,619</u>
Non-interest bearing securities	<u>83,259</u>	<u>72,129</u>
Total	<u>119,728</u>	<u>93,130</u>
	30 June 2016	31 December 2015
Securities held for trading denominated in HUF	98.23%	99.49%
Securities held for trading denominated in foreign currency	<u>1.77%</u>	<u>0.51%</u>
Securities held for trading total	<u>100%</u>	<u>100%</u>
Government bonds denominated in HUF	97.61%	99.35%
Government bonds denominated in foreign currency	<u>2.39%</u>	<u>0.65%</u>
Government securities total	<u>100%</u>	<u>100%</u>
Interest rates on securities held for trading	0.98%-10%	0.8%-10%
Average interest on securities held for trading	3.07%	2.42%

¹ CCIRS: Cross Currency Interest Rate Swap (See Note 2.6.2)

² incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option (See Note 2.6.2)

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

	30 June 2016	31 December 2015
Government bonds	1,002,102	755,627
Mortgage bonds	461,329	597,226
Other securities	125,195	81,238
- <u>listed securities</u>	<u>36,332</u>	<u>10,326</u>
<i>in HUF</i>	3,241	-
<i>in foreign currency</i>	33,091	10,326
- <u>non-listed securities</u>	<u>88,863</u>	<u>70,912</u>
<i>in HUF</i>	47,222	58,800
<i>in foreign currency</i>	41,641	12,112
Subtotal	<u>1,588,626</u>	<u>1,434,091</u>
Accrued interest	<u>14,957</u>	<u>28,569</u>
Securities available-for-sale total	<u>1,603,583</u>	<u>1,462,660</u>

	30 June 2016	31 December 2015
Securities available-for-sale denominated in HUF	65%	70%
Securities available-for-sale denominated in foreign currency	<u>35%</u>	<u>30%</u>
Securities available-for-sale total	<u>100%</u>	<u>100%</u>

Interest rates on securities available-for-sale denominated in HUF	1.25%-11%	2.5%-11%
Interest rates on securities available-for-sale denominated in foreign currency	0.39%-6.38%	0.58%-6.25%
Average interest on securities available-for-sale	2.94%	4.54%

Interest conditions and the remaining maturities of available-for-sale securities can be analysed as follows:

	30 June 2016	31 December 2015
Within five years:		
variable interest	165,424	324,400
fixed interest	<u>29,795</u>	<u>838,523</u>
	<u>195,219</u>	<u>1,162,923</u>
Over five years:		
variable interest	197,156	40,624
fixed interest	<u>1,175,074</u>	<u>201,128</u>
	<u>1,372,230</u>	<u>241,752</u>
Non-interest bearing securities	<u>21,177</u>	<u>29,416</u>
Total	<u>1,588,626</u>	<u>1,434,091</u>

Certain fixed-rate mortgage bonds and other securities are hedged against interest rate risk. (See Note 37.)

	30 June 2016	31 December 2015
Net gain reclassified from equity to statement of recognized income	10,679	9,818
Fair value of the hedged securities:		
Mortgage bonds	318,420	317,230
Government bonds	781,172	665,228
Corporate bonds	<u>96,539</u>	<u>3,256</u>
	<u>1,196,131</u>	<u>985,714</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 8: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn)

	30 June 2016	31 December 2015
Short-term loans and promissory notes (within one year)	1,004,262	1,019,240
Long-term loans and promissory notes (over one year)	<u>809,551</u>	<u>754,722</u>
Loans gross total	<u>1,813,813</u>	<u>1,773,962</u>
Accrued interest	<u>4,856</u>	<u>4,885</u>
Provision for impairment on loan losses	<u>(91,639)</u>	<u>(99,663)</u>
Total	<u>1,727,030</u>	<u>1,679,184</u>

An analysis of the loan portfolio by currency (%):

	30 June 2016	31 December 2015
In HUF	58%	51%
In foreign currency	<u>42%</u>	<u>49%</u>
Total	<u>100%</u>	<u>100%</u>

Interest rates of the loan portfolio are as follows (%):

	30 June 2016	31 December 2015
Loans denominated in HUF, with a maturity within one year	0%-34,6%	4.9%-35%
Loans denominated in HUF, with a maturity over one year	0%-37,5	1.4%-18.5%
Loans denominated in foreign currency	0%-22,32%	1.2%-10.2%
Average interest on loans denominated in HUF	9.62%	11.24%
Average interest on loans denominated in foreign currency	2.21%	2.64%

An analysis of the gross loan portfolio by type, before provision for impairment on loan losses, is as follows:

	30 June 2016		31 December 2015	
Retail loans	485,252	27%	476,664	27%
Retail consumer loans	271,303	15%	266,643	15%
Retail mortgage backed loans ¹	69,628	4%	77,960	4%
Micro and small enterprises loans	144,321	8%	132,061	8%
Corporate loans	1,328,561	73%	1,297,298	73%
Loans to medium and large corporates	1,304,096	72%	1,277,292	72%
Municipality loans	<u>24,465</u>	<u>1%</u>	<u>20,006</u>	<u>1%</u>
Total	<u>1,813,813</u>	<u>100%</u>	<u>1,773,962</u>	<u>100%</u>

¹ incl. housing loans

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 8: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn) [continued]

An analysis of the change in the provision for impairment on loan losses is as follows:

	30 June 2016	31 December 2015
Balance as at 1 January	99,663	85,397
Provision for the year	19,278	69,926
Release of provision	(27,148)	(52,185)
Partial write-off ¹	<u>(154)</u>	<u>(3,475)</u>
Closing balance	<u>91,639</u>	<u>99,663</u>

Provision for impairment on loan and placement losses is summarized as below:

	30 June 2016	31 December 2015
Provision for impairment on placement losses	1	3
Provision for impairment on loan losses	<u>5,572</u>	<u>39,545</u>
Total	<u>5,573</u>	<u>39,548</u>

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (See Note 29.)

**NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND
OTHER INVESTMENTS (in HUF mn)**

	30 June 2016	31 December 2015
Investments in subsidiaries:		
Controlling interest	1,302,766	1,245,801
Other investments	<u>3,528</u>	<u>3,511</u>
Subtotal	<u>1,306,294</u>	<u>1,249,312</u>
Provision for impairment	<u>(634,051)</u>	<u>(591,781)</u>
Total	<u>672,243</u>	<u>657,531</u>

Other investments contain certain securities accounted at cost. These instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

¹ See Note 2.11.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

Significant subsidiaries

Investments in companies in which the Bank has a controlling interest (direct) are detailed below. All companies are incorporated in Hungary unless indicated otherwise:

	30 June 2016		31 December 2015	
	% Held (direct/indirect)	Gross book value	% Held (direct/indirect)	Gross book value
OTP Bank JSC (Ukraine)	100%	311,390	100%	311,390
OTP Mortgage Bank Ltd.	100%	144,294	100%	144,294
OTP Bank Romania S.A. (Romania)	100%	94,085	100%	94,085
OTP banka Srbija a.d. (Serbia)	97.92%	91,159	97.92%	91,159
DSK Bank EAD (Bulgaria)	100%	86,832	100%	86,832
JSC "OTP Bank" (Russia)	97.87%	74,322	97.87%	74,321
OTP banka Hrvatska d.d. (Croatia)	100%	72,940	100%	72,940
Crnogorska komercijalna banka a.d. (Montenegro)	100%	58,484	100%	58,484
OTP Holding Ltd. (Cyprus)	100%	52,663	100%	2,000
LLC Alliance Reserve (Russia)	100%	50,074	100%	50,074
OTP Factoring Ltd.	100%	34,011	100%	53,032
OTP Holding Malta Ltd. (Malta)	100%	32,359	100%	32,359
Balanz Real Estate Institute Fund	100%	29,150	100%	29,150
Merkantil Bank Ltd.	100%	23,241	100%	23,241
Bank Center No. 1. Ltd.	100%	21,063	100%	16,063
OTP Factoring Ukraine LLC (Ukraine)	100%	19,021	-	-
Inga Kettó Ltd.	100%	17,892	100%	17,892
OTP Banka Slovensko a.s. (Slovakia)	99.26%	17,125	99.26%	17,125
OTP Life Annuity Ltd.	100%	15,300	100%	15,300
Air-Invest Ltd.	100%	10,498	100%	9,698
OTP Real Estate Ltd.	100%	10,023	100%	10,023
Monicomp Ltd.	100%	9,234	100%	9,234
OTP Real Estate Leasing Ltd.	100%	7,206	100%	7,368
R.E. Four d.o.o. (Serbia)	100%	4,357	100%	4,357
OTP Venture Capital Fund	100%	3,000	100%	3,000
OTP Funds Servicing and Consulting Ltd.	100%	2,469	100%	2,469
Fordulat Venture Capital Fund	50%	2,429	50%	2,025
OTP Building Society Ltd.	100%	1,950	100%	1,950
OTP Fund Management Ltd.	100%	1,653	100%	1,653
OTP Real Estate Investment Fund Management Ltd.	100%	1,352	100%	1,352
CIL Babér Ltd.	100%	1,225	100%	1,225
OTP Financing Netherlands B.V. (the Netherlands)	100%	481	100%	481
OTP Card Factory Ltd.	100%	450	100%	450
OTP Financing Cyprus Company Limited (Cyprus)	100%	301	100%	301
Portfolion Ltd.	100%	150	100%	150
OTP Financing Malta Company Ltd. (Malta)	100%	31	100%	31
HIF Ltd. (United Kingdom) ¹	-	-	-	-
Other	-	552	-	293
Total		<u>1,302,766</u>		<u>1,245,801</u>

An analysis of the change in the provision for impairment is as follows:

	30 June 2016	31 December 2015
Balance as at 1 January	591,781	544,311
Provision for the year	<u>42,270</u>	<u>47,470</u>
Closing balance	<u>634,051</u>	<u>591,781</u>

¹ Liquidation process was completed on 17 November 2015 and HIF Ltd. has been dissolved on 17 February 2016.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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**NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND
OTHER INVESTMENTS (in HUF mn) [continued]**

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. The Bank prepared impairment tests of the subsidiaries based on two different net present value calculation methods that show the same result; however they represent different economical logics. On one hand is the discount cash-flow method (DCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future. Applying the EVA method was more practically than DCF method because it gives a more realistic picture about how the explicit period and the residual value can contribute to the value of the company.

The Bank, in its strategic plan, has taken into consideration the effects of the present global economic situation, the cautious recovery of economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

An analysis of the provision for impairment by significant subsidiaries is as follows:

	30 June 2016	31 December 2015
OTP Bank JSC (Ukraine)	270,104	270,104
OTP Mortgage Bank Ltd.	117,294	117,294
OTP banka Srbija a.d. (Serbia)	63,233	63,233
OTP Holding Ltd. (Cyprus)	43,453	2,000
OTP Factoring Ltd.	32,600	51,621
Crnogorska komercijalna banka a.d. (Montenegro)	26,714	26,714
Merkantil Bank Ltd.	21,641	21,641
OTP banka Hrvatska d.d. (Croatia)	9,232	9,232
OTP Real Estate Leasing Ltd.	<u>7,368</u>	<u>7,368</u>
Total	<u>591,639</u>	<u>569,207</u>

Dividend income from significant subsidiaries and shares held-for-trading is as follows:

	30 June 2016	31 December 2015
DSK Bank EAD (Bulgaria)	51,552	43,822
OTP Mortgage Bank Ltd.	30,960	-
OTP Holding Malta Ltd. (Malta)	3,604	-
OTP Fund Management Ltd.	475	5,343
OTP Holding Ltd. (Cyprus)	-	3,700
OTP Building Society Ltd.	-	900
Other	<u>943</u>	<u>2,319</u>
Subtotal	<u>87,534</u>	<u>56,084</u>
Dividend from shares held-for-trading	<u>2,929</u>	<u>2,513</u>
Total	<u>90,463</u>	<u>58,597</u>

Significant associates and joint ventures

The main figures of the Bank's indirectly owned associates and joint ventures at cost¹:

As at 30 June 2016

	D-ÉG Thermoset Ltd.	Szallas.hu Ltd.	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	5,371	330	2,356	583	8,640
Liabilities	4,217	168	271	2	4,658
Shareholders' equity	1,154	162	2,085	581	3,982
Total income	2,519	569	553	8	3,649

¹ Based on unaudited financial statements.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

As at 31 December 2015

	D-ÉG Thermoset Ltd.	Szallas.hu Ltd.	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	5,356	722	2,296	584	8,958
Liabilities	4,090	296	110	2	4,498
Shareholders' equity	1,266	426	2,186	582	4,460
Total income	6,736	1,891	1,192	17	9,836

Capital transactions in subsidiaries are as follows:

	Date of transaction	Registered capital		Amount of transaction
		before transaction	after transaction	
OTP Bank Romania S.A. (Romania)	7/01/2016	RON 958,252,800	RON 1,254,252,720	RON 295,999,920
OTP Bank JSC (Ukraine)	25/01/2016	UAH 3,668,186,135	UAH 6,186,023,111	UAH 2,517,836,976
Bank Center No. 1. Ltd.	23/05/2016	HUF 9,750,000,000	HUF 9,750,100,000	HUF 100,000

On 3 February 2016 OTP Bank announces that AXA Bank Europe SA and OTP Bank signed an agreement on purchasing the business unit of AXA Bank Hungary. The purchase agreement includes the take-over of the retail credits and savings, as well as the corporate portfolio and the employees of AXA Bank.

The retail-focused AXA Bank is present in Hungary since 2009. AXA Bank has been offering innovative online customer services, and the bank has strong positions in the local mortgage market. After the completion of the purchase OTP Bank's mortgage portfolio will increase with almost 25%. According to the plans the integration process can be closed at the end of 2016 after obtaining all the necessary supervisory approvals.

On 2 August 2016 following the decision of the Hungarian Competition Authority, the National Bank of Hungary has granted permission as well for the transfer of the Hungarian business unit – as defined in the business transfer agreement – of AXA Bank to OTP Bank as of 31 October 2016 based on the business transfer agreement concluded on 2 February 2016 among AXA Bank Europe SA, the Hungarian Branch Office of AXA Bank Europe SA and OTP Bank.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn)

	30 June 2016	31 December 2015
Government bonds	793,655	803,802
Mortgage bonds	<u>4,749</u>	<u>4,758</u>
Subtotal	<u>798,404</u>	<u>808,560</u>
Accrued interest	<u>14,575</u>	<u>16,241</u>
Total	<u>812,979</u>	<u>824,801</u>

Interest conditions and the remaining maturities of held-to-maturity investments can be analysed as follows:

	30 June 2016	31 December 2015
Within five years:		
variable interest	1,670	3,339
fixed interest	<u>25,345</u>	<u>386,238</u>
	<u>27,015</u>	<u>389,577</u>
Over five years:		
fixed interest	<u>771,389</u>	<u>418,983</u>
	<u>771,389</u>	<u>418,983</u>
Total	<u>798,404</u>	<u>808,560</u>

The distribution of the held-to-maturity securities by currency (%):

	30 June 2016	31 December 2015
Securities held-to-maturity denominated in HUF	<u>100%</u>	<u>100%</u>
Securities held-to-maturity total	<u>100%</u>	<u>100%</u>
Interest rates on securities held-to-maturity	2.5%-9.48%	2.75%-9.48%
Average interest on securities held-to-maturity denominated in HUF	5.13%	5.9%

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

As at 30 June 2016

<u>Cost</u>	<u>Intangible assets</u>	<u>Property</u>	<u>Office equipment and vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Balance as at 1 January	131,539	69,019	67,925	3,017	271,500
Additions	6,189	1,422	2,475	2,384	12,470
Disposals	(4,941)	(681)	(1,134)	(3,819)	(10,575)
Closing balance	132,787	69,760	69,266	1,582	273,395

Depreciation and Amortization

Balance as at 1 January	99,101	20,061	56,460	-	175,622
Charge for the year	6,622	915	2,861	-	10,398
Disposals	(1,865)	(258)	(1,039)	-	(3,162)
Closing balance	<u>103,858</u>	<u>20,718</u>	<u>58,282</u>	<u>-</u>	<u>182,858</u>

Net book value

Balance as at 1 January	<u>32,438</u>	<u>48,958</u>	<u>11,465</u>	<u>3,017</u>	<u>95,878</u>
Closing balance	<u>28,929</u>	<u>49,042</u>	<u>10,984</u>	<u>1,582</u>	<u>90,537</u>

For the year ended 31 December 2015

<u>Cost</u>	<u>Intangible assets</u>	<u>Property</u>	<u>Office equipment and vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Balance as at 1 January	154,053	70,828	69,984	2,005	296,870
Additions	21,440	4,554	2,819	5,594	34,407
Disposals	(43,954)	(6,363)	(4,878)	(4,582)	(59,777)
Balance as at 31 December	<u>131,539</u>	<u>69,019</u>	<u>67,925</u>	<u>3,017</u>	<u>271,500</u>

Depreciation and Amortization

Balance as at 1 January	117,962	18,932	55,771	-	192,665
Charge for the year	13,978	1,825	5,517	-	21,320
Disposals	(32,839)	(696)	(4,828)	-	(38,363)
Balance as at 31 December	<u>99,101</u>	<u>20,061</u>	<u>56,460</u>	<u>-</u>	<u>175,622</u>

Net book value

Balance as at 1 January	<u>36,091</u>	<u>51,896</u>	<u>14,213</u>	<u>2,005</u>	<u>104,205</u>
Balance as at 31 December	<u>32,438</u>	<u>48,958</u>	<u>11,465</u>	<u>3,017</u>	<u>95,878</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 12: OTHER ASSETS¹ (in HUF mn)

	30 June 2016	31 December 2015
Prepayments and accrued income	52,288	19,319
Fair value of derivative financial instruments designated as fair value hedge	33,804	33,768
Deferred tax assets ²	28,003	41,905
Receivables from card operations	12,633	7,865
Receivables from investment services	6,531	8,769
Stock exchange deals	3,358	2,048
Other advances	2,880	2,871
Investment properties ³	2,803	2,803
Subsidies from Government orders	2,130	-
Trade receivables	1,939	3,778
Current income tax receivable	1,731	11,381
Due from Hungarian Government from interest subsidies	1,527	1,197
Inventories	719	457
Advances for securities and investments	637	631
Receivables from OTP Mortgage Bank Ltd. ⁴	141	13,734
Other	<u>8,725</u>	<u>6,794</u>
Subtotal	<u>159,849</u>	<u>157,320</u>
Provision for impairment on other assets ⁵	<u>(7,070)</u>	<u>(7,059)</u>
Total	<u>152,779</u>	<u>150,261</u>

Positive fair value of derivative financial instruments designated as fair value hedge:

	30 June 2016	31 December 2015
CCIRS designated as fair value hedge	16,233	18,375
Interest rate swaps designated as fair value hedge	<u>17,571</u>	<u>15,393</u>
Total	<u>33,804</u>	<u>33,768</u>

An analysis of the movement in the provision for impairment on other assets is as follows:

	30 June 2016	31 December 2015
Balance as at 1 January	7,059	4,439
Charge for the year	183	2,914
Release of provision	<u>(172)</u>	<u>(294)</u>
Closing balance	<u>7,070</u>	<u>7,059</u>

¹ Other assets – except income tax receivable and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Income tax receivable will be enforced in the tax return for the year 2016. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.

² See Note 25.

³ OTP Bank recognized rental income in the amount of HUF 30 million from OTP Facility Management Llc. for the operation of the investment properties in the six month period ended 30 June 2016.

⁴ The Bank, under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Ltd.

⁵ Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 13: AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	30 June 2016	31 December 2015
Within one year:		
In HUF	422,451	325,384
In foreign currency	<u>180,948</u>	<u>165,024</u>
	<u>603,399</u>	<u>490,408</u>
Over one year:		
In HUF	253,925	260,607
In foreign currency	<u>66,146</u>	<u>73,648</u>
	<u>320,071</u>	<u>334,255</u>
Subtotal	<u>923,470</u>	<u>824,663</u>
Accrued interest	<u>2,364</u>	<u>4,459</u>
Total¹	<u>925,834</u>	<u>829,122</u>

Interest rates on amounts due to banks and Hungarian Government, deposits from the NBH and other banks are as follows (%):

	30 June 2016	31 December 2015
Within one year:		
In HUF	(0.1%)-2.72%	(1%)-3.6%
In foreign currency	(0.27%)-9.5%	0%-1.27%
Over one year:		
In HUF	0%-2.76%	0%-3.24%
In foreign currency	0%-11.79%	0.1%-12.13%
Average interest on amounts due to banks in HUF	2%	2.44%
Average interest on amounts due to banks in foreign currency	1.15%	0.59%

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 June 2016	31 December 2015
Within one year:		
In HUF	3,351,633	3,504,480
In foreign currency	<u>802,621</u>	<u>782,143</u>
	<u>4,154,254</u>	<u>4,286,623</u>
Over one year:		
In HUF	<u>34,259</u>	<u>34,373</u>
	<u>34,259</u>	<u>34,373</u>
Subtotal	<u>4,188,513</u>	<u>4,320,996</u>
Accrued interest	<u>2,065</u>	<u>2,243</u>
Total	<u>4,190,578</u>	<u>4,323,239</u>

¹ It contains the loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 Standard. See details in Note 41.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]

Interest rates on deposits from customers are as follows (%):

	30 June 2016	31 December 2015
Within one year in HUF	0.01%-8%	0.01%-4%
Over one year in HUF	0.01%-1.4%	0.01%-6.85%
In foreign currency	0.01%-1.5%	0.01%-10%
Average interest on deposits from customers in HUF	0.38%	0.66%
Average interest on deposits from customers in foreign currency	0.21%	0.39%

An analysis of deposits from customers by type, not included accrued interest, is as follows:

	30 June 2016		31 December 2015	
Retail deposits	2,602,301	62%	2,544,375	59%
Household deposits	2,130,898	51%	2,074,581	48%
Deposits micro and small enterprises	471,403	11%	469,794	11%
Corporate deposits	1,586,212	38%	1,776,621	41%
Deposits to medium and large corporates	1,307,832	31%	1,468,427	34%
Municipality deposits	<u>278,380</u>	<u>7%</u>	<u>308,194</u>	<u>7%</u>
Total	<u>4,188,513</u>	<u>100%</u>	<u>4,320,996</u>	<u>100%</u>

NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	30 June 2016	31 December 2015
Within one year:		
In HUF	20,910	11,865
In foreign currency	<u>56,968</u>	<u>60,264</u>
	<u>77,878</u>	<u>72,129</u>
Over one year:		
In HUF	67,440	75,185
In foreign currency	<u>227</u>	<u>591</u>
	<u>67,667</u>	<u>75,776</u>
Subtotal	<u>145,545</u>	<u>147,905</u>
Accrued interest	<u>(1,586)</u>	<u>2,326</u>
Total	<u>143,959</u>	<u>150,231</u>

Interest rates on liabilities from issued securities are as follows (%):

	30 June 2016	31 December 2015
Issued securities denominated in HUF	0.01%-7%	0.01%-7%
Issued securities denominated in foreign currency	0.1%-1.5%	0.5%-3%
Average interest on issued securities denominated in HUF	1.17%	1.32%
Average interest on issued securities denominated in foreign currency	0.98%	1.42%

OTP BANK PLC.
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NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in foreign currency as at **30 June 2016** (in HUF mn):

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % actual)	Hedged	
1	OTP EUR 1 2016/XIII	30/12/2015	13/01/2017	EUR	25.77	8,145	0.5 fixed		
2	OTP EUR 1 2016/IX	25/09/2015	09/10/2016	EUR	21.05	6,655	0.6 fixed		
3	OTP EUR 1 2017/I	29/01/2016	12/02/2017	EUR	14.81	4,683	0.4 fixed		
4	OTP EUR 1 2016/X	30/10/2015	13/11/2016	EUR	14.44	4,567	0.6 fixed		
5	OTP EUR 1 2017/VI	27/05/2016	10/06/2017	EUR	11.84	3,744	0.1 fixed		
6	OTP EUR 1 2016/VII	30/06/2015	14/07/2016	EUR	9.81	3,101	0.8 fixed		
7	OTP EUR 1 2016/XI	11/11/2015	25/11/2016	EUR	8.78	2,777	0.6 fixed		
8	OTP EUR 1 2017/V	15/04/2016	29/04/2017	EUR	8.77	2,774	0.2 fixed		
9	OTP EUR 1 2017/III	26/02/2016	12/03/2017	EUR	7.49	2,368	0.4 fixed		
10	OTP_VK_USD_1_2016/III	25/09/2015	30/12/2015	25/09/2016	USD	7.53	2,141	0.8 floating	
11	OTP EUR 1 2017/IV	18/03/2016	01/04/2017	EUR	6.59	2,083	0.2 fixed		
12	OTP_VK_USD_2_2016/I	28/11/2014	28/11/2016	USD	6.72	1,911	1.1 floating		
13	OTP EUR 1 2016/VIII	24/07/2015	07/08/2016	EUR	6.04	1,909	0.7 fixed		
14	OTP EUR 1 2016/XII	27/11/2015	11/12/2016	EUR	5.91	1,868	0.5 fixed		
15	OTP EUR 1 2017/II	12/02/2016	26/02/2017	EUR	4.43	1,402	0.4 fixed		
16	OTP EUR 1 2017/VII	10/06/2016	24/06/2017	EUR	3.67	1,160	0.1 fixed		
17	OTP_VK_USD_1_2017/I	29/01/2016	29/01/2017	USD	3.89	1,105	0.8 floating		
18	OTP_VK_USD_1_2017/III	27/05/2016	27/05/2017	USD	3.33	947	0.8 floating		
19	OTP EUR 2 2016/XIX	03/10/2014	03/10/2016	EUR	1.91	602	1.5 fixed		
20	OTP_VK_USD_1_2017/II	18/03/2016	18/03/2017	USD	1.97	561	0.8 floating		
21	OTP EUR 2 2016/XV	30/07/2014	30/07/2016	EUR	1.48	467	1.5 fixed		
22	OTP EUR 2 2016/XVII	29/08/2014	29/08/2016	EUR	1.30	412	1.5 fixed		
23	OTP 2016/Dx	22/12/2011	29/12/2016	EUR	1.08	342	indexed	hedged	
24	OTP EUR 2 2016/XVIII	12/09/2014	12/09/2016	EUR	0.97	307	1.5 fixed		
25	OTP 2017/Fx	19/06/2012	16/06/2017	EUR	0.78	246	indexed	hedged	
26	OTP_VK_USD_1_2016/II	24/07/2015	24/07/2016	USD	0.83	235	0.9 floating		
27	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	195	indexed	hedged	
28	OTP EUR 2 2016/XIII	04/07/2014	04/07/2016	EUR	0.43	135	1.5 fixed		
29	OTP EUR 2 2016/XVI	08/08/2014	08/08/2016	EUR	0.35	111	1.5 fixed		
30	OTP EUR 2 2016/XIV	18/07/2014	18/07/2016	EUR	0.31	98	1.5 fixed		
31	OTP_VK_USD_2_2017/I	10/04/2015	10/04/2017	USD	0.33	94	1.1 floating		
Subtotal issued securities in FX						57,145			
Unamortized premium						<u>16</u>			
Fair value hedge adjustment						<u>34</u>			
Total						57,195			

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Term Note Program in the value of HUF 200 billion for the year of 2015/2016

On 30 June 2015 OTP Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 14 August 2015 the prospectus of Term Note Program and the disclosure as at 12 August 2015. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange without any obligation.

Term Note Program in the value of HUF 200 billion for the year of 2016/2017

On 5 July 2016 OTP Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 3 August 2016 the prospectus of Term Note Program and the disclosure as at 10 August 2016. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange without any obligation.

Certain structured bonds are hedged by interest rate swaps which may transfer to a transferee a fixed interest rate and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate and amount of the structure if any based on a notional amount which is equal to the notional amount of the hedged bond. In certain cases amount of the structure is hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond. The hedge is highly effective if changes in fair value or cash-flows attributable to the hedged risk during the period for which the hedge is designated are within a range of 80-125 per cent.

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF interest rate swap ("IRS") transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulted a decrease in the interest rate and foreign exchange exposure of issued securities.

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NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at **30 June 2016** (in HUF mn)

	Name	Date of issuance	Maturity	Nominal value in HUF million	Interest conditions (in % actual)	Hedged
1	OTP 2017/Ax	01/04/2011	31/03/2017	3,953	indexed	hedged
2	OTP 2019/Dx	22/03/2013	21/03/2019	3,941	indexed	hedged
3	OTP 2017/Bx	17/06/2011	20/06/2017	3,814	indexed	hedged
4	OTP 2020/Ex	18/06/2014	22/06/2020	3,790	indexed	hedged
5	OTP 2018/Bx	22/03/2012	22/03/2018	3,740	indexed	hedged
6	OTP 2016/Ax	11/11/2010	03/11/2016	3,427	indexed	hedged
7	OTP 2020/Fx	10/10/2014	16/10/2020	3,353	indexed	hedged
8	OTP 2018/Cx	18/07/2012	18/07/2018	3,210	indexed	hedged
9	OTP 2020/RF/C	11/11/2010	05/11/2020	3,147	indexed	hedged
10	OTP 2017/Ex	21/12/2011	28/12/2017	3,120	indexed	hedged
11	OTP 2019/Ex	28/06/2013	24/06/2019	3,106	indexed	hedged
12	OTP 2017/Cx	19/09/2011	25/09/2017	2,910	indexed	hedged
13	OTP 2020/RF/A	12/07/2010	20/07/2020	2,908	indexed	hedged
14	OTP 2020/Gx	15/12/2014	21/12/2020	2,843	indexed	hedged
15	OTP 2021/RF/B	20/10/2011	25/10/2021	2,728	indexed	hedged
16	OTP 2021/RF/A	05/07/2011	13/07/2021	2,723	indexed	hedged
17	OTP 2018/Dx	29/10/2012	26/10/2018	2,707	indexed	hedged
18	OTP 2018/Ex	28/12/2012	28/12/2018	2,688	indexed	hedged
19	OTP 2016/Bx	16/12/2010	19/12/2016	2,539	indexed	hedged
20	OTP 2022/RF/A	22/03/2012	23/03/2022	1,594	indexed	hedged
21	OTP 2020/RF/B	12/07/2010	20/07/2020	1,350	indexed	hedged
22	OTP TBSZ2016/I	14/01/2011	05/08/2011	1,145	5.5 fixed	
23	OTP TBSZ2016/II	26/08/2011	29/12/2011	626	5.5 fixed	
24	OTP 2022/RF/E	29/10/2012	31/10/2022	554	indexed	hedged
25	OTP 2021/RF/C	21/12/2011	30/12/2021	540	indexed	hedged
26	OTP 2022/RF/B	22/03/2012	23/03/2022	512	indexed	hedged
27	OTP 2018/Ax	03/01/2012	09/01/2018	508	indexed	hedged
28	OTP 2023/RF/A	22/03/2013	24/03/2023	493	indexed	hedged
29	OTP 2022/RF/F	28/12/2012	28/12/2022	417	indexed	hedged
30	OTP 2017/Dx	20/10/2011	19/10/2017	412	indexed	hedged
31	OTP 2024/Bx	10/10/2014	16/10/2024	385	indexed	hedged
32	OTP 2023/Ax	22/03/2013	24/03/2023	383	indexed	hedged
33	OTP 2021/RF/D	21/12/2011	30/12/2021	361	indexed	hedged
34	OTP 2019/Bx	05/10/2009	05/02/2010	355	indexed	hedged
35	OTP 2021/Dx	21/12/2011	27/12/2021	338	indexed	hedged
36	OTP 2020/Bx	28/06/2010	09/07/2020	318	indexed	hedged
37	OTP 2020/Ax	25/03/2010	30/03/2020	316	indexed	hedged
38	OTP 2022/Dx	28/12/2012	27/12/2022	316	indexed	hedged
39	OTP 2016/Ex	28/12/2012	27/12/2016	301	indexed	hedged
40	OTP 2021/Bx	17/06/2011	21/06/2021	299	indexed	hedged
41	OTP 2024/Cx	15/12/2014	20/12/2024	299	indexed	hedged
42	OTP 2019/Cx	14/12/2009	20/12/2019	285	indexed	hedged
43	OTP 2021/Cx	19/09/2011	24/09/2021	277	indexed	hedged
44	OTP 2024/Ax	18/06/2014	21/06/2024	270	indexed	hedged
45	OTP 2021/Ax	01/04/2011	01/04/2021	267	indexed	hedged
46	OTP 2023/Bx	28/06/2013	26/06/2023	265	indexed	hedged
47	OTP 2022/Ax	22/03/2012	23/03/2022	264	indexed	hedged
48	OTP 2022/Cx	29/10/2012	28/10/2022	258	indexed	hedged
49	OTP 2019/Ax	25/06/2009	01/07/2019	241	indexed	hedged
50	OTP 2022/Bx	18/07/2012	18/07/2022	240	indexed	hedged
51	OTP TBSZ6 2017/I	13/01/2012	22/06/2012	228	6.5 fixed	
52	OTP 2020/Dx	16/12/2010	18/12/2020	207	indexed	hedged
53	OTP 2022/RF/D	28/06/2012	28/06/2022	203	indexed	hedged
54	OTP 2020/Cx	11/11/2010	05/11/2020	195	indexed	hedged
55	OTP 2022/RF/C	28/06/2012	28/06/2022	158	indexed	hedged
56	OTP TBSZ 4 2016/I	18/01/2013	15/02/2013	156	5 fixed	
57	OTP 2021/RF/E	21/12/2011	30/12/2021	55	indexed	hedged
58	OTP OJK 2016/I	26/08/2011	21/12/2011	10	6.14 fixed	
59	OTP OJK 2017/I	27/01/2012	13/07/2012	6	7 fixed	
60	Other			229		
	Subtotal issued securities in HUF			76,283		
	Unamortized premium			(3,896)		
	Fair value hedge adjustment			15,963		
	Total issued securities in HUF			88,350		
	Accrued interest			(1,586)		
	Total issued securities			143,959		

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 16: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS
(in HUF mn)

Negative fair value of financial liabilities at fair value through profit or loss classified as held for trading by deal types:

	30 June 2016	31 December 2015
CCIRS and mark-to-market CCIRS	47,932	97,719
IRS	31,858	30,453
Foreign currency swaps	14,446	9,265
Other derivative contracts ¹	<u>7,841</u>	<u>7,155</u>
Total	<u>102,077</u>	<u>144,592</u>

¹ incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 17: OTHER LIABILITIES¹ (in HUF mn)

	30 June 2016	31 December 2015
Financial liabilities from OTP-MOL share swap transaction ²	77,674	66,787
Liabilities from investment services	47,549	39,399
Fair value of derivative financial instruments designated as fair value hedge	43,260	35,701
Accrued expenses	32,284	25,664
Salaries and social security payable	23,755	16,817
Current income tax payable	12,887	6,044
Accounts payable	10,610	20,038
HUF denominated liabilities from purchase of customers with cards	8,859	5,804
Provision on other liabilities, off-balance sheet commitments, contingent liabilities	6,159	51,411
Short term liabilities due to repurchase agreement transactions	5,650	7,452
Liabilities related to housing loans	1,626	1,475
Suspended liabilities	1,106	7,589
Liabilities connected to loans for collection	897	875
Giro clearing and other clearing accounts	507	6,143
Refunded liabilities ordered by law related to customer loans	924	995
Other	<u>10,060</u>	<u>7,833</u>
Total	<u>283,807</u>	<u>300,027</u>

The provision on other liabilities, off-balance sheet commitments and contingent liabilities are detailed as follows:

	30 June 2016	31 December 2015
Provision for losses on other off-balance sheet commitments and contingent liabilities	3,009	3,103
Provision on contingent liabilities due to regulations related to customer loans	1,598	1,598
Provision for litigation	274	1,112
Provision on expected liability in relation to OTP Holding Ltd. (Cyprus)	-	43,080
Provision for retirement pension and severance pay	-	1,000
Provision on other liabilities	<u>1,278</u>	<u>1,518</u>
Total	<u>6,159</u>	<u>51,411</u>

¹ Other liabilities – except financial liabilities from OTP-MOL share swap transaction, deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP-MOL share swap transaction is settled in June of each year until the maturity date. The fair value adjustment of swap transaction is HUF 86 million as at 30 June 2016. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity.

² On 16 April 2009, OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. On 11 July 2012 the parties amended the final maturity of the share swap agreement for 11 July 2017 until which any party can initiate cash or physical settlement of the transaction. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the loss of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity with the amount of HUF 55.5 billion and a recognition of a corresponding liability. As at 30 June 2016 and 31 December 2015 HUF 77,674 and HUF 66,787 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 17: OTHER LIABILITIES (in HUF mn) [continued]

Fair value of derivative financial instruments designated as fair value hedge is detailed as follows:

	30 June 2016	31 December 2015
CCIRS	23,566	21,978
IRS	<u>19,694</u>	<u>13,723</u>
Total	<u>43,260</u>	<u>35,701</u>

Movements in the provision for losses on commitments and contingent liabilities can be summarized as follows:

	30 June 2016	31 December 2015
Balance as at 1 January	51,411	55,596
Provision for the year	2,320	80,329
Release of provision	<u>(47,572)</u>	<u>(84,514)</u>
Closing balance	<u>6,159</u>	<u>51,411</u>

NOTE 18: SUBORDINATED BONDS AND LOANS (in HUF mn)

	30 June 2016	31 December 2015
Within one year		
In foreign currency	<u>155,628</u>	<u>156,481</u>
	<u>155,628</u>	<u>156,481</u>
Over one year:		
In foreign currency	<u>108,717</u>	<u>108,200</u>
	<u>108,717</u>	<u>108,200</u>
Subtotal	<u>264,345</u>	<u>264,681</u>
Accrued interest	<u>12,524</u>	<u>1,382</u>
Total	<u>276,869</u>	<u>266,063</u>

Interest rates on subordinated bonds and loans are as follows (%):

	30 June 2016	31 December 2015
Subordinated bonds and loans denominated in foreign currency	5.3%-5.9%	5.3%-5.9%
Average interest on subordinated bonds and loans denominated in foreign currency	6.45%	5.57%

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 18: SUBORDINATED BONDS AND LOANS (in HUF mn) [continued]

Subordinated loans and bonds are detailed as follows as at 30 June 2016:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 30 June 2016
Subordinated bond	EUR 353.1 million	07/11/2006	Perpetual bond	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	5.875%
Subordinated bond (under EMTN ¹ program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN ¹ program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%

¹ European Medium Term Note Program

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 19: SHARE CAPITAL (in HUF mn)

	30 June 2016	31 December 2015
<u>Authorized, issued and fully paid:</u>		
Ordinary shares	<u>28,000</u>	<u>28,000</u>

NOTE 20: RETAINED EARNINGS AND RESERVES (in HUF mn)

The reserves of the Bank under Hungarian Accounting Standards ("HAS")¹:

	30 June 2016	31 December 2015
Capital reserve	52	52
General reserve	30,869	14,123
Retained earnings	855,195	856,990
Tied-up reserve	<u>11,330</u>	<u>9,785</u>
Total	<u>897,446</u>	<u>880,950</u>

The legal reserves (general reserve and tied-up reserve) are not available for distribution. Dividend was calculated on the bases of the separate annual net profit according to HAS.

Capital reserve is the amount that the entity receives from the owners without obligation to repay it. According to HAS general reserve can be established of profit after tax and in case of loss after tax general reserve shall be used up to amount of loss or general reserve. Retained earnings are total sum of net profit or loss from previous years. Tied-up reserve contains cost of treasury shares and book value of experimental development reclassified from retained earnings in accordance with regulations of HAS.

In 2016 the Bank paid dividend of HUF 46,200 million from the profit of the year 2015, which means HUF 165 dividend/share payment.

On 19 October 2006 the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares ("ICES"). Within the transaction 10 million shares owned by OTP Bank and 4.5 million OTP shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP Bank has discretionary right to cancel the payments. The interest payable is non-cumulative.

Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

NOTE 21: TREASURY SHARES (in HUF mn)

	30 June 2016	31 December 2015
Nominal value (ordinary shares)	161	157
Carrying value at acquisition cost	10,639	9,153

The changes in the carrying value of treasury shares are due to repurchase and sale transactions on market authorised by the General Assembly.

¹ The reserves under IFRS are detailed in statement of changes in shareholders' equity.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 21: TREASURY SHARES (in HUF mn) [continued]

Change in number of shares:

	30 June 2016	31 December 2015
Number of shares as at 1 January	1,572,937	1,605,311
Additions	1,339,662	5,284,354
Disposals	<u>(1,302,470)</u>	<u>(5,316,728)</u>
Number of shares at the end of the period	<u>1,610,129</u>	<u>1,572,937</u>

Change in carrying value:

	30 June 2016	31 December 2015
Balance as at 1 January	9,153	7,073
Additions	9,017	26,721
Disposals	<u>(7,531)</u>	<u>(24,641)</u>
Closing balance	<u>10,639</u>	<u>9,153</u>

NOTE 22: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES
(in HUF mn)

	30 June 2016	31 December 2015
Provision for impairment on loan losses		
Provision for the year	19,278	69,926
Release of provision	(27,148)	(52,185)
Provision on loan losses	<u>13,442</u>	<u>21,804</u>
	<u>5,572</u>	<u>39,545</u>
Provision for impairment on placement losses		
Provision for the year	<u>1</u>	<u>3</u>
	<u>1</u>	<u>3</u>
Provision for impairment on loan and placement losses	<u>5,573</u>	<u>39,548</u>

NOTE 23: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

	30 June 2016	30 June 2015
Income from fees and commissions:		
Deposit and account maintenance fees and commissions	37,560	36,534
Fees and commissions related to the issued bank cards	14,842	13,434
Fees and commissions related to security trading	13,139	12,833
Fees related to the cash withdrawal	10,201	10,408
Fees and commissions received from OTP Mortgage Bank Ltd.	8,049	14,915
Fees and commissions related to lending	3,053	3,730
Net fee income related to card insurance services and loan agreements	2,805	740
Other	<u>1,652</u>	<u>3,394</u>
Total	<u>91,301</u>	<u>95,988</u>

OTP BANK PLC.
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NOTE 23: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

	30 June 2016	30 June 2015
Expenses from fees and commissions:		
Fees and commissions related to issued bank cards	4,322	3,962
Fees and commissions related to lending	2,435	2,116
Interchange fee	2,096	1,708
Fees and commissions related to security trading	543	513
Cash withdrawal transaction fees	507	551
Fees and commissions relating to deposits	428	422
Postal fees	118	125
Insurance fees	72	125
Money market transaction fees and commissions	44	960
Other	<u>1,325</u>	<u>1,196</u>
Total	<u>11,890</u>	<u>11,678</u>
 Net profit from fees and commissions	 <u>79,411</u>	 <u>84,310</u>

**NOTE 24: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE
EXPENSES (in HUF mn)**

	30 June 2016	30 June 2015
Other operating income:		
Gains on transactions related to property activities	97	63
Income from non-financing services	3	4
Other	<u>1,941</u>	<u>987</u>
Total	<u>2,041</u>	<u>1,054</u>
 Net other operating expenses:	 30 June 2016	 30 June 2015
Provision for impairment on investments in subsidiaries	42,270	8,465
Financial support for sport association and organization of public utility	3,339	7,328
Non-repayable assets contributed	612	-
Fine imposed by Competition Authority	18	16
Provision for impairment on other assets	13	2,000
Expenses from regulations related to customer loans	(5)	34,038
Release of provision for off-balance sheet commitments and contingent liabilities	(45,252)	(857)
Release of provision on contingent liabilities due to regulations related to customer loans	-	(33,351)
Expenses from promissory obligation to OTP Financing Solutions B.V.	-	946
Other	<u>1,005</u>	<u>2,775</u>
Total	<u>2,000</u>	<u>21,360</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 24: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

Other administrative expenses:

	30 June 2016	30 June 2015
Personnel expenses:		
Wages	29,699	28,908
Taxes related to personnel expenses	9,960	9,422
Other personnel expenses	<u>5,699</u>	<u>4,189</u>
Subtotal	<u>45,358</u>	<u>42,519</u>
Depreciation and amortization:	<u>10,398</u>	<u>10,262</u>
Other administrative expenses:		
Taxes, other than income tax ¹	42,911	54,187
Administration expenses, including rental fees	10,934	10,873
Services	10,610	10,115
Professional fees	5,336	3,717
Advertising	<u>2,601</u>	<u>1,980</u>
Subtotal	<u>72,392</u>	<u>80,872</u>
Total	<u>128,148</u>	<u>133,653</u>

NOTE 25: INCOME TAX (in HUF mn)

The Bank is presently liable for income tax at a rate of 19% of taxable income.

A breakdown of the income tax expense is:

	30 June 2016	31 December 2015
Current tax expense	1,305	2,386
Deferred tax expense / (income)	<u>15,077</u>	<u>(5,677)</u>
Total	<u>16,382</u>	<u>(3,291)</u>

A reconciliation of the deferred tax liability/asset is as follows:

	30 June 2016	31 December 2015
Balance as at 1 January	41,905	33,557
Deferred tax (expense) / income	(15,077)	5,677
Tax effect of fair value adjustment of available-for-sale securities recognized in other comprehensive income and ICES	<u>1,175</u>	<u>2,671</u>
Closing balance	<u>28,003</u>	<u>41,905</u>

¹ Special tax of financial institutions was paid by OTP Bank in the amount of HUF 11 and 24 billion for the year 2016 and 2015, respectively, recognized as an expense thus decreased the corporate tax base. In the six month period ended 30 June 2016 financial transaction duty was paid by the Bank in the amount of HUF 18 billion.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 25: INCOME TAX (in HUF mn) [continued]

A breakdown of the deferred tax asset/liability is as follows:

	30 June 2016	31 December 2015
Tax accrual caused by unused negative taxable income	21,061	26,417
Unused tax allowance	16,064	17,821
Goodwill	6,692	8,030
Refundable tax in accordance with Acts on Customer Loans	4,809	6,341
Repurchase agreements and security lending	4,126	4,102
Banking tax / transaction duty	1,201	-
Difference in accounting for finance leases	133	147
Amounts unenforceable by tax law	101	414
Fair value correction related to customer loan contracts	<u>73</u>	<u>80</u>
Deferred tax assets	<u>54,260</u>	<u>63,352</u>
Fair value adjustment of held for trading and available-for-sale securities	(12,962)	(12,432)
Deferred tax expense in relation of transition to IFRS	(4,900)	-
Fair value adjustment of derivative financial instruments	(2,664)	(2,793)
Difference in depreciation and amortization	(1,933)	(1,962)
Effect of using effective interest rate method	(1,696)	(1,695)
Effect of redemption of issued securities	(1,653)	(2,009)
Valuation of equity instrument (ICES)	(407)	(556)
Exchange of foreign currency-based customer loans into HUF	<u>(42)</u>	<u>-</u>
Deferred tax liabilities	<u>(26,257)</u>	<u>(21,447)</u>
Net deferred tax asset	<u>28,003</u>	<u>41,905</u>

A reconciliation of the income tax expense is as follows:

	30 June 2016	31 December 2015
Profit before income tax	156,561	46,354
Income tax at statutory tax rate (19%)	29,747	8,807
<i>Income tax adjustments due to permanent differences are as follows:</i>		
Revaluation of investments denominated in foreign currency to historical cost	2,465	(4,601)
Deferred use of tax allowance	1,758	(11,028)
Tax refund in accordance with Acts on Customer Loans	1,532	22,755
Share-based payment	354	724
Amounts unenforceable by tax law	313	(232)
Differences in carrying value of subsidiaries	48	(16,039)
Accounting of equity instrument (ICES)	9	(9)
Provision on expected liability	-	8,230
OTP-MOL share swap transaction	(16)	(615)
Treasury share transaction	(781)	(1,729)
Use of tax allowance in the current year	(3,683)	-
Dividend income	(17,175)	(11,133)
Other	<u>1,811</u>	<u>1,579</u>
Income tax	<u>16,382</u>	<u>(3,291)</u>
Effective tax rate	10.5%	(7.1%)

Effective tax rate was negative because income tax and income tax adjustments are altogether negative in 2015.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

26.1. Credit risk

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimit covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is partly managed obtaining collateral, corporate and personal guarantees.

26.1.1 Analysis by loan types

Classification into risk classes

Exposures with small amounts (retail and micro and small enterprises sector) are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are classified into five valuation groups which have been formed based on past due days from which three classes were presented (A: 0-90 days past due - DPD, B: 91-360 DPD, C: over 360 days past due).

The Bank intends – where a great number of items and sufficient long-term historical data is available – to apply models on statistical basis. The impairment is calculated according to the possibility of listing the loan into default categories examined on the base of objective valuation criteria (delay of payment, change of exchange) and the expected recovery from the collecting. If the loss of the exposure can't be modelled reliably, the impairment is determined by expert keys.

When applying the individual evaluation method, the incurred loss of each item is determined based on the consideration of all of the following criteria:

- the credit rating of the customer or the partner: the financial position, stability and income-generating capacity affected by the financial or investment service and issuer of the security, and any changes thereto;
- compliance with the rules of repayment (delay): delays in the repayment of the loan principal and its interests;
- the country risk relating to the customer (both political and transfer risks) and any changes thereto;
- the value of collaterals, their liquidity and accessibility, and any changes therein;
- the transferability and liquidity of the exposures (the market conditions of supply and demand, the available market prices and participation in the shareholders` equity of the issuer in proportion to the investment);
- the future payment obligation recognized as a loss arising from the exposure.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

The expected future losses of the individually assessed item are determined by taking into consideration the above listed objective valuation aspects. The expected loss, the volume of the necessary reserve, is defined by taking into account the value of the collaterals compared to the value of the collaterals relating to the exposure. The expected recovery is calculated by applying the effective interest rate method and the discounted cash-flow method. The impairment accounted for the item before should be completed to this level by increasing the amount of the impairment or by releasing the provision accounted before.

An analysis of the gross loan portfolio by loan types and DPD categories is as follows:

As at 30 June 2016

Loan type	DPD 0-90	DPD 91-360	DPD 360+	Total carrying amount /allowance
Placements with other banks	<u>796,600</u>	-	<u>30</u>	<u>796,630</u>
Total placements with other banks	<u>796,600</u>	<u>-</u>	<u>30</u>	<u>796,630</u>
<i>Allowance on placements with other banks</i>	-	-	(30)	(30)
Consumer loans	267,101	2,730	1,472	271,303
Mortgage and housing loans	57,149	2,710	9,769	69,628
Micro and small enterprises loans	142,213	1,982	126	144,321
Loans to medium and large corporates	1,252,312	7,677	44,107	1,304,096
Municipal loans	<u>24,263</u>	<u>202</u>	-	<u>24,465</u>
Gross loan portfolio total	<u>1,743,038</u>	<u>15,301</u>	<u>55,474</u>	<u>1,813,813</u>
<i>Allowance on loans</i>	<u>(42,457)</u>	<u>(9,248)</u>	<u>(39,934)</u>	<u>(91,639)</u>
Net portfolio total	<u>2,497,181</u>	<u>6,053</u>	<u>15,540</u>	<u>2,518,774</u>
Accrued interest				
Placements with other banks				1,771
Loans				<u>4,856</u>
Total accrued interest				<u>6,627</u>
Total placements with other banks				798,371
Total loans				<u>1,727,030</u>
Total				<u>2,525,401</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

As at 31 December 2015

Loan type	DPD 0-90	DPD 91-360	DPD 360+	Total carrying amount /allowance
Placements with other banks	646,406	-	29	646,435
Total placements with other banks	646,406	-	29	646,435
<i>Allowance on placements with other banks</i>	-	-	(29)	(29)
Consumer loans	259,558	4,119	2,966	266,643
Mortgage and housing loans	63,882	3,725	10,353	77,960
Micro and small enterprises loans	130,542	1,451	68	132,061
Loans to medium and large corporates	1,222,070	8,833	46,389	1,277,292
Municipal loans	19,891	74	41	20,006
Gross loan portfolio total	1,695,943	18,202	59,817	1,773,962
<i>Allowance on loans</i>	<i>(47,041)</i>	<i>(10,090)</i>	<i>(42,532)</i>	<i>(99,663)</i>
Net portfolio total	2,295,308	8,112	17,285	2,320,705
Accrued interest				
Placements with other banks				1,318
Loans				4,885
Total accrued interest				6,203
Total placements with other banks				647,724
Total loans				1,679,184
Total				2,326,908

The Bank's gross loan portfolio increased by 7.85% in the six month period ended 30 June 2016. Analysing the contribution of loan types to the loan portfolio, the share of several business lines hardly changed. The ratio of the DPD90⁻ loans compared to the gross loan portfolio increased slightly from 96.78% to 97.29% as at 30 June 2016, while the ratio of DPD90⁺ loans in gross loan portfolio decreased from 3.22% to 2.71%.

The Bank has a prudent provisioning policy, the coverage of loans by provision for impairment on DPD90⁺ loans increased from 67.45% to 69.49% in the six month period ended 30 June 2016.

Not impaired loan portfolio

An analysis of the credit classification of the gross value of the loans that are not impaired, not past due and past due is as follows:

As at 30 June 2016

Loan type	Not past due	DPD 0-90	DPD 91-360	DPD 360+	Total
Placements with other banks	796,599	-	-	-	796,599
Consumer loans	214,895	51,994	-	-	266,889
Mortgage and housing loans	46,055	10,530	360	909	57,854
Micro and small enterprises loans	138,819	3,381	-	-	142,200
Loans to medium and large corporates	1,159,008	4,134	240	107	1,163,489
Municipal loans	24,576	477	202	-	25,255
Total	2,379,952	70,516	802	1,016	2,452,286

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

As at 31 December 2015

Loan type	Not past due	DPD 0-90	DPD 91-360	DPD 360+	Total
Placements with other banks	646,406	-	-	-	646,406
Consumer loans	212,132	47,140	70	5	259,347
Mortgage and housing loans	53,675	10,147	174	987	64,983
Micro and small enterprises loans	128,465	1,694	-	-	130,159
Loans to medium and large corporates	1,111,436	3,324	300	4	1,115,064
Municipal loans	<u>20,057</u>	<u>964</u>	<u>74</u>	<u>-</u>	<u>21,095</u>
Total	<u>2,172,171</u>	<u>63,269</u>	<u>618</u>	<u>996</u>	<u>2,237,054</u>

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 89.74% to 91.17% as at 30 June 2016 compared to 31 December 2015. The loans that are neither past due nor impaired are concentrated in the corporate business line. The ratio of the gross value of the loans past due not impaired compared to the whole portfolio increased from 2.68% to 2.77%. The loans that are past due but not impaired are concentrated in the retail business line. During collective valuation method the Bank recognizes provision for impairment on loans over a 30 day delay. Those loans which are guaranteed by state and are past due 30 days not impaired due to the state guarantee. The level of corporate loans past due but not impaired is possible because of endorsing collaterals considering during the individual evaluation. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank. Among the past due loans, the share of certain loan types changed insignificantly as at 30 June 2016 compared to 31 December 2015.

Loans individually assessed for provision

The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.

As at 30 June 2016

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off balance sheet contingent liabilities
Delay of repayment	30,142	23,937	7,230	-	-
Regularity of payment	4	1	13	-	-
Legal proceedings	80,972	45,425	9,829	79	54
Decrease of client classification	13,871	6,373	6,397	4,868	449
Loan characteristics	43,281	5,660	36,737	-	-
Business lines risks	34,273	4,473	5,440	5,707	269
Refinancing of subsidiaries portfolio	-	-	-	-	-
Cross default	43,453	19,583	14,902	95	47
Other	<u>3,281</u>	<u>367</u>	<u>2,027</u>	<u>2,727</u>	<u>319</u>
Corporate total	<u>249,277</u>	<u>105,819</u>	<u>82,575</u>	<u>13,476</u>	<u>1,138</u>
Delay of repayment	-	-	-	-	-
Regularity of payment	-	-	-	-	-
Legal proceedings	-	-	-	-	-
Decrease of client classification	-	-	-	-	-
Cross default	-	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Municipal total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Placements with other banks	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>249,277</u>	<u>105,819</u>	<u>82,575</u>	<u>13,476</u>	<u>1,138</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

Loans individually assessed for provision [continued]

As at 31 December 2015

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off-balance sheet contingent liabilities
Delay of repayment	31,026	24,000	9,132	-	-
Regularity of payment	134	44	105	-	-
Legal proceedings	81,103	77,281	10,421	110	58
Decrease of client classification	14,811	5,045	8,106	2,206	296
Loan characteristics	54,682	9,780	35,618	-	-
Business lines risks	36,081	5,529	6,234	5,588	276
Refinancing of subsidiaries portfolio	-	-	-	-	-
Cross default	31,366	18,729	5,365	95	47
Other	<u>5,595</u>	<u>780</u>	<u>4,544</u>	<u>2,890</u>	<u>385</u>
Corporate total	<u>254,798</u>	<u>141,188</u>	<u>79,525</u>	<u>10,889</u>	<u>1,062</u>
Delay of repayment	-	-	-	-	-
Regularity of payment	-	-	-	-	-
Legal proceedings	41	41	-	-	-
Decrease of client classification	-	-	-	-	-
Cross default	-	-	-	-	-
Other	-	-	-	-	-
Municipal total	<u>41</u>	<u>41</u>	<u>-</u>	<u>-</u>	<u>-</u>
Placements with other banks	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>254,839</u>	<u>141,229</u>	<u>79,525</u>	<u>10,889</u>	<u>1,062</u>

Regarding corporate business line in the individually rated portfolio the ratio of the carrying value of loans classified due to Regularity of payment decreased significantly as at 31 December 2016 compared to 31 December 2015, while the carrying value of loans classified due to Loan characteristics decreased by 21% as at 30 June 2016.

Transactions with high level of risk:

Loans to customers are classified by using this category name if the clients are performing according to the contracts but the risks of the transactions are higher than usual (balloon payment, using loan to finance the monetary expenditures in the phase of investment).

Business lines risks:

Transactions are classified by using this category name, if the client works in the branch which had been accused by the financial crisis (vehicle industry, building industry, real estate services, metal processing and financial services).

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

Loan portfolio by countries

An analysis of carrying amount of the non-qualified and qualified gross loan portfolio in a country breakdown is as follows:

Country	30 June 2016		31 December 2015	
	Gross loan and placement with other banks portfolio	Allowance	Gross loan and placement with other banks portfolio	Allowance
Hungary	1,882,394	43,134	1,672,842	50,229
Belgium	29,385	-	23,790	-
Belarus	948	-	-	-
Bulgaria	72,867	637	69,848	674
Croatia	43,201	203	32,371	201
Cyprus	41,287	18,470	42,062	18,308
France	3,478	-	7,909	-
Germany	74,885	-	15,413	1
Luxembourg	2	-	42	-
Montenegro	41,146	17,963	41,843	15,411
Norway	1,663	-	5,438	-
Poland	2,796	-	3,250	-
Romania	204,021	2,259	216,571	5,226
Russia	63,325	2,379	68,778	3,326
Serbia	10,848	-	13,432	-
Seychelles	4,297	4,264	4,818	4,818
Slovakia	23,150	129	22,261	131
Sweden	2,851	-	-	-
Switzerland	923	267	8,367	88
Ukraine	59,129	1,934	103,382	1,250
United Kingdom	27,019	-	54,952	-
United States of America	1,730	30	994	29
Other	19,098 ¹	-	12,034 ¹	-
Total	<u>2,610,443</u>	<u>91,669</u>	<u>2,420,397</u>	<u>99,692</u>

¹ Austria, Czech Republic, Denmark, Italy, Turkey

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.2 Collaterals

The collateral value held by the Bank by collateral types is as follows (**total collateral value**). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	30 June 2016	31 December 2015
Mortgages	720,870	699,275
Guarantees and warranties	266,669	216,552
Deposit	85,473	57,353
<i>from this: Cash</i>	60,189	38,115
<i>Securities</i>	22,321	16,366
<i>Other</i>	2,963	2,872
Assignment	445	570
Other	<u>484</u>	<u>613</u>
Total	<u>1,073,941</u>	<u>974,363</u>

The collateral value held by the Bank by collateral types is as follows (**to the extent of the exposures**). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	30 June 2016	31 December 2015
Mortgage	291,613	279,700
Guarantees and warranties	137,908	125,345
Deposit	23,717	24,486
<i>from this: Cash</i>	13,255	15,401
<i>Securities</i>	7,903	6,604
<i>Other</i>	2,559	2,481
Assignment	290	351
Other	<u>440</u>	<u>312</u>
Total	<u>453,968</u>	<u>430,194</u>

The coverage level of loan portfolio to the extent of the exposures decreased from 17.77% to 17.39% as at 30 June 2016, while the coverage to the total collateral value improved from 40.26% to 41.14%.

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.3 Restructured loans

	30 June 2016		31 December 2015	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	8,555	3,394	11,545	4,962
Loans to medium and large corporates ¹	44,864	20,292	62,630	23,252
Micro and small enterprises loans	<u>1,549</u>	<u>19</u>	<u>1,824</u>	<u>24</u>
Total	<u>54,968</u>	<u>23,705</u>	<u>75,999</u>	<u>28,238</u>

Restructured portfolio definition

Restructured portfolio for **retail business line** contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- it was restructured in the last 12 months, or
- it was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months.

Hungarian FX mortgage loans in the fixed exchange rate scheme are not included.

In case of loans that have been restructured more than once the last restructuring is considered.

Restructured portfolio for **corporate / micro and small enterprises / municipal business line** contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- independently from the date of the restructuring the following restructuring tool was applied:
 - o cancellation of principal outstanding (cancelled or partially cancelled principal receivables);
- it was restructured in the last 12 months or the loan was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months, and any of the following restructuring tools were applied:
 - o cancellation of interest rate (final or temporary reduction of the interest margin, cancellation of due interest), or
 - o restructuring of interest payments (postponement of the interest payment, capitalisation of the interest), or
 - o restructuring of principal repayment (partial or full postponement of repayment of a given instalment, rescheduling one or more instalments within the original term or with extension of the term simultaneously).

Other modifications of contract not mentioned above are not considered as restructuring (i.e. modifying the collateral structure, modification of the credit purpose).

In case of loans that have been restructured more than once the last restructuring is considered.

¹ incl.: project and syndicated loans

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

Financial instruments by rating categories¹

Held-for-trading securities as at 30 June 2016

	A1	A2	A3	Aa3	Aaa	Ba1	Baa1	Baa2	Baa3	Not rated	Total
Shares	67	55	75	11	13	36	56	12	30	82,445	82,800
Government bonds	-	-	-	-	-	20,279	-	-	-	-	20,279
Mortgage bonds	-	-	-	-	-	-	-	109	-	-	109
Hungarian government discounted Treasury Bills	-	-	-	-	-	1,372	-	-	-	-	1,372
Hungarian government interest bearing Treasury Bills	-	-	-	-	-	13,466	-	-	-	-	13,466
Securities issued by credit institutions	-	-	-	-	-	-	-	-	-	53	53
Other securities	-	-	-	-	-	-	-	-	-	1,649	1,649
Total	<u>67</u>	<u>55</u>	<u>75</u>	<u>11</u>	<u>13</u>	<u>35,153</u>	<u>56</u>	<u>121</u>	<u>30</u>	<u>84,147</u>	<u>119,728</u>
Accrued interest											411
Total											<u>120,139</u>

Available-for-sale securities as at 30 June 2016

	A2	Ba1	Baa2	Baa3	Not rated	Total
Mortgage bonds	-	-	454,996	-	6,333	461,329
Government bonds	15,089	976,438	3,326	7,249	-	1,002,102
Other securities	-	-	-	-	125,195	125,195
Total	<u>15,089</u>	<u>976,438</u>	<u>458,322</u>	<u>7,249</u>	<u>131,528</u>	<u>1,588,626</u>
Accrued interest						14,957
Total						<u>1,603,583</u>

¹ Moody's ratings

OTP BANK PLC.
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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

Held-to-maturity securities as at 30 June 2016

	Ba1	Baa2	Total
Government bonds	793,655	-	793,655
Mortgage bonds	-	<u>4,749</u>	<u>4,749</u>
Subtotal	<u>793,655</u>	<u>4,749</u>	<u>798,404</u>
Accrued interest			<u>14,575</u>
Total			<u>812,979</u>

An analysis of securities (held for trading, available-for-sale and held-to-maturity) in a country breakdown is as follows:

Country	30 June 2016	31 December 2015
Hungary	2,427,746	2,308,787
Slovakia	43,441	7,171
Poland	18,415	-
Austria	7,879	7,357
Luxembourg	7,058	6,444
United States of America	1,816	5,679
Germany	<u>403</u>	<u>343</u>
Total	<u>2,506,758</u>	<u>2,335,781</u>

26.2. Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a Value-at-Risk ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Note 32, 33 and 34, respectively.)

26.2.1 Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation 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. VaR methodologies are applied to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

The VaR of the trading portfolio can be summarized as follows (in HUF mn):

Historical VaR (99%, one-day) by risk type	Average	
	30 June 2016	30 June 2015
Foreign exchange	50	218
Interest rate	153	213
Equity instruments	4	3
Diversification	<u>(50)</u>	<u>(167)</u>
Total VaR exposure	<u>156</u>	<u>267</u>

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.2. Market risk [continued]

While VaR captures the Bank's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Bank to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 26.2.2 below and, for interest rate risk, in Note 26.2.3 below.

26.2.2. Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to an increase and decrease in the HUF exchange rate against EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was short, amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries). High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at Group level –, and so FX risk affects the Group's other comprehensive income and not its income. A positive number below indicates an increase in profit where the HUF strengthens against the EUR and the USD. For a weakening of the HUF against the EUR and USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the P&L in 3 months period	
	30 June 2016	30 June 2015
	In HUF billion	In HUF billion
1%	(12.8)	(9.9)
5%	(8.8)	(6.9)
25%	(3.7)	(2.8)
50%	0.3	(0.5)
25%	3.0	3.8
5%	7.5	9.0
1%	10.6	13.2

Notes:

- (1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
- (2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2016.

26.2.3. Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date were outstanding for the whole year. The analysis was prepared by assuming only the adverting interest rate changes. The main assumptions were as follows:

- Floating-rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed-rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.
- The sensitivity of interest income to changes in BUBOR, EURIBOR and USD LIBOR is analysed.

The simulation was prepared by assuming two scenarios:

1. HUF base rate decreases gradually to 0.5% (probable scenario)
2. HUF base rate decreases gradually to 0.0% (alternative scenario)

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.2. Market risk [continued]

The net interest income in a one year period beginning with 1 July 2016 would be decreased by HUF 1,958 million (probable scenario) and HUF 5,007 million (alternative scenario) as a result of these simulations. This effect is counterbalanced by capital gains (HUF 60 million for probable scenario, HUF 916 million for alternative scenario) on the government bond portfolio held for hedging (economic).

The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period and to the market value of the hedge government bond portfolio booked against capital can be summarized as follows (HUF million):

Description	30 June 2016		30 June 2015	
	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(853)	217	(376)	295
EUR (0.1%) parallel shift	(345)	-	(305)	-
USD 0.1% parallel shift	<u>(78)</u>	<u>-</u>	<u>(156)</u>	<u>-</u>
Total	<u>(1,276)</u>	<u>217</u>	<u>(837)</u>	<u>295</u>

26.2.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Bank uses VaR calculation with 1 day holding period and 99% 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. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. This scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	30 June 2016	30 June 2015
VaR (99%, one day, million HUF)	4	3
Stress test (million HUF)	(48)	(41)

26.2.5. Capital management

Capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Bank includes the management and evaluation of the shareholders' equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.2. Market risk [continued]

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business. The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with HAS applying the current directives, rulings and indicators from 1 January 2014.

The Bank has entirely complied with the regulatory capital requirements in the first half of 2016 as well as in 2015.

The capital adequacy calculations of the Bank in accordance with HAS are prepared based on the Basel II for the year ended 31 December 2013 and based on Basel III as at 31 December 2014 due to modification of the regulation. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA) is applied since 31 December 2012.

The calculation of the Capital Adequacy ratio as at 30 June 2016 and 31 December 2015 is as follows:

	30 June 2016	31 December 2015
	Basel III	Basel III
Tier 1 capital	1,039,789	831,469
<i>Common equity Tier 1 capital (CET1)</i>	<i>1,039,789</i>	<i>831,469</i>
<i>Additional Tier 1 capital (AT1)</i>	<i>-</i>	<i>-</i>
Tier 2 capital	124,279	143,721
Regulatory capital	<u>1,164,068</u>	<u>975,190</u>
Credit risk capital requirement	257,589	232,651
Market risk capital requirement	45,869	40,619
Operational risk capital requirement	<u>21,362</u>	<u>20,550</u>
Total requirement regulatory capital	<u>324,820</u>	<u>293,820</u>
Surplus capital	<u>839,248</u>	<u>681,370</u>
CET 1 ratio	25.61%	22.64%
Capital adequacy ratio	<u>28.67%</u>	<u>26.55%</u>

Basel III: Common equity Tier 1 capital (CET1): Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due to investments, adjustments due to temporary disposals

Tier 2 capital: Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals

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NOTE 27: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS
(in HUF mn)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities and commitments

	30 June 2016	31 December 2015
Commitments to extend credit	1,038,711	948,917
Guarantees arising from banking activities	460,618	419,210
<i>from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank</i>	<i>112,618</i>	<i>123,938</i>
Legal disputes (disputed value)	29,268	35,382
Contingent liabilities ordered by law related to customer loans	1,598	1,598
Confirmed letters of credit	445	171
Other	<u>106,814</u>	<u>92,558</u>
Total	<u>1,637,454</u>	<u>1,497,836</u>

Legal disputes

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

Provision due to legal disputes was HUF 274 million and HUF 1,112 million as at 30 June 2016 and 31 December 2015, respectively. (See Note 17.)

Commitments to extend credit, guarantees and letter of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. 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 undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations 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 potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The Management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

OTP BANK PLC.
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NOTE 27: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount and until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank. A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Contingent liabilities related to OTP Mortgage Bank Ltd.

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank had guaranteed, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. The repurchase guarantee contract of non-performing loans between OTP Mortgage Bank Ltd. and OTP Bank Plc. was modified in 2010. According to the new arrangement the repurchase guarantee was cancelled and OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

Derivatives

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Bank in most of the cases requires margin deposits.

NOTE 28: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises.

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

OTP Bank ensures the share-based payment part for the management personnel of OTP Group members.

The value of the discounted share-based payment at the performance assessment is determined by Supervisory Board¹ based on the average of the three previous trade day's middle rate of OTP Bank's equity shares fixed on the Budapest Stock Exchange.

Discounted share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date is determined by Supervisory Board, maximum HUF 4,000.

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with concerning EU-directives –, therefore a decision was made to cancel the share-based payment in referred countries.

¹ Until the end of 2014 Board of Directors

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NOTE 28: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies. In case of the jubilee benefits both standards contain regulations.

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. Other long-term employee benefits are all employee benefits other than short-term employee benefits, postemployment benefits and termination benefits.

The parameters for the share-based payment relating to the year 2010-2014 were determined by Board of Directors and relating to years from 2015 by Supervisory Board for periods of each year as follows:

Year	Share purchasing at a discounted price		Price of remuneration exchanged to share											
	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share
	HUF per share		HUF per share		HUF per share		HUF per share		HUF per share		HUF per share		HUF per share	
for the year 2010		for the year 2011		for the year 2012		for the year 2013		for the year 2014		for the year 2015				
2011	3,946	2,500	-	-	-	-	-	-	-	-	-	-	-	-
2012	3,946	3,000	1,370	3,000	-	-	-	-	-	-	-	-	-	-
2013	4,446	3,500	1,870	3,000	2,886	3,000	-	-	-	-	-	-	-	-
2014	4,946	3,500	1,870	4,000	2,886	3,000	2,522	2,500	-	-	-	-	-	-
2015	-	-	1,870	4,000	2,886	3,000	2,522	3,000	3,930	2,500	-	-	-	-
2016	-	-	-	-	2,886	3,500	2,522	3,500	3,930	3,000	4,892	2,500	6,892	6,892
2017	-	-	-	-	-	-	2,522	3,500	3,930	3,000	4,892	3,000	6,892	6,892
2018	-	-	-	-	-	-	-	-	3,930	3,000	4,892	3,000	6,892	6,892
2019	-	-	-	-	-	-	-	-	-	-	4,892	3,000	6,892	6,892

OTP BANK PLC.
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NOTE 28: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Board of Directors, relating to the year **2010** effective pieces are follows as at 30 June 2016:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2011	-	340,950	11,622	5,731	329,328
Share-purchasing period started in 2012	-	735,722	714,791	4,593	20,931
Share-purchasing period started in 2013	-	419,479	31,789	4,808	387,690
Share-purchasing period started in 2014	-	497,451	495,720	5,838	1,731

Based on parameters accepted by Board of Directors, relating to the year **2011** effective pieces are follows as at 30 June 2016:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2012	-	471,240	464,753	3,758	6,487
Share-purchasing period started in 2013	-	1,267,173	1,256,529	4,886	10,644
Share-purchasing period started in 2014	-	609,137	609,137	4,799	-
Share-purchasing period started in 2015	670	608,118	607,448	5,618	-

Based on parameters accepted by Board of Directors, relating to the year **2012** effective pieces are follows as at 30 June 2016:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2013	-	450,861	445,671	4,413	5,190
Share-purchasing period started in 2014	-	1,156,631	1,151,890	4,982	4,741
Share-purchasing period started in 2015	660	555,845	555,185	5,655	-
Share-purchasing period started in 2016	21,429	581,377	559,948	6,565	-

Based on parameters accepted by Board of Directors, relating to the year **2013** effective pieces are follows as at 30 June 2016:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2014	-	406,044	404,263	4,369	1,781
Share-purchasing period started in 2015	1,494	804,469	802,975	4,912	-
Share-purchasing period started in 2016	57,472	393,750	336,278	6,569	-
Share-purchasing period starting in 2017	549,909	-	-	-	-

Based on parameters accepted by Supervisory Board, relating to the year **2014** effective pieces are follows as at 30 June 2016:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2015	-	176,459	176,459	5,828	-
Share-purchasing period started in 2016	202,135	360,425	158,290	6,690	-
Share-purchasing period starting in 2017	214,392	-	-	-	-
Share-purchasing period starting in 2018	237,013	-	-	-	-

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 28: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board, relating to the year **2015** effective pieces are follows as at 30 June 2016:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2016	141,613	152,247	10,634	6,691	-
Remuneration exchanged to share provided in 2016	501	10,947	10,446	6,511	-
Share-purchasing period starting in 2017	305,613	-	-	-	-
Remuneration exchanged to share applying in 2017	21,490	-	-	-	-
Share-purchasing period starting in 2018	166,321	-	-	-	-
Remuneration exchanged to share applying in 2018	9,543	-	-	-	-
Share-purchasing period starting in 2019	204,585	-	-	-	-
Remuneration exchanged to share applying in 2019	10,671	-	-	-	-

Effective pieces relating to the periods starting in 2016-2019 settled during valuation of performance of year 2013-2015, can be modified based on risk assessment and personal changes.

In connection with shares given as a part of payments detailed in the *Direction Chief Executive about Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 1,865 million was recognized as expense as at 30 June 2016.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 29: RELATED PARTY TRANSACTIONS (in HUF mn)

The Bank provides loans to related parties, and collects deposits.

Transactions with related parties (subsidiaries), other than increases in share capital or dividend received, are summarized below:

a) Loans provided to related parties

	30 June 2016	31 December 2015
OTP Mortgage Bank Ltd.	434,060	262,444
OTP Financing Malta Company Ltd. (Malta)	332,597	344,003
Merkantil Bank Ltd.	178,555	170,919
OTP Factoring Ltd.	123,865	134,220
OTP Real Estate Leasing Ltd.	23,510	23,967
Merkantil Lease Ltd.	12,216	18,763
OTP Holding Malta Ltd. (Malta)	11,161	5,010
JSC "OTP Bank" (Russia)	8,186	11,085
OTP Financing Netherlands B.V. (the Netherlands)	5,640	7,567
OTP Leasing Ukraine (Ukraine)	5,320	5,358
D-ÉG Thermoset Ltd. ¹	2,335	2,531
Merkantil Real Estate Leasing Ltd.	2,101	2,285
OTP banka Srbija a.d. (Serbia)	331	2,731
Merkantil Car Ltd.	136	150
OTP Bank Romania S.A. (Romania)	-	21,125
Other	6,454	6,481
Total	<u>1,146,467</u>	<u>1,018,639</u>

b) Deposits from related parties

	30 June 2016	31 December 2015
DSK Bank EAD (Bulgaria)	330,134	250,655
OTP Mortgage Bank Ltd.	77,026	70,597
JSC "OTP Bank" (Russia)	59,371	25,852
OTP Funds Servicing and Consulting Ltd.	42,357	32,091
OTP Bank Romania S.A. (Romania)	37,639	31,507
OTP Banka Slovensko a.s. (Slovakia)	36,577	39,873
OTP Building Society Ltd.	18,059	28,122
OTP banka Hrvatska d.d. (Croatia)	17,057	17,240
Crnogorska komercijalna banka a.d (Montenegro)	8,002	15,680
Inga Kettő Ltd.	7,751	15,368
Bank Center Ltd.	6,284	6,428
Balansz Real Estate Institute Fund	5,973	8,858
Merkantil Bank Ltd.	4,705	7,233
OTP Financing Malta Company Ltd. (Malta)	3,399	1,253
OTP Life Annuity Ltd.	2,981	3,090
OTP Holding Ltd./ OTP Financing Cyprus Co. Ltd. (Cyprus)	2,322	1,509
OTP Real Estate Leasing Ltd.	2,300	1,725
OTP Factoring Ltd.	2,142	1,843
OTP Financing Netherlands B. V. (the Netherlands)	1,311	1,078
Monicomp Ltd.	1,081	804
OTP banka Srbija a.d. (Serbia)	171	1,079
Other	7,690	4,083
Total	<u>674,332</u>	<u>565,968</u>

¹ Associate company

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 29: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

c) Interests received by the Bank¹

	30 June 2016	30 June 2015
OTP Mortgage Bank Ltd.	2,728	2,997
OTP Financing Malta Company Ltd. (Malta)	2,403	2,072
Merkantil Bank Ltd.	1,979	1,647
OTP Factoring Ltd.	1,066	1,437
OTP Real Estate Leasing Ltd.	218	285
OTP Leasing Ukraine (Ukraine)	156	540
Merkantil Lease Ltd.	133	335
D-ÉG Thermoset Ltd. ²	30	66
OTP Holding Ltd./ OTP Financing Cyprus Co. Ltd. (Cyprus)	28	431
OTP Financing Netherlands B.V. (the Netherlands)	27	134
OTP Financing Solutions B.V. (the Netherlands)	-	2,659
JSC "OTP Bank" (Russia)	-	363
Inga Kettő Ltd.	-	178
Bank Center Ltd.	-	104
OTP Leasing d.d. (Croatia)	-	86
DSK Leasing AD (Bulgaria)	-	53
Other	<u>38</u>	<u>230</u>
Total	<u>8,806</u>	<u>13,617</u>

d) Interests paid by the Bank³

	30 June 2016	30 June 2015
DSK Bank EAD (Bulgaria)	2,790	2,845
JSC "OTP Bank" (Russia)	774	189
OTP Mortgage Bank Ltd.	548	1,770
Merkantil Lease Ltd.	265	515
OTP Bank Romania S.A. (Romania)	259	245
OTP Funds Servicing and Consulting Ltd.	238	306
OTP Banka Slovensko a.s. (Slovakia)	228	654
OTP Building Society Ltd.	152	318
OTP banka Hrvatska d.d. (Croatia)	88	145
Bank Center Ltd.	36	20
Crnogorska komercijalna banka a.d (Montenegro)	33	88
Merkantil Bank Ltd.	25	-
OTP Life Annuity Ltd.	19	30
OTP Factoring Ltd.	3	46
Other	<u>66</u>	<u>10</u>
Total	<u>5,524</u>	<u>7,181</u>

¹ Derivatives and interest on securities are not included.

² Associate company

³ Derivatives and interest on securities are not included.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 29: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

e) Commissions received by the Bank

	30 June 2016	30 June 2015
From OTP Fund Management Ltd. in relation to trading activity	4,192	5,358
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	654	427
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	610	608
From Merkantil Bank Ltd. in relation to account management and activity as agent	366	380
From LLC MFO "OTP Finance" (guarantee fee)	270	12
From OTP Funds Servicing and Consulting Ltd. in relation to banking	177	204
From OTP Fund Management Ltd. in relation to custody activity	56	25
From OTP Bank JSC (Ukraine) in relation to lending activity	-	815
Total	<u>6,325</u>	<u>7,817</u>

f) Commissions paid by the Bank

	30 June 2016	30 June 2015
OTP Bank Romania S.A. (Romania) related to loan portfolio handling	-	107
OTP Pénzügyi Pont Ltd. related to agency activity	18	19
Total	<u>18</u>	<u>126</u>

g) Transactions related to OTP Mortgage Bank Ltd.:

	30 June 2016	30 June 2015
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	8,049	14,916
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	310	869
The gross book value of the loans sold	310	869

h) Transactions related to OTP Factoring Ltd.:

	30 June 2016	30 June 2015
The gross book value of the loans sold	10,796	6,464
Provision for loan losses on the loans sold	6,298	2,092
Loans sold to OTP Factoring Ltd. without recourse (including interest)	3,310	1,717
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	1,188	2,655

The underlying mortgage rights were also transferred to OTP Factoring Ltd.

i) Transactions related to OTP Banka Slovensko a.s. (Slovakia)

	30 June 2016	30 June 2015
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	36,388	2,676

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 29: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

j) Related party transactions with key management

The compensation of key management, such as the members of the Board of Directors, the members of the Supervisory Board and the employees involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

Compensations	30 June 2016	31 December 2015
Short-term employee benefits	2,865	1,851
Share-based payment	1,165	2,276
Long-term employee benefits (on the basis of IAS 19)	<u>128</u>	<u>290</u>
Total	<u>4,158</u>	<u>4,417</u>

	30 June 2016	31 December 2015
Loans provided to companies owned by the Management (in the normal course of business)	29,348	24,233
Commitments to extend credit and bank guarantees	25,878	33,817
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	127	134

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned credit line "A" in the amount of HUF 139.3 million as at 30 June 2016 and 31 December 2015.

An analysis of credit limit related to MasterCard Gold is as follows (in HUF mn):

	30 June 2016	31 December 2015
Members of Board of Directors and their close family members	16	18
Members of Supervisory Board	2	2
Chief executive	6	2

The family member of a member of the Board of Directors owned AMEX Blue credit card loan in the amount of HUF 0.6 million as at 30 June 2016.

Chief executives owned AMEX Gold loading card loan in the amount of HUF 3.5 million as at 30 June 2016.

Members of Board of Directors and chief executives with their close family members owned AMEX Platinum credit card loan in the amount of HUF 48.8 million as at 30 June 2016.

Chief executive owned Lombard loan in the amount of HUF 24.5 million as at 30 June 2016.

An analysis of payment to chief executives related to their activity in Board of Directors and Supervisory Board is as follows (in HUF mn):

	30 June 2016	31 December 2015
Members of Board of Directors	711	629
Members of Supervisory Board	<u>42</u>	<u>72</u>
Total	<u>753</u>	<u>701</u>

In the normal course of business, OTP Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these financial statements taken as a whole.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 30: TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying separate statement of financial position.

	30 June 2016	31 December 2015
Loans managed by the Bank as a trustee	35,910	37,518

NOTE 31: CONCENTRATION OF ASSETS AND LIABILITIES

	30 June 2016	31 December 2015
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	31%	43%
Securities issued by the OTP Mortgage Bank Ltd.	6.73%	8.38%

There were no other significant concentrations of the assets or liabilities of the Bank as at 30 June 2016 or 31 December 2015.

OTP Bank continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards OTP Bank.

Further to this obligatory reporting to the Authority, OTP Bank pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

The organisational unit of OTP Bank in charge of partner-risk management analyses the biggest partners on a constant basis and sets limits on OTP Bank's and the Group's exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 32: MATURITY ANALYSIS OF ASSETS and LIABILITIES AND LIQUIDITY RISK
(in HUF mn)

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the NBH.

The essential of the liquidity risk management strategy is to identify all relevant systemic and idiosyncratic sources of liquidity risk and to measure the probability and severity of such events. During liquidity risk management the Bank considers the effect of liquidity risk events caused by reasons arising in the bank business line (deposit withdrawal), the national economy (exchange rate shock, yield curve shock) and the global financial system (capital market shock).

In line with the Bank's risk management policy liquidity risks are measured and managed on multiply hierarchy levels and applying integrated unified VaR based methodology. The basic requirement is that the Bank must keep high quality liquidity reserves by means it can fulfil all liabilities when they fall due without material additional costs.

The liquidity reserves can be divided to two parts. There are separate decentralized liquid asset portfolios at subsidiary level and a centralized flexible liquidity pool at Group's level. The reserves at subsidiary levels are held to cover the relevant shocks of the subsidiaries which may arise in local currencies (deposit withdrawal, local capital market shock, unexpected business expansion), while the centralized liquidity pool is held to cover the OTP Bank's separate shocks (deposit-, yield curve- and exchange rate shocks) and all group member's potential shocks that may arise in foreign currencies (deposit withdrawal, capital market shock).

The recalculation of shocks is made at least quarterly while the recalibration of shock measurement models and review of the risk management methodology is an annual process. The monitoring of liquidity reserves for both centralized and decentralized liquid asset portfolio has been built in the daily reporting process.

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is in all-time record highs. In 2016 there were no material changes in liquidity risk management process.

The following tables provide an analysis of assets and liabilities about the non-discounted cash-flow into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash-flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash-flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash-flows are exchanged; gross loan commitments.

Such undiscounted cash-flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash-flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 32: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK
(in HUF mn) [continued]

As at 30 June 2016	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	994,418	-	-	-	-	994,418
Placements with other banks, net of allowance for placement losses	182,979	426,932	115,659	72,800	-	798,370
Financial assets at fair value through profit or loss	7,280	9,667	15,572	2,661	82,706	117,886
Securities available-for-sale	19,699	189,212	1,019,244	249,379	15,950	1,493,484
Loans, net of allowance for loan losses	176,838	795,623	490,536	258,669	-	1,721,666
Investments in subsidiaries, associates and other investments	-	-	-	-	672,243	672,243
Securities held-to-maturity	14,575	50,448	318,485	396,442	-	779,950
Property and equipment	-	-	-	-	61,608	61,608
Intangible assets	-	-	-	-	28,930	28,930
Other assets ¹	69,133	19,531	28,003	-	2,311	118,978
TOTAL ASSETS	<u>1,464,922</u>	<u>1,491,413</u>	<u>1,987,499</u>	<u>979,951</u>	<u>863,748</u>	<u>6,787,533</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	524,455	81,099	273,524	46,754	-	925,832
Deposits from customers	1,460,835	213,951	2,500,544	15,249	-	4,190,579
Liabilities from issued securities	9,156	72,678	46,641	13,632	-	142,107
Other liabilities ¹	118,625	38,090	83,834	-	-	240,549
Subordinated bonds and loans	12,524	154,538	-	-	109,807 ²	276,869
TOTAL LIABILITIES	<u>2,125,595</u>	<u>560,356</u>	<u>2,904,543</u>	<u>75,635</u>	<u>109,807</u>	<u>5,775,936</u>
Receivables from derivative financial instruments classified as held for trading	2,127,768	873,196	401,797	28,200	-	3,430,961
Liabilities from derivative financial instruments classified as held for trading	(2,126,079)	(868,592)	(386,031)	(29,601)	-	(3,410,303)
Net position of financial instruments classified as held for trading	<u>1,689</u>	<u>4,604</u>	<u>15,766</u>	<u>(1,401)</u>	<u>-</u>	<u>20,658</u>
Receivables from derivative financial instruments designated as fair value hedge	-	305,179	238,225	6,953	-	550,357
Liabilities from derivative financial instruments designated as fair value hedge	-	(306,297)	(255,168)	(6,451)	-	(567,916)
Net position of financial instruments designated as fair value hedge	<u>-</u>	<u>(1,118)</u>	<u>(16,943)</u>	<u>502</u>	<u>-</u>	<u>(17,559)</u>
Net position of derivative financial instruments total	<u>1,689</u>	<u>3,486</u>	<u>(1,177)</u>	<u>(899)</u>	<u>-</u>	<u>3,099</u>
Commitments to extend credit	110,313	704,337	224,061	-	-	1,038,711
Bank guarantees	41,072	65,671	125,287	228,588	-	460,618
Off-balance sheet commitments	<u>151,385</u>	<u>770,008</u>	<u>349,348</u>	<u>228,588</u>	<u>-</u>	<u>1,499,329</u>

¹ Derivative financial instruments designated as fair value hedge are not included.

² See Note 18.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 32: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK
(in HUF mn) [continued]

As at 31 December 2015	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	1,326,197	-	-	-	-	1,326,197
Placements with other banks, net of allowance for placement losses	277,698	316,262	53,325	-	-	647,285
Financial assets at fair value through profit or loss	2,662	5,988	8,463	3,118	82,668	102,899
Securities available-for-sale	97,505	169,154	855,761	193,432	23,369	1,339,221
Loans, net of allowance for loan losses	151,068	808,714	384,408	335,073	-	1,679,263
Investments in subsidiaries, associates and other investments	-	-	-	-	657,531	657,531
Securities held-to-maturity	12,763	63,115	378,678	389,642	-	844,198
Property and equipment	-	-	-	-	63,440	63,440
Intangible assets	-	-	-	-	32,439	32,439
Other assets ¹	46,175	26,000	41,905	-	37	114,117
TOTAL ASSETS	<u>1,914,068</u>	<u>1,389,233</u>	<u>1,722,540</u>	<u>921,265</u>	<u>859,484</u>	<u>6,806,590</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	449,413	45,377	308,137	38,473	-	841,400
Deposits from customers	4,017,478	269,279	21,987	14,558	-	4,323,302
Liabilities from issued securities	31,140	50,160	33,839	34,339	-	149,478
Other liabilities ¹	152,750	134,665	-	-	-	287,415
Subordinated bonds and loans	1,382	156,560	-	-	110,566 ²	268,508
TOTAL LIABILITIES	<u>4,652,163</u>	<u>656,041</u>	<u>363,963</u>	<u>87,370</u>	<u>110,566</u>	<u>5,870,103</u>
Receivables from derivative financial instruments classified as held for trading	2,083,466	1,035,986	597,635	21,157	-	3,738,244
Liabilities from derivative financial instruments classified as held for trading	(2,081,551)	(1,037,515)	(580,438)	(21,240)	-	(3,720,744)
Net position of financial instruments classified as held for trading	<u>1,915</u>	<u>(1,529)</u>	<u>17,197</u>	<u>(83)</u>	<u>-</u>	<u>17,500</u>
Receivables from derivative financial instruments designated as fair value hedge	40	298,739	248,950	3,074	-	550,803
Liabilities from derivative financial instruments designated as fair value hedge	-	(299,774)	(263,338)	(882)	-	(563,994)
Net position of financial instruments designated as fair value hedge	<u>40</u>	<u>(1,035)</u>	<u>(14,388)</u>	<u>2,192</u>	<u>-</u>	<u>(13,191)</u>
Net position of derivative financial instruments total	<u>1,955</u>	<u>(2,564)</u>	<u>2,809</u>	<u>2,109</u>	<u>-</u>	<u>4,309</u>
Commitments to extend credit	96,504	649,095	203,318	-	-	948,917
Bank guarantees	46,749	40,679	103,825	227,957	-	419,210
Off-balance sheet commitments	<u>143,253</u>	<u>689,774</u>	<u>307,143</u>	<u>227,957</u>	<u>-</u>	<u>1,368,127</u>

¹ Derivative financial instruments designated as fair value hedge are not included.

² See Note 18.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 33: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK
(in HUF mn)

As at 30 June 2016

	USD	EUR	CHF	Others	Total
Assets ¹	232,915	1,525,043	56,355	113,859	1,928,172
Liabilities	(308,991)	(976,312)	(22,984)	(63,577)	(1,371,864)
Off-balance sheet assets and liabilities, net	<u>154,555</u>	<u>(681,424)</u>	<u>(26,781)</u>	<u>(49,917)</u>	<u>(603,567)</u>
Net position	<u>78,479</u>	<u>(132,693)</u>	<u>6,590</u>	<u>365</u>	<u>(47,259)</u>

As at 31 December 2015

	USD	EUR	CHF	Others	Total
Assets ¹	252,582	998,181	90,558	88,994	1,430,315
Liabilities	(371,921)	(949,870)	(25,685)	(36,639)	(1,384,115)
Off-balance sheet assets and liabilities, net	<u>122,948</u>	<u>(197,317)</u>	<u>(63,111)</u>	<u>(48,910)</u>	<u>(186,390)</u>
Net position	<u>3,609</u>	<u>(149,006)</u>	<u>1,762</u>	<u>3,445</u>	<u>(140,190)</u>

The table above provides an analysis of the Bank's main foreign currency exposures. The remaining foreign currencies are shown within 'Others'. Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn)

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the Bank's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Bank to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Bank. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

¹ The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

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NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 30 June 2016	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	410,094	486,108	-	-	-	-	-	-	-	-	90,801	7,415	500,895	493,523	994,418
<i>fixed interest</i>	410,094	486,108	-	-	-	-	-	-	-	-	-	-	410,094	486,108	896,202
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	90,801	7,415	90,801	7,415	98,216
Placements with other banks, net of allowance for placement losses	118,925	97,297	421,539	43,192	229	13,535	317	351	98,008	4,978	-	-	639,018	159,353	798,371
<i>fixed interest</i>	46,486	18,273	856	27,724	229	5,992	317	351	98,008	4,978	-	-	145,896	57,318	203,214
<i>variable interest</i>	72,439	79,024	420,683	15,468	-	7,543	-	-	-	-	-	-	493,122	102,035	595,157
Securities held for trading	3,161	12	4,578	-	10,908	141	3,487	221	12,637	1,324	83,241	429	118,012	2,127	120,139
<i>fixed interest</i>	2,415	12	4,456	-	8,034	52	3,487	221	12,637	1,324	-	-	31,029	1,609	32,638
<i>variable interest</i>	746	-	122	-	2,874	89	-	-	-	-	-	-	3,742	89	3,831
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	83,241	429	83,241	429	83,670
Securities available-for-sale	20,467	323,165	17,360	22,182	6,234	7,926	309,300	41,109	665,426	154,280	22,627	13,507	1,041,414	562,169	1,603,583
<i>fixed interest</i>	-	4,745	-	-	6,234	7,926	309,300	41,109	665,426	154,280	-	-	980,960	208,060	1,189,020
<i>variable interest</i>	20,467	318,420	17,360	22,182	-	-	-	-	-	-	-	-	37,827	340,602	378,429
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	22,627	13,507	22,627	13,507	36,134
Loans, net of allowance for loan losses	345,248	155,246	277,724	534,206	167,611	15,626	68,518	7,822	119,761	35,268	-	-	978,862	748,168	1,727,030
<i>fixed interest</i>	34,957	739	32,327	1,331	43,181	10,070	44,995	7,822	105,063	35,268	-	-	260,523	55,230	315,753
<i>variable interest</i>	310,291	154,507	245,397	532,875	124,430	5,556	23,523	-	14,698	-	-	-	718,339	692,938	1,411,277
Securities held-to-maturity	-	-	1,670	-	48,883	-	90,657	-	657,194	-	14,575	-	812,979	-	812,979
<i>fixed interest</i>	-	-	-	-	48,883	-	90,657	-	657,194	-	-	-	796,734	-	796,734
<i>variable interest</i>	-	-	1,670	-	-	-	-	-	-	-	-	-	1,670	-	1,670
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	14,575	-	14,575	-	14,575
Derivative financial instruments	676,671	705,678	700,038	407,165	192,124	100,339	35,703	140,608	46,129	34,861	524,674	157,417	2,175,339	1,546,068	3,721,407
<i>fixed interest</i>	505,595	354,108	318,225	258,767	190,997	61,520	35,703	140,608	46,129	34,861	-	-	1,096,649	849,864	1,946,513
<i>variable interest</i>	171,076	351,570	381,813	148,398	1,127	38,819	-	-	-	-	-	-	554,016	538,787	1,092,803
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	524,674	157,417	524,674	157,417	682,091

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NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 30 June 2016	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	392,361	150,596	11,548	77,739	34,481	6,282	161,938	6,643	78,412	5,834	-	-	678,740	247,094	925,834
<i>fixed interest</i>	362,115	93,227	11,321	921	34,481	4,283	161,938	6,643	78,412	5,834	-	-	648,267	110,908	759,175
<i>variable interest</i>	30,246	57,369	227	76,818	-	1,999	-	-	-	-	-	-	30,473	136,186	166,659
Deposits from customers	1,219,503	216,509	398,769	73,487	172,618	41,542	2,448	-	1,594,619	471,083	-	-	3,387,957	802,621	4,190,578
<i>fixed interest</i>	629,382	209,420	398,755	73,092	172,618	41,542	2,448	-	8,448	-	-	-	1,211,651	324,054	1,535,705
<i>variable interest</i>	590,121	7,089	14	395	-	-	-	-	1,586,171	471,083	-	-	2,176,306	478,567	2,654,873
Liabilities from issued securities	6	5,294	-	5,447	13,553	46,262	8,680	-	64,525	192	-	-	86,764	57,195	143,959
<i>fixed interest</i>	6	3,940	-	2,762	13,553	43,323	8,680	-	64,525	192	-	-	86,764	50,217	136,981
<i>variable interest</i>	-	1,354	-	2,685	-	2,939	-	-	-	-	-	-	-	6,978	6,978
Derivative financial instruments	1,328,335	67,824	813,423	275,459	194,129	71,999	170,266	15,233	50,094	64,419	277,910	383,631	2,834,157	878,565	3,712,722
<i>fixed interest</i>	807,033	58,384	493,394	84,753	193,519	61,034	170,266	15,233	50,094	64,419	-	-	1,714,306	283,823	1,998,129
<i>variable interest</i>	521,302	9,440	320,029	190,706	610	10,965	-	-	-	-	-	-	841,941	211,111	1,053,052
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	277,910	383,631	277,910	383,631	661,541
Subordinated bonds and loans	-	-	-	162,270	-	114,599	-	-	-	-	-	-	-	276,869	276,869
<i>fixed interest</i>	-	-	-	162,270	-	114,599	-	-	-	-	-	-	-	276,869	276,869
NET POSITION	(1,365,639)	1,327,283	199,169	412,343	11,208	(143,117)	164,650	168,235	(188,495)	(310,817)	458,008	(204,863)	(721,099)	1,249,064	527,965

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2015	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	1,202,576	40,818	-	-	-	-	-	-	-	-	76,320	6,483	1,278,896	47,301	1,326,197
<i>fixed interest</i>	1,202,576	40,818	-	-	-	-	-	-	-	-	-	-	1,202,576	40,818	1,243,394
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	76,320	6,483	76,320	6,483	82,803
Placements with other banks, net of allowance for placement losses	125,409	103,476	317,181	66,155	220	5,351	308	696	25,247	3,681	-	-	468,365	179,359	647,724
<i>fixed interest</i>	52,836	60,993	120,240	24,595	220	424	308	696	25,247	3,681	-	-	198,851	90,389	289,240
<i>variable interest</i>	72,573	42,483	196,941	41,560	-	4,927	-	-	-	-	-	-	269,514	88,970	358,484
Securities held for trading	356	-	2,125	23	7,914	43	141	1	10,345	52	72,206	357	93,087	476	93,563
<i>fixed interest</i>	356	-	1,857	23	6,001	25	141	1	10,345	52	-	-	18,700	101	18,801
<i>variable interest</i>	-	-	268	-	1,913	18	-	-	-	-	-	-	2,181	18	2,199
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	72,206	357	72,206	357	72,563
Securities available-for-sale	21,671	317,230	114,804	7,171	3,256	9,753	-	29,529	847,783	53,479	43,319	14,665	1,030,833	431,827	1,462,660
<i>fixed interest</i>	-	-	95,851	-	3,256	4,780	-	29,529	847,783	53,479	-	-	946,890	87,788	1,034,678
<i>variable interest</i>	21,671	317,230	18,953	7,171	-	4,973	-	-	-	-	-	-	40,624	329,374	369,998
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	43,319	14,665	43,319	14,665	57,984
Loans, net of allowance for loan losses	314,234	192,553	172,493	607,190	166,257	14,872	62,829	8,694	128,139	11,923	-	-	843,952	835,232	1,679,184
<i>fixed interest</i>	2,390	700	6,530	1,502	32,250	8,643	35,934	8,694	72,613	11,923	-	-	149,717	31,462	181,179
<i>variable interest</i>	311,844	191,853	165,963	605,688	134,007	6,229	26,895	-	55,526	-	-	-	694,235	803,770	1,498,005
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities held-to-maturity	-	-	16,087	-	23,576	-	85,778	-	683,119	-	16,241	-	824,801	-	824,801
<i>fixed interest</i>	-	-	12,748	-	23,576	-	85,778	-	683,119	-	-	-	805,221	-	805,221
<i>variable interest</i>	-	-	3,339	-	-	-	-	-	-	-	-	-	3,339	-	3,339
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	16,241	-	16,241	-	16,241
Derivative financial instruments	673,749	668,467	1,351,732	384,815	217,206	109,734	46,773	149,426	39,414	29,997	446,726	110,203	2,775,600	1,452,642	4,228,242
<i>fixed interest</i>	500,878	227,942	428,021	135,754	216,291	66,795	46,773	149,426	39,414	29,997	-	-	1,231,377	609,914	1,841,291
<i>variable interest</i>	172,871	440,525	923,711	249,061	915	42,939	-	-	-	-	-	-	1,097,497	732,525	1,830,022
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	446,726	110,203	446,726	110,203	556,929

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2015	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	272,075	155,355	14,020	65,193	63,473	6,772	168,853	5,779	72,029	5,573	-	-	590,450	238,672	829,122
<i>fixed interest</i>	271,877	103,120	12,930	741	32,373	4,588	168,853	5,779	72,029	5,573	-	-	558,062	119,801	677,863
<i>variable interest</i>	198	52,235	1,090	64,452	31,100	2,184	-	-	-	-	-	-	32,388	118,871	151,259
Deposits from customers	1,331,844	222,143	504,203	162,932	135,491	101,120	2,224	-	1,567,333	295,949	-	-	3,541,095	782,144	4,323,239
<i>fixed interest</i>	725,778	214,876	504,189	162,430	135,491	101,120	2,224	-	8,778	-	-	-	1,376,460	478,426	1,854,886
<i>variable interest</i>	606,066	7,267	14	502	-	-	-	-	1,558,555	295,949	-	-	2,164,635	303,718	2,468,353
Liabilities from issued securities	6	5,097	13	8,730	5,381	38,543	12,908	8,295	71,067	191	-	-	89,375	60,856	150,231
<i>fixed interest</i>	6	4,848	13	6,578	5,381	35,587	12,908	8,295	71,067	191	-	-	89,375	55,499	144,874
<i>variable interest</i>	-	249	-	2,152	-	2,956	-	-	-	-	-	-	-	5,357	5,357
Derivative financial instruments	1,248,271	98,126	1,083,679	640,110	158,671	134,008	190,632	6,931	40,977	72,001	227,762	315,022	2,949,992	1,266,198	4,216,190
<i>fixed interest</i>	635,192	88,963	418,185	143,566	157,950	125,122	190,632	6,931	40,977	72,001	-	-	1,442,936	436,583	1,879,519
<i>variable interest</i>	613,079	9,163	665,494	496,544	721	8,886	-	-	-	-	-	-	1,279,294	514,593	1,793,887
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	227,762	315,022	227,762	315,022	542,784
Subordinated bonds and loans	-	-	-	-	-	266,063	-	-	-	-	-	-	-	266,063	266,063
<i>fixed interest</i>	-	-	-	-	-	266,063	-	-	-	-	-	-	-	266,063	266,063
NET POSITION	(514,201)	841,823	372,507	188,389	55,413	(406,753)	(178,788)	167,341	(17,359)	(274,582)	427,050	(183,314)	144,622	332,904	477,526

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 35: EARNINGS PER SHARE

Earnings per share attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

	30 June 2016	31 December 2015
Net (loss) / profit for the year attributable to ordinary shareholders (in HUF mn)	140,179	49,645
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	278,369,838	273,524,198
Basic Earnings per share (in HUF)	<u>504</u>	<u>182</u>
Separate net profit / (loss) for the year attributable to ordinary shareholders (in HUF mn)	140,179	49,645
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	278,398,146	273,739,580
Diluted Earnings per share (in HUF)	<u>504</u>	<u>181</u>
	30 June 2016	31 December 2015
	number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(1,630,172)	(6,475,812)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	278,369,838	273,524,198
Dilutive effect of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares ¹	28,308	215,382
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	278,398,146	273,739,580

The ICES bonds could potentially dilute basic EPS in the future, but were not included in the calculation of diluted EPS because they are antidilutive for the period presented.

¹ In 2016 and 2015 dilutive effect is in connection with the Remuneration Policy.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 36: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS
(in HUF mn)

As at 30 June 2016	Net interest income and expense	Net non- interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	6,828	-	-	-
Placements with other banks, net of allowance for placement losses	5,298	-	(1)	-
Securities held for trading	326	431	-	-
Securities available-for-sale	20,785	33,798	-	41,950
Loans, net of allowance for loan losses	55,282	8,667	7,870	-
Securities held-to-maturity	20,476	-	-	-
Derivative financial instruments	416	323	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(7,612)	-	-	-
Deposits from customers	(7,428)	55,250	-	-
Liabilities from issued securities	(797)	-	-	-
Subordinated bonds and loans	(8,490)	-	-	-
Other	<u>12</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>85,096</u>	<u>98,469</u>	<u>7,869</u>	<u>41,950</u>

As at 31 December 2015	Net interest income and expense	Net non- interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	26,574	-	-	-
Placements with other banks, net of allowance for placement losses	9,712	-	(3)	-
Securities held for trading	281	1,072	-	-
Securities available-for-sale	50,655	20,333	-	46,324
Loans, net of allowance for loan losses	125,229	22,065	(11,890)	-
Securities held-to-maturity	39,973	-	-	-
Derivative financial instruments	8,348	(316)	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(17,678)	-	-	-
Deposits from customers	(26,455)	111,126	-	-
Liabilities from issued securities	(2,091)	-	-	-
Subordinated bonds and loans	(16,686)	-	-	-
Total	<u>25</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>197,887</u>	<u>154,280</u>	<u>(11,893)</u>	<u>46,324</u>

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 37.e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortised cost, the Bank used the discounted cash-flow analysis (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Bank of Hungary represent amounts available immediately thus the fair value equals to the cost.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amortised cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

Classes of assets and liabilities not measured at fair value in the statement of financial position, income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, fair value of other classes not measured at fair value of the statement of financial position measured at discounted cash-flow method. Fair value of loans, net of allowance for loan losses measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

a) *Fair value of financial assets and liabilities*

	30 June 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Bank of Hungary	994,418	994,278	1,326,197	1,327,460
Placements with other banks, net of allowance for placement losses	798,371	827,363	647,724	666,128
Financial assets at fair value through profit or loss	240,356	240,356	252,140	252,140
<i>Held for trading securities</i>	<i>120,139</i>	<i>120,139</i>	<i>93,563</i>	<i>93,563</i>
<i>Derivative financial instruments classified as held for trading</i>	<i>120,217</i>	<i>120,217</i>	<i>158,577</i>	<i>158,577</i>
Securities available-for-sale	1,603,583	1,603,583	1,462,660	1,462,660
Loans, net of allowance for loan losses ¹	1,727,030	2,054,457	1,679,184	1,974,713
Securities held-to-maturity	812,979	884,107	824,801	883,697
Derivative financial instruments designated as hedging instruments	<u>33,804</u>	<u>33,804</u>	<u>33,768</u>	<u>33,768</u>
FINANCIAL ASSETS TOTAL	6,210,541	6,637,948	<u>6,226,474</u>	<u>6,600,566</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	925,834	915,157	829,122	829,150
Deposits from customers	4,190,578	4,166,090	4,323,239	4,307,291
Liabilities from issued securities	143,959	168,832	150,231	168,338
Derivative financial instruments designated as hedging instruments	43,260	43,260	35,701	35,701
Financial liabilities at fair value through profit or loss	102,077	102,077	144,592	144,592
Financial liabilities from OTP-MOL transaction	77,674	77,674	66,787	66,787
Subordinated bonds and loans	<u>276,869</u>	<u>274,036</u>	<u>266,063</u>	<u>271,884</u>
FINANCIAL LIABILITIES TOTAL	5,760,251	5,747,126	<u>5,815,735</u>	<u>5,823,743</u>

¹ Fair value of loans increased in the six month period ended 30 June 2016 and in the year ended 31 December 2015 due to decrease of short-term and long-term interests.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) *Fair value of derivative instruments*

	Fair value		Notional value, net	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	38,170	33,869	37,161	40,702
Negative fair value of interest rate swaps classified as held for trading	(31,858)	(30,453)	(33,849)	(37,158)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	7,300	14,352	11,921	14,994
Negative fair value of foreign exchange swaps classified as held for trading	(14,446)	(9,265)	(14,225)	(7,615)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated in fair value hedge	16,233	15,393	9,983	7,932
Negative fair value of interest rate swaps designated in fair value hedge	(19,694)	(13,723)	(21,827)	(17,211)
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	62,347	102,125	63,110	103,253
Negative fair value of CCIRS classified as held for trading	(44,100)	(95,349)	(45,096)	(96,285)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	2	-	(17)	-
Negative fair value of mark-to-market CCIRS classified as held for trading	(3,832)	(2,370)	(3,631)	(2,143)
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated in fair value hedge	17,571	18,375	17,630	18,263
Negative fair value of CCIRS designated in fair value hedge	(23,566)	(21,978)	(23,347)	(21,872)
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	12,398	8,231	8,104	5,342
Negative fair value of other derivative contracts classified as held for trading	(7,841)	(7,155)	(2,820)	(3,900)
Derivative financial assets total	<u>154,021</u>	<u>192,345</u>	<u>147,892</u>	<u>190,486</u>
Derivative financial liabilities total	<u>(145,337)</u>	<u>(180,293)</u>	<u>(144,795)</u>	<u>(186,184)</u>
Derivative financial instruments total	<u>8,684</u>	<u>12,052</u>	<u>3,097</u>	<u>4,302</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting

OTP Bank regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading. Net investment hedge in foreign operations is not applicable in separate financial statements.

The summary of the hedging transactions of the Bank are as follows:

As at 30 June 2016

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Cash-flow hedges	-	-	-
2) Fair value hedges	IRS	HUF (3,461) million	Interest rate
3) Fair value hedges	CCIRS	HUF (5,995) million	Interest rate / Foreign currency

As at 31 December 2015

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Cash-flow hedges	-	-	-
2) Fair value hedges	IRS	HUF 1,670 million	Interest rate
3) Fair value hedges	CCIRS	HUF (3,603) million	Interest rate / Foreign currency

d) Fair value hedges

1. Securities available-for-sale

OTP Bank holds fixed interest rate securities denominated in HUF and fixed interest rate government bonds denominated in HUF and EUR within the available-for-sale portfolio. These fixed interest rate securities and bonds are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order to hedge the interest rate risk of the cash-flows OTP Bank entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 12 month EURIBOR and the risk from the cash-flows of the bonds are swapped to payments linked to 6 month BUBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

OTP Bank holds floating interest rate bonds denominated in EUR within the available-for-sale portfolio. The cash-flows of the securities are exposed to the change in the EUR foreign exchange rate and the risk of change in interest rates of EUR. The interest rate risk and foreign exchange risk related to these securities are hedged with CCIRS transactions.

	30 June 2016	31 December 2015
Fair value of the IRS hedging instruments	(19,436)	(11,266)
Fair value of the CCIRS hedging instruments	(5,968)	(3,668)

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

2. Loans to customers / corporates

OTP Bank has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows OTP Bank entered into pay-fixed, receive-floater interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 month EURIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.

OTP Bank has further floating interest rate loans denominated in RON and CHF. These loans are exposed to the change of foreign exchange of RON and CHF and the risk of change in interest rates of CHF. In order to hedge the foreign currency risk and the interest rate risk OTP Bank entered into CCIRS transactions.

	30 June 2016	31 December 2015
Fair value of the hedging IRS instruments	(21)	(165)
Fair value of the hedging CCIRS instruments	(27)	65

3. Issued securities

The cash-flows of the fixed rate securities issued by OTP Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS and index option transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulted a decrease in the interest rate and foreign exchange exposure of issued securities.

Certain structured bonds are hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond.

	30 June 2016	31 December 2015
Fair value of the hedging IRS instruments	15,996	13,101

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

As at 30 June 2016

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 877,711 million	HUF (19,436) million	HUF 11,818 million	HUF (8,170) million
Securities available-for-sale	CCIRS	HUF 318,420 million	HUF (5,968) million	HUF (744) million	HUF (2,300) million
Loans to customers	IRS	HUF 1,340 million	HUF (21) million	HUF (144) million	HUF 144 million
Loans to corporates	CCIRS	HUF 57,449 million	HUF (27) million	HUF 190 million	HUF (92) million
Liabilities from issued securities	IRS	HUF 66,603 million	HUF 15,996 million	HUF (2,895) million	HUF 2,895 million

As at 31 December 2015

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 668,484 million	HUF (11,266) million	HUF 9,818 million	HUF (8,696) million
Securities available-for-sale	CCIRS	HUF 317,230 million	HUF (3,668) million	HUF 2,064 million	HUF (3,668) million
Loans to customers	IRS	HUF 5,561 million	HUF (165) million	HUF (252) million	HUF 252 million
Loans to corporates	CCIRS	HUF 56,458 million	HUF 65 million	HUF 202 million	HUF 65 million
Deposits from customers	IRS	-	-	HUF 107 million	HUF (107) million
Liabilities from issued securities	IRS	HUF 71,786 million	HUF 13,101 million	HUF 348 million	HUF (348) million
Liabilities from issued securities	Index option	-	-	HUF 9 million	HUF (9) million

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

e) Fair value classes

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 30 June 2016	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	239,945	105,886	134,059	-
<i>from this: securities held for trading</i>	<i>119,728</i>	<i>105,777</i>	<i>13,951</i>	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	<i>120,217</i>	<i>109</i>	<i>120,108</i>	-
Securities available-for-sale	1,588,626	838,065	744,870	1,803 ¹
Positive fair value of derivative financial instruments designated as fair value hedge	<u>33,804</u>	<u>-</u>	<u>33,804</u>	<u>-</u>
Financial assets measured at fair value total	<u>1,862,375</u>	<u>943,951</u>	<u>912,733</u>	<u>1,803</u>
Negative fair value of derivative financial instruments classified as held for trading	102,077	361	101,716	-
Negative fair value of derivative financial instruments designated as fair value hedge	<u>43,260</u>	<u>-</u>	<u>43,260</u>	<u>-</u>
Financial liabilities measured at fair value total	<u>145,337</u>	<u>361</u>	<u>144,976</u>	<u>-</u>
As at 31 December 2015	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	251,707	85,301	166,406	-
<i>from this: securities held for trading</i>	<i>93,130</i>	<i>85,280</i>	<i>7,850</i>	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	<i>158,577</i>	<i>21</i>	<i>158,556</i>	-
Securities available-for-sale	1,434,091	670,809	757,615	5,667 ¹
Positive fair value of derivative financial instruments designated as fair value hedge	<u>33,768</u>	<u>-</u>	<u>33,768</u>	<u>-</u>
Financial assets measured at fair value total	<u>1,719,566</u>	<u>756,110</u>	<u>957,789</u>	<u>5,667</u>
Negative fair value of derivative financial instruments classified as held for trading	144,592	34	144,558	-
Negative fair value of derivative financial instruments designated as fair value hedge	<u>35,701</u>	<u>-</u>	<u>35,701</u>	<u>-</u>
Financial liabilities measured at fair value total	<u>180,293</u>	<u>34</u>	<u>180,259</u>	<u>-</u>

¹ In 2015 the whole portfolio included shares of Visa Europe which have been derecognised during the six month period ended 30 June 2016. In return for the Visa Europe shares the Bank received cash and Visa Inc. "C" preferential shares which are at a carrying amount of HUF 1,803 million as at 30 June 2016.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 38: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HAS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF mn)

	Retained Earnings and Reserves 1 January 2016	Net loss for the period ended 30 June 2016	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves as at 30 June 2016
Financial Statements in accordance with HAS	880,950	167,464	-	(250)	1,048,164
Premium and discount amortization of financial instruments measured at amortised cost	2,476	187	-	(328)	2,335
Effect of redemption of issued securities	10,576	(1,878)	-	-	8,698
Differences in carrying value of subsidiaries	34,115	(250)	-	250	34,115
Difference in accounting for finance leases	(774)	72	-	-	(702)
Effects of using effective interest rate method	6,445	147	-	-	6,592
Fair value adjustment of held for trading and available-for-sale financial assets	61,352	11,947	-	(5,832)	67,467
Fair value adjustment of derivative financial instruments	12,616	1,406	-	760	14,782
Reversal of statutory goodwill	40,596	-	-	-	40,596
Revaluation of investments denominated in foreign currency to historical cost	(8,454)	(12,976)	-	-	(21,430)
Difference in accounting of security lending	(21,589)	(126)	-	-	(21,715)
Treasury share transaction	-	3,328	-	(3,328)	-
Share-based payment	-	(1,865)	-	1,865	-
Payments to ICES holders	2,927	(48)	-	(735)	2,144
OTP-MOL share swap transaction	(50,831)	86	-	-	(50,745)
Transaction duty	-	(792)	-	-	(792)
Banking tax	-	(5,534)	-	-	(5,534)
Receivable related to customer loans converted into HUF	6,164	(5,946)	-	-	218
Conversion into HUF of customer loans	(419)	34	-	-	(385)
Deferred taxation	41,905	(15,077)	-	1,175	28,003
Dividend payable in 2015	<u>46,200</u>	<u>-</u>	<u>(46,200)</u>	<u>-</u>	<u>-</u>
Financial Statements in accordance with IFRS	<u>1,064,255</u>	<u>140,179</u>	<u>(46,200)</u>	<u>(6,423)</u>	<u>1,151,811</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 39: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2016

1) Capital increase at OTP Bank Romania

See details in Note 9.

2) Capital increase at OTP Bank JSC (Ukraine)

See details in Note 9.

3) Capital increase at Bank Center No. 1. Ltd.

See details in Note 9.

4) Agreement on purchasing unit of AXA Bank Hungary

See details in Note 9.

5) Term Note Program

See details in Note 15.

NOTE 40: POST BALANCE SHEET EVENTS

There were no post balance sheet events.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 41: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn)

Global risks increased in 2016. Economic growth in the USA, China, and Europe all slowed – in response, the Federal Reserve suspended the interest rate hikes launched in December 2015, China embarked on infrastructure investment to stimulate the economy, and the European Central Bank continued its monetary easing. In June, Britain's vote to leave the European Union ("Brexit") added to the existing risks. Although the actual departure will take place only two years after Article 50 if formally invoked (this autumn, at the earliest), the outcome of the referendum has intensified uncertainty, and can ultimately lead to the postponement of investments, as well as to the stagnation and drop in trade relations. As these could bring about temporary recession in Britain's economy, the Bank of England lowered its interest rates and restarted its asset purchase programme. But the situation in the aftermath of Brexit is likely to decelerate Europe's already fragile growth, possibly prompting the European Central Bank to continue its monetary easing this autumn. Under such circumstances, global bond yields fell to new lows, an increasing share of the world's government securities is traded at negative nominal interest rates, and it seems that interest rate hikes will be few and far between, if any, in the years to come. Consequently, the record-low interest rate environment is likely to determine the operating environment of the banking system for years.

The first-half GDP data suggest that Central and Southeast Europe continued to do well, mostly because the rapidly falling unemployment and the growing consumption stemming from the accelerating wage dynamics which could offset the effect of shrinking external demand and declining EU funds.

The **Hungarian economy** expanded by 2.9% in 2015, after growing by 3.6% in 2014. But in quarter-on-quarter terms, GDP was down by 0.8% in the first quarter of 2016, reducing the year-on-year growth to 0.9%, partly owing to a sharp fall in EU-co-financed investments and a sudden halt in industrial production. On the other hand, the increase in households' consumption continued, as did the growth of value added by market services. In the second quarter growth rebounded to 2.6% because of the correction of one-off effect in industry in the first quarter of 2016 and strong domestic demand – yet this is the weakest figure in the CEE region. Meanwhile the real property market's recovery from its almost decade-long slump has become evident. Demand has returned, prices are rising and – because the supply of quality residential and commercial properties with excellent location barely increased in recent years – available unoccupied real estates have practically vanished. This is one of the reasons why demand for loans seems to be picking up, the amount of contracted loans is on the rise, suggesting that the private sector may become net borrower by end of 2016 or 2017 again, for the first time in many years.

The Hungarian economy's balance indicators remained solid. The general government's four-quarter rolling deficit amounted to 1.1% of GDP, according to the latest data on the first quarter. The dynamic surge in revenues and the shrinking interest rate expenditures allow the government to stimulate growth – and the government is using this opportunity. The expenditure-increasing and revenue-decreasing measures announced so far are likely to favourably impact growth in the second half of 2016 and in 2017, while the government's 2.4% deficit target for 2017 is attainable, thus the deficit can comfortably remain below 3%. Government debt remained high but is on slow downward trend. At the end of 2015 government debt remained at 75.3% of GDP, from where it may fall below 75% this year and below 73.5% next year.

The near-zero inflation seen in the past two years persisted in 2016; after -0.2% in 2014, and +0.1% in 2015, we expect +0.3% annualized average inflation this year. In addition to the earlier drop in energy and commodity prices, the low level of imported inflation was an important factor, because – owing to the fragile growth – the level of unused capacities in the Eurozone is still high, which brings about strong price competition and disinflationary pressure. Looking forward, inflation is likely to pick up as the effect of the lower oil prices drops out of the basis, but – despite the dynamic growth in wages – the 3% +/-1% inflation target is not in danger until the end of 2017.

Because of the lower-than-expected global interest rate environment, the NBH launched an easing cycle in spring 2016 and reduced the three-month deposit rate from 1.35% to 0.9%. Then the Monetary Council launched further unconventional tools under the Self-Financing Programme, to be able to prevent an undesired forint firming and in order that the targeted decrease in yields reached the long end of the yield curve as much as possible. Instead of holding 3M deposit auctions weekly, there will be monthly auctions. Moreover, starting from September, the NBH will establish a cap on three-month deposits in each quarter. This facilitates a meaningful drop in BUBOR yields even if the base rate remains unchanged and also represents a new incentive for the banking system to purchase government securities instead of central bank deposits, as well as to step up lending activity.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2016

NOTE 41: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S
FINANCIALS (in HUF mn) [continued]

On 15 December 2015 the Hungarian Parliament amended the Act No. CCXVII of 2015, which contained amendments to the special tax on financial institutions. Pursuant to the amended law the HUF 34.9 billion special banking tax paid by OTP Group's Hungarian members in 2015 declined to HUF 16.1 billion in 2016. The total annual amount of the banking tax payable in 2016 was booked in one sum in the first quarter of 2016.

The NBH launched the third phase of the Funding for Growth Scheme from the beginning of 2016. According to the data published by the NBH on 5 July the Hungarian credit institutions participating in the scheme have already contracted for loans in the amount of HUF 125 billion in the first half of 2016 under the Funding for Growth Scheme, of which OTP's share represented HUF 23.4 billion.