OTP BANK PLC.

CONSOLIDATED 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.
CONSOLIDATED FINANCIAL STATEMENTS

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OTP BANK PLC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
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 Banks	*4.*	1,486,420	1,878,960	1,998,651
Placements with other banks, net of allowance for placement losses	*5.*	336,532	300,568	237,271
Financial assets at fair value through profit or loss	*6.*	243,710	253,782	289,035
Securities available-for-sale	*7.*	1,605,944	1,305,486	948,611
Loans, net of allowance for loan losses	*8.*	5,487,920	5,409,967	5,668,254
Associates and other investments	*9.*	9,215	10,028	26,182
Securities held-to-maturity	*10.*	894,217	926,677	908,820
Property and equipment	*11.*	191,711	193,661	200,841
Intangible assets	*11.*	159,105	155,809	165,611
Investment property, investment property subject to operating lease	*12.*	30,516	30,319	36,789
Other assets	*13.*	253,935	253,591	281,014
TOTAL ASSETS		**10,699,225**	**10,718,848**	**10,761,079**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	*14.*	516,242	533,310	727,905
Deposits from customers	*15.*	7,898,534	7,984,579	7,657,532
Liabilities from issued securities	*16.*	232,631	239,376	260,007
Financial liabilities at fair value through profit or loss	*17.*	74,424	101,561	204,988
Other liabilities	*18.*	432,585	391,579	394,067
Subordinated bonds and loans	*19.*	243,863	234,784	257,915
TOTAL LIABILITIES		**9,398,279**	**9,485,189**	**9,502,414**
Share capital	*20.*	28,000	28,000	28,000
Retained earnings and reserves		1,329,408	1,261,029	1,284,628
Treasury shares	*22.*	(59,507)	(58,021)	(57,280)
Non-controlling interest	*23.*	3,045	2,651	3,317
TOTAL SHAREHOLDERS' EQUITY		**1,300,946**	**1,233,659**	**1,258,665**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,699,225**	**10,718,848**	**10,761,079**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF RECOGNIZED INCOME (UNAUDITED)
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
Interest Income:				
Loans		254,355	303,963	575,619
Placements with other banks		35,391	78,466	114,025
Securities available-for-sale		20,901	13,425	31,063
Securities held-to-maturity		24,153	21,458	46,619
Amounts due from banks and balances with the National Banks		6,849	18,204	27,496
Other		3,660	3,717	7,606
Total Interest Income		**345,309**	**439,233**	**802,428**
Interest Expense:				
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		37,312	81,437	116,713
Deposits from customers		35,343	61,463	108,023
Liabilities from issued securities		3,174	3,135	6,786
Subordinated bonds and loans		6,498	6,635	13,633
Other		2,856	3,675	6,843
Total Interest Expense		**85,183**	**156,345**	**251,998**
NET INTEREST INCOME		**260,126**	**282,888**	**550,430**
Provision for impairment on loan and placement losses	*5.,8.,24.*	44,025	178,295	318,683
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**216,101**	**104,593**	**231,747**
Income from fees and commissions	*25.*	127,106	125,055	257,431
Expense from fees and commissions	*25.*	21,724	20,745	43,559
Net profit from fees and commissions		**105,382**	**104,310**	**213,872**
Foreign exchange gains, net		12,555	78,383	116,682
Gains on securities, net		19,573	4,596	11,616
Dividend income		2,892	3,274	3,345
Provision on securities available-for-sale and held-to-maturity		(2)	(14)	(15)
Other operating income	*26.*	6,915	10,060	22,973
Other operating expense	*26.*	(2,422)	(22,362)	(74,680)
- from this: release of provision on contingent liabilities due to regulations related to customer loans	*26.*	-	138,352	196,574
Net operating gain		**39,511**	**73,937**	**79,921**
Personnel expenses	*26.*	95,071	93,753	187,806
Depreciation and amortization	*11.*	21,157	20,765	45,463
Goodwill impairment	*11.*	-	-	-
Other administrative expenses	*26.*	112,764	129,799	232,247
Other administrative expenses		**228,992**	**244,317**	**465,516**
PROFIT BEFORE INCOME TAX		**132,002**	**38,523**	**60,024**
Income tax	*27.*	(25,814)	1,618	3,147
NET PROFIT FOR THE YEAR		**106,188**	**40,141**	**63,171**
From this, attributable to:				
Non-controlling interest		**141**	**(323)**	**(412)**
Owners of the company		**106,047**	**40,464**	**63,583**
Consolidated earnings per share (in HUF)				
Basic	*39.*	**400**	**152**	**242**
Diluted	*39.*	**400**	**151**	**242**

The accompanying notes to consolidated financial statements on pages 8 to 102 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

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

	Six month period ended 30 June 2016	Six month period ended 30 June 2015	Year ended 31 December 2015
NET PROFIT FOR THE YEAR	**106,188**	**40,141**	**63,171**
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of securities available-for-sale	(12,930)	(6,703)	(880)
Deferred tax related to securities available-for-sale	2,033	1,208	633
Derivative financial instruments designated as Cash-flow hedge	-	-	-
Net investment hedge in foreign operations	(850)	(85)	431
Foreign currency translation difference	22,488	4,909	(44,301)
Change of actuarial losses related to employee benefits	-	-	(170)
NET COMPREHENSIVE INCOME	**116,929**	**39,470**	**18,884**
From this, attributable to:			
Non-controlling interest	394	(32)	(698)
Owners of the company	116,535	39,502	19,582

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

OPERATING ACTIVITIES	Note	Six month period ended 30 June 2016	Six month period ended 30 June 2015	Year ended 31 December 2015
Profit before income tax		**132,002**	**38,523**	**60,024**
Dividend income		(2,892)	(3,274)	(3,345)
Depreciation and amortization	*11.*	21,157	20,765	45,463
Provision for impairment on securities	*7.,10.*	2	14	15
Provision for impairment on loan and placement losses	*5.,8., 24.*	44,025	178,295	318,683
Provision for impairment on investments	*9.*	803	914	1,094
Provision for impairment on investment properties and on investment properties subject to operating leases	*12.*	80	-	490
Provision for impairment on other assets	*13.*	648	3,380	6,657
Release of provision for impairment on off-balance sheet commitments and contingent liabilities	*18.*	(32,987)	(168,797)	(146,360)
Share-based payment	*2.,30.*	1,865	1,905	3,810
Change of actuarial losses related to employee benefits		-	-	(171)
Unrealized losses on fair value change of securities held for trading		(11,183)	(6,204)	(12,098)
Unrealized gains / (losses) on fair value change of derivative financial instruments		4,001	(3,592)	7,793
Net changes in assets and liabilities in operating activities				
Changes in financial assets at fair value through profit or loss		(23,366)	(17,162)	(5,238)
Net (increase) / decrease in loans, net of allowance for loan losses		(114,532)	2,894	40,677
Increase in investment properties and in investment properties subject to operating lease before provision for impairment		(277)	(6,274)	(294)
Increase in other assets before provisions for impairment		(11,515)	(28,081)	(1,331)
Net (decrease) / increase in deposits from customers		(86,045)	(15,946)	311,102
Increase in other liabilities		67,095	50,728	24,613
Net decrease / (increase) in compulsory reserves at the National Banks		45,382	(66,601)	(147,360)
Income tax paid		(11,870)	(8,508)	(14,676)
Net Cash Provided by / (Used in) Operating Activities		**22,393**	**(27,021)**	**489,548**
Interest received		358,690	441,143	803,868
Interest paid		(88,255)	(164,998)	(242,622)
INVESTING ACTIVITIES				
Net (increase) / decrease in placement with other banks before allowance for placements losses		(35,965)	43,739	(19,556)
Purchase of securities available-for-sale		(758,070)	(448,356)	(842,886)
Proceeds from sale of securities available-for-sale		452,621	328,621	373,078
Net (increase) / decrease in investments in associates		(252)	423	11,832
Net decrease / (increase) in investments in other companies		262	(4,138)	427
Dividend income		2,892	3,274	3,345
Increase in securities held-to-maturity		(350,025)	(628,720)	(1,036,805)
Decrease in securities held-to-maturity		385,292	432,738	822,634
Additions to property, equipment and intangible assets		(30,449)	(27,967)	(50,376)
Disposals of property, equipment and intangible assets		7,830	5,738	21,107
Net (increase) / decrease in advances for investments included in other assets		(15)	(21)	28
Net Cash Used in Investing Activities		**(325,879)**	**(294,669)**	**(717,172)**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
(in HUF mn)
[continued]

FINANCING ACTIVITIES	**Note**	**Six month period ended 30 June 2016**	**Six month period ended 30 June 2015**	**Year ended 31 December 2015**
Net (decrease) / increase in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(17,068)	19,631	(174,964)
Cash received from issuance of securities		91,000	22,891	60,944
Cash used for redemption of issued securities		(97,745)	(29,968)	(88,652)
Increase / (Decrease) in subordinated bonds and loans		9,079	(24,053)	(47,184)
Increase / (Decrease) in non-controlling interest		394	(32)	(698)
Payments to ICES holders	*21.*	(643)	(902)	(3,928)
Increase in Treasury shares		7,531	15,348	24,641
Decrease in Treasury shares		(12,345)	(20,885)	(34,093)
Dividend paid		(46,110)	(40,547)	(40,473)
Net Cash Used in Financing Activities		**(65,907)**	**(58,517)**	**(304,407)**
Net decrease in cash and cash equivalents		**(369,393)**	**(380,207)**	**(532,031)**
Cash and cash equivalents at the beginning of the period		**1,427,292**	**2,003,324**	**2,003,324**
Foreign currency translation		22,235	4,625	(44,001)
Cash and cash equivalents at the end of the period		**1,080,134**	**1,627,742**	**1,427,292**

Analysis of cash and cash equivalents

Cash, amounts due from banks and balances with the National Banks		1,874,306	2,310,313	2,310,313
Net cash inflow / (outflow) due to acquisition		4,654	(2,681)	(2,681)
Compulsory reserve established by the National Banks		(451,668)	(304,308)	(304,308)
Cash and cash equivalents at the beginning of the period		**1,427,292**	**2,003,324**	**2,003,324**
Cash, amounts due from banks and balances with the National Banks	*4.*	1,486,420	1,993,997	1,874,306
Net cash inflow due to acquisition	*32.*	-	4,654	4,654
Compulsory reserve established by the National Banks	*4.*	(406,286)	(370,909)	(451,668)
Cash and cash equivalents at the end of the period		**1,080,134**	**1,627,742**	**1,427,292**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
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	Put option reserve[1]	Treasury shares	Non-controlling interest	Total
Balance as at 1 January 2015		**28,000**	**52**	**20,897**	**1,323,277**	**(55,468)**	**(55,941)**	**3,349**	**1,264,166**
Net profit for the year		-	-	-	40,464	-	-	(323)	40,141
Other Comprehensive Income		-	-	-	(962)	-	-	291	(671)
Share-based payment	*30.*	-	-	1,905	-	-	-	-	1,905
Dividend for the year 2014		-	-	-	(40,600)	-	-	-	(40,600)
Sale of Treasury shares	*22.*	-	-	-	-	-	15,348	-	15,348
Treasury shares									
– loss on sale		-	-	-	(4,197)	-	-	-	(4,197)
– acquisition	*22.*	-	-	-	-	-	(16,688)	-	(16,688)
Payments to ICES holders	*21.*	-	-	-	(739)	-	-	-	(739)
Balance as at 30 June 2015		**28,000**	**52**	**22,802**	**1,317,243**	**(55,468)**	**(57,281)**	**3,317**	**1,258,665**
Balance as at 1 January 2016		**28,000**	**52**	**24,707**	**1,291,738**	**(55,468)**	**(58,021)**	**2,651**	**1,233,659**
Net profit for the year		-	-	-	106,047	-	-	141	106,188
Other Comprehensive Income		-	-	-	10,488	-	-	253	10,741
Share-based payment	*30.*	-	-	1,865	-	-	-	-	1,865
Dividend for the year 2015		-	-	-	(46,200)	-	-	-	(46,200)
Sale of Treasury shares	*22.*	-	-	-	-	-	7,531	-	7,531
Treasury shares									
– loss on sale		-	-	-	(3,328)	-	-	-	(3,328)
– acquisition	*22.*	-	-	-	-	-	(9,017)	-	(9,017)
Payments to ICES holders	*21.*	-	-	-	(493)	-	-	-	(493)
Balance as at 30 June 2016		**28,000**	**52**	**26,572**	**1,358,252**	**(55,468)**	**(59,507)**	**3,045**	**1,300,946**

[1] See Note 18.

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. (the "Bank" or "OTP") was established on 31 December 1990, when the previously State-owned company was transformed into a public liability company. The Bank's registered office address is 16, Nador 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	1%	1%
Total	**100%**	**100%**

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide network of 1,339 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

The number of employees at the Group:

	30 June 2016	31 December 2015
The number of employees at the Group	37,364	38,203
The average number of employees at the Group	37,614	38,114

1.2. Base of Accounting

The Entities of the Group maintain their accounting records and prepare its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary and in case of foreign subsidiaries in accordance with the local commercial, banking and fiscal regulations.

The Group's presentation currency is the Hungarian Forint ("HUF").

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 International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU").

Certain adjustments have been made to the entities' statutory accounts in order to present the Consolidated Financial Position and Statement of Recognized and Comprehensive Income of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").

The Consolidated 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 Group does not apply portfolio hedge accounting under IAS 39, there would be no impact on these Consolidated Financial Statements, had it been approved by the EU before the preparation of these financial statement.

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

1.2. Base of Accounting [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 and interpretations has not led to any changes in the Group'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 authorization of these financial statements, there were no such kind of standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU which were in issue but not yet effective.

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

1.2. Base of Accounting [continued]

1.2.3. New Standards and amendments to the existing 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" and IFRS 12 "Disclosure of Interests in Other Entities" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements", 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 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 principle has not been adopted by the EU, remains unregulated.
According to the Group'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 to the existing Standards, new Standards and Interpretations would have no significant impact on the Consolidated Financial Statements except of the application of IFRS 9 which might have significant impact on the Group Consolidated Financial Statements, the impact is being analysed by the Group in 2016.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying Consolidated Financial Statements are summarized below:

2.1. Basis of Presentation

These Consolidated 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 Consolidated Financial Statements in conformity with IFRS requires the Management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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 financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's presentation currency are translated into HUF are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates quoted by the National Bank of Hungary ("NBH"), or if there is no official rate, at exchange rates quoted by OTP as at the date of the Consolidated Financial Statements. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see note 2.7. below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in Other Comprehensive Income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated into HUF using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in Other Comprehensive Income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in Other Comprehensive Income and accumulated in equity.

2.3. Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank exercises control. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 33. However, certain subsidiaries in which the Bank holds a significant interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.13.).
As the ultimate parent, the Bank is preparing consolidated financial statement of the Group.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.4. Accounting for acquisitions

Business combinations are accounted for using purchase method of accounting. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.
The acquisition date is the date on which the acquirer effectively obtains control over the acquiree. Before this date, it should be presented as Advance for investments within Other assets.
Goodwill, which represents the residual cost of the acquisition after obtaining the control over the acquiree in the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements.

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Recognized Income.
Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.
The Group 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 Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.
The Group, 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.

Negative goodwill (gain from bargain purchase), when the interest of the acquirer in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statement of Recognized Income as other income.

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 Group has the expressed intention and ability to hold 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 receivable 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 and foreign Government, discounted Treasury bills and corporate bonds.

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. Unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Recognized Income for the period. The Group mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income Such securities consist of corporate shares, Hungarian and foreign government bonds, discounted and interest bearing treasury bills and other securities.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Financial assets at fair value through profit or loss [continued]

2.6.2. Derivative financial instruments

In the normal course of business, the Group 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 Group 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. The Group 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 the Group has almost all of its 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 Consolidated 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 the risk management policy of the Group, 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 Consolidated 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 these spot contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes. The risk management foreign currency contracts of the Group were used to hedge the exchange rate fluctuations of loans and deposits to credit institutions denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

The Group enters into foreign exchange swap and interest rate swap 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 oblige 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 often are used to express the volume of these transactions but are not actually exchanged between the counterparties.
The interest rate swaps are used by the Group for risk management and trading purposes.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Financial assets at fair value through profit or loss [continued]

2.6.2. Derivative financial instruments [continued]

Equity and commodity swaps

Equity swaps obligate two parties to exchange more payments calculated with reference periodically reset rates of interest and performance of indexes. 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 Group 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 counterparties. The Group’s forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

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 Consolidated 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 Consolidated Statement of Recognized Income.
The conditions of hedge accounting applied by the Bank are the following: formally designed as hedge, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.

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 the hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in equity are transferred to the Consolidated Statement of Recognized Income and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the Consolidated Statement of Recognized Income for the period. The ineffective element of the hedge is charged directly to the Consolidated Statement of Recognized Income.
The Group 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 Group revokes the designation.

2.8. Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the Consolidated Statement of Financial Position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be reported in the Consolidated Statement of Financial Position on a net basis. The Group does not offset any financial assets and financial liabilities.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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) effecting 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 recognized 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. Securities available-for-sale are measured at subsequent reporting dates at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized directly 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 realized in Consolidated Statement of Recognized Income for the applicable period.
Such securities consist of Hungarian and foreign government bonds, corporate bonds, discounted Treasury bills and other securities. Other securities include shares in investment funds, shares in non-financing companies and venture capital fund bonds.

The provision for impairment is calculated based on discounted cash-flow methodology for debt instruments and calculated based on fair valuation 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 in fair value.

Securities available-for-sale are remeasured at fair value based on quoted prices or amounts 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 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 available-for-sale 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.

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

Loans and placements with other banks are accounted at amortized 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 is impaired.

According to IAS 39, initially financial asset 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 are 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 collateral, discounted at the original effective interest rate.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

Allowance for loan and placement losses 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 net operating 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 “Provision for impairment on loan and placement losses” in the Consolidated Statement of Recognized Income.
The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IAS 39. If the Group 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 is overdue or was terminated by the Group.
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.
Loan receivables legally demanded from clients are equal to the former gross amount of the loan before the partial write-off.

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 Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks. 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 Group doesn’t recognize or derecognize the securities because believes 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. Associates and other investments

Companies where the Bank has the ability to exercise significant influence are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is not material to the Consolidated Financial Statements as a whole.

Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a significant interest are recorded according to IAS 39, when appropriate.
Gains and losses on the sale of investments are determined on the basis of the specific identification of the cost of each investment.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.14. Property and equipment, Intangible assets

Property and 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 the useful lives.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Intangible assets	
Software	3.33-50%
Property rights	5-50%
Property	1-33%
Office equipment and vehicles	1-52%

Depreciation and amortization on Property and equipment and Intangible assets commence on the day such assets are placed into service.
At each balance sheet date, the Group reviews the carrying value of its Property and equipment and Intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of Property and equipment and Intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

The Group 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 Group.
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.

2.15. 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 Group 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 Group 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.

2.16. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor

Amounts due from lessees under finance leases are recorded as other receivables at the amount of the net investment in the lease of the Group. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the net investment outstanding of the Group in respect of the leases. Direct costs such as commissions are included in the initial measurement of the finance lease receivables.
Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

2.16. Leases [continued]

The Group as a lessee

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 principal element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Consolidated Statement of Recognized Income over the period of the leases to produce a constant rate of charge on the balance of principal payments outstanding.

Payments made under operating leases are charged to the Consolidated Statement of Recognized and Comprehensive Income on a straight-line basis over the term of the lease. 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.

2.17. Investment properties

Investment properties of the Group are land, buildings, part of buildings which held (as the owner or as the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of services or for administrative purposes or sale in the ordinary course of business. The Group measures the investment properties at amortized cost and according to the opinion of the Management there isn't significant difference between the fair value and the carrying value of the these properties.

2.18. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Financial Position at cost as a deduction from Consolidated Shareholders' Equity.
Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity. Derecognition of treasury shares is based on the FIFO method.

2.19. Interest income and interest expense

Interest income and expenses are recognized 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 Group recognizes interest income when assumes that the interest associated with the transaction will flow to the Group and the amount of the revenue can be reasonably measured. All interest income and expense recognized are 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 statements.

2.20. Fees and Commissions

Fees and commissions are recognized using the effective interest method referring to provisions of IAS 39, when they relate and have to be included in amortized cost model. Certain fees and commissions that are not involved in the amortized cost model are recognized in the Consolidated Statement of Recognized Income on an accrual basis based on IAS 18.

2.21. Dividend income

The Group recognizes dividend income in the Consolidated Financial Statements when its right to receive payment is established.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.22. Income tax

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, 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 apply to the future period when the asset is expected to be realized or the liability is settled.

Deferred tax assets are recognized by the Group for the amounts of income taxes 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.

2.23. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group enters into off-balance sheet commitments such as guarantees, letters of credit, commitments to extend credit and transactions with financial instruments. The provision for impairment on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb future cash outflows which are probable and relate to present obligations.

Management determines the adequacy of the allowance 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 Group recognizes 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.

2.24. 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 payment to certain employees. Equity-settled share-based payment is measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Share-based payment is recorded in Consolidated Statement of Recognized Income as Personnel expenses.

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 Group 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 the Consolidated Financial Statements.

2.25. Consolidated Statement of Cash-flows

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

2.26. Segment reporting

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.27. 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 Consolidated Financial Statements for the year ended 31 December 2015 have been restructured within the particular note to conform with the current year presentation and these amounts are not significant.

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

The presentation of financial statements in conformity with IFRS requires the Management of the Group to make judgement 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 ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

3.1. Impairment on loans and placements

The Group 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 Group 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 Group on the basis of estimates based on historical parameters. The adopted methodology used for estimating impairment allowances will be developed 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 Group 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. 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

Provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 18.)

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES [continued]

3.3. Provisions [continued]

A provision is recognized by the Group 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.

3.4. Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 “Impairment of assets”.
The Group 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 Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash-flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

NOTE 4: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANKS (in HUF mn)

	30 June 2016	31 December 2015
Cash on hand		
In HUF	92,746	78,182
In foreign currency	136,044	146,718
	228,790	**224,900**

Amounts due from banks and balances with the National Banks

	30 June 2016	31 December 2015
Within one year:		
In HUF	411,430	1,203,223
In foreign currency	845,594	449,139
	1,257,024	**1,652,362**
Over one year:		
In HUF	2	2
In foreign currency	-	-
	2	**2**
Accrued interest	604	1,696
	1,257,630	**1,654,060**
Total	**1,486,420**	**1,878,960**
Compulsory reserve set by the National Banks	**406,286**	**451,668**

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	49,378	57,207
In foreign currency	273,983	241,952
	323,361	**299,159**
Over one year		
In HUF	-	-
In foreign currency	13,146	1,396
	13,146	**1,396**
Accrued interest	79	63
Provision for impairment on placement losses	(54)	(50)
Total	**336,532**	**300,568**

An analysis of the change in the provision for impairment on placement with other banks is as follows:

	30 June 2016	31 December 2015
Balance as at 1 January	**50**	**47**
Provision for the period	4	3
Closing balance	**54**	**50**

Interest conditions of placements with other banks:

	30 June 2016	31 December 2015
In HUF	0.1% - 5.5%	0.1% - 6.4%
In foreign currency	0.01% - 18.7%	0.01% - 14.9%

	30 June 2016	31 December 2015
Average interest rates on placements with other banks	0.89%	0.88%

NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	30 June 2016	31 December 2015
Securities held for trading		
Shares	83,593	72,620
Government bonds	28,242	25,866
Interest bearing treasury bills	13,466	7,768
Discounted Treasury bills	1,372	366
Other securities	1,244	178
Other non-interest bearing securities	6,891	4,507
	134,808	**111,305**
Accrued interest	446	671
Total	**135,254**	**111,976**

Positive fair value of derivative financial instruments classified held for trading

	30 June 2016	31 December 2015
CCIRS and mark-to-market CCIRS[1] classified as held for trading	49,426	84,270
Interest rate swaps classified as held for trading	37,971	33,770
Foreign exchange swaps classified as held for trading	8,727	15,551
Foreign exchange forward contracts classified as held for trading	102	124
Other derivative transactions classified as held for trading	12,230	8,091
	108,456	**141,806**
Total	**243,710**	**253,782**

An analysis of securities held for trading portfolio by currency (%):

	30 June 2016	31 December 2015
Denominated in HUF (%)	90.0%	84.0%
Denominated in foreign currency (%)	10.0%	16.0%
Total	**100.0%**	**100.0%**

An analysis of government bond portfolio by currency (%):

	30 June 2016	31 December 2015
Denominated in HUF (%)	70.1%	48.4%
Denominated in foreign currency (%)	29.9%	51.6%
Total	**100.0%**	**100.0%**

	30 June 2016	31 December 2015
Interest rates on securities held for trading	0.98% - 7.63%	1.1% - 8.75%
Average interest rates on securities held for trading	1.44%	4.33%

[1] CCIRS: Cross Currency Interest Rate Swaps (See Note 2.6.2.)

NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn) [continued]

Interest conditions and the remaining maturities of securities held for trading can be analysed as follows:

	30 June 2016	31 December 2015
Within one year		
With variable interest	1,654	18
With fixed interest	16,813	8,547
	18,467	**8,565**
Over one year		
With variable interest	2,215	2,181
With fixed interest	23,642	23,432
	25,857	**25,613**
Non-interest bearing securities	90,484	77,127
Total	**134,808**	**111,305**

NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

	30 June 2016	31 December 2015
Securities available-for-sale		
Government bonds	1,436,484	1,142,470
Corporate bonds	91,152	51,278
From this:		
Listed securities:		
In HUF	*3,241*	-
In foreign currency	*25,183*	*7,399*
	28,424	*7,399*
Non-listed securities:		
In HUF	*37,827*	*43,879*
In foreign currency	*24,901*	-
	62,728	*43,879*
Discounted Treasury bills	24,397	33,970
Other securities	3,231	12,422
Other non-interest bearing securities	36,022	45,222
From this:		
Listed securities:		
In HUF	*1,392*	*1,218*
In foreign currency	*48*	*7,410*
	1,440	*8,628*
Non-listed securities:		
In HUF	*12,781*	*17,562*
In foreign currency	*21,801*	*19,032*
	34,582	*36,594*
	1,591,286	**1,285,362**

NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn) [continued]

	30 June 2016	31 December 2015
Accrued interest	15,033	20,507
Provision for impairment on securities available-for-sale	(375)	(383)
Total	**1,605,944**	**1,305,486**

An analysis of securities available-for sale by currency (%):

	30 June 2016	31 December 2015
Denominated in HUF (%)	71.4%	74.8%
Denominated in foreign currency (%)	28.6%	25.2%
Total	**100.0%**	**100.0%**

An analysis of government bonds by currency (%):

	30 June 2016	31 December 2015
Denominated in HUF (%)	75.0%	78.5%
Denominated in foreign currency (%)	25.0%	21.5%
Total	**100.0%**	**100.0%**

	30 June 2016	31 December 2015
Interest rates on securities available-for-sale denominated in HUF	0.8% - 7.5%	0.8% - 7.5%
Interest rates on securities available-for-sale denominated in foreign currency	0.4% - 28.0%	0.4% - 28.0%

	30 June 2016	31 December 2015
Average interest rates on securities available-for-sale denominated in HUF	2.94%	2.96%
Average interest rates on securities available-for-sale denominated in foreign currency	3.22%	3.48%

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

	30 June 2016	31 December 2015
Within one year		
With variable interest	464	431
With fixed interest	159,855	130,717
	160,319	**131,148**
Over one year		
With variable interest	39,143	42,372
With fixed interest	1,355,802	1,066,620
	1,394,945	**1,108,992**
Non-interest bearing securities	36,022	45,222
Total	**1,591,286**	**1,285,362**

NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn) [continued]

An analysis of the change in the provision for impairment on securities available-for-sale is as follows:

	30 June 2016	31 December 2015
Balance as at 1 January	**383**	**1,274**
Provision for the period	2	17
Release of provision	-	-
Use of provision	(1)	(831)
Foreign currency translation difference	(9)	(77)
Closing balance	**375**	**383**

Certain securities are hedged against interest rate risk. See Note 41.

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)	2,080,435	2,112,909
Long-term loans and promissory notes (over one year)	4,368,116	4,260,765
	6,448,551	**6,373,674**
Accrued interest	44,820	49,913
Provision for impairment on loan losses	(1,005,451)	(1,013,620)
Total	**5,487,920**	**5,409,967**

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

	30 June 2016	31 December 2015
In HUF	36%	36%
In foreign currency	64%	64%
Total	**100%**	**100%**

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

Interest rates of the loan portfolio are as follows:

	30 June 2016	31 December 2015
Short-term loans denominated in HUF	0.0% - 36.8%	0.01% - 40.7%
Long-term loans denominated in HUF	0.0% - 37.5%	0.01% - 40.7%
Short-term loans denominated in foreign currency	0.0% - 66.9%	0.01% - 66.9%
Long-term loans denominated in foreign currency	0.0% - 59.7%	0.01% - 59.7%

	30 June 2016	31 December 2015
Average interest rates on loans denominated in HUF	8.85%	10.27%
Average interest rates on loans denominated in foreign currency	8.64%	9.37%

	30 June 2016	31 December 2015
Gross loan portfolio on which interest to customers is not being accrued	12.7%	16.9%

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	**1,013,620**	**1,129,085**
Provision for the period	221,933	607,856
Release of provision	(212,524)	(332,171)
Use of provision	(20,172)	(195,846)
Partial write-off[1]	(4,929)	(84,537)
Foreign currency translation difference	7,523	(110,767)
Closing balance	**1,005,451**	**1,013,620**

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

	30 June 2016	31 December 2015
Provision for impairment / (Release of provision) on placement losses	1	(6)
Provision for impairment on loan losses	44,024	318,689
Total	**44,025**	**318,683**

[1] See details in Note 2.11.

NOTE 9: ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)

	30 June 2016	31 December 2015
Investments[1]		
Investments in associates (non-listed)	6,188	5,936
Other investments (non-listed) at cost	7,533	7,974
	13,721	**13,910**
Provision for impairment on investments	(4,506)	(3,882)
Total	**9,215**	**10,028**

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

	30 June 2016	31 December 2015
Balance as at 1 January	**3,882**	**3,304**
Provision for the period	803	1,094
Use of provision	(174)	(139)
Change due to merge	-	(375)
Foreign currency translation difference	(5)	(2)
Closing balance	**4,506**	**3,882**

NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn)

	30 June 2016	31 December 2015
Government bonds	879,707	909,556
Discounted Treasury bills	115	116
Corporate bonds	5	5
	879,827	**909,677**
Accrued interest	15,202	17,807
Provision for impairment on securities held-to-maturity	(812)	(807)
Total	**894,217**	**926,677**

[1] These instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn) [continued]

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

	30 June 2016	31 December 2015
Within one year		
With variable interest	1,826	3,339
With fixed interest	50,844	91,778
	52,670	**95,117**
Over one year		
With variable interest	514	195
With fixed interest	826,643	814,365
	827,157	**814,560**
Total	**879,827**	**909,677**

An analysis of securities held-to-maturity by currency (%):

	30 June 2016	31 December 2015
Denominated in HUF (%)	91.5%	89.6%
Denominated in foreign currency (%)	8.5%	10.4%
Total	**100.0%**	**100%**

In most cases, interest on variable rate bonds is based on the interest rates of 90 day Hungarian government Treasury bills and is adjusted semi-annually. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

	30 June 2016	31 December 2015
Interest rates of securities held-to-maturity with variable interest	0.01% - 5.0%	0.01% - 0.6%
Interest rates of securities held-to-maturity with fixed interest	0.2% - 18.0%	0.1% - 20.7%

	30 June 2016	31 December 2015
Average interest rates on securities held-to-maturity	5.43%	5.82%

An analysis of the change in the provision for impairment on securities held-to-maturity is as follows:

	30 June 2016	31 December 2015
Balance as at 1 January	**807**	**814**
Provision for the period	2	15
Release of provision	(2)	(17)
Use of provision	(11)	(2)
Foreign currency translation difference	16	(3)
Closing balance	**812**	**807**

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

For the six month period ended 30 June 2016

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**301,539**	**197,832**	**158,985**	**10,010**	**668,366**
Additions	11,431	3,647	7,925	8,500	**31,503**
Foreign currency translation differences	7,329	2,355	2,080	69	**11,833**
Disposals	(5,086)	(4,384)	(7,566)	(9,513)	**(26,549)**
Balance as at 30 June	**315,213**	**199,450**	**161,424**	**9,066**	**685,153**

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**145,730**	**53,451**	**119,715**	**-**	**318,896**
Charge for the period (without goodwill impairment)	11,208	2,682	7,267	-	21,157
Foreign currency translation differences	1,025	734	1,731	-	3,490
Disposals	(1,855)	(2,974)	(4,377)	-	(9,206)
Balance as at 30 June	**156,108**	**53,893**	**124,336**	**-**	**334,337**
Net book value					
Balance as at 1 January	**155,809**	**144,381**	**39,270**	**10,010**	**349,470**
Balance as at 30 June	**159,105**	**145,557**	**37,088**	**9,066**	**350,816**

An analysis of the intangible assets for the six month period ended 30 June 2016 is as follows:

Intangible assets	Self-developed	Other	Total
Gross values	5,428	208,380	**213,808**
Depreciation and amortization	3,109	152,999	**156,108**

An analysis of the changes in the goodwill for the six month period ended 30 June 2016 is as follows:

Cost	Goodwill
Balance as at 1 January	**95,994**
Additions	-
Foreign currency translation difference	5,410
Impairment for the current period	-
Balance as at 30 June	**101,404**
Net book value	
Balance as at 1 January	**95,994**
Balance as at 30 June	**101,404**

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

For the six month period ended 30 June 2016 [continued]

Book value of the goodwill allocated to the appropriate cash generation units

List of units	HUF mn
JSC "OTP Bank" (Russia)	41,619
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,354
OTP Bank Romania S.A.	6,282
Monicomp Ltd.	5,732
OTP Banka Slovensko a.s.	522
Other[1]	354
Total	**101,404**

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. The Bank prepared goodwill impairment tests of the subsidiaries based on two different net present value calculation methods that shows 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.

On the base of the Management's opinion in the Bank there were no circumstances happened which would have made needed the preparation of the impairment test as at 30 June 2016. On the other side as at 31 December 2015 impairment test was prepared, where in case of two companies JSC "OTP Bank" (Russia) and OTP Bank JSC (Ukraine) a five-year (2016-2020) cash-flow model while in case of the other subsidiaries three-year cash-flow model was applied with an explicit period between 2016-2018. The base of the estimation was the annual financial strategic plan for year 2015, while for the three-year explicit period the Bank applied the prognosis for year 2016 accepted by the Management Committee of the subsidiaries and on the base of this prognosis the prepared medium-term (2017-2018) forecasts. When the Bank prepared the calculations for the period 2016-2018, considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these and the expected changes of the mentioned factors.

Present value calculation with the DCF method
The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case of OTP Bank JSC (Ukraine) the base rate of the Ukrainian National Bank was considered presented in the actual macro forecasts, while in case of the other subsidiaries the Bank applied the yield of these local government bonds in foreign currency with a period of one year. The Bank calculated risk premiums on the base of information from the country risk premiums that are published on damodaran.com, which were modified with CDS spread in case of OTP Banka Slovensko a.s and Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way.
The values of the subsidiaries in the DCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method
A company creates positive economic profit/value if the profitability of the invested capital is higher than the normal profit – the profit that can be usually generated in the banking sector –, which means that the company's profitability exceeds the expected yield. The economic profit of the subsidiaries was calculated by deducting the cost of invested capital from the net profit for the year. The applied discount factor and the indicators used for calculating the residual value (long term cost of capital and growth rate) are the same that are used in the DCF method.

Summary of the impairment test for the half year ended 30 June 2016
Based on the valuations of the subsidiaries no goodwill impairment was needed on Group level as at 30 June 2016.

[1] Other category includes: OTP Real Estate Leasing Ltd., Nimo 2002 Ltd., POK DSK-Rodina a.d.

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

For the year ended 31 December 2015

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**345,855**	**196,923**	**161,855**	**11,983**	**716,616**
Additions	39,057	13,068	14,950	15,484	82,559
Foreign currency translation differences	(8,707)	(3,534)	(3,535)	(110)	(15,886)
Disposals	(74,719)	(8,626)	(14,311)	(17,347)	(115,003)
Change in consolidation scope	53	1	26	-	80
Balance as at 31 December	**301,539**	**197,832**	**158,985**	**10,010**	**668,366**

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**187,134**	**46,745**	**117,576**	**-**	**351,455**
Charge for the year (without goodwill impairment)	22,476	7,888	15,099	-	45,463
Foreign currency translation differences	(476)	437	(1,434)	-	(1,473)
Disposals	(63,404)	(1,619)	(11,526)	-	(76,549)
Balance as at 31 December	**145,730**	**53,451**	**119,715**	**-**	**318,896**
Net book value					
Balance as at 1 January	**158,721**	**150,178**	**44,279**	**11,983**	**365,161**
Balance as at 31 December	**155,809**	**144,381**	**39,270**	**10,010**	**349,470**

An analysis of the intangible assets for the year ended 31 December 2015 is as follows:

Intangible assets	Self-developed	Other	Total
Gross values	8,333	197,212	**205,545**
Depreciation and amortization	4,934	140,796	**145,730**

An analysis of the changes in the goodwill for the year ended 31 December 2015 is as follows:

Cost	Goodwill
Balance as at 1 January	**101,062**
Additions	419
Foreign currency translation difference	(5,487)
Impairment for the current period	-
Balance as at 31 December	**95,994**
Net book value	
Balance as at 1 January	**101,062**
Balance as at 31 December	**95,994**

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

For the year ended 31 December 2015 [continued]

Book value of the goodwill allocated to the appropriate cash generation units

List of units	HUF mn
JSC "OTP Bank" (Russia)	36,451
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,177
OTP Bank Romania S.A.	6,222
Monicomp Ltd.	5,732
OTP Banka Slovensko a.s.	517
Other[1]	354
Total	**95,994**

Summary of the impairment test for the year ended 31 December 2015

Based on the valuations of the subsidiaries no goodwill impairment was needed on Group level as at 31 December 2015.

NOTE 12: INVESTMENT PROPERTY, INVESTMENT PROPERTY SUBJECT TO OPERATING LEASE (in HUF mn)

For the six month period ended 30 June 2016

Gross value	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	**37,139**	**7,605**	**44,744**
Additions due to receiving from debtors for the receivables	1,794	-	1,794
Other additions	152	-	152
Disposals due to transfer into the properties classified as held for sale	(1,076)	-	(1,076)
Other disposal	(786)	(9)	(795)
Foreign currency translation difference	148	166	314
Closing balance	**37,371**	**7,762**	**45,133**

The applied depreciation and amortization keys for the half year ended 30 June 2016 were the following:

Investment property	1% - 10%
Investment property subject to operating lease	1.82% - 18.18%

Depreciation and amortization	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	**3,719**	**1,216**	**4,935**
Charge for the period	180	81	261
Disposal for the period	(38)	(7)	(45)
Foreign currency translation difference	28	25	53
Closing balance	**3,889**	**1,315**	**5,204**

[1] Other category includes: OTP Real Estate Leasing Ltd., Nimo 2002 Ltd., POK DSK-Rodina a.d.

NOTE 12: INVESTMENT PROPERTY, INVESTMENT PROPERTY SUBJECT TO OPERATING LEASE (in HUF mn) [continued]

For the six month period ended 30 June 2016 [continued]

Impairment	**Investment property**	**Investment property subject to operating lease**	**Total**
Balance as at 1 January	**7,965**	**1,525**	**9,490**
Impairment for the period	80	-	80
Use of impairment	(226)	(29)	(255)
Foreign currency translation difference	61	37	98
Closing balance	**7,880**	**1,533**	**9,413**

Net values	**Investment property**	**Investment property subject to operating lease**	**Total**
Balance as at 1 January	**25,455**	**4,864**	**30,319**
Balance as at 30 June	**25,602**	**4,914**	**30,516**
Fair values	**28,542**	**4,741**	**33,283**

Incomes and expenses	**Investment property**	**Investment property subject to operating lease**	**Total**
Rental income	779	214	**993**
Direct operating expenses of investment properties – income generating	99	2	**101**
Direct operating expenses of investment properties – non income generating	4	-	**4**

For the year ended 31 December 2015

Gross value	**Investment property**	**Investment property subject to operating lease**	**Total**
Balance as at 1 January	**34,723**	**10,246**	**44,969**
Additions from purchase	4,087	-	4,087
Additions due to receiving from debtors for the receivables	1,129	-	1,129
Other additions	126	-	126
Disposals due to transfer to inventories or owner-occupied properties	-	(2,616)	(2,616)
Disposals due to transfer to properties classified as held for sale	(440)	-	(440)
Other disposals	(1,407)	-	(1,407)
Foreign currency translation difference	(1,079)	(25)	(1,104)
Closing balance	**37,139**	**7,605**	**44,744**

NOTE 12: INVESTMENT PROPERTY, INVESTMENT PROPERTY SUBJECT TO OPERATING LEASE (in HUF mn) [continued]

For the year ended 31 December 2015 [continued]

Depreciation and amortization	**Investment property**	**Investment property subject to operating lease**	**Total**
Balance as at 1 January	**3,401**	**2,013**	**5,414**
Charge for the period	366	297	663
Disposals due to transfer to inventories or owner-occupied properties	-	(1,092)	(1,092)
Other disposals for the period	(23)	-	(23)
Foreign currency translation difference	(25)	(2)	(27)
Closing balance	**3,719**	**1,216**	**4,935**

Impairment	**Investment property**	**Investment property subject to operating lease**	**Total**
Balance as at 1 January	**7,900**	**1,140**	**9,040**
Impairment for the period	262	389	651
Release of impairment	(161)	-	(161)
Use of impairment	(1)	-	(1)
Foreign currency translation difference	(35)	(4)	(39)
Closing balance	**7,965**	**1,525**	**9,490**

Net values	**Investment property**	**Investment property subject to operating lease**	**Total**
Balance as at 1 January	**23,422**	**7,093**	**30,515**
Balance as at 31 December	**25,455**	**4,864**	**30,319**
Fair values	**28,594**	**4,686**	**33,280**

Incomes and expenses	**Investment property**	**Investment property subject to operating lease**	**Total**
Rental income	1,823	641	**2,464**
Direct operating expenses of investment properties – income generating	238	6	**244**
Direct operating expenses of investment properties – non income generating	194	-	**194**

NOTE 13: OTHER ASSETS[1] (in HUF mn)

	30 June 2016	31 December 2015
Deferred tax receivables[2]	61,757	73,079
Inventories	47,121	46,195
Prepayments and accrued income	29,734	25,136
Assets subject to operating lease	19,483	17,026
Fair value of derivative financial instrument designated as fair value hedge	16,794	16,009
Current income tax receivable	13,941	20,492
Receivables from card operations	12,633	7,865
Trade receivables	11,249	10,891
Other advances	9,586	7,083
Receivable from the National Asset Management	8,478	6,645
Receivables from investment services	5,930	6,369
Stock exchange deals	3,473	2,163
Other receivables from Hungarian Government	3,388	1,233
Loans sold under deferred payment scheme	2,431	2,410
Receivables from leasing activities	1,369	1,470
Receivables due from pension funds and investment funds	1,265	2,516
Advances for securities and investments	678	663
Other	32,298	34,338
Subtotal	**281,608**	**281,583**
Provision for impairment on other assets[3]	(27,673)	(27,992)
Total	**253,935**	**253,591**

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

	30 June 2016	31 December 2015
Interest rate swaps designated as fair value hedge	16,233	15,393
CCIRS and mark-to-market CCIRS designated as fair value hedge	522	604
Other transactions designated as fair value hedge	39	12
Total	**16,794**	**16,009**

[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 27.

[3] Provision for impairment on trade receivables, on receivable from investment services and on inventories was recognized the most impairment among the Provision for impairment on other assets.

NOTE 13: OTHER ASSETS (in HUF mn) [continued]

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	**27,992**	**23,862**
Provision for the period	653	6,529
Use of provision	(1,305)	(1,569)
Foreign currency translation difference	333	(830)
Closing balance	**27,673**	**27,992**

NOTE 14: AMOUNTS DUE TO BANKS, THE HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn)

	30 June 2016	31 December 2015
Within one year		
In HUF	133,979	134,081
In foreign currency	102,360	115,423
	236,339	**249,504**
Over one year		
In HUF	213,066	205,221
In foreign currency	66,051	78,015
	279,117	**283,236**
Accrued interest	786	570
Total[1]	**516,242**	**533,310**

Interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks are as follows:

	30 June 2016	31 December 2015
Within one year		
In HUF	(0.1)% - 2.7%	(1.0)% - 3.6%
In foreign currency	(0.8)% - 14.5%	0.01% - 11.75%
Over one year		
In HUF	0.0% - 3.8%	0.0% - 3.2%
In foreign currency	0.0% - 12.5%	0.1% - 17.0%

[1] It contains loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 standard. See more details in Note 45.

NOTE 14: AMOUNTS DUE TO BANKS, THE HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn) [continued]

	30 June 2016	31 December 2015
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	1.45%	1.97%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency	1.59%	1.54%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 June 2016	31 December 2015
Within one year		
In HUF	3,291,106	3,565,248
In foreign currency	4,215,218	4,121,267
	7,506,324	**7,686,515**
Over one year		
In HUF	287,953	169,177
In foreign currency	87,016	109,345
	374,969	**278,522**
Accrued interest	17,241	19,542
Total	**7,898,534**	**7,984,579**

Interest rates on deposits from customers are as follows:

	30 June 2016	31 December 2015
Within one year		
In HUF	0.01% - 8.0%	0.01% - 4.0%
In foreign currency	0.01% - 26.0%	0.01% - 24.5%
Over one year		
In HUF	0.01% - 6.3%	0.01% - 6.85%
In foreign currency	0.01% - 19.0%	0.01% - 20.5%

	30 June 2016	31 December 2015
Average interest rates on deposits from customers denominated in HUF	0.51%	0.75%
Average interest rates on deposits from customers denominated in foreign currency	1.19%	1.95%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]

An analysis of deposits from customers by type, without accrued interest liability, is as follows:

	30 June 2016		31 December 2015	
Retail deposits	5,733,193	73%	5,663,139	71%
Corporate deposits	1,803,761	23%	1,948,422	25%
Municipality deposits	344,339	4%	353,476	4%
Total	**7,881,293**	**100%**	**7,965,037**	**100%**

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	30 June 2016	31 December 2015
With original maturity		
Within one year		
In HUF	28,480	18,388
In foreign currency	60,710	64,762
	89,190	**83,150**
Over one year		
In HUF	138,692	146,011
In foreign currency	324	784
	139,016	**146,795**
Accrued interest	4,425	9,431
Total	**232,631**	**239,376**

Interest rates on liabilities from issued securities are as follows:

	30 June 2016	31 December 2015
Issued securities denominated in HUF	0.01% - 10.0%	0.01% - 10.0%
Issued securities denominated in foreign currency	0.1% - 11.6%	0.52% - 12.8%

	30 June 2016	31 December 2015
Average interest rates on issued securities denominated in HUF	3.54%	3.21%
Average interest rates on issued securities denominated in foreign currency	0.94%	1.71%

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

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

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP TBSZ 2016/I	14/01/2011-05/08/2011	15/12/2016	1,145	5.5	fixed	
2	OTP TBSZ 2016/II	26/08/2011-29/12/2011	15/12/2016	626	5.5	fixed	
3	OTP TBSZ 4 2016/I	18/01/2013-15/02/2013	15/12/2016	156	5	fixed	
4	OTP TBSZ 6 2017/I	13/01/2012-22/06/2012	15/12/2017	228	6.5	fixed	
5	OTP 2016/Ax	11/11/2010	03/11/2016	3,427	indexed	floating	hedged
6	OTP 2016/Bx	16/12/2010	19/12/2016	2,539	indexed	floating	hedged
7	OTP 2016/Ex	28/12/2012	27/12/2016	301	indexed	floating	hedged
8	OTP 2017/Ax	01/04/2011	31/03/2017	3,953	indexed	floating	hedged
9	OTP 2017/Bx	17/06/2011	20/06/2017	3,814	indexed	floating	hedged
10	OTP 2017/Cx	19/09/2011	25/09/2017	2,910	indexed	floating	hedged
11	OTP 2017/Dx	20/10/2011	19/10/2017	412	indexed	floating	hedged
12	OTP 2017/Ex	21/12/2011	28/12/2017	3,120	indexed	floating	hedged
13	OTP 2018/Ax	03/01/2012	09/01/2018	508	indexed	floating	hedged
14	OTP 2018/Bx	22/03/2012	22/03/2018	3,740	indexed	floating	hedged
15	OTP 2018/Cx	18/07/2012	18/07/2018	3,210	indexed	floating	hedged
16	OTP 2018/Dx	29/10/2012	26/10/2018	2,707	indexed	floating	hedged
17	OTP 2018/Ex	28/12/2012	28/12/2018	2,688	indexed	floating	hedged
18	OTP 2019/Ax	25/06/2009	01/07/2019	241	indexed	floating	hedged
19	OTP 2019/Bx	05/10/2009-05/02/2010	14/10/2019	355	indexed	floating	hedged
20	OTP 2019/Cx	14/12/2009	20/12/2019	285	indexed	floating	hedged
21	OTP 2019/Dx	22/03/2013	21/03/2019	3,941	indexed	floating	hedged
22	OTP 2019/Ex	28/06/2013	24/06/2019	3,106	indexed	floating	hedged
23	OTP 2020/Ax	25/03/2010	30/03/2020	316	indexed	floating	hedged
24	OTP 2020/Bx	28/06/2010	09/07/2020	318	indexed	floating	hedged
25	OTP 2020/Cx	11/11/2010	05/11/2020	195	indexed	floating	hedged
26	OTP 2020/Dx	16/12/2010	18/12/2020	207	indexed	floating	hedged
27	OTP 2020/Ex	18/06/2014	22/06/2020	3,790	indexed	floating	hedged
28	OTP 2020/Fx	10/10/2014	16/10/2020	3,353	indexed	floating	hedged
29	OTP 2020/Gx	15/12/2014	21/12/2020	2,843	indexed	floating	hedged
30	OTP 2021/Ax	01/04/2011	01/04/2021	267	indexed	floating	hedged
31	OTP 2021/Bx	17/06/2011	21/06/2021	299	indexed	floating	hedged
32	OTP 2021/Cx	19/09/2011	24/09/2021	277	indexed	floating	hedged
33	OTP 2021/Dx	21/12/2011	27/12/2021	338	indexed	floating	hedged
34	OTP 2022/Ax	22/03/2012	23/03/2022	264	indexed	floating	hedged
35	OTP 2022/Bx	18/07/2012	18/07/2022	240	indexed	floating	hedged
36	OTP 2022/Cx	29/10/2012	28/10/2022	258	indexed	floating	hedged
37	OTP 2022/Dx	28/12/2012	27/12/2022	316	indexed	floating	hedged
38	OTP 2023/Ax	22/03/2013	24/03/2023	383	indexed	floating	hedged
39	OTP 2023/Bx	28/06/2013	26/06/2023	265	indexed	floating	hedged
40	OTP 2024/Ax	18/06/2014	21/06/2024	270	indexed	floating	hedged
41	OTP 2024/Bx	10/10/2014	16/10/2024	385	indexed	floating	hedged
42	OTP 2024/Cx	15/12/2014	20/12/2024	299	indexed	floating	hedged
43	OTP 2020/RF/A	12/07/2010	20/07/2020	2,908	indexed	floating	hedged
44	OTP 2020/RF/B	12/07/2010	20/07/2020	1,350	indexed	floating	hedged
45	OTP 2020/RF/C	11/11/2010	05/11/2020	3,147	indexed	floating	hedged
46	OTP 2021/RF/A	05/07/2011	13/07/2021	2,723	indexed	floating	hedged
47	OTP 2021/RF/B	20/10/2011	25/10/2021	2,728	indexed	floating	hedged
48	OTP 2021/RF/C	21/12/2011	30/12/2021	540	indexed	floating	hedged
49	OTP 2021/RF/D	21/12/2011	30/12/2021	361	indexed	floating	hedged
50	OTP 2021/RF/E	21/12/2011	30/12/2021	55	indexed	floating	hedged
51	OTP 2022/RF/A	22/03/2012	23/03/2022	1,594	indexed	floating	hedged
52	OTP 2022/RF/B	22/03/2012	23/03/2022	512	indexed	floating	hedged
	Subtotal			**74,213**			

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at 30 June 2016 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
53	OTP 2022/RF/C	28/06/2012	28/06/2022	158	indexed	floating	hedged
54	OTP 2022/RF/D	28/06/2012	28/06/2022	203	indexed	floating	hedged
55	OTP 2022/RF/E	29/10/2012	31/10/2022	554	indexed	floating	hedged
56	OTP 2022/RF/F	28/12/2012	28/12/2022	417	indexed	floating	hedged
57	OTP 2023/RF/A	22/03/2013	24/03/2023	493	indexed	floating	hedged
58	OTP OJK 2016/I	26/08/2011-21/12/2011	26/08/2016	10	6.14	fixed	
59	OTP OJK 2017/I	27/01/2012-13/07/2012	27/01/2017	6	7	fixed	
60	OJB 2016/II	31/08/2006	31/08/2016	4,626	10	fixed	
61	OJB 2016/J	18/04/2006	28/09/2016	17	7.59	fixed	
62	OJB 2019/I	17/03/2004	18/03/2019	31,517	9.48	fixed	
63	OJB 2019/II	25/05/2011	18/03/2019	1,058	9.48	fixed	
64	OJB 2020/I	19/11/2004	12/11/2020	5,503	9	fixed	
65	OJB 2020/II	25/05/2011	12/11/2020	1,486	9	fixed	
66	Other[1]			35,015			
	Subtotal			**81,063**			
	Subtotal issued securities in HUF			**155,276**			
	Unamortized premium			(4,067)			
	Fair value adjustment			15,963			
	Total issued securities in HUF			**167,172**			

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

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	Nominal value (HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP EUR 1 2016/VII	30/06/2015	14/07/2016	EUR	9.81	3,101	0.8	fixed	
2	OTP EUR 1 2016/VIII	24/07/2015	07/08/2016	EUR	6.04	1,909	0.7	fixed	
3	OTP EUR 1 2016/IX	25/09/2015	09/10/2016	EUR	21.05	6,655	0.6	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 2016/XI	11/11/2015	25/11/2016	EUR	8.78	2,777	0.6	fixed	
6	OTP EUR 1 2016/XII	27/11/2015	11/12/2016	EUR	5.91	1,868	0.5	fixed	
7	OTP EUR 1 2016/XIII	30/12/2015	13/01/2017	EUR	25.77	8,145	0.5	fixed	
8	OTP EUR 2 2016/XIII	04/07/2014	04/07/2016	EUR	0.43	135	1.5	fixed	
9	OTP EUR 2 2016/XIV	18/07/2014	18/07/2016	EUR	0.31	98	1.5	fixed	
10	OTP EUR 2 2016/XV	30/07/2014	30/07/2016	EUR	1.48	467	1.5	fixed	
11	OTP EUR 2 2016/XVI	08/08/2014	08/08/2016	EUR	0.35	111	1.5	fixed	
12	OTP EUR 2 2016/XVII	29/08/2014	29/08/2016	EUR	1.30	412	1.5	fixed	
13	OTP EUR 2 2016/XVIII	12/09/2014	12/09/2016	EUR	0.97	307	1.5	fixed	
14	OTP EUR 2 2016/XIX	03/10/2014	03/10/2016	EUR	1.91	602	1.5	fixed	
15	OTP EUR 1 2017/I	29/01/2016	12/02/2017	EUR	14.81	4,683	0.4	fixed	
16	OTP EUR 1 2017/II	12/02/2016	26/02/2017	EUR	4.43	1,402	0.4	fixed	
17	OTP EUR 1 2017/III	26/02/2016	12/03/2017	EUR	7.49	2,368	0.4	fixed	
	Subtotal					**39,607**			

[1] From the total amount HUF 34,786 million is mobil deposits of Merkantil Bank Ltd.

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in foreign currency as at 30 June 2016 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Type of FX	Nominal value		Interest conditions (in % p.a.)		Hedged
					(FX mn)	(HUF mn)			
18	OTP EUR 1 2017/IV	18/03/2016	01/04/2017	EUR	6.59	2,083	0.2	fixed	
19	OTP EUR 1 2017/V	15/04/2016	29/04/2017	EUR	8.77	2,774	0.2	fixed	
20	OTP EUR 1 2017/VI	27/05/2016	10/06/2017	EUR	11.84	3,744	0.1	fixed	
21	OTP EUR 1 2017/VII	10/06/2016	24/06/2017	EUR	3.67	1,160	0.1	fixed	
22	OTP 2016/Dx	22/12/2011	29/12/2016	EUR	1.08	342	indexed		hedged
23	OTP 2017/Fx	19/06/2012	16/06/2017	EUR	0.78	246	indexed		hedged
24	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	195	indexed		hedged
25	OTP_VK_USD_1_2016/II	24/07/2015	24/07/2016	USD	0.83	235	0.9	floating	
26	OTP_VK_USD_1_2016/III	25/09/2015-30/12/2015	25/09/2016	USD	7.53	2,141	0.8	floating	
27	OTP_VK_USD_2_2016/I	28/11/2014	28/11/2016	USD	6.72	1,911	1.1	floating	
28	OTP_VK_USD_2_2017/I	10/04/2015	10/04/2017	USD	0.33	94	1.1	floating	
29	OTP_VK_USD_1_2017/I	29/01/2016	29/01/2017	USD	3.89	1,105	0.8	floating	
30	OTP_VK_USD_1_2017/II	18/03/2016	18/03/2017	USD	1.97	561	0.8	floating	
31	OTP_VK_USD_1_2017/III	27/05/2016	27/05/2017	USD	3.33	947	0.8	floating	
32	Mortgage bonds OTP XXV	28/09/2012	28/09/2016	EUR	7.96	2,517	4.0	fixed	
33	Other[1]					1,363			
	Subtotal					**21,418**			
	Subtotal issued securities in FX					**61,025**			
	Unamortized premium					(25)			
	Fair value adjustment					34			
	Total issued securities in FX					**61,034**			
	Accrued interest					4,425			
	Total issued securities					**232,631**			

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

On 30 June 2015 the 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 12 August 2015 the prospectus of Term Note Program and the disclosure as at 14 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, Bulgarian and Romanian Stock Exchange without any obligations.

[1] Other category includes promissory notes issued by OTP Banka Slovensko a.s. in the amount of HUF 262 million and by JSC "OTP Bank" (Russia) in the amount of HUF 1,101 million.

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

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

On 5 July 2016 the 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. 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, Bulgarian and Romanian Stock Exchange without any obligations.

Certain structured bonds are hedged by interest rate swaps ("IRS") which may transfer to a transferee a fixed 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 IRS transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

NOTE 17: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

Negative fair value of derivative financial instruments classified as held for trading by type of contracts

	30 June 2016	31 December 2015
Interest rate swaps classified as held for trading	31,755	30,453
CCIRS and mark-to-market CCIRS classified as held for trading	21,697	55,875
Foreign exchange swaps classified as held for trading	12,896	7,687
Foreign exchange forward contracts classified as held for trading	2,843	3,551
Option contracts classified as held for trading	1,878	1,899
Forward security agreements classified as held for trading	307	860
Forward rate agreements classified as held for trading (FRA)	73	29
Other transactions classified as held for trading	2,975	1,207
Total	**74,424**	**101,561**

NOTE 18: OTHER LIABILITIES[1] (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	47,550	39,413
Accrued expenses	38,860	33,153
Liabilities connected to Cafeteria benefits	38,668	27,811
Salaries and social security payable	33,965	25,423
Provision for impairment on off-balance sheet commitments and contingent liabilities	27,702	31,685
Current income tax payable	25,111	13,684
Accounts payable	20,602	25,455
Fair value of derivative financial instruments designated as fair value hedge	19,741	13,723
Giro clearing accounts	13,348	11,302
Clearing, settlement and pending accounts	10,345	12,065
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	10,245	39,314
Liabilities from card transactions	8,859	5,804
Deferred tax liabilities	6,716	4,610
Liabilities from repo transactions	5,650	7,452
Advances received from customers	4,521	4,271
Liabilities related to housing loans	1,626	1,523
Liabilities connected to leasing activities	1,467	1,583
Liabilities connected to loans for collection	897	876
Loans from government	671	683
Dividend payable	551	546
Other	37,530	24,159
Subtotal	**432,299**	**391,322**
Accrued interest	286	257
Total	**432,585**	**391,579**

[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 the 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. Besides the total other liabilities mentioned above which are expected to be recovered or settled more than twelve months after the reporting period it should be mentioned accrued contractual liabilities, compulsory pension reserve, guarantee deposits in relation with leasing activities, loans from government and liabilities from preferential dividend shares.

[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 million 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.

NOTE 18: OTHER LIABILITIES (in HUF mn) [continued]

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

	30 June 2016	31 December 2015
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	10,245	39,314
Provision for litigation	7,103	6,680
Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending	6,300	7,010
Provision for expected pension commitments	1,661	2,664
Provision for other liabilities	12,638	15,331
Total	**37,947**	**70,999**

The movements of provision for losses on off-balance sheet commitments and contingent liabilities can be summarized as follows:

	30 June 2016	31 December 2015
Balance as at 1 January	**70,999**	**217,351**
Release of provision for the period	(32,987)	(146,360)
Use of provision	(320)	(1,838)
Change due to acquisition	-	3,115
Foreign currency translation differences	255	(1,269)
Closing balance	**37,947**	**70,999**

The negative fair value of derivative financial instruments designated as fair value hedge by type of contracts

	30 June 2016	31 December 2015
Interest rate swaps designated as fair value hedge	19,694	13,723
CCIRS and mark-to-market CCIRS designated as fair value hedge	7	-
Other transactions designated as fair value hedge	40	-
Total	**19,741**	**13,723**

NOTE 19: SUBORDINATED BONDS AND LOANS (in HUF mn)

	30 June 2016	31 December 2015
Within one year:		
In HUF	-	-
In foreign currency	155,628	156,487
	155,628	**156,487**
Over one year:		
In HUF	-	-
In foreign currency	76,975	77,200
	76,975	**77,200**
Accrued interest	11,260	1,097
Total	**243,863**	**234,784**

Interest rates on subordinated bonds and loans are as follows:

	30 June 2016	31 December 2015
Denominated in foreign currency	5.3% - 5.9%	5.3% - 5.9%

	30 June 2016	31 December 2015
Average interest rates on subordinated bonds and loans	5.82%	4.72%

NOTE 19: SUBORDINATED BONDS AND LOANS (in HUF mn) [continued]

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as at 30 June 2016
Subordinated bond	EUR 247.5 million	07/11/2006	Perpetual, but callable after 10 years	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

NOTE 20: SHARE CAPITAL (in HUF mn)

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

NOTE 21: RETAINED EARNINGS AND RESERVES (in HUF mn)

The reserves of the Bank under Hungarian Accounting Standards ("HAS) are as follows (the reserves under IFRS are detailed in consolidated statement of changes in equity):

	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	11,330	9,785
Total	**897,446**	**880,950**

The legal reserves (general reserve and tied-up reserve) are not available for distribution. The dividend has been determined on the basis of the net profit for the year determined in the separate financial statements in accordance with the HAS.

Capital reserve is the amount that the entity receives from the owners above the share capital 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 cumulated 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 meant 165 HUF payable dividend by share to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 519,377 million and HUF 480,058 million) and reserves (HUF 810,031 million and HUF 780,971 million) as at 30 June 2016 and 31 December 2015 respectively. The reserves include mainly net profit for the year attributable to the owners of the company, the fair value adjustment of securities available-for-sale, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous year at the subsidiaries, changes due to consolidation and exchange differences.
In the Consolidated Financial Statement the Group recognizes the non-monetary items on historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented among the shareholders' equity as difference of translation. The accumulated amounts of exchange differences were HUF 143,073 million and HUF 165,308 million as at 30 June 2016 and 31 December 2015 respectively.

NOTE 21: RETAINED EARNINGS AND RESERVES (in HUF mn) [continued]

On 19 October 2006, the Bank sold 14.5 million Treasury shares owned by the Group through an issue of ICES. Within the transaction 10 million shares owned by OTP, and further 4.5 million shares owned by OTP Group 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 has discretional right to cancel the interest 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 22: TREASURY SHARES (in HUF mn)

	30 June 2016	31 December 2015
Nominal value (Ordinary shares)	1,818	1,814
Carrying value at acquisition cost	59,507	58,021

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

Change in number of shares:

	30 June 2016	31 December 2015
Number of shares as at 1 January	**18,142,973**	**18,175,347**
Additions	1,339,662	5,284,354
Disposals	(1,302,470)	(5,316,728)
Closing number of shares	**18,180,165**	**18,142,973**

Change in carrying value:

	30 June 2016	31 December 2015
Balance as at 1 January	**58,021**	**55,940**
Additions	9,017	26,721
Disposals	(7,531)	(24,640)
Closing balance	**59,507**	**58,021**

NOTE 23: NON-CONTROLLING INTEREST (in HUF mn)

	30 June 2016	31 December 2015
Balance as at 1 January	**2,651**	**3,349**
Changes due to ownership structure	-	(18)
Non-controlling interest included in net profit for the year	142	(412)
Foreign currency translation difference	252	(268)
Closing balance	**3,045**	**2,651**

NOTE 24: 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 period	221,933	607,856
Release of provision	(212,524)	(332,171)
Provision for impairment on loan losses	34,615	43,004
	44,024	**318,689**
Provision for impairment / (Release of provision) on placement losses		
Provision for the period	4	3
Release of provision	-	-
Release of provision for impairment on placement losses	(3)	(9)
	1	**(6)**
Provision for impairment on loan and placement losses	**44,025**	**318,683**

NOTE 25: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions	**30 June 2016**	**30 June 2015**
Deposit and account maintenance fees and commissions	54,834	53,260
Fees and commissions related to the issued bank cards	20,547	20,021
Fees related to cash withdrawal	13,140	13,503
Fees and commissions related to security trading	10,198	7,449
Fees and commissions related to lending	9,430	8,847
Fees and commissions related to fund management	7,303	9,002
Other	11,654	12,973
Total	**127,106**	**125,055**

NOTE 25: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

Expense from fees and commissions	30 June 2016	30 June 2015
Fees and commissions related to issued bank cards	6,121	5,457
Fees and commissions paid on loans	4,553	3,437
Interchange fees	3,388	3,042
Fees and commissions related to deposits	1,449	1,242
Cash withdrawal transaction fees	737	873
Fees and commissions related to security trading	715	747
Fees and commissions related to collection of loans	609	790
Postal fees	460	546
Insurance fees	92	145
Money market transaction fees and commissions	65	994
Other	3,535	3,472
Total	**21,724**	**20,745**
Net profit from fees and commissions	**105,382**	**104,310**

NOTE 26: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income	30 June 2016	30 June 2015
Gains on transactions related to property activities	1,296	1,128
Other income from non-financial activities	5,619	8,932
Total	**6,915**	**10,060**

Other operating expenses	30 June 2016	30 June 2015
Financial support for sport association and organization of public utility	3,339	-
Provision for impairment on investments[1]	803	914
Provision for impairment on other assets	398	3,464
Provision for assets subject to operating lease	250	4
Provision on investment properties	80	-
Release of provision on contingent liabilities due to regulations related to customer loans	-	(138,352)
Expenses from regulations related to customer loans	(5)	135,878
Release of provision for off-balance sheet commitments and contingent liabilities	(3,717)	(30,445)
Release of provision for expected losses due to CHF loans conversion at foreign subsidiaries	(29,270)	-
Other	30,544	50,899
Total	**2,422**	**22,362**

[1] See details in Note 9.

NOTE 26: 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	68,047	68,241
Taxes related to personnel expenses	18,895	18,944
Other personnel expenses	8,129	6,568
Subtotal	**95,071**	**93,753**
Depreciation and amortization[1]	**21,157**	**20,765**
Other administrative expenses		
Taxes, other than income tax [2]	52,922	71,722
Administration expenses, including rental fees	21,692	23,602
Services	21,482	20,643
Professional fees	10,952	9,756
Advertising	5,716	4,076
Subtotal	**112,764**	**129,799**
Total	**228,992**	**244,317**

NOTE 27: INCOME TAX (in HUF mn)

The Group is presently liable for income tax at rates between 9% and 35% of taxable income.

Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria, 12.5% in Cyprus, 15% in Serbia, 16% in Romania, 18% in Ukraine, 19% in Hungary, 20% in Croatia and Russia, 22% in Slovakia, 25% in the Netherlands and 35% in Malta.

The breakdown of the income tax expense is:

	30 June 2016	31 December 2015
Current tax expense	9,566	11,624
Deferred tax benefit	16,248	(14,771)
Total	**25,814**	**(3,147)**

[1] See details in Note 11.

[2] Special tax of financial institutions was paid by the Group in the amount of HUF 16.1 billion for the first half year of 2016 and HUF 35 billion for the year 2015 respectively, recognized as an expense thus decreased the corporate tax base. In the year ended 30 June 2016 financial transaction duty was paid by the Bank in the amount of HUF 18 billion.

NOTE 27: INCOME TAXES (in HUF mn) [continued]

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

	30 June 2016	31 December 2015
Balance as at 1 January	**68,469**	**51,154**
Deferred tax (expense) / benefit	(16,248)	14,771
Deferred tax related to items recognized directly in equity and in Other Comprehensive Income	2,066	6,288
Foreign currency translation difference	754	(3,744)
Closing balance	**55,041**	**68,469**

A breakdown of the deferred tax assets are as follows:

	30 June 2016	31 December 2015
Tax accrual caused by negative taxable income	31,719	43,265
Unused tax allowance	16,215	19,014
Fair value adjustment of securities held for trading and securities available-for-sale	9,847	8,330
Provision for impairment on investments (Goodwill)	6,692	8,030
Premium and discount amortization on bonds	6,054	1,959
Refundable tax in accordance with Acts on Customer Loans	4,809	6,341
Repurchase agreement and security lending	4,126	4,102
Adjustment from effective interest rate method	1,946	1,272
Adjustment from banking tax / one-off transaction duty	1,201	-
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	928	2,582
Difference in depreciation and amortization	200	170
Difference in accounting for leases	133	160
Fair value corrections related to customer loans	73	80
Fair value adjustment of derivative financial instruments	67	84
Other	19,461	14,373
Deferred tax asset	**103,471**	**109,762**

NOTE 27: **INCOME TAXES (in HUF mn) [continued]**

A breakdown of the deferred tax liabilities are as follows:

	30 June 2016	31 December 2015
Fair value adjustment of securities held for trading and securities available-for-sale	(17,718)	(16,506)
Fair value adjustment of derivative financial instruments	(6,024)	(7,809)
Adjustment from effective interest rate method	(5,567)	(4,258)
Deferred tax expense in relation to the transition to IFRS	(4,900)	-
Difference in depreciation and amortization	(4,718)	(4,971)
Temporary differences arising on consolidation	(3,031)	(2,988)
Net effect of treasury share transactions	(1,653)	(2,009)
Accounting of equity instrument (ICES)	(407)	(556)
Tax accrual caused by negative taxable income	(178)	-
Correction due to customer loans converted into HUF	(42)	-
Difference in accounting for leases	(34)	(139)
Premium and discount amortization on bonds	(7)	(14)
Unused tax allowance	(6)	-
Other	(4,145)	(2,043)
Deferred tax liabilities	**(48,430)**	**(41,293)**
Net deferred tax asset	**55,041**	**68,469**

A reconciliation of the income tax income / expense is as follows:

	30 June 2016	31 December 2015
Profit before income tax	132,002	66,024
Income tax expense at statutory tax rates	21,901	1,197

Income tax adjustments due to permanent differences are as follows:

	30 June 2016	31 December 2015
Revaluation of investments denominated in foreign currency to historical cost	2,461	(4,601)
Deferred use of tax allowance	1,758	(11,028)
Tax refund in accordance with Acts on Customer Loans	1,546	22,776
Share-based payment	354	-
Differences in carrying value of subsidiaries	48	(16,039)
Difference of accounting of equity instrument (ICES)	9	(9)
Provision on expected liability	-	8,230
OTP-MOL share swap transaction	(16)	(615)
Treasury share transactions	(781)	(1,729)
Use of tax allowance in the current year	(3,683)	-
Other	2,217	(1,329)
Income tax	**25,814**	**(3,147)**
Effective tax rate	**19.6%**	**(5.2%)**

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

NOTE 28: 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 Group. The most significant risks the Group faces include:

28.1. Credit risk

The Group 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 Group 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 sub-limits 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 principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is managed by obtaining collateral, corporate and personal guarantees.

28.1.1. Analysis by loan types and by DPD categories

Classification into DPD categories

The Group presents the non-performing loan portfolio according delay of payment above 90 days past due. When determining the impairment beside the delay of payment other information available for the Group is also taking into consideration. The foreseeable risks and expected losses are considered, when the Group during determining the result of the current year, calculates and accounts impairment and credits provisions. The impairments and provisions are accounted notwithstanding whether the result recognized in the current year is gain or loss. The Group when calculates the impairment of the loans applies the requirement of IFRS and the principles defined in the impairment policy of the Group.

Exposures with small amounts 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 there classes were presented (A: 0-90 days past due - DPD, B: 91-360 DPD, C: above 360 days past due). The three new groups do not match one by one to the earlier used risk classes, the composition of the classes has changed due to the different criteria.
The Group intends – where a great number of items and sufficient long term historical data is available – to apply models on statistical bases. 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.

Impairment on **claims above the limit** are under **individual assessment** method. Depending on 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, regularity of the fulfillment of payment obligations;
- the status of the restructuring (renegotiating) of risk taking contracts;
- 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.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

The expected future losses of the individually assessed item are determined by taking into considerations 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, comparing with 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	Up to 90 days	91-360 days	Above 360 days	Total carrying amount / allowance
Mortgage loans	1,866,334	60,391	323,998	**2,250,723**
Loans to medium and large corporates	1,628,902	24,020	252,312	**1,905,234**
Consumer loans	1,227,878	65,139	179,573	**1,472,590**
Loans to micro and small enterprises	400,626	12,866	104,395	**517,887**
Car-finance loans	173,018	5,961	34,330	**213,309**
Municipal loans	82,492	202	57	**82,751**
Gross portfolio	**5,379,250**	**168,579**	**894,665**	**6,442,494**
Placement with other banks	336,453	-	54	**336,507**
Bill of exchange	6,057	-	-	**6,057**
Total gross portfolio	**5,721,760**	**168,579**	**894,719**	**6,785,058**
Allowance for loans	(175,067)	(92,882)	(737,502)	**(1,005,451)**
Allowance for placements	(6)	-	(48)	**(54)**
Total allowance	**(175,073)**	**(92,882)**	**(737,550)**	**(1,005,505)**
Total net portfolio	**5,546,687**	**75,697**	**157,169**	**5,779,553**
Accrued interest				
for loans				44,820
for placements				79
Total accrued interest				**44,899**
Total net loans				**5,487,920**
Total net placements				**336,532**
Total net exposures				**5,824,452**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

As at 31 December 2015

Loan type	Up to 90 days	91-360 days	Above 360 days	Total carrying amount / allowance
Mortgage loans	1,907,505	83,564	342,273	**2,333,342**
Loans to medium and large corporates	1,494,209	34,287	276,116	**1,804,612**
Consumer loans	1,215,742	75,731	137,921	**1,429,394**
Loans to micro and small enterprises	377,634	11,819	107,132	**496,585**
Car-finance loans	175,023	4,671	30,904	**210,598**
Municipal loans	93,134	74	53	**93,261**
Gross portfolio	**5,263,247**	**210,146**	**894,399**	**6,367,792**
Placement with other banks	300,503	-	52	**300,555**
Bill of exchange	5,882	-	-	**5,882**
Total gross portfolio	**5,569,632**	**210,146**	**894,451**	**6,674,229**
Allowance for loans	(181,302)	(129,033)	(703,285)	**(1,013,620)**
Allowance for placements	(3)	-	(47)	**(50)**
Total allowance	**(181,305)**	**(129,033)**	**(703,332)**	**(1,013,670)**
Total net portfolio	**5,388,327**	**81,113**	**191,119**	**5,660,559**
Accrued interest				
for loans				49,913
for placements				63
Total accrued interest				**49,976**
Total net loans				**5,409,967**
Total net placements				**300,568**
Total net exposures				**5,710,535**

The Group's loan portfolio increased by 1.66% in the first half year of 2016. Analysing the contribution of loan types to the loan portfolio, the share of the mortgage loan types slightly decreased, the loans to medium and large enterprises and consumer loans slightly increased, while the other types of loans remained almost the same as at 30 June 2016 comparing with end of the previous year. The qualification of the loan portfolio started to improve from the previous year, and now for the end of the first half year of 2016 the ratio of the more than 90 days past due to the above 360 days past due loans compared to the gross loan portfolio decreased from 16.6% to 15.7%. Among the qualified loan portfolio, the loans classified to the risk class of "more than 90 until 360 days past due" narrowed at the fastest level.

The Group has a prudent provisioning policy, the indicator which describes the coverage of loans by provision for impairment on loans classified as "Above 360 days", was 82.4% and 78.6% as at 30 June 2016 and 31 December 2015 respectively.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

Not impaired loan portfolio

The loan portfolio analysis of the gross values 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	Up to 90 days	91-360 days	Above 360 days	Total
Mortgage loans	1,572,120	257,497	937	1,628	1,832,182
Loans to medium and large corporates	1,366,544	43,086	4083	131	1,413,844
Consumer loans	1,066,204	156,679	40	61	1,222,984
Loans to micro and small enterprises	342,404	29,516	37	721	372,678
Placement with other banks	335,648	799	-	6	336,453
Car-finance loans	149,370	25,293	-	13	174,676
Municipal loans	81,397	716	202	-	82,315
Total	**4,913,687**	**513,586**	**5,299**	**2,560**	**5,435,132**

As at 31 December 2015

Loan type	Not past due	Up to 90 days	91-360 days	Above 360 days	Total
Mortgage loans	1,615,942	265,692	1,084	1,487	1,884,205
Loans to medium and large corporates	1,204,462	25,952	461	3,939	1,234,814
Consumer loans	1,055,559	146,514	78	114	1,202,265
Loans to micro and small enterprises	340,979	22,815	58	1,192	365,044
Placement with other banks	300,502	-	-	6	300,508
Car-finance loans	143,808	31,095	2	7	174,912
Municipal loans	89,134	1,193	74	-	90,401
Total	**4,750,386**	**493,261**	**1,757**	**6,745**	**5,252,149**

Loans not past due or past due, but not impaired cover only balance sheet items.
The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 71.2% to 72.4% as at 30 June 2016 comparing to the end of the previous year. The ratio of the mortgage loans and consumer loans compared to the portfolio of loans neither past due nor impaired decreased slightly in the first half year of 2016, while the ratio of the loans to medium and large corporates increased mostly.

The loans that are past due but not impaired are concentrated mainly in the mortgage loan and consumer loan type while 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 Group. The ratio of the mortgage and car-finance loans compared to the portfolio of loans past due but not impaired decreased slightly and the ratio of the loans to medium and large corporates increased as at 30 June 2016.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

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.
An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 30 June 2016 and 31 December 2015 is as follows:

As at 30 June 2016

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	195,306	127,658	115,277	167	1
Legal proceedings	220,496	148,112	58,079	79	54
Decrease of client classification	113,724	49,889	72,658	4,885	411
Cross default	58,408	21,120	20,754	1,272	47
Loan characteristics	43,281	5,660	36,737	-	-
Country risk	22,747	9,166	7,482	-	-
Business lines risks	10,739	1,127	5,440	4,531	127
Restructuring	7,477	5,198	3,765	-	-
Regularity of payment	4	1	13	-	-
Other	13,240	3,758	9,211	2,729	297
Corporate total	**685,422**	**371,689**	**329,416**	**13,663**	**937**
Delay of payment	2,606	532	4,529	-	-
Legal proceedings	482	301	214	-	-
Municipal total	**3,088**	**833**	**4,743**	**-**	**-**
Placements with other banks	**-**	**-**	**-**	**-**	**-**
Total	**688,510**	**372,523**	**334,159**	**13,663**	**937**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [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 off-balance sheet commitments
Delay of payment	210,913	134,907	117,029	23	-
Legal proceedings	183,527	155,876	49,023	110	58
Decrease of client classification	108,640	44,791	79,469	1,884	292
Cross default	50,230	20,950	9,824	133	47
Loan characteristics	54,682	9,780	35,618	-	-
Country risk	53,284	27,153	15,416	-	-
Business lines risks	12,114	4,331	6,234	2,768	138
Restructuring	7,537	5,385	3,994	-	-
Regularity of payment	134	44	105	-	-
Other	15,512	5,205	14,140	2,889	384
Corporate total	**696,573**	**408,422**	**330,852**	**7,807**	**919**
Delay of payment	2,828	105	822	-	-
Legal proceedings	41	41	-	-	-
Municipal total	**2,869**	**146**	**822**	**-**	**-**
Placements with other banks	**-**	**-**	**-**	**-**	**-**
Total	**699,442**	**408,568**	**331,674**	**7,807**	**919**

By 30 June 2016 the volume of the individually rated portfolio decreased by 1.6% in the corporate loan type. Among the rating factors of the corporate loan type, the decrease is mostly based on the improving of the regularity of payment and on the softening of the country risk, while increase is based on the legal proceedings and cross default as at 30 June 2016. The increase was 7.6% in the municipal loan portfolio comparing with the end of the previous year, where the increase is mostly based on the increasing number of legal proceedings although there was discovered decrease of the delay of payment but this improving couldn’t offset the increase of the impaired municipal loan portfolio.

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 a business line which was most exposed to the financial crisis (vehicle industry, building industry, real estate services, metal processing, financial services).

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

Loan portfolio by countries

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

	30 June 2016		31 December 2015	
Country	**Carrying amount of gross loan and placement with other banks portfolio**	**Allowance**	**Carrying amount of gross loan and placement with other banks portfolio**	**Allowance**
Hungary	2,568,865	277,281	2,585,533	291,976
Bulgaria	1,267,104	165,328	1,226,958	165,843
Romania	586,025	39,551	565,103	37,120
Croatia	531,518	48,757	502,823	44,555
Russia	469,971	117,137	448,751	90,683
Ukraine	400,406	213,148	426,158	243,752
Slovakia	387,808	25,251	381,571	22,164
Montenegro	162,327	63,085	157,764	58,945
Serbia	129,286	29,962	135,040	31,858
Germany	88,982	90	28,583	89
Cyprus	41,376	18,506	42,293	18,344
United Kingdom	33,217	2,274	59,813	2,251
Belgium	29,455	33	23,896	23
United States of America	21,074	30	12,990	36
Austria	14,792	4	22,489	3
Switzerland	11,003	267	14,577	88
Turkey	9,806	8	1,434	11
Seychelles	4,297	4,264	4,818	4,818
Czech Republic	3,987	8	4,074	7
France	3,624	17	7,992	15
Poland	3,578	7	3,918	5
Sweden	3,163	10	290	10
Norway	2,033	2	5,813	-
The Netherlands	1,522	87	1,774	84
Belarus	948	-	2	-
Ireland	451	71	459	70
Italy	309	14	293	12
Greece	213	22	160	22
Spain	213	8	67	5
Bosnia and Herzegovina	204	45	865	708
Kazakhstan	183	74	175	60
Canada	177	-	79	-
United Arab Emirates	147	13	319	13
Denmark	110	-	601	-
Japan	107	-	405	-
Egypt	89	7	87	6
Latvia	53	37	52	36
Island	41	29	41	28
Australia	19	-	19	-
Luxembourg	2	-	42	-
Other[1]	516	78	226	30
Total[2]	**6,779,001**	**1,005,505**	**6,668,347**	**1,013,670**

[1] Other category in the first half year of 2016 includes e.g.: Iran, Slovenia, China, Macedonia, Vietnam, Hong Kong, Armenia, Syria, Finland, Moldova, Jordan, Nigeria, India, Israel, Tunisia, Brazil, Malta, Morocco and Georgia.

[2] Without the amount of bill of exchange.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

Loan portfolio by countries [continued]

The loan portfolio decreased mostly in Ukraine and Serbia, while increased in Croatia and Russia but there were no significant changes in the other countries of Group members'. Their stock of provision increased mostly in Russia, Slovakia and Croatia, while decreased mostly in Ukraine, Serbia and Hungary due to the slightly decreased loan portfolio in some countries but there were no significant movements in none of the other countries.

In some countries the stock of provision increased due to local regulations on the base of which it is compulsory to account fix rate of provision on the non-qualified portfolio.

28.1.2. Collaterals

The values of collaterals held by the Group by types are as follows (**total collaterals**). The collaterals cover loans as well as off-balance sheet exposures.

Types of collaterals	30 June 2016	31 December 2015
Mortgages	5,963,132	5,694,831
Assignments (revenue or other receivables)	414,401	387,422
Guarantees and warranties	330,889	268,361
Securities	283,164	193,706
Cash deposits	106,397	73,245
Guarantees of state or organizations owned by state	97,363	103,498
Other	807,868	799,489
Total	**8,003,214**	**7,520,552**

The values of collaterals held by the Group by types are as follows (**to the extent of the exposures**). The collaterals cover loans as well as off-balance sheet exposures.

Types of collaterals	30 June 2016	31 December 2015
Mortgages	2,818,863	2,801,423
Assignments (revenue or other receivables)	329,431	320,728
Guarantees and warranties	189,665	172,853
Securities	250,201	155,886
Cash deposits	37,189	39,387
Guarantees of state or organizations owned by state	86,254	92,216
Other	458,735	455,688
Total	**4,170,338**	**4,038,181**

The coverage level of the loan portfolio (total collaterals) increased by 2.8%, as well as the coverage level to the extent of the exposures increased by 0.03% as at 30 June 2016.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.3. Restructured loans

	30 June 2016		31 December 2015	
	Gross portfolio	**Allowance**	**Gross portfolio**	**Allowance**
Loans to medium and large corporates[1]	147,617	55,140	171,394	60,019
Retail loans	71,823	16,367	74,733	18,153
Loans to micro and small enterprises	11,482	846	11,134	1,570
Total	**230,921**	**72,353**	**257,261**	**79,742**

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 **medium and large corporates / 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:
  - 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:
  - cancellation of interest rate (final or temporary reduction of the interest margin, cancellation of due interest), or
  - restructuring of interest payments (postponement of the interest payment, capitalization of the interest), or
  - 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] They include project and syndicated loans.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories[1]

Securities held for trading as at 30 June 2016

	Aaa	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Not rated	Total
Shares	13	11	67	55	75	56	12	30	36	83,238	**83,593**
Government bonds	-	-	-	-	-	-	7,811	-	20,431	-	**28,242**
Interest bearing treasury bills	-	-	-	-	-	-	-	-	13,466	-	**13,466**
Discounted Treasury bills	-	-	-	-	-	-	-	-	1,372	-	**1,372**
Other securities	-	-	-	-	-	-	-	-	-	1,244	**1,244**
Other non-interest bearing securities	-	-	-	-	-	-	-	-	-	6,891	**6,891**
Total	**13**	**11**	**67**	**55**	**75**	**56**	**7,823**	**30**	**35,305**	**91,373**	**134,808**
Accrued interest											446
Total											**135,254**

Securities available-for-sale as at 30 June 2016

	A1	A2	Baa2	Baa3	Ba1	Ba2	B1	Caa3	C	Not rated	Total
Government bonds	-	15,089	88,073	7,249	1,295,239	16,436	-	5,293	-	9,105	**1,436,484**
Corporate bonds	-	-	-	-	4,060	16,557	1,158	-	2	69,375	**91,152**
Discounted Treasury bills	-	-	-	8,875	2,761	12,761	-	-	-	-	**24,397**
Other securities	-	-	-	-	-	2,767	-	-	-	464	**3,231**
Other non-interest bearing securities	1,287	-	-	816	-	-	-	-	-	33,919	**36,022**
Total	**1,287**	**15,089**	**88,073**	**16,940**	**1,302,060**	**48,521**	**1,158**	**5,293**	**2**	**112,863**	**1,591,286**
Accrued interest											15,033
Total											**1,606,319**

[1] Moody's ratings

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories[1] [continued]

Securities held-to-maturity as at 30 June 2016

	A2	Baa2	Baa3	Ba1	Caa3	Not rated	Total
Government bonds	22,697	1,105	12,578	804,699	16,030	22,598	**879,707**
Discounted Treasury bills	-	-	-	-	-	115	**115**
Corporate bonds	-	-	-	-	-	5	**5**
Total	**22,697**	**1,105**	**12,578**	**804,699**	**16,030**	**22,718**	**879,827**
Accrued interest							15,202
Total							**895,029**

[1] Moody's ratings

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2. Market risk

The Group 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 Group applies a 'Value-at-Risk' 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 is, foreign currency risk and interest rate risk is detailed in Note 36, 37 and 38, respectively.)

28.2.1. Market Risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level.

The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. 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	460	562
Interest rate	1,329	484
Equity instruments	4	3
Diversification	(590)	(238)
Total VaR exposure	**1,203**	**811**

While VaR captures the Group'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 Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 28.2.2., for interest rate risk in Note 28.2.3., and for equity price sensitivity analysis in Note 28.2.4. below.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2. Market risk [continued]

28.2.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the 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) as at 30 June 2016. 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 earnings.

A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the Consolidated Statement of Recognized Income in 3 months period	
	30 June 2016 In HUF billion	30 June 2015 In HUF billion
1%	(8.7)	(9.9)
5%	(6.1)	(6.9)
25%	(2.4)	(2.8)
50%	0.3	0.5
25%	3.7	3.8
5%	8.7	9.0
1%	12.8	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.

28.2.3. 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 was outstanding for the whole year. The analysis was prepared by assuming only adverse 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.
- Assets and liabilities with an interest rate lower than 0.3% were assumed to be unchanged for the whole period.
- The sensitivity of interest income to changes in BUBOR, EURIBOR and USD LIBOR is analyzed.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2 Market risk [continued]

28.2.3. Interest rate sensitivity analysis [continued]

The simulations were prepared by assuming two scenarios:
(1) HUF base rate and BUBOR decreases gradually to 0.5% (probable scenario)
(2) HUF base rate and BUBOR decreases gradually to 0.0% (alternative scenario)

The net interest income in a one year period after 30 June 2016 would be decreased by HUF 1,855 million (probable scenario) and HUF 4,799 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,332 million (probable scenario) and HUF 3,180 million (alternative scenario) decrease in the Net interest income in a one year period after 30 June 2015.
This effect is counterbalanced by capital gains (HUF 60 million for probable scenario, HUF 916 million for alternative scenario) as at 30 June 2016 and (HUF 426 million for probable scenario, HUF 1,667 million for alternative scenario) as at 30 June 2015 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 (in HUF million):

	30 June 2016		30 June 2015	
Description	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of AFS government bonds)**	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of AFS government bonds)**
HUF (0.1%) parallel shift	(836)	217	(463)	295
EUR (0.1%) parallel shift	(591)	-	(485)	-
USD (0.1%) parallel shift	(55)	-	(54)	-
Total	**(1,482)**	**217**	**(1,002)**	**295**

28.2.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 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. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	**30 June 2016**	**330 June 2015**
VaR (99%, one day, HUF million)	4	3
Stress test (HUF million)	(48)	(41)

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2. Market risk [continued]

28.2.5. Capital management

Capital management

The primary objective of the capital management of the Group 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 Group members 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 Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.
The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it 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.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (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 Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

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

The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the advanced method (AMA) in case of the operational risk.

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 15.8%, the Regulatory capital was HUF 1,060,918 million and the Total regulatory capital requirement was HUF 537,912 million as at 30 June 2016. The same ratios calculated as at 31 December 2015 were the following: 16.2%, HUF 1,064,383 million and HUF 526,101 million.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2 Market risk [continued]

28.2.5. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	**30 June 2016**	**31 December 2015**
Core capital (Tier 1) = Common Equity Tier 1 (CET 1)	***885,007***	***873,124***
Issued capital	28,000	28,000
Reserves	1,244,239	1,230,035
Fair value corrections	17,229	28,125
Other capital components	(129,558)	(152,808)
Non-controlling interests	614	572
Treasury shares	(59,507)	(58,021)
Goodwill and other intangible assets	(161,047)	(158,370)
Other adjustments	(54,963)	(44,409)
Additional Tier 1 (AT1)	-	-
Supplementary capital (Tier 2)	***175,911***	***191,259***
Subordinated bonds and loans	84,140	99,054
Other issued capital components	91,450	92,092
Components recognized in T2 capital issued by subsidiaries	321	113
Regulatory capital[1]	**1,060,918**	**1,064,383**
Credit risk capital requirement	428,328	419,670
Market risk capital requirement	36,283	37,183
Operational risk capital requirement	73,301	69,248
Total requirement regulatory capital	**537,912**	**526,101**
Surplus capital	**523,006**	**538,282**
CET 1 ratio	13.2%	13.3%
Tier 1 ratio	13.2%	13.3%
Capital adequacy ratio	**15.8%**	**16.2%**

Basel III

The components of the Common Equity Tier 1 capital (CET 1) are the following: Issued capital, Reserves (Profit reserves, Other reserves, Changes in the equity of subsidiaries, Profit for the year, Changes due to consolidation) Fair value adjustments, Other capital components, (Revaluation reserves, Share based payments, Cash-flow hedges, Net investment hedge in foreign operations), Non-controlling interest, Treasury shares, Goodwill and other Intangible assets, other adjustments (due to prudential filters, due to deferred tax receivables, due to temporary regulations).

Supplementary capital (Tier 2): Subordinated loan capital, Supplementary loan capital, Other issued capital components, Components recognized in T2 capital issued by subsidiaries.

[1] The regulatory capital doesn't contain the payable dividend from the result of 2015 and 2014 in accordance with ITS 680/2014/EU.

NOTE 29: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the Consolidated Statement of Financial Position and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities

	30 June 2016	31 December 2015
Commitments to extend credit	1,264,901	1,166,386
Guarantees arising from banking activities	428,850	374,422
Legal disputes (disputed value)	33,316	54,732
Confirmed letters of credit	13,336	18,237
Other	292,918	283,819
Total	**2,033,321**	**1,897,596**

Legal disputes

At the balance sheet date the Group 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 Group 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. Provisions due to legal disputes were HUF 7,103 million and HUF 6,680 million as at 30 June 2016 and 31 December 2015, respectively. (See Note 18.)

Commitments to extend credit, guarantees and letters 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 Group 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 Group on behalf of a customer authorising a third party to draw drafts on the Group 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 Group 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 Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

NOTE 29: 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 Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, 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 Group assumes the obligation derived from guarantee independently by the conditions established by the Group.
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.

Derivatives

The Group 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 one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (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 Group in most of the cases requires margin deposits.

NOTE 30: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (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. The Bank ensures the share-based payment part for the management personnel of the Group members.
The value of the discounted share-based payment at the performance assessment is determined by the Supervisory Board[1] based on the average of the three previous trade day's middle rate of the 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 the 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 the referred countries.
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 the Supervisory Board for periods of each year as follows:

[1] Until the end of 2014 Board of Directors

NOTE 30: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Share purchasing at a discounted price

Year	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price per share	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Price of remuneration exchanged to 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
2017	-	-	-	-	-	-	2,522	3,500	3,930	3,000	4,892	3,000	6,892
2018	-	-	-	-	-	-	-	-	3,930	3,000	4,892	3,000	6,892
2019	-	-	-	-	-	-	-	-	-	-	4,892	3,000	6,892

NOTE 30: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (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 in exercise periods of each year 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 in exercise periods of each year 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 in exercise periods of each year 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 the Supervisory Board relating to the year **2014** effective pieces are follows in exercise periods of each year 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	-	-	-	-

NOTE 30: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by the Supervisory Board relating to the year **2015** effective pieces are follows in exercise periods of each year 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 of Chief Executive about the 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.

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF mn)

The compensation of key management personnel, such as the members of the Board of Directors, members of the Supervisory Board, key employees of the Bank and its major subsidiaries 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	5,270	6,227
Share-based payment	1,165	2,276
Other long-term employee benefits	287	532
Termination benefits	26	42
Total	**6,748**	**9,077**

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

	30 June 2016	31 December 2015
Loans provided to companies owned by the Management (normal course of business)	30,848	25,734
Commitments to extend credit and guarantees	25,994	33,943
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions)	315	340

	30 June 2016	31 December 2015
Loans provided to unconsolidated subsidiaries	2,121	1,790
Interest income on loan provided to unconsolidated subsidiaries	41	42

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 168,6 million and HUF 168 million as at 30 June 2016 and 31 December 2015.

An analysis of credit limit related to MasterCard Gold is as follows:

	30 June 2016	31 December 2015
Members of Board of Directors and their close family members	22	24
Members of Supervisory Board	2	2
Chief executives	6	2

An analysis of credit limit related to Visa Card is as follows:

	30 June 2016	31 December 2015
Members of Board of Directors and their close family members	33	35
Members of Supervisory Board	-	-

One member of Board of Directors and its family member owned AMEX Blue credit card loan in the amount of HUF 1.2 million and HUF 0.6 million as at 30 June 2016 and 31 December 2015, respectively.

Chief executives owned AMEX Gold credit card loan in the amount of HUF 3.5 million as at 30 June 2016 and 31 December 2015, respectively, while members of the Board of Directors and their close family members owned AMEX Gold credit card loan in the amount of HUF 6 million as at 30 June 2016.

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned AMEX Platinum credit card loan in the amount of HUF 48.8 million, respectively as at 30 June 2016 and 31 December 2015, respectively.

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 of the Group related to their activity in Board of Directors and Supervisory Board is as follows:

	30 June 2016	31 December 2015
Members of Board of Directors	1,623	1,767
Members of Supervisory Board	77	144
Total	**1,700**	**1,911**

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

NOTE 32: ACQUISITION (in HUF mn)

a) Purchase and consolidation of subsidiaries

On 30 July 2014 OTP Bank Romania S.A. agreed on purchasing 100% stake of Banca Millennium S.A. for EUR 39 million. The transaction was completed on 8 January 2015 and through the financial settlement OTP Bank Romania S.A. acquired 100% ownership in Banca Millennium S.A.

The fair value of the assets and liabilities acquired, and the related negative goodwill (gain from bargain purchase, which was reasoned by the market situation of the banking sector in the relevant countries) is as follows:

	Banca Millennium S.A.
Cash, amounts due from banks and balances with the National Banks	(16,933)
Placements with other banks, net of allowance for placement losses	(7,376)
Financial assets at fair value through profit or loss	(25)
Securities available-for-sale	(14,757)
Loans, net of allowance for loan losses	(117,893)
Associates and other investments	(2)
Securities held-to-maturity	(5,272)
Property and equipment	(2,205)
Intangible assets	(80)
Other assets	(4,999)
Amounts due to banks, the Hungarian Government, deposits from the National Banks	52,928
Deposits from customers	98,370
Liabilities from issued securities	-
Financial liabilities at fair value through profit or loss	-
Other liabilities	4,120
Subordinated bonds and loans	-
Net assets	**(14,124)**
Non-controlling interest	-
Negative goodwill	1,845
Cash consideration	**(12,279)**

b) Analysis of net outflow of cash in respect of purchase of subsidiaries

	31 December 2015
Cash consideration	(12,279)
Cash acquired	16,933
Net cash outflow	**4,654**

NOTE 33: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

Investments in companies in which the Bank has a significant interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

Significant subsidiaries

Name	Ownership (Direct and Indirect) 30 June 2016	Ownership (Direct and Indirect) 31 December 2015	Activity
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC “OTP Bank” (Russia)	97.87%	97.87%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	97.92%	97.92%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.26%	99.26%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	flat finance and reconstruction
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	real estate management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd.	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

Significant associates and joint ventures[1]

Most significant indicators of associates and joint ventures which are accounted or not accounted for using the equity method is as follows:

As at 30 June 2016

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

[1] Based on unaudited financial statements.

NOTE 33: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]

Significant associates and joint ventures[1] [continued]

As at 31 December 2015

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

NOTE 34: 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 Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

	30 June 2016	**31 December 2015**
The amount of loans managed by the Group as a trustee	35,939	37,554

NOTE 35: 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	23.02%	28.2%

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

The Group 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 the Group.
Further to this obligatory reporting to the Authority, the Group 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 the Group in charge of partner-risk management analyses the biggest partners on a constant basis and sets limits on the 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.

[1] Based on unaudited financial statements.

NOTE 36: MATURITY ANALYSIS OF ASSETS, LIABILITIES AND LIQUIDITY RISK (in HUF mn)

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations prescribed 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 Group 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 Group'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 Group must keep high quality liquidity reserves by means it can fulfill 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 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 Group 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 the first half year 2016 there were no material changes in liquidity risk management process.

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.

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.

NOTE 36: MATURITY ANALYSIS OF ASSETS, 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 Banks	1,485,072	1,290	56	2	-	1,486,420
Placements with other banks, net of allowance for placement losses	294,751	32,659	20,885	-	278	348,573
Securities held for trading	8,875	11,619	17,135	7,838	87,600	133,067
Securities available-for-sale	31,994	132,357	1,030,218	328,197	27,073	1,549,839
Loans, net of allowance for loan losses	762,529	848,696	1,979,068	2,303,832	29,305	5,923,430
Associates and other investments	-	-	-	-	9,215	9,215
Securities held-to-maturity	43,561	51,989	379,763	391,742	-	867,055
Property, equipment and intangible assets	495	1,448	11,669	17,254	319,950	350,816
Investment property, investment property subject to operating lease	449	2,228	8,725	10,527	8,698	30,627
Other assets[1]	129,529	34,414	62,002	2,456	8,510	236,911
TOTAL ASSETS	**2,757,255**	**1,116,700**	**3,509,521**	**3,061,848**	**490,629**	**10,935,953**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	(161,729)	(64,083)	(80,635)	(210,917)	-	(517,364)
Deposits from customers	(4,157,829)	(898,416)	(2,803,971)	(53,142)	-	(7,913,358)
Liabilities from issued securities	(25,575)	(73,907)	(118,473)	(13,667)	-	(231,622)
Other liabilities[1]	(265,394)	(56,421)	(37,600)	(7,640)	(45,726)	(412,781)
Subordinated bonds and loans[2]	(12,343)	(151,918)	(48)	(1,040)	(79,457)	(244,806)
TOTAL LIABILITIES	**(4,622,870)**	**(1,244,745)**	**(3,040,727)**	**(286,406)**	**(125,183)**	**(9,319,931)**
Receivables from derivative financial instruments classified as held for trading	1,962,624	830,676	282,803	28,200	-	3,104,303
Liabilities from derivative financial instruments classified as held for trading	(1,955,390)	(820,766)	(266,003)	(29,601)	-	(3,071,760)
Net position of financial instruments classified as held for trading	**7,234**	**9,910**	**16,800**	**(1,401)**	**-**	**32,543**
Receivables from derivative financial instruments designated as fair value hedge	6,060	2,438	83,255	6,953	-	98,706
Liabilities from derivative financial instruments designated as fair value hedge	(6,062)	(406)	(97,088)	(6,451)	-	(110,007)
Net position of financial instruments designated as fair value hedge	**(2)**	**2,032**	**(13,833)**	**502**	**-**	**(11,301)**
Net position of derivative financial instruments total	**7,232**	**11,942**	**2,967**	**(899)**	**-**	**21,242**
Commitments to extend credit	269,369	712,057	269,764	13,653	58	1,264,901
Bank guarantees	51,143	120,013	34,909	220,904	1,881	428,850
Off-balance sheet commitments	**320,512**	**832,070**	**304,673**	**234,557**	**1,939**	**1,693,751**

[1] Without derivative financial instruments.
[2] See Note 19.

NOTE 36: MATURITY ANALYSIS OF ASSETS, 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 Banks	1,878,888	72	-	-	-	1,878,960
Placements with other banks, net of allowance for placement losses	291,888	7,489	1,022	178	317	300,894
Securities held-for-trading	4,718	6,042	15,929	8,565	86,083	121,337
Securities available-for-sale	7,854	95,051	925,349	194,913	38,966	1,262,133
Loans, net of allowance for loan losses	678,509	882,873	1,819,370	2,480,019	16,601	5,877,372
Associates and other investments	-	-	-	-	10,028	10,028
Securities held-to-maturity	59,171	84,297	407,096	412,147	-	962,711
Property, equipment and intangible assets	2,203	2,466	9,503	4,256	331,042	349,470
Investment property, investment property subject to operating lease	50	916	10,359	12,970	6,147	30,442
Other assets[1]	122,663	39,229	66,259	442	8,954	237,547
TOTAL ASSETS	**3,045,944**	**1,118,435**	**3,254,887**	**3,113,490**	**498,138**	**11,030,894**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	(171,469)	(57,073)	(168,058)	(157,092)	-	(553,692)
Deposits from customers	(6,615,990)	(1,107,398)	(242,363)	(40,337)	1	(8,006,089)
Liabilities from issued securities	(42,910)	(60,197)	(105,590)	(34,370)	-	(243,067)
Other liabilities[1]	(296,857)	(82,815)	(3,395)	(8,785)	(9,302)	(401,154)
Subordinated bonds and loans[2]	(1,817)	(127,336)	(9,292)	(8,439)	(110,566)	(257,450)
TOTAL LIABILITIES	**(7,129,043)**	**(1,434,819)**	**(528,698)**	**(249,023)**	**(119,869)**	**(9,461,452)**
Receivables from derivative financial instruments classified as held for trading	1,983,024	983,886	396,165	21,157	-	3,384,232
Liabilities from derivative financial instruments classified as held for trading	(1,972,569)	(978,896)	(372,370)	(21,240)	-	(3,345,075)
Net position of financial instruments classified as held for trading	**10,455**	**4,990**	**23,795**	**(83)**	**-**	**39,157**
Receivables from derivative financial instruments designated as fair value hedge	5,604	926	90,703	3,074	-	100,307
Liabilities from derivative financial instruments designated as fair value hedge	(5,554)	(368)	(102,437)	(882)	-	(109,241)
Net position of financial instruments designated as fair value hedge	**50**	**558**	**(11,734)**	**2,192**	**-**	**(8,934)**
Net position of derivative financial instruments total	**10,505**	**5,548**	**12,061**	**2,109**	**-**	**30,223**
Commitments to extend credit	347,477	562,694	241,577	14,638	-	1,166,386
Bank guarantees	74,107	79,463	123,525	96,792	535	374,422
Off-balance sheet commitments	**421,584**	**642,157**	**365,102**	**111,430**	**535**	**1,540,808**

[1] Without derivative financial instruments.
[2] See Note 19.

NOTE 37: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 30 June 2016

	USD	EUR	CHF	Others	Total
Assets	426,289	2,159,601	60,092	2,396,037	5,042,019
Liabilities	(520,128)	(1,796,612)	(42,443)	(2,223,638)	(4,582,821)
Off-balance sheet assets and liabilities, net	154,128	(375,086)	(31,716)	(101,074)	(353,748)
Net position	**60,289**	**(12,097)**	**(14,067)**	**71,325**	**105,450**

As at 31 December 2015

	USD	EUR	CHF	Others	Total
Assets	391,278	1,532,788	182,303	2,299,124	4,405,493
Liabilities	(573,631)	(1,750,994)	(62,898)	(2,123,107)	(4,510,630)
Off-balance sheet assets and liabilities, net	159,599	552,473	(59,785)	182,171	834,458
Net position	**(22,754)**	**334,267**	**59,620**	**358,188**	**729,321**

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within 'Others'. 'Others' category contains mainly foreign currencies in RON, RSD, HRK, UAH, RUB and BGN. Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Banks and own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the "VaR" limit on the foreign exchange exposure of the Group.

NOTE 38: 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 interest bearing assets and liabilities of the Group 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 Group 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 Group. 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.

NOTE 38: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 30 June 2016

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
ASSETS	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Cash, amounts due from banks and balances with the National Banks	**410,975**	**618,019**	**1,209**	**93**	**-**	**327**	**-**	**16**	**2**	**-**	**92,603**	**363,176**	**504,789**	**981,631**	**1,486,420**
fixed rate	410,180	549,255	-	4	-	327	-	16	2	-	-	-	410,182	549,602	959,784
variable rate	795	68,764	1,209	89	-	-	-	-	-	-	-	-	2,004	68,853	70,857
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	92,603	363,176	92,603	363,176	455,779
Placements with other banks, net of allowance for placements losses	**44,055**	**204,296**	**4,561**	**30,295**	**29**	**16,753**	**3**	**1,467**	**763**	**5,362**	**7**	**28,941**	**49,418**	**287,114**	**336,532**
fixed rate	42,252	75,201	807	22,113	29	8,402	3	1,453	763	5,294	-	-	43,854	112,463	156,317
variable rate	1,803	129,095	3,754	8,182	-	8,351	-	14	-	68	-	-	5,557	145,710	151,267
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7	28,941	7	28,941	28,948
Securities held for trading	**6,993**	**12**	**4,510**	**29**	**10,902**	**2,061**	**3,487**	**654**	**12,603**	**6,905**	**83,221**	**3,877**	**121,716**	**13,538**	**135,254**
fixed rate	2,415	12	4,388	29	8,028	1,972	3,487	654	12,603	6,905	-	-	30,921	9,572	40,493
variable rate	4,578	-	122	-	2,874	89	-	-	-	-	-	-	7,574	89	7,663
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	83,221	3,877	83,221	3,877	87,098
Securities available-for-sale	**20,507**	**15,911**	**20,082**	**10,271**	**25,537**	**85,494**	**330,362**	**72,349**	**725,758**	**249,411**	**23,301**	**26,961**	**1,145,547**	**460,397**	**1,605,944**
fixed rate	40	14,130	2,722	10,267	25,537	85,494	330,362	72,349	725,758	249,411	-	-	1,084,419	431,651	1,516,070
variable rate	20,467	1,781	17,360	4	-	-	-	-	-	-	-	-	37,827	1,785	39,612
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	23,301	26,961	23,301	26,961	50,262
Loans, net of allowance for loan losses	**679,182**	**1,660,685**	**636,426**	**761,460**	**144,855**	**312,029**	**151,430**	**163,428**	**426,747**	**312,623**	**79,912**	**159,143**	**2,118,552**	**3,369,368**	**5,487,920**
fixed rate	149,841	181,624	35,414	82,256	64,884	228,579	55,695	136,364	134,427	267,647	-	-	440,261	896,470	1,336,731
variable rate	529,341	1,479,061	601,012	679,204	79,971	83,450	95,735	27,064	292,320	44,976	-	-	1,598,379	2,313,755	3,912,134
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	79,912	159,143	79,912	159,143	239,055
Securities held-to-maturity	**-**	**17,626**	**1,670**	**5,365**	**71,336**	**1,868**	**91,288**	**1,546**	**642,218**	**48,551**	**12,646**	**103**	**819,158**	**75,059**	**894,217**
fixed rate	-	16,978	-	5,365	71,336	1,846	91,288	1,546	642,218	48,551	-	-	804,842	74,286	879,128
variable rate	-	648	1,670	-	-	22	-	-	-	-	-	-	1,670	670	2,340
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	12,646	103	12,646	103	12,749
Derivative financial instruments	**676,671**	**706,177**	**700,038**	**407,097**	**192,124**	**100,312**	**35,703**	**140,608**	**46,129**	**34,861**	**522,416**	**147,548**	**2,173,081**	**1,536,603**	**3,709,684**
fixed rate	505,595	354,169	318,225	258,767	190,997	61,520	35,703	140,608	46,129	34,861	-	-	1,096,649	849,925	1,946,574
variable rate	171,076	352,008	381,813	148,330	1,127	38,792	-	-	-	-	-	-	554,016	539,130	1,093,146
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	522,416	147,548	522,416	147,548	669,964

NOTE 38: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 30 June 2016

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
LIABILITIES	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**108,833**	**82,492**	**7,344**	**54,067**	**27,600**	**10,008**	**34,914**	**7,781**	**169,298**	**12,262**	**17**	**1,626**	**348,006**	**168,236**	**516,242**
fixed rate	80,779	69,880	7,117	1,001	27,400	4,637	34,914	7,483	169,298	5,895	-	-	319,508	88,896	408,404
variable rate	28,054	12,612	227	53,066	200	5,371	-	298	-	6,367	-	-	28,481	77,714	106,195
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	17	1,626	17	1,626	1,643
Deposits from customers	**1,163,508**	**2,417,534**	**414,514**	**380,434**	**251,398**	**770,218**	**2,448**	**49,726**	**1,745,358**	**571,632**	**2,816**	**128,948**	**3,580,042**	**4,318,492**	**7,898,534**
fixed rate	627,731	1,103,037	414,500	377,420	251,389	770,218	2,448	49,726	159,187	100,549	-	-	1,455,255	2,400,950	3,856,205
variable rate	535,777	1,314,497	14	3,014	9	-	-	-	1,586,171	471,083	-	-	2,121,971	1,788,594	3,910,565
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,816	128,948	2,816	128,948	131,764
Liabilities from issued securities	**1,725**	**7,487**	**5,850**	**8,071**	**14,712**	**47,129**	**39,302**	**61**	**102,067**	**227**	**5,906**	**94**	**169,562**	**63,069**	**232,631**
fixed rate	1,725	4,202	5,850	5,386	14,712	44,190	39,302	61	102,067	227	-	-	163,656	54,066	217,722
variable rate	-	3,285	-	2,685	-	2,939	-	-	-	-	-	-	-	8,909	8,909
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	5,906	94	5,906	94	6,000
Derivative financial instruments	**1,328,335**	**67,919**	**813,423**	**275,519**	**194,136**	**71,999**	**170,266**	**15,233**	**50,094**	**64,419**	**309,639**	**324,127**	**2,865,893**	**819,216**	**3,685,109**
fixed rate	807,033	58,447	493,394	84,753	193,519	61,034	170,266	15,233	50,094	64,419	-	-	1,714,306	283,886	1,998,192
variable rate	521,302	9,472	320,029	190,766	617	10,965	-	-	-	-	-	-	841,948	211,203	1,053,151
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	309,639	324,127	309,639	324,127	633,766
Subordinated bonds and loans	**-**	**-**	**-**	**162,145**	**-**	**81,717**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**243,863**	**243,863**
fixed rate	-	-	-	162,135	-	81,717	-	-	-	-	-	-	-	243,852	243,852
variable rate	-	-	-	10	-	-	-	-	-	-	-	-	-	10	10
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	1	-	1	1
Net position	**(764,018)**	**647,294**	**127,365**	**334,374**	**(43,063)**	**(462,227)**	**365,343**	**307,267**	**(212,597)**	**9,173**	**495,728**	**274,953**	**(31,242)**	**1,110,834**	**1,079,592**

NOTE 38: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2015

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
ASSETS	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Cash, amounts due from banks and balances with the National Banks	**1,204,852**	**124,465**	**251**	**129**	**-**	**18**	**-**	**-**	**-**	**-**	**78,000**	**471,245**	**1,283,103**	**595,857**	**1,878,960**
fixed rate	1,203,663	68,286	-	40	-	18	-	-	-	-	-	-	1,203,663	68,344	1,272,007
variable rate	1,189	56,179	251	89	-	-	-	-	-	-	-	-	1,440	56,268	57,708
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	78,000	471,245	78,000	471,245	549,245
Placements with other banks, net of allowance for placements losses	**40,110**	**158,875**	**5,083**	**40,634**	**26**	**13,270**	**3**	**696**	**11,983**	**4,780**	**15**	**25,093**	**57,220**	**243,348**	**300,568**
fixed rate	37,814	110,924	498	7,847	26	8,343	3	696	11,983	4,002	-	-	50,324	131,812	182,136
variable rate	2,296	47,951	4,585	32,787	-	4,927	-	-	-	778	-	-	6,881	86,443	93,324
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	15	25,093	15	25,093	25,108
Securities held for trading	**1,201**	**-**	**2,124**	**339**	**7,863**	**72**	**141**	**4,216**	**10,335**	**8,745**	**72,253**	**4,687**	**93,917**	**18,059**	**111,976**
fixed rate	299	-	1,856	339	5,950	54	141	4,216	10,335	8,745	-	-	18,581	13,354	31,935
variable rate	902	-	268	-	1,913	18	-	-	-	-	-	-	3,083	18	3,101
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	72,253	4,687	72,253	4,687	76,940
Securities available-for-sale	**21,671**	**15,155**	**18,953**	**19,551**	**9,271**	**70,052**	**21,419**	**58,096**	**854,494**	**137,196**	**50,940**	**28,688**	**976,748**	**328,738**	**1,305,486**
fixed rate	-	12,975	-	19,551	9,271	65,079	21,419	58,096	854,494	136,060	-	-	885,184	291,761	1,176,945
variable rate	21,671	2,180	18,953	-	-	4,973	-	-	-	1,136	-	-	40,624	8,289	48,913
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	50,940	28,688	50,940	28,688	79,628
Loans, net of allowance for loan losses	**494,685**	**1,679,202**	**565,545**	**830,627**	**263,497**	**284,342**	**153,606**	**121,203**	**506,656**	**255,515**	**86,347**	**168,742**	**2,070,336**	**3,339,631**	**5,409,967**
fixed rate	8,566	253,898	9,926	102,394	58,511	174,813	50,003	104,835	113,882	232,971	-	-	240,888	868,911	1,109,799
variable rate	486,119	1,425,304	555,619	728,233	204,986	109,529	103,603	16,368	392,774	22,544	-	-	1,743,101	2,301,978	4,045,079
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	86,347	168,742	86,347	168,742	255,089
Securities held-to-maturity	**-**	**37,159**	**16,085**	**5,858**	**35,710**	**2,429**	**86,409**	**1,376**	**678,012**	**47,847**	**14,767**	**1,025**	**830,983**	**95,694**	**926,677**
fixed rate	-	36,984	12,746	5,858	35,710	2,409	86,409	1,376	678,012	47,847	-	-	812,877	94,474	907,351
variable rate	-	175	3,339	-	-	20	-	-	-	-	-	-	3,339	195	3,534
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	14,767	1,025	14,767	1,025	15,792
Derivative financial instruments	**673,749**	**668,051**	**1,351,732**	**384,757**	**217,206**	**109,734**	**46,773**	**149,426**	**39,414**	**29,997**	**346,498**	**194,146**	**2,675,372**	**1,536,111**	**4,211,483**
fixed rate	500,878	227,526	428,021	135,754	216,291	66,795	46,773	149,426	39,414	29,997	-	-	1,231,377	609,498	1,840,875
variable rate	172,871	440,525	923,711	249,003	915	42,939	-	-	-	-	-	-	1,097,497	732,467	1,829,964
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	346,498	194,146	346,498	194,146	540,644

NOTE 38: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2015

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
LIABILITIES	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**95,241**	**129,524**	**8,142**	**45,391**	**54,483**	**5,982**	**10,760**	**3,651**	**170,320**	**5,707**	**8**	**4,101**	**338,954**	**194,356**	**533,310**
fixed rate	95,174	64,590	7,049	7,382	23,383	5,427	10,760	3,651	170,320	5,706	-	-	306,686	86,756	393,442
variable rate	67	64,934	1,093	38,009	31,100	555	-	-	-	1	-	-	32,260	103,499	135,759
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	8	4,101	8	4,101	4,109
Deposits from customers	**1,306,653**	**2,484,899**	**472,572**	**473,728**	**136,025**	**703,014**	**2,224**	**68,831**	**1,818,548**	**397,140**	**3,230**	**117,715**	**3,739,252**	**4,245,327**	**7,984,579**
fixed rate	706,888	1,252,940	472,558	471,863	136,025	703,004	2,224	68,831	259,993	101,191	-	-	1,577,688	2,597,829	4,175,517
variable rate	599,765	1,231,959	14	1,865	-	10	-	-	1,558,555	295,949	-	-	2,158,334	1,529,783	3,688,117
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,230	117,715	3,230	117,715	120,945
Liabilities from issued securities	**1,916**	**6,202**	**157**	**9,082**	**11,002**	**41,623**	**16,153**	**8,443**	**137,495**	**236**	**7,021**	**46**	**173,744**	**65,632**	**239,376**
fixed rate	1,916	5,953	157	6,929	11,002	38,667	16,153	8,443	137,495	236	-	-	166,723	60,228	226,951
variable rate	-	249	-	2,153	-	2,956	-	-	-	-	-	-	-	5,358	5,358
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7,021	46	7,021	46	7,067
Derivative financial instruments	**1,248,271**	**98,165**	**1,083,679**	**636,911**	**158,671**	**134,008**	**190,632**	**6,931**	**40,977**	**72,001**	**227,762**	**275,151**	**2,949,992**	**1,223,167**	**4,173,159**
fixed rate	635,192	89,002	418,185	143,566	157,950	125,122	190,632	6,931	40,977	72,001	-	-	1,442,936	436,622	1,879,558
variable rate	613,079	9,163	665,494	493,345	721	8,886	-	-	-	-	-	-	1,279,294	511,394	1,790,688
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	227,762	275,151	227,762	275,151	502,913
Subordinated bonds and loans	**-**	**-**	**-**	**5**	**-**	**234,773**	**-**	**-**	**-**	**-**	**-**	**6**	**-**	**234,784**	**234,784**
fixed rate	-	-	-	-	-	234,773	-	-	-	-	-	-	-	234,773	234,773
variable rate	-	-	-	5	-	-	-	-	-	-	-	-	-	5	5
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	6	-	6	6
Net position	**(215,813)**	**(35,883)**	**395,223**	**116,778**	**173,392**	**(639,483)**	**88,582**	**247,157**	**(66,446)**	**8,996**	**410,799**	**496,607**	**785,737**	**194,172**	**979,909**

NOTE 39: CONSOLIDATED EARNINGS PER SHARE (in HUF mn)

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated 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
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	106,047	63,583
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	264,805,004	262,204,162
Basic Earnings per share (in HUF)	**400**	**242**
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	106,047	63,583
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	264,833,312	262,419,544
Diluted Earnings per share (in HUF)	**400**	**242**

	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	15,195,006	17,795,848
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**264,805,004**	**262,204,162**
Dilutive effects 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	**264,833,312**	**262,419,544**

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 year presented.

[1] Both in the first half year of 2016 and in year 2015 the dilutive effect is in connection with the Remuneration Policy.

NOTE 40: **NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)**

As at 30 June 2016

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	6,849	-	-	-
Placements with other banks, net of allowance for placements losses	1,466	-	(1)	-
Securities held for trading	-	570	-	-
Securities available-for-sale	20,901	19,004	(2)	(13,453)
Loans, net of allowance for loan losses	251,047	4,876	(44,024)	-
Securities held-to-maturity	24,153	-	-	-
Other assets	1,374	-	-	-
Derivative financial instruments	2,254	352	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(3,823)	-	-	-
Deposits from customers	(34,423)	76,826	-	-
Liabilities from issued securities	(3,174)	-	-	-
Subordinated bonds and loans	(6,498)	-	-	-
Total	**260,126**	**101,628**	**(44,027)**	**(13,453)**

As at 31 December 2015

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	27,496	-	-	-
Placements with other banks, net of allowance for placements losses	2,765	-	6	-
Securities held for trading	-	1,067	-	-
Securities available-for-sale	31,063	7,324	(17)	(304)
Loans, net of allowance for loan losses	572,120	10,207	(318,689)	-
Securities held-to-maturity	46,619	-	2	-
Other assets	3,050	-	-	-
Derivative financial instruments	5,467	(618)	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(10,627)	-	-	-
Deposits from customers	(107,104)	157,368	-	-
Liabilities from issued securities	(6,786)	-	-	-
Subordinated bonds and loans	(13,633)	-	-	-
Total	**550,430**	**175,348**	**(318,698)**	**(304)**

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Group 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 Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 40. 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 amortized cost, the Group used the discounted cash-flow analyses (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 Banks represent amounts available immediately thus the fair value equals to the cost.
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 amortized 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 Banks	1,486,420	1,486,280	1,878,960	1,880,223
Placements with other banks, net of allowance for placements losses	336,532	367,977	300,568	318,972
Financial assets at fair value through profit or loss	243,710	243,710	253,782	253,782
Securities held for trading	*135,254*	*135,254*	*111,976*	*111,976*
Fair value of derivative financial instruments classified as held for trading	*108,456*	*108,456*	*141,806*	*141,806*
Securities available-for-sale	1,605,944	1,605,944	1,305,486	1,305,486
Loans, net of allowance for loan losses	5,487,920	6,196,685	5,409,967	6,028,495
Securities held-to-maturity	894,217	973,231	926,677	1,010,112
Fair value of derivative financial instruments designated as fair value hedge	16,794	16,794	16,009	16,151
Financial assets total	**10,071,537**	**10,890,621**	**10,091,449**	**10,813,221**

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

a) Fair value of financial assets and liabilities [continued]

	30 June 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	516,242	505,565	533,310	533,338
Deposits from customers	7,898,534	7,875,127	7,984,579	7,969,922
Liabilities from issued securities	232,631	346,287	239,376	351,488
Fair value of derivative financial instruments designated as fair value hedge	19,741	19,741	13,723	13,723
Fair value of derivative financial instruments classified as held for trading	74,424	74,424	101,561	101,561
Subordinated bonds and loans	243,863	241,055	234,784	240,619
Financial liabilities total	**8,985,435**	**9,062,199**	**9,107,333**	**9,210,651**

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	37,971	33,770	36,907	40,475
Negative fair value of interest rate swaps classified as held for trading	(31,755)	(30,453)	(33,865)	(37,135)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	8,727	15,551	11,291	14,083
Negative fair value of foreign exchange swaps classified as held for trading	(12,896)	(7,687)	(13,129)	(8,000)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated as fair value hedge	16,233	15,393	9,983	7,932
Negative fair value of interest rate swaps designated as fair value hedge	(19,694)	(13,723)	(21,827)	(17,211)
Foreign exchange swaps designated as fair value hedge				
Positive fair value of foreign exchange swaps designated as fair value hedge	-	-	-	-
Negative fair value of foreign exchange swaps designated as fair value hedge	-	-	-	-
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	49,424	84,270	49,132	84,721
Negative fair value of CCIRS classified as held for trading	(17,866)	(53,505)	(18,918)	(54,309)
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	(3,831)	(2,370)	(3,631)	(2,143)

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Fair value of derivative instruments [continued]

	Fair value		Notional value, net	
	30 June 2016	**31 December 2015**	**30 June 2016**	**31 December 2015**
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated as fair value hedge	522	604	579	693
Negative fair value of CCIRS designated as fair value hedge	(7)	-	(1)	-
Mark-to-market CCIRS designated as fair value hedge				
Positive fair value of mark-to-market CCIRS designated as fair value hedge	-	-	-	-
Negative fair value of mark-to-market CCIRS designated as fair value hedge	-	-	-	-
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated as fair value hedge	39	12	39	12
Negative fair value of other derivative contracts designated as fair value hedge	(40)	-	(40)	-
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	12,332	8,215	7,990	5,098
Negative fair value of other derivative contracts classified as held for trading	(8,076)	(7,546)	(2,969)	(4,290)
Derivative financial assets total	**125,250**	**157,815**	**115,904**	**153,014**
Derivative financial liabilities total	**(94,165)**	**(115,284)**	**(94,380)**	**(123,088)**
Derivative financial instruments total	**31,085**	**42,531**	**21,524**	**29,926**

c) Hedge accounting

The Group 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.

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

As at 30 June 2016

Types of the hedges	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 exchange
4) Net investment hedge in foreign operations[1]	CCIRS and issued securities	HUF (943) million	Foreign exchange

As at 31 December 2015

Types of the hedges	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
3) Net investment hedge in foreign operations[1]	CCIRS and issued securities	HUF 548 million	Foreign exchange

[1] The objective of these hedge relationships is to mitigate the risk of changes in value of net investments in foreign subsidiaries (namely: OTP Banka Slovensko a.s., DSK Bank EAD, Crnogorska komercijalna banka a.d., OTP banka Hrvatska d.d.) due to change in foreign exchange rates.

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges

1. Securities available-for-sale

The Group holds fixed interest rate securities denominated in foreign currencies and fixed interest rate government bonds denominated in HUF within the available-for-sale portfolio. These fixed interest rate securities 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 the Group 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.

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

2. Loans to customers / corporates

The Group 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 the Group 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.
The 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 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 the Group 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, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

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

NOTE 41: 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 on the hedged items	Gains/ Losses on hedging instruments
Securities available-for-sale	IRS	HUF 877,711 million	HUF (19,436) million	HUF 11,818 million	HUF (8,170) million
Loans to customers	IRS	HUF 1,340 million	HUF (21) million	HUF (144) million	HUF 144 million
Loans to customers	CCIRS	HUF 53,106 million	HUF 516 million	HUF 206 million	HUF (88) 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 on the hedged items	Gains/ Losses on 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 customers	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

NOTE 41: 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	243,264	119,361	123,903	-
from this: securities held for trading	134,808	119,252	15,556	-
from this: positive fair value of derivative financial instruments classified as held for trading	108,456	109	108,347	-
Securities available-for-sale	1,590,911	1,306,330	273,437	11,144[1]
Positive fair value of derivative financial instruments designated as fair value hedge	16,794	-	16,794	-
Financial assets measured at fair value total	**1,850,969**	**1,425,691**	**414,134**	**11,144**
Negative fair value of derivative financial instruments classified as held for trading	74,424	398	74,026	-
Negative fair value of derivative financial instruments designated as fair value hedge	19,741	43,260	(23,519)	-
Financial liabilities measured at fair value total	**94,165**	**43,658**	**50,507**	**-**

As at 31 December 2015	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	253,111	103,476	149,635	-
from this: securities held for trading	111,305	103,455	7,850	-
from this: positive fair value of derivative financial instruments classified as held for trading	141,806	21	141,785	-
Securities available-for-sale	1,284,979	1,097,952	172,353	14,674[1]
Positive fair value of derivative financial instruments designated as fair value hedge	16,009	-	16,009	-
Financial assets measured at fair value total	**1,554,099**	**1,201,428**	**337,997**	**14,674**
Negative fair value of derivative financial instruments classified as held for trading	101,561	35	101,526	-
Negative fair value of derivative financial instruments designated as fair value hedge	13,723	-	13,723	-
Financial liabilities measured at fair value total	**115,284**	**35**	**115,249**	**-**

[1] From the whole portfolio HUF 3,428 million includes shares of Visa Inc. as at 30 June 2016 and HUF 10,789 million includes shares of Visa Europe as at 31 December 2015. The purchase price includes three components (upfront component: cash and Visa Inc. "C" preferential shares with limited marketability; and deferred earn-out payment). Sensitivity analysis is not applicable. (See details in Note 43.)

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

e) Fair value classes [continued]

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 securities available-for-sale which are recorded at fair value:

Movement on securities available-for-sale in Level 3	Opening balance	Increase / (Decrease)	Closing balance
OTP Bank Plc.	5,667	-	**5,667**
DSK Bank EAD	3,031	(1,388)	**1,643**
OTP Factoring Ltd.	2,087	(8)	**2,079**
OTP banka Hrvatska d.d.	1,136	(781)	**355**
OTP Bank Romania S.A.	1,027	(700)	**327**
OTP Banka Slovensko a.s.	907	(618)	**289**
OTP Factoring Ukarine LLC	717	(49)	**668**
OTP banka Srbija a.d.	27	(1)	**26**
LLC AMC OTP Capital	74	16	**90**
Total	**14,673**	**(3,529)**	**11,144**

NOTE 42: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn)

The Group distinguishes business and geographical segments. The report on the base of the business and geographical segments is reported bellow.

The reportable segments of the Group on the base of IFRS 8 are the following:
OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries and Corporate Center.
OTP Core is an economic unit for measuring the result of core business activity of the Group in Hungary. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in the Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financial Point Ltd., and companies providing intragroup financing.
Corporate Centre: it is separated from OTP Core consolidated financial statements, this is a virtual entity responsible for rendering debt and capital market related to services to the subsidiaries across the Group, mainly in the form of capital and credit financing.

The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., OTP Factoring Montenegro d.o.o. and OTP Factoring Slovensko s.r.o. are included into the foreign banks segment.
The activities of the other subsidiaries are out of the leasing and fund management activity, like: OTP Real Estate Ltd., OTP Life Annuity Ltd, OTP Funds Servicing and Consulting Ltd., Monicomp Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

The reportable business and geographical segments of the Group are those components where:
- separated incomes and expenses, assets and liabilities can be identified and assignable to the segments,
- transactions between the different segments were eliminated,
- the main decisive board of the Group regularly controls the operating results,
- separated financial information is available.

Goodwill / investment impairment and their tax saving effect:

Nor in the first half year ended 30 June 2016 neither in the year ended 31 December 2015 no goodwill impairment was recognized at all. In the first half year of 2016 due to the impairment on investment in OTP Factoring Ukraine LLC HUF 2,214 million, while in year 2015 in OTP Bank JSC (Ukraine) HUF 6,683 million tax shield was recognized.

Information regarding the Group's reportable segments is presented below:

NOTE 42: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 30 June 2016

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+...+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**106,188**		**106,188**																
Adjustments (total)		**2,047**	**2,047**																
Dividends and net cash transfers (after income tax)		254	254																
Goodwill /investment impairment (after income tax)		2,214	2,214																
Bank tax on financial institutions (after income tax)		(13,581)	(13,581)																
Gain on the sale of Visa Europe shares (after income tax)		13,160																	
Consolidated adjusted net profit for the year	**106,188**	**(2,047)**	**104,141**	**59,614**	**43,369**	**6,617**	**4,297**	**28,007**	**1,606**	**118**	**2,172**	**296**	**255**	**5,015**	**1,332**	**1,915**	**1,768**	**(2,926)**	**(931)**
Profit before income tax	**132,002**	**2,344**	**134,346**	**80,849**	**52,334**	**8,602**	**7,338**	**31,116**	**1,770**	**118**	**2,701**	**433**	**255**	**5,700**	**1,414**	**2,307**	**1,979**	**(3,572)**	**(966)**
Adjusted operating profit	**176,027**	**(11,746)**	**164,281**	**72,921**	**88,705**	**25,809**	**12,881**	**34,985**	**4,151**	**280**	**6,051**	**3,305**	**1,242**	**6,768**	**3,424**	**2,305**	**1,038**	**(3,572)**	**(542)**
Adjusted total income	405,019	(47,178)	357,841	175,584	170,735	48,848	19,949	55,790	13,471	3,817	15,127	8,916	4,816	22,528	7,463	3,367	11,698	(3,432)	(7,574)
Adjusted net interest income	260,126	(2,018)	258,108	116,202	135,613	43,427	14,825	42,605	10,088	2,833	11,046	7,272	3,517	11,152	9,254	13	1,885	(3,432)	(1,426)
Adjusted net profit from fees and commissions	105,382	(23,041)	82,341	48,310	30,603	6,129	4,080	12,783	1,603	805	2,485	1,466	1,251	3,552	(258)	3,349	461	0	(126)
Adjusted other net non-interest income	39,511	(22,119)	17,392	11,072	4,520	(707)	1,044	401	1,780	179	1,597	178	48	7,824	(1,533)	5	9,352	0	(6,022)
Adjusted other administrative expenses	(228,992)	35,432	(193,560)	(102,663)	(82,029)	(23,040)	(7,068)	(20,805)	(9,319)	(3,537)	(9,076)	(5,610)	(3,574)	(15,761)	(4,039)	(1,061)	(10,661)	(140)	7,032
Total risk costs	**(44,025)**	**11,163**	**(32,862)**	**5,001**	**(36,371)**	**(17,207)**	**(5,543)**	**(3,869)**	**(2,381)**	**(162)**	**(3,350)**	**(2,873)**	**(987)**	**(1,067)**	**(2,011)**	**2**	**941**	**0**	**(424)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(44,025)	9,402	(34,623)	3,705	(36,422)	(17,152)	(6,643)	(3,557)	(2,565)	(208)	(2,689)	(2,846)	(761)	(1,599)	(1,825)	0	226	0	(308)
Other provision (adjustment)	0	1,761	1,761	1,296	50	(54)	1,100	(313)	184	46	(661)	(27)	(226)	531	(185)	2	715	0	(116)
Total other adjustments (one-off items)[1]	0	2,927	**2,927**	2,927	**0**	0	0	0	0	0	0	0	0	**0**	0	0	0	0	0
Income tax	**(25,814)**	**(4,391)**	**(30,205)**	(21,235)	**(8,965)**	(1,985)	(3,042)	(3,109)	(165)	0	(529)	(136)	0	**(685)**	(82)	(392)	(211)	646	35
Total Assets	**10,699,225**	**0**	**10,699,225**	**6,726,389**	**4,732,396**	**546,826**	**296,949**	**1,859,562**	**611,143**	**122,534**	**640,465**	**461,750**	**193,168**	**710,800**	**422,479**	**14,033**	**274,288**	**1,493,357**	**(2,963,717)**
Total Liabilities	**9,398,279**	**0**	**9,398,279**	**5,500,154**	**4,220,817**	**437,727**	**326,397**	**1,628,712**	**567,615**	**93,120**	**566,832**	**430,880**	**169,533**	**541,402**	**396,707**	**3,011**	**141,685**	**836,403**	**(1,700,496)**

( ) used at: provisions, impairment and expenses

[1] One-off item consists of: the result of the treasury share swap agreement at OTP Core in the amount of HUF 2,927 million.

NOTE 42: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 31 December 2015

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**63,171**		**63,171**																
Adjustments (total)		**(57,074)**	**(57,074)**																
Dividends and net cash transfers (after income tax)		144	144																
Goodwill /investment impairment (after income tax)		6,683	6,683																
Bank tax on financial institutions (after income tax)		(29,383)	(29,383)																
Fine imposed by the Hungarian Competition Authority (after income tax)		(662)	(662)																
Effect of Banco Popolare Croatia d.d. and Banca Millennium S.A. acquisition (after income tax)		1,550	1,550																
Actual and one-off effect in result due to changes in law related to customer loan agreements in Hungary (after income tax)		4,594	4,594																
Expected and current impact of regulatory changes related to Fx consumer contracts in Croatia, Romania and Serbia (after income tax)		(32,034)	(32,034)																
Risk cost created toward Crimean exposures from the second quarter of 2014 until 31 December 2015 (after income tax)		(169)	(169)																
Risk cost created toward exposues to Donetsk and Luhansk from the third quarter of 2014 until the end of year 2015 (after income tax)		(2,258)	(2,258)																
Revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes (after income tax)		(5,539)	(5,539)																
Consolidated adjusted net profit for the year	**63,171**	**57,073**	**120,244**	**123,359**	**(1,820)**	**(19,941)**	**(40,312)**	**52,537**	**1,481**	**(384)**	**2,967**	**923**	**909**	**4,526**	**1,785**	**2,713**	**28**	**(4,286)**	**(1,535)**
Profit before income tax	**60,024**	**86,033**	**146,057**	**149,216**	**(3,193)**	**(24,448)**	**(42,230)**	**58,266**	**1,581**	**(393)**	**1,711**	**1,412**	**908**	**6,189**	**1,685**	**3,620**	**884**	**(6,382)**	**227**
Adjusted operating profit	**378,707**	**(16,112)**	**362,595**	**170,599**	**184,772**	**58,495**	**25,184**	**73,136**	**6,074**	**1,293**	**10,844**	**6,600**	**3,146**	**14,327**	**6,810**	**6,109**	**1,408**	**(6,382)**	**(721)**
Adjusted total income	844,223	(89,311)	754,912	367,235	360,518	112,811	41,086	114,439	27,662	8,360	28,021	17,671	10,468	45,789	15,165	8,643	21,981	(5,761)	(12,869)
Adjusted net interest income	550,430	3,229	553,659	251,564	286,988	97,716	29,146	88,674	22,904	6,407	20,345	14,568	7,228	24,850	19,924	63	4,863	(5,761)	(3,982)
Adjusted net profit from fees and commissions	213,872	(46,621)	167,251	97,480	62,533	14,394	7,915	23,013	3,773	1,747	5,309	3,386	2,996	7,213	(2,133)	8,543	803	0	25
Adjusted other net non-interest income	79,921	(45,919)	34,002	18,191	10,997	701	4,025	2,752	985	206	2,367	(283)	244	13,726	(2,626)	37	16,315	0	(8,912)
Adjusted other administrative expenses	(465,516)	73,199	(392,317)	(196,636)	(175,746)	(54,316)	(15,902)	(41,303)	(21,588)	(7,067)	(17,177)	(11,071)	(7,322)	(31,462)	(8,355)	(2,534)	(20,573)	(621)	12,148
Total risk costs	**(318,683)**	**97,973**	**(220,710)**	**(25,555)**	**(187,965)**	**(82,943)**	**(67,414)**	**(14,870)**	**(4,493)**	**(1,686)**	**(9,133)**	**(5,188)**	**(2,238)**	**(8,138)**	**(5,125)**	**(2,489)**	**(524)**	**0**	**948**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(318,683)	107,019	(211,664)	(21,550)	(184,344)	(82,060)	(65,891)	(14,650)	(6,598)	(922)	(6,813)	(5,144)	(2,266)	(5,329)	(4,948)	0	(381)	0	(441)
Other provision (adjustment)	0	(9,046)	(9,046)	(4,005)	(3,621)	(883)	(1,523)	(220)	2,105	(764)	(2,320)	(44)	28	(2,809)	(177)	(2,489)	(143)	0	1,389
Total other adjustments (one-off items)[1]	**0**	**4,172**	**4,172**	**4,172**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Income tax	**3,147**	**(28,960)**	**(25,813)**	**(25,857)**	**1,373**	**4,507**	**1,918**	**(5,729)**	**(100)**	**9**	**1,256**	**(489)**	**1**	**(1,663)**	**100**	**(907)**	**(856)**	**2,096**	**(1,762)**
Total Assets	**10,718,848**	**0**	**10,718,848**	**6,774,200**	**4,651,454**	**514,491**	**292,882**	**1,778,326**	**646,042**	**119,224**	**649,870**	**450,819**	**199,800**	**655,859**	**395,233**	**14,116**	**246,510**	**1,410,729**	**(2,773,394)**
Total Liabilities	**9,485,189**	**0**	**9,485,189**	**5,563,251**	**4,142,684**	**423,514**	**327,685**	**1,524,857**	**599,376**	**89,847**	**580,307**	**420,389**	**176,709**	**520,898**	**371,201**	**4,775**	**144,922**	**731,090**	**(1,472,734)**

( ) used at: provisions, impairment and expenses

[1] One-off items consist of: revaluation result of FX swap at OTP Core in the amount of HUF (679) million and the result of the treasury share swap agreement in the amount of HUF 4,851 million.

NOTE 43: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2016

1) Term Note Program

See details in Note 16.

2) Agreement on purchasing unit of AXA Bank Hungary

According to the announcement published on 3 February 2016, AXA Bank Europe SA and OTP 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 the 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.

Following the decision of the Hungarian Competition Authority, on 2 August 2016 the NBH has granted permission for the transfer of the Hungarian business unit – as defined in the business transfer agreement – of AXA Bank to the Bank. as at 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 the Bank.

3) Agreement between the Visa Inc. and the Visa Europe

On 2 November 2015 Visa Inc. and Visa Europe Limited reached an agreement on the purchase of the shares of Visa Europe (owned by European banks) by Visa Inc. In the second quarter the proceeds after the sale of the Group members' stake in Visa Europe has been transferred and exceeded the amount that was flagged (according to Visa's notification on15 December 2015). The cash transfer affected five group members: the Bank, DSK Bank EAD, OTP Bank Romania S.A., OTP banka Hrvatska d.d. and OTP Banka Slovensko a.s.. The after tax impact of the transaction represented HUF 13.2 billion (HUF 15.9 billion before tax) which included the realized cash transfer (HUF 9.6 billion after tax) and the discounted present values of deferred earn-out components due in 3 years and the C-type VISA Inc. shares (HUF 0.8 billion and HUF 2.8 billion respectively).

NOTE 44: POST BALANCE SHEET EVENTS

There were no significant events after the balance sheet date.

NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'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 EU added to the existing risks ("Brexit"). 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.

NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

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 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 in on the rise, suggesting that the private sector may become net borrower by the 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 three-month 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.

Russia is emerging slowly from the recession of recent years. GDP contracted by 0.6% in the second quarter of 2016. Economic growth is characterized by a sectorial duality. The weaker currency and rising oil production coupled with stabilizing oil prices contribute to higher industrial production. On the other hand, falling real income and tight credit conditions lead to further decline in consumption and investments in 2016. The rouble reached its weakest level in January 2016 (near 86 against the USD); since then it remained in the range of 65-67. The stabilization of the currency and subdued domestic demand contribute to disinflation; annual inflation fell from 15.6% in 2015 to 7.2% by July 2016. The Central Bank of Russia pursues a moderately tight monetary policy to ensure that inflation converges to its 4% target. Therefore, the forward-looking real interest rate is kept at a high level; this policy allowed one 50 bps rate cut in 2016 so far, to 10.5%. The falling oil price raised the budget deficit and reduced the current account surplus. The federal deficit may still remain near 3% of GDP owing to rising non-oil revenues and restrained spending. The current account surplus fell to USD 16 billion in the first half of 2016, which is just one-third of the surplus in the respective period of last year. However, capital outflows slowed down considerably, which ensured a stable external financing position.

NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

Ukraine's economy slowly stabilized in the first half of 2016, but the geopolitical risks are still high. GDP grew by 0.1% year-over-year in the first quarter, and the economy improved further in the second quarter, thanks to the increasing consumption and constructions sector. In the second quarter GDP grew by 1.3% year-over-year, which is equivalent of a 0.6% increase quarter-on-quarter. In the first half of 2016 industrial production grew by 1.7%, retail sales by 1.1% and construction by 2.3% year-over-year. Inflation slowed from 43.3% in December 2015 to 7.9% in July 2016 due to the fading of last year's base effects, low domestic demand, and the stabilizing inflation expectations. Due to the rapid fall in inflation, the National Bank of Ukraine ("NBU") cut its base rate from 22% to 15.5%. The hryvnia depreciated against the USD by 20% in the first quarter, but in the second quarter it appreciated from 26.2 to 24.8 due to the low inflation pressure and the high base rate. Utilizing the appreciation pressure on the hryvnia, the NBU bought foreign currency on the market in order to replenish its foreign exchange reserves. In the second quarter the central bank relaxed some of its FX restrictions and it may abolish all of them if its FX reserves reach USD 20 billion (expectedly at the end of 2016).

There has been no progress in the International Monetary Fund ("IMF") programme since October 2015. After the parliament approved the government budget for 2016, it seemed realistic that the IMF would disburse the next tranche, but it was delayed again because of corruption scandals. A number of Ukrainian politicians said that Ukraine did not need the IMF money immediately, because the NBU could replenish its FX reserves through the market.

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 the 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 ("FGS") 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 FGS, of which OTP's share represented HUF 23.4 billion.

Under the **Romanian** CHF mortgage loan conversion programme that started on 9 December 2015 and will close technically on 31 August 2016, by the end of June 2016 the conversion has been completed at around 71% of the eligible clients (i.e. close to 7,000 individual contracts were involved).

On 13 May 2016 the amendment on the foreclosure law came into effect in Romania. The law enables mortgage borrowers to hand back the real estate serving as collateral behind the mortgage loan in exchange for discharge of the total mortgage loan obligation even if the value of the collateral does not cover the total payment obligations arising from the loan contract. By 30 June there were around 180 client applications (with a gross loan volume of RON 51 million). The number of applications is far below the original expectations since the partial debt forgiveness offered under the CHF mortgage loan conversion programme reduced the LTV (loan-to-value effect) ratio of eligible clients.

In **Croatia** the conversion programme of retail loans (from CHF into EUR) has been started in the fourth quarter of 2015 in line with the relevant Act. by 30 June 2016 the participation rate of eligible clients reached around 95% and 86% of the eligible portfolio has already been converted.