OTP BANK PLC.

SEPARATE FINANCIAL
STATEMENTS IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY
THE EUROPEAN UNION AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
31 DECEMBER 2016

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and the Board of Directors of OTP Bank Plc.

Opinion

We have audited the separate financial statements of OTP Bank Plc. (the „Bank") for the year 2016 which comprise the separate statement of financial position as at December 31, 2016 – which shows total assets of HUF 7,251,756 million – and the related separate statement of recognized income, separate statement of comprehensive income – which shows a net profit for the year of HUF 172,378 million –, the separate statement of changes in shareholders' equity and separate statement of cash-flows for the year then ended, and the notes to the separate financial statements including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of OTP Bank Plc. as at December 31, 2016, and its financial performance and its cash-flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for the opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The auditor's responsibilities for the audit of the separate financial statements*" section of our report.

We are independent of the Bank in compliance with the Hungarian ethical requirements pertaining to our audit of the separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Impairment of loan receivables	
(See notes 8., 23., and 27.1. of the notes to the separate financial statements for the details) The net value of loans to customers in an amount of HUF 1,902,937 million comprise 26.2% of the total assets (gross book value of HUF 1,988,117 million), the relevant impairment charge recorded in the current year was HUF 13,632 million. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific impairment of loans. The most significant assumptions applied in provisioning calculation are the following - valuation of collaterals, - estimated time to realize collaterals, - probability of default, - estimation of future cash-flows expected to be realized. Based on the significance of the above described circumstances the calculation of impairment of loan receivables was considered as a key audit matter.	The relevant audit procedures performed by us included the following: - evaluating internal controls relating to monitoring of loans and calculating and recording of impairment, - sample based testing of specific loan impairments, including the review of consideration and valuation of collaterals and estimations of expected future cash-flows, - assessing the appropriateness of collective provisioning models, and review of the assumptions and management estimates applied and parameters, including comparison with historical data, and recalculation of impairment charge with the involvement of our experts.

Key audit matter	How our audit addressed the matter
Valuation of investments	
(See note 9. of the notes to the separate financial statements for the details) The Bank performed several acquisitions in prior years, and as a result of these acquisitions a net amount of HUF 668,869 million investments presented in the separate statement of financial position. As required by the applicable accounting standards, management conducts regular impairment tests (at least annually) to assess whether there is a need to record impairment with respect to the investments. The Bank applies the DCF (discounted cash-flow) and the EVA (economic value added) methods to determine the recoverable amounts in the impairment tests. These methods are based on several material assumptions and the professional judgement of management (e.g. discount rates applied, growth rates, cost levels, future risk costs, fx rates, etc). Accordingly, the valuation of investments is considered to be a key audit matter.	In our audit procedures on the impairment test of investments we focused on the assessing of the appropriateness of the assumptions applied by management. We reviewed the valuation models applied by management together with the applied assumptions with the involvement of our valuation experts. We examined whether the plans are in accordance with historical results, and performed sensitivity analysis on the key parameters of the models when needed. We also audited the appropriate application of the relevant accounting standards, the related journal entries and disclosures.

Key audit matter	How our audit addressed the matter
Valuation of complex financial instruments (including derivatives) and application of hedge accounting	
(See note 38. of the notes to the separate financial statements for the details) The Bank has several complex financial instruments (including derivatives) of which valuation is based on complex models, and the valuation also involves significant management estimates. The input data used in the valuation models are based on market prices and also other market based and non-market based information. The most significant input data applied by the Bank in its fair valuation models are the estimations of forward rates and estimation of yield curves using financial-mathematical models, which inputs are used by the Bank to value derivatives and complex derivatives to manage market risks (foreign exchange risks, interest rate risks, etc.). The recognition and valuation of transactions under hedge accounting in accordance with the Bank's risk management strategy, together with the required assessment of hedge effectiveness is also an area of high complexity. Based on the significance of the above described circumstances the valuation of financial instruments and the hedge accounting were considered as a key audit matter.	We tested the operating effectiveness of the key internal controls implemented by the Bank relating to fair value measurement of financial instruments. We analyzed the appropriateness of the valuation models applied by the Bank, tested the accuracy of input data and the applied assumptions including any management estimates and financial-mathematical models. We tested the fair value measurement of the financial instruments on a sample basis, and examined whether their accounting is in line with the applicable accounting standards. We reviewed the hedge documentation (which includes the risk management strategy) of the transactions involved in hedge accounting, together with the assessment of hedge effectiveness and their accounting treatment, whether it is in line with the applicable accounting standards. We also examined whether the disclosures relating to financial instruments are appropriate.

Other information

Management is responsible for the other information. Other information comprises the information included in the sections called "Management's Analysis" and "Corporate Governance" of the annual report which we obtained prior to the date of this auditors' report and the sections called "Message to the shareholders" and "Macroeconomic and financial environment in 2016" of the annual report which are expected to be made available to us after that date, but does not include the separate financial statements and our auditor's report thereon. Our opinion on the separate financial statements provided in the section of our report entitled "Opinion" does not apply to the other information and we do not express any form of assurance conclusion thereon.

Our responsibility in connection with our audit of the separate financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Based on the information obtained about the Group and its environment, we must report on whether we became aware of any material misstatements in the other information that we obtained prior to the date of this auditor's report and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the sections of the annual report that were not yet made available to us until the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

The auditor's responsibilities for the audit of the separate financial statements

Our objectives during the audit are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Bank's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is the signatory of the report.

Budapest, March 16, 2017

Nagyváradiné Szépfalvi Zsuzsanna

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.

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OTP BANK PLC.
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016
(in HUF mn)

	Note	2016	2015
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	928,846	1,326,197
Placements with other banks, net of allowance for placement losses	*5.*	915,654	647,724
Financial assets at fair value through profit or loss	*6.*	271,516	252,140
Securities available-for-sale	*7.*	1,484,522	1,462,660
Loans, net of allowance for loan losses	*8.*	1,902,937	1,679,184
Investments in subsidiaries, associates and other investments	*9.*	668,869	657,531
Securities held-to-maturity	*10.*	858,150	824,801
Property and equipment	*11.*	62,361	63,440
Intangible assets	*11.*	27,767	32,438
Investment properties	*12.*	2,267	2,294
Other assets	*13.*	128,867	147,967
TOTAL ASSETS		**7,251,756**	**7,096,376**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	*14.*	646,271	829,122
Deposits from customers	*15.*	4,745,051	4,323,239
Liabilities from issued securities	*16.*	104,103	150,231
Financial liabilities at fair value through profit or loss	*17.*	96,668	144,592
Other liabilities	*18.*	336,882	300,027
Subordinated bonds and loans	*19.*	110,358	266,063
TOTAL LIABILITIES		**6,039,333**	**6,013,274**
Share capital	*20.*	28,000	28,000
Retained earnings and reserves	*21.*	1,193,132	1,064,255
Treasury shares	*22.*	(8,709)	(9,153)
TOTAL SHAREHOLDERS' EQUITY		**1,212,423**	**1,083,102**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**7,251,756**	**7,096,376**

Budapest, 16 March 2017

OTP BANK Nyrt. 1. elnök-vezérigazgató

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Dr. Sándor Csányi
Chairman and Chief Executive Officer

OTP BANK PLC.
SEPARATE STATEMENT OF RECOGNIZED INCOME FOR THE YEAR ENDED 31 DECEMBER 2016 (in HUF mn)

	Note	2016	2015
Interest Income:			
Loans		125,110	129,575
Placements with other banks, net of allowance for placement losses		102,317	151,938
Securities available-for-sale		35,766	50,655
Securities held-to-maturity		41,327	39,973
Amounts due from banks and balances with National Bank of Hungary		9,830	26,574
Rental income for operation of investment properties		60	60
Total Interest Income		**314,410**	**398,775**
Interest Expense:			
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		103,633	152,613
Deposits from customers		22,853	29,744
Liabilities from issued securities		1,329	2,091
Subordinated bonds and loans		13,721	16,686
Expenses from operation of investment properties		35	35
Total Interest Expense		**141,571**	**201,169**
NET INTEREST INCOME		**172,839**	**197,606**
Provision for impairment on loan and placement losses	*5.,8.,23.*	13,632	39,548
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**159,207**	**158,058**
Income from fees and commissions	*24.*	189,731	186,030
Expenses from fees and commissions	*24.*	26,254	24,304
Net profit from fees and commissions		**163,477**	**161,726**
Foreign exchange gains		5,075	13,698
Gains on securities, net		44,999	24,398
Gains on derivative instruments, net	*37.*	656	1,523
Dividend income	*9.*	90,467	58,597
Other operating income	*25.*	8,583	8,713
Net other operating expenses	*25.*	(28,851)	(131,179)
-from this: provision for impairment on investments in subsidiaries	*9.*	*(48,136)*	*(47,470)*
-from this: release of provision on contingent liabilities due to regulations related to customer loans	*25.*	*1,598*	*42,529*
Net operating income / (expense)		**120,929**	**(24,250)**
Personnel expenses	*25.*	88,720	86,769
Depreciation and amortization	*25.*	21,872	21,320
Other administrative expenses	*25.*	139,547	141,091
Other administrative expenses		**250,139**	**249,180**
PROFIT BEFORE INCOME TAX		**193,474**	**46,354**
Income tax expense / (benefit)	*26.*	21,096	(3,291)
NET PROFIT FOR THE YEAR		**172,378**	**49,645**
Earnings per share (in HUF)			
Basic	*36.*	619	182
Diluted	*36.*	619	181

The accompanying notes to separate financial statements on pages 8 to 89 form an integral part of these separate financial statements.

OTP BANK PLC.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016 (in HUF mn)

	Note	2016	2015
NET PROFIT FOR THE YEAR		**172,378**	**49,645**
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of securities available-for-sale		1,951	(9,970)
Deferred tax (19%) related to securities available-for-sale	*26.*	(371)	1,894
Effect of the tax rate-modification related to securities available-for-sale (19%→9%)	*26.*	5,758	-
Total		**7,338**	**(8,076)**
NET COMPREHENSIVE INCOME		**179,716**	**41,569**

OTP BANK PLC.
SEPARATE STATEMENT OF CASH-FLOWS FOR THE YEAR ENDED
31 DECEMBER 2016 (in HUF mn)

	Note	2016	2015
OPERATING ACTIVITIES			
Profit before income tax		193,474	46,354
Depreciation and amortization		21,907	21,355
Provision for impairment on loan and placement losses	*5.,8.,23*	13,632	39,548
Provision for impairment on investments in subsidiaries	*9.*	48,136	47,470
(Release of provision) / provision for impairment on other assets	*13.*	(669)	2,141
Release of provision on off-balance sheet commitments and contingent liabilities	*18.*	(36,114)	(4,185)
Share-based payment	*29.*	3,530	3,810
Unrealised losses on fair value adjustment of securities available-for-sale and held for trading		(9,970)	(12,096)
Unrealised losses on fair value adjustment of derivative financial instruments		(14)	(13,701)
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		(77,004)	4,452
Changes in financial liabilities at fair value through profit or loss		36,932	(32,611)
Net (increase) / decrease in loans, net of allowance for loan losses		(248,936)	100,464
Decrease / (increase) in other assets, excluding advances for investments and before provisions for losses		3,772	(43,682)
Net increase in deposits from customers		421,812	88,089
Increase in other liabilities		49,790	56,111
Net decrease in the compulsory reserve established by the National Bank of Hungary		38,759	47,712
Dividends received		(90,467)	(58,597)
Income tax paid		(264)	(3,823)
Net cash provided by operating activities		**368,306**	**288,811**
Interest received		301,157	390,187
Interest paid		(142,779)	(199,393)
INVESTING ACTIVITIES			
Net (increase) / decrease in placements with other banks before allowance for placement losses		(267,933)	64,385
Purchase securities available-for-sale		(405,226)	(652,482)
Proceeds from sale of securities available-for-sale		385,345	404,592
Increase in investments in subsidiaries		(59,474)	(100,792)
Decrease in investments in subsidiaries		-	-
Dividends received		90,260	58,597
Purchases of securities held-to-maturity		(77,354)	(229,114)
Decrease in securities held-to-maturity		46,974	70,395
Purchases of property, equipment and intangible assets		(30,906)	(37,510)
Proceeds from disposal to property, equipment and intangible assets		11,907	17,306
Net decrease in advances for investments included in other assets		5	3
Net cash used in investing activities		**(306,402)**	**(404,620)**

31 DECEMBER 2016 (in HUF mn) [continued]

	Note	2016	2015
FINANCING ACTIVITIES			
Net decrease in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		(182,851)	(313,369)
Cash received from issuance of securities		26,856	51,389
Cash used for redemption of issued securities		(55,284)	(63,473)
Decrease in subordinated bonds and loans		(155,705)	(28,549)
Payments to ICES holders	*21.*	(3,578)	(4,133)
Purchases of Treasury shares		12,426	24,641
Sales of Treasury shares		(16,208)	(34,093)
Dividends paid		(46,152)	(40,473)
Net cash used in financing activities		**(420,496)**	**(408,060)**
Net decrease in cash and cash equivalents		**(358,592)**	**(523,869)**
Cash and cash equivalents at the beginning of the year		**1,238,858**	**1,762,727**
Cash and cash equivalents at the end of the year		**880,266**	**1,238,858**
Analysis of cash and cash equivalents:			
Cash, amounts due from banks and balances with the National Bank of Hungary		1,326,197	1,897,778
Compulsory reserve established by the National Bank of Hungary		(87,339)	(135,051)
Cash and cash equivalents at the beginning of the year		**1,238,858**	**1,762,727**
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	928,846	1,326,197
Compulsory reserve established by the National Bank of Hungary	*4.*	(48,580)	(87,339)
Cash and cash equivalents at the end of the year		**880,266**	**1,238,858**

OTP BANK PLC.
SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016 (in HUF mn)

	Note	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve[1]	Treasury Shares	Total
Balance as at 1 January 2015		**28,000**	**52**	**20,897**	**1,104,723**	**(55,468)**	**(7,073)**	**1,091,131**
Net profit for the year		-	-	-	49,645	-	-	49,645
Other comprehensive income		-	-	-	(8,076)	-	-	(8,076)
Share-based payment	*29.*	-	-	3,810	-	-	-	3,810
Payments to ICES holders	*21.*	-	-	-	(3,356)	-	-	(3,356)
Sale of treasury shares	*22.*	-	-	-	-	-	24,641	24,641
Loss on sale of treasury shares		-	-	-	(7,372)	-	-	(7,372)
Acquisition of treasury shares	*22.*	-	-	-	-	-	(26,721)	(26,721)
Dividend for the year 2014		-	-	-	(40,600)	-	-	(40,600)
Balance as at 31 December 2015		**28,000**	**52**	**24,707**	**1,094,964**	**(55,468)**	**(9,153)**	**1,083,102**
Net profit for the year		-	-	-	172,378	-	-	172,378
Other comprehensive income		-	-	-	7,338	-	-	7,338
Share-based payment	*29.*	-	-	3,530	-	-	-	3,530
Payments to ICES holders	*21.*	-	-	-	(3,943)	-	-	(3,943)
Sale of treasury shares	*22.*	-	-	-	-	-	12,426	12,426
Loss on sale of treasury shares		-	-	-	(4,226)	-	-	(4,226)
Acquisition of treasury shares	*22.*	-	-	-	-	-	(11,982)	(11,982)
Dividend for the year 2015		-	-	-	(46,200)	-	-	(46,200)
Balance as at 31 December 2016		**28,000**	**52**	**28,237**	**1,220,311**	**(55,468)**	**(8,709)**	**1,212,423**

[1] See Note 18.

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

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

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

These financial statements were approved by the board of directors and authorised for issue on 16 March 2017.

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

	2016	2015
Domestic and foreign private and institutional investors	97%	97%
Employees	2%	2%
Treasury shares	1%	1%
Total	**100%**	**100%**

The Bank provides a full range of commercial banking services through a nationwide network of 367 branches in Hungary.

Number of the employees of the Bank:

	2016	2015
Number of employees	7,969	7,911
Average number of employees	7,836	7,940

1.2. Accounting

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

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

Some of the accounting principles prescribed for statutory purposes are different from those generally applied under International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with the IFRS EU. Certain adjustments have been made to the Bank's Hungarian separate statutory accounts (see Note 39), in order to present the separate financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").

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

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

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

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

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** – Investment Entities: Applying the Consolidation Exception – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016).
- **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"** – 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 Bank's accounting policies.

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

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- **IFRS 9 "Financial Instruments"** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

The adoption of IFRS 15 would have no significant impact on the separate financial statements.
The application of IFRS 9 might have significant impact on the Bank's financial statements, the Bank analysed the impact after the adoption of the standard by EU.

IFRS 9 "Financial Instruments" is a replacement for IAS 39 "Financial Instruments: Recognition and Measurement" contains requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting in general.

OTP Bank started its preparation for IFRS 9 during 2016 led by OTP Bank's Risk Management and Finance Divisions. The preparations cover the key challenges that the Group faces with the new standard.
The identification of gaps between its currently used methodologies and the IFRS 9 requirements in classification and measurement, impairment and hedge accounting was completed.

Classification and measurement
IFRS 9 introduces a new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements. The Bank recognizes the financial liabilities on amortized cost except in those cases when the standard requires otherwise, like derivative financial instruments which are recognized on fair value through profit or loss.
Preliminary analysis of the business models and contractual cash flows on the Bank's significant portfolios have been performed to determine products and financial instruments that will be measured at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income.

Hedge accounting
IFRS 9 introduces a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model aligns accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

Impairment
IFRS 9 introduces a new, expected-loss impairment model that requires a more timely recognition of credit losses. The standard requires entities to account for expected credit losses from the moment when financial instruments are first identified.

The use of a new, three stage model is being implemented for IFRS 9 purposes. The new impairment methodology is going to be used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses are going to be recognized. Assets where no significant increase of credit risk is identified will remain to be provisioned based on a 12-month expected loss methodology.
For purchased or originated credit-impaired financial assets the same lifetime expected loss methodology will be extended in order to be able to capture the cumulative changes in lifetime expected credit losses since the initial recognition as a credit-impaired instrument.
The Bank is considering the use of a simplified impairment approach for trade receivables, contract assets and lease receivables.

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

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

OTP Bank has started to further improve its risk management definitions, processes and methodological analysis in line with the expectations of IFRS 9. The Bank has started developing the methodology for the identification of significant increase of credit risk and the calculation of expected credit losses through the use IFRS 9 compliant risk parameters.
Based on the gap analysis and the changes in methodology the main principles regarding the IT solutions for IFRS 9 implementation have been laid down. Preliminary specifications have been completed and IT implementation is set to be completed in 2017.
The quantitative impact of IFRS 9 is going to be determined in the course of 2017 when all the details of the classification and measurement and impairment methodologies become finalized.

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

- **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 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019). Relating to the adoption of the IFRS 16 Leases standard, the Bank is in a position of lessor, and doesn't expect significant impact due to the application, however detailed impact analysis has not been performed yet.
- **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 4 "Insurance contracts"** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018, or when IFRS 9 "Financial Instruments" is applied first time).
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **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).
- **Amendments to IAS 40 "Investment property"** – Transfers of Investment Property (issued on 8 December 2016, effective for annual periods beginning on or after 1 January 2018).
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration** (effective for annual periods beginning on or after 1 January 2018).

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.
According to the Bank's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

These separate financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.
The presentation of separate financial statements in conformity with IFRS requires the Management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future separate financial statements.

2.2. Foreign currency translation

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

2.3. Consolidated financial statements

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

2.4. Investments in subsidiaries, associated companies and joint ventures

Investments in subsidiaries comprise those investments where OTP Bank, through direct and indirect ownership interest, controls the investee. Control is achieved when the Bank has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.
Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.
Associated companies and joint ventures where the Bank has the ability to exercise significant influence are accounted for at cost.
Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.
OTP Bank calculates the recoverable amount as fair value (based on discounted cash-flow model) less cost of disposal. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash-generating units.
OTP Bank in its strategic plan has taken into consideration the cautious recovery of global economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities held-to-maturity

Investments in securities, traded in active market (with fixed or determinable cash-flows) are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Bank has the expressed intention and ability to hold to maturity (securities held-to-maturity) are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivables over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment.
Such securities comprise mainly securities issued by the Hungarian Government and mortgage 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. Unrealised gains and losses on held for trading securities are recognized in profit or loss and are included in the separate statement of recognized income for the period. The Bank mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income. During 2015 the Bank has switched over to FIFO[1] inventory valuation method from the weighted average method applied for securities held for trading, which had no significant impact on the separate financial statements. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, corporate bonds, shares in non-financial commercial companies, shares in investment funds, shares in venture capital funds and shares in financial institutions.

2.6.2. Derivative financial instruments

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Bank both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost its entire open derivative transactions collateralised.
OTP Bank completed a change in the calculation methodology of fair value during 2016. Before the methodology change the Bank applied the dirty net present value formula, including any interest accruing on the next interest payment date (dirty price method). Instead of the Bank changed over the clean price method, in the framework of which the clean price is calculated by subtracting the accrued interest from the dirty price. According to the current new methodology, fair value of derivative financial instruments is accounted decomposed; several components are recognized in the separate statement of recognized income according to their economic nature.
Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the separate statement of recognized income for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

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

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6.2. Derivative financial instruments [continued]

Foreign currency contracts

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

Foreign exchange swaps and interest rate swaps

The Bank enters into foreign-exchange swap and interest rate swap (IRS) transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consists of a prompt and one or more forward contracts.
Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.
Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

Cross-currency interest rate swaps

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

Equity and commodity swaps

Equity swaps obligate two parties to exchange more payments calculated with reference periodically reset rates of interest and performance of indices. A specific notional principal amount is the base of the interest calculation. The payment of index return is calculated on the basis of current market price compared to the previous market price. In case of commodity swaps payments are calculated on the basis of the strike price of a predefined commodity compared to its average market price in a period. Equity and commodity swap deals made by the Bank enables both local players to open positions in international capital markets (leading benchmark indices like S&P 500 or commodity futures like WTI Light Crude Oil), without facing the transaction costs of accessing these markets and international players to open positions in domestic equity instruments, without the need of funding these positions. Exposures taken from the clients are hedged on equity or future markets.

Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.
The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

Foreign exchange options

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of recognized income along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the separate statement of recognized income. The conditions of hedge accounting applied by the Bank are the following: formally 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 hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in other comprehensive income are transferred to the separate statement of recognized income and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period. The ineffective element of the hedge is charged directly to the separate statement of recognized income.
The Bank terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation.

2.8. Offsetting

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

2.9. Embedded derivatives

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

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

2.10. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale securities are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognized in other comprehensive income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realised in profit or loss for the applicable period. During 2015 the Bank has switched over to FIFO[1] inventory valuation method from the weighted average method applied for securities held for trading, which had no significant impact on the separate financial statements.
Securities available-for-sale consists of Hungarian Government bonds, interest bearing treasury bills, foreign government bonds, mortgage bonds and other securities. Other securities include shares in investment funds and venture capital funds, corporate bonds and foreign securities.

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

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.10. Securities available-for-sale [continued]

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above are measured at cost, less provision for impairment when appropriate. This exception is related only to equity instruments. Impairment on equity AFS securities is accounted only if there is a significant or prolonged decrease in the market value. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as 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 amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest becomes impaired.
According to IAS 39, initially financial assets shall be recognized at fair value which is usually equal to transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence the Bank is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values is not available on observable markets.
The amount of allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash-flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate.
Allowance for losses on loans and placements with other banks represent management assessment for potential losses in relation to these activities.
The allowances for loan and placement losses are maintained to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.
If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

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

OTP Bank applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IAS 39. If OTP Bank has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence. A loan will be written off if it has overdued or was terminated by the Bank.
The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. In these cases there is no reasonable expectation from the clients to complete contractual cash-flows therefore OTP Bank does not accrue interest income in case of partial write-off.
Loan receivables legally demanded from clients are equal to the former gross amount of the loan before the partial write-off.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the statement of financial position and the consideration received is recorded in Other liabilities or Amounts due to banks and the Hungarian Government, deposits from the National Bank of Hungary and other banks, or Deposits from customers. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the statement of financial position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement.
In the case of security lending transactions the Bank does not recognize or derecognize the securities because it is believed that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.13. Property, equipment and intangible assets

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

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

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

If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.
Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

The Bank may conclude contracts for purchasing property, equipment and intangible assets, where the purchase price is settled in foreign currency. By entering into such agreements, firm commitment in foreign currency due on a specified future date arises at the Bank.
Reducing the foreign currency risk caused by firm commitment, forward foreign currency contracts may be concluded to ensure the amount payable in foreign currency on a specified future date on one hand and to eliminate the foreign currency risk arising until settlement date of the contract on the other hand.
In the case of effective hedge the realised profit or loss of hedging instrument is stated as the part of the cost of the hedged asset as it has arisen until recognising the asset and it is tightly connecting to the purchasing.

2.14. Financial liabilities

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.15. Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the separate statement of recognized income over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.
Payments made under operating leases are charged to the separate statement of recognized income on a straight-line basis over the life of the lease terms. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.16. Treasury shares

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

2.17. Interest income and interest expense

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

2.18. Fees and Commissions

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

2.19. Dividend income

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

2.20. Income tax

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.21. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit and transactions with financial instruments. The provision on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.
The Bank recognizes a provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.22. Share-based payment and employee benefit

The Bank has applied the requirements of IFRS 2 Share-based Payment.
The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Bank has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in financial statements.

2.23. Separate statement of cash-flows

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

2.24. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.
At separate level, the Management does not separate and makes decisions based on different segments; the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the business and geographical segments.
The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, other subsidiaries, Corporate Centre.

2.25. Comparative figures

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

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

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

3.1. Impairment on loans and placements

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

3.2. Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. for correlations, volatilities, etc). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.
IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3. Provisions

Provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 18.)
A provision is recognized by the Bank when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

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

	2016	2015
Cash on hand:		
In HUF	88,244	76,320
In foreign currency	11,108	6,483
	99,352	**82,803**
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	500,225	1,200,884
In foreign currency	329,040	40,818
	829,265	**1,241,702**
Accrued interest	229	1,692
Total	**928,846**	**1,326,197**
Compulsory reserve	48,580	87,339
Rate of the compulsory reserve[1]	2%	2%

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

	2016	2015
Within one year:		
In HUF	575,564	426,484
In foreign currency	148,659	166,623
	724,223	**593,107**
Over one year		
In HUF	180,632	40,592
In foreign currency	8,519	12,736
	189,151	**53,328**
Total placements	**913,374**	**646,435**
Accrued interest	2,312	1,318
Provision for impairment on placement losses	(32)	(29)
Total	**915,654**	**647,724**

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

	2016	2015
Balance as at 1 January	**29**	**26**
Provision for the year	3	3
Balance as at 31 December	**32**	**29**

[1] From 1 December 2016 the rate is 1%.

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

Interest conditions of placements with other banks (%):

	2016	2015
Placements with other banks in HUF	0%-2.86%	2.35%-5.85%
Placements with other banks in foreign currency	-15%-7.3%	0.02%-10%
Average interest of placements with other banks	1.34%	1.43%

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

	2016	2015
Securities held for trading:		
Shares	103,537	71,779
Hungarian government interest bearing Treasury Bills	15,639	7,768
Securities issued by credit institutions	13,396	-
Government bonds	10,857	12,613
Hungarian government discounted Treasury Bills	97	366
Mortgage bonds	82	94
Other securities	3,816	510
Subtotal	**147,424**	**93,130**
Accrued interest	516	433
Total	**147,940**	**93,563**
Derivative financial instruments:		
CCIRS and mark-to-market CCIRS[1]	43,538	102,125
Interest rate swaps	38,413	33,869
Foreign currency swaps	23,385	14,352
Other derivative transactions[2]	18,240	8,231
Subtotal	**123,576**	**158,577**
Total	**271,516**	**252,140**

Interest conditions and the remaining maturities of securities held for trading are as follows:

	2016	2015
Within one year:		
variable interest	1,845	2,194
fixed interest	22,079	15,188
	23,924	**17,382**
Over one year:		
variable interest	3,111	5
fixed interest	14,037	3,614
	17,148	**3,619**
Non-interest bearing securities	106,352	72,129
Total	**147,424**	**93,130**

[1] CCIRS: Cross Currency Interest Rate Swap (See Note 2.6.2)
[2] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option (See Note 2.6.2)

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

	2016	2015
Securities held for trading denominated in HUF	89.82%	99.49%
Securities held for trading denominated in foreign currency	10.18%	0.51%
Securities held for trading total	**100%**	**100%**
Government bonds denominated in HUF	98.09%	99.35%
Government bonds denominated in foreign currency	1.91%	0.65%
Government securities total	**100%**	**100%**
Interest rates on securities held for trading	0.3%-9.5%	0.8%-10%
Average interest on securities held for trading	1.01%	2.42%

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

	2016	2015
Government bonds	1,040,541	755,627
Mortgage bonds	266,938	597,226
Other securities	163,949	81,238
- *listed securities*	*72,820*	*10,326*
in HUF	*36,348*	-
in foreign currency	*36,472*	*10,326*
- *non-listed securities*	*91,129*	*70,912*
in HUF	*48,522*	*58,800*
in foreign currency	*42,607*	*12,112*
Subtotal	**1,471,428**	**1,434,09**
Accrued interest	13,094	28,569
Securities available-for-sale total	**1,484,522**	**1,462,66**

	2016	2015
Securities available-for-sale denominated in HUF	72%	70%
Securities available-for-sale denominated in foreign currency	28%	30%
Securities available-for-sale total	**100%**	**100%**
Interest rates on securities available-for-sale denominated in HUF	1.25%-11%	2.5%-11%
Interest rates on securities available-for-sale denominated in foreign currency	0.05%-6.4%	0.58%-6.25%
Average interest on securities available-for-sale	2.51%	4.54%

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

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

	2016	2015
Within one year:		
variable interest	162,967	324,400
fixed interest	68,058	838,523
	231,025	**1,162,923**
Over one year:		
variable interest	43,631	40,624
fixed interest	1,175,497	201,128
	1,219,128	**241,752**
Non-interest bearing securities	21,275	29,416
Total	**1,471,428**	**1,434,091**

Certain fixed-rate mortgage bonds and other securities are hedged against interest rate risk. (See Note 38.)

	2016	2015
Net gain reclassified from other comprehensive income to statement of recognized income	11,723	9,818
Fair value of the hedged securities:		
Government bonds	853,804	665,228
Mortgage bonds	156,739	317,230
Corporate bonds	27,926	3,256
Total	**1,038,469**	**985,714**

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

	2016	2015
Short-term loans and promissory notes (within one year)	934,288	1,019,2
Long-term loans and promissory notes (over one year)	1,053,829	754,722
Loans gross total	**1,988,117**	**1,773,9**
Accrued interest	6,155	4,885
Provision for impairment on loan losses	(91,335)	(99,663)
Total	**1,902,937**	**1,679,1**

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

	2016	2015
In HUF	62%	51%
In foreign currency	38%	49%
Total	**100%**	**100%**

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

	2016	2015
Loans denominated in HUF, with a maturity within one year	0%-34.6%	4.9%-35%
Loans denominated in HUF, with a maturity over one year	-0.4%-37.5%	1.4%-18.5%
Loans denominated in foreign currency	-0.7%-22.3%	1.2%-10.2%
Average interest on loans denominated in HUF	8.88%	11.24%
Average interest on loans denominated in foreign currency	2.27%	2.64%

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

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

	2016		2015	
Retail loans	**631,096**	**32%**	**476,664**	**27%**
Retail consumer loans	272,530	14%	266,643	15%
Retail mortgage backed loans[1]	211,057	11%	77,960	4%
Micro and small enterprises loans	147,509	7%	132,061	8%
Corporate loans	**1,357,021**	**68%**	**1,297,298**	**73%**
Loans to medium and large corporates	1,323,220	67%	1,277,292	72%
Municipality loans	33,801	1%	20,006	1%
Total	**1,988,117**	**100%**	**1,773,962**	**100%**

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

	2016	2015
Balance as at 1 January	**99,663**	**85,397**
Provision for the year	47,249	69,926
Release of provision	(54,752)	(52,185)
Partial write-off[2]	(825)	(3,475)
Balance as at 31 December	**91,335**	**99,663**

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

	2016	2015
Provision for impairment on placement losses	3	3
Provision for impairment on loan losses	13,629	39,545
Total	**13,632**	**39,548**

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (See Note 30.)

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

	2016	2015
Investments:		
Controlling interest (subsidiaries)	1,305,273	1,245,801
Other investments	3,513	3,511
Subtotal	**1,308,786**	**1,249,312**
Provision for impairment	(639,917)	(591,781)
Total	**668,869**	**657,531**

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

[1] incl. housing loans
[2] See Note 2.11.

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

Significant subsidiaries

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

	2016		2015	
	% Held (direct/indirect)	Gross book value	% Held (direct/indirect)	Gross book value
OTP Bank JSC (Ukraine)	100%	311,390	100%	311,390
OTP Mortgage Bank Ltd.	100%	144,294	100%	144,294
OTP Bank Romania S.A. (Romania)	100%	94,085	100%	94,085
OTP banka Srbija a.d. (Serbia)	97.92%	91,159	97.92%	91,159
DSK Bank EAD (Bulgaria)	100%	86,832	100%	86,832
JSC “OTP Bank” (Russia)	97.87%	74,321	97.87%	74,321
OTP banka Hrvatska d.d. (Croatia)	100%	72,940	100%	72,940
OTP Factoring Ukraine LLC (Ukraine)	100%	70,589	-	-
Crnogorska komercijalna banka a.d. (Montenegro)	100%	58,484	100%	58,484
LLC Alliance Reserve (Russia)	100%	50,074	100%	50,074
OTP Factoring Ltd.	100%	34,011	100%	53,032
OTP Holding Malta Ltd. (Malta)	100%	32,359	100%	32,359
Balansz Real Estate Institute Fund	100%	29,151	100%	29,150
Merkantil Bank Ltd.	100%	23,241	100%	23,241
Bank Center No. 1. Ltd.	100%	21,063	100%	16,063
Inga Kettő Ltd.	100%	17,892	100%	17,892
OTP Banka Slovensko a.s. (Slovakia)	99.26%	17,125	99.26%	17,125
OTP Life Annuity Ltd.	100%	15,300	100%	15,300
Air-Invest Ltd.	100%	10,498	100%	9,698
OTP Real Estate Ltd.	100%	10,023	100%	10,023
Monicomp Ltd.	100%	9,234	100%	9,234
OTP Real Estate Leasing Ltd.	100%	7,206	100%	7,368
R.E. Four d.o.o. (Serbia)	100%	4,357	85.13%	4,357
OTP Venture Capital Fund	100%	3,000	100%	3,000
OTP Funds Servicing and Consulting Ltd.	100%	2,469	100%	2,469
PortfoLion Regional Private Equity Fund[1]	50%	2,426	50%	2,025
OTP Holding Ltd. (Cyprus)	100%	2,000	100%	2,000
OTP Hungaro-Projekt Ltd.	100%	1,954	100%	141
OTP Building Society Ltd.	100%	1,950	100%	1,950
OTP Fund Management Ltd.	100%	1,653	100%	1,653
OTP Real Estate Investment Fund Management Ltd.	100%	1,352	100%	1,352
CIL Babér Ltd.	100%	1,225	100%	1,225
OTP Financing Netherlands B.V. (the Netherlands)	100%	481	100%	481
OTP Card Factory Ltd.	100%	450	100%	450
OTP Financing Cyprus Company Limited (Cyprus)	100%	301	100%	301
Portfolion Ltd.	100%	150	100%	150
OTP Financing Malta Company Ltd. (Malta)	100%	31	100%	31
Other	-	203	-	152
Total		**1,305,273**		**1,245,801**

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

	2016	2015
Balance as at 1 January	**591,781**	**544,311**
Provision for the year	48,136	47,470
Balance as at 31 December	**639,917**	**591,781**

[1] OTP Bank has controlling interest in the entity.

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

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. The Bank prepared impairment tests of the subsidiaries based on two different net present value calculation methods that show the same result; however they represent different economical logics. On one hand is the discount cash-flow method (DCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future. Applying the EVA method was more practically than DCF method because it gives a more realistic picture about how the explicit period and the residual value can contribute to the value of the company.
The Bank, in its strategic plan, has taken into consideration the effects of the present global economic situation, the cautious recovery of economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

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

	2016	**2015**
OTP Bank JSC (Ukraine)	270,105	270,104
OTP Mortgage Bank Ltd.	117,294	117,294
OTP Factoring Ukraine LLC (Ukraine)	68,172	-
OTP banka Srbija a.d. (Serbia)	63,233	63,233
OTP Factoring Ltd.	32,600	51,621
Crnogorska komercijalna banka a.d. (Montenegro)	26,714	26,714
Merkantil Bank Ltd.	21,641	21,641
OTP banka Hrvatska d.d. (Croatia)	9,232	9,232
OTP Real Estate Leasing Ltd.	7,206	7,368
Total	**616,197**	**567,207**

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

	2016	**2015**
DSK Bank EAD (Bulgaria)	51,483	43,822
OTP Mortgage Bank Ltd.	30,960	-
OTP Holding Ltd. (Cyprus)	3,604	3,700
OTP Fund Management Ltd.	475	5,343
OTP Building Society Ltd.	140	900
Other	807	2,319
Subtotal	**87,469**	**56,084**
Dividend from shares held-for-trading	2,998	2,513
Total	**90,467**	**58,597**

Significant associates and joint ventures

The main figures of the Bank's indirectly owned associates and joint ventures at cost[1]:

As at 31 December 2016

	D-ÉG Thermoset Ltd.	**Szallas.hu Ltd.**	**Company for Cash Services LLC**	**Suzuki Pénzügyi Szolgáltató Ltd.**	**Total**
Assets	4,862	1,148	2,302	579	**8,891**
Liabilities	4,004	543	103	-	**4,650**
Shareholders' equity	858	605	2,199	579	**4,241**
Total income	4,399	2,647	1,152	2	**8,200**

[1] Based on unaudited financial statements.

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

Significant associates and joint ventures [continued]

As at 31 December 2015

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

Capital transactions in subsidiaries are as follows:

	Date of transaction	Registered capital before transaction	Registered capital after transaction	Amount of transaction
OTP Bank Romania S.A. (Romania)	7/01/2016	RON 958,252,800	RON 1,254,252,720	RON 295,999,920
OTP Bank JSC (Ukraine)	25/01/2016	UAH 3,668,186,135	UAH 6,186,023,111	UAH 2,517,836,976
Bank Center No. 1. Ltd.	23/05/2016	HUF 9,750,000,000	HUF 9,750,100,000	HUF 100,000
OTP Real Estate Leasing Ltd.	16/02/2017	HUF 164,000,000	HUF 214,000,000	HUF 50,000,000

On 3 February 2016 OTP Bank announces that AXA Bank Europe SA and OTP Bank signed an agreement on purchasing the business unit of AXA Bank Hungary. The purchase agreement includes the take-over of the retail credits and savings, as well as the corporate portfolio and the employees of AXA Bank, which meant 250 people. 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 increased with 18%.
On 2 August 2016 following the decision of the Hungarian Competition Authority, the National Bank of Hungary has granted permission as well for the transfer of the Hungarian business unit – as defined in the business transfer agreement – of AXA Bank to OTP Bank as of 31 October 2016 based on the business transfer agreement concluded on 2 February 2016 among AXA Bank Europe SA, the Hungarian Branch Office of AXA Bank Europe SA and OTP Bank, which transfer was completed as at 1 November 2016.
Nearly, whole loan portfolio taken over consists of mortgage backed loans; HUF 162 billion performing and HUF 15 billion 90^{+} days past due mortgage backed loans in net value as at 1 November 2016. Book value of deposit portfolio taken over from AXA Bank was HUF 60 billion as at 31 December 2016; from that HUF 51 billion is in retail segment. The costs related to the taken-over of AXA Hungarian business unit was HUF 640 million in the fourth quarter of 2016 which included mainly personnel costs. Due to the transaction neither goodwill nor badwill was recognized.

OTP banka Hrvatska, the Croatian subsidiary of OTP Bank, signed an acquisition agreement on purchasing 100% shareholding of Splitska Banka, member of Société Générale Group.
Societe Generale Splitska is the fifth biggest player on the Croatian banking market and as a universal bank it has been active in the retail and corporate segment as well. As a result of the acquisition the market share of OTP Group will rise to approximately 10%.
OTP Bank has been present in Croatia since 2005 and its operation has been continuously profitable even during the economic crisis started in 2008. The financial closure of the transaction is expected in the summer 2017, whereas the integration process may be completed by summer 2018.

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

	2016	2015
Government bonds	837,256	803,802
Mortgage bonds	4,778	4,758
Subtotal	**842,034**	**808,560**
Accrued interest	16,116	16,241
Total	**858,150**	**824,801**

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

	2016	2015
Within one year:		
variable interest	-	3,339
fixed interest	84,953	386,238
	84,953	**389,577**
Over one year:		
fixed interest	757,081	418,983
	757,081	**418,983**
Total	**842,034**	**808,560**

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

	2016	2015
Securities held-to-maturity denominated in HUF	100%	100%
Securities held-to-maturity total	**100%**	**100%**
Interest rates on securities held-to-maturity	2.5%-9.48%	2.75%-9.48%
Average interest on securities held-to-maturity denominated in HUF	5.01%	5.9%

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

For the year ended 31 December 2016

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**131,539**	**69,019**	**67,925**	**3,017**	**271,500**
Additions	18,263	3,204	6,841	9,087	37,395
Disposals	(36,906)	(2,571)	(4,321)	(9,366)	(53,164)
Balance as at 31 December	**112,896**	**69,652**	**70,445**	**2,738**	**255,731**
Depreciation and Amortization					
Balance as at 1 January	**99,101**	**20,061**	**56,460**	**-**	**175,622**
Charge for the year	13,046	1,815	7,011	-	21,872
Disposals	(27,018)	(927)	(3,946)	-	(31,891)
Balance as at 31 December	**85,129**	**20,949**	**59,525**	**-**	**165,603**
Net book value					
Balance as at 1 January	**32,438**	**48,958**	**11,465**	**3,017**	**95,878**
Balance as at 31 December	**27,767**	**48,703**	**10,920**	**2,738**	**90,128**

For the year ended 31 December 2015

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**154,053**	**70,828**	**69,984**	**2,005**	**296,870**
Additions	21,440	4,554	2,819	5,594	34,407
Disposals	(43,954)	(6,363)	(4,878)	(4,582)	(59,777)
Balance as at 31 December	**131,539**	**69,019**	**67,925**	**3,017**	**271,500**
Depreciation and Amortization					
Balance as at 1 January	**117,962**	**18,932**	**55,771**	**-**	**192,665**
Charge for the year	13,978	1,825	5,517	-	21,320
Disposals	(32,839)	(696)	(4,828)	-	(38,363)
Balance as at 31 December	**99,101**	**20,061**	**56,460**	**-**	**175,622**
Net book value					
Balance as at 1 January	**36,091**	**51,896**	**14,213**	**2,005**	**104,205**
Balance as at 31 December	**32,438**	**48,958**	**11,465**	**3,017**	**95,878**

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

For the year ended 31 December 2016 and 2015

	2016	2015
Cost		
Balance as at 1 January	**2,803**	**-**
Additions	8	2,803
Disposals	-	-
Balance as at 31 December	**2,811**	**2,803**
Depreciation and Amortization		
Balance as at 1 January	**509**	**-**
Charge for the year	35	509
Disposals	-	-
Balance as at 31 December	**544**	**509**
Net book value		
Balance as at 1 January	**2,294**	**-**
Balance as at 31 December	**2,267**	**2,294**

The depreciable amount (book value less residual value) of the investment properties must be allocated over their useful lives. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets based on the 1-2% annual percentages.

Incomes and expenses	**2016**	**2015**
Rental income	60	60

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

	2016	2015
Deferred tax assets[2]	27,603	41,905
Prepayments and accrued income	26,609	19,319
Receivables from card operations	16,572	7,865
Credits sold under deferred payment scheme	13,591	2
Receivables from OTP Mortgage Bank Ltd.[3]	10,276	13,734
Fair value of derivative financial instruments designated as fair value hedge	7,886	33,768
Receivables from investment services	5,634	8,769
Due from Hungarian Government from interest subsidies	4,273	1,197
Trade receivables	3,883	3,778
Stock exchange deals	2,731	2,048
Other advances	1,808	2,871
Advances for securities and investments	626	631
Inventories	567	457
Current income tax receivable	400	11,381
Other	12,212	6,792
Subtotal	**134,671**	**154,517**
Provision for impairment on other assets[4]	(5,804)	(6,550)
Total	**128,867**	**147,967**

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

	2016	2015
Interest rate swaps designated as fair value hedge	6,887	15,393
CCIRS designated as fair value hedge	999	18,375
Total	**7,886**	**33,768**

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

	2016	2015
Balance as at 1 January	**6,550**	**4,439**
Charge for the year	273	2,405
Release of provision	(1,019)	(294)
Balance as at 31 December	**5,804**	**6,550**

[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 26.

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

[4] Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.

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

	2016	2015
Within one year:		
In HUF	167,402	325,384
In foreign currency	115,332	165,024
	282,734	**490,408**
Over one year:		
In HUF	269,348	260,607
In foreign currency	89,873	73,648
	359,221	**334,255**
Subtotal	**641,955**	**824,663**
Accrued interest	4,316	4,459
Total[1]	**646,271**	**829,122**

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

	2016	2015
Within one year:		
In HUF	0%-0.9%	(1%)-3.6%
In foreign currency	0%-0.76%	0%-1.27%
Over one year:		
In HUF	0%-2.72%	0%-3.24%
In foreign currency	(0.1%)-10.85%	0.1%-12.13%
Average interest on amounts due to banks in HUF	2.3%	2.44%
Average interest on amounts due to banks in foreign currency	1.99%	0.59%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2016	2015
Within one year:		
In HUF	3,777,547	3,504,480
In foreign currency	936,403	782,143
	4,713,950	**4,286,623**
Over one year:		
In HUF	26,831	34,373
	26,831	**34,373**
Subtotal	**4,740,781**	**4,320,996**
Accrued interest	4,270	2,243
Total	**4,745,051**	**4,323,239**

[1] It contains the loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 Standard. See details in Note 42.

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

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

	2016	2015
Within one year in HUF	0%-9.65%	0.01%-4%
Over one year in HUF	0%-9.65%	0.01%-6.85%
In foreign currency	0%-9.7%	0.01%-10%
Average interest on deposits from customers in HUF	0.31%	0.66%
Average interest on deposits from customers in foreign currency	0.18%	0.39%

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

	2016		2015	
Retail deposits	**2,904,762**	**61%**	**2,544,375**	**59%**
Household deposits	2,372,751	50%	2,074,581	48%
Deposits micro and small enterprises	532,011	11%	469,794	11%
Corporate deposits	**1,836,019**	**39%**	**1,776,621**	**41%**
Deposits to medium and large corporates	1,425,572	30%	1,468,427	34%
Municipality deposits	410,447	9%	308,194	7%
Total	**4,740,781**	**100%**	**4,320,996**	**100%**

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

	2016	2015
Within one year:		
In HUF	18,494	11,865
In foreign currency	36,002	60,264
	54,496	**72,129**
Over one year:		
In HUF	49,432	75,185
In foreign currency	198	591
	49,630	**75,776**
Subtotal	**104,126**	**147,905**
Accrued interest	(23)	2,326
Total	**104,103**	**150,231**

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

	2016	2015
Issued securities denominated in HUF	0.01%-7%	0.01%-7%
Issued securities denominated in foreign currency	0.1%-0.8%	0.5%-3%
Average interest on issued securities denominated in HUF	1.11%	1.32%
Average interest on issued securities denominated in foreign currency	0.96%	1.42%

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

Issued securities denominated in foreign currency as at 31 December 2016 (in HUF mn):

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
1	OTP EUR 1 2016/XIII	30/12/2015	13/01/2017	EUR	25.32	7,876	0.5	fixed	
2	OTP EUR 1 2017/I	29/01/2016	12/02/2017	EUR	14.58	4,536	0.4	fixed	
3	OTP EUR 1 2017/VI	27/05/2016	10/06/2017	EUR	11.67	3,629	0.1	fixed	
4	OTP EUR 1 2017/IX	10/08/2016	24/08/2017	EUR	8.67	2,696	0.1	fixed	
5	OTP EUR 1 2017/V	15/04/2016	29/04/2017	EUR	8.59	2,673	0.2	fixed	
6	OTP EUR 1 2017/III	26/02/2016	12/03/2017	EUR	7.47	2,323	0.4	fixed	
7	OTP EUR 1 2017/VIII	01/07/2016	15/07/2017	EUR	6.78	2,110	0.1	fixed	
8	OTP EUR 1 2017/IV	18/03/2016	01/04/2017	EUR	6.47	2,011	0.2	fixed	
9	OTP_VK_USD_1_2017/III	27/05/2016	27/05/2017	USD	6.26	1,837	0.8	floating	
10	OTP EUR 1 2017/X	16/09/2016	30/09/2017	EUR	4.45	1,385	0.1	fixed	
11	OTP EUR 1 2017/II	12/02/2016	26/02/2017	EUR	4.35	1,354	0.4	fixed	
12	OTP_VK_USD_1_2017/I	29/01/2016	29/01/2017	USD	3.88	1,140	0.8	floating	
13	OTP EUR 1 2017/VII	10/06/2016	24/06/2017	EUR	3.62	1,126	0.1	fixed	
14	OTP_VK_USD_1_2017/II	18/03/2016	18/03/2017	USD	1.97	577	0.8	floating	
15	OTP_VK_USD_1_2017/IV	16/09/2016	16/09/2017	USD	1.45	427	0.8	fixed	
16	OTP 2017/Fx	19/06/2012	16/06/2017	EUR	0.78	243	indexed		hedged
17	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	192	indexed		hedged
18	OTP_VK_USD_2_2017/I	10/04/2015	10/04/2017	USD	0.29	84	1.1	floating	
	Subtotal issued securities in FX					**36,219**			
	Unamortized premium					(2)			
	Fair value hedge adjustment					(17)			
	Total					**36,200**			

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

On 30 June 2015 OTP Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 14 August 2015 the prospectus of Term Note Program and the disclosure as at 12 August 2015. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange without any obligation.

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

On 5 July 2016 OTP Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 3 August 2016 the prospectus of Term Note Program and the disclosure as at 10 August 2016. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian, Croatian and Bulgarian Stock Exchange without any obligation.

Certain structured bonds are hedged by interest rate swaps which may transfer to a transferee a fixed interest rate and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate and amount of the structure if any based on a notional amount which is equal to the notional amount of the hedged bond. In certain cases amount of the structure is hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond. The hedge is highly effective if changes in fair value or cash-flows attributable to the hedged risk during the period for which the hedge is designated are within a range of 80-125 per cent.
The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF interest rate swap ("IRS") transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulted a decrease in the interest rate and foreign exchange exposure of issued securities.

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

Issued securities denominated in HUF as at 31 December 2016 (in HUF mn)

	Name	Date of issuance		Maturity	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
1	OTP 2017/Ax	01/04/2011		31/03/2017	3,939	indexed		hedged
2	OTP 2019/Dx	22/03/2013		21/03/2019	3,845	indexed		hedged
3	OTP 2017/Bx	17/06/2011		20/06/2017	3,727	indexed		hedged
4	OTP 2020/Ex	18/06/2014		22/06/2020	3,686	indexed		hedged
5	OTP 2018/Bx	22/03/2012		22/03/2018	3,601	indexed		hedged
6	OTP 2020/RF/C	11/11/2010		05/11/2020	3,345	indexed		hedged
7	OTP 2020/Fx	10/10/2014		16/10/2020	3,257	indexed		hedged
8	OTP 2018/Cx	18/07/2012		18/07/2018	3,113	indexed		hedged
9	OTP 2017/Ex	21/12/2011		28/12/2017	3,072	indexed		hedged
10	OTP 2020/RF/A	12/07/2010		20/07/2020	3,070	indexed		hedged
11	OTP 2019/Ex	28/06/2013		24/06/2019	3,063	indexed		hedged
12	OTP 2021/RF/B	20/10/2011		25/10/2021	2,955	indexed		hedged
13	OTP 2021/RF/A	05/07/2011		13/07/2021	2,946	indexed		hedged
14	OTP 2017/Cx	19/09/2011		25/09/2017	2,838	indexed		hedged
15	OTP 2020/Gx	15/12/2014		21/12/2020	2,753	indexed		hedged
16	OTP 2018/Dx	29/10/2012		26/10/2018	2,660	indexed		hedged
17	OTP 2018/Ex	28/12/2012		28/12/2018	2,614	indexed		hedged
18	OTP 2022/RF/A	22/03/2012		23/03/2022	1,773	indexed		hedged
19	OTP 2020/RF/B	12/07/2010		20/07/2020	1,417	indexed		hedged
20	OTP 2022/RF/E	29/10/2012		31/10/2022	618	indexed		hedged
21	OTP 2021/RF/C	21/12/2011		30/12/2021	586	indexed		hedged
22	OTP 2023/RF/A	22/03/2013		24/03/2023	567	indexed		hedged
23	OTP 2022/RF/B	22/03/2012		23/03/2022	565	indexed		hedged
24	OTP 2018/Ax	03/01/2012		09/01/2018	472	indexed		hedged
25	OTP 2021/RF/D	21/12/2011		30/12/2021	392	indexed		hedged
26	OTP 2017/Dx	20/10/2011		19/10/2017	385	indexed		hedged
27	OTP 2023/Ax	22/03/2013		24/03/2023	371	indexed		hedged
28	OTP 2024/Bx	10/10/2014		16/10/2024	365	indexed		hedged
29	OTP 2019/Bx	05/10/2009	05/02/2010	14/10/2019	343	indexed		hedged
30	OTP 2022/RF/F	28/12/2012		28/12/2022	341	indexed		hedged
31	OTP 2021/Dx	21/12/2011		27/12/2021	338	indexed		hedged
32	OTP 2020/Ax	25/03/2010		30/03/2020	316	indexed		hedged
33	OTP 2020/Bx	28/06/2010		09/07/2020	305	indexed		hedged
34	OTP 2022/Dx	28/12/2012		27/12/2022	305	indexed		hedged
35	OTP 2024/Cx	15/12/2014		20/12/2024	299	indexed		hedged
36	OTP 2019/Cx	14/12/2009		20/12/2019	285	indexed		hedged
37	OTP 2021/Bx	17/06/2011		21/06/2021	284	indexed		hedged
38	OTP 2021/Cx	19/09/2011		24/09/2021	277	indexed		hedged
39	OTP 2023/Bx	28/06/2013		26/06/2023	265	indexed		hedged
40	OTP 2024/Ax	18/06/2014		21/06/2024	256	indexed		hedged
41	OTP 2021/Ax	01/04/2011		01/04/2021	256	indexed		hedged
42	OTP 2022/Ax	22/03/2012		23/03/2022	252	indexed		hedged
43	OTP 2022/Cx	29/10/2012		28/10/2022	246	indexed		hedged
44	OTP 2019/Ax	25/06/2009		01/07/2019	231	indexed		hedged
45	OTP 2022/Bx	18/07/2012		18/07/2022	230	indexed		hedged
46	OTP TBSZ6 2017/I	13/01/2012	22/06/2012	15/12/2017	223	6.5	fixed	
47	OTP 2022/RF/D	28/06/2012		28/06/2022	218	indexed		hedged
48	OTP 2020/Dx	16/12/2010		18/12/2020	207	indexed		hedged
49	OTP 2020/Cx	11/11/2010		05/11/2020	195	indexed		hedged
50	OTP 2022/RF/C	28/06/2012		28/06/2022	169	indexed		hedged
51	OTP 2021/RF/E	21/12/2011		30/12/2021	61	indexed		hedged
52	OTP OJK 2017/I	27/01/2012	13/07/2012	27/01/2017	1	7	fixed	
53	Other				226			
	Subtotal issued securities in HUF				**68,124**			
	Unamortized premium				(5,587)			
	Fair value hedge adjustment				5,389			
	Total issued securities in HUF				**67,926**			
	Accrued interest				(23)			
	Total issued securities				**104,103**			

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

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

	2016	2015
CCIRS and mark-to-market CCIRS	36,189	97,719
IRS	33,031	30,453
Foreign currency swaps	13,351	9,265
Other derivative contracts[1]	14,097	7,155
Total	**96,668**	**144,592**

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

NOTE 18: OTHER LIABILITIES[1] (in HUF mn)

	2016	2015
Financial liabilities from OTP-MOL share swap transaction[2]	98,688	66,787
Liabilities from investment services	72,101	39,399
Accrued expenses	29,448	25,664
Short term liabilities due to repurchase agreement transactions	21,488	7,452
Fair value of derivative financial instruments designated as fair value hedge	21,434	35,701
Accounts payable	17,622	20,038
Salaries and social security payable	17,426	16,817
Provision on other liabilities, off-balance sheet commitments, contingent liabilities	15,297	51,411
HUF denominated liabilities from purchase of customers with cards	12,837	5,804
Current income tax payable	7,948	6,044
Liabilities related to housing loans	6,471	1,475
Suspended liabilities	3,315	7,589
Liabilities connected to loans for collection	814	875
Giro clearing and other clearing accounts	273	6,143
Expected liabilities ordered by law related to customer loans	961	995
Other	10,759	7,833
Total	**336,882**	**300,027**

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

	2016	2015
Provision for losses on other off-balance sheet commitments and contingent liabilities	11,401	3,103
Provision for retirement pension and severance pay	1,000	1,000
Provision for litigation	362	1,112
Provision on expected liability in relation to OTP Holding Ltd. (Cyprus)	-	43,080
Provision on contingent liabilities due to regulations related to customer loans	-	1,598
Provision on other liabilities	2,534	1,518
Total	**15,297**	**51,411**

[1] Other liabilities – except financial liabilities from OTP-MOL share swap transaction, deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP-MOL share swap transaction is settled in June of each year until the maturity date. The fair value adjustment of swap transaction is HUF 67 million as at 31 December 2016. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity.

[2] On 16 April 2009, OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. On 11 July 2012 the parties amended the final maturity of the share swap agreement for 11 July 2017 until which any party can initiate cash or physical settlement of the transaction. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the loss of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity with the amount of HUF 55.5 billion and a recognition of a corresponding liability. As at 31 December 2016 and 2015 HUF 98,688 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]

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

	2016	2015
IRS	20,607	13,723
CCIRS	827	21,978
Total	**21,434**	**35,701**

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

	2016	2015
Balance as at 1 January	**51,411**	**55,596**
Provision for the year	16,460	80,329
Release of provision	(52,574)	(84,514)
Balance as at 31 December	**15,297**	**51,411**

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

	2016	2015
Within one year		
In foreign currency	-	156,481
	-	**156,481**
Over one year:		
In foreign currency	109,719	108,200
	109,719	**108,200**
Subtotal	**109,719**	**264,681**
Accrued interest	639	1,382
Total	**110,358**	**266,063**

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

	2016	2015
Subordinated bonds and loans denominated in foreign currency	2.69%	5.3%-5.9%
Average interest on subordinated bonds and loans denominated in foreign currency	6.84%	5.57%

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

Subordinated loans and bonds are detailed as follows as at 31 December 2016:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions
Subordinated bond	EUR 352.8 million	07/11/2006	Perpetual and callable bond 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)

NOTE 20: SHARE CAPITAL (in HUF mn)

	2016	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")[1]:

	2016	2015
Capital reserve	52	52
General reserve	34,287	14,123
Retained earnings	857,019	856,990
Tied-up reserve	9,506	9,785
Total	**900,864**	**880,950**

The legal reserves (general reserve and tied-up reserve) are not available for distribution. Dividend was calculated on the bases of the separate annual net profit according to HAS.
Capital reserve is the amount that the entity receives from the owners without obligation to repay it. According to HAS general reserve can be established of profit after tax and in case of loss after tax general reserve shall be used up to amount of loss or general reserve. Retained earnings are total sum of net profit or loss from previous years. Tied-up reserve contains cost of treasury shares and book value of experimental development reclassified from retained earnings in accordance with regulations of HAS.

These Financial Statements are subject to approval by the Board of Directors in the Annual General Meeting in April 2017. In 2016 the Bank paid dividend of HUF 46,200 million from the profit of the year 2015, which means HUF 165 dividend/share payment. In 2017 dividend of HUF 53,200 million are expected to be proposed by the Management from the profit of the year 2016, which means HUF 190 payable dividends by share to the shareholders.

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

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

NOTE 22: TREASURY SHARES (in HUF mn)

	2016	2015
Nominal value (ordinary shares)	126	157
Carrying value at acquisition cost	8,709	9,153

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

NOTE 22: TREASURY SHARES (in HUF mn) [continued]

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:

	2016	2015
Number of shares as at 1 January	**1,572,937**	**1,605,311**
Additions	1,750,152	5,284,354
Disposals	(2,059,627)	(5,316,728)
Number of shares as at 31 December	**1,263,462**	**1,572,937**

Change in carrying value:

	2016	2015
Balance as at 1 January	**9,153**	**7,073**
Additions	11,982	26,721
Disposals	(12,426)	(24,641)
Balance as at 31 December	**8,709**	**9,153**

NOTE 23: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF mn)

	2016	2015
Provision for impairment on loan losses		
Provision for the year	47,249	69,926
Release of provision	(54,752)	(52,185)
Provision on loan losses	21,132	21,804
Total	**13,629**	**39,545**
Provision for impairment on placement losses		
Provision for the year	3	3
Total	**3**	**3**
Provision for impairment on loan and placement losses	**13,632**	**39,548**

NOTE 24: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

	2016	2015
Income from fees and commissions:		
Deposit and account maintenance fees and commissions	78,041	76,222
Fees and commissions related to the issued bank cards	31,366	28,885
Fees and commissions related to security trading	26,154	24,919
Fees related to the cash withdrawal	21,465	21,522
Fees and commissions received from OTP Mortgage Bank Ltd.	15,890	19,112
Fees and commissions related to lending	6,639	6,766
Net fee income related to card insurance services and loan agreements	3,254	2,805
Other	6,922	5,799
Total	**189,731**	**186,030**

NOTE 24: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

	2016	2015
Expenses from fees and commissions:		
Fees and commissions related to issued bank cards	10,784	9,749
Interchange fee	4,632	3,770
Fees and commissions related to lending	4,247	3,813
Fees and commissions related to security trading	1,175	1,011
Cash withdrawal transaction fees	1,065	1,114
Fees and commissions relating to deposits	904	869
Postal fees	245	241
Insurance fees	128	216
Money market transaction fees and commissions	84	1,047
Other	2,990	2,474
Total	**26,254**	**24,304**
Net profit from fees and commissions	**163,477**	**161,726**

NOTE 25: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

	2016	2015
Other operating income:		
Fine refund by Hungarian Competition Authority[1]	3,960	-
Gains on transactions related to property activities	208	130
Income from non-financing services	5	13
Refund by the State of cancelled receivables from consumer loans converted into HUF[2]	-	6,631
Other	4,410	1,939
Total	**8,583**	**8,713**

Net other operating expenses:	**2016**	**2015**
Provision for impairment on investments in subsidiaries	48,136	47,470
Financial support for sport association and organization of public utility	8,731	13,918
Non-repayable assets contributed	921	3,183
Provision for impairment on other assets	73	2,236
Fine imposed by Competition Authority	67	18
Expenses from promissory obligation to OTP Financing Solutions B.V.	-	26,690
(Income) / expenses from regulations related to customer loans[2]	(5)	40,234
Release of provision on contingent liabilities due to regulations related to customer loans	(1,598)	(42,529)
(Release of provision) / provision for off-balance sheet commitments and contingent liabilities	(34,516)	38,344
Other	7,042	1,615
Total	**28,851**	**131,179**

[1] See Note 28.
[2] The amount is concerned for the OTP Group. In 2016 the amount of the refund is deductible from special tax of financial institutions and financial transaction duty.

NOTE 25: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

Other administrative expenses:

	2016	2015
Personnel expenses:		
Wages	59,192	59,303
Taxes related to personnel expenses	18,969	18,969
Other personnel expenses	10,559	8,497
Subtotal	**88,720**	**86,769**
Depreciation and amortization:	**21,872**	**21,320**
Other administrative expenses:		
Taxes, other than income tax[1]	76,241	84,750
Services	23,072	21,658
Administration expenses, including rental fees	22,869	21,553
Professional fees	10,671	7,639
Advertising	6,694	5,491
Subtotal	**139,547**	**141,091**
Total	**250,139**	**249,180**

NOTE 26: INCOME TAX (in HUF mn)

Until 31 December 2016 the Bank was liable for income tax at a rate of 19% of taxable income while from 1 January 2017 the Bank is liable for income tax at a rate of 9% of taxable income. Deferred tax was calculated at a rate of 9% as at 31 December 2016.

A breakdown of the income tax expense is:

	2016	2015
Current tax expense	1,772	2,386
Deferred tax expense / (income)	19,324	(5,677)
Total	**21,096**	**(3,291)**

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

	2016	2015
Balance as at 1 January	**41,905**	**33,557**
Deferred tax (expense) / income	(19,324)	5,677
Tax effect of fair value adjustment of available-for-sale securities recognized in other comprehensive income and ICES	5,022	2,671
Balance as at 31 December	**27,603**	**41,905**

[1] Special tax of financial institutions was paid by OTP Bank in the amount of HUF 11 and 24 billion for the year 2016 and 2015, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2016 financial transaction duty was paid by the Bank in the amount of HUF 47 billion.

NOTE 26: INCOME TAX (in HUF mn) [continued]

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

	2016	2015
Unused tax allowance	21,945	17,821
Tax accrual caused by negative taxable income	11,041	26,417
Refundable tax in accordance with Acts on Customer Loans	5,239	6,341
Goodwill	2,535	8,030
Repurchase agreements and security lending	1,964	4,102
Difference in reserves under HAS and IFRS	1,012	-
Amounts unenforceable by tax law	138	414
Fair value correction related to customer loans	28	80
Difference in accounting for finance leases	1	147
Deferred tax assets	**43,903**	**63,352**
Fair value adjustment of held for trading and available-for-sale securities	(6,771)	(12,432)
Provision for impairment on investments	(5,051)	-
Fair value adjustment of derivative financial instruments	(1,500)	(2,793)
Difference in depreciation and amortization	(814)	(1,962)
Effect of using effective interest rate method	(678)	(1,695)
Effect of redemption of issued securities	(625)	(2,009)
Valuation of equity instrument (ICES)	(438)	(556)
OTP-MOL share swap transaction	(423)	-
Deferred tax liabilities	**(16,300)**	**(21,447)**
Net deferred tax asset	**27,603**	**41,905**

A reconciliation of the income tax expense is as follows:

	2016	2015
Profit before income tax	193,474	46,354
Income tax at statutory tax rate (19%)	36,760	8,807
Income tax adjustments due to permanent differences are as follows:		
Permanent differences in carrying value of subsidiaries	12,589	(20,640)
Effect of the tax rate change	5,700	-
Tax refund in accordance with Acts on Customer Loans	1,102	22,755
Share-based payment	671	724
OTP-MOL share swap transaction	411	(615)
Amounts unenforceable by tax law	123	(232)
Treasury share transaction	(991)	(1,729)
Use of tax allowance in the current year	(1,919)	-
Deferred use of tax allowance	(4,124)	(11,028)
Provision on expected liability	(12,014)	8,230
Dividend income	(17,175)	(11,133)
Accounting of equity instrument (ICES)	-	(9)
Other	(37)	1,579
Income tax	**21,096**	**(3,291)**
Effective tax rate	10.9%	(7.1%)

In 2015 effective tax rate was negative because income tax and income tax adjustments are altogether negative.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

27.1. Credit risk

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

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

27.1.1 Analysis by loan types

Classification into risk classes

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

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

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

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

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

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

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

As at 31 December 2016

Loan type	DPD 0-90	DPD 91-360	DPD 360+	Total carrying amount /allowance
Placements with other banks	913,374	-	-	**913,374**
Total placements with other banks	**913,374**	**-**	**-**	**913,374**
Allowance on placements with other banks	***(32)***	-	-	***(32)***
Consumer loans	267,603	2,280	2,647	**272,530**
Mortgage and housing loans	196,602	4,480	9,975	**211,057**
Micro and small enterprises loans	145,346	1,485	678	**147,509**
Loans to medium and large corporates	1,271,632	10,103	41,485	**1,323,220**
Municipal loans	33,651	139	11	**33,801**
Gross loan portfolio total	**1,914,834**	**18,487**	**54,796**	**1,988,117**
Allowance on loans	***(38,680)***	***(10,500)***	***(42,155)***	***(91,335)***
Net portfolio total	**2,789,496**	**7,987**	**12,641**	**2,810,124**
Accrued interest				
Placements with other banks				2,312
Loans				6,155
Total accrued interest				**8,467**
Total placements with other banks				**915,654**
Total loans				**1,902,937**
Total				**2,818,591**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

As at 31 December 2015

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

The Bank's gross loan portfolio increased by 19.9% in the year ended 31 December 2016. Analysing the contribution of loan types to the loan portfolio, the share of several business lines hardly changed. The ratio of the $DPD90^-$ loans compared to the gross loan portfolio increased slightly from 96.78% to 97.47% as at 31 December 2016, while the ratio of $DPD90^+$ loans in gross loan portfolio decreased from 3.22% to 2.53%.
The Bank has a prudent provisioning policy, the coverage of loans by provision for impairment on $DPD90^+$ loans increased from 67.45% to 71.85% in the year ended 31 December 2016.

Not impaired loan portfolio

Assets, which are neither past due nor impaired, do not indicate any lowering of credit quality.

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

As at 31 December 2016

Loan type	Not past due	DPD 0-90	DPD 91-360	DPD 360+	Total
Placements with other banks	913,374	-	-	-	913,374
Consumer loans	215,875	46,400	-	-	262,275
Mortgage and housing loans	152,722	41,918	966	2,361	197,967
Micro and small enterprises loans	126,906	16,923	-	-	143,829
Loans to medium and large corporates	1,161,043	39,224	34	177	1,200,478
Municipal loans	22,566	690	129	-	23,385
Total	**2,592,486**	**145,155**	**1,129**	**2,538**	**2,741,308**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

As at 31 December 2015

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

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio decreased from 89.74% to 89.35% as at 31 December 2016 compared to 31 December 2015. The loans that are neither past due nor impaired are concentrated in the corporate business line. The ratio of the gross value of the loans past due not impaired compared to the whole portfolio increased from 2.68% to 5.13%. The loans that are past due but not impaired are concentrated in the retail business line. During collective valuation method the Bank recognizes provision for impairment on loans over a 30 day delay. Those loans which are guaranteed by state and are past due 30 days not impaired due to the state guarantee. The level of corporate loans past due but not impaired is possible because of endorsing collaterals considering during the individual evaluation. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank. Among the past due loans, the share of consumer loan type changed the most significantly in retail business line as at 31 December 2016 compared to 31 December 2015.

Loans individually assessed for provision

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

As at 31 December 2016

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off balance sheet contingent liabilities
Delay of repayment	29,386	24,088	7,409	1	1
Regularity of payment	442	119	498	-	-
Legal proceedings	47,575	45,903	8,460	60	54
Decrease of client classification	14,605	4,123	10,437	4,905	279
Loan characteristics	22,222	4,647	15,207	-	-
Business lines risks	8,193	2,981	3,985	3,644	139
Refinancing of subsidiaries portfolio	-	-	-	-	-
Cross default	35,044	15,791	9,260	185	24
Other	3,516	439	2,389	2,437	808
Corporate total	**160,983**	**98,091**	**57,645**	**11,232**	**1,305**
Delay of repayment	-	-	-	-	-
Regularity of payment	-	-	-	-	-
Legal proceedings	-	-	-	-	-
Decrease of client classification	-	-	-	-	-
Cross default	-	-	-	-	-
Other	-	-	-	-	-
Municipal total	-	-	-	-	-
Placements with other banks	-	-	-	-	-
Total	160,983	98,091	57,645	11,232	1,305

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

As at 31 December 2015

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

Regarding corporate business line in the individually rated portfolio the ratio of the carrying value of loans classified due to Business lines risks, Legal proceedings and Loan characteristics decreased significantly as at 31 December 2016 compared to 31 December 2015, while the carrying value of loans classified due to Regularity of payment increased by 229.8% as at 31 December 2016.

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

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

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

Loan portfolio by countries

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

	2016		2015	
Country	**Gross loan and placement with other banks portfolio**	**Allowance**	**Gross loan and placement with other banks portfolio**	**Allowance**
Hungary	2,251,021	53,993	1,672,842	50,229
Belgium	-	-	23,790	-
Bulgaria	68,855	831	69,848	674
Croatia	43,557	171	32,371	201
Cyprus	31,324	14,938	42,062	18,308
France	308	-	7,909	-
Germany	13,386	2	15,413	1
Luxembourg	27	-	42	-
Montenegro	26,610	6,752	41,843	15,411
Norway	2,214	-	5,438	-
Poland	2,250	5	3,250	-
Romania	194,107	5,030	216,571	5,226
Russia	110,583	2,268	68,778	3,326
Serbia	15,426	42	13,432	-
Seychelles	4,786	4,786	4,818	4,818
Slovakia	17,049	2	22,261	131
Switzerland	1,198	5	8,367	88
Ukraine	48,564	2,499	103,382	1,250
United Kingdom	42,932	-	54,952	-
United States of America	33	32	994	29
Other	27,261[1]	11	12,034[1]	-
Total	**2,901,491**	**91,367**	**2,420,397**	**99,692**

[1] Austria, Australia, Czech Republic, Denmark, Italy, the Netherlands, Turkey and others

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.2 Collaterals

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

Types of collateral		**2016**	**2015**
Mortgages		1,052,684	699,275
Guarantees and warranties		252,220	216,552
Deposit		89,859	57,353
from this:	*Cash*	*59,444*	*38,115*
	Securities	*27,867*	*16,366*
	Other	*2,548*	*2,872*
Assignment		350	570
Other		962	613
Total		**1,396,075**	**974,363**

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

Types of collateral		**2016**	**2015**
Mortgage		408,220	279,700
Guarantees and warranties		140,452	125,345
Deposit		29,643	24,486
from this:	*Cash*	*13,802*	*15,401*
	Securities	*13,684*	*6,604*
	Other	*2,157*	*2,481*
Assignment		251	351
Other		442	312
Total		**579,008**	**430,194**

The coverage level of loan portfolio to the extent of the exposures increased from 17.77% to 19.96% as at 31 December 2016, while the coverage to the total collateral value improved from 40.26% to 48.12%.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.3 Restructured loans

	2016		2015	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	5,961	2,972	11,545	4,962
Loans to medium and large corporates[1]	20,535	4,301	62,630	23,252
Micro and small enterprises loans	1,549	20	1,824	24
Total	**28,045**	**7,293**	**75,999**	**28,238**

Restructured portfolio definition

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

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

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

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

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

- independently from the date of the restructuring the following restructuring tool was applied:
  - 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, capitalisation 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] incl.: project and syndicated loans

NOTE 27: **FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

27.1. Credit risk [continued]

Financial instruments by rating categories[1]

Held-for-trading securities as at 31 December 2016

	A1	A2	A3	Ba1	Ba2	Baa1	Baa2	Baa3	Not rated	Total
Shares	31	34	31	17	-	15	16	-	103,393[2]	103,537
Government bonds	-	-	-	-	-	-	-	10,857	-	10,857
Mortgage bonds	-	-	-	82	-	-	-	-	-	82
Hungarian government discounted Treasury Bills	-	-	-	-	-	-	-	97	-	97
Hungarian government interest bearing Treasury Bills	-	-	-	-	-	-	-	15,639	-	15,639
Securities issued by credit institutions	-			1,690	11,492			-	214	13,396
Other securities	-	-	-	829	-	-	-	-	2,987	3,816
Total	**31**	**34**	**31**	**2,618**	**11,492**	**15**	**16**	**26,593**	**106,594**	**147,424**
Accrued interest										516
Total										**147,940**

Available-for-sale securities as at 31 December 2016

	A1	A2	Ba1	Baa1	Baa2	Baa3	Not rated	Total
Mortgage bonds	-	-	103,970[3]	156,739[3]	-	-	6,229	266,938
Government bonds	-	14,806	-	-	3,398	1,022,337	-	1,040,541
Other securities	1,863	-	-	-	-	1,359	160,727	163,949
Total	**1,863**	**14,806**	**103,970**	**156,739**	**3,398**	**1,023,696**	**166,956**	**1,471,428**
Accrued interest								13,094
Total								**1,484,522**

[1] Moody's ratings
[2] Corporate shares listed on Budapest Stock Exchange
[3] The whole portfolio was issued by OTP Mortgage Bank Ltd.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

Held-to-maturity securities as at 31 December 2016

	Ba1	Baa3	Total
Government bonds	-	837,256	837,256
Mortgage bonds	4,778	-	4,778
Subtotal	**4,778**	**837,256**	**842,034**
Accrued interest			16,116
Total			**858,150**

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

Country	2016	2015
Hungary	2,358,667	2,308,787
Slovakia	42,754	7,171
Poland	28,355	-
Russia	13,182	-
Austria	7,352	7,357
Luxembourg	7,169	6,444
United States of America	1,863	5,679
Germany	1,544	343
Total	**2,460,886**	**2,335,781**

27.2. Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a Value-at-Risk ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Note 33, 34 and 35, respectively.)

27.2.1 Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Bank reflects the 99% probability that the daily loss will not exceed the reported VaR.
VaR methodologies are applied to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.
The VaR of the trading portfolio can be summarized as follows (in HUF mn):

Historical VaR (99%, one-day) by risk type	Average	
	2016	2015
Foreign exchange	113	184
Interest rate	69	143
Equity instruments	2	3
Diversification	(31)	(107)
Total VaR exposure	**153**	**223**

The table shows VaR figures by asset classes. Since processes driving the value of the major asset classes are not independent (for example the depreciation of HUF against the EUR mostly coincide with the increase of the yields of Hungarian Government Bonds), a diversification impact emerges, so the overall VaR is less than the sum of the VaR of each individual asset classes.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2. Market risk [continued]

While VaR captures the Bank's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Bank to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 27.2.2 below and, for interest rate risk, in Note 27.2.3 below.

27.2.2. Foreign currency sensitivity analysis

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

	Effects to the P&L in 3 months period	
Probability	**2016**	**2015**
	In HUF billion	**In HUF billion**
1%	(12.3)	(14.6)
5%	(8.4)	(10.0)
25%	(3.5)	(4.4)
50%	(0.3)	(0.5)
25%	2.7	3.1
5%	6.9	7.8
1%	9.8	10.9

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.

27.2.3. Interest rate sensitivity analysis

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

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

The sensitivity of interest income to changes in BUBOR was analysed assuming two interest rate path scenarios:

1. HUF base rate stays unchanged and BUBOR decreases gradually to 0.2% (probable scenario)
2. HUF base rate and BUBOR decreases gradually to 0.00% (alternative scenario)

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2. Market risk [continued]

27.2.3. Interest rate sensitivity analysis [continued]

The net interest income in a one year period beginning with 1 January 2017 would be decreased by HUF 915 million (probable scenario) and HUF 3,442 million (alternative scenario) as a result of these simulations. This effect is counterbalanced by capital gains (HUF 291 million for probable scenario, HUF 648 million for alternative scenario) on the government bond portfolio held for hedging (economic).

Furthermore, the effects of an instant 10 bp parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed. The results can be summarized as follows (HUF million):

Description	2016		2015	
	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(1,435)	195	(571)	195
EUR (0.1%) parallel shift	(377)	-	(214)	-
USD 0.1% parallel shift	(74)	-	(134)	-
Total	**(1,886)**	**195**	**(919)**	**195**

27.2.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Bank uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.
The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. This scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	**2016**	**2015**
VaR (99%, one day, million HUF)	2	(3)
Stress test (million HUF)	(18)	(53)

27.2.5. Capital management

Capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.
The capital management of the Bank includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.
The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.
The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2. Market risk [continued]

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business. The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with HAS applying the current directives, rulings and indicators from 1 January 2014.
The Bank has entirely complied with the regulatory capital requirements in 2016 as well as in 2015.
The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA) is applied since 31 December 2012.

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

	2016 **Basel III**	**2015** **Basel III**
Tier 1 capital	1,022,394	831,469
Common equity Tier 1 capital (CET1)	*1,022,394*	*831,469*
Additional Tier 1 capital (AT1)	-	-
Tier 2 capital	119,069	143,721
Regulatory capital	**1,141,463**	**975,190**
Credit risk capital requirement	260,392	232,651
Market risk capital requirement	47,887	40,619
Operational risk capital requirement	21,804	20,550
Total requirement regulatory capital	**330,083**	**293,820**
Surplus capital	**811,380**	**681,370**
CET 1 ratio	24.78%	22.64%
Capital adequacy ratio	**27.66%**	**26.55%**

Basel III: Common equity Tier 1 capital (CET1): Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due to investments, adjustments due to temporary disposals
Tier 2 capital: Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals

NOTE 28: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

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

Contingent liabilities and commitments

	2016	**2015**
Commitments to extend credit	897,808	948,917
Guarantees arising from banking activities	444,501	419,210
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	*128,812*	*123,938*
Legal disputes (disputed value)	5,095	35,382
Confirmed letters of credit	139	171
Contingent liabilities ordered by law related to customer loans	-	1,598
Other	118,306	92,558
Total	**1,465,849**	**1,497,836**

Legal disputes

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

On 14 December 2016 OTP Bank announces that in the so-called „retail risk breakfast" case the Hungarian Competition Authority's decision – delivered on 19 November 2013 – imposing a fine of HUF 3.9 billion on the OTP Bank, as well as the upholding first and second instance judgments were repealed by the judgment sentenced by the Curia after the judicial review trial on 12 December, 2016. Curia has accepted the Competition Authority's position related to the definability of the alleged infringements. In February 2017 the fine was refunded for the Bank.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.
Provision due to legal disputes was HUF 362 million and HUF 1,112 million as at 31 December 2016 and 2015, respectively. (See Note 18.)

Commitments to extend credit, guarantees and letter of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

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

NOTE 28: **OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount and until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank. A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.
If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Contingent liabilities related to OTP Mortgage Bank Ltd.

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

Derivatives

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

NOTE 29: **SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn)**

The Bank Group Policy on Payments was accepted in resolution of Annual General Meeting regarding CRD IV. Directives and Act on Credit Institutions and Financial Enterprises.

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.
OTP Bank ensures the share-based payment part for the management personnel of OTP Group members.
During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with concerning EU-directives –, therefore a decision was made to cancel the share-based payment in referred countries.
Pieces of shares per capita, used for settlement of share-based quota as part of performance based payments, must be determined as quota of the total amount of share-based payments and price per share assessed by Supervisory Board[1].

The price per share for determining pieces of shares is assessed by Supervisory Board based on the average of the three previous trade day's middle rate of OTP Bank's equity shares fixed on the Budapest Stock Exchange before the date of the decision made within ten days previous to performance based payment.

[1] Until the end of 2014 Board of Directors

NOTE 29: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

At the same time, factual conditions of discounted share-based payment are determined so, that discounted share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date can be maximum HUF 4,000.
Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies. In case of the jubilee benefits both standards contain regulations.

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

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

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

	Share purchasing at a discounted price												
Year	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	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 29: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Board of Directors, relating to the year **2010** effective pieces are follows as at 31 December 2016:

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

Based on parameters accepted by Board of Directors, relating to the year **2011** effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 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	-	608,118	608,118	5,621	-

Based on parameters accepted by Board of Directors, relating to the year **2012** effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 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	-	555,845	555,845	5,658	-
Share-purchasing period started in 2016	1,221	581,377	580,156	6,568	-

Based on parameters accepted by Board of Directors, relating to the year **2013** effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 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	-	804,469	804,469	4,918	-
Share-purchasing period started in 2016	37,808	393,750	355,942	6,588	-
Share-purchasing period starting in 2017	549,909	-	-	-	-

Based on parameters accepted by Board of Directors, relating to the year **2014** effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 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	13,886	360,425	346,539	6,956	-
Share-purchasing period starting in 2017	214,392	-	-	-	-
Share-purchasing period starting in 2018	237,013	-	-	-	-

NOTE 29: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board, relating to the year **2015** effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2016	-	152,247	152,247	7,373	-
Remuneration exchanged to share provided in 2016	-	10,947	10,947	6,509	-
Share-purchasing period starting in 2017	305,613	-	-	-	-
Remuneration exchanged to share applying in 2017	21,490	-	-	-	-
Share-purchasing period starting in 2018	166,321	-	-	-	-
Remuneration exchanged to share applying in 2018	9,543	-	-	-	-
Share-purchasing period starting in 2019	204,585	-	-	-	-
Remuneration exchanged to share applying in 2019	10,671	-	-	-	-

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

In connection with shares given as a part of payments detailed in the *Direction Chief Executive about Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,530 million was recognized as expense as at 31 December 2016.

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn)

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

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

a) Loans provided to related parties

	2016	2015
OTP Mortgage Bank Ltd.	521,265	262,444
OTP Financing Malta Company Ltd. (Malta)	334,658	344,003
Merkantil Bank Ltd.	197,111	170,919
OTP Factoring Ltd.	109,288	134,220
OTP Real Estate Leasing Ltd.	22,826	23,967
JSC "OTP Bank" (Russia)	22,180	11,085
OTP Holding Malta Ltd. (Malta)	15,778	5,010
Merkantil Lease Ltd.	10,630	18,763
LLC OTP Leasing (Ukraine)	5,496	5,358
D-ÉG Thermoset Ltd.[1]	2,172	2,531
OTP banka Srbija a.d. (Serbia)	1,957	2,731
Merkantil Real Estate Leasing Ltd.	1,858	2,285
OTP Bank Romania S.A. (Romania)	-	21,125
OTP Financing Netherlands B.V. (the Netherlands)	-	7,567
Merkantil Car Ltd.	-	150
Other	8,209	6,481
Total	**1,253,428**	**1,018,639**

b) Deposits from related parties

	2016	2015
DSK Bank EAD (Bulgaria)	171,541	250,655
JSC "OTP Bank" (Russia)	71,683	25,852
OTP Funds Servicing and Consulting Ltd.	34,902	32,091
OTP Building Society Ltd.	20,822	28,122
OTP Factoring Ltd.	12,960	1,843
Merkantil Bank Ltd.	7,260	7,233
Inga Kettő Ltd.	6,850	15,368
OTP Holding Ltd./ OTP Financing Cyprus Co. Ltd. (Cyprus)	6,829	1,509
Balansz Real Estate Institute Fund	6,339	8,858
Bank Center Ltd.	6,252	6,428
OTP Financing Malta Company Ltd. (Malta)	3,165	1,253
OTP Life Annuity Ltd.	3,123	3,090
OTP Mortgage Bank Ltd.	2,597	70,597
OTP Real Estate Leasing Ltd.	2,516	1,725
OTP Financing Netherlands B. V. (the Netherlands)	1,408	1,078
Bajor-Polár Center Ltd.	1,257	-
OTP E-Biz Ltd.	1,207	-
Monicomp Ltd.	475	804
OTP banka Hrvatska d.d. (Croatia)	209	17,240
Crnogorska komercijalna banka a.d (Montenegro)	204	15,680
OTP Banka Slovensko a.s. (Slovakia)	190	39,873
OTP banka Srbija a.d. (Serbia)	104	1,079
OTP Bank Romania S.A. (Romania)	27	31,507
Other	7,255	4,083
Total	**369,175**	**565,968**

[1] Associate company

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

c) Interests received by the Bank[1]

	2016	2015
OTP Financing Malta Company Ltd. (Malta)	5,643	4,281
OTP Mortgage Bank Ltd.	5,195	5,096
Merkantil Bank Ltd.	4,069	2,884
OTP Factoring Ltd.	1,717	2,346
OTP Real Estate Leasing Ltd.	397	524
LLC OTP Leasing (Ukraine)	319	1,101
Merkantil Lease Ltd.	228	614
D-ÉG Thermoset Ltd.[2]	80	122
OTP Financing Netherlands B.V. (the Netherlands)	45	347
OTP Financing Solutions B.V. (the Netherlands)	-	4,033
OTP Holding Ltd./ OTP Financing Cyprus Co. Ltd. (Cyprus)	-	443
JSC "OTP Bank" (Russia)	-	362
Inga Kettő Ltd.	-	323
Bank Center Ltd.	-	189
OTP Leasing d.d. (Croatia)	-	86
DSK Leasing AD (Bulgaria)	-	53
OTP Factoring Slovensko a.s. (Slovakia)	-	27
Other	213	609
Total	**17,906**	**23,440**

d) Interests paid by the Bank[3]

	2016	2015
DSK Bank EAD (Bulgaria)	5,432	5,711
JSC "OTP Bank" (Russia)	2,755	456
OTP Mortgage Bank Ltd.	767	2,419
Merkantil Lease Ltd.	461	984
OTP Banka Slovensko a.s. (Slovakia)	402	1,045
OTP Funds Servicing and Consulting Ltd.	397	542
OTP Bank Romania S.A. (Romania)	352	480
OTP Building Society Ltd.	220	560
OTP banka Hrvatska d.d. (Croatia)	200	264
Balansz Real Estate Institute Fund	94	-
Bank Center Ltd.	62	38
Crnogorska komercijalna banka a.d (Montenegro)	59	133
OTP Life Annuity Ltd.	31	53
Merkantil Bank Ltd.	31	22
OTP Factoring Ltd.	6	58
OTP banka Srbija a.d. (Serbia)	-	11
Other	85	32
Total	**11,354**	**12,808**

[1] Derivatives and interest on securities are not included.
[2] Associate company
[3] Derivatives and interest on securities are not included.

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

e) Commissions received by the Bank

	2016	2015
From OTP Fund Management Ltd. in relation to trading activity	8,446	9,931
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	1,473	948
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	1,258	1,200
From Merkantil Bank Ltd. in relation to account management and activity as agent	692	757
From LLC MFO "OTP Finance" (Russia) (bank guarantee fee)	574	216
From OTP Funds Servicing and Consulting Ltd. in relation to banking	505	421
From OTP Fund Management Ltd. in relation to custody activity	175	171
From OTP Bank JSC (Ukraine) in relation to lending activity	-	1,202
Other	11	4
Total	**13,134**	**14,850**

f) Commissions paid by the Bank

	2016	2015
OTP Factoring Ltd. related to workout management	346	310
OTP Pénzügyi Pont Ltd. (agency fee in relation to trading activity)	109	50
Crnogorska komercijalna banka a.d. (Montenegro) related to loan portfolio handling	20	-
OTP Bank Romania S.A. (Romania) related to loan portfolio handling	-	177
Total	**475**	**537**

g) Transactions related to OTP Mortgage Bank Ltd.:

	2016	2015
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	15,890	19,112
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	565	1,453
The gross book value of the loans sold	565	1,453

h) Transactions related to OTP Factoring Ltd.:

	2016	2015
The gross book value of the loans sold	32,700	17,565
Provision for loan losses on the loans sold	11,799	7,453
Loans sold to OTP Factoring Ltd. without recourse (including interest)	18,710	4,992
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	2,191	5,120

The underlying mortgage rights were also transferred to OTP Factoring Ltd. The increase from 31 December 2015 to 2016 caused by purchasing unit of AXA Bank Hungary. (See Note 9.)

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

	2016	2015
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	35,767	7,202

j) Transactions related to OTP Factoring Montenegro d.o.o. (Montenegro)

	2016	2015
The gross book value of the loans sold	-	589

k) Transactions related to OTP Financing Malta Company Ltd. (Malta)

	2016	2015
The gross book value of the loans sold (including interest)	4,524	315,031
The selling price of the loans sold (including interest and premium/discount)	4,556	314,737

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

l) Transactions related to OTP Bank Romania S.A. (Romania)

	2016	2015
The gross book value of the loans sold	-	7,199
The selling price of the loans sold	-	5,512

m) Related party transactions with key management

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

Compensations	2016	2015
Short-term employee benefits	3,938	1,851
Share-based payment	2,330	2,276
Long-term employee benefits (on the basis of IAS 19)	256	290
Total	**6,524**	**4,417**

	2016	2015
Loans provided to companies owned by the Management (in the normal course of business)	47,883	24,233
Commitments to extend credit and bank guarantees	39,544	33,817
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	149	134

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned credit line "A" in the amount of HUF 142.9 and 139.3 million as at 31 December 2016 and 2015.

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

	2016	2015
Members of Board of Directors and their close family members	18	18
Members of Supervisory Board	2	2
Chief executive	-	2

The family member of a member of the Board of Directors owned AMEX Blue credit card loan in the amount of HUF 0.6 million as at 31 December 2016.

Chief executives owned AMEX Gold loading card loan in the amount of HUF 3.5 million as at 31 December 2016.

Member of Board of Directors, members of Supervisory Board and chief executives with their close family members owned AMEX Platinum credit card loan in the amount of HUF 46.8 million as at 31 December 2016.

Chief executives owned Lombard loan in the amount of HUF 24.5 million and personal loans in the amount of HUF 10 million.

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

	2016	2015
Members of Board of Directors	753	629
Members of Supervisory Board	87	72
Total	**840**	**701**

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

NOTE 31: TRUST ACTIVITIES (in HUF mn)

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

	2016	2015
Loans managed by the Bank as a trustee	35,342	37,518

NOTE 32: CONCENTRATION OF ASSETS AND LIABILITIES

	2016	2015
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	33%	43%
Securities issued by the OTP Mortgage Bank Ltd.	3.66%	8.38%

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

OTP Bank continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards OTP Bank.
Further to this obligatory reporting to the Authority, OTP Bank pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

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

NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn)

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

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

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

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

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

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

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

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash-flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash-flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash-flows are exchanged; gross loan commitments.
Such undiscounted cash-flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash-flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]

As at 31 December 2016	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	532,660	396,186	-	-	-	928,846
Placements with other banks, net of allowance for placement losses	196,129	530,373	115,334	73,818	-	915,654
Financial assets at fair value through profit or loss	8,560	15,186	11,399	5,133	85,194	125,472
Securities available-for-sale	19,716	209,158	944,343	171,035	16,803	1,361,055
Loans, net of allowance for loan losses	515,620	391,673	510,862	499,398	-	1,917,553
Investments in subsidiaries, associates and other investments	-	-	-	-	668,869	668,869
Securities held-to-maturity	25,278	58,940	287,045	439,242	-	810,505
Property and equipment	-	-	-	-	62,361	62,361
Intangible assets	-	-	-	-	27,767	27,767
Other assets[1]	89,017	4,362	27,604	-	2,267	123,250
TOTAL ASSETS	**1,386,980**	**1,605,878**	**1,896,587**	**1,188,626**	**863,261**	**6,941,332**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	239,504	47,546	292,196	67,025	-	646,271
Deposits from customers	4,042,564	674,112	13,064	15,311	-	4,745,051
Liabilities from issued securities	21,972	28,465	47,066	6,840	-	104,343
Other liabilities[1]	209,213	7,549	-	-	-	216,762
Subordinated bonds and loans	639	-	-	-	109,719[2]	110,358
TOTAL LIABILITIES	**4,513,892**	**757,672**	**352,326**	**89,176**	**109,719**	**5,822,785**
NET POSITION	**(3,126,912)**	**848,206**	**1,544,261**	**1,099,450**	**753,542**	**1,118,547**
Receivables from derivative financial instruments classified as held for trading	2,496,222	578,156	325,686	20,438	-	3,420,502
Liabilities from derivative financial instruments classified as held for trading	(2,488,101)	(566,493)	(315,703)	(23,499)	-	(3,393,796)
Net position of financial instruments classified as held for trading	***8,121***	***11,663***	***9,983***	***(3,061)***	***-***	***26,706***
Receivables from derivative financial instruments designated as fair value hedge	4,942	158,038	73,499	4,442	-	240,921
Liabilities from derivative financial instruments designated as fair value hedge	(4,356)	(156,398)	(98,096)	(4,233)	-	(263,083)
Net position of financial instruments designated as fair value hedge	***586***	***1,640***	***(24,597)***	***209***	***-***	***(22,162)***
Net position of derivative financial instruments total	**8,707**	**13,303**	**(14,614)**	**(2,852)**	**-**	**4,544**
Commitments to extend credit	159,539	531,719	171,903	34,647	-	897,808
Bank guarantees	68,144	56,001	78,586	241,770	-	444,501
Off-balance sheet commitments	**227,683**	**587,720**	**250,489**	**276,417**	**-**	**1,342,309**

[1] Derivative financial instruments designated as fair value hedge are not included.
[2] See Note 19.

NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]

As at 31 December 2015	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	1,326,197	-	-	-	-	1,326,197
Placements with other banks, net of allowance for placement losses	277,698	316,262	53,325	-	-	647,285
Financial assets at fair value through profit or loss	2,662	5,988	8,463	3,118	82,668	102,899
Securities available-for-sale	97,505	169,154	855,761	193,432	23,369	1,339,221
Loans, net of allowance for loan losses	151,068	808,714	384,408	335,073	-	1,679,263
Investments in subsidiaries, associates and other investments	-	-	-	-	657,531	657,531
Securities held-to-maturity	12,763	63,115	378,678	389,642	-	844,198
Property and equipment	-	-	-	-	63,440	63,440
Intangible assets	-	-	-	-	32,439	32,439
Other assets[1]	46,175	26,000	41,905	-	2,331	116,411
TOTAL ASSETS	**1,914,068**	**1,389,233**	**1,722,540**	**921,265**	**861,778**	**6,808,884**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	449,413	45,377	308,137	38,473	-	841,400
Deposits from customers	4,017,478	269,279	21,987	14,558	-	4,323,302
Liabilities from issued securities	31,140	50,160	33,839	34,339	-	149,478
Other liabilities[1]	152,750	134,665	-	-	-	287,415
Subordinated bonds and loans	1,382	156,560	-	-	110,566[2]	268,508
TOTAL LIABILITIES	**4,652,163**	**656,041**	**363,963**	**87,370**	**110,566**	**5,870,103**
NET POSITION	**(2,738,095)**	**733,192**	**1,358,577**	**833,895**	**751,212**	**938,781**
Receivables from derivative financial instruments classified as held for trading	2,083,466	1,035,986	597,635	21,157	-	3,738,244
Liabilities from derivative financial instruments classified as held for trading	(2,081,551)	(1,037,515)	(580,438)	(21,240)	-	(3,720,744)
Net position of financial instruments classified as held for trading	***1,915***	***(1,529)***	***17,197***	***(83)***	***-***	***17,500***
Receivables from derivative financial instruments designated as fair value hedge	40	298,739	248,950	3,074	-	550,803
Liabilities from derivative financial instruments designated as fair value hedge	-	(299,774)	(263,338)	(882)	-	(563,994)
Net position of financial instruments designated as fair value hedge	***40***	***(1,035)***	***(14,388)***	***2,192***	***-***	***(13,191)***
Net position of derivative financial instruments total	**1,955**	**(2,564)**	**2,809**	**2,109**	**-**	**4,309**
Commitments to extend credit	96,504	649,095	203,318	-	-	948,917
Bank guarantees	46,749	40,679	103,825	227,957	-	419,210
Off-balance sheet commitments	**143,253**	**689,774**	**307,143**	**227,957**	**-**	**1,368,127**

[1] Derivative financial instruments designated as fair value hedge are not included.
[2] See Note 19.

NOTE 34: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 31 December 2016

	USD	EUR	CHF	Others	Total
Assets[1]	141,154	1,348,159	51,227	124,011	1,664,551
Liabilities	(246,556)	(951,569)	(24,184)	(86,090)	(1,308,399)
Off-balance sheet assets and liabilities, net[2]	32,905	(395,626)	(24,627)	(42,920)	(430,268)
Net position	**(72,497)**	**964**	**2,416**	**(4,999)**	**(74,116)**

As at 31 December 2015

	USD	EUR	CHF	Others	Total
Assets[1]	252,582	998,181	90,558	88,994	1,430,315
Liabilities	(371,921)	(949,870)	(25,685)	(36,639)	(1,384,115)
Off-balance sheet assets and liabilities, net[2]	122,948	(197,317)	(63,111)	(48,910)	(186,390)
Net position	**3,609**	**(149,006)**	**1,762**	**3,445**	**(140,190)**

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

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn)

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

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

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

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

[1] The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.
[2] Off-balance sheet assets and liabilities, net category contains derivative instruments.

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2016	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		
ASSETS	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	**500,454**	**329,040**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**88,244**	**11,108**	**588,698**	**340,148**	**928,846**
fixed interest	500,454	329,040	-	-	-	-	-	-	-	-	-	-	500,454	329,040	**829,494**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	88,244	11,108	88,244	11,108	**99,352**
Placements with other banks, net of allowance for placement losses	**204,491**	**114,880**	**447,406**	**19,158**	**236**	**22,711**	**331**	**-**	**103,732**	**397**	**2,245**	**67**	**758,441**	**157,213**	**915,654**
fixed interest	52,403	63,610	6,315	2,060	236	9,026	331	-	103,732	-	-	-	163,017	74,696	**237,713**
variable interest	152,088	51,270	441,091	17,098	-	13,685	-	-	-	397	-	-	593,179	82,450	**675,629**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,245	67	2,245	67	**2,312**
Securities held for trading	**2,419**	**-**	**6,635**	**-**	**11,762**	**6,218**	**119**	**5,225**	**5,316**	**3,377**	**106,546**	**323**	**132,797**	**15,143**	**147,940**
fixed interest	2,419	-	6,168	-	7,273	6,218	119	5,225	5,316	3,377	-	-	21,295	14,820	**36,115**
variable interest	-	-	467	-	4,489	-	-	-	-	-	-	-	4,956	-	**4,956**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	106,546	323	106,546	323	**106,869**
Securities available-for-sale	**22,867**	**161,379**	**18,748**	**21,795**	**21,568**	**28,300**	**329,963**	**14,248**	**660,781**	**170,504**	**20,960**	**13,409**	**1,074,887**	**409,635**	**1,484,522**
fixed interest	-	-	2,624	-	21,568	28,300	329,963	14,248	660,781	170,504	-	-	1,014,936	213,052	**1,227,988**
variable interest	22,867	161,379	16,124	21,795	-	-	-	-	-	-	-	-	38,991	183,174	**222,165**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	20,960	13,409	20,960	13,409	**34,369**
Loans, net of allowance for loan losses	**452,742**	**186,528**	**336,373**	**450,871**	**194,096**	**12,917**	**73,196**	**7,244**	**141,228**	**41,587**	**4,234**	**1,921**	**1,201,869**	**701,068**	**1,902,937**
fixed interest	21,496	1,289	29,664	1,906	45,829	7,997	48,520	7,244	138,295	41,587	-	-	283,804	60,023	**343,827**
variable interest	431,246	185,239	306,709	448,965	148,267	4,920	24,676	-	2,933	-	-	-	913,831	639,124	**1,552,955**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,234	1,921	4,234	1,921	**6,155**
Securities held-to-maturity	**-**	**-**	**25,294**	**-**	**59,659**	**-**	**58,870**	**-**	**698,211**	**-**	**16,116**	**-**	**858,150**	**-**	**858,150**
fixed interest	-	-	25,294	-	59,659	-	58,870	-	698,211	-	-	-	842,034	-	**842,034**
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	16,116	-	16,116	-	**16,116**
Derivative financial instruments	**440,563**	**629,907**	**533,092**	**178,191**	**197,126**	**99,253**	**25,585**	**140,406**	**32,444**	**35,595**	**608,980**	**233,885**	**1,837,790**	**1,317,237**	**3,155,027**
fixed interest	425,320	435,139	261,919	111,266	195,635	72,291	25,585	140,406	32,444	35,595	-	-	940,903	794,697	**1,735,600**
variable interest	15,243	194,768	271,173	66,925	1,491	26,962	-	-	-	-	-	-	287,907	288,655	**576,562**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	608,980	233,885	608,980	233,885	**842,865**

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2016	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		
LIABILITIES	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**Total**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**108,512**	**89,818**	**11,522**	**96,863**	**56,802**	**6,787**	**167,346**	**5,570**	**93,546**	**5,189**	**3,338**	**978**	**441,066**	**205,205**	**646,271**
fixed interest	101,314	918	10,447	745	30,493	4,885	167,299	5,570	93,336	5,189	-	-	402,889	17,307	**420,196**
variable interest	7,198	88,900	1,075	96,118	26,309	1,902	47	-	210	-	-	-	34,839	186,920	**221,759**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,338	978	3,338	978	**4,316**
Deposits from customers	**1,320,702**	**203,198**	**371,084**	**59,357**	**119,369**	**35,865**	**5,227**	**-**	**1,988,233**	**637,746**	**4,033**	**237**	**3,808,648**	**936,403**	**4,745,051**
fixed interest	504,918	195,811	368,812	59,357	119,369	35,865	5,227	-	4,454	-	-	-	1,002,780	291,033	**1,293,813**
variable interest	815,784	7,387	2,272	-	-	-	-	-	1,983,779	637,746	-	-	2,801,835	645,133	**3,446,968**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,033	237	4,033	237	**4,270**
Liabilities from issued securities	**1**	**9,102**	**2,957**	**9,201**	**7,480**	**17,709**	**9,320**	**189**	**48,121**	**-**	**23**	**-**	**67,902**	**36,201**	**104,103**
fixed interest	1	7,963	2,957	8,212	7,480	15,800	9,320	189	48,121	-	-	-	67,879	32,164	**100,043**
variable interest	-	1,139	-	989	-	1,909	-	-	-	-	-	-	-	4,037	**4,037**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	23	-	23	-	**23**
Derivative financial instruments	**946,119**	**124,775**	**534,213**	**171,532**	**249,185**	**11,700**	**161,519**	**16,746**	**41,332**	**59,631**	**356,936**	**467,979**	**2,289,304**	**852,363**	**3,141,667**
fixed interest	740,009	119,685	313,883	56,132	248,403	2,351	161,519	16,746	41,332	59,631	-	-	1,505,146	254,545	**1,759,691**
variable interest	206,110	5,090	220,330	115,400	782	9,349	-	-	-	-	-	-	427,222	129,839	**557,061**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	356,936	467,979	356,936	467,979	**824,915**
Subordinated bonds and loans	**-**	**-**	**-**	**109,719**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**639**	**-**	**110,358**	**110,358**
variable interest	-	-	-	109,719	-	-	-	-	-	-	-	-	-	109,719	**109,719**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	639	-	639	**639**
NET POSITION	**(751,798)**	**994,841**	**447,772**	**223,343**	**51,611**	**97,338**	**144,652**	**144,618**	**(529,520)**	**(451,106)**	**482,995**	**(209,120)**	**(154,288)**	**799,914**	**645,626**

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

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

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

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

NOTE 36: EARNINGS PER SHARE

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

	2016	2015
Net profit for the year attributable to ordinary shareholders (in HUF mn)	172,378	49,645
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	278,350,340	273,524,198
Basic Earnings per share (in HUF)	**619**	**182**
Separate net profit for the year attributable to ordinary shareholders (in HUF mn)	172,378	49,645
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	278,402,662	273,739,580
Diluted Earnings per share (in HUF)	**619**	**181**

	2016	2015
	number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(1,649,670)	(6,475,812)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**278,350,340**	**273,524,198**
Dilutive effect of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares[1]	52,321	215,382
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**278,402,661**	**273,739,580**

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

NOTE 37: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2016	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	9,830	-	-	-
Placements with other banks, net of allowance for placement losses	10,461	-	(3)	-
Securities held for trading	1,027	2,210	-	-
Securities available-for-sale	35,766	44,189	-	53,662
Loans, net of allowance for loan losses	112,558	18,282	7,503	-
Securities held-to-maturity	41,327	-	-	-
Derivative financial instruments	6,869	473	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(16,050)	-	-	-
Deposits from customers	(12,897)	113,486	-	-
Liabilities from issued securities	(1,329)	-	-	-
Subordinated bonds and loans	(13,721)	-	-	-
Other	25	-	-	-
Total	**173,866**	**178,640**	**7,500**	**53,662**

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

In relating to derivative financial instruments net gains in the amount of HUF 656 million were recognized as at 31 December 2016. From this HUF 715 million in connection with CCIRS and mark-to-market CCIRS, -HUF 610 million in connection with foreign currency swaps and HUF 551 million in connection with other derivative transactions was realized.

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 38.e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

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

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

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

a) Fair value of financial assets and liabilities

	2016		2015	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Bank of Hungary	928,846	928,955	1,326,197	1,327,460
Placements with other banks, net of allowance for placement losses	915,654	926,857	647,724	666,128
Financial assets at fair value through profit or loss	271,516	271,516	252,140	252,140
Held for trading securities	*147,940*	*147,940*	*93,563*	*93,563*
Derivative financial instruments classified as held for trading	*123,576*	*123,576*	*158,577*	*158,577*
Securities available-for-sale	1,484,522	1,484,522	1,462,660	1,462,660
Loans, net of allowance for loan losses[1]	1,902,937	2,214,101	1,679,184	1,974,713
Securities held-to-maturity	858,150	937,640	824,801	883,697
Derivative financial instruments designated as hedging instruments	7,886	7,886	33,768	33,768
FINANCIAL ASSETS TOTAL	**6,369,511**	**6,771,477**	**6,226,474**	**6,600,566**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	646,271	640,636	829,122	829,150
Deposits from customers	4,745,051	4,715,975	4,323,239	4,307,291
Liabilities from issued securities	104,103	124,855	150,231	168,338
Derivative financial instruments designated as hedging instruments	21,434	21,434	35,701	35,701
Financial liabilities at fair value through profit or loss	96,668	96,668	144,592	144,592
Financial liabilities from OTP-MOL transaction	98,688	98,688	66,787	66,787
Subordinated bonds and loans	110,358	102,849	266,063	271,884
FINANCIAL LIABILITIES TOTAL	**5,822,573**	**5,801,105**	**5,815,735**	**5,823,743**

[1] Fair value of loans increased in the year ended 31 December 2016 and 2015 due to decrease of short-term and long-term interests.

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Fair value of derivative instruments

	Fair value		Notional value, net	
	2016	**2015**	**2016**	**2015**
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	38,413	33,869	35,852	40,702
Negative fair value of interest rate swaps classified as held for trading	(33,031)	(30,453)	(33,205)	(37,158)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	23,385	14,352	25,995	14,994
Negative fair value of foreign exchange swaps classified as held for trading	(13,351)	(9,265)	(13,704)	(7,615)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated in fair value hedge	6,887	15,393	9,428	7,932
Negative fair value of interest rate swaps designated in fair value hedge	(20,607)	(13,723)	(32,211)	(17,211)
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	43,206	102,125	40,066	103,253
Negative fair value of CCIRS classified as held for trading	(35,489)	(95,349)	(32,668)	(96,285)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	332	-	383	-
Negative fair value of mark-to-market CCIRS classified as held for trading	(700)	(2,370)	(665)	(2,143)
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated in fair value hedge	999	18,375	1,031	18,263
Negative fair value of CCIRS designated in fair value hedge	(827)	(21,978)	(409)	(21,872)
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	18,240	8,231	13,297	5,342
Negative fair value of other derivative contracts classified as held for trading	(14,097)	(7,155)	(8,646)	(3,900)
Derivative financial assets total	**131,462**	**192,345**	**126,052**	**190,486**
Derivative financial liabilities total	**(118,102)**	**(180,293)**	**(121,508)**	**(186,184)**
Derivative financial instruments total	**13,360**	**12,052**	**4,544**	**4,302**

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting

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

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

As at 31 December 2016

Types of the hedges	**Description of the hedging instrument**	**Fair value of the hedging instrument**	**The nature of the risk being hedged**
1) Cash-flow hedges	-	-	-
2) Fair value hedges	IRS	HUF (13,720) million	Interest rate
3) Fair value hedges	CCIRS	HUF 172 million	Interest rate / Foreign currency

As at 31 December 2015

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

d) Fair value hedges

1. **Securities available-for-sale**

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

	2016	**2015**
Fair value of the IRS hedging instruments	(19,305)	(11,266)
Fair value of the CCIRS hedging instruments	(800)	(3,668)

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

2. Loans to customers / corporates

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

	2016	2015
Fair value of the hedging IRS instruments	(4)	(165)
Fair value of the hedging CCIRS instruments	972	65

3. Issued securities

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

	2016	2015
Fair value of the hedging IRS instruments	5,589	13,101

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

As at 31 December 2016

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	**on the hedging instruments**
Securities available-for-sale	IRS	HUF 853,804 million	HUF (19,305) million	HUF 11,723 million	HUF (13,619) million
Securities available-for-sale	CCIRS	HUF 156,739 million	HUF (289) million	HUF (1,760) million	HUF 1,760 million
Loans to customers	IRS	HUF 451 million	HUF (4) million	HUF (161) million	HUF 161 million
Loans to corporates	CCIRS	HUF 58,314 million	HUF 461 million	HUF (203) million	HUF 203 million
Liabilities from issued securities	IRS	HUF 69,959 million	HUF 5,589 million	HUF 7,512 million	HUF (7,512) million

As at 31 December 2015

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

NOTE 38: 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 31 December 2016	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	271,000	131,363	139,637	-
from this: securities held for trading	*147,424*	*131,276*	*16,148*	-
from this: positive fair value of derivative financial instruments classified as held for trading	*123,576*	*87*	*123,489*	-
Securities available-for-sale	1,471,428	850,427	619,138	1,863
Positive fair value of derivative financial instruments designated as fair value hedge	7,886	-	7,886	-
Financial assets measured at fair value total	**1,750,314**	**981,790**	**766,661**	**1,863**[1]
Negative fair value of derivative financial instruments classified as held for trading	96,668	267	96,401	-
Negative fair value of derivative financial instruments designated as fair value hedge	21,434	-	21,434	-
Financial liabilities measured at fair value total	**118,102**	**267**	**117,835**	**-**

As at 31 December 2015	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	251,707	85,301	166,406	-
from this: securities held for trading	*93,130*	*85,280*	*7,850*	-
from this: positive fair value of derivative financial instruments classified as held for trading	*158,577*	*21*	*158,556*	-
Securities available-for-sale	1,434,091	670,809	757,615	5,667[2]
Positive fair value of derivative financial instruments designated as fair value hedge	33,768	-	33,768	-
Financial assets measured at fair value total	**1,719,566**	**756,110**	**957,789**	**5,667**
Negative fair value of derivative financial instruments classified as held for trading	144,592	34	144,558	-
Negative fair value of derivative financial instruments designated as fair value hedge	35,701	-	35,701	-
Financial liabilities measured at fair value total	**180,293**	**34**	**180,259**	**-**

[1] In 2016 whole portfolio includes Visa Inc. “C” preferential shares.

[2] In 2015 whole portfolio includes shares of Visa Europe. The purchase price includes three components (upfront component: cash and Visa Inc. “C” preferential shares with limited marketability; and deferred earn-out payment). The book value of the shares is valuated up to the amount of the upfront component. Sensitivity analysis is not applicable.

NOTE 39: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HAS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF mn)

	Retained Earnings and Reserves 1 January 2016	Net profit for the year ended 31 December 2016	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves as at 31 December 2016
Financial Statements in accordance with HAS	**880,950**	**201,641**	**-**	**(250)**	**1,082,341**
Premium and discount amortization of financial instruments measured at amortised cost	2,476	243	-	(166)	2,553
Effect of redemption of issued securities	10,576	(3,637)	-	-	6,939
Differences in carrying value of subsidiaries	34,115	(81)	-	250	34,284
Difference in accounting for finance leases	(774)	761	-	-	(13)
Effects of using effective interest rate method	6,445	(1,465)	-	-	4,980
Fair value adjustment of held for trading and available-for-sale financial assets	61,352	11,764	-	321	73,437
Fair value adjustment of derivative financial instruments	12,616	4,049	-	1,796	18,461
Reversal of statutory goodwill	40,596	-	-	-	40,596
Revaluation of investments denominated in foreign currency to historical cost	(8,454)	(10,307)	-	-	(18,761)
Difference in accounting of security lending	(21,589)	(239)	-	-	(21,828)
Treasury share transaction	-	4,226	-	(4,226)	-
Share-based payment	-	(3,530)	-	3,530	-
Payments to ICES holders	2,927	5,515	-	(3,578)	4,864
OTP-MOL share swap transaction	(50,831)	67	-	-	(50,764)
Receivable related to customer loans converted into HUF	6,164	(6,165)	-	-	(1)
Conversion into HUF of customer loans	(419)	105	-	-	(314)
Provision on contingent liabilities	-	(11,245)	-	-	(11,245)
Deferred taxation	41,905	(19,324)	-	5,022	27,603
Dividend paid for 2015	46,200	-	(46,200)	-	-
Financial Statements in accordance with IFRS	**1,064,255**	**172,378**	**(46,200)**	**2,699**	**1,193,132**

NOTE 40: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2016

1) Capital increase at OTP Bank Romania

See details in Note 9.

2) Capital increase at OTP Bank JSC (Ukraine)

See details in Note 9.

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

See details in Note 9.

4) Agreement on purchasing unit of AXA Bank Hungary

See details in Note 9.

5) New acquisition in Croatia

See details in Note 9.

6) Term Note Program

See details in Note 16.

NOTE 41: POST BALANCE SHEET EVENTS

1) Capital increase at OTP Real Estate Leasing Ltd.

See details in Note 9.

NOTE 42: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn)

In 2016 macroeconomic developments were still shaped by fragile global growth, intensifying fears surrounding China's slowing economy, concerns about the Brexit referendum, and the political uncertainty caused by the US presidential election. Economic growth accelerated in both the USA and the Eurozone at the end of the year. Having bottomed out in spring, commodity prices started to recover, helping inflation rise worldwide at the end of the year. The new American president's programme, which is based on tax reduction, investments into infrastructure, and more pronounced protectionist measures, and which is expected to lead to larger budget deficit, boost growth, and raise inflation, led to higher long-term yields, causing the Fed to launch a slow tightening cycle, yet the forward-looking US real interest rates may stay in negative territory until the end of next year. The same will apply to European markets, because despite the Eurozone's accelerated growth, the ECB remains committed to maintaining loose monetary conditions.

In 2016, the economic performance of Central and Southeast Europe remained convincing, mainly because the fast contraction in unemployment and the acceleration in wage dynamics have bolstered consumption, counterbalancing the fall in EU-co-financed investments. Thus the region's economic growth slowed at milder pace, from 3-4% in 2015 to near 3% annually, and this pace is likely to persist throughout 2017 and 2018.

Hungary's economy grew by 2% in 2016, after expanding by 3% in 2015 and 4% in 2014. Economic growth decelerated to 1.6% by the fourth quarter. Most of this slowing can be put down to a sharp fall in EU-co-financed investments, and a setback in industrial production. Nevertheless, growth without one-off items (EU funds and agriculture) reached 3% in 2016. The main reason for this is the faster private consumption and the continued increase in market services value added. Another encouraging sign is that in industries that are less affected by EU funds (manufacturing and market services) investments have speeded up meaningfully because of the lack of capacity; a number of industries may see double-digit annual growth. The situation is similar on the real property market, where the rising prices, and the 'catalyst effect' of the earlier announced government measures sent building permit numbers soaring, in residential and commercial properties alike. Hungary's economic growth may draw near or exceed 4% in 2017, as the favourable underlying processes are likely to continue their upturn – in the case of consumption, they will be boosted by the government's measures announced at the end of 2016 that will accelerate wages' growth in 2017 (through cutting employers' social contributions, while raising minimum wages and guaranteed minimum wages for skilled workers); besides, EU fund inflow is likely to pick up in 2017, recovering from its fall in 2016.

The balance indicators of the Hungarian economy remain promising. On a four-quarter rolling basis, the general government swung into a surplus of 0.2% of GDP by the third quarter, which would have allowed a balanced budget. In order to boost the economy, the government decided to carry out significant one-off payments in the last months of the year, thus the budget ended the year with a deficit of 1.6% of GDP. Despite the announced tax cuts, we think plenty of fiscal room is left for 2017 to remain within the 2.4% deficit target. Hungary's public debt shrank further, to around 74% of GDP by the end of 2016.

In the second half of the year inflation picked up, ending the almost-three-year-long period of near-zero inflation (-0.2% in 2014, -0.1% in 2015, and +0.3% in 2016). By the end of the year, 12-month inflation climbed to 1.8%, chiefly owing to the higher commodity prices, and also because of the increase in demand-sensitive market services prices. Even though imported inflation is likely to remain low, looking forward, inflation will oscillate around the NBH's 3% target in 2017, and we expect annual inflation to average 2.9%.

Seeing the lower-than-expected global interest rate environment, the NBH launched an easing cycle in spring 2016, lowering the three-month deposit rate from 1.35% to 0.9%. Later, under the Self-Financing Programme, the Monetary Council launched new unconventional instruments, to prevent an unwanted forint firming, and in order that the targeted yield reduction could reach the longer end of the yield curve too. The former weekly auctions were replaced by four-weekly 3M deposit auctions. Since September, the NBH has been setting a cap on 3M deposits in each quarter, while it boosts the banking system's liquidity through FX swap auctions. As a result of these measures, short-term money market interest rates sank near zero, and the 3M BUBOR rate dropped to 25 basis points.

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

From 2017 the base of the Hungarian banking tax is the adjusted balance sheet total at the actual calendar year minus two years (i.e. for the 2017 banking tax calculation the end-2015 adjusted total assets must be used). The applicable upper tax rate has been moderated to 0.21%. Furthermore, the contribution tax introduced in 2006 was entirely abolished. In 2016 its annual amount was HUF 2.0 billion.

NOTE 42: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn) [continued]

From 2016 the Government significantly eased the conditions of purchasing new and used flats and widened the range of eligible families within the framework of the **Housing Subsidy for Families** (Hungarian abbreviation: CSOK). At OTP Core the State subsidized housing loan applications increased substantially (+127% year-to-year) due to the demand generated by the Housing Subsidy for Families. Thus, within the total housing loan applications the demand for the subsidized housing loans represented 44% (versus 35% in 2015). In 2016 close to 10,500 applications were registered with a value of over HUF 34 billion. Applicants also combined CSOK with subsidized or market-based loan applications in the amount of HUF 47 billion.

The NBH launched the third phase of the Funding for Growth Scheme from the beginning of 2016. According to the data published by the NBH on 3 January 2017 the Hungarian credit institutions participating in the scheme had contracted for loans in the amount of HUF 473 billion in 2016 under the Funding Growth Scheme ("FGS"), of which OTP's share represented HUF 74 billion. In October 2016 NBH decided about applying more flexible conditions for utilizing FGS loan facilities, and also extended the deadline to draw down loans under the FGS by 6 months (until 29 June 2018). In November the Monetary Council decided to extend the closing date for conclusion of loan contracts until 31 March 2017.

Effective from 1 January 2017 the **Hungarian corporate tax rate** was cut uniformly to 9% and the move implied revaluation of deferred tax assets and liabilities at Hungarian Group members. These revaluations had a total impact of -HUF 2.7 billion stemming from two components: on one hand there was a -HUF 6.1 billion profit and loss impact booked among the adjustment items. Also, the revaluation impact booked directly against equity in the fourth quarter of 2016 is +HUF 3.4 billion. This item is owing to the revaluation of deferred tax liabilities related to the mark-to-market valuation gains of AFS securities booked directly against equity.