



OTP BANK PLC.

***CONSOLIDATED 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***

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries (together the "Group") for the year 2016 which comprise the consolidated statement of financial position as at December 31, 2016 – which shows total assets of HUF 11,307,665 million – and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net profit for the year of HUF 202,452 million –, the consolidated statement of changes in equity and the consolidated statement of cash-flows for the year then ended, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of OTP Bank Plc. and its subsidiaries 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 consolidated financial statements*" section of our report.

We are independent of the Group in compliance with the Hungarian ethical requirements pertaining to our audit of the consolidated 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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	
<p>(See notes 8., 24., and 28.1. of the notes to the consolidated financial statements for the details)</p> <p>The net value of loans to customers in an amount of HUF 5,736,232 million comprise 50.7% of the consolidated total assets (gross book value of HUF 6,639,754 million), the relevant impairment charge recorded in the current year was HUF 93,473 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:</p> <ul style="list-style-type: none"> - valuation of collaterals, - estimated time to realize collaterals, - probability of default, - estimation of future cash-flows expected to be realized. <p>Based on the significance of the above described circumstances the calculation of impairment of loan receivables was considered as a key audit matter.</p>	<p>The relevant audit procedures performed by us included the following:</p> <ul style="list-style-type: none"> - 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 goodwill	
<p>(See notes 11. and 32. of the notes to the consolidated financial statements for the details)</p> <p>The Bank performed several acquisitions in prior years, and as a result of these acquisitions a net amount of HUF 104,282 million goodwill is presented in the consolidated 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 goodwill.</p> <p>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).</p> <p>Accordingly, the valuation of goodwill is considered to be a key audit matter.</p>	<p>In our audit procedures on the impairment test of goodwill 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.</p> <p>We examined whether the plans are in accordance with historical results, and performed sensitivity analysis on the key parameters of the models when needed.</p> <p>We also audited the appropriate application of the relevant accounting standards, the related journal entries and disclosures.</p>

Key audit matter	How our audit addressed the matter
Valuation of complex financial instruments (including derivatives) and application of hedge accounting	
<p>(See note 41. of the notes to the consolidated financial statements for the details)</p> <p>The Group 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 Group 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 Group to value derivatives and complex derivatives to manage market risks (foreign exchange risks, interest rate risks, etc.).</p> <p>The recognition and valuation of transactions under hedge accounting in accordance with the Group's risk management strategy, together with the required assessment of hedge effectiveness is also an area of high complexity.</p> <p>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.</p>	<p>We tested the operating effectiveness of the key internal controls implemented by the Group relating to fair value measurement of financial instruments.</p> <p>We analyzed the appropriateness of the valuation models applied by the Group, tested the accuracy of input data and the applied assumptions including any management estimates and financial-mathematical models.</p> <p>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.</p> <p>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.</p> <p>We also examined whether the disclosures relating to financial instruments are appropriate.</p>

Other information

Other information comprises the information included in the sections called "Management's Analysis" and "Corporate Governance" of the annual report and the consolidated business report of OTP Bank Plc. and its subsidiaries for 2016 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 consolidated financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Act C of 2000 on Accounting (the "Accounting Act") and other regulations. Our opinion on the consolidated financial statements provided in the section of our report entitled "Opinion" does not apply to the other information.

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

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B (2) a)-d), g) and h) has been provided in the consolidated business report.

In our opinion, the consolidated business report of OTP Bank Plc. and its subsidiaries for 2016 corresponds to the consolidated financial statements of OTP Bank Plc. and its subsidiaries for 2016 and the consolidated business report was prepared in accordance with the provisions of the Accounting Act. The information referred to in Section 95/B (2) a)-d), g) and h) of the Accounting Act has been provided.

As the Group is not subject to additional requirements under any other regulation in connection with the consolidated business report, our opinion on the consolidated business report does not include an opinion under Section 156 (5) h) of the Accounting Act.

In addition to the above, 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives during the audit are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Group'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 consolidated 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 partners on the audit resulting in this independent auditor's report are the signatories of the report.

Budapest, March 16, 2017



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OTP BANK PLC.
CONSOLIDATED FINANCIAL STATEMENTS

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OTP BANK PLC.
CONSOLIDATED 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 Banks	4.	1,625,357	1,878,960
Placements with other banks, net of allowance for placement losses	5.	363,530	300,568
Financial assets at fair value through profit or loss	6.	293,106	253,782
Securities available-for-sale	7.	1,527,093	1,305,486
Loans, net of allowance for loan losses	8.	5,736,232	5,409,967
Associates and other investments	9.	9,836	10,028
Securities held-to-maturity	10.	1,114,227	926,677
Property and equipment	11.	193,485	193,661
Intangible assets	11.	162,031	155,809
Investment property, investment property subject to operating lease	12.	29,446	30,319
Other assets	13.	<u>253,322</u>	<u>253,591</u>
TOTAL ASSETS		<u>11,307,665</u>	<u>10,718,848</u>
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	14.	543,775	533,310
Deposits from customers	15.	8,540,583	7,984,579
Liabilities from issued securities	16.	146,900	239,376
Financial liabilities at fair value through profit or loss	17.	75,871	101,561
Other liabilities	18.	502,429	391,579
Subordinated bonds and loans	19.	<u>77,458</u>	<u>234,784</u>
TOTAL LIABILITIES		<u>9,887,016</u>	<u>9,485,189</u>
Share capital	20.	28,000	28,000
Retained earnings and reserves		1,449,478	1,261,029
Treasury shares	22.	(60,121)	(58,021)
Non-controlling interest	23.	<u>3,292</u>	<u>2,651</u>
TOTAL SHAREHOLDERS' EQUITY		<u>1,420,649</u>	<u>1,233,659</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>11,307,665</u>	<u>10,718,848</u>

Budapest, 16 March 2017



Dr. Sándor Csányi
Chairman and Chief Executive Officer

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

	Note	2016	2015
Interest Income:			
Loans		510,449	575,619
Placements with other banks		74,588	114,025
Securities available-for-sale		34,557	31,063
Securities held-to-maturity		51,427	46,619
Amounts due from banks and balances with the National Banks		9,866	27,496
Other		<u>8,804</u>	<u>7,606</u>
Total Interest Income		<u>689,691</u>	<u>802,428</u>
Interest Expense:			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		75,925	116,713
Deposits from customers		72,554	108,023
Liabilities from issued securities		4,726	6,786
Subordinated bonds and loans		10,239	13,633
Other		<u>6,518</u>	<u>6,843</u>
Total Interest Expense		<u>169,962</u>	<u>251,998</u>
NET INTEREST INCOME		<u>519,729</u>	<u>550,430</u>
Provision for impairment on loan and placement losses	5.,8.,24.	93,473	318,683
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		<u>426,256</u>	<u>231,747</u>
Income from fees and commissions	25.	272,235	257,431
Expense from fees and commissions	25.	<u>49,244</u>	<u>43,559</u>
Net profit from fees and commissions		<u>222,991</u>	<u>213,872</u>
Foreign exchange gains, net		36,142	116,682
Gains on securities, net		20,828	11,616
Dividend income		3,054	3,345
Release of provision / (Provision) on securities available-for-sale		55	(15)
Other operating income	26.	19,628	22,973
Other operating expense	26.	(36,461)	(74,680)
- from this: release of provision on contingent liabilities due to regulations related to customer loans	26.	-	<u>196,574</u>
Net operating gain		<u>43,246</u>	<u>79,921</u>
Personnel expenses	26.	191,442	187,806
Depreciation and amortization	11.	44,427	45,463
Goodwill impairment	11.	-	-
Other administrative expenses	26.	<u>220,229</u>	<u>232,247</u>
Other administrative expenses		<u>456,098</u>	<u>465,516</u>
PROFIT BEFORE INCOME TAX		<u>236,395</u>	<u>60,024</u>
Income tax (expense) / benefit	27.	<u>(33,943)</u>	<u>3,147</u>
NET PROFIT FOR THE YEAR		<u>202,452</u>	<u>63,171</u>
From this, attributable to:			
Non-controlling interest		<u>242</u>	<u>(412)</u>
Owners of the company		<u>202,210</u>	<u>63,583</u>
Consolidated earnings per share (in HUF)			
Basic	39.	<u>765</u>	<u>242</u>
Diluted	39.	<u>765</u>	<u>242</u>

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

	2016	2015
NET PROFIT FOR THE YEAR	202,452	63,171
Items that may be reclassified subsequently to profit or loss:		
Fair value adjustment of securities available-for-sale	11,248	(880)
Deferred tax related to securities available-for-sale	(1,665)	633
Effect of tax rate-modification related to securities available-for-sale	2,241	-
Net investment hedge in foreign operations	525	431
Foreign currency translation difference	24,554	(44,301)
Change of actuarial losses related to employee benefits	<u>61</u>	<u>(170)</u>
NET COMPREHENSIVE INCOME	<u>239,416</u>	<u>18,884</u>
From this, attributable to:		
Non-controlling interest	<u>641</u>	<u>(698)</u>
Owners of the company	<u>238,775</u>	<u>19,582</u>

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

OPERATING ACTIVITIES	Note	2016	2015
Profit before income tax		236,395	60,024
Dividend income		(3,054)	(3,345)
Depreciation and amortization	11.	44,427	45,463
(Release of provision) / Provision for impairment on securities	7., 10.	(55)	15
Provision for impairment on loan and placement losses	5., 8., 24.	93,473	318,683
Provision for impairment on investments	9.	687	1,094
Provision for impairment on investment properties and on investment properties subject to operating leases	12.	833	490
Provision for impairment on other assets	13.	2,218	6,657
Release of provision for impairment on off-balance sheet commitments and contingent liabilities	18.	(15,268)	(146,360)
Share-based payment	2., 30.	3,530	3,810
Change of actuarial gains / (losses) related to employee benefits		61	(171)
Unrealized losses on fair value change of securities held for trading		(9,969)	(12,098)
Unrealized gains on fair value change of derivative financial instruments		14,762	7,793
<i>Net changes in assets and liabilities in operating activities</i>			
Changes in financial assets at fair value through profit or loss		(72,891)	(5,238)
Net (increase) / decrease in loans, net of allowance for loan losses		(412,425)	40,677
Increase in other assets before provisions for impairment		(30,555)	(1,331)
Net increase in deposits from customers		556,004	311,102
Increase in other liabilities		132,104	24,613
Net increase in compulsory reserves at the National Banks		(45,079)	(147,360)
Income tax paid		<u>(19,922)</u>	<u>(14,676)</u>
Net Cash Provided by Operating Activities		<u>475,276</u>	<u>489,842</u>
Interest received		702,276	803,868
Interest paid		(158,181)	(242,622)
INVESTING ACTIVITIES			
Net increase in placement with other banks before allowance for placements losses		(62,830)	(19,556)
Purchase of securities available-for-sale		(814,918)	(842,886)
Proceeds from sale of securities available-for-sale		613,661	373,078
Net (increase) / decrease in investments in associates		(467)	11,832
Net (increase) / decrease in investments in other companies		(191)	427
Dividends received		3,217	3,345
Purchase of securities held-to-maturity		(877,412)	(1,036,805)
Decrease in securities held-to-maturity		692,831	822,634
Purchase of property, equipment and intangible assets		(71,575)	(50,376)
Proceeds from disposals to property, equipment and intangible assets		19,537	21,107
Decrease / (Increase) in investment properties and in investment properties subject to operating lease before provision for impairment		40	(294)
Net (increase) / decrease in advances for investments included in other assets		<u>(3)</u>	<u>28</u>
Net Cash Used in Investing Activities		<u>(498,110)</u>	<u>(717,466)</u>

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

FINANCING ACTIVITIES	Note	2016	2015
Net increase / (decrease) in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		10,465	(174,964)
Cash received from issuance of securities		27,539	60,944
Cash used for redemption of issued securities		(120,015)	(88,652)
Decrease in subordinated bonds and loans		(157,326)	(47,184)
Increase / (Decrease) in non-controlling interest		640	(698)
Payments to ICES holders	21.	(9,135)	(3,928)
Purchase of Treasury shares		9,881	24,641
Sales of Treasury shares		(15,897)	(34,093)
Dividends paid		<u>(46,152)</u>	<u>(40,473)</u>
Net Cash Used in Financing Activities		<u>(300,000)</u>	<u>(304,407)</u>
Net decrease in cash and cash equivalents		<u>(322,834)</u>	<u>(532,031)</u>
Cash and cash equivalents at the beginning of the period		<u>1,427,292</u>	<u>2,003,324</u>
Foreign currency translation		24,152	(44,001)
Cash and cash equivalents at the end of the period		<u>1,128,610</u>	<u>1,427,292</u>
Analysis of cash and cash equivalents			
Cash, amounts due from banks and balances with the National Banks		1,874,306	2,310,313
Net cash inflow / (outflow) due to acquisition		4,654	(2,681)
Compulsory reserve established by the National Banks		<u>(451,668)</u>	<u>(304,308)</u>
Cash and cash equivalents at the beginning of the period		<u>1,427,292</u>	<u>2,003,324</u>
Cash, amounts due from banks and balances with the National Banks	4.	1,625,357	1,874,306
Net cash inflow due to acquisition	32.	-	4,654
Compulsory reserve established by the National Banks	4.	<u>(496,747)</u>	<u>(451,668)</u>
Cash and cash equivalents at the end of the period		<u>1,128,610</u>	<u>1,427,292</u>

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

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Put option reserve ¹	Treasury shares	Non-controlling interest	Total
Balance as at 1 January 2015		<u>28,000</u>	<u>52</u>	<u>20,897</u>	<u>1,323,277</u>	<u>(55,468)</u>	<u>(55,941)</u>	<u>3,349</u>	<u>1,264,166</u>
Net profit for the year		-	-	-	63,583	-	-	(412)	63,171
Other Comprehensive Income		-	-	-	(44,001)	-	-	(286)	(44,287)
Share-based payment	30.	-	-	3,810	-	-	-	-	3,810
Dividend for the year 2014		-	-	-	(40,600)	-	-	-	(40,600)
Sale of Treasury shares	22.	-	-	-	-	-	24,641	-	24,641
Treasury shares									
– loss on sale		-	-	-	(7,372)	-	-	-	(7,372)
– acquisition	22.	-	-	-	-	-	(26,721)	-	(26,721)
Payments to ICES holders	21.	=	=	=	(3,149)	=	=	=	(3,149)
Balance as at 31 December 2015		<u>28,000</u>	<u>52</u>	<u>24,707</u>	<u>1,291,738</u>	<u>(55,468)</u>	<u>(58,021)</u>	<u>2,651</u>	<u>1,233,659</u>
Net profit for the year		-	-	-	202,210	-	-	242	202,452
Other Comprehensive Income		-	-	-	36,565	-	-	399	36,964
Share-based payment	30.	-	-	3,530	-	-	-	-	3,530
Dividend for the year 2015		-	-	-	(46,200)	-	-	-	(46,200)
Sale of Treasury shares	22.	-	-	-	-	-	9,882	-	9,882
Treasury shares									
– loss on sale		-	-	-	(3,915)	-	-	-	(3,915)
– acquisition	22.	-	-	-	-	-	(11,982)	-	(11,982)
Payments to ICES holders	21.	=	=	=	(3,741)	=	=	=	(3,741)
Balance as at 31 December 2016		<u>28,000</u>	<u>52</u>	<u>28,237</u>	<u>1,476,657</u>	<u>(55,468)</u>	<u>(60,121)</u>	<u>3,292</u>	<u>1,420,649</u>

¹ See Note 18.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. (the “Bank” or “OTP”) was established on 31 December 1990, when the previously State-owned company was transformed into a public liability company. The Bank’s registered office address is 16, Nador Street, Budapest 1051.

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

These Consolidated 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	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

The Bank and its subsidiaries (“Entities of the Group“, together the “Group”) provide a full range of commercial banking services through a wide network of 1,302 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

The number of employees at the Group:

	2016	2015
The number of employees at the Group	38,575	38,203
The average number of employees at the Group	37,782	38,114

1.2. Base of Accounting

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

The Group’s presentation currency is the Hungarian Forint (“HUF”).

Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (the “EU”).

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

1.2. Base of Accounting [continued]

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

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

- Amendments to IFRS 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 material changes in the Group’s financial statements.

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

At the date of authorization of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU which 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 implementation of IFRS 15 would have no significant impact on the Group’s financial statements. The application of IFRS 9 might have significant impact on the Group’s financial statement, the Group analysed the impact after the adoption of the standard by EU.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

1.2. Base of Accounting [continued]

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

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.

The Group started its preparation for IFRS 9 during 2016 led by the Bank's Risk Management and Finance Divisions. The preparations cover the key challenges that the Bank 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 analyses of the business models and contractual cash flows on the Group's significant portfolios have been performed to determine products and financial instruments that will be measured at amortised 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 Group is considering the use of a simplified impairment approach for trade receivables, contract assets and lease receivables.

The Group 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 analyses 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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

1.2. Base of Accounting [continued]

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),
- 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).

Relating to the adoption of the IFRS 16 Leases standard, the Group 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.

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

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

The adoption of the above presented Amendments to the existing Standards, new Standards and Interpretations would have no significant impact on the Consolidated Financial Statements in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.1. Basis of Presentation [continued]

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

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

2.2. Foreign currency translation

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

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

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

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.3. Principles of consolidation

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

As the ultimate parent, the Bank is preparing consolidated financial statement of the Group.

2.4. Accounting for acquisitions

Business combinations are accounted for using purchase method of accounting. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.

The acquisition date is the date on which the acquirer effectively obtains control over the acquiree. Before this date, it should be presented as Advance for investments within Other assets.

Goodwill, which represents the residual cost of the acquisition after obtaining the control over the acquiree in the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements.

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Recognized Income.

Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.

The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

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

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

2.5. Securities held-to-maturity

Investments in securities, traded in active market (with fixed or determinable cash-flows) are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts.

The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment.

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

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Recognized Income for the period. The Group mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income. The Group applies the FIFO¹ inventory valuation method for securities held for trading, Such securities consist of corporate shares, Hungarian and foreign government bonds, discounted and interest bearing treasury bills and other securities.

¹ First In First Out

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. The Group adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as the Group has almost all of its open derivative transactions collateralised.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Consolidated Statement of Recognized Income for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative. Certain derivative transactions, while providing effective economic hedges under the risk management policy of the Group, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Consolidated Statement of Recognized Income.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these spot contracts does not represent the actual market or credit risk associated with these contracts.

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

Foreign exchange swaps and interest rate swaps

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

Interest rate swaps oblige two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.

The interest rate swaps are used by the Group for risk management and trading purposes.

Cross-currency interest rate swaps

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments [continued]

Equity and commodity swaps

Equity swaps obligate two parties to exchange more payments calculated with reference periodically reset rates of interest and performance of indexes. A specific notional principal amount is the base of the interest calculation. The payment of index return is calculated on the basis of current market price compared to the previous market price. In case of commodity swaps payments are calculated on the basis of the strike price of a predefined commodity compared to its average market price in a period. 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 Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Foreign exchange options

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

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Statement of Recognized Income along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Consolidated Statement of Recognized Income.

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

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

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

2.8. Offsetting

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.9. Embedded derivatives

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

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

2.10. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities available-for-sale are measured at subsequent reporting dates at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Recognized Income for the applicable period. The Group applies the FIFO¹ inventory valuation method for securities held for trading. Such securities consist of Hungarian and foreign government bonds, corporate bonds, discounted Treasury bills and other securities. Other securities include shares in investment funds, shares in non-financing companies and venture capital fund bonds.

The provision for impairment is calculated based on discounted cash-flow methodology for debt instruments and calculated based on fair valuation on equity instruments, using the expected future cash-flow and original effective interest rate if there is objective evidence of impairment based on significant or prolonged decrease in fair value.

Securities available-for-sale are remeasured at fair value based on quoted prices or amounts derived from cash-flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash-flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

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

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

Loans and placements with other banks are accounted at amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. Interest and amortised cost are accounted using effective interest rate method.

When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest is impaired.

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

¹ First In First Out

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

Allowance for loan and placement losses with other banks represent Management assessment for potential losses in relation to these activities.

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

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

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

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

The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged.

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

2.12. Sale and repurchase agreements, security lending

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

In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.13. Associates and other investments

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. Associates and other investments [continued]

Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a significant interest are recorded according to IAS 39, when appropriate.

Gains and losses on the sale of investments are determined on the basis of the specific identification of the cost of each investment.

2.14. Property and equipment, Intangible assets

Property and equipment and Intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over the useful lives.

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

Intangible assets	
Software	3.33-67%
Property rights	5-50%
Property	1-38.7%
Office equipment and vehicles	1-50%

Depreciation and amortization on Property and equipment and Intangible assets commence on the day such assets are placed into service.

At each balance sheet date, the Group reviews the carrying value of its Property and equipment and Intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

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

2.15. Financial liabilities

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. Leases

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

The Group as a lessor

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

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as a lessee

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

Payments made under operating leases are charged to the Consolidated Statement of Recognized and Comprehensive Income on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.17. Investment properties

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

2.18. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Financial Position at cost as a deduction from Consolidated Shareholders' Equity.

Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity. Derecognition of treasury shares is based on the FIFO method.

2.19. Interest income and interest expense

Interest income and expenses are recognized in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The Group recognizes interest income when assumes that the interest associated with the transaction will flow to the Group and the amount of the revenue can be reasonably measured. All interest income and expense recognized are arising from loans, placements with other banks, securities held for trading, securities available-for-sale, securities held-to-maturity and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statements.

2.20. Fees and Commissions

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.21. Dividend income

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

2.22. Income tax

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realized or the liability is settled.

Deferred tax assets are recognized by the Group for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

2.23. Off-balance sheet commitments and contingent liabilities

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

Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Group recognizes provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.24. Share-based payment and employee benefit

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

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

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Group has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in the Consolidated Financial Statements.

2.25. Consolidated Statement of Cash-flows

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.26. Segment reporting

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

Based on the above, the segments identified by the Group are the business and geographical segments.

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

2.27. Comparative figures

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

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

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

3.1. Impairment on loans and placements

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

3.2. Valuation of instruments without direct quotations

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

3.3. Provisions

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

A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

3.4. Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 "Impairment of assets".

The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash-flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

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

	2016	2015
Cash on hand		
In HUF	89,402	78,182
In foreign currency	<u>165,425</u>	<u>146,718</u>
	<u>254,827</u>	<u>224,900</u>
Amounts due from banks and balances with the National Banks		
	2016	2015
Within one year:		
In HUF	501,249	1,203,223
In foreign currency	<u>869,034</u>	<u>449,139</u>
	<u>1,370,283</u>	<u>1,652,362</u>
Over one year:		
In HUF	-	2
In foreign currency	-	-
	-	<u>2</u>
Accrued interest	<u>247</u>	<u>1,696</u>
	<u>1,370,530</u>	<u>1,654,060</u>
Total	<u>1,625,357</u>	<u>1,878,960</u>
Compulsory reserve set by the National Banks	<u>496,747</u>	<u>451,668</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	2016	2015
Within one year		
In HUF	55,804	57,207
In foreign currency	<u>299,755</u>	<u>241,952</u>
	<u>355,559</u>	<u>299,159</u>
Over one year		
In HUF	5,206	-
In foreign currency	<u>2,699</u>	<u>1,396</u>
	<u>7,905</u>	<u>1,396</u>
Accrued interest	<u>161</u>	<u>63</u>
Provision for impairment on placement losses	<u>(95)</u>	<u>(50)</u>
Total	<u>363,530</u>	<u>300,568</u>

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

	2016	2015
Balance as at 1 January	50	47
Provision for the period	46	3
Foreign currency translation difference	<u>(1)</u>	=
Closing balance	<u>95</u>	<u>50</u>

Interest conditions of placements with other banks:

	2016	2015
In HUF	0.01% - 2.86%	0.1% - 6.4%
In foreign currency	(15.0)% - 16.5%	0.01% - 14.9%

	2016	2015
Average interest rates on placements with other banks	1.25%	0.88%

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	2016	2015
Securities held for trading		
Shares	104,402	72,620
Government bonds	40,095	25,866
Interest bearing treasury bills	15,639	7,768
Discounted Treasury bills	97	366
Other securities	14,396	178
Other non-interest bearing securities	<u>9,237</u>	<u>4,507</u>
	<u>183,866</u>	<u>111,305</u>
Accrued interest	<u>930</u>	<u>671</u>
Total	<u>184,796</u>	<u>111,976</u>
Positive fair value of derivative financial instruments classified held for trading		
	2016	2015
Interest rate swaps classified as held for trading	38,878	33,770
CCIRS and mark-to-market CCIRS ¹		
classified as held for trading	34,100	84,270
Foreign exchange swaps classified as held for trading	17,148	15,551
Foreign exchange forward contracts		
classified as held for trading	94	124
Other derivative transactions classified as held for trading	<u>18,090</u>	<u>8,091</u>
	<u>108,310</u>	<u>141,806</u>
Total	<u>293,106</u>	<u>253,782</u>
An analysis of securities held for trading portfolio by currency (%):		
	2016	2015
Denominated in HUF (%)	74.1%	84.0%
Denominated in foreign currency (%)	<u>25.9%</u>	<u>16.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>
An analysis of government bond portfolio by currency (%):		
	2016	2015
Denominated in HUF (%)	25.8%	48.4%
Denominated in foreign currency (%)	<u>74.2%</u>	<u>51.6%</u>
Total	<u>100.0%</u>	<u>100.0%</u>
	2016	2015
Interest rates on securities held for trading	0.33% - 7.75%	1.1% - 8.75%
Average interest rates on securities held for trading	0.60%	4.33%

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

	2016	2015
Within one year		
With variable interest	1,845	18
With fixed interest	<u>32,219</u>	<u>8,547</u>
	<u>34,064</u>	<u>8,565</u>
Over one year		
With variable interest	3,111	2,181
With fixed interest	<u>33,052</u>	<u>23,432</u>
	<u>36,163</u>	<u>25,613</u>
Non-interest bearing securities	<u>113,639</u>	<u>77,127</u>
Total	<u>183,866</u>	<u>111,305</u>

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

	2016	2015
Securities available-for-sale		
Government bonds	1,323,178	1,142,470
Corporate bonds	130,533	51,278
<i>From this:</i>		
<i>Listed securities:</i>		
<i>In HUF</i>	41,448	-
<i>In foreign currency</i>	<u>23,871</u>	<u>7,399</u>
	<u>65,319</u>	<u>7,399</u>
<i>Non-listed securities:</i>		
<i>In HUF</i>	38,990	43,879
<i>In foreign currency</i>	<u>26,224</u>	-
	<u>65,214</u>	<u>43,879</u>
Discounted Treasury bills	20,944	33,970
Other securities	441	12,422
Other non-interest bearing securities	36,728	45,222
<i>From this:</i>		
<i>Listed securities:</i>		
<i>In HUF</i>	1,460	1,218
<i>In foreign currency</i>	<u>49</u>	<u>7,410</u>
	<u>1,509</u>	<u>8,628</u>
<i>Non-listed securities:</i>		
<i>In HUF</i>	12,541	17,562
<i>In foreign currency</i>	<u>22,678</u>	<u>19,032</u>
	<u>35,219</u>	<u>36,594</u>
	<u>1,511,824</u>	<u>1,285,362</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	2016	2015
Accrued interest	<u>15,574</u>	<u>20,507</u>
Provision for impairment on securities available-for-sale	<u>(305)</u>	<u>(383)</u>
Total	<u>1,527,093</u>	<u>1,305,486</u>
An analysis of securities available-for sale by currency (%):		
	2016	2015
Denominated in HUF (%)	68.1%	74.8%
Denominated in foreign currency (%)	<u>31.9%</u>	<u>25.2%</u>
Total	<u>100.0%</u>	<u>100.0%</u>
An analysis of government bonds by currency (%):		
	2016	2015
Denominated in HUF (%)	70.6%	78.5%
Denominated in foreign currency (%)	<u>29.4%</u>	<u>21.5%</u>
Total	<u>100.0%</u>	<u>100.0%</u>
	2016	2015
Interest rates on securities available-for-sale denominated in HUF	0.33% - 7.5%	0.8% - 7.5%
Interest rates on securities available-for-sale denominated in foreign currency	0.1% - 26.4%	0.4% - 28.0%
	2016	2015
Average interest rates on securities available-for-sale denominated in HUF	2.30%	2.96%
Average interest rates on securities available-for-sale denominated in foreign currency	3.25%	3.48%
Interest conditions and the remaining maturities of available-for-sale financial assets can be analysed as follows:		
	2016	2015
Within one year		
With variable interest	597	431
With fixed interest	<u>161,781</u>	<u>130,717</u>
	<u>162,378</u>	<u>131,148</u>
Over one year		
With variable interest	40,340	42,372
With fixed interest	<u>1,272,378</u>	<u>1,066,620</u>
	<u>1,312,718</u>	<u>1,108,992</u>
Non-interest bearing securities	<u>36,728</u>	<u>45,222</u>
Total	<u>1,511,824</u>	<u>1,285,362</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

	2016	2015
Balance as at 1 January	383	1,274
Provision for the period	3	17
Release of provision	(58)	-
Use of provision	(2)	(831)
Foreign currency translation difference	<u>(21)</u>	<u>(77)</u>
Closing balance	<u>305</u>	<u>383</u>

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

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

	2016	2015
Short-term loans and promissory notes (within one year)	2,242,709	2,112,909
Long-term loans and promissory notes (over one year)	<u>4,397,045</u>	<u>4,260,765</u>
	<u>6,639,754</u>	<u>6,373,674</u>
Accrued interest	<u>40,751</u>	<u>49,913</u>
Provision for impairment on loan losses	<u>(944,273)</u>	<u>(1,013,620)</u>
Total	<u>5,736,232</u>	<u>5,409,967</u>

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

	2016	2015
In HUF	38%	36%
In foreign currency	<u>62%</u>	<u>64%</u>
Total	<u>100%</u>	<u>100%</u>

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

Interest rates of the loan portfolio are as follows:

	2016	2015
Short-term loans denominated in HUF	0.0% - 44.1%	0.01% - 40.7%
Long-term loans denominated in HUF	(0.35)% - 37.5%	0.01% - 40.7%
Short-term loans denominated in foreign currency	(0.7)% - 64.9%	0.01% - 66.9%
Long-term loans denominated in foreign currency	(0.7)% - 59.7%	0.01% - 59.7%

	2016	2015
Average interest rates on loans denominated in HUF	8.48%	10.27%
Average interest rates on loans denominated in foreign currency	8.35%	9.37%

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

	2016	2015
Balance as at 1 January	1,013,620	1,129,085
Provision for the period	419,801	607,856
Release of provision	(358,545)	(332,171)
Use of provision	(94,188)	(195,846)
Partial write-off ¹	(36,267)	(84,537)
Foreign currency translation difference	(148)	(110,767)
Closing balance	<u>944,273</u>	<u>1,013,620</u>

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

	2016	2015
Release of provision on placement losses	(132)	(6)
Provision for impairment on loan losses	<u>93,605</u>	<u>318,689</u>
Total	<u>93,473</u>	<u>318,683</u>

¹ See details in Note 2.11.

OTP BANK PLC.
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NOTE 9: ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)

	2016	2015
Investments ¹		
Investments in associates (non-listed)	6,240	5,936
Other investments (non-listed) at cost	<u>7,926</u>	<u>7,974</u>
	<u>14,166</u>	<u>13,910</u>
Provision for impairment on investments	<u>(4,330)</u>	<u>(3,882)</u>
Total	<u>9,836</u>	<u>10,028</u>

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

	2016	2015
Balance as at 1 January	3,882	3,304
Provision for the period	687	1,094
Use of provision	(234)	(139)
Change due to merge	-	(375)
Foreign currency translation difference	<u>(5)</u>	<u>(2)</u>
Closing balance	<u>4,330</u>	<u>3,882</u>

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

	2016	2015
Government bonds	1,095,897	909,556
Discounted Treasury bills	113	116
Mortgage bonds	52	-
Corporate bonds	<u>5</u>	<u>5</u>
	<u>1,096,067</u>	<u>909,677</u>
Accrued interest	<u>18,960</u>	<u>17,807</u>
Provision for impairment on securities held-to-maturity	<u>(800)</u>	<u>(807)</u>
Total	<u>1,114,227</u>	<u>926,677</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn) [continued]

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

	2016	2015
Within one year		
With variable interest	10	3,339
With fixed interest	<u>120,079</u>	<u>91,778</u>
	<u>120,089</u>	<u>95,117</u>
Over one year		
With variable interest	635	195
With fixed interest	<u>975,343</u>	<u>814,365</u>
	<u>975,978</u>	<u>814,560</u>
Total	<u>1,096,067</u>	<u>909,677</u>

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

	2016	2015
Denominated in HUF (%)	91.0%	89.6%
Denominated in foreign currency (%)	<u>9.0%</u>	<u>10.4%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

	2016	2015
Interest rates of securities held-to-maturity with variable interest	0.9% - 4.7%	0.01% - 0.6%
Interest rates of securities held-to-maturity with fixed interest	2.2% - 14.0%	0.1% - 20.7%
	2016	2015
Average interest rates on securities held-to-maturity	5.13%	5.82%

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

	2016	2015
Balance as at 1 January	807	814
Provision for the period	18	15
Release of provision	(18)	(17)
Use of provision	(7)	(2)
Foreign currency translation difference	-	(3)
Closing balance	<u>800</u>	<u>807</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the year ended 31 December 2016

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	301,539	197,832	158,985	10,010	668,366
Additions	31,121	6,617	18,520	27,549	83,807
Foreign currency translation differences	10,328	1,686	1,832	(9)	13,837
Disposals	(43,156)	(8,233)	(16,089)	(25,099)	(92,577)
Change in consolidation scope	384	11	37	=	432
Balance as at 31 December	<u>300,216</u>	<u>197,913</u>	<u>163,285</u>	<u>12,451</u>	<u>673,865</u>

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	145,730	53,451	119,715	-	318,896
Charge for the period (without goodwill impairment)	23,390	5,306	15,731	-	44,427
Foreign currency translation differences	749	555	1,632	-	2,936
Disposals	(31,702)	(5,286)	(10,953)	-	(47,941)
Change in consolidation scope	18	=	13	=	31
Balance as at 31 December	<u>138,185</u>	<u>54,026</u>	<u>126,138</u>	<u>=</u>	<u>318,349</u>
Net book value					
Balance as at 1 January	<u>155,809</u>	<u>144,381</u>	<u>39,270</u>	<u>10,010</u>	<u>349,470</u>
Balance as at 31 December	<u>162,031</u>	<u>143,887</u>	<u>37,147</u>	<u>12,451</u>	<u>355,516</u>

An analysis of the intangible assets for the year ended 31 December 2016 is as follows:

Intangible assets	Self-developed	Other	Total
Gross values	5,545	190,389	<u>195,934</u>
Depreciation and amortization	2,742	135,443	<u>138,185</u>

An analysis of the changes in the goodwill for the year ended 31 December 2016 is as follows:

Cost	Goodwill
Balance as at 1 January	95,994
Additions	-
Foreign currency translation difference	8,288
Impairment for the current period	=
Balance as at 31 December	<u>104,282</u>
Net book value	
Balance as at 1 January	<u>95,994</u>
Balance as at 31 December	<u>104,282</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2016 [continued]

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

List of units	HUF mn
JSC "OTP Bank" (Russia)	44,906
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,055
OTP Bank Romania S.A.	6,180
Monicomp Ltd.	5,732
OTP Banka Slovensko a.s.	513
Other ¹	<u>355</u>
Total	<u>104,282</u>

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

On the base of the Management's opinion in the Bank it was needed to prepare the impairment test as at 31 December 2016, where in case of two companies JSC "OTP Bank" (Russia) and OTP Bank JSC (Ukraine) a five-year (2017-2021) cash-flow model while in case of the other subsidiaries three-year cash-flow model was applied with an explicit period between 2017-2019. The base of the estimation was the annual financial strategic plan for year 2016, while for the three-year explicit period the Bank applied the prognosis for year 2017 accepted by the Management Committee of the subsidiaries and on the base of this prognosis the prepared medium-term (2018-2019) forecasts. When the Bank prepared the calculations for the period 2017-2019, considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these and the expected changes of the mentioned factors.

Present value calculation with the DCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case of OTP banka Hrvatska d.d. (Croatia) the yield of the local government bonds in foreign currency with a period of one year was applied, while in case of the other subsidiaries the base rates of these National Banks were considered presented in the actual macro forecasts. The Bank calculated risk premiums on the base of information from the country risk premiums that are published on damodaran.com, which were modified with CDS spread in case of OTP Banka Slovensko a.s. and Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way.

The growth rate in the explicit period is the growth rate of the profit after tax adjusted by the interest rate of the cash and subordinated loans. The supposed growth rates for the periods of residual values reflect the long-term economic expectations in case of every country.

The values of the subsidiaries in the DCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method

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

Summary of the impairment test for year ended 31 December 2016

Based on the valuations of the subsidiaries no goodwill impairment was needed on Group level as at 31 December 2016.

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

For the year ended 31 December 2015

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

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	187,134	46,745	117,576	-	351,455
Charge for the year (without goodwill impairment)	22,476	7,888	15,099	-	45,463
Foreign currency translation differences	(476)	437	(1,434)	-	(1,473)
Disposals	(63,404)	(1,619)	(11,526)	=	(76,549)
Balance as at 31 December	<u>145,730</u>	<u>53,451</u>	<u>119,715</u>	<u>=</u>	<u>318,896</u>

Net book value

Balance as at 1 January	<u>158,721</u>	<u>150,178</u>	<u>44,279</u>	<u>11,983</u>	<u>365,161</u>
Balance as at 31 December	<u>155,809</u>	<u>144,381</u>	<u>39,270</u>	<u>10,010</u>	<u>349,470</u>

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

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

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

Cost	Goodwill
Balance as at 1 January	101,062
Additions	419
Foreign currency translation difference	(5,487)
Impairment for the current period	=
Balance as at 31 December	<u>95,994</u>

Net book value

Balance as at 1 January	<u>101,062</u>
Balance as at 31 December	<u>95,994</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2015 [continued]

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

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

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

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

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

For the year ended 31 December 2016

Gross value	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	37,139	7,605	44,744
Additions due to receiving from debtors for the receivables	1,951	-	1,951
Increase due to transfer from inventories or owner-occupied properties	286	-	286
Increase from purchase	54	130	184
Other additions	137	35	172
Disposal due to transfer to inventories or owner-occupied properties	(34)	-	(34)
Disposals due to transfer into the properties classified as held for sale	(959)	-	(959)
Other disposals	(858)	(218)	(1,076)
Foreign currency translation difference	<u>(446)</u>	<u>25</u>	<u>(421)</u>
Closing balance	<u>37,270</u>	<u>7,577</u>	<u>44,847</u>

The applied depreciation and amortization keys for the year ended 31 December 2016 were the following:

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

For the year ended 31 December 2016 [continued]

Depreciation and amortization	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	3,719	1,216	4,935
Charge for the period	362	165	527
Increase due to transfer from inventories or owner-occupied properties	24	-	24
Disposal due to transfer to inventories or owner-occupied properties	(5)	-	(5)
Other disposals	(43)	(7)	(50)
Foreign currency translation difference	<u>(26)</u>	<u>3</u>	<u>(23)</u>
Closing balance	<u>4,031</u>	<u>1,377</u>	<u>5,408</u>

Impairment	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	7,965	1,525	9,490
Impairment for the period	923	-	923
Release of impairment	(90)	-	(90)
Use of impairment	(223)	(29)	(252)
Foreign currency translation difference	<u>(84)</u>	<u>6</u>	<u>(78)</u>
Closing balance	<u>8,491</u>	<u>1,502</u>	<u>9,993</u>

Net values	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	<u>25,455</u>	<u>4,864</u>	<u>30,319</u>
Balance as at 31 December	<u>24,748</u>	<u>4,698</u>	<u>29,446</u>

Fair values	<u>27,806</u>	<u>5,641</u>	<u>33,447</u>
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Incomes and expenses	Investment property	Investment property subject to operating lease	Total
Rental income	1,792	440	2,232
Direct operating expenses of investment properties – income generating	214	6	220
Direct operating expenses of investment properties – non income generating	16	-	16

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

For the year ended 31 December 2015

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12: INVESTMENT PROPERTY, INVESTMENT PROPERTY SUBJECT TO OPERATING LEASE_(in HUF mn) [continued]

For the year ended 31 December 2015 [continued]

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

NOTE 13: OTHER ASSETS¹ (in HUF mn)

	2016	2015
Inventories	53,772	46,195
Deferred tax receivables ²	52,593	73,079
Prepayments and accrued income	33,118	25,136
Assets subject to operating lease	21,405	17,026
Receivables from card operations	16,572	7,865
Current income tax receivable	11,679	20,492
Trade receivables	11,369	10,891
Other advances	9,588	7,083
Fair value of derivative financial instrument designated as fair value hedge	7,887	16,009
Receivable from the National Asset Management	6,967	6,645
Receivables due from pension funds and investment funds	5,610	2,516
Other receivables from Hungarian Government	4,292	1,233
Receivables from investment services	4,244	6,369
Stock exchange deals	2,827	2,163
Loans sold under deferred payment scheme	2,276	2,410
Receivables from leasing activities	1,616	1,470
Advances for securities and investments	666	663
Other	<u>34,914</u>	<u>34,338</u>
Subtotal	<u>281,395</u>	<u>281,583</u>
Provision for impairment on other assets ³	<u>(28,073)</u>	<u>(27,992)</u>
Total	<u>253,322</u>	<u>253,591</u>

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

² See Note 27.

³ Provision for impairment on trade receivables and on inventories was recognized the most impairment among the Provision for impairment on other assets.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

	2016	2015
Interest rate swaps designated as fair value hedge	6,888	15,393
CCIRS and mark-to-market CCIRS designated as fair value hedge	998	604
Other transactions designated as fair value hedge	<u>1</u>	<u>12</u>
Total	<u>7,887</u>	<u>16,009</u>

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

	2016	2015
Balance as at 1 January	27,992	23,862
Provision for the period	1,476	6,529
Use of provision	(1,569)	(1,569)
Foreign currency translation difference	<u>174</u>	<u>(830)</u>
Closing balance	<u>28,073</u>	<u>27,992</u>

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

	2016	2015
Within one year		
In HUF	129,739	134,081
In foreign currency	<u>126,361</u>	<u>115,423</u>
	<u>256,100</u>	<u>249,504</u>
Over one year		
In HUF	223,415	205,221
In foreign currency	<u>63,720</u>	<u>78,015</u>
	<u>287,135</u>	<u>283,236</u>
Accrued interest	<u>540</u>	<u>570</u>
Total¹	<u>543,775</u>	<u>533,310</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14: AMOUNTS DUE TO BANKS, THE HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn) [continued]

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

	2016	2015
Within one year		
In HUF	0.0% - 0.9%	(1.0)% - 3.6%
In foreign currency	(0.4)% - 10.5%	0.01% - 11.75%
Over one year		
In HUF	0.0% - 3.8%	0.0% - 3.2%
In foreign currency	(0.06)% - 10.85%	0.1% - 17.0%
	2016	2015
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	1.41%	1.97%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency	1.55%	1.54%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2016	2015
Within one year		
In HUF	3,725,744	3,565,248
In foreign currency	4,413,976	4,121,267
	<u>8,139,720</u>	<u>7,686,515</u>
Over one year		
In HUF	308,199	169,177
In foreign currency	77,020	109,345
	<u>385,219</u>	<u>278,522</u>
Accrued interest	15,644	19,542
Total	<u>8,540,583</u>	<u>7,984,579</u>

Interest rates on deposits from customers are as follows:

	2016	2015
Within one year		
In HUF	0.0% - 9.65%	0.01% - 4.0%
In foreign currency	0.0% - 20.5%	0.01% - 24.5%
Over one year		
In HUF	0.0% - 9.65%	0.01% - 6.85%
In foreign currency	0.01% - 22.0%	0.01% - 20.5%

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	2016	2015
Average interest rates on deposits from customers denominated in HUF	0.43%	0.75%
Average interest rates on deposits from customers denominated in foreign currency	1.08%	1.95%

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

	2016		2015	
Retail deposits	6,112,174	72%	5,663,139	71%
Corporate deposits	1,946,298	23%	1,948,422	25%
Municipality deposits	<u>466,467</u>	<u>5%</u>	<u>353,476</u>	<u>4%</u>
Total	<u>8,524,939</u>	<u>100%</u>	<u>7,965,037</u>	<u>100%</u>

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

	2016	2015
With original maturity		
Within one year		
In HUF	18,498	18,388
In foreign currency	<u>37,348</u>	<u>64,762</u>
	<u>55,846</u>	<u>83,150</u>
Over one year		
In HUF	88,640	146,011
In foreign currency	<u>251</u>	<u>784</u>
	<u>88,891</u>	<u>146,795</u>
Accrued interest	<u>2,163</u>	<u>9,431</u>
Total	<u>146,900</u>	<u>239,376</u>

Interest rates on liabilities from issued securities are as follows:

	2016	2015
Issued securities denominated in HUF	0.01% - 9.5%	0.01% - 10.0%
Issued securities denominated in foreign currency	0.1% - 9.0%	0.52% - 12.8%
	2016	2015
Average interest rates on issued securities denominated in HUF	3.10%	3.21%
Average interest rates on issued securities denominated in foreign currency	1.07%	1.71%

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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 issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP 2017/Ax	01/04/2011	31/03/2017	3,939	indexed	floating	hedged
2	OTP 2017/Bx	17/06/2011	20/06/2017	3,727	indexed	floating	hedged
3	OTP 2017/Cx	19/09/2011	25/09/2017	2,838	indexed	floating	hedged
4	OTP 2017/Dx	20/10/2011	19/10/2017	385	indexed	floating	hedged
5	OTP 2017/Ex	21/12/2011	28/12/2017	3,072	indexed	floating	hedged
6	OTP 2018/Ax	03/01/2012	09/01/2018	472	indexed	floating	hedged
7	OTP 2018/Bx	22/03/2012	22/03/2018	3,601	indexed	floating	hedged
8	OTP 2018/Cx	18/07/2012	18/07/2018	3,113	indexed	floating	hedged
9	OTP 2018/Dx	29/10/2012	26/10/2018	2,660	indexed	floating	hedged
10	OTP 2018/Ex	28/12/2012	28/12/2018	2,614	indexed	floating	hedged
11	OTP 2019/Ax	25/06/2009	01/07/2019	231	indexed	floating	hedged
12	OTP 2019/Bx	05/10/2009-05/02/2010	14/10/2019	343	indexed	floating	hedged
13	OTP 2019/Cx	14/12/2009	20/12/2019	285	indexed	floating	hedged
14	OTP 2019/Dx	22/03/2013	21/03/2019	3,845	indexed	floating	hedged
15	OTP 2019/Ex	28/06/2013	24/06/2019	3,063	indexed	floating	hedged
16	OTP 2020/Ax	25/03/2010	30/03/2020	316	indexed	floating	hedged
17	OTP 2020/Bx	28/06/2010	09/07/2020	305	indexed	floating	hedged
18	OTP 2020/Cx	11/11/2010	05/11/2020	195	indexed	floating	hedged
19	OTP 2020/Dx	16/12/2010	18/12/2020	207	indexed	floating	hedged
20	OTP 2020/Ex	18/06/2014	22/06/2020	3,686	indexed	floating	hedged
21	OTP 2020/Fx	10/10/2014	16/10/2020	3,257	indexed	floating	hedged
22	OTP 2020/Gx	15/12/2014	21/12/2020	2,753	indexed	floating	hedged
23	OTP 2021/Ax	01/04/2011	01/04/2021	256	indexed	floating	hedged
24	OTP 2021/Bx	17/06/2011	21/06/2021	284	indexed	floating	hedged
25	OTP 2021/Cx	19/09/2011	24/09/2021	277	indexed	floating	hedged
26	OTP 2021/Dx	21/12/2011	27/12/2021	338	indexed	floating	hedged
27	OTP 2022/Ax	22/03/2012	23/03/2022	252	indexed	floating	hedged
28	OTP 2022/Bx	18/07/2012	18/07/2022	230	indexed	floating	hedged
29	OTP 2022/Cx	29/10/2012	28/10/2022	246	indexed	floating	hedged
30	OTP 2022/Dx	28/12/2012	27/12/2022	305	indexed	floating	hedged
31	OTP 2023/Ax	22/03/2013	24/03/2023	371	indexed	floating	hedged
32	OTP 2023/Bx	28/06/2013	26/06/2023	265	indexed	floating	hedged
33	OTP 2024/Ax	18/06/2014	21/06/2024	256	indexed	floating	hedged
34	OTP 2024/Bx	10/10/2014	16/10/2024	365	indexed	floating	hedged
35	OTP 2024/Cx	15/12/2014	20/12/2024	299	indexed	floating	hedged
36	OTP 2020/RF/A	12/07/2010	20/07/2020	3,070	indexed	floating	hedged
37	OTP 2020/RF/B	12/07/2010	20/07/2020	1,417	indexed	floating	hedged
38	OTP 2020/RF/C	11/11/2010	05/11/2020	3,345	indexed	floating	hedged
39	OTP 2021/RF/A	05/07/2011	13/07/2021	2,946	indexed	floating	hedged
40	OTP 2021/RF/B	20/10/2011	25/10/2021	2,955	indexed	floating	hedged
41	OTP 2021/RF/C	21/12/2011	30/12/2021	586	indexed	floating	hedged
42	OTP 2021/RF/D	21/12/2011	30/12/2021	392	indexed	floating	hedged
43	OTP 2021/RF/E	21/12/2011	30/12/2021	61	indexed	floating	hedged
44	OTP 2022/RF/A	22/03/2012	23/03/2022	1,773	indexed	floating	hedged
45	OTP 2022/RF/B	22/03/2012	23/03/2022	565	indexed	floating	hedged
46	OTP 2022/RF/C	28/06/2012	28/06/2022	169	indexed	floating	hedged
47	OTP 2022/RF/D	28/06/2012	28/06/2022	218	indexed	floating	hedged
48	OTP 2022/RF/E	29/10/2012	31/10/2022	618	indexed	floating	hedged
49	OTP 2022/RF/F	28/12/2012	28/12/2022	341	indexed	floating	hedged
50	OTP 2023/RF/A	22/03/2013	24/03/2023	567	indexed	floating	hedged
51	OTP OJK 2017/I	27/01/2012-13/07/2012	27/01/2017	1	7	fixed	
52	OJB 2019/I	17/03/2004	18/03/2019	31,483	9.48	fixed	
53	OJB 2019/II	31/05/2011	18/03/2019	1,058	9.48	fixed	
54	OJB 2020/I	19/11/2004	12/11/2020	<u>5,503</u>	9	fixed	
	Subtotal			<u>105,719</u>			

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

Issued securities denominated in HUF as at 3 December 2016 (in HUF mn) [continued]

Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)	Hedged
55	OJB 2020/II	25/05/2011	12/11/2020	1,487	9 fixed
56	OTP TBSZ6 2017/I	13/01/2012-22/06/2012	15/12/2017	223	6.5 fixed
57	Other ¹			229	
	Subtotal			1,939	
	Subtotal issued securities in HUF			107,658	
	Unamortized premium			(5,909)	
	Fair value adjustment			5,389	
	Total issued securities in HUF			107,138	

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

Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn) (HUF mn)	Interest conditions (in % p.a.)	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/II	12/02/2016	26/02/2017	EUR 4.35 1,354	0.4 fixed	
4	OTP EUR 1 2017/III	26/02/2016	12/03/2017	EUR 7.47 2,323	0.4 fixed	
5	OTP EUR 1 2017/IV	18/03/2016	01/04/2017	EUR 6.47 2,011	0.2 fixed	
6	OTP EUR 1 2017/V	15/04/2016	29/04/2017	EUR 8.59 2,673	0.2 fixed	
7	OTP EUR 1 2017/VI	27/05/2016	10/06/2017	EUR 11.67 3,629	0.1 fixed	
8	OTP EUR 1 2017/VII	10/06/2016	24/06/2017	EUR 3.62 1,126	0.1 fixed	
9	OTP EUR 1 2017/VIII	01/07/2016	15/07/2017	EUR 6.78 2,110	0.1 fixed	
10	OTP EUR 1 2017/IX	10/08/2016	24/08/2017	EUR 8.67 2,696	0.1 fixed	
11	OTP EUR 1 2017/X	16/09/2016	30/09/2017	EUR 4.45 1,385	0.1 fixed	
12	OTP 2017/Fx	19/06/2012	16/06/2017	EUR 0.78 243	indexed	hedged
13	OTP 2018/Fx	19/12/2013	21/12/2018	EUR 0.62 192	indexed	hedged
14	OTP_VK_USD_1_2017/I	29/01/2016	29/01/2017	USD 3.88 1,140	0.8 floating	
15	OTP_VK_USD_1_2017/II	18/03/2016	18/03/2017	USD 1.97 577	0.8 floating	
16	OTP_VK_USD_1_2017/III	27/05/2016	27/05/2017	USD 6.26 1,837	0.8 floating	
17	OTP_VK_USD_1_2017/IV	16/09/2016	16/09/2017	USD 1.45 427	0.8 fixed	
18	OTP_VK_USD_2_2017/I	10/04/2015	10/04/2017	USD 0.29 84	1.1 floating	
19	Other ²					
	Subtotal issued securities in FX				1,427	
	Subtotal issued securities in FX				37,646	
	Unamortized premium				(30)	
	Fair value adjustment				(17)	
	Total issued securities in FX				37,599	
	Accrued interest				2,163	
	Total issued securities				146,900	

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

¹ From the total amount HUF 3 million is mobil deposits of Merkantil Bank Ltd.

² Other category includes promissory notes issued by OTP Banka Slovensko a.s. in the amount of HUF 359 million and by JSC “OTP Bank” (Russia) in the amount of HUF 1,068 million.

OTP BANK PLC.
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NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

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

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

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

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

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

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

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

	2016	2015
Interest rate swaps classified as held for trading	33,012	30,453
CCIRS and mark-to-market CCIRS classified as held for trading	15,684	55,875
Foreign exchange swaps classified as held for trading	13,125	7,687
Foreign exchange forward contracts classified as held for trading	5,941	3,551
Option contracts classified as held for trading	3,081	1,899
Forward rate agreements classified as held for trading (FRA)	38	29
Forward security agreements classified as held for trading	4	860
Other transactions classified as held for trading	<u>4,986</u>	<u>1,207</u>
Total	<u>75,871</u>	<u>101,561</u>

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NOTE 18: OTHER LIABILITIES¹ (in HUF mn)

	2016	2015
Financial liabilities from OTP-MOL share swap transaction ²	98,688	66,787
Liabilities from investment services	72,102	39,413
Provision for impairment on off-balance sheet commitments and contingent liabilities	48,166	31,685
Accrued expenses	39,885	33,153
Liabilities connected to Cafeteria benefits	31,194	27,811
Salaries and social security payable	28,235	25,423
Accounts payable	27,085	25,455
Liabilities from repo transactions	21,488	7,452
Fair value of derivative financial instruments designated as fair value hedge	20,002	13,723
Current income tax payable	16,066	13,684
Liabilities from card transactions	12,837	5,804
Clearing, settlement and pending accounts	9,269	12,065
Giro clearing accounts	7,153	11,302
Liabilities related to housing loans	6,496	1,523
Advances received from customers	6,429	4,271
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	6,402	39,314
Deferred tax liabilities	3,234	4,610
Liabilities connected to loans for collection	814	876
Loans from government	716	683
Dividend payable	73	546
Liabilities connected to leasing activities	18	1,583
Other	<u>45,012</u>	<u>24,159</u>
Subtotal	<u>501,364</u>	<u>391,322</u>
Accrued interest	<u>1,065</u>	<u>257</u>
Total	<u>502,429</u>	<u>391,579</u>

¹ Other liabilities – except financial liabilities from OTP-MOL share swap transaction, deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP-MOL share swap transaction is settled in June of each year until the maturity date. The fair value adjustment of the 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. Besides the total other liabilities mentioned above which are expected to be recovered or settled more than twelve months after the reporting period it should be mentioned accrued contractual liabilities, compulsory pension reserve, guarantee deposits in relation with leasing activities, loans from government and liabilities from preferential dividend shares.

² On 16 April 2009 OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. On 11 July 2012 the parties amended the final maturity of the share swap agreement for 11 July 2017 until which any party can initiate cash or physical settlement of the transaction. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the loss of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity with the amount of HUF 55.5 billion and a recognition of a corresponding liability. As at 31 December 2016 and 2015 HUF 98,688 million and HUF 66,787 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 18: OTHER LIABILITIES (in HUF mn) [continued]

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

	2016	2015
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	6,402	39,314
Provision for litigation	15,067	6,680
Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending	13,585	7,010
Provision for expected pension commitments	2,678	2,664
Provision for other liabilities	<u>16,836</u>	<u>15,331</u>
Total	<u>54,568</u>	<u>70,999</u>

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

	2016	2015
Balance as at 1 January	70,999	217,351
Release of provision for the period	(15,268)	(146,360)
Use of provision	(1,045)	(1,838)
Change due to acquisition	-	3,115
Foreign currency translation differences	<u>(118)</u>	<u>(1,269)</u>
Closing balance	<u>54,568</u>	<u>70,999</u>

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

	2016	2015
Interest rate swaps designated as fair value hedge	19,976	13,723
CCIRS and mark-to-market CCIRS designated as fair value hedge	<u>26</u>	=
Total	<u>20,002</u>	<u>13,723</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	2016	2015
Within one year:		
In HUF	-	-
In foreign currency	=	<u>156,487</u>
	=	<u>156,487</u>
Over one year:		
In HUF	-	-
In foreign currency	<u>76,946</u>	<u>77,200</u>
	<u>76,946</u>	<u>77,200</u>
Accrued interest	<u>512</u>	<u>1,097</u>
Total	<u>77,458</u>	<u>234,784</u>

Interest rates on subordinated bonds and loans are as follows:

	2016	2015
Denominated in foreign currency	2.69%	5.3% - 5.9%

	2016	2015
Average interest rates on subordinated bonds and loans	7.06%	4.72%

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions
Subordinated bond	EUR 247.2 million	07/11/2006	Perpetual, but callable after 10 years	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)

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NOTE 20: SHARE CAPITAL (in HUF mn)

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

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

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

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

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

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

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 meant 165 HUF payable dividend by share to the shareholders. 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 190 HUF payable dividends by share to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 514,417 million and HUF 480,058 million) and reserves (HUF 935,061 million and HUF 780,971 million) as at 31 December 2016 and 2015 respectively. The reserves include mainly net profit for the year attributable to the owners of the company, the fair value adjustment of securities available-for-sale, additional reserves of Income Certificates Exchangeable for Shares (“ICES”), changes in equity accumulated in the previous year at the subsidiaries, changes due to consolidation and exchange differences.

In the Consolidated Financial Statement the Group recognizes the non-monetary items on historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented among the shareholders’ equity as difference of translation. The accumulated amounts of exchange differences were HUF 141,156 million and HUF 165,308 million as at 31 December 2016 and 2015 respectively.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 21: **RETAINED EARNINGS AND RESERVES (in HUF mn) [continued]**

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

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

NOTE 22: **TREASURY SHARES (in HUF mn)**

	2016	2015
Nominal value (Ordinary shares)	<u>1,822</u>	<u>1,814</u>
Carrying value at acquisition cost	<u>60,121</u>	<u>58,021</u>

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	18,142,973	18,175,347
Additions	1,750,152	5,284,354
Disposals	<u>(1,677,123)</u>	<u>(5,316,728)</u>
Closing number of shares	<u>18,216,002</u>	<u>18,142,973</u>

Change in carrying value:

	2016	2015
Balance as at 1 January	58,021	55,940
Additions	11,982	26,721
Disposals	<u>(9,882)</u>	<u>(24,640)</u>
Closing balance	<u>60,121</u>	<u>58,021</u>

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

	2016	2015
Balance as at 1 January	2,651	3,349
Non-controlling interest included in net profit for the year	242	(412)
Changes due to ownership structure	(8)	(18)
Foreign currency translation difference	<u>407</u>	<u>(268)</u>
Closing balance	<u>3,292</u>	<u>2,651</u>

NOTE 24: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF mn)

	2016	2015
Provision for impairment on loan losses		
Provision for the period	419,801	607,856
Release of provision	(358,545)	(332,171)
Provision for impairment on loan losses	<u>32,349</u>	<u>43,004</u>
	<u>93,605</u>	<u>318,689</u>
Release of provision on placement losses		
Provision for the period	46	3
Release of provision	-	-
Release of provision for impairment on placement losses	<u>(178)</u>	<u>(9)</u>
	<u>(132)</u>	<u>(6)</u>
Provision for impairment on loan and placement losses	<u>93,473</u>	<u>318,683</u>

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

	2016	2015
Income from fees and commissions		
Deposit and account maintenance fees and commissions	114,404	111,280
Fees and commissions related to the issued bank cards	43,963	42,573
Fees related to cash withdrawal	27,920	27,706
Fees and commissions related to lending	20,715	17,277
Fees and commissions related to security trading	20,329	14,697
Fees and commissions related to fund management	18,865	18,184
Other	<u>26,039</u>	<u>25,714</u>
Total	<u>272,235</u>	<u>257,431</u>

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

Expense from fees and commissions	2016	2015
Fees and commissions related to issued bank cards	15,093	13,170
Fees and commissions paid on loans	9,641	7,070
Interchange fees	7,421	6,634
Fees and commissions related to deposits	3,449	2,596
Fees and commissions related to security trading	1,736	1,707
Cash withdrawal transaction fees	1,430	1,791
Fees and commissions related to collection of loans	959	1,660
Postal fees	889	1,017
Insurance fees	177	257
Money market transaction fees and commissions	128	1,101
Other	<u>8,321</u>	<u>6,556</u>
Total	<u>49,244</u>	<u>43,559</u>
 Net profit from fees and commissions	 <u>222,991</u>	 <u>213,872</u>

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

Other operating income	2016	2015
Fine refund by Hungarian Competition Authority ¹	3,960	-
Gains on transactions related to property activities	1,923	1,724
Refund by the State of cancelled receivables from customer loans converted into HUF ²	-	6,631
Other income from non-financial activities	<u>13,745</u>	<u>14,618</u>
Total	<u>19,628</u>	<u>22,973</u>
 Other operating expenses	 2016	 2015
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	27,438	-
Provision for off-balance sheet commitments and contingent liabilities	18,034	10,387
Financial support for sport association and organization of public utility	8,731	13,918
Provision for impairment on other assets	2,249	6,696
Provision on investment properties	833	101
Provision for impairment on investments ³	687	1,094
Fine imposed by Competition Authority	67	18
Release of provision on contingent liabilities due to regulations related to customer loans	-	(196,574)
(Incomes) / Expenses from regulations related to customer loans ²	(5)	186,269

¹ See details in Note 28.

² The amount is concerned for the Group. In 2016 the amount of the refund is deductible from special tax of financial institutions and financial transaction duty.

³ See details in Note 9.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 26: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

Other operating expenses [continued]	2016	2015
(Release of provision) / Provision for assets subject to operating lease	(31)	350
(Release of provision) / Provision for expected losses due to foreign currency loan conversion at foreign subsidiaries	(33,302)	39,827
Other	<u>11,760</u>	<u>12,594</u>
Total	<u>36,461</u>	<u>74,680</u>
Other administrative expenses	2016	2015
Personnel expenses		
Wages	138,785	137,250
Taxes related to personnel expenses	37,005	37,304
Other personnel expenses	<u>15,652</u>	<u>13,252</u>
Subtotal	<u>191,442</u>	<u>187,806</u>
Depreciation and amortization¹	<u>44,427</u>	<u>45,463</u>
Other administrative expenses		
Taxes, other than income tax ²	92,380	110,102
Administration expenses, including rental fees	45,666	46,137
Services	45,551	44,400
Professional fees	22,823	20,344
Advertising	<u>13,809</u>	<u>11,264</u>
Subtotal	<u>220,229</u>	<u>232,247</u>
Total	<u>456,098</u>	<u>465,516</u>

NOTE 27: INCOME TAX (in HUF mn)

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

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

¹ See details in Note 11.

² Special tax of financial institutions was paid by the Group in the amount of HUF 15.4 billion and HUF 35 billion for year 2016 and 2015 respectively, 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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27: INCOME TAXES (in HUF mn) [continued]

The breakdown of the income tax expense / (benefit) is:

	2016	2015
Current tax expense	12,562	11,624
Deferred tax expense / (benefit)	<u>21,381</u>	<u>(14,771)</u>
Total	<u>33,943</u>	<u>(3,147)</u>

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

	2016	2015
Balance as at 1 January	68,469	51,154
Deferred tax (expense) / benefit	(21,381)	14,771
Deferred tax related to items recognized directly in equity and in Other Comprehensive Income	1,406	6,288
Foreign currency translation difference	<u>865</u>	<u>(3,744)</u>
Closing balance	<u>49,359</u>	<u>68,469</u>

A breakdown of the deferred tax assets are as follows:

	2016	2015
Unused tax allowance	22,354	19,014
Tax accrual caused by negative taxable income	20,494	43,265
Refundable tax in accordance with Acts on Customer Loans	5,239	6,341
Fair value adjustment of securities held for trading and securities available-for-sale	3,737	8,330
Premium and discount amortization on bonds	3,604	1,959
Provision for impairment on investments (Goodwill)	2,535	8,030
Repurchase agreement and security lending	1,964	4,102
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	1,497	2,582
Difference in reserves under HAS and IFRS	1,012	-
Adjustment from effective interest rate method	112	1,272
Fair value adjustment of derivative financial instruments	98	84
Difference in accounting for leases	50	160
Fair value corrections related to customer loans	28	80
Difference in depreciation and amortization	27	170
Other	<u>12,555</u>	<u>14,373</u>
Deferred tax asset	<u>75,306</u>	<u>109,762</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27: INCOME TAXES (in HUF mn) [continued]

A breakdown of the deferred tax liabilities are as follows:

	2016	2015
Fair value adjustment of securities held for trading and securities available-for-sale	(9,414)	(16,506)
Provision for impairment on investments	(5,051)	-
Fair value adjustment of derivative financial instruments	(3,929)	(7,809)
Difference in depreciation and amortization	(2,448)	(4,971)
Temporary differences arising on consolidation	(1,122)	(2,988)
Adjustment from effective interest rate method	(909)	(4,258)
Net effect of treasury share transactions	(625)	(2,009)
Accounting of equity instrument (ICES)	(438)	(556)
OTP-MOL transaction	(423)	-
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(406)	-
Difference in accounting for leases	(152)	(139)
Premium and discount amortization on bonds	(2)	(14)
Other	<u>(1,028)</u>	<u>(2,043)</u>
Deferred tax liabilities	<u>(25,947)</u>	<u>(41,293)</u>
Net deferred tax asset	<u>49,359</u>	<u>68,469</u>

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

	2016	2015
Profit before income tax	236,395	60,024
Income tax expense at statutory tax rates	37,123	7,090

Income tax adjustments due to permanent differences are as follows:

	2016	2015
Differences in carrying value of subsidiaries	12,589	(16,039)
Effect of the tax rate change	3,356	-
Tax refund in accordance with Acts on Customer Loans	1,102	22,776
Share-based payment	671	724
OTP-MOL share swap transaction	411	(615)
Reversal of statutory general provision	287	-
Difference of accounting of equity instrument (ICES)	-	(9)
Revaluation of investments denominated in foreign currency to historical cost	-	(4,601)
Treasury share transactions	(991)	(1,729)
Deferred use of tax allowance	(5,843)	(11,028)
Use of tax allowance in the current year	(6,708)	-
Other	<u>(8,054)</u>	<u>284</u>
Income tax	<u>33,943</u>	<u>(3,147)</u>
Effective tax rate	<u>14.4%</u>	<u>(5.2%)</u>

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

OTP BANK PLC.
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

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

28.1. Credit risk

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

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

28.1.1. Analysis by loan types and by DPD categories

Classification into DPD categories

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

Exposures with small amounts are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are classified into five valuation groups which have been formed based on past due days from which there classes were presented (A: 0-90 days past due - DPD, B: 91-360 DPD, C: above 360 days past due). The three new groups do not match one by one to the earlier used risk classes, the composition of the classes has changed due to the different criteria.

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

Impairment on **claims above the limit** are under **individual assessment** method. Depending on the incurred loss of each item is determined based on the consideration of all of the following criteria:

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

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

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

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

As at 31 December 2016

Loan type	Up to 90 days	91-360 days	Above 360 days	Total carrying amount / allowance
Mortgage loans	2,001,701	63,457	292,456	2,357,614
Loans to medium and large corporates	1,688,808	33,276	222,227	1,944,311
Consumer loans	1,292,146	51,274	177,056	1,520,476
Loans to micro and small enterprises	425,652	8,421	86,076	520,149
Car-finance loans	178,133	4,567	34,752	217,452
Municipal loans	<u>73,707</u>	<u>139</u>	<u>16</u>	<u>73,862</u>
Gross portfolio	<u>5,660,147</u>	<u>161,134</u>	<u>812,583</u>	<u>6,633,864</u>
Placement with other banks	363,441	-	23	363,464
Bill of exchange	<u>5,890</u>	=	=	<u>5,890</u>
Total gross portfolio	<u>6,029,478</u>	<u>161,134</u>	<u>812,606</u>	<u>7,003,218</u>
Allowance for loans	(174,304)	(87,777)	(682,192)	(944,273)
Allowance for placements	<u>(72)</u>	=	<u>(23)</u>	<u>(95)</u>
Total allowance	<u>(174,376)</u>	<u>(87,777)</u>	<u>(682,215)</u>	<u>(944,368)</u>
Total net portfolio	<u>5,855,102</u>	<u>73,357</u>	<u>130,391</u>	<u>6,058,850</u>
Accrued interest				
for loans				40,751
for placements				<u>161</u>
Total accrued interest				<u>40,912</u>
Total net loans				<u>5,736,232</u>
Total net placements				<u>363,530</u>
Total net exposures				<u>6,099,762</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

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

As at 31 December 2015

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

The Group's loan portfolio increased by 4.93% in year 2016. Analysing the contribution of loan types to the loan portfolio, the share of the mortgage loan types slightly decreased, the loans to medium and large enterprises and consumer loans slightly increased, while the other types of loans remained almost the same as at 31 December 2016 comparing with end of the previous year. The qualification of the loan portfolio is improving continuously started from the last few years, and now for the end of the year 2016 the ratio of the more than 90 days past due to the above 360 days past due loans compared to the gross loan portfolio decreased from 16.6% to 13.9%. Among the qualified loan portfolio, the loans classified to the risk class of "more than 90 until 360 days past due" narrowed at the fastest level.

The Group has a prudent provisioning policy, the indicator which describes the coverage of loans by provision for impairment on loans classified as "Above 360 days", was 83.9% and 78.6% as at 31 December 2016 and 2015 respectively.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

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

Not impaired loan portfolio

That part of loan portfolio, which are neither past due nor impaired, doesn't indicate any lowering of credit quality.

The loan portfolio analysis of the gross values of the loans that are not impaired, not past due and past due is as follows:

As at 31 December 2016

Loan type	Not past due	Up to 90 days	91-360 days	Above 360 days	Total
Mortgage loans	1,712,019	257,440	1,301	2,681	1,973,441
Loans to medium and large corporates	1,419,308	68,528	144	179	1,488,159
Consumer loans	1,134,805	133,335	44	106	1,268,290
Loans to micro and small enterprises	367,396	40,727	15	131	408,269
Placement with other banks	363,440	-	-	-	363,440
Car-finance loans	146,633	19,854	-	-	166,487
Municipal loans	<u>71,745</u>	<u>908</u>	<u>129</u>	-	<u>72,782</u>
Total	<u>5,215,346</u>	<u>520,792</u>	<u>1,633</u>	<u>3,097</u>	<u>5,740,868</u>

As at 31 December 2015

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

Loans not past due or past due, but not impaired cover only balance sheet items.

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 71.2% to 74.5% as at 31 December 2016 comparing to the end of the previous year. The ratio of the mortgage loans and municipal loans compared to the portfolio of loans neither past due nor impaired decreased slightly in year 2016, while the ratio of the loans to medium and large corporates increased mostly.

The loans that are past due but not impaired are concentrated mainly in the mortgage loan and consumer loan type while in the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Group. The ratio of the mortgage and consumer loans compared to the portfolio of loans past due but not impaired decreased slightly and the ratio of the loans to medium and large corporates increased as at 31 December 2016.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

28.1. Credit risk [continued]

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

Loans individually assessed for provision

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

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

As at 31 December 2016

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	182,668	116,988	106,145	108	1
Legal proceedings	174,355	138,794	44,157	60	54
Decrease of client classification	95,583	47,384	59,774	5,003	278
Cross default	63,976	19,156	19,602	16,536	24
Country risk	24,724	13,723	6,913	-	-
Loan characteristics	22,222	4,647	15,207	-	-
Restructuring	10,724	5,984	3,918	-	-
Business lines risks	8,193	2,981	3,985	3,094	134
Regularity of payment	442	119	498	-	-
Other	<u>14,479</u>	<u>4,479</u>	<u>11,326</u>	<u>2,273</u>	<u>785</u>
Corporate total	<u>597,366</u>	<u>354,255</u>	<u>271,525</u>	<u>27,074</u>	<u>1,276</u>
Delay of payment	2,109	644	2,339	31	9
Legal proceedings	470	333	165	-	-
Cross default	<u>52</u>	<u>1</u>	-	-	-
Municipal total	<u>2,631</u>	<u>978</u>	<u>2,504</u>	<u>31</u>	<u>9</u>
Placements with other banks	:-	:-	:-	:-	:-
Total	<u>599,997</u>	<u>355,233</u>	<u>274,029</u>	<u>27,105</u>	<u>1,285</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

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

Loans individually assessed for provision [continued]

As at 31 December 2015

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

By 31 December 2016 the volume of the individually rated portfolio decreased by 14.2% in the corporate loan type. Among the rating factors of the corporate loan type, the decrease is mostly based on the improving of the loan characteristic factor and on the softening of the country risk, while increase is based on the regularity of payment and restructuring as at 31 December 2016. The decrease was 8.3% at the individually rated loans in the municipal loan portfolio comparing with the end of the previous year, which is mostly based on the decrease of the delay of payment, although the legal proceeding increased but this rate wasn't so high to offset the improving municipal loan portfolio.

Transactions with high level of risk:

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

Business lines risks:

Transactions are classified by using this category name, if the client works in a business line which was most exposed to the financial crisis (vehicle industry, building industry, real estate services, metal processing, financial services).

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

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

Loan portfolio by countries

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

Country	2016		2015	
	Carrying amount of gross loan and placement with other banks portfolio	Allowance	Carrying amount of gross loan and placement with other banks portfolio	Allowance
Hungary	2,875,526	270,618	2,585,533	291,976
Bulgaria	1,218,526	144,240	1,226,958	165,843
Russia	594,064	116,850	448,751	90,683
Croatia	535,595	50,694	502,823	44,555
Romania	535,506	37,666	565,103	37,120
Ukraine	386,616	190,378	426,158	243,752
Slovakia	381,850	30,799	381,571	22,164
Montenegro	141,259	54,360	157,764	58,945
Serbia	131,512	26,418	135,040	31,858
United Kingdom	54,405	1,131	59,813	2,251
Germany	31,237	125	28,583	89
Cyprus	30,935	14,973	42,293	18,344
United States of America	13,931	32	12,990	36
Austria	11,148	4	22,489	3
Turkey	9,713	8	1,434	11
Italy	8,237	15	293	12
Australia	6,111	-	19	-
Seychelles	4,786	4,786	4,818	4,818
Belgium	4,773	40	23,896	23
Czech Republic	3,992	8	4,074	7
Poland	3,089	13	3,918	5
Norway	2,575	1	5,813	-
The Netherlands	1,981	97	1,774	84
Denmark	1,973	-	601	-
Switzerland	1,919	5	14,577	88
Canada	1,856	-	79	-
Bosnia and Herzegovina	899	756	865	708
Ireland	611	68	459	70
France	543	17	7,992	15
Sweden	427	10	290	10
Greece	257	30	160	22
Japan	232	-	405	-
United Arab Emirates	205	22	319	13
Kazakhstan	178	72	175	60
Spain	132	3	67	5
Egypt	87	6	87	6
Latvia	45	19	52	36
Island	41	28	41	28
Luxembourg	27	-	42	-
Other ¹	529	76	228	30
Total²	6,997,328	944,368	6,668,347	1,013,670

¹ Other category in year 2016 includes e.g.: Iran, Slovenia, Macedonia, Finland, Singapore, Armenia, Hong Kong, Syria, Portugal, Moldova, Jordan, China, India, Vietnam, Nigeria, Israel, Tunisia, Brazil, Morocco and South-Korea.

² Without the amount of bill of exchange.

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

28.1. Credit risk [continued]

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

Loan portfolio by countries [continued]

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

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

28.1.2. Collaterals

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

Types of collaterals	2016	2015
Mortgages	6,572,927	5,694,831
Assignments (revenue or other receivables)	445,756	387,422
Guarantees and warranties	324,415	268,361
Securities	210,878	193,706
Cash deposits	102,668	73,245
Guarantees of state or organizations owned by state	73,225	103,498
Other	806,961	799,489
Total	<u>8,536,830</u>	<u>7,520,552</u>

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

Types of collaterals	2016	2015
Mortgages	3,055,552	2,801,423
Assignments (revenue or other receivables)	343,305	320,728
Guarantees and warranties	198,468	172,853
Securities	169,716	155,886
Guarantees of state or organizations owned by state	62,449	92,216
Cash deposits	37,755	39,387
Other	486,732	455,688
Total	<u>4,353,977</u>	<u>4,038,181</u>

The coverage level of the loan portfolio (total collaterals) increased by 6.97%, as well as the coverage level to the extent of the exposures increased by 1.09% as at 31 December 2016.

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

28.1. Credit risk [continued]

28.1.3. Restructured loans

	2016		2015	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Loans to medium and large corporates ¹	93,931	32,187	171,394	60,019
Retail loans	64,815	14,686	74,733	18,153
Loans to micro and small enterprises	13,589	2,008	11,134	1,570
Municipal loans	<u>19</u>	=	=	=
Total	<u>172,354</u>	<u>48,881</u>	<u>257,261</u>	<u>79,742</u>

Restructured portfolio definition

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

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

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

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

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

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

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

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

¹ They include project and syndicated loans.

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

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories¹

Securities held for trading as at 31 December 2016

	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Not rated	Total
Shares	31	34	31	15	16	-	17	-	104,258	104,402
Government bonds	-	-	-	-	29,069	10,857	169	-	-	40,095
Interest bearing treasury bills	-	-	-	-	-	15,639	-	-	-	15,639
Discounted Treasury bills	-	-	-	-	-	97	-	-	-	97
Other securities	-	-	-	-	-	-	2,519	11,492	385	14,396
Other non-interest bearing securities	=	=	=	=	=	<u>1,602</u>	=	=	<u>7,635</u>	<u>9,237</u>
Total	<u>31</u>	<u>34</u>	<u>31</u>	<u>15</u>	<u>29,085</u>	<u>28,195</u>	<u>2,705</u>	<u>11,492</u>	<u>112,278</u>	<u>183,866</u>
Accrued interest										930
Total										<u>184,796</u>

Securities available-for-sale as at 31 December 2016

	A1	A2	Baa2	Baa3	Ba1	Ba2	B1	C	Caa3	Not rated	Total
Government bonds	-	14,806	100,763	1,122,876	33,938	28,948	-	-	14,888	6,959	1,323,178
Corporate bonds	-	-	-	1,359	11,469	4,331	914	2	-	112,458	130,533
Discounted Treasury bills	-	-	-	12,320	-	8,624	-	-	-	-	20,944
Other securities	-	-	-	-	-	-	-	-	-	441	441
Other non-interest bearing securities	<u>3,954</u>	=	=	<u>500</u>	=	=	=	=	=	<u>32,274</u>	<u>36,728</u>
Total	<u>3,954</u>	<u>14,806</u>	<u>100,763</u>	<u>1,137,055</u>	<u>45,407</u>	<u>41,903</u>	<u>914</u>	<u>2</u>	<u>14,888</u>	<u>152,132</u>	<u>1,511,824</u>
Accrued interest											15,574
Total											<u>1,527,398</u>

¹ Moody's ratings

OTP BANK PLC.
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories¹ [continued]

Securities held-to-maturity as at 31 December 2016

	A2	Baa2	Baa3	Ba1	B1	Caa3	Not rated	Total
Government bonds	22,302	4,349	1,012,642	-	27,235	28,184	1,185	1,095,897
Discounted Treasury bills	-	-	-	-	-	-	113	113
Mortgage bonds	-	-	-	52	-	-	-	52
Corporate bonds	=	=	=	=	=	=	5	5
Total	<u>22,302</u>	<u>4,349</u>	<u>1,012,642</u>	<u>52</u>	<u>27,235</u>	<u>28,184</u>	<u>1,303</u>	<u>1,096,067</u>
Accrued interest							18,960	
Total								<u>1,115,027</u>

¹ Moody's ratings

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' (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 is, foreign currency risk and interest rate risk is detailed in Note 36, 37 and 38, respectively.)

28.2.1. Market Risk sensitivity analysis

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

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

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

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

Historical VaR (99%, one-day) by risk type	Average	
	2016	2015
Foreign exchange	237	441
Interest rate	724	459
Equity instruments	2	3
Diversification	(213)	(215)
Total VaR exposure	<u>750</u>	<u>688</u>

The table above shows the 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.

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 28.2.2., for interest rate risk in Note 28.2.3., and for equity price sensitivity analysis in Note 28.2.4. below.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2. Market risk [continued]

28.2.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.

The strategic open position related to the foreign operations was short, amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) as at 31 December 2016. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at Group level -, and so FX risk affects the Group's other comprehensive income and not its earnings.

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

Probability	Effects to the Consolidated Statement of Recognized	
	Income in 3 months period	
	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.

28.2.3. Interest rate sensitivity analysis

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

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

OTP BANK PLC.
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FOR THE YEAR ENDED 31 DECEMBER 2016

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

28.2 Market risk [continued]

28.2.3. Interest rate sensitivity analysis [continued]

The sensitivity of interest income to changes in BUBOR was analysed by 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 0.0% (alternative scenario)

The net interest income in a one year period after 31 December 2016 would be decreased by HUF 924 million (probable scenario) and HUF 3,416 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,616 million (probable scenario) and HUF 3,874 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2015.

This effect is counterbalanced by capital gains HUF 291 million (or probable scenario), HUF 648 million (for alternative scenario) as at 31 December 2016 and (HUF 291 million for probable scenario, HUF 1,109 million for alternative scenario) as at 31 December 2015 on the government bond portfolio held for hedging (economic).

Furthermore, the effects of an instant 10bps 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 (in HUF million):

Description	2016		2015	
	Effects to the net interest income (one-year period)	Effects to capital (Price change of available-for-sale government bonds)	Effects to the net interest income (one-year period)	Effects to capital (Price change of available-for-sale government bonds)
HUF (0.1%) parallel shift	(1,383)	195	(588)	195
EUR (0.1%) parallel shift	(594)	-	(614)	-
USD (0.1%) parallel shift	(100)	=	(41)	=
Total	<u>(2,077)</u>	<u>195</u>	<u>(1,243)</u>	<u>195</u>

28.2.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

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

Description	2016	2015
VaR (99%, one day, HUF million)	2	(3)
Stress test (HUF million)	(21)	(53)

OTP BANK PLC.
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2. Market risk [continued]

28.2.5. Capital management

Capital management

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

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

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

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

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business.

The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

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

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

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 16.0%, the Regulatory capital was HUF 1,079,064 million and the Total regulatory capital requirement was HUF 538,437 million as at 31 December 2016. The same ratios calculated as at 31 December 2015 were the following: 16.2%, HUF 1,064,383 million and HUF 526,101 million.

OTP BANK PLC.
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2 Market risk [continued]

28.2.5. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	2016	2015
<i>Core capital (Tier 1) = Common Equity Tier 1 (CET 1)</i>	911,328	873,124
Issued capital	28,000	28,000
Reserves	1,239,177	1,230,035
Fair value corrections	44,265	28,125
Other capital components	(126,107)	(152,808)
Non-controlling interests	598	572
Treasury shares	(60,121)	(58,021)
Goodwill and other intangible assets	(164,343)	(158,370)
Other adjustments	(50,141)	(44,409)
Additional Tier 1 (AT1)	-	-
<i>Supplementary capital (Tier 2)</i>	167,736	191,259
Subordinated bonds and loans	77,458	99,054
Other issued capital components	89,935	92,092
Components recognized in T2 capital issued by subsidiaries	343	113
Regulatory capital¹	<u>1,079,064</u>	<u>1,064,383</u>
Credit risk capital requirement	427,571	419,670
Market risk capital requirement	36,455	37,183
Operational risk capital requirement	74,411	69,248
Total requirement regulatory capital	<u>538,437</u>	<u>526,101</u>
Surplus capital	<u>540,627</u>	<u>538,282</u>
CET 1 ratio	13.5%	13.3%
Tier 1 ratio	13.5%	13.3%
Capital adequacy ratio	<u>16.0%</u>	<u>16.2%</u>

Basel III

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

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

¹ The regulatory capital contains neither the unaudited profit for year 2016 nor the payable dividend from the result of 2016 and 2015 in accordance with 575/2013 EU regulation.

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

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

Contingent liabilities

	2016	2015
Commitments to extend credit	1,234,450	1,166,386
Guarantees arising from banking activities	426,541	374,422
Legal disputes (disputed value)	13,053	54,732
Confirmed letters of credit	12,702	18,237
Other	<u>302,362</u>	<u>283,819</u>
Total	<u>1,989,108</u>	<u>1,897,596</u>

Legal disputes

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

On 14 December 2016 the 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 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 Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 15,067 million and HUF 6,680 million as at 31 December 2016 and 2015, respectively. (See Note 18.)

Commitments to extend credit, guarantees and letters of credit

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group.

A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

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

Derivatives

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

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NOTE 30: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (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. The Bank ensures the share-based payment part for the management personnel of the 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 the 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.

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 the Supervisory Board for periods of each year as follows:

¹ Until the end of 2014 Board of Directors

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

Share purchasing at a discounted price

Year	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price per share	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Price of remuneration exchanged to share
	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

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

Based on parameters accepted by Board of Directors relating to the year **2010** effective pieces are follows as at 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	-	-	-	-

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NOTE 30: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (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 of Chief Executive about the Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,530 million was recognized as expense as at 31 December 2016.

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF mn)

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

Compensations	2016	2015
Short-term employee benefits	9,207	6,227
Share-based payment	2,330	2,276
Other long-term employee benefits	497	532
Termination benefits	<u>26</u>	<u>42</u>
Total	<u>12,060</u>	<u>9,077</u>
	2016	2015
Loans provided to companies owned by the Management (normal course of business)	49,383	25,734
Commitments to extend credit and guarantees	39,660	33,943
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions)	326	340

OTP BANK PLC.
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NOTE 31: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

Types of transactions	2016		2015	
	Non-consolidated subsidiaries	Associated companies	Non-consolidated subsidiaries	Associated companies
Loans provided	2,196	2,174	1,790	2,531
Client deposits	1,552	106	509	49
Net interest income on loan provided	20	80	36	122
Net fee incomes	39	-	41	-

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 173,9 million and HUF 168 million as at 31 December 2016 and 2015 respectively.

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

	2016	2015
Members of Board of Directors and their close family members	30	24
Members of Supervisory Board	2	2
Chief executives	-	2

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

	2016	2015
Members of Board of Directors and their close family members	26	35

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

Chief executives owned AMEX Gold credit card loan in the amount of HUF 3.5 million as at 31 December 2016 and 2015, respectively, while members of the Board of Directors and their close family members owned AMEX Gold credit card loan in the amount of HUF 5.9 million as at 31 December 2016.

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned AMEX Platinum credit card loan in the amount of HUF 46.8 million and HUF 48.8 million, respectively as at 31 December 2016 and 2015.

Chief executives of the Bank owned Lombard loan in the amount of HUF 24.5 million and personal loans in the amount of HUF 10 million as at 31 December 2016.

An analysis of payment to chief executives of the Group related to their activity in Board of Directors and Supervisory Board is as follows:

	2016	2015
Members of Board of Directors	1,935	1,767
Members of Supervisory Board	<u>168</u>	<u>144</u>
Total	<u>2,103</u>	<u>1,911</u>

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

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NOTE 32: ACQUISITION (in HUF mn)

a) Purchase and consolidation of subsidiaries

According to the announcement published on 3 February 2016, **AXA Bank Europe SA** and OTP signed an agreement on purchasing the business unit of AXA Bank Hungary. The purchase agreement includes the take-over of the retail credits and savings, as well as the corporate portfolio and the employees of AXA Bank, which meant 250 people.

The retail-focused AXA Bank is presented 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 Group's Hungarian mortgage portfolio increased with 18%.

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

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

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

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

OTP BANK PLC.
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NOTE 32: ACQUISITION (in HUF mn) [continued]

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

	2015
Cash consideration	(12,279)
Cash acquired	<u>16,933</u>
Net cash outflow	<u>4,654</u>

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

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

Significant subsidiaries

<u>Name</u>	<u>Ownership (Direct and Indirect)</u>		<u>Activity</u>
	2016	2015	
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.88%	97.87%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	97.92%	97.92%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.26%	99.26%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	real estate management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd.	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

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

Significant associates and joint ventures¹

Most significant indicators of associates and joint ventures which are accounted for using equity method (Szallas.hu and D-ÉG Thermoset Ltd.) or accounted on cost (Company for Cash Services Ltd. and Suzuki Pénzügyi Szolgáltató Ltd.) is as follows:

As at 31 December 2016

	<i>Szallas.hu Ltd.</i>	<i>D-ÉG Thermoset Ltd.</i>	<i>Company for Cash Services Ltd.</i>	<i>Suzuki Pénzügyi Szolgáltató Ltd.</i>	<i>Total</i>
Total assets	1,148	4,862	2,302	579	8,891
Total liabilities	543	4,004	103	-	4,650
Shareholders' equity	605	858	2,199	579	4,241
Total revenues	2,647	4,399	1,152	2	8,200

As at 31 December 2015

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

NOTE 34: TRUST ACTIVITIES (in HUF mn)

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

	2016	2015
The amount of loans managed by the Group as a trustee	35,383	37,554

NOTE 35: 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	22.9%	28.2%

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

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

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

¹ Based on unaudited financial statements.

OTP BANK PLC.
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NOTE 35: CONCENTRATION OF ASSETS AND LIABILITIES [continued]

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

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

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

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

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

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

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

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

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

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

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

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NOTE 36: MATURITY ANALYSIS OF ASSETS, 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 Banks	1,229,096	396,261	-	-	-	1,625,357
Placements with other banks, net of allowance for placement losses	280,215	29,213	52,133	15,431	228	377,220
Securities held for trading	13,545	22,445	24,416	11,782	90,167	162,355
Securities available-for-sale	56,516	104,970	1,001,181	256,265	30,292	1,449,224
Loans, net of allowance for loan losses	1,025,865	889,362	1,836,910	2,497,755	468	6,250,360
Associates and other investments	-	-	-	-	9,836	9,836
Securities held-to-maturity	57,025	65,146	362,898	582,257	-	1,067,326
Property, equipment and intangible assets	444	1,780	10,887	9,844	332,561	355,516
Investment property, investment property subject to operating lease	4,200	-	9,187	6,190	9,869	29,446
Other assets ¹	570	2,382	16,824	1,567	-	21,343
TOTAL ASSETS	<u>2,667,476</u>	<u>1,511,559</u>	<u>3,314,436</u>	<u>3,381,091</u>	<u>473,421</u>	<u>11,347,983</u>
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	159,624	54,276	176,214	154,507	-	544,621
Deposits from customers	6,878,058	1,385,744	222,739	67,052	-	8,553,593
Liabilities from issued securities	24,586	29,374	86,613	6,958	-	147,531
Other liabilities ¹	324,404	31,697	16,440	8,340	2,582	383,463
Subordinated bonds and loans ²	353	164	1	-	76,945	77,463
TOTAL LIABILITIES	<u>7,387,025</u>	<u>1,501,255</u>	<u>502,007</u>	<u>236,857</u>	<u>79,527</u>	<u>9,706,671</u>
NET POSITION	<u>(4,719,549)</u>	<u>10,304</u>	<u>2,812,429</u>	<u>3,144,234</u>	<u>393,894</u>	<u>1,641,312</u>
Receivables from derivative financial instruments classified as held for trading	2,320,707	547,029	154,793	20,451	-	3,042,980
Liabilities from derivative financial instruments classified as held for trading	<u>(2,306,574)</u>	<u>(539,463)</u>	<u>(143,258)</u>	<u>(23,499)</u>	-	<u>(3,012,794)</u>
Net position of financial instruments classified as held for trading	<u>14,133</u>	<u>7,566</u>	<u>11,535</u>	<u>(3,048)</u>	<u>-</u>	<u>30,186</u>
Receivables from derivative financial instruments designated as fair value hedge	7,795	1,732	73,499	4,442	-	87,468
Liabilities from derivative financial instruments designated as fair value hedge	<u>(6,687)</u>	<u>(205)</u>	<u>(98,096)</u>	<u>(4,233)</u>	-	<u>(109,221)</u>
Net position of financial instruments designated as fair value hedge	<u>1,108</u>	<u>1,527</u>	<u>(24,597)</u>	<u>209</u>	<u>-</u>	<u>(21,753)</u>
Net position of derivative financial instruments total	<u>15,241</u>	<u>9,093</u>	<u>(13,062)</u>	<u>(2,839)</u>	<u>=</u>	<u>8,433</u>
Commitments to extend credit	410,141	589,593	188,911	45,689	116	1,234,450
Bank guarantees	<u>145,896</u>	<u>114,319</u>	<u>59,638</u>	<u>104,974</u>	<u>1,714</u>	<u>426,541</u>
Off-balance sheet commitments	<u>556,037</u>	<u>703,912</u>	<u>248,549</u>	<u>150,663</u>	<u>1,830</u>	<u>1,660,991</u>

¹ Without derivative financial instruments.

² See Note 19.

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

As at 31 December 2015	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,878,888	72	-	-	-	1,878,960
Placements with other banks, net of allowance for placement losses	291,888	7,489	1,022	178	317	300,894
Securities held-for-trading	4,718	6,042	15,929	8,565	86,083	121,337
Securities available-for-sale	7,854	95,051	925,349	194,913	38,966	1,262,133
Loans, net of allowance for loan losses	678,509	882,873	1,819,370	2,480,019	16,601	5,877,372
Associates and other investments	-	-	-	-	10,028	10,028
Securities held-to-maturity	59,171	84,297	407,096	412,147	-	962,711
Property, equipment and intangible assets	2,203	2,466	9,503	4,256	331,042	349,470
Investment property, investment property subject to operating lease	50	916	10,359	12,970	6,147	30,442
Other assets ¹	122,663	39,229	66,259	442	8,954	237,547
TOTAL ASSETS	<u>3,045,944</u>	<u>1,118,435</u>	<u>3,254,887</u>	<u>3,113,490</u>	<u>498,138</u>	<u>11,030,894</u>
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	171,469	57,073	168,058	157,092	-	553,692
Deposits from customers	6,615,990	1,107,398	242,363	40,337	1	8,006,089
Liabilities from issued securities	42,910	60,197	105,590	34,370	-	243,067
Other liabilities ¹	296,857	82,815	3,395	8,785	9,302	401,154
Subordinated bonds and loans ²	1,817	127,336	9,292	8,439	110,566	257,450
TOTAL LIABILITIES	<u>7,129,043</u>	<u>1,434,819</u>	<u>528,698</u>	<u>249,023</u>	<u>119,869</u>	<u>9,461,452</u>
NET POSITION	<u>(4,083,099)</u>	<u>(316,384)</u>	<u>2,726,189</u>	<u>2,864,467</u>	<u>378,269</u>	<u>1,569,442</u>
Receivables from derivative financial instruments classified as held for trading	1,983,024	983,886	396,165	21,157	-	3,384,232
Liabilities from derivative financial instruments classified as held for trading	<u>(1,972,569)</u>	<u>(978,896)</u>	<u>(372,370)</u>	<u>(21,240)</u>	-	<u>(3,345,075)</u>
Net position of financial instruments classified as held for trading	<u>10,455</u>	<u>4,990</u>	<u>23,795</u>	<u>(83)</u>	-	<u>39,157</u>
Receivables from derivative financial instruments designated as fair value hedge	5,604	926	90,703	3,074	-	100,307
Liabilities from derivative financial instruments designated as fair value hedge	<u>(5,554)</u>	<u>(368)</u>	<u>(102,437)</u>	<u>(882)</u>	-	<u>(109,241)</u>
Net position of financial instruments designated as fair value hedge	<u>50</u>	<u>558</u>	<u>(11,734)</u>	<u>2,192</u>	-	<u>(8,934)</u>
Net position of derivative financial instruments total	<u>10,505</u>	<u>5,548</u>	<u>12,061</u>	<u>2,109</u>	-	<u>30,223</u>
Commitments to extend credit	347,477	562,694	241,577	14,638	-	1,166,386
Bank guarantees	<u>74,107</u>	<u>79,463</u>	<u>123,525</u>	<u>96,792</u>	<u>535</u>	<u>374,422</u>
Off-balance sheet commitments	<u>421,584</u>	<u>642,157</u>	<u>365,102</u>	<u>111,430</u>	<u>535</u>	<u>1,540,808</u>

¹ Without derivative financial instruments.

² See Note 19.

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

As at 31 December 2016

	USD	EUR	CHF	Others	Total
Assets	294,327	2,162,945	46,261	2,778,704	5,282,237
Liabilities	(504,644)	(1,652,058)	(37,597)	(2,355,397)	(4,549,696)
Off-balance sheet assets and liabilities, net	<u>221,409</u>	<u>174,524</u>	<u>(17,096)</u>	<u>(344,752)</u>	<u>34,085</u>
Net position	<u>11,092</u>	<u>685,411</u>	<u>(8,432)</u>	<u>78,555</u>	<u>766,626</u>

As at 31 December 2015

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

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

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

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

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

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

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

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

As at 31 December 2016

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	501,289	530,368	185	262	-	80	-	-	-	-	89,422	503,751	590,896	1,034,461	1,625,357
fixed rate	500,465	443,693	9	174	-	80	-	-	-	-	-	-	500,474	443,947	944,421
variable rate	824	86,675	176	88	-	-	-	-	-	-	-	-	1,000	86,763	87,763
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	89,422	503,751	89,422	503,751	593,173
Placements with other banks, net of allowance for placements losses	45,212	221,870	13,356	21,503	5	23,361	515	-	428	797	1,532	34,951	61,048	302,482	363,530
fixed rate	41,410	119,703	2,265	16,124	5	9,676	515	-	428	400	-	-	44,623	145,903	190,526
variable rate	3,802	102,167	11,091	5,379	-	13,685	-	-	-	397	-	-	14,893	121,628	136,521
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,532	34,951	1,532	34,951	36,483
Securities held for trading	6,224	916	6,634	2,213	11,757	13,311	119	12,187	5,235	15,431	106,591	4,178	136,560	48,236	184,796
fixed rate	2,419	916	6,167	2,213	7,268	13,311	119	12,187	5,235	15,431	-	-	21,208	44,058	65,266
variable rate	3,805	-	467	-	4,489	-	-	-	-	-	-	-	8,761	-	8,761
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	106,591	4,178	106,591	4,178	110,769
Securities available-for-sale	22,867	29,448	17,896	44,262	84,337	81,962	330,032	29,066	555,385	279,939	23,375	28,524	1,033,892	493,201	1,527,093
fixed rate	-	23,320	1,772	14,040	84,337	81,960	330,032	29,066	555,385	279,939	-	-	971,526	428,325	1,399,851
variable rate	22,867	6,128	16,124	30,222	-	2	-	-	-	-	-	-	38,991	36,352	75,343
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	23,375	28,524	23,375	28,524	51,899
Loans, net of allowance for loan losses	550,597	1,796,652	713,311	746,620	314,546	266,373	221,238	140,765	478,810	323,363	89,765	94,192	2,368,267	3,367,965	5,736,232
fixed rate	26,310	296,834	46,718	66,807	63,103	186,381	67,008	124,752	166,910	299,293	-	-	370,049	974,067	1,344,116
variable rate	524,287	1,499,818	666,593	679,813	251,443	79,992	154,230	16,013	311,900	24,070	-	-	1,908,453	2,299,706	4,208,159
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	89,765	94,192	89,765	94,192	183,957
Securities held-to-maturity	-	28,815	25,292	3,976	220,251	3,548	59,501	4,805	693,487	58,954	15,513	85	1,014,044	100,183	1,114,227
fixed rate	-	28,184	25,292	3,976	220,251	3,534	59,501	4,805	693,487	58,954	-	-	998,531	99,453	1,097,984
variable rate	-	631	-	-	-	14	-	-	-	-	-	-	-	645	645
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	15,513	85	15,513	85	15,598
Derivative financial instruments	440,563	790,425	533,092	178,159	197,260	86,216	25,585	140,406	32,478	35,595	485,787	356,806	1,714,765	1,587,607	3,302,372
fixed rate	425,320	435,181	261,919	111,266	195,702	72,817	25,585	140,406	32,478	35,595	-	-	941,004	795,265	1,736,269
variable rate	15,243	355,244	271,173	66,893	1,558	13,399	-	-	-	-	-	-	287,974	435,536	723,510
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	485,787	356,806	485,787	356,806	842,593

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

As at 31 December 2016

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	79,392	141,526	6,066	16,888	53,690	8,908	34,791	8,471	180,193	11,766	102	1,982	354,234	189,541	543,775
fixed rate	78,779	58,004	5,974	859	27,356	5,625	34,744	5,740	179,983	6,219	-	-	326,836	76,447	403,283
variable rate	613	83,522	92	16,029	26,334	3,283	47	2,731	210	5,547	-	-	27,296	111,112	138,408
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	102	1,982	102	1,982	2,084
Deposits from customers	1,310,585	2,524,949	351,252	363,467	378,096	596,436	5,227	138,664	1,988,233	736,961	10,139	136,574	4,043,532	4,497,051	8,540,583
fixed rate	514,177	1,185,713	326,181	360,605	378,096	596,436	5,227	138,664	4,454	99,215	-	-	1,228,135	2,380,633	3,608,768
variable rate	796,408	1,339,236	25,071	2,862	-	-	-	-	1,983,779	637,746	-	-	2,805,258	1,979,844	4,785,102
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	10,139	136,574	10,139	136,574	146,713
Liabilities from issued securities	1	9,340	2,957	9,375	7,480	18,451	9,320	204	87,367	38	1,951	416	109,076	37,824	146,900
fixed rate	1	8,238	2,957	8,386	7,480	16,542	9,320	204	87,367	38	-	-	107,125	33,408	140,533
variable rate	-	1,102	-	989	-	1,909	-	-	-	-	-	-	-	4,000	4,000
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,951	416	1,951	416	2,367
Derivative financial instruments	1,105,795	124,832	534,213	150,853	249,185	11,700	161,519	16,746	41,332	59,631	374,777	449,963	2,466,821	813,725	3,280,546
fixed rate	740,009	119,742	313,883	56,132	248,403	2,351	161,519	16,746	41,332	59,631	-	-	1,505,146	254,602	1,759,748
variable rate	365,786	5,090	220,330	94,721	782	9,349	-	-	-	-	-	-	586,898	109,160	696,058
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	374,777	449,963	374,777	449,963	824,740
Subordinated bonds and loans	-	-	-	76,936	-	-	-	-	-	-	-	522	-	77,458	77,458
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	76,936	-	-	-	-	-	-	-	-	-	76,936	76,936
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	522	-	522	522
Net position	(929,021)	597,847	415,278	379,476	139,705	(160,644)	426,133	163,144	(531,302)	(94,317)	425,016	433,030	(54,191)	1,318,536	1,264,345

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

As at 31 December 2015

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

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

As at 31 December 2015

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

	2016	2015
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	202,210	63,583
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	264,214,052	262,204,162
Basic Earnings per share (in HUF)	<u>765</u>	<u>242</u>
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	202,210	63,583
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	264,266,374	262,419,544
Diluted Earnings per share (in HUF)	<u>765</u>	<u>242</u>

	2016	2015
	Number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	15,785,958	17,795,848
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	<u>264,214,052</u>	<u>262,204,162</u>
Dilutive effects of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares ¹	52,322	215,382
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	<u>264,266,374</u>	<u>262,419,544</u>

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

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

As at 31 December 2016

	Net interest gain and loss	Net non- interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	9,866	-	-	-
Placements with other banks, net of allowance for placements losses	4,263	-	133	-
Securities held for trading	-	1,450	-	-
Securities available-for-sale	34,557	19,378	55	12,993
Loans, net of allowance for loan losses	499,273	11,074	(93,605)	-
Securities held-to-maturity	51,427	-	-	-
Other assets	3,366	-	-	-
Derivative financial instruments	3,408	493	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(7,723)	-	-	-
Deposits from customers	(63,743)	158,893	-	-
Liabilities from issued securities	(4,726)	-	-	-
Subordinated bonds and loans	(10,239)	-	-	-
Total	<u>519,729</u>	<u>191,288</u>	<u>(93,417)</u>	<u>12,993</u>

As at 31 December 2015

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 40. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

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

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

a) Fair value of financial assets and liabilities

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Banks	1,625,357	1,625,466	1,878,960	1,880,223
Placements with other banks, net of allowance for placements losses	363,530	374,733	300,568	318,972
Financial assets at fair value through profit or loss	293,106	293,106	253,782	253,782
<i>Securities held for trading</i>	<i>184,796</i>	<i>184,796</i>	<i>111,976</i>	<i>111,976</i>
<i>Fair value of derivative financial instruments classified as held for trading</i>	<i>108,310</i>	<i>108,310</i>	<i>141,806</i>	<i>141,806</i>
Securities available-for-sale	1,527,093	1,527,093	1,305,486	1,305,486
Loans, net of allowance for loan losses ¹	5,736,232	6,385,775	5,409,967	6,028,495
Securities held-to-maturity	1,114,227	1,198,227	926,677	1,010,112
Fair value of derivative financial instruments designated as fair value hedge	<u>7,887</u>	<u>7,887</u>	<u>16,009</u>	<u>16,151</u>
Financial assets total	<u>10,667,432</u>	<u>11,412,287</u>	<u>10,091,449</u>	<u>10,813,221</u>

¹ Higher discount rate due to the lower yield environment resulted in higher fair value comparing to the carrying values.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	543,775	540,194	533,310	533,338
Deposits from customers	8,540,583	8,511,959	7,984,579	7,969,922
Liabilities from issued securities	146,900	258,372	239,376	351,488
Fair value of derivative financial instruments designated as fair value hedge	20,002	20,002	13,723	13,723
Fair value of derivative financial instruments classified as held for trading	75,871	75,871	101,561	101,561
Subordinated bonds and loans	<u>77,458</u>	<u>69,966</u>	<u>234,784</u>	<u>240,619</u>
Financial liabilities total	<u>9,404,589</u>	<u>9,476,364</u>	<u>9,107,333</u>	<u>9,210,651</u>

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	38,878	33,770	35,435	40,475
Negative fair value of interest rate swaps classified as held for trading	(33,012)	(30,453)	-33,264	(37,135)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	17,148	15,551	17,744	14,083
Negative fair value of foreign exchange swaps classified as held for trading	(13,125)	(7,687)	-13,405	(8,000)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated as fair value hedge	6,888	15,393	9,428	7,932
Negative fair value of interest rate swaps designated as fair value hedge	(19,976)	(13,723)	-31,580	(17,211)
Foreign exchange swaps designated as fair value hedge				
Positive fair value of foreign exchange swaps designated as fair value hedge	-	-	-	-
Negative fair value of foreign exchange swaps designated as fair value hedge	-	-	-	-
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	33,768	84,270	31,646	84,721
Negative fair value of CCIRS classified as held for trading	(14,984)	(53,505)	-13,473	(54,309)
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)

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

b) Fair value of derivative instruments [continued]

	Fair value		Notional value, net	
	2016	2015	2016	2015
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated as fair value hedge	998	604	1,031	693
Negative fair value of CCIRS designated as fair value hedge	(26)	-	(14)	-
Mark-to-market CCIRS designated as fair value hedge				
Positive fair value of mark-to-market CCIRS designated as fair value hedge	-	-	-	-
Negative fair value of mark-to-market CCIRS designated as fair value hedge	-	-	-	-
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated as fair value hedge	1	12	1	12
Negative fair value of other derivative contracts designated as fair value hedge	-	-	-	-
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	18,184	8,215	13,098	5,098
Negative fair value of other derivative contracts classified as held for trading	(14,050)	(7,546)	(8,616)	(4,290)
Derivative financial assets total	<u>116,197</u>	<u>157,815</u>	<u>108,766</u>	<u>153,014</u>
Derivative financial liabilities total	<u>(95,873)</u>	<u>(115,284)</u>	<u>(101,017)</u>	<u>(123,088)</u>
Derivative financial instruments total	<u>20,324</u>	<u>42,531</u>	<u>7,749</u>	<u>29,926</u>

c) Hedge accounting

The Group regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading.

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

As at 31 December 2016

Types of the hedges	Hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Fair value hedges	IRS	HUF (13,088) million	Interest rate
2) Fair value hedges	CCIRS	HUF 972 million	Interest rate / Foreign exchange
3) Net investment hedge in foreign operations ¹	CCIRS and issued securities	HUF (577) million	Foreign exchange

As at 31 December 2015

Types of the hedges	Hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Fair value hedges	IRS	HUF 1,670 million	Interest rate
2) Fair value hedges	CCIRS	HUF 65 million	Interest rate / Foreign currency
3) Net investment hedge in foreign operations ¹	CCIRS and issued securities	HUF 548 million	Foreign exchange

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges

1. Securities available-for-sale

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

	2016	2015
Fair value of the hedging IRS instruments	(19,305)	(11,266)

2. Loans to customers / corporates

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

The Bank has further floating interest rate loans denominated in RON and CHF. These loans are exposed to the change of foreign exchange of RON and CHF and the risk of FX component of changes in interest rates of CHF. In order to hedge the foreign currency risk and the interest rate risk OTP 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 the Group are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS and index option transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

	2016	2015
Fair value of the hedging IRS instruments	6,221	13,101

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 41: 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	
				on the hedged items	on hedging instruments
Securities available-for-sale	IRS	HUF 853,804 million	HUF (19,305) million	HUF 11,723 million	HUF (13,619) million
Loans to customers	IRS	HUF 451 million	HUF (4) million	HUF (161) million	HUF 161 million
Loans to corporates	CCIRS	HUF 53,937 million	HUF 972 million	HUF (168) million	HUF 168 million
Liabilities from issued securities	IRS	HUF 69,959 million	HUF 6,221 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	
				on the hedged items	on hedging instruments
Securities available-for-sale	IRS	HUF 668,484 million	HUF (11,266) million	HUF 9,818 million	HUF (8,696) million
Loans to customers	IRS	HUF 5,561 million	HUF (165) million	HUF (252) million	HUF 252 million
Loans to corporates	CCIRS	HUF 56,458 million	HUF 65 million	HUF 202 million	HUF 65 million
Deposits from customers	IRS	-	-	HUF 107 million	HUF (107) million
Liabilities from issued securities	IRS	HUF 71,786 million	HUF 13,101 million	HUF 348 million	HUF (348) million
Liabilities from issued securities	Index option	-	-	HUF 9 million	HUF (9) million

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

e) Fair value levels

Methods and significant assumptions used to determine fair value of the different levels 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	292,176	166,204	125,972	-
<i>from this: securities held for trading</i>	183,866	166,117	17,749	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	108,310	87	108,223	-
Securities available-for-sale	1,511,519	1,151,543	352,280	7,696
Positive fair value of derivative financial instruments designated as fair value hedge	<u>7,887</u>	-	<u>7,887</u>	-
Financial assets measured at fair value total	<u>1,811,582</u>	<u>1,317,747</u>	<u>486,139</u>	<u>7,696</u>
Negative fair value of derivative financial instruments classified as held for trading	75,871	267	75,604	-
Negative fair value of derivative financial instruments designated as fair value hedge	<u>20,002</u>	-	<u>19,943</u>	<u>59</u>
Financial liabilities measured at fair value total	<u>95,873</u>	<u>267</u>	<u>95,547</u>	<u>59</u>
As at 31 December 2015	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	253,111	103,476	149,635	-
<i>from this: securities held for trading</i>	111,305	103,455	7,850	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	141,806	21	141,785	-
Securities available-for-sale	1,284,979	1,097,952	172,353	14,674 ¹
Positive fair value of derivative financial instruments designated as fair value hedge	<u>16,009</u>	-	<u>16,009</u>	-
Financial assets measured at fair value total	<u>1,554,099</u>	<u>1,201,428</u>	<u>337,997</u>	<u>14,674</u>
Negative fair value of derivative financial instruments classified as held for trading	101,561	35	101,526	-
Negative fair value of derivative financial instruments designated as fair value hedge	<u>13,723</u>	-	<u>13,723</u>	-
Financial liabilities measured at fair value total	<u>115,284</u>	<u>35</u>	<u>115,249</u>	<u>=</u>

¹ From the whole portfolio HUF 2,886 million includes shares of Visa Inc. as at 31 December 2016 and HUF 10,789 million includes shares of Visa Europe as at 31 December 2015. The purchase price includes three components (upfront component: cash and Visa Inc. "C" preferential shares with limited marketability; and deferred earn-out payment). Sensitivity analysis is not applicable. (See details in Note 43.)

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

e) Fair value levels [continued]

Movements in Level 3 financial instruments measured at fair value

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

Movement on securities available-for-sale in Level 3	Opening balance	Increase / (Decrease)	Closing balance
OTP Bank Plc.	5,667	(3,804)	1,863
DSK Bank EAD	3,031	(1,373)	1,658
OTP Factoring Ltd.	2,087	9	2,096
OTP banka Hrvatska d.d.	1,136	(757)	379
OTP Bank Romania S.A.	1,027	(685)	342
OTP Banka Slovensko a.s.	907	(605)	302
OTP Factoring Ukarine LLC	717	262	979
OTP banka Srbija a.d.	27	(24)	3
LLC AMC OTP Capital	74	=	74
Total	<u>14,673</u>	<u>(6,977)</u>	<u>7,696</u>

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

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

The reportable segments of the Group on the base of IFRS 8 are the following:

OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries and Corporate Center.

OTP Core is an economic unit for measuring the result of core business activity of the Group in Hungary. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in the Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financial Point Ltd., and companies providing intragroup financing.

Corporate Centre: it is separated from OTP Core consolidated financial statements, this is a virtual entity responsible for rendering debt and capital market related to services to the subsidiaries across the Group, mainly in the form of capital and credit financing.

The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., OTP Factoring Montenegro d.o.o. and OTP Factoring Slovensko s.r.o. are included into the foreign banks segment.

The activities of the other subsidiaries are out of the leasing and fund management activity, like: OTP Real Estate Ltd., OTP Life Annuity Ltd, OTP Funds Servicing and Consulting Ltd., Monicomp Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

The reportable business and geographical segments of the Group are those components where:

- separated incomes and expenses, assets and liabilities can be identified and assignable to the segments,
- transactions between the different segments were eliminated,
- the main decisive board of the Group regularly controls the operating results,
- separated financial information is available.

Goodwill / investment impairment and their tax saving effect:

Nor in the year ended 31 December 2016 neither in the year ended 31 December 2015 no goodwill impairment was recognized at all. In the year 2016 due to the impairment on investment in OTP Factoring Ukraine LLC HUF 11,552 million, while in year 2015 in OTP Bank JSC (Ukraine) HUF 6,683 million tax shield was recognized.

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

OTP BANK PLC.
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FOR THE YEAR ENDED 31 DECEMBER 2016

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

As at 31 December 2016

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Cnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b	2	3=4+...+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	202,452		202,452																
Adjustments (total)		1,276	1,276																
Dividends and net cash transfers (after income tax)		412	412																
Goodwill / investment impairment (after income tax)		11,552	11,552																
Bank tax on financial institutions (after income tax)		(13,950)	(13,950)																
Fine imposed by the Hungarian Competition Authority (after income tax)		1,922	1,922																
Expected corporate tax impact of switching to IFRS from HAS in Hungary		(5,766)	(5,766)																
Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary		(6,054)	(6,054)																
Gain on the sale of Visa Europe shares (after income tax)		13,160	13,160																
Consolidated adjusted net profit for the year	202,452	(1,276)	201,176	122,190	73,623	14,636	10,202	47,383	1,653	39	3,782	(2,224)	(1,848)	12,997	3,967	6,723	2,307	(5,868)	(1,766)
Profit before income tax	236,295	8,376	244,771	151,866	86,165	19,648	11,679	52,380	2,136	5	4,647	(2,480)	(1,850)	15,199	4,264	8,114	2,821	(6,615)	(1,844)
Adjusted operating profit	329,868	6,032	335,900	143,672	179,108	54,537	22,217	70,111	8,543	697	13,538	6,780	2,685	18,745	8,550	7,894	2,301	(4,318)	(1,307)
Adjusted total income	785,966	(49,651)	736,315	354,671	349,556	106,031	37,304	112,502	26,643	7,720	31,442	17,892	10,022	52,469	17,038	10,842	24,589	(4,015)	(16,366)
Adjusted net interest income	519,729	2,221	521,950	235,871	272,618	92,025	26,478	84,023	20,315	5,769	22,800	14,257	6,951	23,936	19,804	33	4,099	(4,015)	(6,460)
Adjusted net profit from fees and commissions	222,991	(47,025)	175,966	100,214	64,636	13,749	8,746	26,034	3,230	1,653	5,330	3,272	2,622	11,325	(491)	10,796	1,020	0	(209)
Adjusted other net non-interest income	43,246	(4,847)	38,399	18,586	12,302	257	2,080	2,445	3,098	298	3,312	363	449	17,208	(2,275)	13	19,470	0	(9,697)
Adjusted other administrative expenses	(456,098)	55,683	(400,415)	(210,999)	(170,448)	(51,494)	(15,087)	(42,391)	(18,100)	(7,023)	(17,904)	(11,112)	(7,337)	(33,724)	(8,488)	(2,948)	(22,288)	(303)	15,059
Total risk costs	(93,473)	254	(93,219)	6,104	(92,943)	(34,889)	(10,538)	(17,731)	(6,407)	(692)	(8,891)	(9,260)	(4,535)	(3,546)	(4,286)	220	520	(2,297)	(537)
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(93,473)	20,249	(73,224)	14,036	(83,905)	(34,021)	(11,866)	(12,980)	(5,541)	(890)	(5,331)	(8,987)	(4,289)	(3,010)	(3,088)	0	78	0	(345)
Other provision (adjustment)	0	(19,995)	(19,995)	(7,932)	(9,038)	(868)	1,328	(4,751)	(866)	198	(3,560)	(273)	(246)	(536)	(1,198)	220	442	(2,297)	(192)
Total other adjustments (one-off items)¹	0	2,090	2,090	2,090	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income tax	(33,943)	(9,652)	(43,595)	(29,676)	(12,542)	(5,012)	(1,477)	(4,997)	(483)	34	(865)	256	2	(2,202)	(297)	(1,391)	(514)	747	78
Total Assets	11,307,665	0	11,307,665	7,247,291	4,820,637	648,807	307,117	1,852,901	588,188	123,279	649,063	453,720	197,562	727,025	435,283	19,040	272,702	1,370,966	(2,858,254)
Total Liabilities	9,887,016	0	9,887,016	5,934,832	4,224,484	518,032	282,874	1,605,634	545,678	94,474	575,037	426,381	176,374	544,037	405,548	2,973	135,516	657,018	(1,473,355)

() used at: provisions, impairment and expenses

¹ One-off item consists of: the result of the treasury share swap agreement at OTP Core in the amount of HUF 2,090 million.

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

As at 31 December 2015

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

() used at: provisions, impairment and expenses

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

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NOTE 43: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2016

1) Term Note Program

See details in Note 16.

2) New acquisition in Croatia

OTP banka Hrvatska d.d., the Croatian subsidiary of OTP, 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 the Group will rise to approximately 10%.

The Bank has been presented 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.

3) Agreement on purchasing unit of AXA Bank Hungary

See details in Note 32.

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

On 2 November 2015 Visa Inc. and Visa Europe Limited reached an agreement on the purchase of the shares of Visa Europe (owned by European banks) by Visa Inc. In the second quarter the proceeds after the sale of the Group members' stake in Visa Europe has been transferred and exceeded the amount that was flagged (according to Visa's notification on 15 December 2015). The cash transfer affected five group members: the Bank, DSK Bank EAD, OTP Bank Romania S.A., OTP banka Hrvatska d.d. and OTP Banka Slovensko a.s.. The after tax impact of the transaction represented HUF 13.2 billion (HUF 15.9 billion before tax) which included the realized cash transfer (HUF 9.6 billion after tax) and the discounted present values of deferred earn-out components due in 3 years and the C-type VISA Inc. shares (HUF 0.8 billion and HUF 2.8 billion respectively).

NOTE 44: POST BALANCE SHEET EVENTS

There were no significant events after the balance sheet date.

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

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 European Central Bank remains committed to maintaining loose monetary conditions.

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

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.

Russia is slow to recover from the recent years' recession. Its GDP contracted by 0.3% in whole year 2016. There is a dichotomy in its economic developments. The weaker RUB, the surge in oil production and the stabilizing oil prices helped its industrial output grow. On the other hand, the falling real incomes and the tight lending conditions dented consumption and investment in 2016 too, and consumption could not pick up even in the fourth quarter. The RUB bottomed out in January 2016 (leading the USD/RUB near 86); since then it has firmed to near-60 levels. The RUB's stabilization and the falling domestic demand led to lower inflation: prices' growth slowed from its highest of 15.9% in March 2015, to 5.0% by January 2017. The Central Bank of Russia follows strict monetary policy to ensure that inflation draws near its 4% target. To that end, the forward-looking real interest rate is kept at high level; the base rate is at 10%. Budget deficit amounted to 3.5% of GDP in 2016. The tight fiscal control may allow the deficit to gradually shrink; a part of oil revenues is spent on replenishing the fiscal reserve funds, which are becoming rather exhausted. Russia's current account surplus dropped to 1.7% of GDP in 2016 due to the lower oil revenues; the external surplus may improve in 2017 again as energy prices recover. Capital withdrawal significantly decelerated in 2016, thus Russia's external financing remained on a stable footing. Retail loan volumes slightly rose in 2016, but mostly because of the 13% year-on-year increase in mortgage loans until November owing to a subsidy programme. Consumer loans' volume stabilized in the second half-year of 2016, but it was still 6% lower year-on-year in November 2016. The expected growth in households' income may bring back demand for loans, but the high real interest rates may keep households' willingness to save at elevated level.

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

Ukraine's economy slowly stabilized in the first three quarters of 2016, and its fourth-quarter growth has far exceeded expectations. Ukraine's GDP expanded by 4.7% comparing with the same period of the last year (+2% quarter-to-quarter) in the fourth quarter thanks to the continued rise in consumption expenditure and the soaring constructions, which improved economic outlook compared to the previous quarters. Thus the Ukrainian economy's 1.6% growth rate in the whole of 2016 has beaten expectations. However, geopolitical risks are still high, as proved by the mounting tension at the beginning of 2017 in the East.

In the fourth quarter of 2016 industrial production grew by 3.3%, retail sales by 4.3%, and construction by 13.6% year-on-year. Inflation slowed from 43.3% in December 2015 to 12.4% in December 2016 due to the fading of the previous year's base effects, low domestic demand, better-than-expected agricultural production, and stabilizing inflation expectations. The rapid fall in inflation caused the National Bank of Ukraine to cut its base rate from 22% to 14% by October 2016. The hryvnia weakened against the USD by 20% in the first quarter, but in the second quarter it appreciated from 26.2 to 24.8 due to the low inflation pressure and the high base rate. From November the hryvnia depreciated to 27 against the USD, due to the appreciating dollar and the uncertainties surrounding the International Monetary Fund ("IMF") programme. In the second quarter the central bank relaxed some of its FX restrictions and it may abolish all of them if its FX reserves reach USD 20 billion. This has not happened yet.

There has been no progress in the IMF programme since October 2016, but according to the IMF and Ukraine's government officials the third review of the programme could be completed soon and the fourth tranche could be disbursed by the end of February.

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

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.

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 ("FGS") 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 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 available-for-sale securities booked directly against equity.

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

In OTP Bank Romania S.A., its own CHF mortgage loan conversion programme that started on 9 December 2015 was completed with around 73% of the eligible clients participating by 31 August 2016 (i.e. it involved about 7,000 individual contracts).

On 13 May 2016 the so-called 'walk-away' law came into effect. Accordingly, eligible borrowers might simply return the property to the banks in exchange for getting rid of the mortgage loan. So far the interest was fairly benign: by 31 December 269 clients applied for the scheme (with a gross volume of RON 83 million). OTP Bank Romania has already created the necessary individual and collective provisions. On 25 October 2016 the Romanian Constitutional Court declared several parts of the law unconstitutional and ruled the issue into the competence of local courts to deal with the insolvency and unforeseen developments issues of clients.

On 18 October 2016 the Romanian Parliament passed a law requiring banks to convert all mortgages originated in CHF into local currency at rates prevailing at origination, however on 24 October the Romanian Government sent the law to the Constitutional Court for review, consequently the President has not signed the Act either. On 7 February 2017 the Constitutional Court declared the Act as a whole unconstitutional.

In Croatia the conversion programme of retail CHF loans (into EUR) with discount started in the fourth quarter of 2015, in line with the relevant Act. By the end of September 2016 the programme has been basically completed with 87% of the eligible portfolio being converted.