**OTP BANK PLC.**

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

***FOR THE YEAR ENDED 31 DECEMBER 2015***

**OTP BANK PLC.**
**CONSOLIDATED FINANCIAL STATEMENTS**

***CONTENTS***

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Company Registration Number: 01-09-071057

# INDEPENDENT AUDITORS' REPORT

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

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries for the year 2015, which consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2015 – which shows total assets of HUF 10,718,848 million, – and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net profit for the year of HUF 63,171 million –, consolidated statement of changes in equity and consolidated statement of cash-flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Hungarian National Standards on Auditing and effective Hungarian laws and other regulations pertaining to audit. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of OTP Bank Plc. and its subsidiaries as at December 31, 2015, 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.

**Other Reporting Obligation: Report on the Consolidated Business Report**

We have examined the accompanying consolidated business report of OTP Bank Plc. for the year 2015.

Management is responsible for the preparation of this consolidated business report in accordance with the Hungarian Accounting Act.

Our responsibility is to assess whether the accounting information in the consolidated business report is consistent with that contained in the consolidated financial statements prepared for the same business year. Our work with respect to the consolidated business report was limited to assessing the consistence of the consolidated business report with the consolidated financial statements, and did not include a review of any information other than that drawn from the audited accounting records of the Bank.

In our opinion, the consolidated business report of OTP Bank Plc. for the year 2015. corresponds to the figures included in the consolidated financial statements of OTP Bank Plc. for the year 2015.

Budapest, March 18, 2016

| | |
|---|---|
| Nagyváradiné Szépfalvi Zsuzsanna | dr. Hruby Attila |
| Deloitte Auditing and Consulting Ltd.<br>1068 Budapest, Dózsa György út 84/C.<br>000083 | registered statutory auditor<br>007118 |

**OTP BANK PLC.**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2015**
**(in HUF mn)**

| | Note | 2015 | 2014 |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | *4.* | 1,878,960 | 2,307,632 |
| Placements with other banks, net of allowance for placement losses | *5.* | 300,568 | 281,006 |
| Financial assets at fair value through profit or loss | *6.* | 253,782 | 289,275 |
| Securities available-for-sale | *7.* | 1,305,486 | 839,152 |
| Loans, net of allowance for loan losses | *8.* | 5,409,967 | 5,864,241 |
| Associates and other investments | *9.* | 10,028 | 23,381 |
| Securities held-to-maturity | *10.* | 926,677 | 709,369 |
| Property and equipment | *11.* | 193,661 | 206,440 |
| Intangible assets | *11.* | 155,809 | 158,721 |
| Other assets | *12.* | 283,910 | 291,835 |
| **TOTAL ASSETS** | | **10,718,848** | **10,971,052** |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | *13.* | 533,310 | 708,274 |
| Deposits from customers | *14.* | 7,984,579 | 7,673,478 |
| Liabilities from issued securities | *15.* | 239,376 | 267,084 |
| Financial liabilities at fair value through profit or loss | *16.* | 101,561 | 183,994 |
| Other liabilities | *17.* | 391,579 | 592,088 |
| Subordinated bonds and loans | *18.* | 234,784 | 281,968 |
| **TOTAL LIABILITIES** | | **9,485,189** | **9,706,886** |
| Share capital | *19.* | 28,000 | 28,000 |
| Retained earnings and reserves | | 1,261,029 | 1,288,757 |
| Treasury shares | *21.* | (58,021) | (55,940) |
| Non-controlling interest | *22.* | 2,651 | 3,349 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **1,233,659** | **1,264,166** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **10,718,848** | **10,971,052** |

Budapest, 18 March 2016

OTP BANK Nyrt.

Dr. Sándor Csányi
Chairman and Chief Executive Officer

elnök-vezérigazgató 2.

# OTP BANK PLC.
## CONSOLIDATED STATEMENT OF RECOGNIZED INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2015
## (in HUF mn)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Interest Income:** | | | |
| Loans | | 575,619 | 708,873 |
| Placements with other banks | | 114,025 | 94,941 |
| Securities available-for-sale | | 31,063 | 41,969 |
| Securities held-to-maturity | | 46,619 | 39,934 |
| Amounts due from banks and balances with the National Banks | | 27,496 | 16,498 |
| Other | | 7,606 | 7,015 |
| ***Total Interest Income*** | | **802,428** | **909,230** |
| **Interest Expense:** | | | |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | | 116,713 | 100,615 |
| Deposits from customers | | 108,023 | 138,179 |
| Liabilities from issued securities | | 6,786 | 13,826 |
| Subordinated bonds and loans | | 13,633 | 13,883 |
| Other | | 6,843 | 6,630 |
| ***Total Interest Expense*** | | **251,998** | **273,133** |
| **NET INTEREST INCOME** | | **550,430** | **636,097** |
| Provision for impairment on loan and placement losses | *5.,8.,2* | 318,683 | 446,830 |
| **NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES** | | **231,747** | **189,267** |
| Income from fees and commissions | *24.* | 257,431 | 265,392 |
| Expense from fees and commissions | *24.* | 43,559 | 49,736 |
| **Net profit from fees and commissions** | | **213,872** | **215,656** |
| Foreign exchange gains, net | | 116,682 | 156,918 |
| Gains on securities, net | | 11,616 | 6,911 |
| Dividend income | | 3,345 | 4,824 |
| Provision on securities available-for-sale and held-to-maturity | | (15) | (297) |
| Other operating income | *25.* | 22,973 | 14,379 |
| Other operating expense | *25.* | (74,680) | (232,609) |
| - from this: release of provision/ (provision) on contingent liabilities due to regulations related to customer loans | *25.* | 196,574 | (194,798) |
| **Net operating gain / (loss)** | | **79,921** | **(49,874)** |
| Personnel expenses | *25.* | 187,806 | 206,335 |
| Depreciation and amortization | *11.* | 45,463 | 43,722 |
| Goodwill impairment | *11.* | - | 22,225 |
| Other administrative expenses | *25.* | 232,247 | 236,410 |
| **Other administrative expenses** | | **465,516** | **508,692** |
| **PROFIT / (LOSS) BEFORE INCOME TAX** | | **60,024** | **(153,643)** |
| Income tax | *26.* | 3,147 | 51,385 |
| **NET PROFIT / (LOSS) FOR THE YEAR** | | **63,171** | **(102,258)** |
| From this, attributable to: | | | |
| Non-controlling interest | | **(412)** | **(273)** |
| Owners of the company | | **63,583** | **(101,985)** |
| **Consolidated earnings per share (in HUF)** | | | |
| **Basic** | *38.* | **242** | **(382)** |
| **Diluted** | *38.* | **242** | **(382)** |

**OTP BANK PLC.**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 2015**
**(in HUF mn)**

| | 2015 | 2014 |
|---|---|---|
| **NET PROFIT / (LOSS) FOR THE YEAR** | **63,171** | **(102,258)** |
| Fair value adjustment of securities available-for-sale | (880) | 16,065 |
| Deferred tax related to securities available-for-sale | 633 | (3,046) |
| Derivative financial instruments designated as Cash-flow hedge | - | 507 |
| Net investment hedge in foreign operations | 431 | (4,489) |
| Foreign currency translation difference | (44,301) | (108,057) |
| Change of actuarial losses related to employee benefits | (170) | (6) |
| **NET COMPREHENSIVE INCOME** | **18,884** | **(201,284)** |
| **From this, attributable to:** | | |
| Non-controlling interest | (698) | (1,418) |
| Owners of the company | 19,582 | (199,866) |

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

| OPERATING ACTIVITIES | Note | 2015 | 2014 |
|---|---|---|---|
| **Profit / (Loss) before income tax** | | **60,024** | **(153,643)** |
| Dividend income | | (3,345) | (4,824) |
| Goodwill impairment | *11.* | - | 22,225 |
| Depreciation and amortization | *11.* | 45,463 | 43,722 |
| Provision for impairment on securities | *7.,10.* | 15 | 297 |
| Provision for impairment on loan and placement losses | *5.,8., 23.* | 318,683 | 446,830 |
| Provision for impairment on investments | *9.* | 1,094 | 1,244 |
| Provision for impairment on other assets | *12.* | 6,696 | 5,066 |
| Provision on assets subject to operating leases | *12.* | 350 | 1,048 |
| Provision on investment properties | | 101 | 3,612 |
| (Release of provision) / Provision for impairment on off-balance sheet commitments and contingent liabilities | *17.* | (146,360) | 195,310 |
| Share-based payment | *2.,29.* | 3,810 | 4,393 |
| Change of actuarial losses related to employee benefits | | (171) | (6) |
| Unrealized losses on fair value change of securities held for trading | | (12,098) | (2,907) |
| Unrealized gains / (losses) on fair value change of derivative financial instruments | | 7,793 | (33,140) |
| *Net changes in assets and liabilities in operating activities* | | | |
| Changes in financial assets at fair value through profit or loss | | (5,238) | 250,821 |
| Net decrease / (increase) in loans, net of allowance for loan losses | | 40,677 | (48,611) |
| (Increase) / Decrease in other assets before provisions for impairment | | (739) | 20,557 |
| Decrease / (Increase) in assets subject to operating lease before provisions for impairment | | 1,248 | (24,442) |
| Increase in investment properties before provision for impairment | | (2,134) | (27,034) |
| Net increase in deposits from customers | | 311,102 | 806,872 |
| Increase / (Decrease) in other liabilities | | 24,613 | (26,908) |
| Net increase in compulsory reserves at the National Banks | | (147,360) | (41,130) |
| Income tax paid | | (14,676) | (20,571) |
| **Net Cash Provided by Operating Activities** | | **489,548** | **1,418,781** |
| Interest received | | 803,868 | 911,671 |
| Interest paid | | (242,622) | (258,929) |
| **INVESTING ACTIVITIES** | | | |
| Net increase in placement with other banks before allowance for placements losses | | (19,556) | (7,537) |
| Purchase of securities available-for-sale | | (842,886) | (15,402,966) |
| Proceeds from sale of securities available-for-sale | | 373,078 | 16,213,064 |
| Net decrease / (increase) in investments in associates | | 11,832 | (2,185) |
| Net decrease in investments in other companies | | 427 | 1,397 |
| Dividend income | | 3,345 | 4,824 |
| Increase in securities held-to-maturity | | (1,036,805) | (156,594) |
| Decrease in securities held-to-maturity | | 822,634 | 31,094 |
| Additions to property, equipment and intangible assets | | (50,376) | 11,526 |
| Disposals of property, equipment and intangible assets | | 21,107 | 12,455 |
| Net decrease / (increase) in advances for investments included in other assets | | 28 | (27) |
| **Net Cash (Used in) / Provided by Investing Activities** | | **(717,172)** | **705,051** |

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

| FINANCING ACTIVITIES | Note | 2015 | 2014 |
|---|---|---|---|
| Net decrease in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | | (174,964) | (75,938) |
| Cash received from issuance of securities | | 60,944 | 56,165 |
| Cash used for redemption of issued securities | | (88,652) | (234,299) |
| (Decrease) / Increase in subordinated bonds and loans | | (47,184) | 14,806 |
| Decrease in non-controlling interest | | (698) | (1,418) |
| Payments to ICES holders | *20.* | (3,928) | (4,002) |
| Increase in Treasury shares | | 24,641 | 27,180 |
| Decrease in Treasury shares | | (34,093) | (31,430) |
| Dividend paid | | (40,473) | (40,594) |
| **Net Cash Used in Financing Activities** | | **(304,407)** | **(289,530)** |
| **Net (decrease) / increase in cash and cash equivalents** | | **(532,031)** | **1,834,302** |
| **Cash and cash equivalents at the beginning of the period** | | **2,003,324** | **275,947** |
| Foreign currency translation | | (44,001) | (106,925) |
| **Cash and cash equivalents at the end of the period** | | **1,427,292** | **2,003,324** |

**Analysis of cash and cash equivalents**

| | Note | 2015 | 2014 |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | | 2,310,313 | 539,125 |
| Net cash outflow due to acquisition | | (2,681) | - |
| Compulsory reserve established by the National Banks | | (304,308) | (263,178) |
| **Cash and cash equivalents at the beginning of the period** | | **2,003,324** | **275,947** |
| Cash, amounts due from banks and balances with the National Banks | *4.* | 1,874,306 | 2,310,313 |
| Net cash inflow / (outflow) due to acquisition | *31.* | 4,654 | (2,681) |
| Compulsory reserve established by the National Banks | *4.* | (451,668) | (304,308) |
| **Cash and cash equivalents at the end of the period** | | **1,427,292** | **2,003,324** |

## OTP BANK PLC.
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2015
## (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 2014** | | **28,000** | **52** | **16,504** | **1,571,076** | **(55,468)** | **(55,599)** | **4,767** | **1,509,332** |
| Net profit for the year | | - | - | - | (101,985) | - | - | (273) | (102,258) |
| Other Comprehensive Income | | - | - | - | (97,881) | - | - | (1,145) | (99,026) |
| Share-based payment | *29.* | - | - | 4,393 | - | - | - | - | 4,393 |
| Dividend for the year 2013 | | - | - | - | (40,600) | - | - | - | (40,600) |
| Sale of Treasury shares | *21.* | - | - | - | - | - | 27,180 | - | 27,180 |
| Treasury shares | | | | | | | | | |
| – loss on sale | | - | - | - | (3,908) | - | - | - | (3,908) |
| – acquisition | *21.* | - | - | - | - | - | (27,522) | - | (27,522) |
| Payments to ICES holders | *20.* | - | - | - | (3,425) | - | - | - | (3,425) |
| **Balance as at 31 December 2014** | | **28,000** | **52** | **20,897** | **1,323,277** | **(55,468)** | **(55,941)** | **3,349** | **1,264,166** |
| Net profit for the year | | - | - | - | 63,583 | - | - | (412) | 63,171 |
| Other Comprehensive Income | | - | - | - | (44,001) | - | - | (286) | (44,287) |
| Share-based payment | *29.* | - | - | 3,810 | - | - | - | - | 3,810 |
| Dividend for the year 2014 | | - | - | - | (40,600) | - | - | - | (40,600) |
| Sale of Treasury shares | *21.* | - | - | - | - | - | 24,641 | - | 24,641 |
| Treasury shares | | | | | | | | | |
| – loss on sale | | - | - | - | (7,372) | - | - | - | (7,372) |
| – acquisition | *21.* | - | - | - | - | - | (26,721) | - | (26,721) |
| Payments to ICES holders | *20.* | - | - | - | (3,149) | - | - | - | (3,149) |
| **Balance as at 31 December 2015** | | **28,000** | **52** | **24,707** | **1,291,738** | **(55,468)** | **(58,021)** | **2,651** | **1,233,659** |

[1] See Note 17.

## 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 18 March 2016.

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

| | 2015 | 2014 |
|---|---|---|
| Domestic and foreign private and institutional investors | 97% | 97% |
| Employees | 2% | 2% |
| Treasury shares | 1% | 1% |
| **Total** | **100%** | **100%** |

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide network of 1,400 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

The number of employees at the Group:

| | 2015 | 2014 |
|---|---|---|
| The number of employees at the Group | 38,203 | 35,919 |
| The average number of employees at the Group | 38,114 | 35,796 |

### 1.2. Base of Accounting

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

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

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

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

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

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

**1.2. Base of Accounting [continued]**

**1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2015**

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 various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),
- IFRIC 21 "Levies" adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Group's accounting policies.

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

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

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

**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 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

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

The adoption of the above presented Amendments to the existing Standards, new Standards and Interpretations would have no significant impact on the Consolidated Financial Statements except of the application of IFRS 9 and IFRS 16 which might have significant impact on the Group Consolidated Financial Statements, the Group is planning to assess the impact in 2016.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### 2.1. Basis of Presentation

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

The presentation of Consolidated Financial Statements in conformity with IFRS requires the Management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

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

## 2.2. Foreign currency translation

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

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

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

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

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

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

## 2.3. Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank exercises control. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 32. However, certain subsidiaries in which the Bank holds a significant interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.13.).
As the ultimate parent, the Bank is preparing consolidated financial statement of the Group.

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

### 2.4. Accounting for acquisitions

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

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Recognized Income.
Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.
The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.
The Group, in its strategic plan, has taken into consideration the effects of the present global economic situation, the cautious recovery of economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

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

### 2.5. Securities held-to-maturity

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

### 2.6. Financial assets at fair value through profit or loss

#### 2.6.1. Securities held for trading

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

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

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

### 2.6.2. Derivative financial instruments

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

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

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

***Foreign currency contracts***

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

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

***Foreign exchange swaps and interest rate swaps***

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

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

***Cross-currency interest rate swaps***

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

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

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

#### 2.6.2. Derivative financial instruments [continued]

***Equity and commodity swaps***

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

***Forward rate agreements (FRA)***

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

The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

***Foreign exchange options***

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

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

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

Changes in fair value of derivatives that are designated and qualify as cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in equity are transferred to the Consolidated Statement of Recognized Income and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the Consolidated Statement of Recognized Income for the period. The ineffective element of the hedge is charged directly to the Consolidated Statement of Recognized Income.
The Group terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

### 2.8. Offsetting

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

### 2.9. Embedded derivatives

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

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

### 2.10. Securities available-for-sale

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

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

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

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

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

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

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

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

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

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

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

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

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

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provision for impairment on loan and placement losses" in the Consolidated Statement of Recognized Income.
The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IAS 39. If the Group has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence. A loan will be written off if it is overdue or was terminated by the Group.
The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged.
Loan receivables legally demanded from clients are equal to the former gross amount of the loan before the partial write-off.

### 2.12. Sale and repurchase agreements, security lending

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

### 2.13. Associates and other investments

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

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

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

### 2.14. Property and equipment, Intangible assets

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

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

| | |
|---|---|
| Intangible assets | |
| Software | 3.33-50% |
| Property rights | 5-50% |
| Property | 1-33% |
| Office equipment and vehicles | 2-50% |

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.

### 2.16. Leases

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

#### The Group as a lessor

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

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

### 2.16. Leases [continued]

**The Group as a lessee**

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

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

### 2.17. Investment properties

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

### 2.18. Treasury shares

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

### 2.19. Interest income and interest expense

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

### 2.20. Fees and Commissions

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

### 2.21. Dividend income

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

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

### 2.22. Income tax

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

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

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

### 2.23. Off-balance sheet commitments and contingent liabilities

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

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

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

### 2.24. Share-based payment and employee benefit

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

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

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

### 2.25. Consolidated Statement of Cash-flows

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

### 2.26. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.
Based on the above, the segments identified by the Group are the business and geographical segments.
The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

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

### 2.27. Comparative figures

There were no changes in prior period data due to either prior period error or change in accounting policies. In some notes certain amounts in the Consolidated Financial Statements for the year ended 31 December 2014 have been restructured within the particular note to conform with the current year presentation and these amounts are not significant.

### 2.28. Government measures related to customer loan contracts

Based on the Act XXXVIII of 2014 on "Settlement of certain issues concerning the Uniformity Decision of the Supreme Court related to customer loan agreements provided by financial institutions" ("Curia Law") and the Act XL of 2014 on "Rules of the settlement and certain other issues put in Act XXXVIII of 2014 on Settlement of certain issues concerning the Uniformity Decision of the Supreme Court related to customer loan agreements provided by financial institutions" ("Act on Settlement"), the Group met its settlement obligation as prescribed by law related to foreign currency loans.

#### a) Act on Settlement

Based on these regulations expense in the amount of HUF 179.6 billion was recognised as amounts charged to clients related to customer loans contracts were assumed unfair. The provision related to the settlement was released during the year of 2015.

#### b) Act on Conversion mortgage backed loans into HUF

Based on the Act LXXVII of 2014 on "Settlement of certain issues concerning the modification of the currency and interest conditions related to customer loan agreements" the Group completed the conversion of foreign currency customer mortgage loans and relating amounts (accrued interests, provision for impairment) into HUF.

#### c) Act on Conversion customer loans into HUF

On 2 October 2015 the Hungarian Government accepted the Act CXLV of 2015 on "Resolving issues concerning the HUF conversion of receivables from certain customer loan agreements". Accordingly, the applicable exchange rates were the spot market rates on 19 August 2015 (official exchange rates of the NBH on 19 August 2015 were 287.20 CHF/HUF and 309.20 EUR/HUF, respectively). Based on this regulation HUF 6.7 billion was recognized as expense in the Group's result.
However, based on the law a subsidy was given to clients in the amount of the difference between the FX rates used for the conversion of FX mortgage loans (256.47 HUF/CHF, 308.97 HUF/EUR) and the 19 August 2015 FX rates was borne equally by the banks and the State. The conversion was not mandatory for the clients.
The Group completed the conversion of foreign currency customer loans, and the relating subsidy was settled with the clients which has no significant effect to the Group's profitability.

## 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:

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

### 3.1. Impairment on loans and placements

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

### 3.2. Valuation of instruments without direct quotations

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

### 3.3. Provisions

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

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)

| | 2015 | 2014 |
|---|---|---|
| Cash on hand | | |
| In HUF | 78,182 | 66,332 |
| In foreign currency | 146,718 | 143,668 |
| | **224,900** | **210,000** |

**Amounts due from banks and balances with the National Banks**

| | 2015 | 2014 |
|---|---|---|
| Within one year: | | |
| In HUF | 1,203,223 | 1,798,959 |
| In foreign currency | 449,139 | 298,035 |
| | **1,652,362** | **2,096,994** |
| Over one year: | | |
| In HUF | 2 | - |
| In foreign currency | - | - |
| | **2** | **-** |
| Accrued interest | 1,696 | 638 |
| | **1,654,060** | **2,097,632** |
| **Total** | **1,878,960** | **2,307,632** |
| **Compulsory reserve set by the National Banks** | **451,668** | **304,308** |

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

| | 2015 | 2014 |
|---|---|---|
| Within one year | | |
| In HUF | 57,207 | 12,522 |
| In foreign currency | 241,952 | 266,384 |
| | **299,159** | **278,906** |
| Over one year | | |
| In HUF | - | - |
| In foreign currency | 1,396 | 2,032 |
| | **1,396** | **2,032** |
| Accrued interest | 63 | 115 |
| Provision for impairment on placement losses | (50) | (47) |
| **Total** | **300,568** | **281,006** |

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

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

| | 2015 | 2014 |
|---|---|---|
| **Balance as at 1 January** | **47** | **31** |
| Provision for the year | 3 | 874 |
| Release of provision for the year | - | (854) |
| Foreign currency translation difference | - | (4) |
| **Closing balance** | **50** | **47** |

Interest conditions of placements with other banks:

| | 2015 | 2014 |
|---|---|---|
| In HUF | 0.1% - 6.4% | 0.4% - 6.6% |
| In foreign currency | 0.01% - 14.9% | 0.01% - 14.9% |

| | 2015 | 2014 |
|---|---|---|
| Average interest rates on placements with other banks | 0.88% | 1.22% |

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

| | 2015 | 2014 |
|---|---|---|
| **Securities held for trading** | | |
| Shares | 72,620 | 59,231 |
| Government bonds | 25,866 | 22,942 |
| Discounted Treasury bills | 366 | 3,414 |
| Other securities | 7,946 | 4,439 |
| Other non-interest bearing securities | 4,507 | 3,989 |
| | **111,305** | **94,015** |
| Accrued interest | 671 | 625 |
| **Total** | **111,976** | **94,640** |

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

**Positive fair value of derivative financial instruments classified held for trading**

| | 2015 | 2014 |
|---|---|---|
| CCIRS and mark-to-market CCIRS[1] classified as held for trading | 84,270 | 85,010 |
| Interest rate swaps classified as held for trading | 33,770 | 43,401 |
| Foreign exchange swaps classified as held for trading | 15,551 | 48,636 |
| Foreign exchange forward contracts classified as held for trading | 124 | 6,237 |
| Other derivative transactions classified as held for trading | 8,091 | 11,351 |
| | **141,806** | **194,635** |
| **Total** | **253,782** | **289,275** |

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

| | 2015 | 2014 |
|---|---|---|
| Denominated in HUF (%) | 84.0% | 81.7% |
| Denominated in foreign currency (%) | 16.0% | 18.3% |
| **Total** | **100.0%** | **100.0%** |

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

| | 2015 | 2014 |
|---|---|---|
| Denominated in HUF (%) | 48.4% | 54.0% |
| Denominated in foreign currency (%) | 51.6% | 46.0% |
| **Total** | **100.0%** | **100.0%** |

| | 2015 | 2014 |
|---|---|---|
| Interest rates on securities held for trading | 1.1% - 8.75% | 1.5% - 11.0% |
| Average interest rates on securities held for trading | 4.33% | 2.06% |

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

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

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

| | 2015 | 2014 |
|---|---|---|
| Within five years | | |
| With variable interest | 2,194 | 1,125 |
| With fixed interest | 22,918 | 23,466 |
| | **25,112** | **24,591** |
| Over five years | | |
| With variable interest | 5 | 6 |
| With fixed interest | 9,061 | 6,198 |
| | **9,066** | **6,204** |
| Non-interest bearing securities | 77,127 | 63,220 |
| **Total** | **111,305** | **94,015** |

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

| | 2015 | 2014 |
|---|---|---|
| **Securities available-for-sale** | | |
| Government bonds | 1,142,470 | 680,323 |
| Corporate bonds | 51,278 | 37,457 |
| *From this:* | | |
| *Listed securities:* | | |
| *In HUF* | - | - |
| *In foreign currency* | *7,399* | *11,598* |
| | *7,399* | *11,598* |
| *Non-listed securities:* | | |
| *In HUF* | *43,879* | *3,261* |
| *In foreign currency* | *-* | *22,598* |
| | *43,879* | *25,859* |
| Discounted Treasury bills | 33,970 | 42,168 |
| Other securities | 12,422 | 21,138 |
| Other non-interest bearing securities | 45,222 | 43,646 |
| *From this:* | | |
| *Listed securities:* | | |
| *In HUF* | *1,218* | - |
| *In foreign currency* | *7,410* | *7,114* |
| | *8,628* | *7,114* |
| *Non-listed securities:* | | |
| *In HUF* | *17,562* | *28,346* |
| *In foreign currency* | *19,032* | *8,186* |
| | *36,594* | *36,532* |
| | **1,285,362** | **824,732** |

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

| | 2015 | 2014 |
|---|---|---|
| Accrued interest | 20,507 | 15,694 |
| Provision for impairment on securities available-for-sale | (383) | (1,274) |
| **Total** | **1,305,486** | **839,152** |

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

| | 2015 | 2014 |
|---|---|---|
| Denominated in HUF (%) | 74.8% | 84.6% |
| Denominated in foreign currency (%) | 25.2% | 15.4% |
| **Total** | **100.0%** | **100.0%** |

An analysis of government bonds by currency (%):

| | 2015 | 2014 |
|---|---|---|
| Denominated in HUF (%) | 78.5% | 81.2% |
| Denominated in foreign currency (%) | 21.5% | 18.8% |
| **Total** | **100.0%** | **100.0%** |

| | 2015 | 2014 |
|---|---|---|
| Interest rates on securities available-for-sale denominated in HUF | 0.8% - 7.5% | 1.7% - 8.0% |
| Interest rates on securities available-for-sale denominated in foreign currency | 0.4% - 28.0% | 0.3% - 28.0% |

| | 2015 | 2014 |
|---|---|---|
| Average interest rates on securities available-for-sale denominated in HUF | 2.96% | 3.07% |
| Average interest rates on securities available-for-sale denominated in foreign currency | 3.48% | 5.85% |

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

| | 2015 | 2014 |
|---|---|---|
| Within five years | | |
| With variable interest | 2,179 | 2,701 |
| With fixed interest | 1,040,809 | 616,404 |
| | **1,042,988** | **619,105** |
| Over five years | | |
| With variable interest | 40,624 | 117 |
| With fixed interest | 156,528 | 161,864 |
| | **197,152** | **161,981** |
| Non-interest bearing securities | 45,222 | 43,646 |
| **Total** | **1,285,362** | **824,732** |

## 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:

| | 2015 | 2014 |
|---|---|---|
| **Balance as at 1 January** | **1,274** | **966** |
| Provision for the year | 17 | 297 |
| Release of provision | - | - |
| Use of provision | (831) | - |
| Foreign currency translation difference | (77) | 11 |
| **Closing balance** | **383** | **1,274** |

Certain securities are hedged against interest rate risk. See Note 40.

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

| | 2015 | 2014 |
|---|---|---|
| Short-term loans and promissory notes (within one year) | 2,112,909 | 2,245,818 |
| Long-term loans and promissory notes (over one year) | 4,260,765 | 4,690,266 |
| | **6,373,674** | **6,936,084** |
| Accrued interest | 49,913 | 57,242 |
| Provision for impairment on loan losses | (1,013,620) | (1,129,085) |
| **Total** | **5,409,967** | **5,864,241** |

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

| | 2015 | 2014 |
|---|---|---|
| In HUF | 36% | 29% |
| In foreign currency | 64% | 71% |
| **Total** | **100%** | **100%** |

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

Interest rates of the loan portfolio are as follows:

| | **2015** | **2014** |
|---|---|---|
| Short-term loans denominated in HUF | 0.01% - 40.7% | 0.04% - 42.0% |
| Long-term loans denominated in HUF | 0.01% - 40.7% | 0.04% - 42.0% |
| Short-term loans denominated in foreign currency | 0.01% - 66.9% | 0.01% - 64.9% |
| Long-term loans denominated in foreign currency | 0.01% - 59.7% | 0.01% - 66.9% |

| | **2015** | **2014** |
|---|---|---|
| Average interest rates on loans denominated in HUF | 4.53% | 4.68% |
| Average interest rates on loans denominated in foreign currency | 15.77% | 16.23% |

| | **2015** | **2014** |
|---|---|---|
| Gross loan portfolio on which interest to customers is not being accrued | 16.9% | 17.9% |

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

| | **2015** | **2014** |
|---|---|---|
| **Balance as at 1 January** | **1,129,085** | **1,235,634** |
| Provision for the year | 607,856 | 708,743 |
| Release of provision | (332,171) | (319,393) |
| Use of provision | (195,846) | (85,494) |
| Partial write-off[1] | (84,537) | (237,593) |
| Increase due to acquisition | - | 772 |
| Foreign currency translation difference | (110,767) | (173,584) |
| **Closing balance** | **1,013,620** | **1,129,085** |

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

| | **2015** | **2014** |
|---|---|---|
| (Release of provision) / Provision for impairment on placement losses | (6) | 10 |
| Provision for impairment on loan losses | 318,689 | 446,820 |
| **Total** | **318,683** | **446,830** |

[1] See details in Note 2.11.

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

| | 2015 | 2014 |
|---|---|---|
| Investments[1] | | |
| Investments in associates (non-listed) | 5,936 | 17,768 |
| Other investments (non-listed) at cost | 7,974 | 8,917 |
| | **13,910** | **26,685** |
| Provision for impairment on investments | (3,882) | (3,304) |
| **Total** | **10,028** | **23,381** |

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

| | 2015 | 2014 |
|---|---|---|
| **Balance as at 1 January** | **3,304** | **4,231** |
| Provision for the year | 1,094 | 1,244 |
| Use of provision | (139) | (245) |
| Change due to merge | (375) | (1,927) |
| Foreign currency translation difference | (2) | 1 |
| **Closing balance** | **3,882** | **3,304** |

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

| | 2015 | 2014 |
|---|---|---|
| Government bonds | 909,556 | 692,410 |
| Discounted Treasury bills | 116 | 519 |
| Corporate bonds | 5 | 7 |
| Mortgage bonds | - | 522 |
| | **909,677** | **693,458** |
| Accrued interest | 17,807 | 16,725 |
| Provision for impairment on securities held-to-maturity | (807) | (814) |
| **Total** | **926,677** | **709,369** |

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

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

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

| | 2015 | 2014 |
|---|---|---|
| Within five years | | |
| With variable interest | 3,534 | 7,438 |
| With fixed interest | 455,898 | 375,972 |
| | **459,432** | **383,410** |
| Over five years | | |
| With variable interest | - | - |
| With fixed interest | 450,245 | 310,048 |
| | **450,245** | **310,048** |
| **Total** | **909,677** | **693,458** |

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

| | 2015 | 2014 |
|---|---|---|
| Denominated in HUF (%) | 89.6% | 92.7% |
| Denominated in foreign currency (%) | 10.4% | 7.3% |
| **Total** | **100.0%** | **100%** |

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

| | 2015 | 2014 |
|---|---|---|
| Interest rates of securities held-to-maturity with variable interest | 0.01% - 0.6% | 0.02% - 2.5% |
| Interest rates of securities held-to-maturity with fixed interest | 0.1% - 20.7% | 0.9% - 12.0% |

| | 2015 | 2014 |
|---|---|---|
| Average interest rates on securities held-to-maturity | 5.82% | 6.34% |

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

| | 2015 | 2014 |
|---|---|---|
| **Balance as at 1 January** | **814** | **775** |
| Provision for the year | 15 | - |
| Release of provision | (17) | - |
| Use of provision | (2) | - |
| Foreign currency translation difference | (3) | 39 |
| **Closing balance** | **807** | **814** |

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

**For the year ended 31 December 2015**

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

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

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

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

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

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

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

**For the year ended 31 December 2015 [continued]**

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

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

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.

As at 31 December 2015 the Bank prepared impairment test where in case of two companies JSC "OTP Bank" (Russia) and OTP Bank JSC (Ukraine) a five-year (2016-2020) cash-flow model while in case of the other subsidiaries three-year cash-flow model was applied with an explicit period between 2016-2018. The base of the estimation was the annual financial strategic plan for year 2015, while for the three-year explicit period the Bank applied the prognosis for year 2016 accepted by the Management Committee of the subsidiaries and on the base of this prognosis the prepared medium-term (2017-2018) forecasts. When the Bank prepared the calculations for the period 2016-2018, considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these and the expected changes of the mentioned factors.

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

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

**Summary of the impairment test for the 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, while as at 31 December 2014 the total IFRS goodwill in the amount of HUF 22,225 million, recorded for OTP Bank JSC (Ukraine) as at the balance sheet date, was impaired.

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

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

**For the year ended 31 December 2014**

| Cost | Intangible assets and goodwill | Property | Office equipment and vehicles | Construction in progress | Total |
|---|---|---|---|---|---|
| **Balance as at 1 January** | **374,911** | **222,634** | **188,906** | **26,341** | **812,792** |
| Additions | 41,354 | 7,292 | 14,785 | 18,246 | 81,677 |
| Acquisition | 252 | 1,472 | 430 | 2 | 2,156 |
| Foreign currency translation differences | (20,986) | (3,887) | (5,142) | 165 | (29,850) |
| Disposals | (49,075) | (2,398) | (16,275) | (32,777) | (100,525) |
| Transfer | (628) | (28,190) | (20,939) | - | (49,757) |
| Change in consolidation scope | 27 | - | 90 | 6 | 123 |
| **Balance as at 31 December** | **345,855** | **196,923** | **161,855** | **11,983** | **716,616** |

| Depreciation and Amortization | Intangible assets and goodwill | Property | Office equipment and vehicles | Construction in progress | Total |
|---|---|---|---|---|---|
| **Balance as at 1 January** | **181,190** | **49,799** | **126,559** | **-** | **357,548** |
| Charge for the year (without goodwill impairment) | 22,614 | 5,346 | 15,762 | - | 43,722 |
| Goodwill impairment | 22,225 | - | - | - | 22,225 |
| Foreign currency translation differences | 3,207 | (1,311) | (4,219) | - | (2,323) |
| Disposals | (41,945) | (180) | (13,168) | - | (55,293) |
| Transfer | (179) | (6,909) | (7,403) | - | (14,491) |
| Change in consolidation scope | 22 | - | 45 | - | 67 |
| **Balance as at 31 December** | **187,134** | **46,745** | **117,576** | **-** | **351,455** |
| **Net book value** | | | | | |
| **Balance as at 1 January** | **193,721** | **172,835** | **62,347** | **26,341** | **455,244** |
| **Balance as at 31 December** | **158,721** | **150,178** | **44,279** | **11,983** | **365,161** |

An analysis of the intangible assets for the year ended 31 December 2014 is as follows:

| Intangible assets | Self-developed | Other | Total |
|---|---|---|---|
| Gross values | 9,657 | 207,666 | 217,323 |
| Depreciation and amortization | 4,268 | 155,395 | 159,663 |

An analysis of the changes in the goodwill for the year ended 31 December 2014 is as follows:

| Cost | Goodwill |
|---|---|
| **Balance as at 1 January** | **145,564** |
| Additions | - |
| Foreign currency translation difference | (22,277) |
| Impairment for the current period | (22,225) |
| **Balance as at 31 December** | **101,062** |
| | |
| **Net book value** | |
| **Balance as at 1 January** | **145,564** |
| **Balance as at 31 December** | **101,062** |

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

**For the year ended 31 December 2014 [continued]**

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

| List of units | HUF mn |
|---|---|
| JSC "OTP Bank" (Russia) | 41,806 |
| DSK Bank EAD | 28,541 |
| OTP banka Hrvatska d.d. | 18,280 |
| OTP Bank Romania S.A. | 6,257 |
| Monicomp Ltd. | 5,732 |
| OTP Banka Slovensko a.s. | 93 |
| Other[1] | 353 |
| **Total** | **101,062** |

**Summary of the impairment test for the year ended 31 December 2014**
Based on the valuations of the subsidiaries, the total IFRS goodwill, recorded for OTP Bank JSC (Ukraine) as at the balance sheet date, was impaired, which meant HUF 22,225 million consolidated IFRS goodwill impairment as at 31 December 2014.

## NOTE 12: OTHER ASSETS[2] (in HUF mn)

| | 2015 | 2014 |
|---|---|---|
| Deferred tax receivables[3] | 73,079 | 61,009 |
| Inventories | 46,195 | 43,936 |
| Investment properties | 33,420 | 31,322 |
| Prepayments and accrued income | 25,136 | 24,513 |
| Assets subject to operating lease | 23,415 | 24,668 |
| Current income tax receivable | 20,492 | 8,843 |
| Fair value of derivative financial instrument designated as fair value hedge | 16,009 | 30,454 |
| Trade receivables | 10,891 | 12,121 |
| Receivables from card operations | 7,865 | 9,615 |
| Other advances | 7,083 | 5,695 |
| Receivable from the National Asset Management | 6,645 | 9,718 |
| Receivables from investment services | 6,369 | 3,960 |
| Receivables due from pension funds and investment funds | 2,516 | 3,874 |
| Loans sold under deferred payment scheme | 2,410 | 2,299 |
| Stock exchange deals | 2,163 | 3,996 |
| Receivables from leasing activities | 1,470 | 1,086 |
| Other receivables from Hungarian Government | 1,233 | 2,233 |
| Advances for securities and investments | 663 | 691 |
| Other | 34,338 | 44,704 |
| **Subtotal** | **321,392** | **324,737** |
| Provision for impairment on other assets[4] | (37,482) | (32,902) |
| **Total** | **283,910** | **291,835** |

[1] Other category includes: OTP Real Estate Leasing Ltd., Nimo 2002 Ltd., POK DSK-Rodina a.d.
[2] 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 2015. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.
[3] See Note 26.
[4] Provision for impairment on other assets mainly consists of provision for impairment on investment properties and trade receivables.

## NOTE 12: OTHER ASSETS (in HUF mn) [continued]

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

| | 2015 | 2014 |
|---|---|---|
| Interest rate swaps designated as fair value hedge | 15,393 | 14,032 |
| CCIRS and mark-to-market CCIRS designated as fair value hedge | 604 | 13,940 |
| Foreign exchange swaps designated as fair value hedge | - | 2,437 |
| Other transactions designated as fair value hedge | 12 | 45 |
| **Total** | **16,009** | **30,454** |

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

| | 2015 | 2014 |
|---|---|---|
| **Balance as at 1 January** | **32,902** | **23,247** |
| Provision for the year | 7,019 | 9,726 |
| Use of provision | (1,569) | (2,573) |
| Provision due to transfer | - | 2,353 |
| Foreign currency translation difference | (870) | 149 |
| **Closing balance** | **37,482** | **32,902** |

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

| | 2015 | 2014 |
|---|---|---|
| Within one year | | |
| In HUF | 134,081 | 148,264 |
| In foreign currency | 115,423 | 302,971 |
| | **249,504** | **451,235** |
| Over one year | | |
| In HUF | 205,221 | 150,012 |
| In foreign currency | 78,015 | 106,137 |
| | **283,236** | **256,149** |
| Accrued interest | 570 | 890 |
| **Total**[1] | **533,310** | **708,274** |

[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 44.

**NOTE 13: 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:

| | 2015 | 2014 |
|---|---|---|
| Within one year | | |
| In HUF | (1)% - 3.6% | 1.2% - 5.2% |
| In foreign currency | 0.01% - 11.75% | 0.05% - 18.8% |
| Over one year | | |
| In HUF | 0% - 3.2% | 0.1% - 5.2 % |
| In foreign currency | 0.1% - 17.0% | 0.1% - 18.0% |

| | 2015 | 2014 |
|---|---|---|
| Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF | 1.97% | 1.83% |
| Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency | 1.54% | 1.59% |

**NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)**

| | 2015 | 2014 |
|---|---|---|
| Within one year | | |
| In HUF | 3,565,248 | 3,716,886 |
| In foreign currency | 4,121,267 | 3,667,694 |
| | **7,686,515** | **7,384,580** |
| Over one year | | |
| In HUF | 169,177 | 101,733 |
| In foreign currency | 109,345 | 158,624 |
| | **278,522** | **260,357** |
| Accrued interest | 19,542 | 28,541 |
| **Total** | **7,984,579** | **7,673,478** |

Interest rates on deposits from customers are as follows:

| | 2015 | 2014 |
|---|---|---|
| Within one year | | |
| In HUF | 0.01% - 4.0% | 0.01% - 10.3% |
| In foreign currency | 0.01% - 24.5% | 0.01% - 29.0% |
| Over one year | | |
| In HUF | 0.01% - 6.85% | 0.01% - 3.1% |
| In foreign currency | 0.01% - 20.5% | 0.01% - 26.0% |

**NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]**

| | 2015 | 2014 |
|---|---|---|
| Average interest rates on deposits from customers denominated in HUF | 0.48% | 0.80% |
| Average interest rates on deposits from customers denominated in foreign currency | 4.27% | 5.52% |

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| Retail deposits | 5,663,139 | 71% | 4,566,737 | 60% |
| Corporate deposits | 1,948,422 | 25% | 2,693,704 | 35% |
| Municipality deposits | 353,476 | 4% | 384,496 | 5% |
| **Total** | **7,965,037** | **100%** | **7,644,937** | **100%** |

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

| | 2015 | 2014 |
|---|---|---|
| With original maturity | | |
| Within one year | | |
| In HUF | 18,388 | 28,812 |
| In foreign currency | 64,762 | 53,225 |
| | **83,150** | **82,037** |
| Over one year | | |
| In HUF | 146,011 | 162,582 |
| In foreign currency | 784 | 13,051 |
| | **146,795** | **175,633** |
| Accrued interest | 9,431 | 9,414 |
| **Total** | **239,376** | **267,084** |

Interest rates on liabilities from issued securities are as follows:

| | 2015 | 2014 |
|---|---|---|
| Issued securities denominated in HUF | 0.01% - 10.0% | 0.10% - 10.0% |
| Issued securities denominated in foreign currency | 0.52% - 12.8% | 0.23% - 10.5% |

| | 2015 | 2014 |
|---|---|---|
| Average interest rates on issued securities denominated in HUF | 3.21% | 3.33% |
| Average interest rates on issued securities denominated in foreign currency | 1.71% | 5.04% |

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

### Issued securities denominated in HUF as at 31 December 2015 (in HUF mn)

| | Name | Date of issue | Maturity | Nominal value (in HUF mn) | Interest conditions (in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|
| 1 | OTP TBSZ 2016/I | 14/01/2011-05/08/2011 | 15/12/2016 | 1,166 | 5.5 | fixed | |
| 2 | OTP TBSZ 2016/II | 26/08/2011-29/12/2011 | 15/12/2016 | 626 | 5.5 | fixed | |
| 3 | OTP TBSZ 4 2016/I | 18/01/2013-15/02/2013 | 15/12/2016 | 156 | 5 | fixed | |
| 4 | OTP TBSZ 6 2017/I | 13/01/2012-22/06/2012 | 15/12/2017 | 231 | 6.5 | fixed | |
| 5 | OTP 2016/Ax | 11/11/2010 | 03/11/2016 | 3,525 | indexed | floating | hedged |
| 6 | OTP 2016/Bx | 16/12/2010 | 19/12/2016 | 2,589 | indexed | floating | hedged |
| 7 | OTP 2016/Ex | 28/12/2012 | 27/12/2016 | 301 | indexed | floating | hedged |
| 8 | OTP 2016/Fx | 22/03/2013 | 24/03/2016 | 649 | indexed | floating | hedged |
| 9 | OTP 2017/Ax | 01/04/2011 | 31/03/2017 | 4,065 | indexed | floating | hedged |
| 10 | OTP 2017/Bx | 17/06/2011 | 20/06/2017 | 3,926 | indexed | floating | hedged |
| 11 | OTP 2017/Cx | 19/09/2011 | 25/09/2017 | 3,006 | indexed | floating | hedged |
| 12 | OTP 2017/Dx | 20/10/2011 | 19/10/2017 | 431 | indexed | floating | hedged |
| 13 | OTP 2017/Ex | 21/12/2011 | 28/12/2017 | 3,227 | indexed | floating | hedged |
| 14 | OTP 2018/Ax | 03/01/2012 | 09/01/2018 | 547 | indexed | floating | hedged |
| 15 | OTP 2018/Bx | 22/03/2012 | 22/03/2018 | 3,832 | indexed | floating | hedged |
| 16 | OTP 2018/Cx | 18/07/2012 | 18/07/2018 | 3,289 | indexed | floating | hedged |
| 17 | OTP 2018/Dx | 29/10/2012 | 26/10/2018 | 2,767 | indexed | floating | hedged |
| 18 | OTP 2018/Ex | 28/12/2012 | 28/12/2018 | 2,814 | indexed | floating | hedged |
| 19 | OTP 2019/Ax | 25/06/2009 | 01/07/2019 | 255 | indexed | floating | hedged |
| 20 | OTP 2019/Bx | 05/10/2009-05/02/2010 | 14/10/2019 | 355 | indexed | floating | hedged |
| 21 | OTP 2019/Cx | 14/12/2009 | 20/12/2019 | 285 | indexed | floating | hedged |
| 22 | OTP 2019/Dx | 22/03/2013 | 21/03/2019 | 4,098 | indexed | floating | hedged |
| 23 | OTP 2019/Ex | 28/06/2013 | 24/06/2019 | 3,183 | indexed | floating | hedged |
| 24 | OTP 2020/Ax | 25/03/2010 | 30/03/2020 | 328 | indexed | floating | hedged |
| 25 | OTP 2020/Bx | 28/06/2010 | 09/07/2020 | 332 | indexed | floating | hedged |
| 26 | OTP 2020/Cx | 11/11/2010 | 05/11/2020 | 206 | indexed | floating | hedged |
| 27 | OTP 2020/Dx | 16/12/2010 | 18/12/2020 | 215 | indexed | floating | hedged |
| 28 | OTP 2020/Ex | 18/06/2014 | 22/06/2020 | 3,889 | indexed | floating | hedged |
| 29 | OTP 2020/Fx | 10/10/2014 | 16/10/2020 | 3,408 | indexed | floating | hedged |
| 30 | OTP 2020/Gx | 15/12/2014 | 21/12/2020 | 2,898 | indexed | floating | hedged |
| 31 | OTP 2021/Ax | 01/04/2011 | 01/04/2021 | 289 | indexed | floating | hedged |
| 32 | OTP 2021/Bx | 17/06/2011 | 21/06/2021 | 311 | indexed | floating | hedged |
| 33 | OTP 2021/Cx | 19/09/2011 | 24/09/2021 | 287 | indexed | floating | hedged |
| 34 | OTP 2021/Dx | 21/12/2011 | 27/12/2021 | 351 | indexed | floating | hedged |
| 35 | OTP 2022/Ax | 22/03/2012 | 23/03/2022 | 264 | indexed | floating | hedged |
| 36 | OTP 2022/Bx | 18/07/2012 | 18/07/2022 | 240 | indexed | floating | hedged |
| 37 | OTP 2022/Cx | 29/10/2012 | 28/10/2022 | 270 | indexed | floating | hedged |
| 38 | OTP 2022/Dx | 28/12/2012 | 27/12/2022 | 316 | indexed | floating | hedged |
| 39 | OTP 2023/Ax | 22/03/2013 | 24/03/2023 | 395 | indexed | floating | hedged |
| 40 | OTP 2023/Bx | 28/06/2013 | 26/06/2023 | 265 | indexed | floating | hedged |
| 41 | OTP 2024/Ax | 18/06/2014 | 21/06/2024 | 270 | indexed | floating | hedged |
| 42 | OTP 2024/Bx | 10/10/2014 | 16/10/2024 | 385 | indexed | floating | hedged |
| 43 | OTP 2024/Cx | 15/12/2014 | 20/12/2024 | 320 | indexed | floating | hedged |
| 44 | OTP 2020/RF/A | 12/07/2010 | 20/07/2020 | 2,739 | indexed | floating | hedged |
| 45 | OTP 2020/RF/B | 12/07/2010 | 20/07/2020 | 1,280 | indexed | floating | hedged |
| 46 | OTP 2020/RF/C | 11/11/2010 | 05/11/2020 | 2,937 | indexed | floating | hedged |
| 47 | OTP 2021/RF/A | 05/07/2011 | 13/07/2021 | 2,484 | indexed | floating | hedged |
| 48 | OTP 2021/RF/B | 20/10/2011 | 25/10/2021 | 2,487 | indexed | floating | hedged |
| 49 | OTP 2021/RF/C | 21/12/2011 | 30/12/2021 | 492 | indexed | floating | hedged |
| 50 | OTP 2021/RF/D | 21/12/2011 | 30/12/2021 | 328 | indexed | floating | hedged |
| 51 | OTP 2021/RF/E | 21/12/2011 | 30/12/2021 | 49 | indexed | floating | hedged |
| 52 | OTP 2022/RF/A | 22/03/2012 | 23/03/2022 | 1,414 | indexed | floating | hedged |
| 53 | OTP 2022/RF/B | 22/03/2012 | 23/03/2022 | 458 | indexed | floating | hedged |
| | **Subtotal** | | | **75,230** | | | |

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

### Issued securities denominated in HUF as at 31 December 2015 (in HUF mn) [continued]

| | Name | Date of issue | Maturity | Nominal value (in HUF mn) | Interest conditions (in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|
| 54 | OTP 2022/RF/C | 28/06/2012 | 28/06/2022 | 146 | indexed | floating | hedged |
| 55 | OTP 2022/RF/D | 28/06/2012 | 28/06/2022 | 188 | indexed | floating | hedged |
| 56 | OTP 2022/RF/E | 29/10/2012 | 31/10/2022 | 485 | indexed | floating | hedged |
| 57 | OTP 2022/RF/F | 28/12/2012 | 28/12/2022 | 363 | indexed | floating | hedged |
| 58 | OTP 2023/RF/A | 22/03/2013 | 24/03/2023 | 415 | indexed | floating | hedged |
| 59 | OTP OJK 2016/I | 26/08/2011-21/12/2011 | 26/08/2016 | 30 | 6.14 | fixed | |
| 60 | OTP OJK 2017/I | 27/01/2012-13/07/2012 | 27/01/2017 | 14 | 7 | fixed | |
| 61 | OJB 2016/I | 03/02/2006 | 03/02/2016 | 1,253 | 7.5 | fixed | |
| 62 | OJB 2016/II | 31/08/2006 | 31/08/2016 | 4,648 | 10 | fixed | |
| 63 | OJB 2016/J | 18/04/2006 | 28/09/2016 | 51 | 7.59 | fixed | |
| 64 | OJB 2019/I | 17/03/2004 | 18/03/2019 | 31,517 | 9.48 | fixed | |
| 65 | OJB 2019/II | 25/05/2011 | 18/03/2019 | 1,079 | 9.48 | fixed | |
| 66 | OJB 2020/I | 19/11/2004 | 12/11/2020 | 5,503 | 9 | fixed | |
| 67 | OJB 2020/II | 25/05/2011 | 12/11/2020 | 1,486 | 9 | fixed | |
| 68 | Other[1] | | | 35,154 | | | |
| | **Subtotal** | | | **82,332** | | | |
| | **Subtotal issued securities in HUF** | | | **157,562** | | | |
| | Unamortized premium | | | (6,202) | | | |
| | Fair value adjustment | | | 13,039 | | | |
| | **Total issued securities in HUF** | | | **164,399** | | | |

### Issued securities denominated in foreign currency as at 31 December 2015 (in HUF mn)

| | Name | Date of issue | Maturity | Type of FX | Nominal value (FX mn) | Nominal value (HUF mn) | Interest conditions (in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|---|---|
| 1 | OTP EUR 1 2015/XXV | 19/12/2014 | 02/01/2016 | EUR | 9.14 | 2,860 | 1.1 | fixed | |
| 2 | OTP EUR 1 2015/XXVI | 09/01/2015 | 23/01/2016 | EUR | 4.23 | 1,325 | 1.1 | fixed | |
| 3 | OTP EUR 1 2016/I | 30/01/2015 | 13/02/2016 | EUR | 9.93 | 3,109 | 1.1 | fixed | |
| 4 | OTP EUR 1 2016/II | 20/02/2015 | 06/03/2016 | EUR | 8.27 | 2,590 | 1.0 | fixed | |
| 5 | OTP EUR 1 2016/III | 20/03/2015 | 03/04/2016 | EUR | 12.94 | 4,052 | 0.9 | fixed | |
| 6 | OTP EUR 1 2016/IV | 10/04/2015 | 24/04/2016 | EUR | 7.14 | 2,237 | 0.9 | fixed | |
| 7 | OTP EUR 1 2016/V | 24/04/2015 | 08/05/2016 | EUR | 3.58 | 1,121 | 0.9 | fixed | |
| 8 | OTP EUR 1 2016/VI | 29/05/2015 | 12/06/2016 | EUR | 10.19 | 3,190 | 0.8 | fixed | |
| 9 | OTP EUR 1 2016/VII | 30/06/2015 | 14/07/2016 | EUR | 10.06 | 3,150 | 0.8 | fixed | |
| 10 | OTP EUR 1 2016/VIII J003 | 24/07/2015 | 07/08/2016 | EUR | 6.13 | 1,919 | 0.7 | fixed | |
| 11 | OTP EUR 1 2016/IX J003 | 25/09/2015 | 09/10/2016 | EUR | 21.34 | 6,681 | 0.6 | fixed | |
| 12 | OTP EUR 1 2016/X | 30/10/2015 | 13/11/2016 | EUR | 14.9 | 4,667 | 0.6 | fixed | |
| 13 | OTP EUR 1 2016/XI | 11/11/2015 | 25/11/2016 | EUR | 8.85 | 2,772 | 0.6 | fixed | |
| 14 | OTP EUR 1 2016/XII | 27/11/2015 | 11/12/2016 | EUR | 6.03 | 1,887 | 0.5 | fixed | |
| 15 | OTP EUR 1 2016/XIII | 30/12/2015 | 13/01/2017 | EUR | 26.09 | 8,168 | 0.5 | fixed | |
| 16 | OTP EUR 2 2016/I | 17/01/2014 | 17/01/2016 | EUR | 0.89 | 280 | 2.0 | fixed | |
| 17 | OTP EUR 2 2016/II | 31/01/2014 | 31/01/2016 | EUR | 0.82 | 256 | 2.0 | fixed | |
| 18 | OTP EUR 2 2016/III | 14/02/2014 | 14/02/2016 | EUR | 0.94 | 296 | 2.0 | fixed | |
| 19 | OTP EUR 2 2016/IV | 28/02/2014 | 28/02/2016 | EUR | 0.63 | 197 | 1.9 | fixed | |
| 20 | OTP EUR 2 2016/V | 14/03/2014 | 14/03/2016 | EUR | 0.72 | 227 | 1.8 | fixed | |
| | **Subtotal** | | | | | **50,984** | | | |

[1] From the total amount HUF 34,923 million is mobil deposits of Merkantil Bank Ltd.

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

### Issued securities denominated in foreign currency as at 31 December 2015 (in HUF mn) [continued]

| | Name | Date of issue | Maturity | Type of FX | Nominal value | | Interest conditions (in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | (FX mn) | (HUF mn) | | | |
| 21 | OTP EUR 2 2016/VI | 21/03/2014 | 21/03/2016 | EUR | 0.21 | 66 | 1.8 | fixed | |
| 22 | OTP EUR 2 2016/VII | 11/04/2014 | 11/04/2016 | EUR | 0.71 | 223 | 1.8 | fixed | |
| 23 | OTP EUR 2 2016/VIII | 18/04/2014 | 18/04/2016 | EUR | 0.20 | 63 | 1.8 | fixed | |
| 24 | OTP EUR 2 2016/IX | 09/05/2014 | 09/05/2016 | EUR | 0.61 | 190 | 1.8 | fixed | |
| 25 | OTP EUR 2 2016/X | 23/05/2014 | 23/05/2016 | EUR | 0.60 | 187 | 1.8 | fixed | |
| 26 | OTP EUR 2 2016/XI | 06/06/2014 | 06/06/2016 | EUR | 0.64 | 200 | 1.8 | fixed | |
| 27 | OTP EUR 2 2016/XII | 20/06/2014 | 20/06/2016 | EUR | 0.59 | 185 | 1.5 | fixed | |
| 28 | OTP EUR 2 2016/XIII | 04/07/2014 | 04/07/2016 | EUR | 0.46 | 145 | 1.5 | fixed | |
| 29 | OTP EUR 2 2016/XIV | 18/07/2014 | 18/07/2016 | EUR | 0.31 | 98 | 1.5 | fixed | |
| 30 | OTP EUR 2 2016/XV | 30/07/2014 | 30/07/2016 | EUR | 1.55 | 484 | 1.5 | fixed | |
| 31 | OTP EUR 2 2016/XVI | 08/08/2014 | 08/08/2016 | EUR | 0.37 | 115 | 1.5 | fixed | |
| 32 | OTP EUR 2 2016/XVII | 29/08/2014 | 29/08/2016 | EUR | 1.31 | 412 | 1.5 | fixed | |
| 33 | OTP EUR 2 2016/XVIII | 12/09/2014 | 12/09/2016 | EUR | 0.99 | 309 | 1.5 | fixed | |
| 34 | OTP EUR 2 2016/XIX | 03/10/2014 | 03/10/2016 | EUR | 1.92 | 601 | 1.5 | fixed | |
| 35 | OTP 2016/Cx | 22/04/2011 | 22/04/2016 | EUR | 1.42 | 446 | indexed | | hedged |
| 36 | OTP 2016/Dx | 22/12/2011 | 29/12/2016 | EUR | 1.08 | 339 | indexed | | hedged |
| 37 | OTP 2017/Fx | 19/06/2012 | 16/06/2017 | EUR | 0.78 | 243 | indexed | | hedged |
| 38 | OTP 2018/Fx | 19/12/2013 | 21/12/2018 | EUR | 0.62 | 194 | indexed | | hedged |
| 39 | OTP_VK_USD_1_2016/I | 24/04/2015-02/07/2015 | 24/04/2016 | USD | 3.27 | 937 | 1.0 | floating | |
| 40 | OTP_VK_USD_1_2016/II | 24/07/2015 | 24/07/2016 | USD | 0.87 | 249 | 0.9 | floating | |
| 41 | OTP_VK_USD_1_2016/III | 25/09/2015-30/12/2015 | 25/09/2016 | USD | 7.61 | 2,182 | 0.8 | floating | |
| 42 | OTP_VK_USD_2_2016/I | 28/11/2014 | 28/11/2016 | USD | 6.76 | 1,937 | 1.4 | floating | |
| 43 | OTP_VK_USD_2_2017/I | 10/04/2015 | 10/04/2017 | USD | 0.33 | 95 | 1.1 | floating | |
| 44 | Mortgage bonds OTP XXV | 28/09/2012 | 28/09/2016 | EUR | 7.96 | 2,493 | 4.0 | fixed | |
| 45 | Other[1] | | | | | 2,296 | | | |
| | **Subtotal** | | | | | **14,689** | | | |
| | **Subtotal issued securities in FX** | | | | | **65,673** | | | |
| | Unamortized premium | | | | | (189) | | | |
| | Fair value adjustment | | | | | 62 | | | |
| | **Total issued securities in FX** | | | | | **65,546** | | | |
| | Accrued interest | | | | | 9,431 | | | |
| | **Total issued securities** | | | | | **239,376** | | | |

### Term Note Program in the value of HUF 500 billion for the year of 2014/2015

On 8 July 2014 the Bank initiated term note program in the value of HUF 500 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 29 July 2014 the prospectus of Term Note Program and the disclosure as at 25 July 2014. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange without any obligations.

[1] Other category includes promissory notes issued by OTP Banka Slovensko a.s. in the amount of HUF 1,190 million and by JSC "OTP Bank" (Russia) in the amount of HUF 1,106 million.

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

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

On 30 June 2015 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 14 August 2015 the prospectus of Term Note Program and the disclosure as at 12 August 2015. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange without any obligations.

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

**NOTE 16: 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**

| | 2015 | 2014 |
|---|---|---|
| CCIRS and mark-to-market CCIRS classified as held for trading | 55,875 | 53,724 |
| Interest rate swaps classified as held for trading | 30,453 | 63,691 |
| Foreign exchange swaps classified as held for trading | 7,687 | 51,537 |
| Foreign exchange forward contracts classified as held for trading | 3,551 | 5,582 |
| Option contracts classified as held for trading | 1,899 | 6,215 |
| Forward security agreements classified as held for trading | 860 | 478 |
| Forward rate agreements classified as held for trading (FRA) | 29 | 61 |
| Other transactions classified as held for trading | 1,207 | 2,706 |
| **Total** | **101,561** | **183,994** |

**NOTE 17: OTHER LIABILITIES[1] (in HUF mn)**

| | 2015 | 2014 |
|---|---|---|
| Provision for impairment on off-balance sheet commitments and contingent liabilities | 70,999 | 217,351 |
| Financial liabilities from OTP-MOL share swap transaction[2] | 66,787 | 56,445 |
| Liabilities from investment services | 39,413 | 41,264 |
| Accrued expenses | 33,153 | 33,015 |
| Liabilities connected to Cafeteria benefits | 27,811 | 22,700 |
| Accounts payable | 25,455 | 22,373 |
| Salaries and social security payable | 25,423 | 25,583 |
| Fair value of derivative financial instruments designated as fair value hedge | 13,723 | 85,679 |
| Current income tax payable | 13,684 | 14,707 |
| Clearing, settlement and pending accounts | 12,065 | 7,284 |
| Giro clearing accounts | 11,302 | 13,119 |
| Liabilities from repo transactions | 7,452 | 6,980 |
| Liabilities from card transactions | 5,804 | 4,992 |
| Deferred tax liabilities | 4,610 | 9,855 |
| Advances received from customers | 4,271 | 3,266 |
| Liabilities connected to leasing activities | 1,583 | 1,080 |
| Liabilities related to housing loans | 1,523 | 244 |
| Liabilities connected to loans for collection | 876 | 909 |
| Loans from government | 683 | 738 |
| Dividend payable | 546 | 140 |
| Other | 24,159 | 24,130 |
| **Subtotal** | **391,322** | **591,854** |
| Accrued interest | 257 | 234 |
| **Total** | **391,579** | **592,088** |

[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 3,236 million as at 31 December 2015. 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 2015 and 2014 HUF 66,787 million and HUF 56,445 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

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

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

| | **2015** | **2014** |
|---|---|---|
| Provision for expected losses due to CHF loans conversion at foreign subsidiaries | 39,314 | - |
| Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending | 7,010 | 3,566 |
| Provision for litigation | 6,680 | 7,454 |
| Provision for expected pension commitments | 2,664 | 3,430 |
| Provision on contingent liabilities due to regulations related to customer loans[1] | - | 196,574 |
| Provision for other liabilities | 15,331 | 6,327 |
| **Total** | **70,999** | **217,351** |

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

| | **2015** | **2014** |
|---|---|---|
| **Balance as at 1 January** | **217,351** | **22,180** |
| (Release of provision) / Provision for the year | (146,360) | 195,310 |
| Use of provision | (1,838) | (1,031) |
| Change due to acquisition | 3,115 | 1,756 |
| Foreign currency translation differences | (1,269) | (864) |
| **Closing balance** | **70,999** | **217,351** |

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

| | **2015** | **2014** |
|---|---|---|
| Interest rate swaps designated as fair value hedge | 13,723 | 3,463 |
| CCIRS and mark-to-market CCIRS designated as fair value hedge | - | 79,940 |
| Foreign exchange swaps designated as fair value hedge | - | 2,276 |
| **Total** | **13,723** | **85,679** |

[1] See details in Note 2.28.

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

| | 2015 | 2014 |
|---|---|---|
| Within one year: | | |
| In HUF | - | - |
| In foreign currency | 156,487 | 16,779 |
| | **156,487** | **16,779** |
| Over one year: | | |
| In HUF | - | - |
| In foreign currency | 77,200 | 264,018 |
| | **77,200** | **264,018** |
| Accrued interest | 1,097 | 1,171 |
| **Total** | **234,784** | **281,968** |

Interest rates on subordinated bonds and loans are as follows:

| | 2015 | 2014 |
|---|---|---|
| Denominated in foreign currency | 5.3% - 5.9% | 0.6% - 8.25% |

| | 2015 | 2014 |
|---|---|---|
| Average interest rates on subordinated bonds and loans | 4.72% | 4.82% |

**NOTE 18: SUBORDINATED BONDS AND LOANS (in HUF mn) [continued]**

Subordinated bonds and loans can be detailed as follows:

| Type | Nominal value | Date of issuance | Date of maturity | Issue price | Interest conditions | Interest rate as at 31 December 2015 |
|---|---|---|---|---|---|---|
| Subordinated bond | EUR 247.5 million | 07/11/2006 | Perpetual, but callable after 10 years | 99.375% | Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly) | 5.875% |
| Subordinated bond (under EMTN[1] program) | EUR 300 million | 19/09/2006 | 19/09/2016 | 100% | Fixed 5.27% annual | 5.27% |
| Subordinated bond (under EMTN[1] program) | EUR 200 million | 26/02/2007 | 19/09/2016 | 100% | Fixed 5.27% annual | 5.27% |

[1] European Medium Term Note Program

## NOTE 19: SHARE CAPITAL (in HUF mn)

| | 2015 | 2014 |
|---|---|---|
| Authorized, issued and fully paid: | | |
| Ordinary shares | 28,000 | 28,000 |

## NOTE 20: 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):

| | 2015 | 2014 |
|---|---|---|
| Capital reserve | 52 | 52 |
| General reserve | 14,123 | 112,217 |
| Retained earnings | 856,990 | 814,399 |
| Tied-up reserve | 9,785 | 8,558 |
| **Total** | **880,950** | **935,226** |

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 subject to approval by the Board of Directors in the Annual General Meeting in April 2016. In 2015 the Bank paid dividend of HUF 40,600 million from the profit of the year 2014, which meant 145 HUF payable dividend by share to the shareholders. In 2016 dividend of HUF 46,200 million are expected to be proposed by the Management from the profit of the year 2015, which means 165 HUF payable dividends by share to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 480,058 million and HUF 686,000 million) and reserves (HUF 780,971 million and HUF 602,757 million) as at 31 December 2015 and 31 December 2014 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 165,308 million and HUF 121,306 million as at 31 December 2015 and 2014 respectively.

## NOTE 20: RETAINED EARNINGS AND RESERVES (in HUF mn) [continued]

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

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

## NOTE 21: TREASURY SHARES (in HUF mn)

| | 2015 | 2014 |
|---|---|---|
| Nominal value (Ordinary shares) | 1,814 | 1,818 |
| Carrying value at acquisition cost | 58,021 | 55,940 |

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:

| | 2015 | 2014 |
|---|---|---|
| **Number of shares as at 1 January** | **18,175,347** | **17,972,405** |
| Additions | 5,284,354 | 6,474,942 |
| Disposals | (5,316,728) | (6,272,000) |
| **Closing number of shares** | **18,142,973** | **18,175,347** |

Change in carrying value:

| | 2015 | 2014 |
|---|---|---|
| **Balance as at 1 January** | **55,940** | **55,599** |
| Additions | 26,721 | 27,522 |
| Disposals | (24,640) | (27,181) |
| **Closing balance** | **58,021** | **55,940** |

## NOTE 22: NON-CONTROLLING INTEREST (in HUF mn)

| | 2015 | 2014 |
|---|---|---|
| **Balance as at 1 January** | **3,349** | **4,767** |
| Changes due to ownership structure | (18) | (177) |
| Non-controlling interest included in net profit for the year | (412) | (273) |
| Foreign currency translation difference | (268) | (968) |
| **Closing balance** | **2,651** | **3,349** |

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

| | 2015 | 2014 |
|---|---|---|
| **Provision for impairment on loan losses** | | |
| Provision for the year | 607,856 | 708,743 |
| Release of provision | (332,171) | (319,393) |
| Provision for impairment on loan losses | 43,004 | 57,470 |
| | **318,689** | **446,820** |
| **(Release of provision) / Provision for impairment on placement losses** | | |
| Provision for the year | 3 | 874 |
| Release of provision | - | (854) |
| Release of provision for impairment on placement losses | (9) | (10) |
| | **(6)** | **10** |
| **Provision for impairment on loan and placement losses** | **318,683** | **446,830** |

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

| **Income from fees and commissions** | **2015** | **2014** |
|---|---|---|
| Deposit and account maintenance fees and commissions | 111,280 | 109,765 |
| Fees and commissions related to the issued bank cards | 42,573 | 45,997 |
| Fees related to cash withdrawal | 27,706 | 29,477 |
| Fees and commissions related to fund management | 18,184 | 20,215 |
| Fees and commissions related to lending | 17,277 | 21,495 |
| Fees and commissions related to security trading | 14,697 | 12,643 |
| Other | 25,714 | 25,800 |
| **Total** | **257,431** | **265,392** |

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

| **Expense from fees and commissions** | **2015** | **2014** |
|---|---|---|
| Fees and commissions related to issued bank cards | 13,170 | 11,907 |
| Fees and commissions paid on loans | 7,070 | 12,489 |
| Interchange fees | 6,634 | 7,351 |
| Fees and commissions related to deposits | 2,596 | 2,579 |
| Cash withdrawal transaction fees | 1,791 | 2,158 |
| Fees and commissions related to security trading | 1,707 | 1,610 |
| Fees and commissions related to collection of loans | 1,660 | 2,856 |
| Money market transaction fees and commissions | 1,101 | 794 |
| Postal fees | 1,017 | 836 |
| Insurance fees | 257 | 532 |
| Other | 6,556 | 6,624 |
| **Total** | **43,559** | **49,736** |
| | | |
| **Net profit from fees and commissions** | **213,872** | **215,656** |

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

| **Other operating income** | **2015** | **2014** |
|---|---|---|
| Refund by the State of cancelled receivables from customer loans converted into HUF[1] | 6,631 | - |
| Gains on transactions related to property activities | 1,724 | 734 |
| Other income from non-financial activities | 14,618 | 13,645 |
| **Total** | **22,973** | **14,379** |

| **Other operating expenses** | **2015** | **2014** |
|---|---|---|
| Expenses from regulations related to customer loans[2] | 186,269 | - |
| Provision for expected losses due to CHF loans conversion at foreign subsidiaries | 39,827 | - |
| Financial support for sport association and organization of public utility | 13,918 | 10,929 |
| Provision for off-balance sheet commitments and contingent liabilities | 10,387 | 512 |
| Provision for impairment on other assets | 6,696 | 5,066 |
| Provision for impairment on investments[3] | 1,094 | 1,244 |
| Provision for assets subject to operating lease | 350 | 1,048 |
| Provision on investment properties | 101 | 3,612 |
| (Release of provision) / Provision on contingent liabilities due to regulations related to customer loans[2] | (196,574) | 194,798 |
| Other | 12,612 | 15,400 |
| **Total** | **74,680** | **232,609** |

[1] 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.

[2] See details in Note 2.28.

[3] See details in Note 9.

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

| **Other administrative expenses** | **2015** | **2014** |
|---|---|---|
| **Personnel expenses** | | |
| Wages | 137,250 | 151,467 |
| Taxes related to personnel expenses | 37,304 | 41,319 |
| Other personnel expenses | 13,252 | 13,549 |
| **Subtotal** | **187,806** | **206,335** |
| **Depreciation and amortization**[1] | **45,463** | **65,947** |
| **Other administrative expenses** | | |
| Taxes, other than income tax [2] | 110,102 | 116,148 |
| Administration expenses, including rental fees | 46,137 | 51,119 |
| Services | 44,400 | 40,515 |
| Professional fees | 20,344 | 16,892 |
| Advertising | 11,264 | 11,736 |
| **Subtotal** | **232,247** | **236,410** |
| **Total** | **465,516** | **508,692** |

## NOTE 26: INCOME TAX (in HUF mn)

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

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

The breakdown of the income tax expense is:

| | **2015** | **2014** |
|---|---|---|
| Current tax expense | 11,624 | 16,520 |
| Deferred tax benefit | (14,771) | (67,905) |
| **Total** | **(3,147)** | **(51,385)** |

[1] See details in Note 11.

[2] Special tax of financial institutions was paid by the Group in the amount of HUF 35 billion for the year 2015 and HUF 37 billion for the year 2014 respectively, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2015 financial transaction duty was paid by the Bank in the amount of HUF 45 billion.

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

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

| | 2015 | 2014 |
|---|---|---|
| **Balance as at 1 January** | **51,154** | **(12,273)** |
| Deferred tax benefit | 14,771 | 67,905 |
| Deferred tax related to items recognized directly in equity and in Other Comprehensive Income | 6,288 | (1,418) |
| Foreign currency translation difference | (3,744) | (3,060) |
| **Closing balance** | **68,469** | **51,154** |

A breakdown of the deferred tax assets are as follows:

| | 2015 | 2014 |
|---|---|---|
| Tax accrual caused by negative taxable income | 43,265 | 15,207 |
| Unused tax allowance | 19,014 | 6,794 |
| Fair value adjustment of securities held for trading and securities available-for-sale | 8,330 | 8,704 |
| Provision for impairment on investments (Goodwill) | 8,030 | 10,705 |
| Refundable tax in accordance with Acts on Customer Loans[1] | 6,341 | 33,226 |
| Repurchase agreement and security lending | 4,102 | 4,176 |
| Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments | 2,582 | 593 |
| Premium and discount amortization on bonds | 1,959 | 177 |
| Adjustment from effective interest rate method | 1,272 | - |
| Difference in depreciation and amortization | 170 | 73 |
| Difference in accounting for leases | 160 | 177 |
| Fair value adjustment of derivative financial instruments | 84 | 8 |
| Fair value adjustment related to customer loans | 80 | - |
| Other | 14,373 | 16,373 |
| **Deferred tax asset** | **109,762** | **96,213** |

[1] See details in Note 2.28.

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

A breakdown of the deferred tax liabilities are as follows:

| | 2015 | 2014 |
|---|---|---|
| Fair value adjustment of securities held for trading and securities available-for-sale | (16,506) | (16,193) |
| Fair value adjustment of derivative financial instruments | (7,809) | (5,031) |
| Difference in depreciation and amortization | (4,971) | (5,051) |
| Adjustment from effective interest rate method | (4,258) | (2,380) |
| Temporary differences arising on consolidation | (2,988) | (1,817) |
| Net effect of treasury share transactions | (2,009) | (2,681) |
| Accounting of equity instrument (ICES) | (556) | (1,333) |
| Difference in accounting for leases | (139) | (3,992) |
| Premium and discount amortization on bonds | (14) | (23) |
| Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments | - | (110) |
| Other | (2,043) | (6,448) |
| **Deferred tax liabilities** | **(41,293)** | **(45,059)** |
| **Net deferred tax asset** | **68,469** | **51,154** |

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

| | 2015 | 2014 |
|---|---|---|
| Profit / (Loss) before income tax | 66,024 | (153,643) |
| Income tax expense / (income) at statutory tax rates | 1,197 | (26,793) |

**Income tax adjustments due to permanent differences are as follows:**

| | 2015 | 2014 |
|---|---|---|
| Tax refund in accordance with Acts on Customer Loans | 22,776 | (28,306) |
| Provision on expected liability | 8,230 | - |
| Share-based payment | - | 835 |
| Use of tax allowance in the current year | - | (2,479) |
| Difference of accounting of equity instrument (ICES) | (9) | (211) |
| OTP-MOL share swap transaction | (615) | (80) |
| Treasury share transactions | (1,729) | (917) |
| Revaluation of investments denominated in foreign currency to historical cost | (4,601) | (185) |
| Deferred use of tax allowance | (11,028) | (6,335) |
| Differences in carrying value of subsidiaries | (16,039) | 14,982 |
| Other | (1,330) | (1,896) |
| **Income tax** | **(3,147)** | **(51,385)** |
| **Effective tax rate** | **(5.2%)** | **33.44%** |

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

## NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

### 27.1. 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.

#### 27.1.1. Analysis by loan types and by DPD categories

**Classification into DPD categories**

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

**Exposures with small amounts** are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are classified into five valuation groups which have been formed based on past due days from which there classes were presented (A: 0-90 days past due - DPD, B: 91-360 DPD, C: above 360 days past due). The three new groups do not match one by one to the earlier used risk classes, the composition of the classes has changed due to the different criteria.
The Group intends – where a great number of items and sufficient long term historical data is available – to apply models on statistical bases. The impairment is calculated according to the possibility of listing the loan into default categories examined on the base of objective valuation criteria (delay of payment, change of exchange) and the expected recovery from the collecting. If the loss of the exposure can't be modelled reliably, the impairment is determined by expert keys.

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

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

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

**27.1. Credit risk [continued]**

**27.1.1. 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 2015**

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

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

**27.1. Credit risk [continued]**

**27.1.1. Analysis by loan types and by DPD categories [continued]**

**As at 31 December 2014**

| Loan type | Up to 90 days | 91-360 days | Above 360 days | Total carrying amount / allowance |
|---|---|---|---|---|
| Mortgage loans | 2,014,737 | 95,472 | 480,123 | **2,590,332** |
| Loans to medium and large corporates | 1,565,654 | 49,286 | 242,997 | **1,857,937** |
| Consumer loans | 1,389,289 | 115,644 | 155,581 | **1,660,514** |
| Loans to micro and small enterprises | 329,030 | 15,931 | 129,515 | **474,476** |
| Car-finance loans | 175,980 | 17,755 | 36,584 | **230,319** |
| Municipal loans | 117,988 | 262 | 63 | **118,313** |
| **Gross portfolio** | **5,592,678** | **294,350** | **1,044,863** | **6,931,891** |
| Placement with other banks | 280,917 | 12 | 9 | **280,938** |
| Bill of exchange | 4,193 | - | - | **4,193** |
| **Total gross portfolio** | **5,877,788** | **294,362** | **1,044,872** | **7,217,022** |
| Allowance for loans | (169,562) | (180,880) | (778,643) | **(1,129,085)** |
| Allowance for placements | (26) | (12) | (9) | **(47)** |
| **Total allowance** | **(169,588)** | **(180,892)** | **(778,652)** | **(1,129,132)** |
| **Total net portfolio** | **5,708,200** | **113,470** | **266,220** | **6,087,890** |
| **Accrued interest** | | | | |
| for loans | | | | 57,242 |
| for placements | | | | 115 |
| **Total accrued interest** | | | | **57,357** |
| Total net loans | | | | **5,864,242** |
| Total net placements | | | | **281,006** |
| **Total net exposures** | | | | **6,145,248** |

The Group's loan portfolio decreased by 7.5% in year 2015. Analysing the contribution of loan types to the loan portfolio, the share of the consumer loan types slightly decreased, the loans to medium and large enterprises slightly increased, while the other types of loans remained almost the same as at 31 December 2015 comparing with the previous year. The qualification of the loan portfolio started to improve from the previous year, and now for the end of year 2015 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 18.6% to 16.6%. 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 78.6% and 74.5% as at 31 December 2015 and 2014 respectively.

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

**27.1. Credit risk [continued]**

**27.1.1. Analysis by loan types and by DPD categories [continued]**

**Not impaired loan portfolio**

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

**As at 31 December 2015**

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

**As at 31 December 2014**

| Loan type | Not past due | Up to 90 days | 91-360 days | Above 360 days | Total |
|---|---|---|---|---|---|
| Mortgage loans | 1,732,423 | 245,115 | 2,827 | 6,508 | 1,986,873 |
| Loans to medium and large corporates | 1,225,143 | 27,730 | 630 | 1,152 | 1,254,655 |
| Consumer loans | 1,206,231 | 170,679 | 75 | 26 | 1,377,011 |
| Loans to micro and small enterprises | 289,677 | 15,455 | 619 | 710 | 306,461 |
| Placement with other banks | 280,891 | - | - | - | - |
| Car-finance loans | 148,523 | 20,314 | 895 | 1,210 | 170,942 |
| Municipal loans | 96,629 | 2,066 | 1,279 | 34 | 100,008 |
| **Total** | **4,979,517** | **481,359** | **6,325** | **9,640** | **5,476,841** |

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 significantly increased from 69% to 71.2% as at 31 December 2015 comparing to the end of the previous year. The ratio of the mortgage loans and consumer loans compared to the portfolio of loans neither past due nor impaired decreased slightly in year 2015, while the ratio of the loans to micro and small enterprises increased mostly.

The loans that are past due but not impaired are concentrated mainly in the mortgage loan type while in the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Group. The ratio of the mortgage and car-finance loans compared to the portfolio of loans past due but not impaired increased slightly and the ratio of the consumer loans decreased in the year ended 31 December 2015.

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

### 27.1. Credit risk [continued]

### 27.1.1. 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 2015 and 2014 is as follows:

**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 |
| Loan characteristics | 54,682 | 9,780 | 35,618 | - | - |
| Country risk | 53,284 | 27,153 | 15,416 | - | - |
| Cross default | 50,230 | 20,950 | 9,824 | 133 | 47 |
| Business lines risks | 12,114 | 4,331 | 6,234 | 2,768 | 138 |
| Restructuring | 7,537 | 5,385 | 3,994 | - | - |
| Regularity of payment | 134 | 44 | 105 | - | - |
| Other | 15,512 | 5,205 | 14,140 | 2,889 | 384 |
| **Corporate total** | **696,573** | **408,422** | **330,852** | **7,807** | **919** |
| Delay of payment | 2,828 | 105 | 822 | - | - |
| Legal proceedings | 41 | 41 | - | - | - |
| **Municipal total** | **2,869** | **146** | **822** | **-** | **-** |
| **Placements with other banks** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **699,442** | **408,568** | **331,674** | **7,807** | **919** |

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

**27.1. Credit risk [continued]**

**27.1.1. Analysis by loan types and by DPD categories [continued]**

**Loans individually assessed for provision [continued]**

**As at 31 December 2014**

| Considered factors | Carrying value | Allowance for impairment | Collateral value | Off-balance sheet commitments | Provision for off-balance sheet commitments |
|---|---|---|---|---|---|
| Delay of payment | 300,591 | 192,597 | 148,144 | 850 | 121 |
| Legal proceedings | 78,037 | 54,745 | 48,845 | 84 | 47 |
| Decrease of client classification | 182,472 | 49,221 | 137,716 | 11,041 | 3,835 |
| Loan characteristics | 39,370 | 1,975 | 27,341 | - | - |
| Country risk | 33,145 | 7,935 | 13,752 | - | - |
| Cross default | 28,229 | 4,498 | 12,188 | 590 | 51 |
| Business lines risks | 16,125 | 3,670 | 8,454 | 12,639 | 390 |
| Restructuring | 1,954 | 1,014 | 1,054 | - | - |
| Regularity of payment | 48,373 | 37,290 | 12,790 | - | - |
| Other | 10,061 | 2,030 | 10,402 | 4,721 | 161 |
| **Corporate total** | **738,357** | **354,975** | **420,686** | **29,925** | **4,605** |
| Delay of payment | 8,895 | 468 | 4,927 | - | - |
| Decrease of client classification | 234 | 122 | - | 3 | - |
| Legal proceedings | 592 | 235 | 1,267 | - | - |
| Other | 96 | 1 | - | 381 | 4 |
| **Municipal total** | **9,817** | **826** | **6,194** | **384** | **4** |
| **Placements with other banks** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **748,174** | **355,801** | **426,880** | **30,309** | **4,609** |

By 31 December 2015 the volume of the individually rated portfolio decreased by 5.7% in the corporate loan type. Among the rating factors of the corporate loan type, the decrease is mostly based on the regularity of payment and on the decrease of client classification, while increase is based on the restructuring and legal proceedings as at 31 December 2015. The decrease was 70.8% in the municipal loan portfolio comparing with the end of the previous year, where the decrease is mostly based on the decreasing number of legal proceedings as well as the decrease of the delay of payment and on the improving client classification. Increase was not experienced at all according to none of the above listed factors.

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

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

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

**27.1. Credit risk [continued]**

**27.1.1. 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:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **Country** | **Carrying amount of gross loan and placement with other banks portfolio** | **Allowance** | **Carrying amount of gross loan and placement with other banks portfolio** | **Allowance** |
| Hungary | 2,585,533 | 291,976 | 2,888,007 | 357,121 |
| Bulgaria | 1,226,958 | 165,843 | 1,220,609 | 160,427 |
| Romania | 565,103 | 37,120 | 484,602 | 69,475 |
| Croatia | 502,823 | 44,555 | 510,344 | 39,442 |
| Russia | 448,751 | 90,683 | 588,601 | 101,079 |
| Ukraine | 426,158 | 243,752 | 578,876 | 254,910 |
| Slovakia | 381,571 | 22,164 | 370,649 | 22,920 |
| Montenegro | 157,764 | 58,945 | 186,890 | 71,542 |
| Serbia | 135,040 | 31,858 | 112,822 | 33,037 |
| United Kingdom | 59,813 | 2,251 | 123,716 | 2,075 |
| Cyprus | 42,293 | 18,344 | 47,333 | 10,476 |
| Germany | 28,583 | 89 | 22,440 | 91 |
| Belgium | 23,896 | 23 | 86 | 6 |
| Austria | 22,489 | 3 | 9,981 | 5 |
| Switzerland | 14,577 | 88 | 8,267 | 149 |
| United States of America | 12,990 | 36 | 24,387 | 51 |
| France | 7,992 | 15 | 5,284 | 1 |
| Norway | 5,813 | - | 4,649 | 25 |
| Seychelles | 4,818 | 4,818 | 4,877 | 4,855 |
| Czech Republic | 4,074 | 7 | 6,829 | 13 |
| Poland | 3,918 | 5 | 1,454 | - |
| The Netherlands | 1,774 | 84 | 1,067 | 21 |
| Turkey | 1,434 | 11 | 1,812 | 8 |
| Bosnia and Herzegovina | 865 | 708 | 954 | 685 |
| Denmark | 601 | - | 1,660 | - |
| Ireland | 459 | 70 | 193 | 69 |
| Japan | 405 | - | 157 | - |
| United Arab Emirates | 319 | 13 | 19 | 13 |
| Italy | 293 | 12 | 4,598 | 3 |
| Sweden | 290 | 10 | 263 | 8 |
| Kazakhstan | 175 | 60 | 171 | 30 |
| Greece | 160 | 22 | 139 | 21 |
| Egypt | 87 | 6 | 685 | 480 |
| Canada | 79 | - | 38 | - |
| Spain | 67 | 5 | 57 | 1 |
| Latvia | 52 | 36 | 58 | 32 |
| Luxembourg | 42 | - | - | - |
| Island | 41 | 28 | 41 | 29 |
| Australia | 19 | - | 55 | - |
| Other[1] | 228 | 30 | 159 | 32 |
| **Total[2]** | **6,668,347** | **1,013,670** | **7,212,829** | **1,129,132** |

[1] Other category in year of 2015 includes e.g.: China, Hong Kong, Moldova, Macedonia, Armenia, Israel, Singapore, Brazil, Vietnam, Finland, Slovenia, Morocco, Kyrgyzstan and Georgia.
[2] Without the amount of bill of exchange.

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

### 27.1. Credit risk [continued]

### 27.1.1. Analysis by loan types and by DPD categories [continued]

**Loan portfolio by countries [continued]**

The loan portfolio decreased mostly in Ukraine, Russia, Montenegro and Hungary and increased in Serbia and Romania but there were no significant changes in the other countries of Group members'. Their stock of provision increased mostly in Croatia and decreased mostly in Romania, Hungary, Montenegro and Russia 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.

### 27.1.2. 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 | 2015 | 2014 |
|---|---|---|
| Mortgages | 5,694,831 | 5,323,528 |
| Assignments (revenue or other receivables) | 387,422 | 407,051 |
| Guarantees of state or organizations owned by state | 103,498 | 277,260 |
| Guarantees and warranties | 268,361 | 114,034 |
| Cash deposits | 73,245 | 74,435 |
| Securities | 193,706 | 34,508 |
| Other | 799,489 | 793,137 |
| **Total** | **7,520,552** | **7,023,953** |

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 | 2015 | 2014 |
|---|---|---|
| Mortgages | 2,801,423 | 2,737,324 |
| Assignments (revenue or other receivables) | 320,728 | 330,466 |
| Guarantees of state or organizations owned by state | 92,216 | 207,379 |
| Guarantees and warranties | 172,853 | 86,475 |
| Cash deposits | 39,387 | 42,956 |
| Securities | 155,886 | 16,723 |
| Other | 455,688 | 455,811 |
| **Total** | **4,038,181** | **3,877,134** |

The coverage level of the loan portfolio (total collaterals) increased by 9.7%, as well as the coverage level to the extent of the exposures increased by 3.98% as at 31 December 2015.

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

**27.1. Credit risk [continued]**

**27.1.3. Restructured loans**

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Gross portfolio** | **Allowance** | **Gross portfolio** | **Allowance** |
| Loans to medium and large corporates[1] | 171,394 | 60,019 | 197,382 | 43,685 |
| Retail loans | 74,733 | 18,153 | 76,124 | 6,636 |
| Loans to micro and small enterprises | 11,134 | 1,570 | 14,046 | 2,018 |
| Municipal loans | - | - | 71 | 3 |
| **Total** | **257,261** | **79,742** | **287,623** | **52,342** |

**Restructured portfolio definition**

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

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

Hungarian FX mortgage loans in the fixed exchange rate scheme are not included.
In case of loans that have been restructured more than once the last restructuring is considered.

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

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

Other modifications of contract not mentioned above are not considered as restructuring (i.e. modifying the collateral structure, modification of the credit purpose).
In case of loans that have been restructured more than once the last restructuring is considered.

[1] They include project and syndicated loans.

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

**27.1. Credit risk [continued]**

**27.1.4. Financial instruments by rating categories[1]**

**Securities held for trading as at 31 December 2015**

| | Aaa | Aa3 | A1 | A2 | A3 | Baa1 | Baa2 | Baa3 | Ba1 | Ba2 | Not rated | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Shares | 11 | 19 | 24 | 66 | 54 | 59 | - | 27 | 26 | 6 | 72,328 | **72,620** |
| Government bonds | - | - | - | - | - | - | 8,222 | 4,903 | 12,613 | 128 | - | **25,866** |
| Discounted Treasury bills | - | - | - | - | - | - | - | - | 366 | - | - | **366** |
| Other securities | - | - | - | - | - | - | - | - | 7,786 | - | 160 | **7,946** |
| Other non-interest bearing securities | - | - | - | - | - | - | - | 1,580 | - | - | 2,927 | **4,507** |
| **Total** | **11** | **19** | **24** | **66** | **54** | **59** | **8,222** | **6,510** | **20,791** | **134** | **75,415** | **111,305** |
| Accrued interest | | | | | | | | | | | | 671 |
| **Total** | | | | | | | | | | | | **111,976** |

**Securities available-for-sale as at 31 December 2015**

| | A1 | Baa2 | Baa3 | Ba1 | Ba2 | Caa3 | C | Not rated | Total |
|---|---|---|---|---|---|---|---|---|---|
| Government bonds | - | 66,897 | - | 1,065,097 | 3,385 | 2,902 | 10 | 4,179 | **1,142,470** |
| Corporate bonds | - | - | - | 78 | 4,180 | - | 2 | 47,018 | **51,278** |
| Discounted Treasury bills | - | - | 14,422 | 19,548 | - | - | - | - | **33,970** |
| Other securities | 1,136 | - | - | - | 10,855 | - | - | 431 | **12,422** |
| Other non-interest bearing securities | 25 | - | 1,511 | - | - | - | - | 43,686 | **45,222** |
| **Total** | **1,161** | **66,897** | **15,933** | **1,084,723** | **18,420** | **2,902** | **12** | **95,314** | **1,285,362** |
| Accrued interest | | | | | | | | | 20,507 |
| **Total** | | | | | | | | | **1,305,869** |

[1] Moody's ratings

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

### 27.1. Credit risk [continued]

### 27.1.4. Financial instruments by rating categories[1] [continued]

**Securities held-to-maturity as at 31 December 2015**

| | A2 | Baa2 | Baa3 | Ba1 | Caa3 | Not rated | Total |
|---|---|---|---|---|---|---|---|
| Government bonds | 22,505 | 1,135 | 14,347 | 814,755 | 35,790 | 21,024 | **909,556** |
| Discounted Treasury bills | - | - | - | - | - | 116 | **116** |
| Corporate bonds | - | - | - | - | - | 5 | **5** |
| **Total** | **22,505** | **1,135** | **14,347** | **814,755** | **35,790** | **21,145** | **909,677** |
| Accrued interest | | | | | | | 17,807 |
| **Total** | | | | | | | **927,484** |

[1] Moody's ratings

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

## 27.2. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk is, foreign currency risk and interest rate risk is detailed in Note 35, 36 and 37, respectively.)

### 27.2.1. 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** | |
|---|---|---|
| | **2015** | **2014** |
| Foreign exchange | 441 | 1,263 |
| Interest rate | 459 | 391 |
| Equity instruments | 3 | 12 |
| Diversification | (215) | (278) |
| **Total VaR exposure** | **688** | **1,388** |

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 27.2.2., for interest rate risk in Note 27.2.3., and for equity price sensitivity analysis in Note 27.2.4. below.

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

### 27.2. Market risk [continued]

### 27.2.2. 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 2015. 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 | |
|---|---|---|
| | 2015 | 2014 |
| | In HUF billion | In HUF billion |
| 1% | (14.6) | (15.2) |
| 5% | (10.0) | (10.6) |
| 25% | (4.4) | (4.6) |
| 50% | (0.5) | (0.8) |
| 25% | 3.1 | 2.9 |
| 5% | 7.8 | 7.9 |
| 1% | 10.9 | 11.7 |

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 2015.

### 27.2.3. Interest rate sensitivity analysis

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

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

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

**27.2 Market risk [continued]**

**27.2.3. Interest rate sensitivity analysis [continued]**

The simulations were prepared by assuming two scenarios:
(1) HUF base rate and BUBOR decreases gradually to 0.85% (probable scenario)
(2) HUF base rate and BUBOR decreases gradually to 0.35% (alternative scenario)

The net interest income in a one year period after 31 December 2015 would be decreased by HUF 1,616 million (probable scenario) and HUF 3,874 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,030 million (probable scenario) and HUF 4,098 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2014.
This effect is counterbalanced by capital gains (HUF 291 million for probable scenario, HUF 1,109 million for alternative scenario) as at 31 December 2015 and (HUF 899 million for probable scenario, HUF 3,689 million for alternative scenario) as at 31 December 2014 on the government bond portfolio held for hedging (economic).

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **Description** | **Effects to the net interest income (one-year period)** | **Effects to capital (Price change of AFS government bonds)** | **Effects to the net interest income (one-year period)** | **Effects to capital (Price change of AFS government bonds)** |
| HUF (0.1%) parallel shift | (588) | 195 | (361) | 374 |
| EUR (0.1%) parallel shift | (614) | - | (503) | - |
| USD (0.1%) parallel shift | (41) | - | (50) | - |
| **Total** | **(1,243)** | **195** | **(914)** | **374** |

**27.2.4. 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** | **2015** | **2014** |
|---|---|---|
| VaR (99%, one day, HUF million) | (3) | (13) |
| Stress test (HUF million) | (53) | (43) |

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

### 27.2. Market risk [continued]

### 27.2.5. 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 2015 as well as in 2014.

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 16.2%, the Regulatory capital was HUF 1,064,383 million and the Total regulatory capital requirement was HUF 526,101 million as at 31 December 2015. The same ratios calculated as at 31 December 2014 were the following: 17.5%, HUF 1,201,874 million and HUF 548,755 million.

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

**27.2 Market risk [continued]**

**27.2.5. Capital management [continued]**

**Capital adequacy [continued]**

| **Calculation on IFRS basis** | **2015** | **2014** |
|---|---|---|
| ***Core capital (Tier 1) = Common Equity Tier 1 (CET 1)*** | ***873,124*** | ***969,935*** |
| Issued capital | 28,000 | 28,000 |
| Reserves | 1,230,035 | 1,280,396 |
| Fair value corrections | 28,125 | 25,389 |
| Other capital components | (152,808) | (113,047) |
| Non-controlling interests | 572 | 736 |
| Treasury shares | (58,021) | (55,940) |
| Goodwill and other intangible assets | (158,370) | (158,681) |
| Other adjustments | (44,409) | (36,918) |
| **Additional Tier 1 (AT1)** | **-** | **-** |
| ***Supplementary capital (Tier 2)*** | ***191,259*** | ***231,939*** |
| Subordinated bonds and loans | 99,054 | 133,217 |
| Other issued capital components | 92,092 | 96,019 |
| Components recognized in T2 capital issued by subsidiaries | 113 | 2,703 |
| **Regulatory capital[1]** | **1,064,383** | **1,201,874** |
| Credit risk capital requirement | 419,670 | 450,073 |
| Market risk capital requirement | 37,183 | 26,848 |
| Operational risk capital requirement | 69,248 | 71,834 |
| **Total requirement regulatory capital** | **526,101** | **548,755** |
| **Surplus capital** | **538,282** | **653,119** |
| CET 1 ratio | 13.3% | 14.1% |
| Tier 1 ratio | 13.3% | 14.1% |
| **Capital adequacy ratio** | **16.2%** | **17.5%** |

**Basel III**

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

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

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

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

### 27.2 Market risk [continued]

### 27.2.5. Capital management [continued]

**Capital adequacy [continued]**

The compliance of the capital adequacy ratios of the foreign subsidiary banks prescribed by the local regulator, is as follows:

| Subsidiary bank | Country | 2015 | 2014 |
|---|---|---|---|
| JSC "OTP Bank" (Russia) | Russia | 13.3% | 12.1% |
| OTP Bank JSC (Ukraine) | Ukraine | 15.7% | 10.4% |
| DSK Bank EAD | Bulgaria | 17.3% | 18.0% |
| OTP Bank Romania S.A. | Romania | 14.2% | 12.6% |
| OTP banka Srbija a.d. | Serbia | 25.8% | 30.8% |
| OTP banka Hrvatska d.d. | Croatia | 15.6% | 16.5% |
| OTP Banka Slovensko a. s. | Slovakia | 13.4% | 13.7% |
| Crnogorska komercijalna banka a.d. | Montenegro | 16.3% | 15.7% |

The ratios of the foreign subsidiaries exceed the requirements of the local regulations in every cases.

## NOTE 28: 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**

| | 2015 | 2014 |
|---|---|---|
| Commitments to extend credit | 1,166,386 | 999,732 |
| Guarantees arising from banking activities | 374,422 | 368,670 |
| Legal disputes (disputed value) | 54,732 | 71,808 |
| Confirmed letters of credit | 18,237 | 25,581 |
| Contingent liabilities ordered by law related to customer loans[1] | - | 157,693 |
| Other | 283,819 | 208,915 |
| **Total** | **1,897,596** | **1,832,399** |

**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.

[1] See details in Note 2.28.

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

**Legal disputes [continued]**

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 6,680 million and HUF 7,454 million as at 31 December 2015 and 2014, respectively. (See Note 17.)

**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.

**Guarantees, payment undertakings arising from banking activities**

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

**Derivatives**

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

## NOTE 29: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. directives and Act on Credit Institutions and Financial Enterprises.
Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act. The Bank ensures the share-based payment part for the management personnel of the Group members.
The value of the discounted share-based payment at the performance assessment is determined by the Supervisory Board[1] based on the average of the three previous trade day's middle rate of the Bank's equity shares fixed on the Budapest Stock Exchange.
Discounted share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date is determined by the Supervisory Board, maximum HUF 4,000.

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with concerning EU-directives –, therefore a decision was made to cancel the share-based payment in the referred countries.
Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies. In case of the jubilee benefits both standards contain regulations.
Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. Other long-term employee benefits are all employee benefits other than short-term employee benefits, postemployment benefits and termination benefits.

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

| Year | Exercise price per share | Maximum earnings per share | Exercise price per share | Maximum earnings per share | Exercise price per share | Maximum earnings per share | Exercise price per share | Maximum earnings per share | Exercise price per share | Maximum earnings per share |
|---|---|---|---|---|---|---|---|---|---|---|
| | **for the year 2010** | | **for the year 2011** | | **for the year 2012** | | **for the year 2013** | | **for the year 2014** | |
| 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 |
| 2017 | - | - | - | - | - | - | 2,522 | 3,500 | 3,930 | 3,000 |
| 2018 | - | - | - | - | - | - | - | - | 3,930 | 3,000 |

Based on parameters accepted by Board of Directors relating to the year **2010** effective pieces are follows as at 31 December 2015:

| | Effective pieces | Approved pieces of shares | Exercised until 31 December 2015 | 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 |

[1] Until the end of 2014 Board of Directors

**NOTE 29: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]**

Effective pieces are follows in exercise periods of each year relating to the year **2011** as at 31 December 2015:

| | Effective pieces | Approved pieces of shares | Exercised until 31 December 2015 | Weighted average share price at the date of exercise (in HUF) | Expired pieces |
|---|---|---|---|---|---|
| Share purchasing period started in 2012 | - | 471,240 | 464,753 | 3,758 | 6,487 |
| Share purchasing period started in 2013 | - | 1,267,173 | 1,256,529 | 4,886 | 10,644 |
| Share purchasing period started in 2014 | - | 609,137 | 609,137 | 4,799 | - |
| Share purchasing period started in 2015 | 670 | 608,118 | 607,448 | 5,618 | - |

Effective pieces are follows in exercise periods of each year relating to the year **2012** as at 31 December 2015:

| | Effective pieces | Approved pieces of shares | Exercised until 31 December 2015 | 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 | 1,971 | 555,845 | 553,874 | 5,654 | - |
| Share purchasing period starting in 2016 | 688,990 | - | - | - | - |

Effective pieces are follows in exercise periods of each year relating to the year **2013** as at 31 December 2015:

| | Effective pieces | Approved pieces of shares | Exercised until 31 December 2015 | Weighted average share price at the date of exercise (in HUF) | Expired pieces |
|---|---|---|---|---|---|
| Share purchasing period started in 2014 | - | 406,044 | 404,263 | 4,369 | 1,781 |
| Share purchasing period started in 2015 | 1,494 | 804,469 | 802,975 | 4,912 | - |
| Share purchasing period starting in 2016 | 495,340 | - | - | - | - |
| Share purchasing period starting in 2017 | 549,909 | - | - | - | - |

Effective pieces are follows in exercise periods of each year relating to the year **2014** as at 31 December 2015:

| | Effective pieces | Approved pieces of shares | Exercised until 31 December 2015 | 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 starting in 2016 | 366,669 | - | - | - | - |
| Share purchasing period starting in 2017 | 214,392 | - | - | - | - |
| Share purchasing period starting in 2018 | 237,013 | - | - | - | - |

Effective pieces relating to the periods starting in 2016-2018 settled during valuation of performance of year 2012-2014, can be modified based on risk assessment and personal changes.

In connection with shares as a part of the Bank Group Policy on Payments modified by 8/2014 resolution of Annual General Meeting 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 3,810 million was recognized as expense as at 31 December 2015.

**NOTE 30: 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** | **2015** | **2014** |
|---|---|---|
| Short-term employee benefits | 6,227 | 8,373 |
| Share-based payment | 2,276 | 2,937 |
| Other long-term employee benefits | 532 | 739 |
| Termination benefits | 42 | 135 |
| **Total** | **9,077** | **12,184** |

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

| | 2015 | 2014 |
|---|---|---|
| Commitments to extend credit and guarantees | 33,943 | 15,690 |
| Loans provided to companies owned by the Management (normal course of business) | 25,734 | 13,357 |
| Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions) | 340 | 334 |

| | 2015 | 2014 |
|---|---|---|
| Loans provided to unconsolidated subsidiaries | 1,790 | 1,304 |
| Interest income on loan provided to unconsolidated subsidiaries | 42 | 44 |

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned credit line "A" in the amount of HUF 168 million and HUF 164.3 million as at 31 December 2015 and 2014.

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

| | 2015 | 2014 |
|---|---|---|
| Members of Board of Directors and their close family members | 24 | 24 |
| Members of Supervisory Board | 2 | 4 |
| Chief executives | 2 | 2 |

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

| | 2015 | 2014 |
|---|---|---|
| Members of Board of Directors and their close family members | 35 | 38 |
| Members of Supervisory Board | - | - |

One member of Board of Directors and its family member owned AMEX Blue credit card loan in the amount of HUF 0.6 million as at 31 December 2015 and 2014, respectively.

Chief executives owned AMEX Gold credit card loan in the amount of HUF 3.5 million as at 31 December 2015 and 2014, respectively.

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned AMEX Platinum credit card loan in the amount of HUF 48.8 and 23.5 million , respectively as at 31 December 2015 and 2014, respectively.

The members of Board of Directors and its close family members owned other kinds of credit card loan, which are not listed above in the amount of HUF 16 and 18.2 million as at 31 December 2015 and 2014, respectively.

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

| | 2015 | 2014 |
|---|---|---|
| Members of Board of Directors | 1,767 | 1,739 |
| Members of Supervisory Board | 144 | 147 |
| **Total** | **1,911** | **1,886** |

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

## NOTE 31: ACQUISITION (in HUF mn)

### a) Purchase and consolidation of subsidiaries

On 31 January 2014 OTP banka Hrvatska d.d. signed a purchase agreement with the Croatian Banco Popolare d.d. on acquiring a 98.37% stake in the bank. The transaction was closed by setting the purchase price on 24 April 2014. The acquisition contributes to a more optimal economies of scale of the Bank in Croatia. 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. | Banco Popolare Croatia d.d. |
|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | (16,933) | (1,719) |
| Placements with other banks, net of allowance for placement losses | (7,376) | (26,797) |
| Financial assets at fair value through profit or loss | (25) | - |
| Securities available-for-sale | (14,757) | (4,555) |
| Loans, net of allowance for loan losses | (117,893) | (52,566) |
| Associates and other investments | (2) | - |
| Securities held-to-maturity | (5,272) | - |
| Property and equipment | (2,205) | (2,320) |
| Intangible assets | (80) | (248) |
| Other assets | (4,999) | (188) |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks | 52,928 | 4,067 |
| Deposits from customers | 98,370 | 72,565 |
| Liabilities from issued securities | - | - |
| Financial liabilities at fair value through profit or loss | - | - |
| Other liabilities | 4,120 | 2,798 |
| Subordinated bonds and loans | - | - |
| **Net assets** | **(14,124)** | **(8,963)** |
| Non-controlling interest | - | - |
| Negative goodwill | 1,845 | 4,563 |
| **Cash consideration** | **(12,279)** | **(4,400)** |

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

| | 2015 | 2014 |
|---|---|---|
| Cash consideration | (12,279) | (4,400) |
| Cash acquired | 16,933 | 1,719 |
| **Net cash outflow** | **4,654** | **(2,681)** |

## NOTE 32: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

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

**Significant subsidiaries**

| Name | Ownership (Direct and Indirect) 2015 | 2014 | Activity |
|---|---|---|---|
| DSK Bank EAD (Bulgaria) | 100.00% | 100.00% | commercial banking services |
| OTP Bank JSC (Ukraine) | 100.00% | 100.00% | commercial banking services |
| JSC "OTP Bank" (Russia) | 97.87% | 97.86% | 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% | 97.90% | commercial banking services |
| OTP Banka Slovensko a. s. (Slovakia) | 99.26% | 99.26% | commercial banking services |
| OTP Financing Malta Company Ltd. (Malta) | 100.00% | 100.00% | refinancing activities |
| OTP Factoring Ltd. | 100.00% | 100.00% | work-out |
| OTP Mortgage Bank Ltd. | 100.00% | 100.00% | mortgage lending |
| OTP Real Estate Ltd. | 100.00% | 100.00% | real estate management and development |
| Merkantil Bank Ltd. | 100.00% | 100.00% | finance lease |
| Merkantil Car Ltd. | 100.00% | 100.00% | finance lease |
| OTP Building Society Ltd. | 100.00% | 100.00% | flat finance and reconstruction |
| OTP Fund Management Ltd. | 100.00% | 100.00% | fund management |
| R.E. Four d.o.o. (Serbia) | 100.00% | 100.00% | real estate management |
| Crnogorska komercijalna banka a.d. (Montenegro) | 100.00% | 100.00% | commercial banking services |
| OTP Financing Netherlands B.V. (the Netherlands) | 100.00% | 100.00% | refinancing activities |
| OTP Holding Ltd. (Cyprus) | 100.00% | 100.00% | refinancing activities |
| OTP Financing Cyprus Ltd. | 100.00% | 100.00% | refinancing activities |
| Bank Center No. 1. Ltd. | 100.00% | 100.00% | real estate lease |
| Inga Kettő Ltd. | 100.00% | 100.00% | property management |
| OTP Funds Servicing and Consulting Ltd. | 100.00% | 100.00% | fund services |
| OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.) | 100.00% | 100.00% | real estate leasing |
| OTP Life Annuity Ltd. | 100.00% | 100.00% | life annuity services |

**Significant associates and joint ventures**[1]

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

**As at 31 December 2015**

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

[1] Based on unaudited financial statements.

**NOTE 32: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]**

**Significant associates and joint ventures[1] [continued]**

**As at 31 December 2014**

| | *KITE Mezőgazdasági Szolgáltató és Kereskedelmi Ltd.* | *D-ÉG Thermoset Ltd.* | *Company for Cash Services Ltd.* | *Suzuki Pénzügyi Szolgáltató Ltd.* | *Total* |
|---|---|---|---|---|---|
| Total assets | 56,717 | 5,758 | 2,292 | 587 | **65,354** |
| Total liabilities | 23,637 | 4,465 | 106 | 3 | **28,211** |
| Shareholders' equity | 33,080 | 1,293 | 2,186 | 584 | **37,143** |
| Total revenues | 245,370 | 7,268 | 1,144 | 21 | **253,803** |

**NOTE 33: 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.

| | **2015** | **2014** |
|---|---|---|
| The amount of loans managed by the Group as a trustee | 37,554 | 39,706 |

**NOTE 34: CONCENTRATION OF ASSETS AND LIABILITIES**

| | **2015** | **2014** |
|---|---|---|
| **In the percentage of the total assets** | | |
| Receivables from, or securities issued by the Hungarian Government or the NBH | 28.2% | 27.9% |

There were no other significant concentrations of the assets or liabilities of the Group as at 31 December 2015 or 2014.

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

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

[1] Based on unaudited financial statements.

## NOTE 35: MATURITY ANALYSIS OF 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 2015 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 liabilities about the non-discounted cash-flow into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

**NOTE 35: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]**

| As at 31 December 2015 | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Without maturity | Total |
|---|---|---|---|---|---|---|
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | 171,469 | 57,073 | 168,058 | 157,092 | - | 553,692 |
| Deposits from customers | 6,615,990 | 1,107,398 | 242,363 | 40,337 | 1 | 8,006,089 |
| Liabilities from issued securities | 42,910 | 60,197 | 105,590 | 34,370 | - | 243,067 |
| Other liabilities[1] | 296,857 | 82,815 | 3,395 | 8,785 | 9,302 | 401,154 |
| Subordinated bonds and loans[2] | 1,817 | 127,336 | 9,292 | 8,439 | 110,566 | 257,450 |
| **TOTAL LIABILITIES** | **7,129,043** | **1,434,819** | **528,698** | **249,023** | **119,869** | **9,461,452** |
| Receivables from derivative financial instruments classified as held for trading | 763,344 | 391,447 | 157,808 | 2,640 | - | 1,315,239 |
| Liabilities from derivative financial instruments classified as held for trading | (781,065) | (427,003) | (195,825) | (17,375) | - | (1,421,268) |
| ***Net position of financial instruments classified as held for trading*** | **(17,721)** | **(35,556)** | **(38,017)** | **(14,735)** | **-** | **(106,029)** |
| Receivables from derivative financial instruments designated as fair value hedge | 5,553 | 70 | 17,851 | 154 | - | 23,628 |
| Liabilities from derivative financial instruments designated as fair value hedge | (5,554) | (151) | (35,068) | (67) | - | (40,840) |
| ***Net position of financial instruments designated as fair value hedge*** | **(1)** | **(81)** | **(17,217)** | **87** | **-** | **(17,212)** |
| **Net position of derivative financial instruments total** | **(17,722)** | **(35,637)** | **(55,234)** | **(14,648)** | **-** | **(123,241)** |
| Commitments to extend credit | 347,477 | 562,694 | 241,577 | 14,638 | - | 1,166,386 |
| Bank guarantees | 74,107 | 79,463 | 123,525 | 96,792 | 535 | 374,422 |
| **Off-balance sheet commitments** | **421,584** | **642,157** | **365,102** | **111,430** | **535** | **1,540,808** |

[1] Without derivative financial instruments designated as fair value hedge.
[2] See Note 18.

**NOTE 35: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]**

| **As at 31 December 2014** | **Within 3 months** | **Within one year and over 3 months** | **Within 5 years and over one year** | **Over 5 years** | **Without maturity** | **Total** |
|---|---|---|---|---|---|---|
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | 413,402 | 42,767 | 98,259 | 166,929 | - | 721,357 |
| Deposits from customers | 6,219,811 | 1,223,544 | 251,098 | 19,366 | - | 7,713,819 |
| Liabilities from issued securities | 35,666 | 52,087 | 130,622 | 23,422 | - | 241,797 |
| Other liabilities[1] | 417,716 | 151,980 | 4,718 | 2,444 | - | 576,858 |
| Subordinated bonds and loans | 30,593 | 17,897 | 140,051 | - | 111,191[2] | 299,732 |
| **TOTAL LIABILITIES** | **7,117,188** | **1,488,275** | **624,748** | **212,161** | **111,191** | **9,553,563** |
| Receivables from derivative financial instruments classified as held for trading | 1,480,795 | 339,420 | 47,408 | 19,340 | - | 1,886,963 |
| Liabilities from derivative financial instruments classified as held for trading | (1,393,686) | (304,425) | (9,408) | (5,578) | - | (1,713,097) |
| ***Net position of financial instruments classified as held for trading*** | **87,109** | **34,995** | **38,000** | **13,762** | **-** | **173,866** |
| Receivables from derivative financial instruments designated as fair value hedge | 203,857 | 552,775 | 338,138 | 3,898 | - | 1,098,668 |
| Liabilities from derivative financial instruments designated as fair value hedge | (199,337) | (500,996) | (308,413) | (3,273) | - | (1,012,019) |
| ***Net position of financial instruments designated as fair value hedge*** | **4,520** | **51,779** | **29,725** | **625** | **-** | **86,649** |
| **Net position of derivative financial instruments total** | **91,629** | **86,774** | **67,725** | **14,387** | **-** | **260,515** |
| Commitments to extend credit | 414,398 | 411,093 | 115,034 | 59,207 | - | 999,732 |
| Bank guarantees | 61,818 | 82,014 | 64,519 | 160,319 | - | 368,670 |
| **Off-balance sheet commitments** | **476,216** | **493,107** | **179,553** | **219,526** | **-** | **1,368,402** |

[1] Without derivative financial instruments designated as fair value hedge.
[2] See Note 18.

## NOTE 36: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

**As at 31 December 2015**

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

**As at 31 December 2014**

| | USD | EUR | CHF | Others | Total |
|---|---|---|---|---|---|
| Assets | 434,794 | 1,887,373 | 817,241 | 2,278,135 | 5,417,543 |
| *from this: loans concerned in conversion into HUF*[1] | - | 27,842 | 402,150 | 74,704 | 504,696 |
| Liabilities | (428,962) | (1,887,894) | (139,131) | (2,263,759) | (4,719,746) |
| *from this: provision for loans concerned in conversion into HUF*[1] | - | (1,531) | (73,854) | (3,870) | (79,255) |
| Off-balance sheet assets and liabilities, net | (9,117) | (40,166) | (277,512) | 55,425 | (271,370) |
| **Net position** | **(3,285)** | **(40,687)** | **400,598** | **69,801** | **426,427** |

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 37: 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.

[1] Loans were converted into HUF at foreign exchange rates applied in conversion due to Acts on Customer loans, so these do not bear further foreign currency risk or exposure. Loans denominated in JPY are included by others. See Note 2.28.

## NOTE 37: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

### As at 31 December 2015

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

## NOTE 37: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

### As at 31 December 2015

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

## NOTE 37: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

### As at 31 December 2014

| | Within 1 month | | Over 1 month and Within 3 months | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| **Cash, amounts due from banks and balances with the National Banks** | **1,798,973** | **69,581** | **105** | **105** | **-** | **16** | **-** | **-** | **-** | **-** | **66,822** | **372,030** | **1,865,900** | **441,732** | **2,307,632** |
| fixed rate | 1,796,928 | 30,478 | - | 16 | - | 16 | - | - | - | - | - | - | 1,796,928 | 30,510 | 1,827,438 |
| variable rate | 2,045 | 39,103 | 105 | 89 | - | - | - | - | - | - | - | - | 2,150 | 39,192 | 41,342 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 66,822 | 372,030 | 66,822 | 372,030 | 438,852 |
| **Placements with other banks, net of allowance for placements losses** | **12,497** | **149,304** | **23** | **78,015** | **-** | **15,303** | **-** | **1,079** | **-** | **994** | **70** | **23,721** | **12,590** | **268,416** | **281,006** |
| fixed rate | 808 | 68,411 | 23 | 6,729 | - | 1,924 | - | 1,079 | - | 4 | - | - | 831 | 78,147 | 78,978 |
| variable rate | 11,689 | 80,893 | - | 71,286 | - | 13,379 | - | - | - | 990 | - | - | 11,689 | 166,548 | 178,237 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 70 | 23,721 | 70 | 23,721 | 23,791 |
| **Securities held for trading** | **752** | **28** | **1,381** | **2,922** | **3,866** | **3,251** | **87** | **407** | **11,431** | **7,171** | **59,710** | **3,634** | **77,227** | **17,413** | **94,640** |
| fixed rate | 179 | 28 | 1,252 | 2,922 | 3,052 | 3,143 | 87 | 407 | 11,431 | 7,171 | - | - | 16,001 | 13,671 | 29,672 |
| variable rate | 573 | - | 129 | - | 814 | 108 | - | - | - | - | - | - | 1,516 | 108 | 1,624 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 59,710 | 3,634 | 59,710 | 3,634 | 63,344 |
| **Securities available-for-sale** | **2,427** | **14,087** | **18,832** | **36,295** | **25,771** | **48,118** | **9,377** | **42,792** | **503,653** | **77,539** | **39,896** | **20,365** | **599,956** | **239,196** | **839,152** |
| fixed rate | 2,427 | 11,732 | 18,832 | 36,295 | 25,771 | 47,656 | 9,377 | 42,792 | 503,653 | 77,539 | - | - | 560,060 | 216,014 | 776,074 |
| variable rate | - | 2,355 | - | - | - | 462 | - | - | - | - | - | - | - | 2,817 | 2,817 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 39,896 | 20,365 | 39,896 | 20,365 | 60,261 |
| **Loans, net of allowance for loan losses** | **774,424** | **2,567,850** | **236,522** | **367,622** | **83,801** | **354,337** | **89,224** | **207,272** | **399,251** | **433,738** | **38,733** | **311,467** | **1,621,955** | **4,242,286** | **5,864,241** |
| fixed rate | 6,848 | 283,372 | 5,392 | 79,611 | 23,311 | 252,269 | 35,647 | 164,949 | 88,045 | 353,642 | - | - | 159,243 | 1,133,843 | 1,293,086 |
| variable rate | 767,576 | 2,284,478 | 231,130 | 288,011 | 60,490 | 102,068 | 53,577 | 42,323 | 311,206 | 80,096 | - | - | 1,423,979 | 2,796,976 | 4,220,955 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 38,733 | 311,467 | 38,733 | 311,467 | 350,200 |
| **Securities held-to-maturity** | **-** | **10,860** | **63,374** | **5,076** | **1,527** | **1,481** | **36,902** | **2,541** | **542,000** | **30,974** | **14,036** | **598** | **657,839** | **51,530** | **709,369** |
| fixed rate | - | 10,648 | 56,697 | 4,553 | 1,527 | 1,454 | 36,902 | 2,541 | 542,000 | 30,974 | - | - | 637,126 | 50,170 | 687,296 |
| variable rate | - | 212 | 6,677 | 523 | - | 27 | - | - | - | - | - | - | 6,677 | 762 | 7,439 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 14,036 | 598 | 14,036 | 598 | 14,634 |
| **Derivative financial instruments** | **889,464** | **1,377,086** | **873,489** | **2,361,421** | **136,282** | **812,239** | **8,578** | **19,996** | **31,973** | **41,671** | **-** | **34,609** | **1,939,786** | **4,647,022** | **6,586,808** |
| fixed rate | 511,452 | 1,154,470 | 121,432 | 819,747 | 85,034 | 809,065 | 8,578 | 19,996 | 31,973 | 41,671 | - | - | 758,469 | 2,844,949 | 3,603,418 |
| variable rate | 378,012 | 222,616 | 752,057 | 1,541,674 | 51,248 | 3,174 | - | - | - | - | - | - | 1,181,317 | 1,767,464 | 2,948,781 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | 34,609 | - | 34,609 | 34,609 |

## NOTE 37: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

### As at 31 December 2014

| | Within 1 month | | Over 1 month and Within 3 months | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **LIABILITIES** | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| **Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks** | **48,545** | **379,132** | **2,698** | **43,788** | **35,659** | **14,911** | **5,144** | **4,051** | **146,454** | **5,863** | **220** | **21,809** | **238,720** | **469,554** | **708,274** |
| fixed rate | 48,545 | 241,159 | 1,209 | 17,169 | 9,371 | 13,890 | 5,144 | 4,051 | 146,454 | 5,863 | - | - | 210,723 | 282,132 | 492,855 |
| variable rate | - | 137,973 | 1,489 | 26,619 | 26,288 | 1,021 | - | - | - | - | - | - | 27,777 | 165,613 | 193,390 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 220 | 21,809 | 220 | 21,809 | 22,029 |
| **Deposits from customers** | **1,976,745** | **2,380,597** | **449,672** | **367,013** | **178,753** | **604,481** | **37,652** | **68,263** | **1,172,388** | **264,464** | **9,572** | **163,878** | **3,824,782** | **3,848,696** | **7,673,478** |
| fixed rate | 1,557,114 | 980,269 | 441,702 | 349,788 | 178,753 | 588,534 | 37,652 | 54,368 | 41,176 | 26,410 | - | - | 2,256,397 | 1,999,369 | 4,255,766 |
| variable rate | 419,631 | 1,400,328 | 7,970 | 17,225 | - | 15,947 | - | 13,895 | 1,131,212 | 238,054 | - | - | 1,558,813 | 1,685,449 | 3,244,262 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 9,572 | 163,878 | 9,572 | 163,878 | 173,450 |
| **Liabilities from issued securities** | **6,142** | **5,995** | **5,683** | **15,831** | **12,544** | **32,782** | **21,526** | **11,148** | **144,393** | **506** | **8,022** | **2,512** | **198,310** | **68,774** | **267,084** |
| fixed rate | 6,142 | 5,384 | 5,683 | 7,365 | 12,544 | 32,420 | 21,526 | 11,148 | 144,393 | 506 | - | - | 190,288 | 56,823 | 247,111 |
| variable rate | - | 611 | - | 8,466 | - | 362 | - | - | - | - | - | - | - | 9,439 | 9,439 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 8,022 | 2,512 | 8,022 | 2,512 | 10,534 |
| **Derivative financial instruments** | **794,288** | **1,514,836** | **982,978** | **2,318,214** | **193,875** | **732,283** | **6,698** | **19,847** | **23,515** | **41,313** | **26** | **3,635** | **2,001,380** | **4,630,128** | **6,631,508** |
| fixed rate | 628,184 | 1,033,097 | 172,690 | 1,013,732 | 190,851 | 701,466 | 6,698 | 19,847 | 23,515 | 41,313 | - | - | 1,021,938 | 2,809,455 | 3,831,393 |
| variable rate | 166,104 | 481,739 | 810,288 | 1,304,482 | 3,024 | 30,817 | - | - | - | - | - | - | 979,416 | 1,817,038 | 2,796,454 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | 26 | 3,635 | 26 | 3,635 | 3,661 |
| **Subordinated bonds and loans** | **-** | **-** | **-** | **29,375** | **-** | **16,779** | **-** | **-** | **-** | **234,642** | **-** | **1,172** | **-** | **281,968** | **281,968** |
| fixed rate | - | - | - | - | - | - | - | - | - | 234,642 | - | - | - | 234,642 | 234,642 |
| variable rate | - | - | - | 29,375 | - | 16,779 | - | - | - | - | - | - | - | 46,154 | 46,154 |
| non-interest-bearing | - | - | - | - | - | - | - | - | - | - | - | 1,172 | - | 1,172 | 1,172 |
| **Net position** | **652,817** | **(91,764)** | **(247,305)** | **77,235** | **(169,584)** | **(166,491)** | **73,148** | **170,778** | **1,558** | **45,299** | **201,427** | **573,418** | **512,061** | **608,475** | **1,120,536** |

## NOTE 38: 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.

| | 2015 | 2014 |
|---|---|---|
| Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn) | 63,583 | (101,985) |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share) | 262,204,162 | 267,035,159 |
| **Basic Earnings per share (in HUF)** | **242** | **(382)** |
| Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn) | 63,583 | (101,985) |
| Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share) | 262,419,544 | 267,323,299 |
| **Diluted Earnings per share (in HUF)** | **242** | **(382)** |

| | 2015 | 2014 |
|---|---|---|
| | Number of shares | |
| Weighted average number of ordinary shares | 280,000,010 | 280,000,010 |
| Average number of Treasury shares | 17,795,848 | 12,964,851 |
| **Weighted average number of ordinary shares outstanding during the year for calculating basic EPS** | **262,204,162** | **267,035,159** |
| Dilutive effects of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares[1] | 215,382 | 288,140 |
| **The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS** | **262,419,544** | **267,323,299** |

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

[1] Both in 2015 and 2014 the dilutive effect is in connection with the Remuneration Policy.

## NOTE 39: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

**As at 31 December 2015**

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

**As at 31 December 2014**

| | 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 | 16,498 | - | - | - |
| Placements with other banks, net of allowance for placements losses | 3,683 | - | (10) | - |
| Securities held for trading | - | 4,275 | - | - |
| Securities available-for-sale | 41,969 | 4,299 | (297) | 16,073 |
| Loans, net of allowance for loan losses | 700,265 | 9,007 | (446,820) | - |
| Securities held-to-maturity | 39,934 | - | - | - |
| Other assets | 2,549 | - | - | - |
| Derivative financial instruments | 6,529 | (162) | - | - |
| Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks | (12,541) | - | - | - |
| Deposits from customers | (135,080) | 161,242 | - | - |
| Liabilities from issued securities | (13,826) | - | - | - |
| Subordinated bonds and loans | (13,883) | - | - | - |
| **Total** | **636,097** | **178,661** | **(447,127)** | **16,073** |

## NOTE 40: 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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Cash, amounts due from banks and balances with the National Banks | 1,878,960 | 1,880,223 | 2,307,632 | 2,307,632 |
| Placements with other banks, net of allowance for placements losses | 300,568 | 318,972 | 281,006 | 280,999 |
| Financial assets at fair value through profit or loss | 253,782 | 253,782 | 289,275 | 289,275 |
| *Securities held for trading* | *111,976* | *111,976* | *94,640* | *94,640* |
| *Fair value of derivative financial instruments classified as held for trading* | *141,806* | *141,806* | *194,635* | *194,635* |
| Securities available-for-sale | 1,305,486 | 1,305,486 | 839,152 | 839,152 |
| Loans, net of allowance for loan losses | 5,409,967 | 6,028,495 | 5,864,241 | 6,506,922 |
| Securities held-to-maturity | 926,677 | 1,010,112 | 709,369 | 704,875 |
| Fair value of derivative financial instruments designated as fair value hedge | 16,009 | 16,151 | 30,454 | 30,454 |
| **Financial assets total** | **10,091,449** | **10,813,221** | **10,321,129** | **10,959,309** |

**NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

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

| | **2015** | | **2014** | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | 533,310 | 533,338 | 708,274 | 708,284 |
| Deposits from customers | 7,984,579 | 7,969,922 | 7,673,478 | 7,672,819 |
| Liabilities from issued securities | 239,376 | 351,488 | 267,084 | 317,834 |
| Fair value of derivative financial instruments designated as fair value hedge | 13,723 | 13,723 | 85,679 | 85,679 |
| Fair value of derivative financial instruments classified as held for trading | 101,561 | 101,561 | 183,994 | 183,994 |
| Subordinated bonds and loans | 234,784 | 240,619 | 281,968 | 281,968 |
| **Financial liabilities total** | **9,107,333** | **9,210,651** | **9,200,477** | **9,250,578** |

**b) Fair value of derivative instruments**

| | **Fair value** | | **Notional value, net** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Interest rate swaps classified as held for trading** | | | | |
| Positive fair value of interest rate swaps classified as held for trading | 33,770 | 43,401 | 40,475 | 45,929 |
| Negative fair value of interest rate swaps classified as held for trading | (30,453) | (63,691) | (37,135) | (67,678) |
| **Foreign exchange swaps classified as held for trading** | | | | |
| Positive fair value of foreign exchange swaps classified as held for trading | 15,551 | 48,636 | 14,083 | 42,458 |
| Negative fair value of foreign exchange swaps classified as held for trading | (7,687) | (51,537) | (8,000) | (48,154) |
| **Interest rate swaps designated as fair value hedge** | | | | |
| Positive fair value of interest rate swaps designated as fair value hedge | 15,393 | 14,032 | 7,932 | 8,539 |
| Negative fair value of interest rate swaps designated as fair value hedge | (13,723) | (3,463) | (17,211) | (4,602) |
| **Foreign exchange swaps designated as fair value hedge** | | | | |
| Positive fair value of foreign exchange swaps designated as fair value hedge | - | 2,437 | - | 2,276 |
| Negative fair value of foreign exchange swaps designated as fair value hedge | - | (2,276) | - | (2,066) |
| **CCIRS classified as held for trading** | | | | |
| Positive fair value of CCIRS classified as held for trading | 84,270 | 85,010 | 84,721 | 83,611 |
| Negative fair value of CCIRS classified as held for trading | (53,505) | (53,724) | (54,309) | (51,012) |
| **Mark-to-market CCIRS classified as held for trading** | | | | |
| Positive fair value of mark-to-market CCIRS classified as held for trading | - | - | - | - |
| Negative fair value of mark-to-market CCIRS classified as held for trading | (2,370) | - | (2,143) | - |

**NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**b) Fair value of derivative instruments [continued]**

| | Fair value | | Notional value, net | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **CCIRS designated as fair value hedge** | | | | |
| Positive fair value of CCIRS designated as fair value hedge | 604 | 13,940 | 693 | 14,095 |
| Negative fair value of CCIRS designated as fair value hedge | - | (70,364) | - | (70,124) |
| **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 | - | (9,576) | - | (9,856) |
| **Other derivative contracts designated as fair value hedge** | | | | |
| Positive fair value of other derivative contracts designated as fair value hedge | 12 | 45 | 12 | 39 |
| 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 | 8,215 | 17,588 | 5,098 | 14,592 |
| Negative fair value of other derivative contracts classified as held for trading | (7,546) | (15,042) | (4,290) | (11,844) |
| **Derivative financial assets total** | **157,815** | **225,089** | **153,014** | **211,539** |
| **Derivative financial liabilities total** | **(115,284)** | **(269,673)** | **(123,088)** | **(265,336)** |
| **Derivative financial instruments total** | **42,531** | **(44,584)** | **29,926** | **(53,797)** |

**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 2015**

| Types of the hedges | Description of the hedging instrument | Fair value of the hedging instrument | The nature of the risk being hedged |
|---|---|---|---|
| 1) Cash-flow hedges | - | - | - |
| 2) Fair value hedges | IRS | HUF 1,670 million | Interest rate |
| 3) Fair value hedges | CCIRS | HUF (3,603) million | Interest rate / Foreign currency |
| 4) Net investment hedge in foreign operations[1] | CCIRS and issued securities | HUF 548 million | Foreign exchange |

**As at 31 December 2014**

| Types of the hedges | Description of the hedging instrument | Fair value of the hedging instrument | The nature of the risk being hedged |
|---|---|---|---|
| 1) Cash-flow hedges | - | - | - |
| 2) Fair value hedges | IRS /Index option | HUF 10,578 million | Interest rate |
| 3) Net investment hedge in foreign operations[1] | CCIRS and issued securities | HUF (5,575) million | Foreign exchange |

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

**NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**d) Fair value hedges**

**1. Deposits from customers**

The interest payment cash-flows of some structured deposits of the Group denominated in HUF and EUR are exposed to the change of equity prices, equity indices or the change of HUF/EUR exchange rate. In order to hedge the interest rate risk of the interest payments the Group entered into interest rate swap transactions, where the risk of the cash-flow's from the structured deposits were swapped to payments linked to 3 month BUBOR or EURIBOR, resulting in a decrease in the fair value exposure of the deposits from customers.

| | 2015 | 2014 |
|---|---|---|
| Fair value of the hedging instruments | - | 107 |

**2. Securities available-for-sale**

The Group holds fixed interest rate securities denominated in foreign currencies and fixed interest rate government bonds denominated in HUF and EUR within the available-for-sale portfolio. These fixed interest rate securities and bonds are exposed to the fair value risk driven by the changes in the risk-free interest rates.
In order to hedge the interest rate risk of the cash-flows 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.

| | 2015 | 2014 |
|---|---|---|
| Fair value of the hedging IRS instruments | (11,266) | (2,570) |

**3. Loans to customers / corporates**

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

| | 2015 | 2014 |
|---|---|---|
| Fair value of the hedging IRS instruments | (165) | (417) |
| Fair value of the hedging CCIRS instruments | 65 | - |

**4. 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.
Certain structured bonds are hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond.

| | 2015 | 2014 |
|---|---|---|
| Fair value of the hedging IRS instruments | 13,101 | 13,449 |
| Fair value of the hedging index option instruments | - | 9 |

**NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**d) Fair value hedges [continued]**

**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 |
| Securities available-for-sale | CCIRS | HUF 317,230 million | HUF (3,668) million | HUF 2,064 million | HUF (3,668) million |
| Loans to customers | IRS | HUF 5,561 million | HUF (165) million | HUF (252) million | HUF 252 million |
| Loans to corporates | CCIRS | HUF 56,458 million | HUF 65 million | HUF 202 million | HUF 65 million |
| Deposits from customers | IRS | - | - | HUF 107 million | HUF (107) million |
| Liabilities from issued securities | IRS | HUF 71,786 million | HUF 13,101 million | HUF 348 million | HUF (348) million |
| Liabilities from issued securities | Index option | - | - | HUF 9 million | HUF (9) million |

**As at 31 December 2014**

| 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 286,344 million | HUF (2,570) million | HUF 1,691 million | HUF (1,691) million |
| Loans to customers | IRS | HUF 12,158 million | HUF (417) million | HUF (101) million | HUF 101 million |
| Deposits from customers | IRS | HUF 1,627 million | HUF 107 million | HUF (6) million | HUF 6 million |
| Liabilities from issued securities | IRS | HUF 88,309 million | HUF 13,449 million | HUF (5,070) million | HUF 5,070 million |
| Liabilities from issued securities | Index option | HUF 651 million | HUF 9 million | HUF 3 million | HUF (3) million |

**NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**e) Fair value classes**

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

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

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

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

| **As at 31 December 2014** | **Total** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 288,650 | 90,053 | 198,597 | - |
| *from this: securities held for trading* | 94,015 | 89,496 | 4,519 | - |
| *from this: positive fair value of derivative financial instruments classified as held for trading* | 194,635 | 557 | 194,078 | - |
| Securities available-for-sale | 823,458 | 721,957 | 97,154 | 4,347 |
| Positive fair value of derivative financial instruments designated as fair value hedge | 30,454 | - | 30,454 | - |
| **Financial assets measured at fair value total** | **1,142,562** | **812,010** | **326,205** | **4,347** |
| Negative fair value of derivative financial instruments classified as held for trading | 183,994 | 1,220 | 182,774 | - |
| Negative fair value of derivative financial instruments designated as fair value hedge | 85,679 | - | 85,679 | - |
| **Financial liabilities measured at fair value total** | **269,673** | **1,220** | **268,453** | **-** |

[1] From the whole portfolio HUF 10,789 million includes shares of Visa Europe (see Note 42). The purchase price includes three components (upfront component: cash and Visa Inc. "C" preferential shares with limited marketability; and deferred earn-out payment). The book value of the shares is valuated up to the amount of the upfront component. Sensitivity analysis is not applicable.

**NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

**e) Fair value classes [continued]**

**Movements in Level 3 financial instruments measured at fair value**

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

| Movement on securities available-for-sale in Level 3 | Opening balance | Increase / (Decrease) | Closing balance |
|---|---|---|---|
| OTP Bank Plc. | - | 5,667 | **5,667** |
| DSK Bank EAD | 967 | 2,064 | **3,031** |
| OTP Factoring Ltd. | 2,103 | (16) | **2,087** |
| OTP banka Hrvatska d.d. | - | 1,136 | **1,136** |
| OTP Bank Romania S.A. | - | 1,027 | **1,027** |
| OTP Banka Slovensko a.s. | - | 907 | **907** |
| OTP Factoring Ukarine LLC | 1,175 | (458) | **717** |
| OTP banka Srbija a.d. | 102 | (75) | **27** |
| LLC AMC OTP Capital | - | 74 | **74** |
| **Total** | **4,347** | **10,326** | **14,673** |

**NOTE 41: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn)**

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

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

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

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

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

**Goodwill / investment impairment and their tax saving effect:**

In the year ended 31 December 2015 no goodwill impairment was recognized at all, while at the end of 2014 HUF 22,225 million was the effect of goodwill impairment after tax for OTP Bank JSC (Ukraine). In year 2015 due to the impairment on investment in OTP Bank JSC (Ukraine) HUF 6,683 million tax shield was recognized.
The tax saving effect was HUF (17,210) million in relation with goodwill and investment impairment of OTP Bank JSC (Ukraine) in the year ended as at 31 December 2014.

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

## NOTE 41: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

### As at 31 December 2015

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

( ) used at: provisions, impairment and expenses

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

## NOTE 41: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

### As at 31 December 2014

| Main components of the Consolidated Statement of Recognized Income in HUF million | OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of accounting reports | Adjustements on the accounting in Recognized Income | OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of management reports | OTP CORE (Hungary) | Foreign banks subtotal (without adjustments) | JSC "OTP Bank" (Russia) | OTP Bank JSC (Ukraine) | DSK Bank EAD (Bulgaria) | OTP Bank Romania S.A. (Romania) | OTP banka Srbija a.d. (Serbia) | OTP banka Hrvatska d.d. (Croatia) | OTP Banka Slovensko a.s. (Slovakia) | Crnogorska komercijalna banka a.d. (Montenegro) | Non-banking subsidiaries subtotal | Leasing subsidiaries | Asset Management subsidiaries | Other subsidiaries | Corporate Centre | Eliminations and adjustments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | a | b | 1=a+b<br>1= 2+3+12+16+17 | 2 | 3=4+…+11 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12=13+14+15 | 13 | 14 | 15 | 16 | 17 |
| **Net profit for the year** | **(102,258)** | | **(102,258)** | | | | | | | | | | | | | | | | |
| **Adjustments (total)** | | **(220,273)** | **(220,273)** | | | | | | | | | | | | | | | | |
| Dividends and net cash transfers (after income tax) | | 191 | 191 | | | | | | | | | | | | | | | | |
| Goodwill /investment impairment (after income tax) | | (5,015) | (5,015) | | | | | | | | | | | | | | | | |
| Bank tax on financial institutions (after income tax) | | (30,193) | (30,193) | | | | | | | | | | | | | | | | |
| Effect of Banco Popolare acquisition (after income tax) | | 4,131 | 4,131 | | | | | | | | | | | | | | | | |
| Impact of the expected refund obligation stemming from the invalidity of using FX margin in Hungary (after income tax) | | (26,923) | (26,923) | | | | | | | | | | | | | | | | |
| Potential refund obligation stemming from the presumed unfairness of unilateral amendments to loan contracts in Hungary (after income tax) | | (128,985) | (128,985) | | | | | | | | | | | | | | | | |
| Risk cost created toward Crimean exposures in 2014 (after income tax) | | (7,943) | (7,943) | | | | | | | | | | | | | | | | |
| Risk cost created toward exposues to Donetsk and Luhansk in 2014 (after income tax) | | (25,536) | (25,536) | | | | | | | | | | | | | | | | |
| **Consolidated adjusted net profit for the year** | **(102,258)** | **220,272** | **118,014** | **137,418** | **(17,196)** | **(14,541)** | **(43,166)** | **39,170** | **765** | **49** | **103** | **33** | **391** | **(1,172)** | **(1,588)** | **5,529** | **(5,113)** | **(1,210)** | **174** |
| **Profit before income tax** | **(153,643)** | **295,983** | **142,340** | **161,097** | **(19,237)** | **(17,678)** | **(47,322)** | **43,587** | **765** | **45** | **627** | **367** | **372** | **793** | **(1,508)** | **6,753** | **(4,452)** | **(1,433)** | **1,120** |
| **Adjusted operating profit** | **293,187** | **121,346** | **414,533** | **181,952** | **219,065** | **101,028** | **27,269** | **62,392** | **9,807** | **1,358** | **7,527** | **5,895** | **3,789** | **13,404** | **5,970** | **6,704** | **730** | **(1,433)** | **1,545** |
| Adjusted total income | 801,879 | 24,180 | 826,059 | 375,668 | 419,716 | 179,392 | 52,078 | 102,238 | 23,410 | 8,555 | 25,426 | 17,099 | 11,518 | 43,483 | 14,073 | 9,041 | 20,369 | (1,175) | (11,633) |
| Adjusted net interest income | 636,097 | 73 | 636,170 | 266,329 | 349,904 | 158,972 | 45,327 | 79,116 | 19,388 | 6,612 | 17,923 | 14,207 | 8,359 | 21,675 | 17,405 | 81 | 4,189 | (1,175) | (563) |
| Adjusted net profit from fees and commissions | 215,656 | (46,076) | 169,580 | 94,244 | 67,306 | 21,378 | 10,306 | 20,262 | 2,429 | 1,851 | 5,203 | 3,000 | 2,877 | 7,934 | (2,611) | 9,895 | 650 | 0 | 96 |
| Adjusted other net non-interest income | (49,874) | 70,183 | 20,309 | 15,095 | 2,506 | (958) | (3,555) | 2,860 | 1,593 | 92 | 2,300 | (108) | 282 | 13,874 | (721) | (935) | 15,530 | 0 | (11,166) |
| Adjusted other administrative expenses | (508,692) | 97,166 | (411,526) | (193,716) | (200,651) | (78,364) | (24,809) | (39,846) | (13,603) | (7,197) | (17,899) | (11,204) | (7,729) | (30,079) | (8,103) | (2,337) | (19,639) | (258) | 13,178 |
| **Total risk costs** | **(446,830)** | **172,081** | **(274,749)** | **(23,411)** | **(238,302)** | **(118,706)** | **(74,591)** | **(18,805)** | **(9,042)** | **(1,313)** | **(6,900)** | **(5,528)** | **(3,417)** | **(12,611)** | **(7,478)** | **49** | **(5,182)** | **0** | **(425)** |
| Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX) | (446,830) | 183,318 | (263,512) | (22,088) | (231,272) | (117,623) | (71,947) | (17,526) | (8,881) | (1,202) | (5,747) | (5,277) | (3,069) | (9,682) | (8,312) | 1 | (1,371) | 0 | (470) |
| Other provision (adjustment) | 0 | (11,237) | (11,237) | (1,323) | (7,030) | (1,083) | (2,644) | (1,279) | (161) | (111) | (1,153) | (251) | (348) | (2,929) | 834 | 48 | (3,811) | 0 | 45 |
| **Total other adjustments (one-off items)[1]** | **0** | **2,556** | **2,556** | **2,556** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Income tax** | **51,385** | **(75,711)** | **(24,326)** | **(23,679)** | **2,041** | **3,137** | **4,156** | **(4,417)** | **0** | **4** | **(524)** | **(334)** | **19** | **(1,965)** | **(80)** | **(1,224)** | **(661)** | **223** | **(946)** |
| **Total Assets** | **10,971,052** | **0** | **10,971,052** | **7,251,833** | **4,678,642** | **750,747** | **423,363** | **1,603,812** | **476,352** | **109,509** | **654,793** | **464,296** | **195,770** | **370,127** | **362,858** | **513** | **6,756** | **1,668,257** | **(2,997,807)** |
| **Total Liabilities** | **9,706,886** | **0** | **9,706,886** | **5,932,448** | **4,122,494** | **638,968** | **417,903** | **1,355,819** | **441,371** | **79,312** | **583,637** | **432,554** | **172,930** | **345,423** | **339,162** | **69** | **6,192** | **830,085** | **(1,523,564)** |

( ) 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 (824) million; result of the treasury share swap agreement in the amount of HUF 3,380 million.

## NOTE 42: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2015

### 1) Government measures related to customer loan contracts

See details in Note 2.28.

### 2) Term Note Program

See details in Note 15.

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

On 2 November 2015 Visa Inc. and Visa Europe Limited reached an agreement on the purchase of the shares of Visa Europe (owned by European banks) by Visa Inc. According to the deal the purchase price will be transferred by cash and Visa Inc.”C-type” preferential shares with limited marketability, after the settlement of the transaction (after receiving all the necessary approvals). In addition, the framework terms of the transaction provide for a deferred earn-out payment, which will be paid in cash after sixteen quarters from the date of the transaction settlement (if the relevant criteria of the earn-out component are reached). According to the notification of Visa sent in mid-December 2015, the expected amount of cash is about EUR 34.2 million (around HUF 10.8 billion, which was calculated with the closing official exchange rate of NBH as at 31 December 2015). Prior to the transaction the book value of OTP’s share in Visa Europe was close to zero, but at the end of 2015 it was revaluated, which has been recognized on the of Fair value adjustment of available for sale securities line in the Consolidated Statement of Comprehensive Income. The above said cash component of the purchase price will be booked in the Consolidated Statement of Recognized Income at the settlement of the transaction, and shown presumably in the second quarter of 2016. For the time being the value of the earn-out component cannot be reliably measured.

## NOTE 43: POST BALANCE SHEET EVENTS

### Agreement on purchasing unit of AXA Bank Hungary

According to the announcement published on 3 February 2016, AXA Bank Europe SA and OTP signed an agreement on purchasing the business unit of AXA Bank Hungary. The purchase agreement includes the take-over of the retail credits and savings, as well as the corporate portfolio and the employees of AXA Bank.
The retail-focused AXA Bank is present in Hungary since 2009. AXA Bank has been offering innovative online customer services, and the bank has strong positions in the local mortgage market. After the completion of the purchase the Bank’s mortgage portfolio will increase with almost 25%. According to the plans the integration process can be closed at the end of 2016 after obtaining all the necessary supervisory approvals.

## NOTE 44: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP’S FINANCIALS (in HUF mn)

In 2015 the macroeconomic processes were mostly shaped by the different monetary policies expected from the Federal Reserve System (Fed) and the European Central Bank (ECB), and by the continued slump in commodity prices, which started in 2014. In December 2015 the Fed embarked on interest rate hikes (0.25-0.5%) because of the accelerating growth and the favourable labour market processes in the USA, while the ECB decided to extend its asset purchase programme and cut the interest rate on overnight deposits further (to -0.3%). For the first time since the onset of the crisis the Eurozone posted meaningful growth (1.5%), but with significant discrepancies among the regions of the EU. Preliminary GDP data for the fourth quarter of 2015 suggest that Central and South Eastern Europe remained the strongest region. The several-month-long negotiations with Greece which ultimately resulted in a temporary solution to the country’s debt crisis failed to cast a cloud on the supportive sentiment of global markets.

**NOTE 44: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]**

Hungary's economy grew by 2.9% in 2015, down from 3.6% in 2014. After the election year, the volume of investments fell, but net exports' contribution returned to positive territory after being in red in the previous year. Nonetheless, the engine of growth was clearly the further accelerating consumption of households.

The increase in the value added by market services has largely contributed to the economy's expansion. Even though the deceleration of Germany's manufacturing poses risks to the demand for Hungary's export products, it seems that these fears did not get in the way of production. Moreover, mostly owing to the improved terms of trade, Hungary's trade surplus also hit an all-time high, at EUR 8.1 billion (or 8% of GDP) in 2015.

A weaker-than-2014 year pushed agriculture's contribution to GDP into negative territory. Non-farm private sector GDP was as strong as elsewhere in the CEE region; it may have grown by more than 4%.

At the end of the third quarter of 2015 Hungary's four-quarter rolling deficit amounted to 0.8% of GDP. This exceptionally low figure can be put down to the higher rate of EU-co-financing and the larger-than-expected revenues. The government's deficit target is 2.4% for 2015. Gross government debt stood at 76.9% at the end of the third quarter of 2015.

Consumer prices dropped by 0.1% on average in 2015, thanks to the steadily falling commodity prices; demand-sensitive inflation accelerated until the end of summer, but somewhat slowed towards the end of the year.

The lower-than-expected inflation justified the continuation of the monetary easing cycle; the last cut brought the base rate to 1.35% in July. The NBH's Self-Financing Programme introduced plan consisting of 2 layers to boost lending for SMEs, then the MNB decided to terminate the two-week deposit in order to boost commercial banks' appetite for government securities. At the end of 2015 the NBH announced plans to introduce unconventional monetary policy tools because inflation was likely to remain below its target throughout the entire forecast horizon.

Russia sank into recession in 2015, with its GDP contracting by 3.7%. Reversing the improvement in the third quarter, cyclical developments deteriorated in the fourth quarter of 2015. The underlying reason is the short-term oversupply on the oil market and OPEC's reluctance to reduce production at its December meeting. By the end of 2015, the RUB weakened to 73 against the USD, extending its losses by another 26% after depreciating by 74% in 2014. The weakening of the RUB, which started at the end of 2014, accelerated 2015 inflation to 15.6% on average, but since then a steady deceleration pushed CPI back to single-digit territory; consumer prices rose by 9.8% in January 2016. The Central Bank of Russia ("CBR") continues to pursue tight monetary policy; the base rate has been kept at 11% since the end of July 2015. This can be explained by the presumed backward-looking attitude of the CBR and paying attention to the fact inflation figures instead of monitoring the expected inflation when pursuing the monetary policy and deciding on the base rate. The concerns about external balance and the adequacy of reserves were not justified: despite the falling oil prices Russia's current account surplus amounted to 5.3% of GDP in 2015, the capital outflow slowed, and its size was less than the current account surplus.

Due to the conflict in the East, the structural problems of the country and the decline in Ukraine's GDP continued in the first half of 2015. In the second half of the year the economy grew on a quarter-on-quarter basis mainly due to a sharp fall in imports and one-off factors. Therefore in 2015 Ukraine's economy fell by 10%, as industrial production contracted by 13.5% and retail sales shrank by 20.7% compared to 2014. At the beginning of 2015 the FX reserves of the National Bank of Ukraine declined to the danger zone, therefore the hryvnia depreciated sharply, falling 114% against the dollar between January and February. Later the hryvnia stabilized between 21 and 24 due the IMF package and the planned reforms. The depreciation of the hryvnia also influenced the inflation, which reached 48.7% in 2015. Due to the depreciating hryvnia, the increasing inflation and accelerating deposit outflow, the NBU increased the base rate from 14% to 30%, but from August the base rate was decreased to 22%. The government debt increased to 69% of GDP in the third quarter of 2015 – it could have been higher if Ukraine had not reached a deal with private creditors about the restructuring of the public debt. The deal contained 20% haircut in percentage of the face value, an increase in maturities and a coupon payment dependent on macroeconomic performance. In November 2015 Ukrainian separatists cut the energy supply of Crimea, which led to a series of temporary trade embargoes between Ukraine and Russia. On 23 December Ukraine missed its repayment deadline concerning a USD 3 billion worth bond owed to Russia, but the IMF decided to change its rules on lending to countries in payment arrears. Nonetheless, in the lack of definitive actions against corruption and lack of reforms, the IMF did not disburse the latest USD 1.7 billion tranche from the USD 17.5 billion IMF package. At the end of the year, Ukraine's government passed the 2016 budget law, which assumes 2% economic growth for 2016 and 3.7% budget deficit.

**NOTE 44: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]**

In Hungary by 31 December 2015 the contractual period of the second phase of the Funding for Growth Scheme and the Growth Scheme Plus expired. Under these two schemes contracts with a total amount of around HUF 1,425 billion were signed on the sector level, of which OTP's share represented 19%.

According to legislations passed in 2014 the settlement of the existing and matured (or prepaid) FX mortgage and consumer loan contracts at the Bank and OTP Mortgage Bank Ltd. was completed in March 2015. In the first quarter of 2015 the conversion of FX mortgage loans into HUF has been completed (except for OTP Real Estate Leasing Ltd.). In the second quarter of 2015 the settlement with Merkantil Bank Ltd., Merkantil Car Ltd. and OTP Real Estate Leasing Ltd. clients has been executed, clients' obligations arising from FX lease contracts were converted into HUF. In the third quarter of 2015 the settlement of existing and matured HUF consumer contracts at the Bank, OTP Mortgage Bank Ltd., Merkantil Bank Ltd., Merkantil Car Ltd. and OTP Real Estate Leasing Ltd. has been completed.

The Russian and Ukrainian operation's performance in HUF terms was to a great extent influenced by the significant weakening of the Russian rouble and Ukrainian hryvnia against the Hungarian forint: the annual average exchange rate of the rouble and hryvnia depreciated by 25% and 35% y/y, respectively. The closing rate of the rouble and hryvnia weakened by 13% and 27% year-over-year, respectively.

In Russia the funding costs increased immediately following the base rate hike by the CBR in December 2014, this manifested in narrowing net interest margin in the first quarter of 2015, which normalized in the rest of the year. The Bank's reaction to the deteriorating market environment was to limit the disbursements of certain loan products, these limits have been gradually lifted in the course of 2015, nevertheless, newly disbursed volumes showed a substantial setback year-over-year. Performing (DPD0-90) loan volumes dropped by 26% year-over-year on an FX-adjusted basis. Amid unfavourable economic environment the volume growth of DPD90+ loans (FX-adjusted, excluding the impact of loan sales and write-offs) accelerated in the first half of the year, while it showed substantial deceleration both in the third and fourth quarter.

In Ukraine the annual risk costs grew by 35% year-over-year in local currency terms. The material increase in the first quarter of 2015 risk costs was related to the drastic depreciation of UAH against USD which required higher provision coverage due to the FX loans' revaluation (LTV – loan to value effect). In the second quarter the case was the opposite, whereas in the third quarter the Ukrainian operation made additional provisions mostly for the legacy corporate exposures originated before the crisis, while in the fourth quarter elevated risk costs were mainly related to the USD-based mortgages at the local Factoring unit. Portfolio quality deterioration moderated substantially year-over-year.

Under the scope of the Bank's own restructuring programme the volume of FX mortgage loans converted into UAH at market FX rate got close to UAH 1.8 billion by the end of 2015. Under the scheme the Bank offers either certain debt forgiveness and/or an interest rate concession at the beginning of the maturity.