



OTP BANK PLC.

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

FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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OTP BANK PLC.
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017
(in HUF mn)

	Note	30 June 2017	31 December 2016 (Restated)	30 June 2016 (Restated)	31 December 2015 (Restated)
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	385,920	928,846	994,418	1,326,197
Placements with other banks, net of allowance for placement losses	5.	943,260	915,654	798,371	647,724
Financial assets at fair value through profit or loss	6.	198,058	168,188	157,994	180,717
Securities available-for-sale	7.	1,617,096	1,484,522	1,603,583	1,462,660
Loans, net of allowance for loan losses	8.	2,085,921	1,902,937	1,727,030	1,679,184
Investments in subsidiaries, associates and other investments	9.	822,846	668,869	672,243	657,531
Securities held-to-maturity	10.	979,436	858,150	812,979	824,801
Property and equipment	11.	61,870	62,361	61,608	63,440
Intangible assets	11.	25,022	27,767	28,929	32,438
Investment properties	12.	2,288	2,267	2,277	2,294
Other assets	13.	<u>115,813</u>	<u>133,571</u>	<u>155,225</u>	<u>152,604</u>
TOTAL ASSETS		<u>7,237,530</u>	<u>7,153,132</u>	<u>7,014,657</u>	<u>7,029,590</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	14.	693,983	646,271	925,834	829,122
Deposits from customers	15.	4,725,148	4,745,051	4,190,578	4,323,239
Liabilities from issued securities	16.	70,823	104,103	143,959	150,231
Financial liabilities at fair value through profit or loss	17.	80,361	96,668	102,077	144,592
Other liabilities	18.	255,313	238,258	206,168	233,241
Subordinated bonds and loans	19.	<u>109,134</u>	<u>110,358</u>	<u>276,869</u>	<u>266,063</u>
TOTAL LIABILITIES		<u>5,934,762</u>	<u>5,940,709</u>	<u>5,845,485</u>	<u>5,946,488</u>
Share capital	20.	28,000	28,000	28,000	28,000
Retained earnings and reserves	21.	1,281,585	1,193,132	1,151,811	1,064,255
Treasury shares	22.	<u>(6,817)</u>	<u>(8,709)</u>	<u>(10,639)</u>	<u>(9,153)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>1,302,768</u>	<u>1,212,423</u>	<u>1,169,172</u>	<u>1,083,102</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>7,237,530</u>	<u>7,153,132</u>	<u>7,014,657</u>	<u>7,029,590</u>

OTP BANK PLC.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD
ENDED 30 JUNE 2017 (in HUF mn)

	Note	Six month period ended 30 June 2017	Six month period ended 30 June 2016	Year ended 31 December 2016
<i>Interest Income:</i>				
Loans		60,154	58,999	125,110
Placements with other banks, net of allowance for placement losses		25,857	50,045	102,317
Securities available-for-sale		15,247	20,785	35,766
Securities held-to-maturity		22,247	20,476	41,327
Amounts due from banks and balances with National Bank of Hungary		731	6,828	9,830
Rental income for operation of investment properties		-	30	60
Total Interest Income		<u>124,236</u>	<u>157,163</u>	<u>314,410</u>
<i>Interest Expense:</i>				
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		28,676	54,181	103,633
Deposits from customers		5,898	8,907	22,853
Liabilities from issued securities		156	797	1,329
Subordinated bonds and loans		1,555	8,490	13,721
Expenses from operation of investment properties		18	18	35
Total Interest Expense		<u>36,303</u>	<u>72,393</u>	<u>141,571</u>
NET INTEREST INCOME		<u>87,933</u>	<u>84,770</u>	<u>172,839</u>
Provision for impairment on loan and placement losses	5.,9.,23.	3,647	5,573	13,632
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		<u>84,286</u>	<u>79,197</u>	<u>159,207</u>
Income from fees and commissions	24.	101,193	91,301	189,731
Expenses from fees and commissions	24.	<u>13,905</u>	<u>11,890</u>	<u>26,254</u>
Net profit from fees and commissions		<u>87,288</u>	<u>79,411</u>	<u>163,477</u>
Foreign exchange gains		2,881	1,169	5,075
Gains on securities, net		3,431	34,428	44,999
Gains on derivative instruments, net		744	-	656
Dividend income	10.	80,624	90,463	90,467
Other operating income	25.	7,067	2,041	8,583
Net other operating expenses	25.	4,147	(2,000)	(28,851)
-from this: provision for impairment on investments in subsidiaries	10.	4,644	(42,270)	(48,136)
-from this: release of provision on contingent liabilities due to regulations related to customer loans	25.	-	-	1,598
Net operating expense		<u>98,894</u>	<u>126,101</u>	<u>120,929</u>
Personnel expenses	25.	44,589	45,358	88,720
Depreciation and amortization	25.	9,355	10,398	21,872
Other administrative expenses	25.	<u>76,052</u>	<u>72,392</u>	<u>139,547</u>
Other administrative expenses		<u>129,996</u>	<u>128,148</u>	<u>250,139</u>
PROFIT BEFORE INCOME TAX		<u>140,472</u>	<u>156,561</u>	<u>193,474</u>
Income tax expense / (benefit)	26.	<u>9,022</u>	<u>16,382</u>	<u>21,096</u>
NET PROFIT FOR THE PERIOD		<u>131,450</u>	<u>140,179</u>	<u>172,378</u>
Earnings per share (in HUF)				
Basic	36.	<u>472</u>	<u>182</u>	<u>619</u>
Diluted	36.	<u>471</u>	<u>181</u>	<u>619</u>

The accompanying notes to separate financial statements on pages 9 to 90 form an integral part of these separate financial statements.

OTP BANK PLC.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD
ENDED 30 JUNE 2017 (in HUF mn)

	Note	Six month period ended 30 June 2017	Six month period ended 30 June 2016	Year ended 31 December 2016
NET PROFIT FOR THE PERIOD		<u>131,450</u>	<u>140,179</u>	<u>172,378</u>
Items that may be reclassified subsequently to profit or loss:				
Fair value adjustment of securities available-for-sale		10,826	(5,400)	1,951
Deferred tax related to securities available-for-sale	26.	(963)	1,026	(371)
Effect of the tax rate-modification (19%→9%)		<u>-</u>	<u>-</u>	<u>5,758</u>
Total		<u>9,863</u>	<u>(4,374)</u>	<u>7,338</u>
NET COMPREHENSIVE INCOME		<u>141,313</u>	<u>135,805</u>	<u>179,716</u>

OTP BANK PLC.
SEPARATE STATEMENT OF CASH-FLOWS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017 (in HUF mn)

	Note	Six month period ended 30 June 2017	Six month period ended 30 June 2016 (Restated)	Year ended 31 December 2016 (Restated)	Year ended 31 December 2015 (Restated)
OPERATING ACTIVITIES					
Profit before income tax		140,472	156,561	193,474	46,354
Depreciation and amortization		9,373	10,416	21,907	21,355
Provision for impairment on loan and placement losses (Release of provision) / Provision for impairment on investments in subsidiaries	5.,8.,23 9.	3,647 (4,644)	5,573 42,270	13,632 48,136	39,548 47,470
Provision / (release of provision) for impairment on other assets	13.	349	19	(669)	2,141
Release of provision on off-balance sheet commitments and contingent liabilities	18.	(1,958)	(45,252)	(36,114)	(4,185)
Share-based payment	29.	1,685	1,865	3,530	3,810
Unrealised gains/(losses) on fair value adjustment of securities available-for-sale and held for trading		1,860	(11,183)	(9,970)	(12,096)
Unrealised gains / (losses) on fair value adjustment of derivative financial instruments		6,183	4,326	(14)	(13,701)
<i>Net changes in assets and liabilities in operating activities</i>					
Changes in financial assets at fair value through profit or loss		(37,019)	(18,519)	(45,101)	18,029
Changes in financial liabilities at fair value through profit or loss		(16,307)	(7,711)	36,932	(32,611)
Net (increase)/decrease in loans, net of allowance for loan losses		(186,979)	(48,929)	(248,936)	100,464
Decrease/increase in other assets, excluding advances for investments and before provisions for losses		10,521	15,646	3,705	(46,918)
Net (decrease) / increase in deposits from customers		(19,903)	(132,661)	421,812	88,089
Increase in other liabilities		18,511	16,040	17,954	45,770
Net decrease /(increase) in the compulsory reserve established by the National Bank of Hungary		552	(4,667)	38,759	47,712
Dividend income		(80,624)	(90,463)	(90,467)	(58,597)
Income tax paid		-	(264)	(264)	(3,823)
Net cash (used in) / provided by operating activities		<u>(154,281)</u>	<u>(106,933)</u>	<u>368,306</u>	<u>288,811</u>
Interest received		120,449	142,287	301,157	390,187
Interest paid		(34,595)	(67,436)	(142,779)	(199,393)
INVESTING ACTIVITIES					
Net increase/(decrease) in placements with other banks before allowance for placement losses		(27,603)	(150,648)	(267,933)	64,385
Purchase securities available-for-sale		(333,996)	(325,314)	(405,226)	(652,482)
Proceeds from sale of securities available-for-sale		212,248	187,395	385,345	404,592
Increase in investments in subsidiaries		(149,333)	(56,982)	(59,474)	(100,792)
Dividend income		78,005	60,799	90,260	58,597
Increase in securities held-to-maturity		(148,439)	-	(77,354)	(229,114)
Redemption of securities held-to-maturity		27,153	14,629	46,974	70,395
Additions to property, equipment and intangible assets		(6,664)	(9,671)	(30,906)	(37,510)
Disposal of property, equipment and intangible assets		545	3,594	11,907	17,306
Net decrease in investment properties		(39)	-	-	-
Net (increase) / decrease in advances for investments included in other assets		(4)	(6)	5	3
Net cash used in investing activities		<u>(348,127)</u>	<u>(276,204)</u>	<u>(306,402)</u>	<u>(404,620)</u>

The accompanying notes to separate financial statements on pages 9 to 90 form an integral part of these separate financial statements.

OTP BANK PLC.
SEPARATE STATEMENT OF CASH-FLOWS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017 (in HUF mn) [continued]

	Note	Six month period ended 30 June 2017	Six month period ended 30 June 2016 (Restated)	Year ended 31 December 2016 (Restated)	Year ended 31 December 2015 (Restated)
FINANCING ACTIVITIES					
Net increase / (decrease) in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		47,712	96,712	(182,851)	(313,369)
Cash received from issuance of securities		36,225	20,221	26,856	51,389
Cash used for redemption of issued securities		(70,054)	(29,389)	(55,284)	(63,473)
(Decrease) / increase in subordinated bonds and loans		(1,224)	10,806	(155,705)	(28,549)
Payments to ICES holders	21.	651	(735)	(3,578)	(4,133)
(Decrease) / Increase in Treasury shares		(5,940)	(12,345)	(16,208)	(34,093)
(Increase) / Decrease in Treasury shares		5,836	7,531	12,426	24,641
Dividend paid		<u>(53,172)</u>	<u>(46,110)</u>	<u>(46,152)</u>	<u>(40,473)</u>
Net cash (used in) / provided by financing activities		<u>(39,966)</u>	<u>46,691</u>	<u>(420,496)</u>	<u>(408,060)</u>
Net decrease in cash and cash equivalents		(542,374)	(336,446)	(358,592)	(523,869)
Cash and cash equivalents at the beginning of the period		<u>880,266</u>	<u>1,238,858</u>	<u>1,238,858</u>	<u>1,762,727</u>
Cash and cash equivalents at the end of the period¹		<u>337,892</u>	<u>902,412</u>	<u>880,266</u>	<u>1,238,858</u>

¹ See Note 4

OTP BANK PLC.
SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017 (in HUF mn)

	Note	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Total
Balance as at 1 January 2016		<u>28,000</u>	<u>52</u>	<u>24,707</u>	<u>1,094,964</u>	<u>(55,468)</u>	<u>(9,153)</u>	<u>1,083,102</u>
Net profit for the period		-	-	-	140,179	-	-	140,179
Other comprehensive income		-	-	-	(4,374)	-	-	(4,374)
Share-based payment	28.	-	-	1,865	-	-	-	1,865
Payments to ICES holders	20.	-	-	-	(586)	-	-	(586)
Sale of treasury shares	21.	-	-	-	-	-	7,531	7,531
Loss on sale of treasury shares		-	-	-	(3,328)	-	-	(3,328)
Acquisition of treasury shares	21.	-	-	-	-	-	(9,017)	(9,017)
Dividend for the year 2015		-	-	-	(46,200)	-	-	(46,200)
Balance as at 30 June 2016		<u>28,000</u>	<u>52</u>	<u>26,572</u>	<u>1,180,655</u>	<u>(55,468)</u>	<u>(10,639)</u>	<u>1,169,172</u>
Balance as at 1 January 2017		<u>28,000</u>	<u>52</u>	<u>28,237</u>	<u>1,220,311</u>	<u>(55,468)</u>	<u>(8,709)</u>	<u>1,212,423</u>
Net profit for the period		-	-	-	131,450	-	-	131,450
Other comprehensive income		-	-	-	9,863	-	-	9,863
Share-based payment	28.	-	-	1,685	-	-	-	1,685
Payments to ICES holders	20.	-	-	-	651	-	-	651
Sale of treasury shares	21.	-	-	-	-	-	7,832	7,832
Loss on sale of treasury shares		-	-	-	(1,996)	-	-	(1,996)
Acquisition of treasury shares	21.	-	-	-	-	-	(5,940)	(5,940)
Dividend for the year 2016		-	-	-	(53,200)	-	-	(53,200)
Balance as at 30 June 2017		<u>28,000</u>	<u>52</u>	<u>29,922</u>	<u>1,307,079</u>	<u>(55,468)</u>	<u>(6,817)</u>	<u>1,302,768</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

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

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

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

	30 June 2017	31 December 2016
Domestic and foreign private and institutional investors	98%	97%
Employees	1%	2%
Treasury shares	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

The Bank provides a full range of commercial banking services through a nationwide network of 364 branches in Hungary.

Number of the employees of the Bank:

	30 June 2017	31 December 2016
Number of employees	7,925	7,969
Average number of employees	7,884	7,836

1.2. Basis of accounting

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

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

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2017

At the date of authorisation of these financial statements no amendments to the existing standards issued by the IASB and effective for the current reporting period were adopted by the European Union.

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

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

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

The adoption of IFRS 15 would have no significant impact on the separate financial statements.

The application of IFRS 9 might have significant impact on the Bank’s financial statements, the Bank analysed the impact after the adoption of the standard by EU.

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

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

Classification and measurement

IFRS 9 introduces a new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rulebased requirements. The Bank recognizes the financial liabilities on amortized cost except in those cases when the standard requires otherwise, like derivative financial instruments which are recognized on fair value through profit or loss.

Preliminary analysis of the business models and contractual cash flows on the Bank’s significant portfolios have been performed to determine products and financial instruments that will be measured at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income.

Hedge accounting

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

Impairment

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

The use of a new, three stage model is being implemented for IFRS 9 purposes. The new impairment methodology is going to be used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses are going to be recognized.

Assets where no significant increase of credit risk is identified will remain to be provisioned based on a 12-month expected loss methodology.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

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

For purchased or originated credit-impaired financial assets the same lifetime expected loss methodology will be extended in order to be able to capture the cumulative changes in lifetime expected credit losses since the initial recognition as a credit-impaired instrument.

The Bank is considering the use of a simplified impairment approach for trade receivables, contract assets and lease receivables.

OTP Bank has started to further improve its risk management definitions, processes and methodological analysis in line with the expectations of IFRS 9. The Bank has started developing the methodology for the identification of significant increase of credit risk and the calculation of expected credit losses through the use IFRS 9 compliant risk parameters.

Based on the gap analysis and the changes in methodology the main principles regarding the IT solutions for IFRS 9 implementation have been laid down. Preliminary specifications have been completed and IT implementation is set to be completed by the end of 2017.

The quantitative impact of IFRS 9 is going to be determined by the end of 2017 when all the details of the classification and measurement and impairment methodologies become finalized.

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

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 2 “Share-based Payment”** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 “Insurance Contracts”** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- **Amendments to IFRS 10 “Consolidated Financial Statements”** and **IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

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

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

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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

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

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

2.2. Foreign currency translation

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

2.3. Consolidated financial statements

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

2.4. Investments in subsidiaries, associated companies and joint ventures

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

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

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

Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

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

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

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities held-to-maturity

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

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

2.6. Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

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

2.6.2. Derivative financial instruments

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost its entire open derivative transactions collateralised. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the separate statement of recognized income for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

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

Foreign currency contracts

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

¹ First In First Out

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

2.6.2. Derivative financial instruments [continued]

Foreign exchange swaps and interest rate swaps

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

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

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

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

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

Foreign exchange options

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

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

2.8. Offsetting

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

2.9. Embedded derivatives

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

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

2.10. Securities available-for-sale

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

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

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

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

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

¹ First In First Out

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

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

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

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

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

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

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

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

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

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

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

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

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

2.12. Sale and repurchase agreements, security lending

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

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

2.13. Property, equipment and intangible assets

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

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

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

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

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

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

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

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

2.14. Investment properties

Investment properties of the Bank are land, buildings, part of buildings which are 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 Bank measures the investment properties at cost and according to the opinion of the Management there is no significant difference between the fair value and the carrying value of the these properties.

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

2.15. Financial liabilities

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

2.16. Leases

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

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

2.17. Treasury shares

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

2.18. Interest income and interest expense

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

2.18. Fees and Commissions

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

2.19. Dividend income

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

2.20. Income tax

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

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

2.21. Off-balance sheet commitments and contingent liabilities

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

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

2.22. Share-based payment and employee benefit

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

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

2.23. Separate statement of cash-flows

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

2.24. Segment reporting

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

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

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

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

2.25. Comparative figures

These separate financial statements are prepared in accordance with the same accounting policies in all respects as the authorised Separate Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2016, which were approved on 16 March 2017, excluding restatement changes presented below. To better reflect the OTP-MOL share swap transaction the Management has decided to modify the presentation by offsetting the transaction rather than disclosing separate financial assets and liabilities.

16 April 2009 OTP Bank and MOL Hungarian Oil and Gas Plc. ("MOL") had been made a share-swap agreement with 3 years maturity:

- MOL swapped 24 million pieces of OTP Bank shares (8.57% of shares),
- OTP swapped approximately 5 million pieces of MOL shares.

American type of put and call option was issued for both parties, as a result recovery of the shares would be initiated for the issuer till 11 July 2012. There is no mandatory settlement at maturity of the share-swap transaction. The agreement contains further prescriptions in case of relative change of share prices, related to net settlement in cash or in shares. The maturity of the agreement was modified several times, presently the modified maturity is 11 July 2022, till any party can initiate the settlement of transaction in cash or in shares.

At trade date the own shares were derecognised as a result of the loss of control and MOL shares were recognised as securities measured at fair value through profit or loss.

Put option on OTP shares was accounted as reduction of owner's equity, furthermore a financial liability was recognised. Base of measurement of the financial liability is the fair value of the MOL shares to be delivered at potential exercise of the options, modified with the present value of the net settlement in cash or in shares, which depend on the change of share prices relative to each other.

In June 2017 conditions partly changed as a consequence of the modification, MOL shares received based on the agreement shall not be alienate, therefore OTP Bank decided to present the transaction in net (instead of the previous gross presentation), which represent the economic phenomena of the transaction more faithfully.

The MOL shares classified as fair value through profit or loss and related financial liability were offset. In the separate statement of financial position only the net fair value of the share-swap transaction is recognised. Since the MOL shares and the related financial liability have been measured at fair value in the separate financial statements the change does not have effect on the Bank's recognised income, shareholder's equity and earnings per share ("EPS") ratio.

Comparative figures	in HUF million						
	30 June 2017	31 December 2016 (Restated)	31 December 2016	30 June 2016 (Restated)	30 June 2016	31 December 2016 (Restated)	31 December 2016
Financial assets at fair value through profit or loss	198,058	168,188	271,516	157,994	240,356	180,717	252,140
Other asset	115,813	133,571	128,867	155,225	150,502	152,604	147,967
Total assets	7,237,530	7,153,132	7,251,756	7,014,657	7,092,296	7,029,590	7,096,376
Other liabilities	255,313	238,258	336,882	206,168	283,807	233,241	300,027
Total liabilities	5,934,762	5,940,709	6,039,333	5,845,485	5,923,124	5,946,488	6,013,274

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

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

3.1. Impairment on loans and placements

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

3.2. Valuation of instruments without direct quotations

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

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

3.3. Provisions

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

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

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

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

	30 June 2017	31 December 2016
Cash on hand:		
In HUF	108,060	88,244
In foreign currency	<u>10,712</u>	<u>11,108</u>
	<u>118,772</u>	<u>99,352</u>
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	239,309	500,225
In foreign currency	<u>27,667</u>	<u>329,040</u>
	<u>266,976</u>	<u>829,265</u>
Accrued interest	<u>172</u>	<u>229</u>
Subtotal	<u>385,920</u>	<u>928,846</u>
Average amount of compulsory reserve	48,028	48,580
Total	<u>337,892</u>	<u>880,266</u>
Rate of the compulsory reserve	1%	2%

The Bank shall deposit compulsory reserve in a determined percent of its liabilities at NBH. Liabilities considered in compulsory reserve calculation are as follows:

- a) deposits and loans,
- b) debt instruments,
- c) repo transactions.

The amount of compulsory reserve is the multiplication of liabilities considered in compulsory reserve calculation and compulsory reserve rate, which determined by the NBH in a specific decree. The Bank shall complete compulsory reserve requirements in average in the second month after the reserve calculation period, requirements shall be completed once a month on the last calendar day. The Bank complies with the compulsory reserve requirements by the deposit of the adequate amount of cash as the calculated compulsory reserve on the bank account at NBH in monthly average.

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

	30 June 2017	31 December 2016
Within one year:		
In HUF	415,437	575,564
In foreign currency	<u>91,690</u>	<u>148,659</u>
	<u>507,127</u>	<u>724,223</u>
Over one year		
In HUF	420,047	180,632
In foreign currency	<u>13,222</u>	<u>8,519</u>
	<u>433,269</u>	<u>189,151</u>
Total placements	<u>940,396</u>	<u>913,374</u>
Accrued interest	<u>2,893</u>	<u>2,312</u>
Provision for impairment on placement losses	<u>(29)</u>	<u>(32)</u>
Total	<u>943,260</u>	<u>915,654</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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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 losses is as follows:

	30 June 2017	31 December 2016
Balance as at 1 January	32	29
Provision for the period	<u>(3)</u>	<u>3</u>
Closing balance	<u>29</u>	<u>32</u>

Interest conditions of placements with other banks (%):

	30 June 2017	31 December 2016
Placements with other banks in HUF	(0,5%)-3.84%	0%-2.86%
Placements with other banks in foreign currency	(0,73%)-1.75%	15%-7.3%
Average interest of placements with other banks	0.90%	1.34%

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

	30 June 2017	31 December 2016 (Restated)	31 December 2015 (Restated)
<i>Securities held for trading:</i>			
Hungarian government interest bearing Treasury Bills	51,391	15,639	7,768
Securities issued by credit institutions	15,754	13,396	-
Government bonds	12,625	10,857	12,613
Corporate shares and investments	9,259	209	356
Hungarian government discounted Treasury Bills	1,385	97	366
Mortgage bonds	99	82	94
Other securities	<u>9,056</u>	<u>3,816</u>	<u>510</u>
Subtotal	<u>99,569</u>	<u>44,096</u>	<u>21,707</u>
Accrued interest	<u>1,148</u>	<u>516</u>	<u>433</u>
Total	<u>100,717</u>	<u>44,612</u>	<u>22,140</u>
<i>Derivative financial instruments:</i>			
CCIRS and mark-to-market CCIRS ¹	30,768	43,538	102,125
Interest rate swaps	33,416	38,413	33,869
Foreign currency swaps	21,702	23,385	14,352
Other derivative transactions ²	<u>11,455</u>	<u>18,240</u>	<u>8,231</u>
Subtotal	<u>97,341</u>	<u>123,576</u>	<u>158,577</u>
Total	<u>198,058</u>	<u>168,188</u>	<u>180,717</u>

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

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 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 are as follows:

	30 June 2017	31 December 2016 (Restated)	31 December 2015 (Restated)
Within five years:			
variable interest	53	1,845	2,194
fixed interest	<u>66,983</u>	<u>22,079</u>	<u>15,188</u>
	<u>67,036</u>	<u>23,924</u>	<u>17,382</u>
Over five years:			
variable interest	7,406	3,111	5
fixed interest	<u>15,868</u>	<u>14,037</u>	<u>3,614</u>
	<u>23,274</u>	<u>17,148</u>	<u>3,619</u>
Non-interest bearing securities	<u>9,259</u>	<u>3,024</u>	<u>706</u>
Total	<u>99,569</u>	<u>44,096</u>	<u>21,707</u>
Securities held for trading denominated in HUF	72.57%	65.98%	97.96%
Securities held for trading denominated in foreign currency	<u>27.43%</u>	<u>34.02%</u>	<u>2.04%</u>
Securities held for trading total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Government bonds denominated in HUF	79.77%	98.09%	99.35%
Government bonds denominated in foreign currency	<u>20.23%</u>	<u>1.91%</u>	<u>0.65%</u>
Government securities total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Interest rates on securities held for trading	0.01%-9.5%	0.3%-9.5%	0.8%-10%
Average interest on securities held for trading	3.74%	1.01%	2.42%

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

	30 June 2017	31 December 2016
Government bonds	1,118,673	1,040,541
Mortgage bonds	149,345	266,938
Other securities	333,757	163,949
- <u>listed securities</u>	<u>94,810</u>	<u>72,820</u>
<i>in HUF</i>	57,953	36,348
<i>in foreign currency</i>	36,857	36,472
- <u>non-listed securities</u>	<u>238,947</u>	<u>91,129</u>
<i>in HUF</i>	182,279	48,522
<i>in foreign currency</i>	56,668	42,607
Subtotal	<u>1,601,775</u>	<u>1,471,428</u>
Accrued interest	15,417	13,094
Impairment	<u>(96)</u>	<u>-</u>
Securities available-for-sale total	<u>1,617,096</u>	<u>1,484,522</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

	30 June 2017	31 December 2016
Securities available-for-sale denominated in HUF	78%	72%
Securities available-for-sale denominated in foreign currency	<u>22%</u>	<u>28%</u>
Securities available-for-sale total	<u>100%</u>	<u>100%</u>
Interest rates on securities available-for-sale denominated in HUF	0.75%-11%	1.25%-11%
Interest rates on securities available-for-sale denominated in foreign currency	(0.12%)-7.25%	0.05%-6.4%
Average interest on securities available-for-sale	2.03%	2.51%

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

	30 June 2017	31 December 2016
Balance as at 1 January	-	-
Provision for the period	<u>96</u>	<u>-</u>
Closing balance	<u>96</u>	<u>-</u>

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

	30 June 2017	31 December 2016
Within five years:		
variable interest	27,210	162,967
fixed interest	<u>478,326</u>	<u>68,058</u>
	<u>505,536</u>	<u>231,025</u>
Over five years:		
variable interest	62,426	43,631
fixed interest	<u>1,004,463</u>	<u>1,175,497</u>
	<u>1,066,889</u>	<u>1,219,128</u>
Non-interest bearing securities	<u>29,350</u>	<u>21,275</u>
Total	<u>1,601,775</u>	<u>1,471,428</u>

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

	30 June 2017	31 December 2016
Net gain reclassified from equity to statement of recognized income	10,343	11,723
Fair value of the hedged securities:		
Mortgage bonds	-	156,739
Government bonds	905,730	853,804
Other bonds	<u>43,447</u>	<u>27,926</u>
	<u>949,177</u>	<u>1,038,469</u>

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

	30 June 2017	31 December 2016
Short-term loans and promissory notes (within one year)	1,131,556	934,288
Long-term loans and promissory notes (over one year)	<u>1,024,381</u>	<u>1,053,829</u>
Loans gross total	<u>2,155,937</u>	<u>1,988,117</u>
Accrued interest	<u>5,828</u>	<u>6,155</u>
Provision for impairment on loan losses	<u>(75,844)</u>	<u>(91,335)</u>
Total	<u>2,085,921</u>	<u>1,902,937</u>

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

	30 June 2017	31 December 2016
In HUF	60%	62%
In foreign currency	<u>40%</u>	<u>38%</u>
Total	<u>100%</u>	<u>100%</u>

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

	30 June 2017	31 December 2016
Loans denominated in HUF, with a maturity within one year	0.15%-37.5%	0%-34.6%
Loans denominated in HUF, with a maturity over one year	0.06%-37.5%	(0.4%)-37.5%
Loans denominated in foreign currency	(0.60%)-22.2%	(0.7%)-22.3%
Average interest on loans denominated in HUF	7.38%	8.88%
Average interest on loans denominated in foreign currency	2.36%	2.27%

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

	30 June 2017		31 December 2016	
Retail loans	668,477	31%	631,096	32%
Retail consumer loans	312,615	15%	272,530	14%
Retail mortgage backed loans ¹	194,576	9%	211,057	11%
Micro and small enterprises loans	161,286	7%	147,509	7%
Corporate loans	1,487,460	69%	1,357,021	68%
Loans to medium and large corporates	1,435,067	67%	1,323,220	67%
Municipality loans	<u>52,393</u>	<u>2%</u>	<u>33,801</u>	<u>1%</u>
Total	<u>2,155,937</u>	<u>100%</u>	<u>1,988,117</u>	<u>100%</u>

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

	30 June 2017	31 December 2016
Balance as at 1 January	91,335	99,663
Reclassification	(1,397)	-
Provision for the period	42,680	47,249
Release of provision	(47,929)	(54,752)
Partial write-off ²	<u>(8,845)</u>	<u>(825)</u>
Closing balance	<u>75,844</u>	<u>91,335</u>

¹ incl. housing loans

² See Note 2.11.

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

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

	30 June 2017	31 December 2016
Provision for impairment on placement losses	29	3
Provision for impairment on loan losses	<u>75,844</u>	<u>13,629</u>
Total	<u>75,873</u>	<u>13,632</u>

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

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

	30 June 2017	31 December 2016
Investments in subsidiaries:		
Controlling interest	1,455,005	1,305,273
Other investments	<u>3,018</u>	<u>3,513</u>
Subtotal	<u>1,458,023</u>	<u>1,308,786</u>
 Provision for impairment	 <u>(635,177)</u>	 <u>(639,917)</u>
 Total	 <u>822,846</u>	 <u>668,869</u>

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

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

Significant subsidiaries

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

	30 June 2017		31 December 2016	
	% Held (direct/indirect)	Gross book value	% Held (direct/indirect)	Gross book value
OTP Bank JSC (Ukraine)	100%	311,390	100%	311,390
OTP banka Hrvatska d.d. (Croatia)	100%	205,350	100%	72,940
OTP Mortgage Bank Ltd.	100%	144,294	100%	144,294
OTP Bank Romania S.A. (Romania)	100%	94,085	100%	94,085
OTP banka Srbija a.d. (Serbia)	97.92%	91,159	97.92%	91,159
DSK Bank EAD (Bulgary)	100%	86,832	100%	86,832
JSC "OTP Bank" (Russia)	97.87%	74,327	97.87%	74,321
OTP Factoring Ukraine LLC (Ukraine)	100%	70,589	100%	70,589
Crnogorska komercijalna banka a.d. (Montenegro)	100%	58,484	100%	58,484
LLC Alliance Reserve (Russia)	100%	50,074	100%	50,074
OTP Factoring Ltd.	100%	34,011	100%	34,011
OTP Holding Malta Ltd.	100%	32,359	100%	32,359
Balansz Real Estate Institute Fund	100%	29,151	100%	29,151
Merkantil Bank Ltd.	100%	23,241	100%	23,241
Air-Invest Ltd.	100%	22,899	100%	10,498
Bank Center No. 1. Ltd.	100%	21,063	100%	21,063
Inga Kettő Ltd.	100%	17,892	100%	17,892
OTP Banka Slovensko a.s. (Slovakia)	99.26%	17,125	99.26%	17,125
OTP Life Annuity Ltd.	100%	15,300	100%	15,300
OTP Real Estate Ltd.	100%	10,023	100%	10,023
Monicomp Ltd.	100%	9,234	100%	9,234
OTP Real Estate Leasing Ltd.	100%	7,206	100%	7,206
OTP Buildings s.r.o (Romania)	99.78%	4,593	-	-
R.E. Four d.o.o. (Serbia)	100%	4,357	100%	4,357
OTP Venture Capital Fund	100%	3,000	100%	3,000
Fordulat Venture Capital Fund	50.00%	2,739	50.00%	2,426
OTP Funds Servicing and Consulting Ltd.	100%	2,469	100%	2,469
OTP Holding Ltd. (Cyprus)	100%	2,000	100%	2,000
OTP Hungaro-Projekt Ltd.	100%	1,954	100%	1,954
OTP Building Society Ltd.	100%	1,950	100%	1,950
OTP Fund Management Ltd.	100%	1,653	100%	1,653
OTP Real Estate Investment Fund Management Ltd.	100%	1,352	100%	1,352
CIL Babér Ltd.	100%	1,225	100%	1,225
Other		1,625		1,616
Total		<u>1,455,005</u>		<u>1,305,273</u>

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

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

	30 June 2017	31 December 2016
Balance as at 1 January	639,917	591,781
Provision for the period	5,912	48,136
Release of provision	<u>(10,652)</u>	<u>-</u>
Closing balance	<u>635,177</u>	<u>639,917</u>

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

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

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

	30 June 2017	31 December 2016
OTP Bank JSC (Ukraine)	270,105	270,105
OTP Mortgage Bank Ltd.	117,294	117,294
OTP Factoring Ukraine LLC (Ukraine)	68,172	68,172
OTP banka Srbija a.d. (Serbia)	63,233	63,233
OTP Factoring Ltd.	32,600	32,600
Crnogorska komercijalna banka a.d. (Montenegro)	26,714	26,714
Merkantil Bank Ltd.	14,115	21,641
OTP Life Annuity Ltd.	10,101	-
OTP banka Hrvatska d.d. (Croatia)	9,232	9,232
OTP Real Estate Leasing Ltd.	5,409	7,206
Air-Invest Ltd.	5,187	-
R.E. Four d.o.o. (Serbia)	3,063	-
OTP Real Estate Ltd.	<u>2,200</u>	<u>-</u>
Total	<u>627,425</u>	<u>616,197</u>

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

	30 June 2017	31 December 2016
DSK Bank EAD (Bulgaria)	44,825	51,483
OTP Mortgage Bank Ltd.	20,623	30,960
OTP Fund Management Ltd.	5,159	475
OTP Holding Ltd. (Cyprus)	4,509	3,604
OTP Building Society Ltd.	1,200	140
Other	<u>1,088</u>	<u>807</u>
Subtotal	<u>77,404</u>	<u>87,469</u>
Dividend from shares held-for-trading	<u>3,220</u>	<u>2,998</u>
Total	<u>80,624</u>	<u>90,467</u>

Significant associates and joint ventures

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

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

As at 30 June 2017

	D-ÉG Thermoset Ltd.	Szallas.hu Ltd.	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	4,622	593	2,192	583	7,990
Liabilities	3,983	169	133	2	4,287
Shareholders' equity	<u>639</u>	<u>425</u>	<u>2,059</u>	<u>581</u>	3,704
Total income	<u>571</u>	<u>751</u>	<u>514</u>	<u>8</u>	<u>1,844</u>

As at 31 December 2016

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

On 16 February 2017 the registered capital of OTP Real Estate Lease has increased to HUF 214,000,000 as the Budapest Metropolitan Court has registered the capital transaction.

On 1 June 2017 the registered capital of Air-Invest Asset Management LLC has increased to HUF 400,000,000 as the Budapest Metropolitan Court has registered the capital transaction.

On 6 June 2017 the registered capital of OTP banka Hrvatska has increased to HRK 3,993,754,800 as the Registry Court of Croatia.

On 2 May 2017, based on the acquisition agreement on purchasing 100% shareholding of Splitska banka d.d., member of Soci t  G n rale Group signed on 20 December 2016 between OTP banka Hrvatska, the Croatian subsidiary of OTP Bank and Soci t  G n rale Group, the financial closure of the transaction has been completed. Splitska banka is the 5th largest player on the Croatian banking market and as a universal bank it has been active in the retail and corporate segment as well. As a result of the acquisition the market share of OTP Group will rise to approximately 10% in Croatia.

OTP Bank Romania S.A., the Romanian subsidiary of OTP Bank signed an acquisition agreement on purchasing a 99.28% shareholding held in the Romanian Banca Romaneasca S.A. by National Bank of Greece S.A and certain other Romanian exposures held by different subsidiaries of National Bank of Greece S.A. Banca Romaneasca S.A. is the 14th biggest player on the Romanian banking market, and as a universal bank it has been active in the retail and corporate segment as well. As a result of the acquisition the Romanian market share of OTP Group will rise to approximately 4%, and will become the 8th largest bank in the country. The financial closing of the transaction is expected to be completed by the beginning of 2018.

OTP banka Srbija a.d. Novi Sad, the Serbian subsidiary of OTP Bank signed an acquisition agreement on purchasing 100% shareholding held in the Serbian Vojvodjanska banka a.d. („VOBAN”) and NBG Leasing d.o.o. and certain other Serbian exposures held by the Group of the National Bank of Greece S.A. The agreed consideration for the share capital of VOBAN and NBG Leasing amounts to EUR 125 million. VOBAN-is the 9th biggest player on the Serbian banking market and as a universal bank it has been active in the retail and corporate segment as well. As a result of the acquisition the Serbian market share of OTP Group will rise to 5.7%, and will become the 7th largest bank in the country. The financial closing of the transaction is expected to be completed by the end of 2017.

¹ Based on unaudited financial statements.

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

	30 June 2017	31 December 2016
Government bonds	957,978	837,256
Mortgage bonds	<u>4,764</u>	<u>4,778</u>
Subtotal	<u>962,742</u>	<u>842,034</u>
Accrued interest	<u>16,694</u>	<u>16,116</u>
Total	<u>979,436</u>	<u>858,150</u>

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

	30 June 2017	31 December 2016
Within five years:		
fixed interest	<u>90,105</u>	<u>84,953</u>
	<u>90,105</u>	<u>84,953</u>
Over five years:		
fixed interest	<u>872,637</u>	<u>757,081</u>
	<u>872,637</u>	<u>757,081</u>
Total	<u>962,742</u>	<u>842,034</u>

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

	30 June 2017	31 December 2016
Securities held-to-maturity denominated in HUF	<u>100%</u>	<u>100%</u>
Securities held-to-maturity total	<u>100%</u>	<u>100%</u>
Interest rates on securities held-to-maturity	1.75%-9.48%	2.5%-9.48%
Average interest on securities held-to-maturity denominated in HUF	4.97%	5.01%

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

As at 30 June 2017

<u>Cost</u>	<u>Intangible assets</u>	<u>Property</u>	<u>Office equipment and vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Balance as at 1 January	112,896	69,652	70,445	2,738	255,731
Additions	3,078	584	3,173	3,624	10,459
Disposals	-	(1,049)	(413)	(3,795)	(5,257)
Closing balance	<u>115,974</u>	<u>69,187</u>	<u>73,205</u>	<u>2,567</u>	<u>260,933</u>

Depreciation and Amortization

Balance as at 1 January	85,129	20,949	59,525	-	165,603
Charge for the year	5,855	903	2,597	-	9,355
Disposals	(32)	(519)	(366)	-	(917)
Closing balance	<u>90,952</u>	<u>21,333</u>	<u>61,756</u>	<u>-</u>	<u>174,041</u>

Net book value

Balance as at 1 January	<u>27,767</u>	<u>48,703</u>	<u>10,920</u>	<u>2,738</u>	<u>90,128</u>
Closing balance	<u>25,022</u>	<u>47,854</u>	<u>11,449</u>	<u>2,567</u>	<u>86,892</u>

For the year ended 31 December 2016

<u>Cost</u>	<u>Intangible assets</u>	<u>Property</u>	<u>Office equipment and vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Balance as at 1 January	131,539	69,019	67,925	3,017	271,500
Additions	18,263	3,204	6,841	9,087	37,395
Disposals	(36,906)	(2,571)	(4,321)	(9,366)	(53,164)
Balance as at 31 December	<u>112,896</u>	<u>69,652</u>	<u>70,445</u>	<u>2,738</u>	<u>255,731</u>

Depreciation and Amortization

Balance as at 1 January	99,101	20,061	56,460	-	175,622
Charge for the year	13,046	1,815	7,011	-	21,872
Disposals	(27,018)	(927)	(3,946)	-	(31,891)
Balance as at 31 December	<u>85,129</u>	<u>20,949</u>	<u>59,525</u>	<u>-</u>	<u>165,603</u>

Net book value

Balance as at 1 January	<u>32,438</u>	<u>48,958</u>	<u>11,465</u>	<u>3,017</u>	<u>95,878</u>
Balance as at 31 December	<u>27,767</u>	<u>48,703</u>	<u>10,920</u>	<u>2,738</u>	<u>90,128</u>

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NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

For the six month period ended 30 June 2017 and for the year ended 31 December 2016

<u>Cost</u>	30 June 2017	31 December 2016
Balance as at 1 January	2,811	2,803
Additions	39	8
Disposals	-	-
Balance as at 31 December	<u>2,850</u>	<u>2,811</u>
 <u>Depreciation and Amortization</u>		
Balance as at 1 January	544	509
Charge for the year	18	35
Disposals	-	-
Balance as at 31 December	<u>562</u>	<u>544</u>
 <u>Net book value</u>		
Balance as at 1 January	<u>2,267</u>	<u>2,294</u>
Balance as at 31 December	<u>2,288</u>	<u>2,267</u>

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

Incomes and expenses	30 June 2017	31 December 2016
Rental income	-	60

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 13: OTHER ASSETS¹ (in HUF mn)

	30 June 2017	31 December 2016 (Restated)	31 December 2015 (Restated)
Prepayments and accrued income	35,952	26,609	19,319
Deferred tax assets ²	18,092	27,603	41,905
Receivables from investment services	17,201	5,634	8,769
Receivables from card operations	13,364	16,572	7,865
Fair value of derivative financial instruments designated as hedge accounting relationships	7,925	7,886	33,768
Trade receivables	5,211	3,883	3,778
Due from Hungarian Government from interest subsidies	3,336	4,273	1,197
Other advances	2,388	1,808	2,871
Inventories	889	567	457
Advances for securities and investments	622	626	631
Receivables from OTP Mortgage Bank Ltd.	377	10,276	13,734
Current income tax receivable	-	400	11,381
Credits sold under deferred payment scheme	-	13,591	2
Other	<u>18,289</u>	<u>19,647</u>	<u>13,477</u>
Subtotal	<u>123,646</u>	<u>139,375</u>	<u>159,154</u>
Provision for impairment on other assets ³	<u>(7,833)</u>	<u>(5,804)</u>	<u>(6,550)</u>
Total	<u>115,813</u>	<u>133,571</u>	<u>152,604</u>

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

	30 June 2017	31 December 2016
CCIRS designated as fair value hedge	6,493	6,887
Interest rate swaps designated as fair value hedge	<u>1,432</u>	<u>999</u>
Total	<u>7,925</u>	<u>7,886</u>

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

	30 June 2017	31 December 2016
Balance as at 1 January	5,804	6,550
Reclassification	1,677	-
Charge for the period	4,219	273
Release of provision	<u>(3,867)</u>	<u>(1,019)</u>
Closing balance	<u>7,833</u>	<u>5,804</u>

¹ Other assets – except income tax receivable, financial assets from OTP-MOL share swap transaction and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP-MOL share swap transaction is settled in June of each year until the maturity date. The fair value adjustment of swap transaction is HUF 4.4 billion as at 30 June 2017. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.

² See Note 26.

³ Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 14: AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	30 June 2017	31 December 2016
Within one year:		
In HUF	308,323	167,402
In foreign currency	<u>109,094</u>	<u>115,332</u>
	<u>417,417</u>	<u>282,734</u>
Over one year:		
In HUF	167,112	269,348
In foreign currency	<u>103,928</u>	<u>89,873</u>
	<u>271,040</u>	<u>359,221</u>
Subtotal	<u>688,457</u>	<u>641,955</u>
Accrued interest	<u>5,526</u>	<u>4,316</u>
Total¹	<u>693,983</u>	<u>646,271</u>

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

	30 June 2017	31 December 2016
Within one year:		
In HUF	(0.4%)-0.9%	0%-0.9%
In foreign currency	(0.4%)-1.5%	0%-0.76%
Over one year:		
In HUF	0%-2.67%	0%-2.72%
In foreign currency	(0.1%)-0.5%	(0.1%)-10.85%
Average interest on amounts due to banks in HUF	2.04%	2.3%
Average interest on amounts due to banks in foreign currency	3.10%	1.99%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 June 2017	31 December 2016
Within one year:		
In HUF	3,778,737	3,777,547
In foreign currency	<u>917,343</u>	<u>936,403</u>
	<u>4,696,080</u>	<u>4,713,950</u>
Over one year:		
In HUF	<u>27,607</u>	<u>26,831</u>
	<u>27,607</u>	<u>26,831</u>
Subtotal	<u>4,723,687</u>	<u>4,740,781</u>
Accrued interest	<u>1,461</u>	<u>4,270</u>
Total	<u>4,725,148</u>	<u>4,745,051</u>

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

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

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

	30 June 2017	31 December 2016
Within one year in HUF	(4.97%)-9.69%	0%-9.65%
Over one year in HUF	0%-10.10%	0%-9.65%
In foreign currency	(0.4%)-10.5%	0%-9.7%
Average interest on deposits from customers in HUF	0.11%	0.31%
Average interest on deposits from customers in foreign currency	0.17%	0.18%

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

	30 June 2017		31 December 2016	
Retail deposits	3,057,763	65%	2,904,762	61%
Household deposits	2,494,271	53%	2,372,751	50%
Deposits micro and small enterprises	563,492	12%	532,011	11%
Corporate deposits	1,665,924	35%	1,836,019	39%
Deposits to medium and large corporates	1,272,509	27%	1,425,572	30%
Municipality deposits	393,415	8%	410,447	9%
Total	<u>4,723,687</u>	<u>100%</u>	<u>4,740,781</u>	<u>100%</u>

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

	30 June 2017	31 December 2016
Within one year:		
In HUF	11,347	18,494
In foreign currency	<u>10,209</u>	<u>36,002</u>
	<u>21,556</u>	<u>54,496</u>
Over one year:		
In HUF	49,027	49,432
In foreign currency	<u>193</u>	<u>198</u>
	<u>49,220</u>	<u>49,630</u>
Subtotal	<u>70,776</u>	<u>104,126</u>
Accrued interest	<u>47</u>	<u>(23)</u>
Total	<u>70,823</u>	<u>104,103</u>

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

	30 June 2017	31 December 2016
Issued securities denominated in HUF	0.01%-6.5%	0.01%-7%
Issued securities denominated in foreign currency	0.1%-1%	0.1%-0.8%
Average interest on issued securities denominated in HUF	0.29%	1.11%
Average interest on issued securities denominated in foreign currency	0.54%	0.96%

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in foreign currency as at **30 June 2017** (in HUF mn):

Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % actual)	Hedged
1 OTP_E1_17/9	10/08/2016	24/08/2017	EUR	8.50	2,628	0.10 fixed	
2 OTP_E1_17/8	01/07/2016	15/07/2017	EUR	6.75	2,084	0.10 fixed	
3 OTP_E1_17/10	16/09/2016	30/09/2017	EUR	4.40	1,358	0.10 fixed	
4 OTP_VK1_18/2	03/03/2017	03/03/2018	USD	4.26	1,154	1.00 floating	
5 OTP_VK1_18/4	02/06/2017	02/06/2018	USD	4.20	1,137	1.00 floating	
6 OTP_VK1_18/1	20/01/2017	20/01/2018	USD	2.89	782	1.00 floating	
7 OTP_VK1_18/3	13/04/2017	13/04/2018	USD	2.49	675	1.00 floating	
8 OTP_VK1_17/4	16/09/2016	16/09/2017	USD	1.45	393	1.43 floating	
9 OTPX2018F	19/12/2013	21/12/2018	EUR	0.62	191	indexed	hedged
Subtotal issued securities in FX					<u>10,402</u>		
Unamortized premium					<u>(2)</u>		
Fair value hedge adjustment					<u>2</u>		
Total					<u>10,402</u>		

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

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

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

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

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

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

Issued securities denominated in HUF as at **30 June 2017** (in HUF mn)

	Name	Date of issuance	Maturity	Nominal value in HUF million	Interest conditions (in % actual)	Hedged
1	OTPX2019D	22/03/2013	21/03/2019	3,746	indexed	hedged
2	OTPX2020E	18/06/2014	22/06/2020	3,623	indexed	hedged
3	OTPX2018B	22/03/2012	22/03/2018	3,544	indexed	hedged
4	OTPX2020F	10/10/2014	16/10/2020	3,175	indexed	hedged
5	OTPX2018C	18/07/2012	18/07/2018	3,027	indexed	hedged
6	OTPX2019E	28/06/2013	24/06/2019	2,993	indexed	hedged
7	OTPX2017E	21/12/2011	28/12/2017	2,960	indexed	hedged
8	OTPX2017C	19/09/2011	25/09/2017	2,785	indexed	hedged
9	OTPX2020G	15/12/2014	21/12/2020	2,681	indexed	hedged
10	OTPX2018D	29/10/2012	26/10/2018	2,590	indexed	hedged
11	OTPX2018E	28/12/2012	28/12/2018	2,561	indexed	hedged
12	OTPRF2020C	11/11/2010	05/11/2020	2,266	indexed	hedged
13	OTPRF2021B	20/10/2011	25/10/2021	2,184	indexed	hedged
14	OTPRF2021A	05/07/2011	13/07/2021	2,096	indexed	hedged
15	OTPRF2020A	12/07/2010	20/07/2020	1,882	indexed	hedged
16	OTPRF2022A	22/03/2012	23/03/2022	1,530	indexed	hedged
17	OTPRF2020B	12/07/2010	20/07/2020	1,111	indexed	hedged
18	OTP_DK_18/I	31/05/2017	31/05/2018	781	discount	
19	OTPRF2023A	22/03/2013	24/03/2023	506	indexed	hedged
20	OTPRF2022B	22/03/2012	23/03/2022	492	indexed	hedged
21	OTPRF2022E	29/10/2012	31/10/2022	479	indexed	hedged
22	OTPX2018A	03/01/2012	09/01/2018	447	indexed	hedged
23	OTPRF2021C	21/12/2011	30/12/2021	403	indexed	hedged
24	OTPX2017D	20/10/2011	19/10/2017	385	indexed	hedged
25	OTPX2023A	22/03/2013	24/03/2023	371	indexed	hedged
26	OTPRF2022F	28/12/2012	28/12/2022	357	indexed	hedged
27	OTPX2024B	10/10/2014	16/10/2024	351	indexed	hedged
28	OTPX2019B	05/10/2009	14/10/2019	343	indexed	hedged
29	OTPX2021D	21/12/2011	27/12/2021	338	indexed	hedged
30	OTPX2020A	25/03/2010	30/03/2020	311	indexed	hedged
31	OTPX2020B	28/06/2010	09/07/2020	305	indexed	hedged
32	OTPX2022D	28/12/2012	27/12/2022	297	indexed	hedged
33	OTPX2024C	15/12/2014	20/12/2024	287	indexed	hedged
34	OTPX2021B	17/06/2011	21/06/2021	284	indexed	hedged
35	OTPX2019C	14/12/2009	20/12/2019	276	indexed	hedged
36	OTPRF2021D	21/12/2011	30/12/2021	275	indexed	hedged
37	OTPX2021C	19/09/2011	24/09/2021	266	indexed	hedged
38	OTPX2023B	28/06/2013	26/06/2023	265	indexed	hedged
39	OTPX2024A	18/06/2014	21/06/2024	256	indexed	hedged
40	OTPX2022A	22/03/2012	23/03/2022	252	indexed	hedged
41	OTPX2021A	01/04/2011	01/04/2021	250	indexed	hedged
42	OTPX2022C	29/10/2012	28/10/2022	237	indexed	hedged
43	OTPX2019A	25/06/2009	01/07/2019	231	indexed	hedged
44	OTPX2022B	18/07/2012	18/07/2022	230	indexed	hedged
45	OTPTBSZ6_17I	13/01/2012	15/12/2017	221	6.5 fixed	hedged
46	OTPX2020D	16/12/2010	18/12/2020	197	indexed	hedged
47	OTPRF2022D	28/06/2012	28/06/2022	192	indexed	hedged
48	OTPX2020C	11/11/2010	05/11/2020	186	indexed	hedged
49	OTPRF2022C	28/06/2012	28/06/2022	135	indexed	hedged
50	OTPRF2021E	21/12/2011	30/12/2021	54	indexed	hedged
51	Other			226		
	Subtotal issued securities in HUF			55,240		
	Unamortized premium			(5)		
	Fair value hedge adjustment			5,139		
	Total issued securities in HUF			60,374		
	Accrued interest			47		
	Total issued securities			70,823		

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

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

	30 June 2017	31 December 2016
CCIRS and mark-to-market CCIRS	25,008	36,189
IRS	28,819	33,031
Foreign currency swaps	14,303	13,351
Other derivative contracts ¹	<u>12,231</u>	<u>14,097</u>
Total	<u>80,361</u>	<u>96,668</u>

NOTE 18: OTHER LIABILITIES² (in HUF mn)

	30 June 2017	31 December 2016 (Restated)	31 December 2015 (Restated)
Liabilities from investment services	88,010	72,101	39,399
Accrued expenses	25,305	29,448	25,664
Salaries and social security payable	20,734	17,426	16,817
Fair value of derivative financial instruments designated as hedge accounting relationships	19,732	21,434	35,701
Liabilities due to short positions	17,062	21,552	7,453
Current income tax payable	16,723	7,948	6,044
Provision on off-balance sheet commitments, contingent liabilities	13,339	15,297	51,411
Technical accounts	11,328	3,315	7,589
Accounts payable	9,490	17,622	20,038
Liabilities from customer's credit card payments	9,470	12,837	5,804
Liabilities related to housing loans	5,495	6,471	1,475
Refunded liabilities ordered by law related to customer loans	943	961	995
Liabilities connected to loans for collection	805	814	875
Giro clearing accounts	597	273	323
Dividends payable	62	34	63
Clearing accounts	-	-	5,820
Other	<u>16,218</u>	<u>10,725</u>	<u>7,770</u>
Total	<u>255,313</u>	<u>238,258</u>	<u>233,241</u>

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

	30 June 2017	31 December 2016
Provision for losses on other off-balance sheet commitments and contingent liabilities	9,571	11,401
Provision on other liabilities	821	362
Provision for retirement pension and severance pay	413	1,000
Provision on other liabilities	<u>2,534</u>	<u>2,534</u>
Total	<u>13,339</u>	<u>15,297</u>

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

² Other liabilities – except 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 derivative financial instruments is recovering in accordance with their maturity.

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

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

	30 June 2017	31 December 2016
CCIRS	19,732	20,607
IRS	-	827
Total	<u>19,732</u>	<u>21,434</u>

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

	30 June 2017	31 December 2016
Opening balance	15,297	51,411
Provision for the period	18,610	16,460
Release of provision	<u>(20,568)</u>	<u>(52,574)</u>
Closing balance	<u>13,339</u>	<u>15,297</u>

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

	30 June 2017	31 December 2016
Over one year:		
In foreign currency	<u>108,674</u>	<u>109,719</u>
Subtotal	<u>108,674</u>	<u>109,719</u>
Accrued interest	<u>460</u>	<u>639</u>
Total	<u>109,134</u>	<u>110,358</u>

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

	30 June 2017	31 December 2016
Subordinated bonds and loans denominated in foreign currency	2.67%	2.69%
Average interest on subordinated bonds and loans denominated in foreign currency	2.87%	6.84%

Subordinated loans and bonds are detailed as follows as at 30 June 2017:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 30 June 2017
Subordinated bond	EUR 351.8 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.671%

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NOTE 20: SHARE CAPITAL (in HUF mn)

	30 June 2017	31 December 2016
<u>Authorized, issued and fully paid:</u>		
Ordinary shares	<u>28,000</u>	<u>28,000</u>

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

The reserves of the Bank under Hungarian Accounting Standards ("HAS")¹ as at 31 December 2016:

	31 December 2016
Capital reserve	52
General reserve	34,287
Retained earnings	857,019
Tied-up reserve	<u>9,506</u>
Total	<u>900,864</u>

Based on the instructions of Act C of 2000 on accounting ("Act on Accounting") effective from annual periods beginning on 1 January 2017 financial statements of the Bank are prepared in accordance with IFRS as issued by the IASB as adopted by the EU.

In 2017 the Bank paid dividend of HUF 53,200 million from the profit of the year 2016, which means HUF 190 dividend/share payment. In 2018 dividend of HUF 61,320 million are expected to be proposed by the Management from the profit of the year 2017, which means HUF 219 payable dividends by share to the shareholders.

Based on paragraph 114/B of Act on Accounting Equity Correlation Table is prepared and disclosed as a part of the explanatory notes for the reporting date by the Bank.

Equity correlation table shall contain the opening and closing balances of the shareholder's equity in accordance with IFRS, furthermore deducted from this the opening and closing balances of the specified equity elements. Equity correlation table shall contain also untied retained earnings available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been adopted comprising net profit for the period of that financial year minus cumulative unrealized gains claimed in connection with any increase in the fair value of investment properties, as provided in IAS 40 - Investment Property, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes.

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

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 21: RETAINED EARNINGS AND RESERVES (in HUF mn)

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 30 June 2017:

30 June 2017 Closing	Share Capital	Capital reserve	Share- based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Revaluation reserve	Tied-up reserve	Net profit for the year	Total
Components of Shareholder's equity in accordance with IFRS	28,000	52	29,922	1,307,079	(55,468)	(6,817)	-	-	-	1,302,768
Unused portion of reserve for developments	-	-	-	(636)	-	-	-	636	-	-
Other comprehensive income	-	-	-	(63,523)	-	-	63,523	-	-	-
Option reserve	-	(55,468)	-	-	55,468	-	-	-	-	-
Treasury shares	-	(6,817)	-	-	-	6,817	-	-	-	-
Share based payments	-	29,922	(29,922)	-	-	-	-	-	-	-
Net profit for the year	-	-	-	(131,450)	-	-	-	-	131,450	-
General reserve	-	47,434	-	(47,434)	-	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	<u>28,000</u>	<u>15,123</u>	<u>-</u>	<u>1,064,036</u>	<u>-</u>	<u>-</u>	<u>63,523</u>	<u>636</u>	<u>131,450</u>	<u>1,302,768</u>

OTP BANK PLC.
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NOTE 21: RETAINED EARNINGS AND RESERVES (in HUF mn)

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 1 January 2017:

1 January 2017 Closing	Share Capital	Capital reserve	Share- based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Revaluation reserve	Tied-up reserve	Net profit for the year	Total
Components of Shareholder's equity in accordance with IFRS	28,000	52	28,237	1,220,311	(55,468)	(8,709)	-	-	-	1,212,423
Unused portion of reserve for developments	-	-	-	(636)	-	-	-	636	-	-
Other comprehensive income	-	-	-	(53,662)	-	-	53,662	-	-	-
Option reserve	-	(55,468)	-	-	55,468	-	-	-	-	-
Treasury shares	-	(8,709)	-	-	-	8,709	-	-	-	-
Share based payments	-	28,237	(28,237)	-	-	-	-	-	-	-
Net profit for the year	-	-	-	(172,378)	-	-	-	-	172,378	-
General reserve	-	34,289	-	(34,289)	-	-	-	-	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	<u>28,000</u>	<u>(1,599)</u>	<u>-</u>	<u>959,346</u>	<u>-</u>	<u>-</u>	<u>53,662</u>	<u>636</u>	<u>172,378</u>	<u>1,212,423</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 21: RETAINED EARNINGS AND RESERVES (in HUF mn)

	30 June 2017	1 January 2017
Retained earnings	1,064,035	959,346
Net profit for the year	<u>131,450</u>	<u>172,378</u>
Untied retained earnings	<u>1,195,485</u>	<u>1,131,724</u>
	30 June 2017	1 January 2017
Shareholder's equity in accordance with IFRS	<u>28,000</u>	<u>28,000</u>
Subscribed capital	<u>28,000</u>	<u>28,000</u>

NOTE 22: TREASURY SHARES (in HUF mn)

	30 June 2017	31 December 2016
Nominal value (ordinary shares)	77	126
Carrying value at acquisition cost	6,817	8,709

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

Change in number of shares:

	30 June 2017	31 December 2016
Number of shares as at 1 January	1,263,462	1,572,937
Additions	647,245	1,750,152
Disposals	<u>(1,145,366)</u>	<u>(2,059,627)</u>
Number of shares at the end of the period	<u>765,341</u>	<u>1,263,462</u>

Change in carrying value:

	30 June 2017	31 December 2016
Balance as at 1 January	8,709	9,153
Additions	5,940	11,982
Disposals	<u>(7,832)</u>	<u>(12,426)</u>
Closing balance	<u>6,817</u>	<u>8,709</u>

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

	30 June 2017	31 December 2016
Provision for impairment on loan losses		
Provision for the period	42,680	47,249
Release of provision	<u>(47,929)</u>	<u>(54,752)</u>
Provision on loan losses	<u>8,899</u>	<u>21,132</u>
	<u>3,650</u>	<u>13,629</u>
Provision for impairment on placement losses		
Provision for the period	<u>(3)</u>	<u>3</u>
	<u>(3)</u>	<u>3</u>
Provision for impairment on loan and placement losses	<u>3,647</u>	<u>13,632</u>

OTP BANK PLC.
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NOTE 24: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

	30 June 2017	30 June 2016
Income from fees and commissions:		
Deposit and account maintenance fees and commissions	40,340	37,560
Fees and commissions related to the issued bank cards	17,049	14,842
Fees and commissions related to security trading	10,943	10,201
Fees related to the cash withdrawal	15,899	13,139
Fees and commissions received from OTP Mortgage Bank Ltd.	7,567	8,049
Fees and commissions related to lending	4,164	3,053
Net fee income related to card insurance services and loan agreements	3,308	2,805
Other	<u>1,923</u>	<u>1,652</u>
Total	<u>101,193</u>	<u>91,301</u>
	30 June 2017	30 June 2016
Expenses from fees and commissions:		
Fees and commissions related to issued bank cards	4,581	4,322
Fees and commissions related to lending	2,772	2,435
Interchange fee	2,533	2,096
Insurance fees	1,458	72
Fees and commissions related to security trading	620	543
Cash withdrawal transaction fees	542	507
Fees and commissions relating to deposits	454	428
Money market transaction fees and commissions	171	44
Postal fees	120	118
Other	<u>654</u>	<u>1,325</u>
Total	<u>13,905</u>	<u>11,890</u>
Net profit from fees and commissions	<u>87,288</u>	<u>79,411</u>

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

	30 June 2017	30 June 2016
Other operating income:		
Gains on sale of receivables	4,625	-
Gains on transactions related to property activities	113	97
Income from non-financing services	3	3
Other	<u>2,326</u>	<u>1,941</u>
Total	<u>7,067</u>	<u>2,041</u>
	30 June 2017	30 June 2016
Net other operating expenses:		
Financial support for sport association and organization of public utility	573	3,339
Provision for impairment on other assets	559	13
Non-repayable assets contributed	465	612
Fine imposed by Competition Authority	15	18
Release of provision for off-balance sheet commitments and contingent liabilities	(1,958)	(45,252)
Provision for impairment on investments in subsidiaries	(4,644)	42,270
Expenses from regulations related to customer loans	-	(5)
Other	<u>843</u>	<u>1,005</u>
Total	<u>(4,147)</u>	<u>2,000</u>

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

Other administrative expenses:

	30 June 2017	30 June 2016
Personnel expenses:		
Wages	31,629	29,699
Taxes related to personnel expenses	8,306	9,960
Other personnel expenses	<u>4,654</u>	<u>5,699</u>
Subtotal	<u>44,589</u>	<u>45,358</u>
Depreciation and amortization:	<u>9,355</u>	<u>10,398</u>
Other administrative expenses:		
Taxes, other than income tax ¹	41,067	42,911
Administration expenses, including rental fees	12,639	10,934
Services	12,478	10,610
Professional fees	3,013	5,336
Advertising	<u>6,855</u>	<u>2,601</u>
Subtotal	<u>76,052</u>	<u>72,392</u>
Total	<u>129,996</u>	<u>128,148</u>

NOTE 26: INCOME TAX (in HUF mn)

The Bank is presently liable for income tax at a rate of 9% of taxable income.

A breakdown of the income tax expense is:

	30 June 2017	31 December 2016
Current tax expense	474	1,772
Deferred tax expense	<u>8,548</u>	<u>19,324</u>
Total	<u>9,022</u>	<u>21,096</u>

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

	30 June 2017	31 December 2016
Balance as at 1 January	27,603	41,905
Deferred tax expense in recognised income	(8,548)	(19,324)
Deferred tax expense in other comprehensive income	<u>(963)</u>	<u>5,022</u>
Closing balance	<u>18,092</u>	<u>27,603</u>

¹ Special tax of financial institutions was paid by OTP Bank in the amount of HUF 11 billion for the year 2016 and 2015, recognized as an expense thus decreased the corporate tax base. In the six month period ended 30 June 2017 financial transaction duty was paid by the Bank in the amount of HUF 24 billion.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

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

	30 June 2017	31 December 2016
Unused tax allowance	14,343	21,945
Tax accrual caused by unused negative taxable income	5,182	11,041
Refundable tax in accordance with Acts on Customer Loans	3,539	5,239
Goodwill	1,902	2,535
Fair value adjustment of derivative financial instruments	188	-
Amounts unenforceable by tax law	85	138
Repurchase agreements and security lending	-	1,964
Difference in reserves under HAS and IFRS	-	1,012
Fair value correction related to customer loan contracts	-	28
Difference in accounting for finance leases	-	1
Deferred tax assets	<u>25,239</u>	<u>43,903</u>
Fair value adjustment of held for trading and available-for-sale securities	(6,157)	(6,771)
Difference in depreciation and amortization	(814)	(814)
Effect of using effective interest rate method	(176)	(678)
Provision for impairment on investments	-	(5,051)
Fair value adjustment of derivative financial instrument	-	(1,500)
Effect of redemption of issued securities	-	(625)
Valuation of equity instrument (ICES)	-	(438)
OTP-MOL share swap transaction	-	(423)
Deferred tax liabilities	<u>(7,147)</u>	<u>(16,300)</u>
Net deferred tax asset	18,092	27,603

A reconciliation of the income tax expense is as follows:

	30 June 2017	31 December 2016
Profit before income tax	140,472	193,474
Income tax at statutory tax rate (9% in 2017, 19% in 2016)	12,642	36,760
<i><u>Income tax adjustments due to permanent differences are as follows:</u></i>		
Deferred use of tax allowance	7,601	(4,124)
Amounts unenforceable by tax law	53	123
Use of tax allowance in the current year	(4,101)	(1,919)
Dividend income	(7,256)	(17,175)
Share-based payment	-	671
Provision on expected liability	-	(12,014)
Treasury share transaction	-	(991)
Differences in carrying value of subsidiaries	-	12,589
OTP-MOL share swap transaction	-	411
Tax refund in accordance with Acts on Customer Loans	-	1,102
Effect of the tax rate change	-	5,700
Other	83	(37)
Income tax	<u>9,022</u>	<u>21,096</u>
Effective tax rate	6.4%	10.9%

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

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

27.1. Credit risk

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

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

27.1.1 Analysis by loan types

Classification into risk classes

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

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

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

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

The expected future losses of the individually assessed item are determined by taking into consideration the above listed objective valuation aspects. The expected loss, the volume of the necessary reserve, is defined by taking into account the value of the collateral and compared with the value of the collateral 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 should be completed to this level by increasing the amount of the impairment or by releasing the provision as appropriate.

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

As at 30 June 2017

Loan type	DPD 0-90	DPD 91-360	DPD 360+	Total carrying amount /allowance
Placements with other banks	940,396	-	-	940,396
Total placements with other banks	<u>940,396</u>	<u>-</u>	<u>-</u>	<u>940,396</u>
<i>Allowance on placements with other banks</i>	<i><u>(29)</u></i>	<i><u>-</u></i>	<i><u>-</u></i>	<i><u>(29)</u></i>
Consumer loans	307,926	1,852	2,837	312,615
Mortgage and housing loans	52,369	14	10	52,393
Micro and small enterprises loans	1,396,710	6,241	32,116	1,435,067
Loans to medium and large corporates	179,525	5,985	9,066	194,576
Municipal loans	<u>157,650</u>	<u>2,907</u>	<u>729</u>	<u>161,286</u>
Gross loan portfolio total	<u>2,094,180</u>	<u>16,999</u>	<u>44,758</u>	<u>2,155,937</u>
<i>Allowance on loans</i>	<i><u>(33,757)</u></i>	<i><u>(8,905)</u></i>	<i><u>(33,182)</u></i>	<i><u>(75,844)</u></i>
Net portfolio total	<u>3,000,790</u>	<u>8,094</u>	<u>11,576</u>	<u>3,020,460</u>
Accrued interest				
Placements with other banks				2,893
Loans				<u>5,828</u>
Total accrued interest				<u>8,721</u>
Total placements with other banks				943,260
Total loans				<u>2,085,921</u>
Total				<u>3,029,181</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

As at 31 December 2016

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

The Bank's gross loan portfolio increased by 6.7% in the six month period ended 30 June 2017. Analysing the contribution of loan types to the loan portfolio, the share of several business lines hardly changed. The ratio of the DPD90⁻ loans compared to the gross loan portfolio increased slightly from 97.47% to 98.01% as at 30 June 2017, while the ratio of DPD90⁺ loans in gross loan portfolio decreased from 2.53% to 1.99%.

The Bank has a prudent provisioning policy, the coverage of loans by provision for impairment on DPD90⁺ loans decreased from 71.85% to 68.15% in the six month period ended 30 June 2017.

Not impaired loan portfolio

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

As at 30 June 2017

Loan type	Not past due	DPD 0-90	DPD 91-360	DPD 360+	Total
Loans to medium and large corporates	1,349,497	1,035	611	3	1,351,146
Placements with other banks	940,396	-	-	-	940,396
Consumer loans	258,179	45563	-	-	303,742
Municipal loans	41,793	28	13	-	41,834
Micro and small enterprises loans	151,474	4,294	-	-	155,768
Mortgage and housing loans	143,477	33,647	616	2,114	179,854
Total	2,884,816	84,567	1,240	2,117	2,972,740

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

As at 31 December 2016

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

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 89.35% to 93.17% as at 30 June 2017 compared to 31 December 2016. The loans that are neither past due nor impaired are concentrated in the corporate business line. The ratio of the gross value of the loans past due not impaired compared to the whole portfolio decreased from 5.13% to 2.84%. The loans that are past due but not impaired are concentrated in the retail business line. During collective valuation method the Bank recognizes provision for impairment on loans over a 30 day delay. Those loans which are guaranteed by state and are past due 30 days not impaired due to the state guarantee. The level of corporate loans past due but not impaired is possible because of endorsing collaterals considering during the individual evaluation. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank. Among the past due loans, the share of certain loan types changed insignificantly as at 30 June 2017 compared to 31 December 2016.

Loans individually assessed for provision

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

As at 30 June 2017

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off balance sheet contingent liabilities
Legal proceedings	18,176	15,530	4,945	376	245
Cross default	40,629	18,948	14,427	747	45
Delay of repayment	19,856	15,575	5,673	-	-
Other	<u>21,424</u>	<u>1,838</u>	<u>18,656</u>	<u>9,764</u>	<u>238</u>
Corporate total	<u>100,085</u>	<u>51,891</u>	<u>43,701</u>	<u>10,887</u>	<u>528</u>
Legal proceedings	-	-	-	-	-
Cross default	-	-	-	-	-
Delay of repayment	-	-	-	-	-
Other	-	-	-	-	-
Municipal total	-	-	-	-	-
Placements with other banks	-	-	-	-	-
Total	<u>100,085</u>	<u>51,891</u>	<u>43,701</u>	<u>10,887</u>	<u>528</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

Loans individually assessed for provision [continued]

As at 31 December 2016

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off balance sheet contingent liabilities
Legal proceedings	47,575	45,903	8,460	60	54
Cross default	35,044	15,791	9,260	185	24
Delay of repayment	29,386	24,088	7,409	1	1
Other	<u>48,978</u>	<u>12,309</u>	<u>32,515</u>	<u>10,986</u>	<u>1,226</u>
Corporate total	<u>160,983</u>	<u>98,091</u>	<u>57,644</u>	<u>11,232</u>	<u>1,305</u>
Legal proceedings	-	-	-	-	-
Cross default	-	-	-	-	-
Delay of repayment	-	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Municipal total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Placements with other banks	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>160,983</u>	<u>98,091</u>	<u>57,644</u>	<u>11,232</u>	<u>1,305</u>

Regarding corporate business line in the individually rated portfolio the ratio of the carrying value of loans classified due to Legal proceedings decreased significantly as at 30 June 2017 compared to 31 December 2016, while the carrying value of loans classified due to Legal proceedings decreased by 62% as at 30 June 2017.

Loan portfolio by countries

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

Country	30 June 2017		31 December 2016	
	Gross loan and placement with other banks portfolio	Allowance	Gross loan and placement with other banks portfolio	Allowance
Hungary	2,363,654	(40,939)	2,267,468	(53,044)
Malta	427,422	-	350,436	(948)
United Kingdom	56,627	-	25,284	-
Bulgaria	46,383	(897)	43,915	(831)
Romania	39,684	(3,140)	49,283	(5,030)
Other	36,754	(5,796)	64,112	(11,624)
Cyprus	29,399	(15,041)	29,040	(14,938)
Croatia	23,611	(172)	3,501	(171)
Serbia	23,335	(5,619)	-	-
Russia	18,870	(1,892)	43,212	(2,268)
Ukraine	8,790	(2,322)	9,610	(2,499)
Germany	8,394	(3)	9,224	(2)
France	8,067	(1)	308	-
Switzerland	3,089	(14)	1,198	(5)
Poland	1,820	(5)	2,055	(5)
Slovakia	432	(3)	629	(2)
United States of America	1	-	1	-
Norway	-	-	2,214	-
Total	<u>3,096,332</u>	<u>(75,844)</u>	<u>2,901,490</u>	<u>(91,367)</u>

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

27.1. Credit risk [continued]

27.1.2 Collaterals

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

Types of collateral	30 June 2017	31 December 2016
Mortgages	1,042,555	1,052,684
Guarantees and warranties	263,675	252,220
Deposit	107,136	89,859
<i>from this:</i> Cash	43,661	59,444
Securities	60,986	27,867
Other	2,489	2,548
Assignment	274	350
Other	<u>1,523</u>	<u>962</u>
Total	<u>1,415,163</u>	<u>1,396,075</u>

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

Types of collateral	30 June 2017	31 December 2016
Mortgage	416,894	408,220
Guarantees and warranties	157,682	140,452
Deposit	53,612	29,643
<i>from this:</i> Cash	12,585	13,802
Securities	38,906	13,684
Other	2,121	2,157
Assignment	146	251
Other	<u>912</u>	<u>442</u>
Total	<u>629,246</u>	<u>579,008</u>

The coverage level of loan portfolio to the extent of the exposures increased from 19.96% to 20.32% as at 30 June 2017, while the coverage to the total collateral value decreased from 48.12% to 45.70%.

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

27.1. Credit risk [continued]

27.1.3 Restructured loans

	30 June 2017		31 December 2016	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	5,002	521	5,961	2,972
Loans to medium and large corporates ¹	9,467	2,511	20,535	4,301
Micro and small enterprises loans	<u>2,012</u>	<u>9</u>	<u>1,549</u>	<u>20</u>
Total	<u>16,481</u>	<u>3,041</u>	<u>28,045</u>	<u>7,293</u>

Restructured portfolio definition

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

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

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

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

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

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

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

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

¹ incl.: project and syndicated loans

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

27.1. Credit risk [continued]

Financial instruments by rating categories¹

Held-for-trading securities as at 30 June 2017

	A1	A2	A3	BBB	Ba1	Ba2	Baa1	Baa2	Baa3	Not rated	Total
Shares	50	31	18	19	27	-	25	22	-	9,067	9,259
Government bonds	-	-	-	-	-	-	-	-	12,625	-	12,625
Mortgage bonds	-	-	-	-	-	-	99	-	-	-	99
Hungarian government discounted Treasury Bills	-	-	-	-	-	-	-	-	1,385	-	1,385
Hungarian government interest bearing Treasury Bills	-	-	-	-	-	-	-	-	51,391	-	51,391
Securities issued by credit institutions	-	-	-	-	3,929	10,037	-	-	-	1,788	15,754
Other securities	-	-	-	-	8,419	-	-	-	-	637	9,056
Total	50	31	18	19	12,375	10,037	124	22	65,401	11,492	99,569
Accrued interest											1,148
Total											100,717

Available-for-sale securities as at 30 June 2017

	A1	A2	A3	Ba1	Ba3	Baa1	Baa2	Baa3	Not rated	Total
Mortgage bonds	-	-	-	-	-	149,345	-	-	-	149,345
Government bonds	-	22,640	6,308	21,467	6,605	-	39,392	1,022,261	-	1,118,673
Other securities	1,718	-	-	-	-	-	1,384	164,639	166,016	333,757
Total	1,718	22,640	6,308	21,467	6,605	149,345	40,776	1,186,900	166,016	1,601,775
Accrued interest										15,417
Provision										(96)
Total										1,617,096

¹ Moody's ratings

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

Held-to-maturity securities as at 30 June 2017

	Ba1	Baa3	Total
Government bonds	-	957,978	957,978
Mortgage bonds	4,764	-	4,764
Subtotal			962,742
Accrued interest			16,694
Total			979,436

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

Country	30 June 2017	31 December 2016 (Restated)	31 December 2015 (Restated)
Hungary	2,436,246	2,255,339	2,237,364
Slovakia	41,152	42,754	7,171
Russia	35,948	13,182	-
Romania	30,111	-	-
Poland	22,640	28,355	-
Spain	22,451	-	-
Bulgaria	16,940	-	-
Slovenia	16,602	-	-
Luxembourg	14,075	7,169	6,444
Other	<u>27,825</u>	<u>10,759</u>	<u>13,379</u>
Total	<u>2,663,990</u>	<u>2,357,558</u>	<u>2,264,358</u>

27.2. Market risk

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

27.2.1 Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising 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 approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure. The diversification effect has not been validated among the various market risk types.

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

Historical VaR (99%, one-day) by risk type	Average	
	30 June 2017	30 June 2016
Foreign exchange	13	50
Interest rate	177	153
Equity instruments	9	4
Diversification	<u>-</u>	<u>(50)</u>
Total VaR exposure	<u>199</u>	<u>157</u>

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

27.2. Market risk [continued]

While VaR captures the OTP'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 OTP 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.

27.2.2. Foreign currency sensitivity analysis

The following table details the OTP'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 EUR (310) million as of 30 June 2017. The strategic EUR open FX position kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries. High portion of strategic positions are considered as effective hedge of future profit inflows of foreign subsidiaries, and so FX risk alters the bank's capital 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 P&L in 3 months period	
	30 June 2017	30 June 2016
	In HUF billion	In HUF billion
1%	(11.9)	(12.8)
5%	(8.3)	(8.8)
25%	(3.4)	(3.7)
50%	(0.3)	0.3
25%	2.6	3.0
5%	6.8	7.5
1%	9.6	10.6

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 2017.

27.2.3. Interest rate sensitivity analysis

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

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

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

1. HUF base rate stays unchanged and BUBOR decreases gradually to 0.0% (scenario 1)
2. BUBOR decreases gradually by 50 bps over the next year and the central bank base rate decreases to the level of BUBOR3M at the same time (scenario 2)

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

27.2. Market risk [continued]

The net interest income in a one year period after 1 January 2017 would be decreased by HUF 953 million (scenario 1) and HUF 4.228 million (scenario 2) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 245 million for scenario 1, HUF 714 million for scenario 2) on the government bond portfolio held for hedging.

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

Description	30 June 2017		30 June 2016	
	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(1,554)	170	(853)	217
EUR (0.1%) parallel shift	(178)	-	(345)	-
USD (0.1%) parallel shift	<u>(70)</u>	<u>-</u>	<u>(78)</u>	<u>-</u>
Total	<u>(1,802)</u>	<u>170</u>	<u>(1,276)</u>	<u>217</u>

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 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 recognising 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 scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	30 June 2017	30 June 2016
VaR (99%, one day, million HUF)	9	4
Stress test (million HUF)	(143)	(48)

27.2.5. Capital management

Capital management

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

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

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

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

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

27.2. Market risk [continued]

Capital adequacy

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

The Bank has entirely complied with the regulatory capital requirements in the first half of 2017 as well as in 2016.

The capital adequacy calculations of the Bank in accordance with HAS are prepared based on the Basel II for the year ended 31 December 2013 and based on Basel III as at 31 December 2014 due to modification of the regulation. From 1 January 2017 the Bank's capital adequacy calculation is in line with IFRS and based on Basel III. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA) is applied since 31 December 2012.

The calculation of the Capital Adequacy ratio as at 30 June 2017 and 31 December 2016 is as follows:

	30 June 2017	31 December 2016
	Basel III	Basel III
Tier 1 capital	1,188,413	1,022,394
<i>Common equity Tier 1 capital (CET1)</i>	<i>1,188,413</i>	<i>1,022,394</i>
<i>Additional Tier 1 capital (AT1)</i>	<i>-</i>	<i>-</i>
Tier 2 capital	108,674	119,069
Regulatory capital	<u>1,297,087</u>	<u>1,141,463</u>
Credit risk capital requirement	301,054	260,392
Market risk capital requirement	15,517	47,887
Operational risk capital requirement	21,966	21,804
Total requirement regulatory capital	<u>338,537</u>	<u>330,083</u>
Surplus capital	<u>958,550</u>	<u>811,380</u>
CET 1 ratio	28.08%	24.78%
Capital adequacy ratio	<u>30.65%</u>	<u>27.66%</u>

Basel II: The positive components of the Core capital are: Issued capital, Capital reserve, Tied-up reserve, General reserve, Profit reserve, Profit for the year, General risk reserve.

The negative components of the Core capital are: Treasury shares, Intangible assets.

The positive components of the Supplementary capital are: Subsidiary loan capital, Subordinated loan capital.

Deductions: PIBB investments, limit breaches.

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

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

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

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

Contingent liabilities and commitments

	30 June 2017	31 December 2016
Commitments to extend credit	1,005,774	897,808
Guarantees arising from banking activities	602,019	444,501
<i>from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank</i>	<i>277,028</i>	<i>128,812</i>
Legal disputes (disputed value)	28,680	5,095
Confirmed letters of credit	870	139
Other	<u>148,921</u>	<u>118,306</u>
Total	<u>1,786,264</u>	<u>1,465,849</u>

Legal disputes

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

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

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

Provision due to legal disputes was HUF 821 million and HUF 362 million as at 30 June 2017 and 31 December 2016, respectively. (See Note 18.)

Commitments to extend credit, guarantees and letter of credit

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

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

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

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

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30 JUNE 2017

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

Guarantees, payment undertakings arising from banking activities

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

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

Contingent liabilities related to OTP Mortgage Bank Ltd.

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

Derivatives

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

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

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

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

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

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

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

During implementation of the Remuneration Policy of the Group it became apparent 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 relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries.

¹ Until the end of 2014 Board of Directors

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

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

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

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

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

Year	Share purchasing at a discounted price												Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share	
	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share		Exercise price	Maximum earnings per share		
HUF per share																	
	for the year 2010		for the year 2011		for the year 2012		for the year 2013		for the year 2014		for the year 2015			for the year 2016			
2011	3,946	2,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2012	3,946	3,000	1,370	3,000	-	-	-	-	-	-	-	-	-	-	-	-	-
2013	4,446	3,500	1,870	3,000	2,886	3,000	-	-	-	-	-	-	-	-	-	-	-
2014	4,946	3,500	1,870	4,000	2,886	3,000	2,522	2,500	-	-	-	-	-	-	-	-	-
2015	-	-	1,870	4,000	2,886	3,000	2,522	3,000	3,930	2,500	-	-	-	-	-	-	-
2016	-	-	-	-	2,886	3,500	2,522	3,500	3,930	3,000	4,892	2,500	6,892	-	-	-	-
2017	-	-	-	-	-	-	2,522	3,500	3,930	3,000	4,892	3,000	6,892	7,200	2,500	9,200	-
2018	-	-	-	-	-	-	-	-	3,930	3,000	4,892	3,000	6,892	7,200	3,000	9,200	-
2019	-	-	-	-	-	-	-	-	-	-	4,892	3,000	6,892	7,200	3,500	9,200	-
														7,200	4,000	9,200	

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 29: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Board of Directors, relating to the year **2010** effective pieces are follows as at 30 June 2017:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2011	-	340,950	11,622	5,731	329,328
Share-purchasing period started in 2012	-	735,722	714,791	4,593	20,931
Share-purchasing period started in 2013	-	419,479	31,789	4,808	387,690
Share-purchasing period started in 2014	-	497,451	495,720	5,838	1,731

Based on parameters accepted by Board of Directors, relating to the year **2011** effective pieces are follows as at 30 June 2017:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2012	-	471,240	464,753	3,758	6,487
Share-purchasing period started in 2013	-	1,267,173	1,256,529	4,886	10,644
Share-purchasing period started in 2014	-	609,137	609,137	4,799	-
Share-purchasing period started in 2015	-	608,118	608,118	5,621	-

Based on parameters accepted by Board of Directors, relating to the year **2012** effective pieces are follows as at 30 June 2017:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2013	-	450,861	445,671	4,413	5,190
Share-purchasing period started in 2014	-	1,156,631	1,151,890	4,982	4,741
Share-purchasing period started in 2015	-	555,845	555,845	5,658	-
Share-purchasing period started in 2016	1,221	581,377	580,156	6,568	-

Based on parameters accepted by Board of Directors, relating to the year **2013** effective pieces are follows as at 30 June 2017:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2014	-	406,044	404,263	4,369	1,781
Share-purchasing period started in 2015	-	804,469	804,469	4,918	-
Share-purchasing period started in 2016	804	393,750	392,946	6,768	-
Share-purchasing period starting in 2017	289,016	483,987	194,971	9,219	-

Based on parameters accepted by Supervisory Board, relating to the year **2014** effective pieces are follows as at 30 June 2017:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2015	-	176,459	176,459	5,828	-
Share-purchasing period started in 2016	13,406	360,425	347,019	6,953	-
Share-purchasing period starting in 2017	117,188	189,778	72,590	9,215	-
Share-purchasing period starting in 2018	237,013	-	-	-	-

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 29: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board, relating to the year **2015** effective pieces are follows as at 30 June 2017:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2016	-	152,247	152,247	7,373	-
Remuneration exchanged to share provided in 2016	-	10,947	10,947	6,509	-
Share-purchasing period starting in 2017	177,776	299,758	121,982	9,217	-
Remuneration exchanged to share applying in 2017	-	20,176	20,176	9,257	-
Share-purchasing period starting in 2018	166,321	-	-	-	-
Remuneration exchanged to share applying in 2018	9,543	-	-	-	-
Share-purchasing period starting in 2019	204,585	-	-	-	-
Remuneration exchanged to share applying in 2019	10,671	-	-	-	-

Based on parameters accepted by Supervisory Board, relating to the year **2016** effective pieces are follows as at 30 June 2017:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2017	-	147,984	12,329	9,217	-
Remuneration exchanged to share provided in 2017	102	4,288	4,186	9,197	-
Share-purchasing period starting in 2018	312,328	-	-	-	-
Remuneration exchanged to share applying in 2018	8,296	-	-	-	-
Share-purchasing period starting in 2019	163,390	-	-	-	-
Remuneration exchanged to share applying in 2019	4,148	-	-	-	-
Share-purchasing period starting in 2020	172,356	-	-	-	-
Remuneration exchanged to share applying in 2020	4,567	-	-	-	-

Effective pieces relating to the periods starting in 2016-2020 settled during valuation of performance of year 2013-2016, can be modified based on risk assessment and personal changes.

In connection with shares given as a part of payments detailed in the *Direction Chief Executive about Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 1,685 million was recognized as expense for the six month period ended 30 June 2017.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn)

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

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

a) Loans provided to related parties

	30 June 2017	31 December 2016
OTP Mortgage Bank Ltd.	579,340	521,265
OTP Financing Malta Company Ltd. (Malta)	411,717	334,658
Merkantil Bank Ltd.	213,563	197,111
OTP Factoring Ltd.	97,189	109,288
OTP Real Estate Leasing Ltd.	22,383	22,826
Splisaska banka d.d. (Croatia)	20,071	-
OTP Holding Malta Ltd. (Malta)	15,669	15,778
Merkantil Lease Ltd.	8,917	10,630
LLC OTP Leasing (Ukraine)	5,069	5,496
OTP banka Srbija a.d. (Serbia)	4,253	1,957
OTP Real Estate Ltd.	3,123	1,442
D-ÉG Thermoset Kft.	2,102	2,172
JN Parkolóház Llc.	1,948	1,463
SPLC-N Ltd.	1,636	2,580
Merkantil Real Estate Leasing Ltd.	1,631	1,858
Monicomp Ltd.	1,103	1,269
JSC "OTP Bank" (Russia)	1,005	22,180
Other	<u>1,467</u>	<u>1,455</u>
Total	<u>1,392,186</u>	<u>1,253,428</u>

b) Deposits from related parties

	30 June 2017	31 December 2016
DSK Bank EAD (Bulgaria)	163,669	171,541
JSC "OTP Bank" (Russia)	66,121	71,683
OTP Funds Servicing and Consulting Ltd.	44,764	34,902
OTP Mortgage Bank Ltd.	38,790	2,597
OTP Building Society Ltd.	24,280	20,822
OTP Bank Romania S.A. (Romania)	20,625	27
OTP banka Hrvatska d.d. (Croatia)	15,699	209
OTP Factoring Ltd.	11,470	12,960
OTP Bank JSC (Ukraine)	8,555	1,081
Merkantil Bank Ltd.	7,118	7,260
Inga Kettő Ltd.	6,938	6,850
Bank Center Llc.	6,741	6,252
Crnogorska komercijalna banka a.d (Montenegro)	5,853	204
OTP Holding Ltd. (Cyprus)	5,794	6,829
Air-Invest Llc.	5,101	648
OTP Real Estate Leasing Ltd.	3,335	2,516
Balansz Real Estate Institute Fund	3,275	6,339
OTP Life Annuity Ltd.	3,151	3,123
OTP Banka Slovensko a.s. (Slovakia)	2,377	190
OTP Financing Malta Company Ltd. (Malta)	2,090	3,165
Bajor-Polár Center Ltd.	1,557	1,257
OTP Financing Netherlands B. V. (the Netherlands)	1,145	1,408
Other	<u>7,422</u>	<u>7,312</u>
Total	<u>455,870</u>	<u>369,175</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

c) Interests received by the Bank¹

	30 June 2017	30 June 2016
OTP Financing Malta Company Ltd. (Malta)	3,920	2,403
OTP Mortgage Bank Ltd.	2,014	2,728
Merkantil Bank Ltd.	1,876	1,979
OTP Factoring Ltd.	358	1,066
LLC OTP Leasing (Ukraine)	170	156
OTP Real Estate Leasing Ltd.	110	218
Other	<u>141</u>	<u>256</u>
Total	<u>8,589</u>	<u>8,806</u>

d) Interests paid by the Bank²

	30 June 2017	30 June 2016
JSC "OTP Bank" (Russia)	2,954	774
DSK Bank EAD (Bulgaria)	1,860	2,790
OTP Mortgage Bank Ltd.	99	548
Merkantil Lease Ltd.	94	265
OTP Banka Slovensko a.s. (Slovakia)	74	228
OTP Funds Servicing and Consulting Ltd.	63	238
OTP banka Hrvatska d.d. (Croatia)	58	88
OTP Bank Romania S.A. (Romania)	46	259
Crnogorska komercijalna banka a.d (Montenegro)	39	33
Other	<u>49</u>	<u>301</u>
Total	<u>5,336</u>	<u>5,524</u>

e) Commissions received by the Bank

	30 June 2017	30 June 2016
From OTP Fund Management Ltd. in relation to trading activity	2,984	4,192
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	1,055	654
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	748	610
From LLC MFO "OTP Finance" (guarantee fee)	318	270
From OTP Funds Servicing and Consulting Ltd. in relation to banking	254	177
From Merkantil Bank Ltd. in relation to MOBIL-deposit account managements	169	243
From Merkantil Bank Ltd. in relation to agent activity of Funding for Growth Scheme	99	123
Other	<u>84</u>	<u>56</u>
Total	<u>5,711</u>	<u>6,325</u>

f) Commissions paid by the Bank

	30 June 2017	30 June 2016
OTP Faktoring Ltd. Related to commission fee	120	-
OTP Pénzügyi Pont Ltd. related to agency activity	<u>-</u>	<u>18</u>
Total	<u>120</u>	<u>18</u>

¹ Derivatives and interest on securities are not included.

² Derivatives and interest on securities are not included.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

g) Transactions related to OTP Mortgage Bank Ltd.:

	30 June 2017	30 June 2016
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	7,567	8,049
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	255	310
The gross book value of the loans sold	241	310

h) Transactions related to OTP Factoring Ltd.:

	30 June 2017	30 June 2016
The gross book value of the loans sold	5,934	10,796
Provision for loan losses on the loans sold	2,878	6,298
Loans sold to OTP Factoring Ltd. without recourse (including interest)	1,861	3,310
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	1,195	1,188

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

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

	30 June 2017	30 June 2016
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	41,080	36,388

j) Related party transactions with key management

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

Compensations	30 June 2017	31 December 2016
Short-term employee benefits	1,391	3,938
Share-based payment	113	2,330
Long-term employee benefits (on the basis of IAS 19)	<u>1,132</u>	<u>256</u>
Total	<u>2,636</u>	<u>6,524</u>
	30 June 2017	31 December 2016
Loans provided to companies owned by the Management (in the normal course of business)	82,069	47,883
Commitments to extend credit and bank guarantees	43,775	39,544
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	3,572	149

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 140.5 million and 142.9 million as at 30 June 2017 and 31 December 2016 respectively.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

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

	30 June 2017	31 December 2016
Members of Board of Directors and their close family members	18	18
Members of Supervisory Board	2	2
Chief executive	6	-

The family member of a member of the Board of Directors owned AMEX Blue credit card loan in the amount of HUF 0.6 million as at 30 June 2017.

Chief executives owned AMEX Gold loading card loan in the amount of HUF 4.5 million as at 30 June 2017.

Members of Board of Directors and chief executives with their close family members owned AMEX Platinum credit card loan in the amount of HUF 54.8 million as at 30 June 2017.

Members of Board of Directors with close family members and chief executives owned Lombard loan in the amount of HUF 159 million as at 30 June 2017.

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

	30 June 2017	31 December 2016
Members of Board of Directors	881	753
Members of Supervisory Board	<u>50</u>	<u>87</u>
Total	<u>931</u>	<u>840</u>

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

NOTE 31: TRUST ACTIVITIES (in HUF mn)

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

	30 June 2017	31 December 2016
Loans managed by the Bank as a trustee	33,710	35,342

NOTE 32: CONCENTRATION OF ASSETS AND LIABILITIES

	30 June 2017	31 December 2016 (Restated)	31 December 2015 (Restated)
In the percentage of the total assets			
Receivables from, or securities issued by the Hungarian Government or the NBH	31%	33%	43%
Securities issued by the OTP Mortgage Bank Ltd.	2.23%	3.71%	8.46%

There were no other significant concentrations of the assets or liabilities of the Bank as at 30 June 2017 or 31 December 2016.

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

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

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is at all-time record highs. In 2017 there were no material changes in the liquidity risk management process.

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

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

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

As at 30 June 2017	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	385,920	-	-	-	-	385,920
Placements with other banks, net of allowance for placement losses	147,477	586,783	135,195	73,805	-	943,260
Financial assets at fair value through profit or loss	19,716	47,673	19,148	3,382	9,071	98,990
Securities available-for-sale	55,008	455,446	743,133	218,939	26,939	1,499,465
Loans, net of allowance for loan losses	599,850	467,126	639,708	379,238	-	2,085,922
Investment properties	-	-	-	-	2,288	2,288
Investments in subsidiaries, associates and other investments	-	-	-	-	822,846	822,846
Securities held-to-maturity	16,694	89,940	351,375	483,812	-	941,821
Property and equipment	-	-	-	-	25,022	25,022
Intangible assets	-	-	-	-	61,869	61,869
Other assets ¹	82,425	2,906	22,557	-	-	107,888
TOTAL ASSETS	<u>1,307,090</u>	<u>1,649,874</u>	<u>1,911,116</u>	<u>1,159,176</u>	<u>948,035</u>	<u>6,975,291</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	409,255	45,388	166,836	72,503	-	693,982
Deposits from customers	4,450,408	247,221	13,039	14,480	-	4,725,148
Liabilities from issued securities	9,521	12,087	42,482	1,600	-	65,690
Subordinated bonds and loans	460	-	108,675	-	-	109,135
Other liabilities ¹	216,600	18,961	20	-	-	235,581
TOTAL LIABILITIES	<u>5,086,244</u>	<u>323,657</u>	<u>331,052</u>	<u>88,583</u>	<u>-</u>	<u>5,829,536</u>
NET POSITION	<u>(3,779,154)</u>	<u>1,326,217</u>	<u>1,580,064</u>	<u>1,070,593</u>	<u>948,035</u>	<u>1,145,755</u>
Receivables from derivative financial instruments classified as held for trading	1,017,137	886,457	609,994	156,390	-	2,669,978
Liabilities from derivative financial instruments classified as held for trading	(1,601,202)	(778,741)	(362,815)	(126,479)	-	(2,869,237)
Net position of financial instruments classified as held for trading	<u>(584,065)</u>	<u>107,716</u>	<u>247,179</u>	<u>29,911</u>	<u>-</u>	<u>(199,259)</u>
Receivables from derivative financial instruments designated as fair value hedge	2,785	7,307	171,236	58,118	-	239,446
Liabilities from derivative financial instruments designated as fair value hedge	(3,089)	(289,065)	(488,711)	(25,817)	-	(806,682)
Net position of financial instruments designated as fair value hedge	<u>(304)</u>	<u>(281,758)</u>	<u>(317,475)</u>	<u>32,301</u>	<u>-</u>	<u>(567,236)</u>
Net position of derivative financial instruments total	<u>(584,369)</u>	<u>(174,042)</u>	<u>(70,296)</u>	<u>62,212</u>	<u>-</u>	<u>(766,495)</u>
Commitments to extend credit	213,287	587,894	141,986	62,607	-	1,005,774
Bank guarantees	35,133	94,579	83,323	388,984	-	602,019
Off-balance sheet commitments	<u>248,420</u>	<u>682,473</u>	<u>225,309</u>	<u>451,591</u>	<u>-</u>	<u>1,607,793</u>

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

As at 31 December 2016 (Restated)	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	532,660	396,186	-	-	-	928,846
Placements with other banks, net of allowance for placement losses	196,129	530,373	115,334	73,818	-	915,654
Financial assets at fair value through profit or loss	8,560	15,186	11,399	5,133	2,896	43,174
Securities available-for-sale	19,716	209,158	944,343	171,035	16,803	1,361,055
Loans, net of allowance for loan losses	515,620	391,673	510,862	499,398	-	1,917,553
Investment properties	-	-	-	-	2,267	2,267
Investments in subsidiaries, associates and other investments	-	-	-	-	668,869	668,869
Securities held-to-maturity	25,278	58,940	287,045	439,242	-	810,505
Property and equipment	-	-	-	-	62,361	62,361
Intangible assets	-	-	-	-	27,767	27,767
Other assets ¹	89,017	4,362	27,604	-	-	120,983
TOTAL ASSETS	<u>1,386,980</u>	<u>1,605,878</u>	<u>1,896,587</u>	<u>1,188,626</u>	<u>780,963</u>	<u>6,859,034</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	239,504	47,546	292,196	67,025	-	646,271
Deposits from customers	4,042,564	674,112	13,064	15,311	-	4,745,051
Liabilities from issued securities	21,972	28,465	47,066	6,840	-	104,343
Subordinated bonds and loans	639	-	-	-	109,719 ¹	110,358
Other liabilities ¹	209,213	7,549	-	-	-	216,762
TOTAL LIABILITIES	<u>4,513,892</u>	<u>757,672</u>	<u>352,326</u>	<u>89,176</u>	<u>109,719</u>	<u>5,822,785</u>
NET POSITION	<u>(3,126,912)</u>	<u>848,206</u>	<u>1,544,261</u>	<u>1,099,450</u>	<u>671,244</u>	<u>1,036,249</u>
Receivables from derivative financial instruments classified as held for trading	2,496,222	578,156	325,686	20,438	-	3,420,502
Liabilities from derivative financial instruments classified as held for trading	(2,488,101)	(566,493)	(315,703)	(23,499)	-	(3,393,796)
Net position of financial instruments classified as held for trading	<u>8,121</u>	<u>11,663</u>	<u>9,983</u>	<u>(3,061)</u>	<u>-</u>	<u>26,706</u>
Receivables from derivative financial instruments designated as fair value hedge	4,942	158,038	73,499	4,442	-	240,921
Liabilities from derivative financial instruments designated as fair value hedge	(4,356)	(156,398)	(98,096)	(4,233)	-	(263,083)
Net position of financial instruments designated as fair value hedge	<u>586</u>	<u>1,640</u>	<u>(24,597)</u>	<u>209</u>	<u>-</u>	<u>(22,162)</u>
Net position of derivative financial instruments total	<u>8,707</u>	<u>13,303</u>	<u>(14,614)</u>	<u>(2,852)</u>	<u>-</u>	<u>4,544</u>
Commitments to extend credit	159,539	531,719	171,903	34,647	-	897,808
Bank guarantees	68,144	56,001	78,586	241,770	-	444,501
Off-balance sheet commitments	<u>227,683</u>	<u>587,720</u>	<u>250,489</u>	<u>276,417</u>	<u>-</u>	<u>1,342,309</u>

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

As at 31 December 2015 (Restated)	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	1,326,197	-	-	-	-	1,326,197
Placements with other banks, net of allowance for placement losses	277,698	316,262	53,325	-	-	647,285
Financial assets at fair value through profit or loss	2,662	5,988	8,463	3,118	347	20,578
Securities available-for-sale	97,505	169,154	855,761	193,432	23,369	1,339,221
Loans, net of allowance for loan losses	151,068	808,714	384,408	335,073	-	1,679,263
Investment properties	-	-	-	-	2,294	2,294
Investments in subsidiaries, associates and other investments	-	-	-	-	657,531	657,531
Securities held-to-maturity	12,763	63,115	378,678	389,642	-	844,198
Property and equipment	-	-	-	-	63,440	63,440
Intangible assets	-	-	-	-	32,439	32,439
Other assets ¹	46,175	26,000	41,905	-	37	114,117
TOTAL ASSETS	<u>1,914,068</u>	<u>1,389,233</u>	<u>1,722,540</u>	<u>921,265</u>	<u>779,457</u>	<u>6,726,563</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	449,413	45,377	308,137	38,473	-	841,400
Deposits from customers	4,017,478	269,279	21,987	14,558	-	4,323,302
Liabilities from issued securities	31,140	50,160	33,839	34,339	-	149,478
Subordinated bonds and loans	1,382	156,560	-	-	110,566	268,508
Other liabilities ¹	152,750	134,665	-	-	-	287,415
TOTAL LIABILITIES	<u>4,652,163</u>	<u>656,041</u>	<u>363,963</u>	<u>87,370</u>	<u>110,566</u>	<u>5,870,103</u>
NET POSITION	<u>(2,738,095)</u>	<u>733,192</u>	<u>1,358,577</u>	<u>833,895</u>	<u>668,891</u>	<u>856,460</u>
Receivables from derivative financial instruments classified as held for trading	2,083,466	1,035,986	597,635	21,157	-	3,738,244
Liabilities from derivative financial instruments classified as held for trading	(2,081,551)	(1,037,515)	(580,438)	(21,240)	-	(3,720,744)
Net position of financial instruments classified as held for trading	<u>1,915</u>	<u>(1,529)</u>	<u>17,197</u>	<u>(83)</u>	<u>-</u>	<u>17,500</u>
Receivables from derivative financial instruments designated as fair value hedge	40	298,739	248,950	3,074	-	550,803
Liabilities from derivative financial instruments designated as fair value hedge	-	(299,774)	(263,338)	(882)	-	(563,994)
Net position of financial instruments designated as fair value hedge	<u>40</u>	<u>(1,035)</u>	<u>(14,388)</u>	<u>2,192</u>	<u>-</u>	<u>(13,191)</u>
Net position of derivative financial instruments total	<u>1,955</u>	<u>(2,564)</u>	<u>2,809</u>	<u>2,109</u>	<u>-</u>	<u>4,309</u>
Commitments to extend credit	96,504	649,095	203,318	-	-	948,917
Bank guarantees	46,749	40,679	103,825	227,957	-	419,210
Off-balance sheet commitments	<u>143,253</u>	<u>689,774</u>	<u>307,143</u>	<u>227,957</u>	<u>-</u>	<u>1,368,127</u>

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

As at 30 June 2017

	USD	EUR	CHF	Others	Total
Assets ¹	219,022	917,482	43,165	151,861	1,331,530
Liabilities	(295,276)	(852,585)	(25,838)	(104,976)	(1,278,675)
Off-balance sheet assets and liabilities, net ²	<u>85,521</u>	<u>(170,473)</u>	<u>(14,684)</u>	<u>(48,018)</u>	<u>(147,654)</u>
Net position	<u>9,267</u>	<u>(105,576)</u>	<u>2,643</u>	<u>(1,133)</u>	<u>(94,799)</u>

As at 31 December 2016

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

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

NOTE 35 INTEREST RATE RISK MANAGEMENT (in HUF mn)

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

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

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

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

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

² Off-balance sheet assets and liabilities, net category contains derivative instruments.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

As at 30 June 2017	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	239,481	27,667	-	-	-	-	-	-	-	-	108,039	10,733	347,520	38,400	385,920
<i>fixed interest</i>	239,481	27,667	-	-	-	-	-	-	-	-	-	-	239,481	27,667	267,147
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	108,039	10,733	108,039	10,733	118,772
Placements with other banks, net of allowance for placement losses	229,953	58,927	476,249	22,652	15,599	19,766	23,489	-	90,194	3,538	2,907	(14)	838,391	104,869	943,260
<i>fixed interest</i>	59,859	29,867	210	10,572	243	-	23,489	-	90,194	3,187	-	-	173,995	43,626	217,621
<i>variable interest</i>	170,094	29,060	476,039	12,080	15,356	19,766	-	-	-	351	-	-	661,489	61,257	722,746
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	2,907	(14)	2,907	(14)	2,893
Securities held for trading	8,324	883	13,717	-	38,906	13,378	449	6,435	2,500	6,865	9,047	213	72,943	27,774	100,717
<i>fixed interest</i>	5,938	818	12,056	-	35,606	13,378	322	6,435	2,500	6,865	-	-	56,422	27,496	83,918
<i>variable interest</i>	2,386	65	1,661	-	3,300	-	127	-	-	-	-	-	7,474	65	7,539
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	9,047	213	9,047	213	9,260
Securities available-for-sale	44,217	29,993	23,207	27,679	428,514	14,001	110,984	21,401	629,407	258,439	18,092	11,162	1,254,421	362,675	1,617,096
<i>fixed interest</i>	3,719	25,138	11,010	-	428,514	14,001	105,581	21,401	629,407	258,439	-	-	1,178,231	318,979	1,497,210
<i>variable interest</i>	40,498	4,855	12,197	27,679	-	-	5,403	-	-	-	-	-	58,098	32,534	90,632
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	18,092	11,162	18,092	11,162	29,254
Loans, net of allowance for loan losses	593,499	223,191	349,814	514,123	111,471	16,622	57,783	12,055	161,973	39,562	4,142	1,686	1,278,682	807,239	2,085,921
<i>fixed interest</i>	32,386	1,185	20,950	3,561	60,802	8,356	46,662	12,055	159,964	39,562	-	-	320,764	64,719	385,483
<i>variable interest</i>	561,113	222,006	328,864	510,562	50,669	8,266	11,121	-	2,009	-	-	-	953,776	740,834	1,694,610
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	4,142	1,686	4,142	1,686	5,828
Securities held-to-maturity	-	-	-	-	90,105	-	144,710	-	727,926	-	16,694	-	979,436	-	979,436
<i>fixed interest</i>	-	-	-	-	90,105	-	144,710	-	727,926	-	-	-	962,742	-	962,742
<i>variable interest</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	16,694	-	16,694	-	16,694
Derivative financial instruments	495,610	168,187	402,654	117,923	193,500	232,839	44,552	8,692	19,190	27,371	536,976	260,895	1,692,482	815,907	2,508,389
<i>fixed interest</i>	473,023	164,088	237,144	113,988	189,725	211,781	44,530	8,692	19,190	27,371	-	-	963,612	525,920	1,489,532
<i>variable interest</i>	22,587	4,099	165,510	3,935	3,775	21,058	22	-	-	-	-	-	191,894	29,092	220,986
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	536,976	260,895	536,976	260,895	797,871

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

As at 30 June 2017	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	162,339	110,911	9,500	86,526	181,140	5,300	24,181	4,859	98,275	5,426	4,517	1,009	479,952	214,031	693,983
<i>fixed interest</i>	149,517	41,620	8,681	16,491	158,314	3,879	24,095	4,859	98,116	5,426	-	-	438,723	72,275	510,998
<i>variable interest</i>	12,822	69,291	819	70,035	22,826	1,421	86	-	159	-	-	-	36,712	140,747	177,459
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	4,517	1,009	4,517	1,009	5,526
Deposits from customers	1,197,656	316,731	258,407	60,977	113,274	32,321	4,983	-	2,232,024	507,314	1,357	104	3,807,701	917,447	4,725,148
<i>fixed interest</i>	445,656	230,501	258,407	60,977	113,274	32,321	4,983	-	4,948	-	-	-	827,268	323,799	1,151,067
<i>variable interest</i>	752,000	86,230	-	-	-	-	-	-	2,227,076	507,314	-	-	2,979,076	593,544	3,572,620
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	1,357	104	1,357	104	1,461
Liabilities from issued securities	-	2,845	1,839	5,576	5,803	1,792	10,616	189	42,116	-	30	17	60,404	10,419	70,823
<i>fixed interest</i>	-	2,070	1,839	4,028	5,803	-	10,616	189	42,116	-	-	-	60,374	6,287	66,661
<i>variable interest</i>	-	775	-	1,548	-	1,792	-	-	-	-	-	-	-	4,115	4,115
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	30	17	30	17	47
Derivative financial instruments	544,166	119,900	469,890	33,804	359,597	41,377	42,492	14,696	37,917	45,488	392,238	401,651	1,846,300	656,916	2,503,216
<i>fixed interest</i>	521,227	115,402	327,845	9,433	358,775	32,798	42,492	14,696	37,917	45,488	-	-	1,288,256	217,817	1,506,073
<i>variable interest</i>	22,939	4,498	142,045	24,371	822	8,579	-	-	-	-	-	-	165,806	37,448	203,254
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	392,238	401,651	392,238	401,651	793,889
Subordinated bonds and loans	-	-	-	108,674	-	-	-	-	-	-	-	460	-	109,134	109,134
<i>fixed interest</i>	-	-	-	108,674	-	-	-	-	-	-	-	-	-	108,674	108,674
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	460	-	460	460
NET POSITION	(293,077)	(41,539)	526,005	386,820	218,281	215,816	299,695	28,839	(779,142)	(222,453)	297,755	(118,566)	269,518	248,917	518,435

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30 JUNE 2017

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

As at 31 December 2016 (Restated)	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	500,454	329,040	-	-	-	-	-	-	-	-	88,244	11,108	588,698	340,148	928,846
<i>fixed interest</i>	500,454	329,040	-	-	-	-	-	-	-	-	-	-	500,454	329,040	829,494
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	88,244	11,108	88,244	11,108	99,352
Placements with other banks, net of allowance for placement losses	204,491	114,880	447,406	19,158	236	22,711	331	-	103,732	397	2,245	67	758,441	157,213	915,654
<i>fixed interest</i>	52,403	63,610	6,315	2,060	236	9,026	331	-	103,732	-	-	-	163,017	74,696	237,713
<i>variable interest</i>	152,088	51,270	441,091	17,098	-	13,685	-	-	-	397	-	-	593,179	82,450	675,629
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	2,245	67	2,245	67	2,312
Securities held for trading	2,419	-	6,635	-	11,762	6,218	119	5,225	5,316	3,377	3,218	323	29,469	15,143	44,612
<i>fixed interest</i>	2,419	-	6,168	-	7,273	6,218	119	5,225	5,316	3,377	-	-	21,295	14,820	36,115
<i>variable interest</i>	-	-	467	-	4,489	-	-	-	-	-	-	-	4,956	-	4,956
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	3,218	323	3,218	323	3,541
Securities available-for-sale	22,867	161,379	18,748	21,795	21,568	28,300	329,963	14,248	660,781	170,504	20,960	13,409	1,074,887	409,635	1,484,522
<i>fixed interest</i>	-	-	2,624	-	21,568	28,300	329,963	14,248	660,781	170,504	-	-	1,014,936	213,052	1,227,988
<i>variable interest</i>	22,867	161,379	16,124	21,795	-	-	-	-	-	-	-	-	38,991	183,174	222,165
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	20,960	13,409	20,960	13,409	34,369
Loans, net of allowance for loan losses	452,742	186,528	336,373	450,871	194,096	12,917	73,196	7,244	141,228	41,587	4,234	1,921	1,201,869	701,068	1,902,937
<i>fixed interest</i>	21,496	1,289	29,664	1,906	45,829	7,997	48,520	7,244	138,295	41,587	-	-	283,804	60,023	343,827
<i>variable interest</i>	431,246	185,239	306,709	448,965	148,267	4,920	24,676	-	2,933	-	-	-	913,831	639,124	1,552,955
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	4,234	1,921	4,234	1,921	6,155
Securities held-to-maturity	-	-	25,294	-	59,659	-	58,870	-	698,211	-	16,116	-	858,150	-	858,150
<i>fixed interest</i>	-	-	25,294	-	59,659	-	58,870	-	698,211	-	-	-	842,034	-	842,034
<i>variable interest</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	16,116	-	16,116	-	16,116
Derivative financial instruments	440,563	629,907	533,092	178,191	197,126	99,253	25,585	140,406	32,444	35,595	608,980	233,885	1,837,790	1,317,237	3,155,027
<i>fixed interest</i>	425,320	435,139	261,919	111,266	195,635	72,291	25,585	140,406	32,444	35,595	-	-	940,903	794,697	1,735,600
<i>variable interest</i>	15,243	194,768	271,173	66,925	1,491	26,962	-	-	-	-	-	-	287,907	288,655	576,562
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	608,980	233,885	608,980	233,885	842,865

OTP BANK PLC.
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NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2016 (Restated)	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	108,512	89,818	11,522	96,863	56,802	6,787	167,346	5,570	93,546	5,189	3,338	978	441,066	205,205	646,271
<i>fixed interest</i>	101,314	918	10,447	745	30,493	4,885	167,299	5,570	93,336	5,189	-	-	402,889	17,307	420,196
<i>variable interest</i>	7,198	88,900	1,075	96,118	26,309	1,902	47	-	210	-	-	-	34,839	186,920	221,759
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	3,338	978	3,338	978	4,316
Deposits from customers	1,320,702	203,198	371,084	59,357	119,369	35,865	5,227	-	1,988,233	637,746	4,033	237	3,808,648	936,403	4,745,051
<i>fixed interest</i>	504,918	195,811	368,812	59,357	119,369	35,865	5,227	-	4,454	-	-	-	1,002,780	291,033	1,293,813
<i>variable interest</i>	815,784	7,387	2,272	-	-	-	-	-	1,983,779	637,746	-	-	2,801,835	645,133	3,446,968
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	4,033	237	4,033	237	4,270
Liabilities from issued securities	1	9,102	2,957	9,201	7,480	17,709	9,320	189	48,121	-	23	-	67,902	36,201	104,103
<i>fixed interest</i>	1	7,963	2,957	8,212	7,480	15,800	9,320	189	48,121	-	-	-	67,879	32,164	100,043
<i>variable interest</i>	-	1,139	-	989	-	1,909	-	-	-	-	-	-	-	4,037	4,037
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	23	-	23	-	23
Derivative financial instruments	946,119	124,775	534,213	171,532	249,185	11,700	161,519	16,746	41,332	59,631	356,936	467,979	2,289,304	852,363	3,141,667
<i>fixed interest</i>	740,009	119,685	313,883	56,132	248,403	2,351	161,519	16,746	41,332	59,631	-	-	1,505,146	254,545	1,759,691
<i>variable interest</i>	206,110	5,090	220,330	115,400	782	9,349	-	-	-	-	-	-	427,222	129,839	557,061
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	356,936	467,979	356,936	467,979	824,915
Subordinated bonds and loans	-	-	-	109,719	-	-	-	-	-	-	-	639	-	110,358	110,358
<i>variable interest</i>	-	-	-	109,719	-	-	-	-	-	-	-	-	-	109,719	109,719
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	639	-	639	639
NET POSITION	(751,798)	994,841	447,772	223,343	51,611	97,338	144,652	144,618	(529,520)	(451,106)	379,667	(209,120)	(257,616)	799,914	542,298

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

As at 31 December 2015 (Restated)	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	1,202,576	40,818	-	-	-	-	-	-	-	-	76,320	6,483	1,278,896	47,301	1,326,197
<i>fixed interest</i>	1,202,576	40,818	-	-	-	-	-	-	-	-	-	-	1,202,576	40,818	1,243,394
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	76,320	6,483	76,320	6,483	82,803
Placements with other banks, net of allowance for placement losses	125,409	103,476	317,181	66,155	220	5,351	308	696	25,247	3,681	-	-	468,365	179,359	647,724
<i>fixed interest</i>	52,836	60,993	120,240	24,595	220	424	308	696	25,247	3,681	-	-	198,851	90,389	289,240
<i>variable interest</i>	72,573	42,483	196,941	41,560	-	4,927	-	-	-	-	-	-	269,514	88,970	358,484
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities held for trading	356	-	2,125	23	7,914	43	141	1	10,345	52	783	357	21,664	476	22,140
<i>fixed interest</i>	356	-	1,857	23	6,001	25	141	1	10,345	52	-	-	18,700	101	18,801
<i>variable interest</i>	-	-	268	-	1,913	18	-	-	-	-	-	-	2,181	18	2,199
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	783	357	783	357	1,140
Securities available-for-sale	21,671	317,230	114,804	7,171	3,256	9,753	-	29,529	847,783	53,479	43,319	14,665	1,030,833	431,827	1,462,660
<i>fixed interest</i>	-	-	95,851	-	3,256	4,780	-	29,529	847,783	53,479	-	-	946,890	87,788	1,034,678
<i>variable interest</i>	21,671	317,230	18,953	7,171	-	4,973	-	-	-	-	-	-	40,624	329,374	369,998
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	43,319	14,665	43,319	14,665	57,984
Loans, net of allowance for loan losses	314,234	192,553	172,493	607,190	166,257	14,872	62,829	8,694	128,139	11,923	-	-	843,952	835,232	1,679,184
<i>fixed interest</i>	2,390	700	6,530	1,502	32,250	8,643	35,934	8,694	72,613	11,923	-	-	149,717	31,462	181,179
<i>variable interest</i>	311,844	191,853	165,963	605,688	134,007	6,229	26,895	-	55,526	-	-	-	694,235	803,770	1,498,005
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities held-to-maturity	-	-	16,087	-	23,576	-	85,778	-	683,119	-	16,241	-	824,801	-	824,801
<i>fixed interest</i>	-	-	12,748	-	23,576	-	85,778	-	683,119	-	-	-	805,221	-	805,221
<i>variable interest</i>	-	-	3,339	-	-	-	-	-	-	-	-	-	3,339	-	3,339
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	16,241	-	16,241	-	16,241
Derivative financial instruments	673,749	668,467	1,351,732	384,815	217,206	109,734	46,773	149,426	39,414	29,997	446,726	110,203	2,775,600	1,452,642	4,228,242
<i>fixed interest</i>	500,878	227,942	428,021	135,754	216,291	66,795	46,773	149,426	39,414	29,997	-	-	1,231,377	609,914	1,841,291
<i>variable interest</i>	172,871	440,525	923,711	249,061	915	42,939	-	-	-	-	-	-	1,097,497	732,525	1,830,022
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	446,726	110,203	446,726	110,203	556,929

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

As at 31 December 2015 (Restated)	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	272,075	155,355	14,020	65,193	63,473	6,772	168,853	5,779	72,029	5,573	-	-	590,450	238,672	829,122
<i>fixed interest</i>	271,877	103,120	12,930	741	32,373	4,588	168,853	5,779	72,029	5,573	-	-	558,062	119,801	677,863
<i>variable interest</i>	198	52,235	1,090	64,452	31,100	2,184	-	-	-	-	-	-	32,388	118,871	151,259
Deposits from customers	1,331,844	222,143	504,203	162,932	135,491	101,120	2,224	-	1,567,333	295,949	-	-	3,541,095	782,144	4,323,239
<i>fixed interest</i>	725,778	214,876	504,189	162,430	135,491	101,120	2,224	-	8,778	-	-	-	1,376,460	478,426	1,854,886
<i>variable interest</i>	606,066	7,267	14	502	-	-	-	-	1,558,555	295,949	-	-	2,164,635	303,718	2,468,353
Liabilities from issued securities	6	5,097	13	8,730	5,381	38,543	12,908	8,295	71,067	191	-	-	89,375	60,856	150,231
<i>fixed interest</i>	6	4,848	13	6,578	5,381	35,587	12,908	8,295	71,067	191	-	-	89,375	55,499	144,874
<i>variable interest</i>	-	249	-	2,152	-	2,956	-	-	-	-	-	-	-	5,357	5,357
Derivative financial instruments	1,248,271	98,126	1,083,679	640,110	158,671	134,008	190,632	6,931	40,977	72,001	227,762	315,022	2,949,992	1,266,198	4,216,190
<i>fixed interest</i>	635,192	88,963	418,185	143,566	157,950	125,122	190,632	6,931	40,977	72,001	-	-	1,442,936	436,583	1,879,519
<i>variable interest</i>	613,079	9,163	665,494	496,544	721	8,886	-	-	-	-	-	-	1,279,294	514,593	1,793,887
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	227,762	315,022	227,762	315,022	542,784
Subordinated bonds and loans	-	-	-	-	-	266,063	-	-	-	-	-	-	-	266,063	266,063
<i>fixed interest</i>	-	-	-	-	-	266,063	-	-	-	-	-	-	-	266,063	266,063
NET POSITION	(514,201)	841,823	372,507	188,389	55,413	(406,753)	(178,788)	167,341	(17,359)	(274,582)	355,627	(183,314)	73,199	332,904	406,103

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 36: EARNINGS PER SHARE

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

	30 June 2017	31 December 2016
Net profit for the year attributable to ordinary shareholders (in HUF mn)	131,450	172,378
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	278,730,831	278,350,340
Basic Earnings per share (in HUF)	<u>472</u>	<u>619</u>
Separate net profit for the year attributable to ordinary shareholders (in HUF mn)	131,450	172,378
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	278,810,791	278,402,662
Diluted Earnings per share (in HUF)	<u>471</u>	<u>619</u>
	30 June 2017	31 December 2016
	number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(1,269,179)	(1,649,670)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	278,730,831	278,350,340
Dilutive effect of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares ¹	79,960	52,321
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	278,810,791	278,402,661

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

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

As at 30 June 2017	Net interest income and expense	Net non- interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	731	-	-	-
Placements with other banks, net of allowance for placement losses	4,159	-	3	-
Securities held for trading	845	1,465	-	-
Securities available-for-sale	20,624	2,205	-	63,523
Loans, net of allowance for loan losses	55,774	8,959	5,249	-
Securities held-to-maturity	22,247	-	-	-
Derivative financial instruments	(3,186)	(2,011)	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(7,779)	-	-	-
Deposits from customers	(2,908)	60,222	-	-
Liabilities from issued securities	(156)	-	-	-
Subordinated bonds and loans	(1,555)	-	-	-
Other	(18)	-	-	-
Total	<u>88,778</u>	<u>70,840</u>	<u>5,252</u>	<u>63,523</u>
As at 31 December 2016	Net interest income and expense	Net non- interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	9,830	-	-	-
Placements with other banks, net of allowance for placement losses	10,461	-	(3)	-
Securities held for trading	1,027	2,210	-	-
Securities available-for-sale	35,766	44,189	-	53,662
Loans, net of allowance for loan losses	112,558	18,282	7,503	-
Securities held-to-maturity	41,327	-	-	-
Derivative financial instruments	6,869	473	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(16,050)	-	-	-
Deposits from customers	(12,897)	113,486	-	-
Liabilities from issued securities	(1,329)	-	-	-
Subordinated bonds and loans	(13,721)	-	-	-
Other	25	-	-	-
Total	<u>173,866</u>	<u>178,640</u>	<u>7,500</u>	<u>53,662</u>

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

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

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

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

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

For classes of assets and liabilities not measured at fair value in the statement of financial position, the 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 and, fair value of other classes not measured at fair value of the statement of financial position are measured using the discounted cash-flow method. Fair value of loans, net of allowance for loan losses measured using 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 to instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

a) *Fair value of financial assets and liabilities*

	30 June 2017		31 December 2016 (Restated)		31 December 2015 (Restated)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Bank of Hungary	385,920	385,976	928,846	928,955	1,326,197	1,327,460
Placements with other banks, net of allowance for placement losses	943,260	952,927	915,654	926,857	647,724	666,128
Financial assets at fair value through profit or loss	198,058	198,058	168,188	168,188	180,717	180,717
<i>Held for trading securities</i>	100,717	100,717	44,612	44,612	22,140	22,140
<i>Derivative financial instruments classified as held for trading</i>	97,341	97,341	123,576	123,576	158,577	158,577
Securities available-for-sale	1,617,096	1,617,096	1,484,522	1,484,522	1,462,660	1,462,660
Loans, net of allowance for loan losses ²⁸	2,085,921	2,204,075	1,902,937	2,214,101	1,679,184	1,974,713
Securities held-to-maturity	979,436	937,640	858,150	937,640	824,801	883,697
Derivative financial instruments designated as hedging instruments	26,383	26,383	7,886	7,886	33,768	33,768
FINANCIAL ASSETS TOTAL	<u>6,236,074</u>	<u>6,322,155</u>	<u>6,266,183</u>	<u>6,668,149</u>	<u>6,155,051</u>	<u>6,529,143</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	693,983	685,511	646,271	640,636	829,122	829,150
Deposits from customers	4,725,148	4,723,917	4,745,051	4,715,975	4,323,239	4,307,291
Liabilities from issued securities	70,823	89,788	104,103	124,855	150,231	168,338
Derivative financial instruments designated as hedging instruments	19,732	19,732	21,434	21,434	35,701	35,701
Financial liabilities at fair value through profit or loss	80,361	80,361	96,668	96,668	144,592	144,592
Subordinated bonds and loans	109,134	104,698	110,358	102,849	266,063	271,884
FINANCIAL LIABILITIES TOTAL	<u>5,699,181</u>	<u>5,704,006</u>	<u>5,723,885</u>	<u>5,702,417</u>	<u>5,748,948</u>	<u>5,756,956</u>

²⁸ Fair value of loans increased in the six month period ended 30 June 2017 and in the year ended 31 December 2016 due to decrease of short-term and long-term interests.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

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

b) Fair value of derivative instruments

	Fair value	
	30 June 2017	31 December 2016
Interest rate swaps classified as held for trading		
Positive fair value of interest rate swaps classified as held for trading	33,416	38,413
Negative fair value of interest rate swaps classified as held for trading	(28,810)	(33,031)
Foreign exchange swaps classified as held for trading		
Positive fair value of foreign exchange swaps classified as held for trading	21,702	23,385
Negative fair value of foreign exchange swaps classified as held for trading	(14,293)	(13,351)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated in fair value hedge	6,493	6,887
Negative fair value of interest rate swaps designated in fair value hedge	(19,732)	(20,607)
CCIRS classified as held for trading		
Positive fair value of CCIRS classified as held for trading	30,768	43,538
Negative fair value of CCIRS classified as held for trading	(24,998)	(36,189)
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated in fair value hedge	1,432	999
Negative fair value of CCIRS designated in fair value hedge	-	(827)
Other derivative contracts classified as held for trading		
Positive fair value of other derivative contracts classified as held for trading	11,455	18,240
Negative fair value of other derivative contracts classified as held for trading	(12,260)	(14,097)
Derivative financial assets total	105,266	131,462
Derivative financial liabilities total	(100,093)	(118,102)
Derivative financial instruments total	5,173	13,360

c) Hedge accounting

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

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

As at 30 June 2017

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Cash-flow hedges	-	-	-
2) Fair value hedges	IRS	HUF (13,239) million	Interest rate
3) Fair value hedges	CCIRS	HUF 1,432 million	Interest rate / Foreign currency

As at 31 December 2016

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

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges

1. Securities available-for-sale

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

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

	30 June 2017	31 December 2016
Fair value of the IRS hedging instruments	(18,274)	(19,305)
Fair value of the CCIRS hedging instruments	-	(800)

d) Fair value hedges [continued]

2. Loans to customers / corporates

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

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

	30 June 2017	31 December 2016
Fair value of the hedging IRS instruments	(4)	(4)
Fair value of the hedging CCIRS instruments	1,432	972

3. Issued securities

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

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

	30 June 2017	31 December 2016
Fair value of the hedging IRS instruments	5,040	5,589

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

d) Fair value hedges [continued]

As at 30 June 2017

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 949,177 million	HUF (18,274) million	HUF (1,881) million	HUF 2,482 million
Loans to customers	IRS	HUF 579 million	HUF (5) million	HUF 1 million	HUF (1) million
Loans to corporates	CCIRS	HUF 56,959 million	HUF 1,432 million	HUF (346) million	HUF 346 million
Liabilities from issued securities	IRS	HUF 58,894 million	HUF 5,040 million	HUF 549 million	HUF (549) million

As at 31 December 2016

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 881,730 million	HUF (19,305) million	HUF 11,723 million	HUF (13,619) million
Securities available-for-sale	CCIRS	HUF 156,739 million	HUF (289) million	HUF (1,760) million	HUF 1,760 million
Loans to customers	IRS	HUF 451 million	HUF (4) million	HUF (161) million	HUF 161 million
Loans to corporates	CCIRS	HUF 58,314 million	HUF 461 million	HUF (203) million	HUF 203 million
Liabilities from issued securities	IRS	HUF 69,959 million	HUF 5,589 million	HUF 7,512 million	HUF (7,512) million

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

e) **Fair value classes**

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

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

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

As at 30 June 2017	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	196,910	48,694	148,216	-
<i>from this: securities held for trading</i>	99,569	47,451	52,118	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	97,341	1,243	96,098	-
Securities available-for-sale	1,601,679	1,142,611	457,350	1,718
Positive fair value of derivative financial instruments designated as fair value hedge	<u>7,925</u>	<u>-</u>	<u>7,925</u>	<u>-</u>
Financial assets measured at fair value total	<u>1,806,514</u>	<u>1,191,305</u>	<u>613,491</u>	<u>1,718¹</u>
Negative fair value of derivative financial instruments classified as held for trading	80,361	184	80,177	-
Negative fair value of derivative financial instruments designated as fair value hedge	<u>19,732</u>	<u>-</u>	<u>19,732</u>	<u>-</u>
Financial liabilities measured at fair value total	<u>100,093</u>	<u>184</u>	<u>99,909</u>	<u>-</u>
As at 31 December 2016 (Restated)	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	167,672	28,035	139,637	-
<i>from this: securities held for trading</i>	44,096	27,948	16,148	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	123,576	87	123,489	-
Securities available-for-sale	1,471,428	850,427	619,138	1,863
Positive fair value of derivative financial instruments designated as fair value hedge	<u>7,886</u>	<u>-</u>	<u>7,886</u>	<u>-</u>
Financial assets measured at fair value total	<u>1,646,986</u>	<u>878,462</u>	<u>766,661</u>	<u>1,863¹</u>
Negative fair value of derivative financial instruments classified as held for trading	96,668	267	96,401	-
Negative fair value of derivative financial instruments designated as fair value hedge	<u>21,434</u>	<u>-</u>	<u>21,434</u>	<u>-</u>
Financial liabilities measured at fair value total	<u>118,102</u>	<u>267</u>	<u>117,835</u>	<u>-</u>

¹ The portfolio includes Visa Inc. "C" preferential shares.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

As at 31 December 2015 (Restated)	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	180,284	13,878	166,406	-
<i>from this: securities held for trading</i>	21,707	13,857	7,850	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	158,577	21	158,556	-
Securities available-for-sale	1,434,091	670,809	757,615	5,667
Positive fair value of derivative financial instruments designated as fair value hedge	<u>33,768</u>	-	<u>33,768</u>	-
Financial assets measured at fair value total	<u>1,648,143</u>	<u>684,687</u>	<u>957,789</u>	<u>5,667</u>
Negative fair value of derivative financial instruments classified as held for trading	144,592	34	144,558	-
Negative fair value of derivative financial instruments designated as fair value hedge	<u>35,701</u>	-	<u>35,701</u>	-
Financial liabilities measured at fair value total	<u>180,293</u>	<u>34</u>	<u>180,259</u>	<u>-</u>

NOTE 39: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2017

1) Capital increase at OTP Real Estate Lease

See details in Note 9.

2) Capital increase at Air Invest Asset Management Ltd.

See details in Note 9.

3) Capital increase at OTP banka Hrvatska

See details in Note 9.

4) Acquisition at Croatia

See details in Note 9.

NOTE 40: POST BALANCE SHEET EVENTS

1) Acquisition at Romania

2) Acquisition at Serbia

See details about the events in Note 9.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 41: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn)

The Eurozone's economy gained momentum in the first half of 2017, with the area's economic growth exceeding 2%. The elections in France and the Netherlands have practically put an end to the considerable political uncertainty stemming from the previous strengthening of euro scepticism – moreover, the favourable outcome of the French election may give new impetus to the European integration and institutional reforms. This background makes markets expect that the ECB may embark on a tightening cycle relatively soon after its asset purchase programme ends. Meanwhile the US economy lost some steam, and there is no sign of the massive fiscal easing promised by President Trump and no substantial trade restrictions have been implemented. This backdrop made the Fed adopt a wait-and-see approach with further rate hikes.

In the first six months of 2017, economic growth accelerated in Central and Eastern Europe as well as in Central and South East Europe. In addition to the robust income growth and a revival in lending, the new upsurge in EU investments was also a major contributor. Thus the region's economic growth accelerated to the range of 3.5-4%, up from near-3% levels in 2016, and this rapid growth rate is likely to persist throughout 2017.

The **Hungarian economy's** growth pace accelerated to 3.7% in the first half of 2017, up from 2% in 2016. This impressive expansion may persist in the second half of the year, thus economic growth in 2017 may draw near 4%. A number of factors helped this stronger growth: EU-co-financed investments jumped higher, while the construction investments linked to the private sector were also bolstered by the surge in the real estate market. The position of the household sector, which provides the basic fundamentals for growth, improved further in 2017. Thanks to the minimum wage hikes and the shrinking spare labour force, wage growth reached double-digit rate, with real wages expanding at their fastest since 2001. Statistics on the rebounding housing market as well as lending precisely reflect households' improving position. Starting from the second half of 2016, households' net borrowing (the balance of new borrowings and repayments) returned into positive territory for the first time since early 2009. On the market of flats, the spiralling prices prompted an increasing number of property development businesses enter the market, thus boosting housing investments.

The Hungarian economy's balance indicators remained favourable. Benefiting from the robust economic cycle, the position of Hungary's general government is extremely favourable. Hungary's four-quarter rolling deficit reached 1.7% of GDP in the first quarter of 2017, but this figure includes the effect of the substantial one-off expenditure items at the end-2016 – the underlying processes indicate that the fiscal position was even more favourable than that. By the end of the first half-year of 2017, public debt shrank to 74% of GDP.

At the beginning of 2017 inflation accelerated and temporarily reached 3%, mostly owing to base effects. As base effects were fading away, inflation has returned to near-2% levels again. At the level of underlying processes, the inflation index filtered from volatile items and administrative measures speeded up to more than 2%, up from near-1% levels at the beginning of 2016, suggesting that the intensifying demand and the increasing wage costs are beginning, albeit slowly, to pass through to consumer prices.

The lower-than-expected global interest rate environment and the EUR/HUF reaching near-303 levels made the MNB maintain its extremely loose monetary conditions. The easing cycle stopped at 0.9%, but the MNB capped the amount banks can place in 3M central bank deposits, thus funnelling the banking system's liquidity to the interbank market. As a result, the 3M interbank interest rate (the BUBOR) broke away from the benchmark rate and sank to close to 0%. The MNB is trying to fine-tune the banking system's liquidity through FX swap auctions too.

From 2017 the base of the **Hungarian banking tax** is the adjusted balance sheet total at the actual calendar year minus two years (i.e. for the 2017 banking tax calculation the end-2015 adjusted total assets must be used). The applicable upper tax rate has been moderated to 0.21%. The total annual amount of the banking tax payable in 2017 was already booked in one sum in 1Q 2017. Furthermore, the contribution tax introduced in 2006 was entirely abolished. In 2016 its annual amount was HUF 2.0 billion.

Effective from 1 January 2017 the **Hungarian corporate tax rate** was cut uniformly to 9%.

In 1H 2017 the state subsidized housing loan applications represented HUF 53.8 billion at OTP's Hungarian operation, up by 17% y-o-y due to the additional demand generated by the **Housing Subsidy Scheme for Families (CSOK)**. In 1H 2017 close to 5,400 applications for the CSOK subsidy were registered with a value of HUF 19 billion. Applicants also combined CSOK subsidy with subsidized or market-based loan applications in the amount of HUF 30 billion in the first half of 2017.

In 2016 the National Bank of Hungary launched the third, so called "phasing out" stage of the **Funding for Growth Scheme**, under which the deadline for concluding loan contracts was 31 March 2017. According to the data published by the NBH on 5 April 2017 the Hungarian credit institutions participating in the scheme have granted loans to Hungarian micro and SME companies in the amount of HUF 685 billion since the beginning of 2016, whereas OTP contracted for HUF 102 billion under the scheme.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 41: **STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S**
FINANCIALS (in HUF mn) [continued]

According to the decision of the National Bank of Hungary's Monetary Council taken in December 2016 the maximum amount of **3 months deposits placed with the central bank** at the end of March 2017 was reduced to HUF 750 billion. For the end of June 2017 the limit was set at HUF 500 billion and for September at HUF 300 billion, respectively. At the end of June 2017 OTP Bank kept HUF 116 billion in 3 months central bank deposits. As for the distribution of the liquidity reserves of the Bank, during the last twelve months there has been a gradual shift towards longer duration Hungarian government securities.