OTP BANK PLC.

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

FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2017

OTP BANK PLC.
CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

OTP BANK PLC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
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 Banks	*4.*	1,038,506	1,625,357	1,486,420	1,878,960
Placements with other banks, net of allowance for placement losses	*5.*	447,375	363,530	336,532	300,568
Financial assets at fair value through profit or loss	*6.*	226,909	189,778	161,348	182,359
Securities available-for-sale	*7.*	1,967,950	1,527,093	1,605,944	1,305,486
Loans, net of allowance for loan losses	*8.*	6,530,352	5,736,232	5,487,920	5,409,967
Associates and other investments	*9.*	10,312	9,836	9,215	10,028
Securities held-to-maturity	*10.*	1,231,992	1,114,227	894,217	926,677
Property and equipment	*11.*	212,415	193,485	191,711	193,661
Intangible assets	*11.*	169,513	162,031	159,105	155,809
Investment property, investment property subject to operating lease	*12.*	27,794	29,446	30,516	30,319
Other assets	*13.*	282,806	258,026	258,658	258,228
TOTAL ASSETS		**12,145,924**	**11,209,041**	**10,621,586**	**10,652,062**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	*14.*	534,254	543,775	516,242	533,310
Deposits from customers	*15.*	9,215,539	8,540,583	7,898,534	7,984,579
Liabilities from issued securities	*16.*	258,139	146,900	232,631	239,376
Financial liabilities at fair value through profit or loss	*17.*	67,742	75,871	74,424	101,561
Other liabilities	*18.*	497,524	403,805	354,946	324,793
Subordinated bonds and loans	*19.*	76,464	77,458	243,863	234,784
TOTAL LIABILITIES		**10,649,662**	**9,788,392**	**9,320,640**	**9,418,403**
Share capital	*20.*	28,000	28,000	28,000	28,000
Retained earnings and reserves	*21.*	1,526,465	1,449,478	1,329,408	1,261,029
Treasury shares	*22.*	(61,502)	(60,121)	(59,507)	(58,021)
Non-controlling interest	*23.*	3,299	3,292	3,045	2,651
TOTAL SHAREHOLDERS' EQUITY		**1,496,262**	**1,420,649**	**1,300,946**	**1,233,659**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**12,145,924**	**11,209,041**	**10,621,586**	**10,652,062**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF RECOGNIZED INCOME (UNAUDITED)
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
Interest Income:				
Loans		257,648	254,355	510,449
Placements with other banks		21,334	35,391	74,588
Securities available-for-sale		16,605	20,901	34,557
Securities held-to-maturity		28,633	24,153	51,427
Amounts due from banks and balances with the National Banks		756	6,849	9,866
Other		4,606	3,660	8,804
Total Interest Income		**329,582**	**345,309**	**689,691**
Interest Expense:				
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		22,100	37,312	75,925
Deposits from customers		27,307	35,343	72,554
Liabilities from issued securities		2,431	3,174	4,726
Subordinated bonds and loans		1,176	6,498	10,239
Other		3,501	2,856	6,518
Total Interest Expense		**56,515**	**85,183**	**169,962**
NET INTEREST INCOME		**273,067**	**260,126**	**519,729**
Provision for impairment on loan and placement losses	*5.,8.,24.*	17,702	44,025	93,473
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**255,365**	**216,101**	**426,256**
Income from fees and commissions	*25.*	148,239	127,106	272,235
Expense from fees and commissions	*25.*	24,724	21,724	49,244
Net profit from fees and commissions		**123,515**	**105,382**	**222,991**
Foreign exchange gains, net		5,413	12,555	36,142
Gains on securities, net		4,792	19,573	20,828
Dividend income		3,313	2,892	3,054
Release of provision / (Provision) on securities available-for-sale		-	(2)	55
Other operating income	*26.*	27,673	6,915	19,628
Other operating expense	*26.*	(19,735)	(2,422)	(36,461)
Net operating gain		**21,456**	**39,511**	**43,246**
Personnel expenses	*26.*	102,998	95,071	191,442
Depreciation and amortization	*11.*	21,777	21,157	44,427
Goodwill impairment	*11.*	-	-	-
Other administrative expenses	*26.*	122,167	112,764	220,229
Other administrative expenses		**246,942**	**228,992**	**456,098**
PROFIT BEFORE INCOME TAX		**153,394**	**132,002**	**236,395**
Income tax (expense) / benefit	*27.*	(19,837)	(25,814)	(33,943)
NET PROFIT FOR THE PERIOD		**133,557**	**106,188**	**202,452**
From this, attributable to:				
Non-controlling interest		**137**	**141**	**242**
Owners of the company		**133,420**	**106,047**	**202,210**
Consolidated earnings per share (in HUF)				
Basic	*39.*	**510**	**400**	**765**
Diluted	*39.*	**510**	**400**	**765**

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

	Six month period ended 30 June 2017	**Six month period ended 30 June 2016**	**Year ended 31 December 2016**
NET PROFIT FOR THE PERIOD	**133,557**	**106,188**	**202,452**
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of securities available-for-sale	9,065	(12,930)	11,248
Deferred tax related to securities available-for-sale	(910)	2,033	(1,665)
Effect of tax rate-modification (19%→9%)	-	-	2,241
Net investment hedge in foreign operations	465	(850)	525
Foreign currency translation difference	(12,738)	22,488	24,554
Change of actuarial losses related to employee benefits	-	-	61
NET COMPREHENSIVE INCOME	**129,439**	**116,929**	**239,416**
From this, attributable to:			
Non-controlling interest	7	394	641
Owners of the company	129,432	116,535	238,775

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

OPERATING ACTIVITIES	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)
Profit before income tax		**153,394**	**132,002**	**236,395**	**60,024**
Dividend income		(3,313)	(2,892)	(3,054)	(3,345)
Depreciation and amortization	*11.*	21,777	21,157	44,427	45,463
Provision / (Release of provision) for impairment on securities	*7.,10.*	-	2	(55)	15
Provision for impairment on loan and placement losses	*5.,8., 24.*	17,702	44,025	93,473	318,683
Provision for impairment on investments	*9.*	150	803	687	1,094
Provision for impairment on investment properties and on investment properties subject to operating leases	*12.*	30	80	833	490
Provision for impairment on other assets	*13.*	4,747	648	2,218	6,657
Provision / (Release of provision) for impairment on off-balance sheet commitments and contingent liabilities	*18.*	10,009	(32,987)	(15,268)	(146,360)
Share-based payment	*2.,30.*	1,686	1,865	3,530	3,810
Change of actuarial gains /(losses) related to employee benefits		-	-	61	(171)
Unrealized losses on fair value change of securities held for trading		(20)	(11,183)	(9,969)	(12,098)
Unrealized gains on fair value change of derivative financial instruments		21,852	4,001	14,762	7,793
Net changes in assets and liabilities in operating activities					
Changes in financial assets at fair value through profit or loss		35,781	(12,427)	(40,988)	8,339
Net (increase) / decrease in loans, net of allowance for loan losses		(811,857)	(114,532)	(412,425)	40,677
Net increase in other assets before provisions for impairment		(44,313)	(11,601)	(30,622)	(4,567)
Net increase / (decrease) in deposits from customers		674,956	(86,045)	556,004	311,102
(Decrease) / Increase in other liabilities		(14,738)	56,242	100,268	14,272
Net decrease / (increase) in compulsory reserves at the National Banks		25,191	45,382	(45,079)	(147,360)
Income tax paid		(9,998)	(11,870)	(19,922)	(14,676)
Net Cash Provided by Operating Activities		**83,036**	**22,670**	**475,276**	**489,842**
Interest received		331,398	358,690	702,276	803,868
Interest paid		(57,102)	(88,255)	(158,181)	(242,622)
INVESTING ACTIVITIES					
Net increase in placement with other banks before allowance for placements losses		(83,810)	(35,965)	(62,830)	(19,556)
Purchase of securities available-for-sale		(672,124)	(758,070)	(814,918)	(842,886)
Proceeds from sale of securities available-for-sale		240,224	452,621	613,661	373,078
Net (increase) / decrease in investments in associates		(1,351)	(252)	(304)	11,832
Net decrease / (increase) in investments in other companies		725	262	(191)	427
Dividends received		3,313	2,892	3,054	3,345
Purchase of securities held-to-maturity		(673,015)	(356,833)	(877,412)	(1,036,805)
Decrease in securities held-to-maturity		555,252	392,100	692,831	822,634
Purchase of property, equipment and intangible assets		(50,742)	(30,449)	(71,575)	(50,376)
Proceeds from disposals to property, equipment and intangible assets		2,565	7,830	19,537	21,107
Net decrease / (increase) in investment properties and in investment properties subject to operating lease before provision for impairment		1,622	(277)	40	(294)
Net decrease / (increase) in advances for investments included in other assets		14	(15)	(3)	28
Net Cash Used in Investing Activities		**(677,327)**	**(326,156)**	**(498,110)**	**(717,466)**

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

FINANCING ACTIVITIES	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)
Net (decrease) / increase in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(9,521)	(17,068)	10,465	(174,964)
Cash received from issuance of securities		225,808	91,000	27,539	60,944
Cash used for redemption of issued securities		(114,569)	(97,745)	(120,015)	(88,652)
(Decrease) / Increase in subordinated bonds and loans		(994)	9,079	(157,326)	(47,184)
Increase / (Decrease) in non-controlling interest		7	394	640	(698)
Payments to ICES holders	*21.*	(1,715)	(643)	(9,135)	(3,928)
Purchase of Treasury shares		4,559	7,531	9,881	24,641
Sales of Treasury shares		(5,156)	(12,345)	(15,897)	(34,093)
Dividends paid		(53,172)	(46,110)	(46,152)	(40,473)
Net Cash Provided by / (Used in) Financing Activities		**45,247**	**(65,907)**	**(300,000)**	**(304,407)**
Net decrease in cash and cash equivalents		**(549,044)**	**(369,393)**	**(322,834)**	**(532,031)**
Cash and cash equivalents at the beginning of the period		**1,128,610**	**1,427,292**	**1,427,292**	**2,003,324**
Foreign currency translation		(12,616)	22,235	24,152	(44,001)
Cash and cash equivalents at the end of the period		**566,950**	**1,080,134**	**1,128,610**	**1,427,292**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
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	Non-controlling interest	Total
Balance as at 1 January 2016		**28,000**	**52**	**24,707**	**1,291,738**	**(55,468)**	**(58,021)**	**2,651**	**1,233,659**
Net profit for the period		-	-	-	106,047	-	-	141	106,188
Other Comprehensive Income		-	-	-	10,488	-	-	253	10,741
Share-based payment	*30.*	-	-	1,865	-	-	-	-	1,865
Dividend for the year 2015		-	-	-	(46,200)	-	-	-	(46,200)
Sale of Treasury shares	*22.*	-	-	-	-	-	7,531	-	7,531
Treasury shares									
– loss on sale		-	-	-	(3,328)	-	-	-	(3,328)
– acquisition	*22.*	-	-	-	-	-	(9,017)	-	(9,017)
Payments to ICES holders	*21.*	-	-	-	(493)	-	-	-	(493)
Balance as at 30 June 2016		**28,000**	**52**	**26,572**	**1,358,252**	**(55,468)**	**(59,507)**	**3,045**	**1,300,946**
Balance as at 1 January 2017		**28,000**	**52**	**28,237**	**1,476,657**	**(55,468)**	**(60,121)**	**3,292**	**1,420,649**
Net profit for the period		-	-	-	133,420	-	-	137	133,557
Other Comprehensive Income		-	-	-	(3,988)	-	-	(130)	(4,118)
Share-based payment	*30.*	-	-	1,686	-	-	-	-	1,686
Dividend for the year 2016		-	-	-	(53,200)	-	-	-	(53,200)
Sale of Treasury shares	*22.*	-	-	-	-	-	4,559	-	4,559
Treasury shares									
– loss on sale		-	-	-	784	-	-	-	784
– acquisition	*22.*	-	-	-	-	-	(5,940)	-	(5,940)
Payments to ICES holders	*21.*	-	-	-	(1,715)	-	-	-	(1,715)
Balance as at 30 June 2017		**28,000**	**52**	**29,923**	**1,551,958**	**(55,468)**	**(61,502)**	**3,299**	**1,496,262**

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

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

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

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

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide network of 1,385 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

The number of employees at the Group:

	30 June 2017	31 December 2016
The number of employees at the Group	39,246	38,575
The average number of employees at the Group	39,594	37,782

1.2. Basis of Accounting

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

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

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

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

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

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

1.2. Basis of Accounting [continued]

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

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

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

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

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

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

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

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

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

1.2. Basis of Accounting [continued]

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

Impairment

IFRS 9 introduces a new, expected-loss impairment model that requires a more timely recognition of credit losses. The standard requires entities to account for expected credit losses from the moment when financial instruments are first identified.
The use of a new, three stage model is being implemented for IFRS 9 purposes. The new impairment methodology is going to be used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses are going to be recognized. Assets where no significant increase of credit risk is identified will remain to be provisioned based on a 12-month expected loss methodology.
For purchased or originated credit-impaired financial assets the same lifetime expected loss methodology will be extended in order to be able to capture the cumulative changes in lifetime expected credit losses since the initial recognition as a credit-impaired instrument.

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

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

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

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

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 was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

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

1.2. Basis of Accounting [continued]

1.2.3. Standards and Interpretations issued by IASB, but not yet adopted by the EU [continued]

- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 "Investment property"** – Transfers of Investment Property (issued on 8 December 2016, effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),
- **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 principle has not been adopted by the EU, is still unregulated.

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation

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

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

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

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

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

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

2.3. Principles of consolidation

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.4. Accounting for acquisitions

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

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

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

2.5. Securities held-to-maturity

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

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Recognized Income for the period. The Group mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income. The Group applies the FIFO[1] inventory valuation method for securities held for trading, Such securities consist of corporate shares, Hungarian and foreign government bonds, discounted and interest bearing treasury bills and other securities.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments

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

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

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

Foreign currency contracts

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

Foreign exchange swaps and interest rate swaps

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

Cross-currency interest rate swaps

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments [continued]

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

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

Foreign exchange options

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

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

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

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

2.8. Offsetting

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.9. Embedded derivatives

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

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

2.10. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities available-for-sale are measured at subsequent reporting dates at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Recognized Income for the applicable period. The Group applies the FIFO[1] inventory valuation method for securities held for trading.
Such securities consist of Hungarian and foreign government bonds, corporate bonds, discounted Treasury bills and other securities. Other securities include shares in investment funds, shares in non-financing companies and venture capital fund bonds.

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

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

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

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

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

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

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

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

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

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

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

2.12. Sale and repurchase agreements, security lending

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

2.13. Associates and other investments

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. Associates and other investments [continued]

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

2.14. Property and equipment, Intangible assets

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

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

Intangible assets	
Software	3.33-67%
Property rights	2.8-50%
Property	1-33%
Office equipment and vehicles	1-50%

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

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

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

2.15. Financial liabilities

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. Leases

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

The Group as a lessor

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

The Group as a lessee

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

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

2.17. Investment properties

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

2.18. Treasury shares

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

2.19. Interest income and interest expense

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

2.20. Fees and Commissions

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.21. Dividend income

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

2.22. Income tax

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

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

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

2.23. Off-balance sheet commitments and contingent liabilities

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

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

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

2.24. Share-based payment and employee benefit

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

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

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

2.25. Consolidated Statement of Cash-flows

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.26. Segment reporting

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

2.27. Comparative figures

These Consolidated Financial statements are prepared in accordance with the same accounting policies in all respects as the Consolidated 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 consolidated financial assets and liabilities.

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

- MOL swapped 24 million pieces of OTP ordinary shares (8.57% of ordinary 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 of which, recovery of the shares would be initiated for the issuer till 11 July 2012. There is no mandatory settlement as at the maturity of the share-swap transaction. The agreement contains further prescriptions relating to net settlement in cash or in shares in case if certain changes happened in relative share prices. 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 depends on the change of share prices relative to each other.

In June 2017 contractual conditions partly changed as a consequence of the modification, MOL ordinary shares received on the base of the agreement shall not be alienated, therefore beside the modification of accounting policy OTP decided to present the transaction in net (instead of the previously applied gross presentation), which represents the economic content of the transaction more faithfully and it is in accordance with the accounting method of MOL Plc.

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

In HUF million

Comparative figures	30 June 2017	31 December 2016 (Restated)	31 December 2016	30 June 2016 (Restated)	30 June 2016	31 December 2015 (Restated)	31 December 2015
Financial assets at fair value through profit or loss	226,909	189,778	293,106	161,348	243,710	182,359	253,782
Other assets	282,806	258,026	253,322	258,658	253,935	258,228	253,591
Total assets	**12,145,924**	**11,209,041**	**11,307,665**	**10,621,586**	**10,699,225**	**10,652,062**	**10,718,848**
Other liabilities	497,524	403,805	502,429	354,946	432,585	324,793	391,579
Total liabilities	**10,649,662**	**9,788,392**	**9,887,016**	**9,320,640**	**9,398,279**	**9,418,403**	**9,485,189**

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

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

3.1. Impairment on loans and placements

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

3.2. Valuation of instruments without direct quotations

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

3.3. Provisions

Provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 18.)
A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
Provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities, for commitments to extend credit, provision for warranties arising from banking activities and provision for confirmed letter of credit.

3.4. Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 "Impairment of assets".
The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash-flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

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

	30 June 2017	31 December 2016
Cash on hand		
In HUF	109,615	89,402
In foreign currency	173,985	165,425
	283,600	**254,827**
Amounts due from banks and balances with the National Banks		
Within one year:		
In HUF	239,445	501,249
In foreign currency	515,282	869,034
	754,727	**1,370,283**
Over one year:		
In HUF	-	-
In foreign currency	-	-
	-	**-**
Accrued interest	179	247
Subtotal	**1,038,506**	**1,625,357**
Average amount of compulsory reserve set by the National Banks[1]	**471,556**	**496,747**
Total	**566,950**	**1,128,610**

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	52,619	55,804
In foreign currency	337,670	299,755
	390,289	**355,559**
Over one year		
In HUF	56,669	5,206
In foreign currency	369	2,699
	57,038	**7,905**
Accrued interest	116	161
Provision for impairment on placement losses	(68)	(95)
Total	**447,375**	**363,530**

[1] Based on decree of the National Banks of each country in the Group, it's needed to deposit a compulsory reserve in a specified percent of its financial sources. The Group maintains an appropriate average amount of compulsory reserve on its account at the National Banks in 1 month reserve maintenance period.

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

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

	30 June 2017	31 December 2016
Balance as at 1 January	**95**	**50**
Provision for the period	22	46
Release of provision for the period	(48)	-
Foreign currency translation difference	(1)	(1)
Closing balance	**68**	**95**

Interest conditions of placements with other banks:

	30 June 2017	31 December 2016
In HUF	(0.5)% - 3.84%	0.01% - 2.86%
In foreign currency	(0.03)% - 15.5%	(15.0)% - 16.5%

	30 June 2017	31 December 2016
Average interest rates on placements with other banks	0.81%	1.25%

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)
Securities held for trading			
Government bonds	54,963	40,095	25,866
Interest bearing treasury bills	51,391	15,639	7,768
Shares	10,210	1,074	1,197
Discounted Treasury bills	1,385	97	366
Other securities	24,811	14,396	178
Other non-interest bearing securities	4,216	9,237	4,507
	146,976	**80,538**	**39,882**
Accrued interest	2,059	930	671
Total	**149,035**	**81,468**	**40,553**

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

Positive fair value of derivative financial instruments classified held for trading

	30 June 2017	31 December 2016 (Restated)	31 December 2015 (Restated)
Interest rate swaps classified as held for trading	31,643	38,878	33,770
CCIRS and mark-to-market CCIRS[1] classified as held for trading	23,750	34,100	84,270
Foreign exchange swaps classified as held for trading	10,939	17,148	15,551
Foreign exchange forward contracts classified as held for trading	517	94	124
Other derivative transactions classified as held for trading	11,025	18,090	8,091
	77,874	**108,310**	**141,806**
Total	**226,909**	**189,778**	**182,359**

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

	30 June 2017	31 December 2016
Denominated in HUF (%)	50.2%	74.1%
Denominated in foreign currency (%)	49.8%	25.9%
Total	**100.0%**	**100.0%**

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

	30 June 2017	31 December 2016
Denominated in HUF (%)	18.3%	25.8%
Denominated in foreign currency (%)	81.7%	74.2%
Total	**100.0%**	**100.0%**

	30 June 2017	31 December 2016
Interest rates on securities held for trading	0.01% - 7.75%	0.33% - 7.75%
Average interest rates on securities held for trading	2.43%	0.60%

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

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

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

	30 June 2017	31 December 2016 (Restated)	31 December 2015 (Restated)
Within one year			
With variable interest	53	1,845	18
With fixed interest	102,272	32,219	8,547
	102,325	**34,064**	**8,565**
Over one year			
With variable interest	7,406	3,111	2,181
With fixed interest	22,819	33,052	23,432
	30,225	**36,163**	**25,613**
Non-interest bearing securities	14,426	10,311	5,704
Total	**146,976**	**80,538**	**39,882**

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

	30 June 2017	31 December 2016
Securities available-for-sale		
Government bonds	1,534,816	1,323,178
Discounted Treasury bills	210,359	20,944
Corporate bonds	158,417	130,533
From this:		
Listed securities:		
In HUF	*63,167*	*41,448*
In foreign currency	*18,705*	*23,871*
	81,872	*65,319*
Non-listed securities:		
In HUF	*34,198*	*38,990*
In foreign currency	*42,347*	*26,224*
	76,545	*65,214*
Other securities	534	441
Other non-interest bearing securities	49,191	36,728
From this:		
Listed securities:		
In HUF	*1,517*	*1,460*
In foreign currency	*49*	*49*
	1,566	*1,509*
Non-listed securities:		
In HUF	*20,702*	*12,541*
In foreign currency	*26,923*	*22,678*
	47,625	*35,219*
	1,953,317	**1,511,824**

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

	30 June 2017	31 December 2016
Accrued interest	15,030	15,574
Provision for impairment on securities available-for-sale	(397)	(305)
Total	**1,967,950**	**1,527,093**

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

	30 June 2017	31 December 2016
Denominated in HUF (%)	59.6%	68.1%
Denominated in foreign currency (%)	40.4%	31.9%
Total	**100.0%**	**100.0%**

An analysis of government bonds by currency (%):

	30 June 2017	31 December 2016
Denominated in HUF (%)	59.4%	70.6%
Denominated in foreign currency (%)	40.6%	29.4%
Total	**100.0%**	**100.0%**

	30 June 2017	31 December 2016
Interest rates on securities available-for-sale denominated in HUF	0.33% - 7.5%	0.33% - 7.5%
Interest rates on securities available-for-sale denominated in foreign currency	(0.2)% - 26.4%	0.1% - 26.4%

	30 June 2017	31 December 2016
Average interest rates on securities available-for-sale denominated in HUF	1.66%	2.30%
Average interest rates on securities available-for-sale denominated in foreign currency	2.56%	3.25%

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

	30 June 2017	31 December 2016
Within one year		
With variable interest	684	597
With fixed interest	672,255	161,781
	672,939	**162,378**
Over one year		
With variable interest	46,949	40,340
With fixed interest	1,184,238	1,272,378
	1,231,187	**1,312,718**
Non-interest bearing securities	49,191	36,728
Total	**1,953,317**	**1,511,824**

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

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

	30 June 2017	31 December 2016
Balance as at 1 January	**305**	**383**
Reclassification from investments	96	-
Provision for the period	3	3
Release of provision	(1)	(58)
Use of provision	-	(2)
Foreign currency translation difference	(6)	(21)
Closing balance	**397**	**305**

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

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

	30 June 2017	31 December 2016
Short-term loans and promissory notes (within one year)	2,476,356	2,242,709
Long-term loans and promissory notes (over one year)	4,898,119	4,397,045
	7,374,475	**6,639,754**
Accrued interest	36,236	40,751
Provision for impairment on loan losses	(880,359)	(944,273)
Total	**6,530,352**	**5,736,232**

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

	30 June 2017	31 December 2016
In HUF	35%	38%
In foreign currency	65%	62%
Total	**100%**	**100%**

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

Interest rates of the loan portfolio are as follows:

	30 June 2017	31 December 2016
Short-term loans denominated in HUF	0.15% - 37.45%	0.0% - 44.1%
Long-term loans denominated in HUF	(0.6)% - 59.9%	(0.35)% - 37.5%
Short-term loans denominated in foreign currency	0.06% - 37.5%	(0.7)% - 64.9%
Long-term loans denominated in foreign currency	(0.6)% - 59.0%	(0.7)% - 59.7%

	30 June 2017	31 December 2016
Average interest rates on loans denominated in HUF	7.68%	8.48%
Average interest rates on loans denominated in foreign currency	7.89%	8.35%

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	**944,273**	**1,013,620**
Provision for the period	202,904	419,801
Release of provision	(186,810)	(358,545)
Use of provision	(55,936)	(94,188)
Increase due to acquisition	5,971	-
Reclassification	(1,397)	-
Partial write-off[1]	(13,958)	(36,267)
Foreign currency translation difference	(14,688)	(148)
Closing balance	**880,359**	**944,273**

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

	30 June 2017	31 December 2016
Release of provision on placement losses	(35)	(132)
Provision for impairment on loan losses	17,737	93,605
Total	**17,702**	**93,473**

[1] See details in Note 2.11.

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

	30 June 2017	31 December 2016
Investments[1]		
Investments in associates (non-listed)	7,591	6,240
Other investments (non-listed) at cost	7,104	7,926
	14,695	**14,166**
Provision for impairment on investments	(4,383)	(4,330)
Total	**10,312**	**9,836**

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

	30 June 2017	31 December 2016
Balance as at 1 January	**4,330**	**3,882**
Provision for the period	150	687
Use of provision	-	(234)
Reclassification to securities available-for-sale	(96)	-
Foreign currency translation difference	(1)	(5)
Closing balance	**4,383**	**4,330**

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

	30 June 2017	31 December 2016
Government bonds	1,211,545	1,095,897
Discounted Treasury bills	117	113
Corporate bonds	5	5
Mortgage bonds	-	52
	1,211,667	**1,096,067**
Accrued interest	21,119	18,960
Provision for impairment on securities held-to-maturity	(794)	(800)
Total	**1,231,992**	**1,114,227**

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

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

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

	30 June 2017	31 December 2016
Within one year		
With variable interest	10	10
With fixed interest	123,310	120,079
	123,320	**120,089**
Over one year		
With variable interest	344	635
With fixed interest	1,088,003	975,343
	1,088,347	**975,978**
Total	**1,211,667**	**1,096,067**

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

	30 June 2017	31 December 2016
Denominated in HUF (%)	92.1%	91.0%
Denominated in foreign currency (%)	7.9%	9.0%
Total	**100.0%**	**100.0%**

	30 June 2017	31 December 2016
Interest rates of securities held-to-maturity with variable interest	1.2% - 4.45%	0.9% - 4.7%
Interest rates of securities held-to-maturity with fixed interest	1.75% - 12.5%	2.2% - 14.0%
Average interest rates on securities held-to-maturity	5.00%	5.13%

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

	30 June 2017	31 December 2016
Balance as at 1 January	**800**	**807**
Provision for the period	15	18
Release of provision	(17)	(18)
Use of provision	(14)	(7)
Foreign currency translation difference	10	-
Closing balance	**794**	**800**

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

For the six month period ended 30 June 2017

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**300,216**	**197,913**	**163,285**	**12,451**	**673,865**
Acquisition	13,124	12,380	1,627	312	**27,443**
Additions	9,718	2,746	6,387	16,842	**35,693**
Foreign currency translation differences	(3,411)	(983)	(1,018)	(39)	**(5,451)**
Disposals	(1,163)	(2,669)	(3,247)	(8,991)	**(16,070)**
Change in consolidation scope	-	1	39	-	**40**
Balance as at 30 June	**318,484**	**209,388**	**167,073**	**20,575**	**715,520**

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**138,185**	**54,026**	**126,138**	**-**	**318,349**
Charge for the period (without goodwill impairment)	11,791	3,167	6,819	-	**21,777**
Foreign currency translation differences	-778	-355	-887	-	**-2,020**
Disposals	-227	-1,184	-3,103	-	**-4,514**
Change in consolidation scope	-	-	-	-	**-**
Balance as at 30 June	**148,971**	**55,654**	**128,967**	**-**	**333,592**
Net book value					
Balance as at 1 January	**162,031**	**143,887**	**37,147**	**12,451**	**355,516**
Balance as at 30 June	**169,513**	**153,734**	**38,106**	**20,575**	**381,928**

An analysis of the intangible assets for the six month period ended 30 June 2017 is as follows:

Intangible assets	Self-developed	Other	Total
Gross values	4,195	212,246	**216,440**
Depreciation and amortization	1,376	147,595	**148,971**

An analysis of the changes in the goodwill for the six month period ended 30 June 2017 is as follows:

Cost	Goodwill
Balance as at 1 January	**104,282**
Additions	-
Foreign currency translation difference	(2,238)
Impairment for the current period	-
Balance as at 30 June	**102,044**
Net book value	
Balance as at 1 January	**104,282**
Balance as at 30 June	**102,044**

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

For the six month period ended 30 June 2017 [continued]

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

List of units	HUF mn
JSC "OTP Bank" (Russia)	42,839
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	17,930
OTP Bank Romania S.A.	6,137
Monicomp Ltd.	5,732
OTP Banka Slovensko a.s.	510
Other[1]	355
Total	**102,044**

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

On the base of the Management's opinion in the Bank there were no circumstances happened which would have made needed the preparation of the impairment test as at 30 June 2017 on the contrary at the end of 2016 when it was needed to prepare the impairment test, for two companies JSC "OTP Bank" (Russia) and OTP Bank JSC (Ukraine) was prepared using a five-year (2017-2021) cash-flow model while in the case of the other subsidiaries three-year cash-flow model was applied with an explicit period between 2017-2019. The basis for the estimation was the annual financial strategic plan for year 2016, while for the three-year explicit period the Bank applied the prognosis for year 2017 accepted by the Management Committee of the subsidiaries and on the basis of this prognosis the prepared medium-term (2018-2019) forecasts. When the Bank prepared the calculations for the period 2017-2019, considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these and the expected changes of the mentioned factors.

Present value calculation with the DCF method

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

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

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

Present value calculation with the EVA method

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

Summary of the impairment test for the six month period ended 30 June 2017

Based on the valuations of the subsidiaries no goodwill impairment was needed on a Group level as at 30 June 2017.

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

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

For the year ended 31 December 2016

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

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

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

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

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

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

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

For the year ended 31 December 2016 [continued]

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

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

Summary of the impairment test for the year ended 31 December 2016

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

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

For the six month period ended 30 June 2017

Gross value	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	**37,270**	**7,577**	**44,847**
Additions due acquisition	2,298	-	2,298
Increase due to transfer from inventories or owner-occupied properties	76	-	76
Other additions	90	14	104
Other disposals	(4,301)	-	(4,301)
Foreign currency translation difference	(296)	92	(204)
Closing balance	**35,137**	**7,683**	**42,820**

The applied depreciation and amortization keys for the six month period ended 30 June 2017 were the following:

Investment property	1% - 5%
Investment property subject to operating lease	3% - 16.4%

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

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

For the six month period ended 30 June 2017 [continued]

Depreciation and amortization	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	**4,031**	**1,377**	**5,408**
Charge for the period	265	85	350
Increase due to transfer from inventories or owner-occupied properties	1	-	1
Other increase for the period	1,176	-	1,176
Other disposal for the period	(119)	-	(119)
Foreign currency translation difference	(28)	16	(12)
Closing balance	**5,326**	**1,478**	**6,804**

Impairment	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	**8,491**	**1,502**	**9,993**
Impairment for the period	30	-	30
Use of impairment	(647)	-	(647)
Other decrease for the period	(1,109)	-	(1,109)
Foreign currency translation difference	(65)	20	(45)
Closing balance	**6,700**	**1,522**	**8,222**

Net values	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	**24,748**	**4,698**	**29,446**
Balance as at 30 June	**23,111**	**4,683**	**27,794**
Fair values	**23,999**	**4,605**	**28,604**

Incomes and expenses	Investment property	Investment property subject to operating lease	Total
Rental income	689	230	**919**
Direct operating expenses of investment properties – income generating	31	2	**33**
Direct operating expenses of investment properties – non income generating	5	-	**5**

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

For the year ended 31 December 2016

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

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

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

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

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

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

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

For the year ended 31 December 2016 [continued]

	Investment property	Investment property subject to operating lease	Total
Fair values	27,806	5,641	33,447

Incomes and expenses	Investment property	Investment property subject to operating lease	Total
Rental income	1,792	440	**2,232**
Direct operating expenses of investment properties – income generating	214	6	**220**
Direct operating expenses of investment properties – non income generating	16	-	**16**

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

	30 June 2017	31 December 2016 (Restated)	31 December 2015 (Restated)
Inventories	63,120	53,772	46,195
Deferred tax receivables[2]	42,340	52,593	73,079
Prepayments and accrued income	40,165	33,118	25,136
Assets subject to operating lease	32,138	21,405	17,026
Receivables from investment services	17,201	4,244	6,369
Current income tax receivable	13,475	11,679	20,492
Receivables from card operations	13,364	16,572	7,865
Trade receivables	12,981	11,369	10,891
Other advances	11,302	9,588	7,083
Fair value of derivative financial instrument designated as fair value hedge	8,072	7,887	16,009
Stock exchange deals	6,963	2,827	2,163
Receivable from the National Asset Management	5,824	6,967	6,645
Receivables from leasing activities	2,244	1,616	1,470
Receivables due from pension funds and investment funds	1,050	5,610	2,516
Advances for securities and investments	652	666	663
Loans sold under deferred payment scheme	346	2,276	2,410
Other receivables from Hungarian Government	193	4,292	1,233
Other	39,747	39,618	38,975
Subtotal	**311,177**	**286,099**	**286,220**
Provision for impairment on other assets[3]	(28,371)	(28,073)	(27,992)
Total	**282,806**	**258,026**	**258,228**

[1] Other assets – except financial assets from OTP-MOL share swap transaction, income tax receivable and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. 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 27.

[3] Provision for impairment on inventories and on real estate held-for-sale was recognized the most impairment among the Provision for impairment on other assets.

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

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

	30 June 2017	31 December 2016
Interest rate swaps designated as fair value hedge	6,492	6,888
CCIRS and mark-to-market CCIRS designated as fair value hedge	1,580	998
Other transactions designated as fair value hedge	-	1
Total	**8,072**	**7,887**

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	**28,073**	**27,992**
Provision for the period	4,439	1,476
Reclassification	1,677	-
Use of provision	(5,648)	(1,569)
Foreign currency translation difference	(170)	174
Closing balance	**28,371**	**28,073**

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

	30 June 2017	31 December 2016
Within one year		
In HUF	109,294	129,739
In foreign currency	117,414	126,361
	226,708	**256,100**
Over one year		
In HUF	212,745	223,415
In foreign currency	94,374	63,720
	307,119	**287,135**
Accrued interest	427	540
Total[1]	**534,254**	**543,775**

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

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

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

	30 June 2017	31 December 2016
Within one year		
In HUF	(0.4)% - 0.9%	0.0% - 0.9%
In foreign currency	0.01% - 3.8%	(0.4)% - 10.5%
Over one year		
In HUF	(0.7)% - 9.1%	0.0% - 3.8%
In foreign currency	(0.07)% - 5.0%	(0.06)% - 10.85%

	30 June 2017	31 December 2016
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	1.80%	1.41%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency	1.45%	1.55%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 June 2017	31 December 2016
Within one year		
In HUF	3,707,553	3,725,744
In foreign currency	5,041,376	4,413,976
	8,748,929	**8,139,720**
Over one year		
In HUF	315,273	308,199
In foreign currency	134,631	77,020
	449,904	**385,219**
Accrued interest	16,706	15,644
Total	**9,215,539**	**8,540,583**

Interest rates on deposits from customers are as follows:

	30 June 2017	31 December 2016
Within one year		
In HUF	(4.97)% - 9.69%	0.0% - 9.65%
In foreign currency	(0.4)% - 20.0%	0.0% - 20.5%
Over one year		
In HUF	0.0% - 10.10%	0.0% - 9.65%
In foreign currency	0.0% - 17.8%	0.01% - 22.0%

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

	30 June 2017	31 December 2016
Average interest rates on deposits from customers denominated in HUF	0.24%	0.43%
Average interest rates on deposits from customers denominated in foreign currency	0.83%	1.08%

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

	30 June 2017		31 December 2016	
Retail deposits	6,779,509	74%	6,112,174	72%
Corporate deposits	1,944,556	21%	1,946,298	23%
Municipality deposits	474,768	5%	466,467	5%
Total	**9,198,833**	**100%**	**8,524,939**	**100%**

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

	30 June 2017	31 December 2016
With original maturity		
Within one year		
In HUF	10,568	18,498
In foreign currency	11,159	37,348
	21,727	**55,846**
Over one year		
In HUF	234,181	88,640
In foreign currency	252	251
	234,433	**88,891**
Accrued interest	1,979	2,163
Total	**258,139**	**146,900**

Interest rates on liabilities from issued securities are as follows:

	30 June 2017	31 December 2016
Issued securities denominated in HUF	0.01% - 9.5%	0.01% - 9.5%
Issued securities denominated in foreign currency	0.0% - 8.2%	0.1% - 9.0%

	30 June 2017	31 December 2016
Average interest rates on issued securities denominated in HUF	2.70%	3.10%
Average interest rates on issued securities denominated in foreign currency	0.63%	1.07%

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 issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP 2017/Cx	19/09/2011	25/09/2017	2,785	indexed	floating	hedged
2	OTP 2017/Dx	20/10/2011	19/10/2017	385	indexed	floating	hedged
3	OTP 2017/Ex	21/12/2011	28/12/2017	2,960	indexed	floating	hedged
4	OTP 2018/Ax	03/01/2012	09/01/2018	447	indexed	floating	hedged
5	OTP 2018/Bx	22/03/2012	22/03/2018	3,544	indexed	floating	hedged
6	OTP 2018/Cx	18/07/2012	18/07/2018	3,027	indexed	floating	hedged
7	OTP 2018/Dx	29/10/2012	26/10/2018	2,590	indexed	floating	hedged
8	OTP 2018/Ex	28/12/2012	28/12/2018	2,561	indexed	floating	hedged
9	OTP 2019/Ax	25/06/2009	01/07/2019	231	indexed	floating	hedged
10	OTP 2019/Bx	05/10/2009	14/10/2019	343	indexed	floating	hedged
11	OTP 2019/Cx	14/12/2009	20/12/2019	276	indexed	floating	hedged
12	OTP 2019/Dx	22/03/2013	21/03/2019	3,746	indexed	floating	hedged
13	OTP 2019/Ex	28/06/2013	24/06/2019	2,993	indexed	floating	hedged
14	OTP 2020/Ax	25/03/2010	30/03/2020	311	indexed	floating	hedged
15	OTP 2020/Bx	28/06/2010	09/07/2020	305	indexed	floating	hedged
16	OTP 2020/Cx	11/11/2010	05/11/2020	186	indexed	floating	hedged
17	OTP 2020/Dx	16/12/2010	18/12/2020	197	indexed	floating	hedged
18	OTP 2020/Ex	18/06/2014	22/06/2020	3,623	indexed	floating	hedged
19	OTP 2020/Fx	10/10/2014	16/10/2020	3,175	indexed	floating	hedged
20	OTP 2020/Gx	15/12/2014	21/12/2020	2,681	indexed	floating	hedged
21	OTP 2021/Ax	01/04/2011	01/04/2021	250	indexed	floating	hedged
22	OTP 2021/Bx	17/06/2011	21/06/2021	284	indexed	floating	hedged
23	OTP 2021/Cx	19/09/2011	24/09/2021	266	indexed	floating	hedged
24	OTP 2021/Dx	21/12/2011	27/12/2021	338	indexed	floating	hedged
25	OTP 2022/Ax	22/03/2012	23/03/2022	252	indexed	floating	hedged
26	OTP 2022/Bx	18/07/2012	18/07/2022	230	indexed	floating	hedged
27	OTP 2022/Cx	29/10/2012	28/10/2022	237	indexed	floating	hedged
28	OTP 2022/Dx	28/12/2012	27/12/2022	297	indexed	floating	hedged
29	OTP 2023/Ax	22/03/2013	24/03/2023	371	indexed	floating	hedged
30	OTP 2023/Bx	28/06/2013	26/06/2023	265	indexed	floating	hedged
31	OTP 2024/Ax	18/06/2014	21/06/2024	256	indexed	floating	hedged
32	OTP 2024/Bx	10/10/2014	16/10/2024	351	indexed	floating	hedged
33	OTP 2024/Cx	15/12/2014	20/12/2024	287	indexed	floating	hedged
34	OTP 2020/RF/A	12/07/2010	20/07/2020	1,882	indexed	floating	hedged
35	OTP 2020/RF/B	12/07/2010	20/07/2020	1,111	indexed	floating	hedged
36	OTP 2020/RF/C	11/11/2010	05/11/2020	2,266	indexed	floating	hedged
37	OTP 2021/RF/A	05/07/2011	13/07/2021	2,096	indexed	floating	hedged
38	OTP 2021/RF/B	20/10/2011	25/10/2021	2,184	indexed	floating	hedged
39	OTP 2021/RF/C	21/12/2011	30/12/2021	403	indexed	floating	hedged
40	OTP 2021/RF/D	21/12/2011	30/12/2021	275	indexed	floating	hedged
41	OTP 2021/RF/E	21/12/2011	30/12/2021	54	indexed	floating	hedged
42	OTP 2022/RF/A	22/03/2012	23/03/2022	1,530	indexed	floating	hedged
43	OTP 2022/RF/B	22/03/2012	23/03/2022	492	indexed	floating	hedged
44	OTP 2022/RF/C	28/06/2012	28/06/2022	135	indexed	floating	hedged
45	OTP 2022/RF/D	28/06/2012	28/06/2022	192	indexed	floating	hedged
46	OTP 2022/RF/E	29/10/2012	31/10/2022	479	indexed	floating	hedged
47	OTP 2022/RF/F	28/12/2012	28/12/2022	357	indexed	floating	hedged
48	OTP 2023/RF/A	22/03/2013	24/03/2023	506	indexed	floating	hedged
49	OJB 2019/I	17/03/2004	18/03/2019	31,483	9.48	fixed	
50	OJB 2019/II	31/05/2011	18/03/2019	1,042	9.48	fixed	
51	OJB 2020/I	19/11/2004	12/11/2020	5,503	9.0	fixed	
	Subtotal			**92,040**			

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

Issued securities denominated in HUF as at 30 June 2017 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
52	OJB 2020/II	31/05/2011	12/11/2020	1,487	9.0	fixed	
53	OJB 2020/III	23/02/2017	20/05/2020	31,508	0.75	floating	
54	OJB 2021/I	15/02/2017	27/10/2021	96,250	2.0	fixed	
55	OJB 2022/I	24/02/2017	24/05/2022	20,475	0.9	floating	
56	OTP TBSZ6 2017/I	13/01/2012	15/12/2017	221	6.5	fixed	
57	Other			226			
	Subtotal			**150,167**			
	Subtotal issued securities in HUF			**242,207**			
	Unamortized premium			(2,597)			
	Fair value adjustment			5,139			
	Total issued securities in HUF			**244,749**			

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

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	Nominal value (HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP EUR 1 2017/VIII	01/07/2016	15/07/2017	EUR	6.75	2,084	0.1	fixed	
2	OTP EUR 1 2017/IX	10/08/2016	24/08/2017	EUR	8.50	2,628	0.1	fixed	
3	OTP EUR 1 2017/X	16/09/2016	30/09/2017	EUR	4.40	1,358	0.1	fixed	
4	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	191	indexed		hedged
5	OTP_VK_USD_1_2017/IV	16/09/2016	16/09/2017	USD	1.45	393	1.43	floating	
6	OTP_VK_USD_1_2018/I	20/01/2017	20/01/2018	USD	2.89	782	1.0	floating	
7	OTP_VK_USD_1_2018/II	03/03/2017	03/03/2018	USD	4.26	1,154	1.0	floating	
8	OTP_VK_USD_1_2018/III	13/04/2017	13/04/2018	USD	2.49	675	1.0	floating	
9	OTP_VK_USD_1_2018/IV	02/06/2017	02/06/2018	USD	4.20	1,137	1.0	floating	
10	Other[1]					1,032			
	Subtotal issued securities in FX					**10,434**			
	Unamortized premium					(25)			
	Fair value adjustment					2			
	Total issued securities in FX					**11,411**			
	Accrued interest					1,979			
	Total issued securities					**258,139**			

[1] Other category includes promissory notes issued by OTP Banka Slovensko a.s. in the amount of HUF 314 million and by JSC "OTP Bank" (Russia) in the amount of HUF 718 million.

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

Certain structured bonds are hedged by interest rate swaps ("IRS") which may transfer to a transferee a fixed rate and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate and amount of the structure if any based on a notional amount which is equal to the notional amount of the hedged bond. In certain cases the 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 changes in the HUF/EUR foreign exchange rate and the risk of change in the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

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

On 5 July 2016 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 3 August 2016 the prospectus of Term Note Program and the disclosure as at 10 August 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 Hungarian, Slovakian, Romanian and Bulgarian Stock Exchange without any obligations.

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

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

	30 June 2017	31 December 2016
Interest rate swaps classified as held for trading	28,861	33,012
Foreign exchange swaps classified as held for trading	13,821	13,125
CCIRS and mark-to-market CCIRS classified as held for trading	12,470	15,684
Foreign exchange forward contracts classified as held for trading	7,038	5,941
Option contracts classified as held for trading	3,061	3,081
Forward rate agreements classified as held for trading (FRA)	87	38
Forward security agreements classified as held for trading	20	4
Other transactions classified as held for trading	2,384	4,986
Total	**67,742**	**75,871**

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

	30 June 2017	31 December 2016 (Restated)	31 December 2015 (Restated)
Liabilities from investment services	88,014	72,102	39,413
Provision for impairment on off-balance sheet commitments and contingent liabilities	69,680	48,166	31,685
Accrued expenses	43,136	39,885	33,153
Liabilities connected to Cafeteria benefits	41,931	31,194	27,811
Salaries and social security payable	33,990	28,235	25,423
Current income tax payable	29,604	16,066	13,684
Clearing, settlement and pending accounts	25,734	9,269	12,065
Accounts payable	21,952	27,085	25,455
Fair value of derivative financial instruments designated as fair value hedge	19,732	20,002	13,723
Liabilities due to short positions	17,062	21,552	7,453
Giro clearing accounts	11,655	7,153	11,302
Advances received from customers	10,489	6,429	4,271
Liabilities from card transactions	9,470	12,837	5,804
Liabilities related to housing loans	5,514	6,496	1,523
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	5,403	6,402	39,314
Deferred tax liabilities	4,953	3,234	4,610
Loans from government	916	716	683
Liabilities connected to loans for collection	805	814	876
Dividend payable	108	73	546
Liabilities connected to leasing activities	30	18	1,583
Other	56,927	45,012	24,159
Subtotal	**497,105**	**402,740**	**324,536**
Accrued interest	419	1,065	257
Total	**497,524**	**403,805**	**324,793**

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

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

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

	30 June 2017	31 December 2016
Provision for litigation	19,606	15,067
Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending	19,125	13,585
Provision for expected pension commitments	13,689	2,678
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	5,403	6,402
Provision for other liabilities	17,260	16,836
Total	**75,083**	**54,568**

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

	30 June 2017	31 December 2016
Balance as at 1 January	**54,568**	**70,999**
Change due to acquisition	11,480	-
Provision / (Release of provision) for the period	10,009	(15,268)
Use of provision	(819)	(1,045)
Foreign currency translation differences	(155)	(118)
Closing balance	**75,083**	**54,568**

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

	30 June 2017	31 December 2016
Interest rate swaps designated as fair value hedge	19,732	19,976
CCIRS and mark-to-market CCIRS designated as fair value hedge	-	26
Total	**19,732**	**20,002**

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

	30 June 2017	31 December 2016
Within one year:		
In HUF	-	-
In foreign currency	-	-
	-	-
Over one year:		
In HUF	-	-
In foreign currency	76,130	76,946
	76,130	**76,946**
Accrued interest	334	512
Total	**76,464**	**77,458**

Interest rates on subordinated bonds and loans are as follows:

	30 June 2017	31 December 2016
Denominated in foreign currency	2.67%	2.69%

	30 June 2017	31 December 2016
Average interest rates on subordinated bonds and loans	2.93%	7.06%

Subordinated bonds and loans can be detailed as follows:

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

NOTE 20: SHARE CAPITAL (in HUF mn)

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

NOTE 21: RETAINED EARNINGS AND RESERVES[1] (in HUF mn)

In 2017 the Bank paid dividends of HUF 53,200 million from the profit of the year 2016, which meant 190 HUF payable dividend by share to the shareholders. 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.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 526,643 million and HUF 514,417 million) and reserves (HUF 999,822 million and HUF 935,061 million) as at 30 June 2017 and 31 December 2016 respectively. The reserves include mainly net profit for the period attributable to the owners of the company, the fair value adjustment of securities available-for-sale, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous year at the subsidiaries, changes due to consolidation and exchange differences.
In the Consolidated Financial Statement the Group recognizes the non-monetary items at historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented in the shareholders' equity as a translation difference. The accumulated amounts of exchange differences were HUF 153,771 million and HUF 141,156 million as at 30 June 2017 and 31 December 2016 respectively.

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

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

NOTE 22: TREASURY SHARES (in HUF mn)

	30 June 2017	31 December 2016
Nominal value (Ordinary shares)	1,818	1,822
Carrying value at acquisition cost	61,502	60,121

[1] See more details about the consolidated statement of comprehensive income on page 4.

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

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

Change in number of shares:

	30 June 2017	31 December 2016
Number of shares as at 1 January	**18,216,002**	**18,142,973**
Additions	647,245	1,750,152
Disposals	(676,554)	(1,677,123)
Closing number of shares	**18,186,693**	**18,216,002**

Change in carrying value:

	30 June 2017	31 December 2016
Balance as at 1 January	**60,121**	**58,021**
Additions	5,940	11,982
Disposals	(4,559)	(9,882)
Closing balance	**61,502**	**60,121**

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

	30 June 2017	31 December 2016
Balance as at 1 January	**3,292**	**2,651**
Non-controlling interest included in net profit for the period	136	242
Changes due to ownership structure	(11)	(8)
Foreign currency translation difference	(118)	407
Closing balance	**3,299**	**3,292**

NOTE 24: 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	202,904	419,801
Release of provision	(186,810)	(358,545)
Provision for impairment on loan losses	1,643	32,349
	17,737	**93,605**

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

	30 June 2017	31 December 2016
Release of provision on placement losses		
Provision for the period	22	46
Release of provision	(48)	-
Release of provision for impairment on placement losses	(9)	(178)
	(35)	**(132)**
Provision for impairment on loan and placement losses	**17,702**	**93,473**

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

Income from fees and commissions	**30 June 2017**	**30 June 2016**
Deposit and account maintenance fees and commissions	59,433	54,834
Fees and commissions related to the issued bank cards	24,529	20,547
Fees related to cash withdrawal	14,486	13,140
Fees and commissions related to security trading	13,831	10,198
Fees and commissions related to lending	12,791	9,430
Fees and commissions related to fund management	6,418	7,303
Insurance fee income	3,309	-
Other	13,442	11,654
Total	**148,239**	**127,106**

Expense from fees and commissions	**30 June 2017**	**30 June 2016**
Fees and commissions related to issued bank cards	6,675	6,121
Interchange fees	4,142	3,388
Fees and commissions paid on loans	3,817	4,553
Fees and commissions related to deposits	2,023	1,449
Insurance fees	1,485	92
Fees and commissions related to security trading	1,032	715
Cash withdrawal transaction fees	694	737
Fees and commissions related to collection of loans	478	609
Postal fees	443	460
Money market transaction fees and commissions	190	65
Other	3,745	3,535
Total	**24,724**	**21,724**
Net profit from fees and commissions	**123,515**	**105,382**

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

Other operating income	**30 June 2017**	**30 June 2016**
Gains on transactions related to property activities	1,528	1,296
Fine refund by Hungarian Competition Authority	-	38
Other income from non-financial activities	26,145	5,581
Total	**27,673**	**6,915**

Other operating expenses	**30 June 2017**	**30 June 2016**
Provision / (Release of provision) for off-balance sheet commitments and contingent liabilities	10,943	(3,717)
Provision for impairment on other assets	4,396	398
Non-repayable assets contributed	892	3,607
Financial support for sport association and organization of public utility	573	3,339
Provision for assets subject to operating lease	351	250
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	291	-
Provision for impairment on investments[1]	150	803
Provision on investment properties	30	80
Fine imposed by Competition Authority	15	18
Incomes from regulations related to customer loans	-	(5)
Subtotal	**17,641**	**4,773**

Other operating expenses [continued]	**30 June 2017**	**30 June 2016**
Release of provision for expected losses due to foreign currency loan conversion at foreign subsidiaries	(934)	(29,270)
Other	3,028	26,919
Total	**19,735**	**2,422**

Other administrative expenses	**30 June 2017**	**30 June 2016**
Personnel expenses		
Wages	76,904	68,047
Taxes related to personnel expenses	18,713	18,895
Other personnel expenses	7,381	8,129
Subtotal	**102,998**	**95,071**
Depreciation and amortization[2]	**21,777**	**21,157**

[1] See details in Note 9.
[2] See details in Note 11.

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

	30 June 2017	30 June 2016
Other administrative expenses		
Taxes, other than income tax [1]	50,484	52,922
Administration expenses, including rental fees	25,273	21,692
Services	24,873	21,482
Professional fees	14,064	10,952
Advertising	7,473	5,716
Subtotal	**122,167**	**112,764**
Total	**246,942**	**228,992**

NOTE 27: INCOME TAX (in HUF mn)

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

Deferred tax is calculated at the income tax rate of 9% in Hungary and Montenegro, 10% in Bulgaria, 12.5% in Cyprus, 15% in Serbia, 16% in Romania, 18% in Ukraine and Croatia, 20% in Russia, 21% in Slovakia, 25% in the Netherlands and 35% in Malta.

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

	30 June 2017	31 December 2016
Current tax expense	9,345	12,562
Deferred tax expense	10,492	21,381
Total	**19,837**	**33,943**

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

	30 June 2017	31 December 2016
Balance as at 1 January	**49,359**	**68,469**
Deferred tax expense in recognized income	(10,492)	(21,381)
Deferred tax related to items recognized directly in equity and in Other Comprehensive Income	(1,267)	1,406
Due to acquisition of subsidiary	297	-
Foreign currency translation difference	(510)	865
Closing balance	**37,387**	**49,359**

[1] Special tax of financial institutions was paid by the Group in the amount of HUF 16.2 billion and HUF 15.4 billion for the first half of 2017 and for year 2016 respectively, recognized as an expense thus decreased the corporate tax base. In the first half year ended 30 June 2017 financial transaction duty was paid by the Bank in the amount of HUF 24 billion.

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

A breakdown of the deferred tax assets are as follows:

	30 June 2017	31 December 2016
Unused tax allowance	14,491	22,354
Tax accrual caused by negative taxable income	13,242	20,494
Refundable tax in accordance with Acts on Customer Loans	3,539	5,239
Fair value adjustment of securities held for trading and securities available-for-sale	3,499	3,737
Premium and discount amortization on bonds	3,414	3,604
Provision for impairment on investments (Goodwill)	1,902	2,535
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	1,423	1,497
Adjustment from effective interest rate method	523	112
Fair value adjustment of derivative financial instruments	359	98
Difference in depreciation and amortization	123	27
Difference in accounting for leases	5	50
Repurchase agreement and security lending	-	1,964
Difference in reserves under HAS and IFRS	-	1,012
Fair value corrections related to customer loans	-	28
Other	14,448	12,555
Deferred tax asset	**56,968**	**75,306**

A breakdown of the deferred tax liabilities are as follows:

	30 June 2017	31 December 2016
Fair value adjustment of securities held for trading and securities available-for-sale	(9,290)	(9,414)
Difference in depreciation and amortization	(4,030)	(2,448)
Fair value adjustment of derivative financial instruments	(1,079)	(3,929)
Deferred tax due to acquisition	(1,063)	-
Temporary differences arising on consolidation	(1,057)	(1,122)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(406)	(406)
Adjustment from effective interest rate method	(188)	(909)
Difference in accounting for leases	(60)	(152)
Premium and discount amortization on bonds	(4)	(2)
Provision for impairment on investments	-	(5,051)
Net effect of treasury share transactions	-	(625)
Accounting of equity instrument (ICES)	-	(438)
OTP-MOL transaction	-	(423)
Other	(2,404)	(1,028)
Deferred tax liabilities	**(19,581)**	**(25,947)**
Net deferred tax asset	**37,387**	**49,359**

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

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

	30 June 2017	31 December 2016
Profit before income tax	153,394	236,395
Income tax expense at statutory tax rates	17,892	37,123

Income tax adjustments due to permanent differences are as follows:

	30 June 2017	31 December 2016
Deferred use of tax allowance	6,568	(5,843)
Use of tax allowance in the current year	(4,101)	(6,708)
Differences in carrying value of subsidiaries	-	12,589
Effect of the tax rate change	-	3,356
Tax refund in accordance with Acts on Customer Loans	-	1,102
Share-based payment	-	671
OTP-MOL share swap transaction	-	411
Reversal of statutory general provision	-	287
Treasury share transactions	-	(991)
Other	(522)	(8,054)
Income tax	**19,837**	**33,943**
Effective tax rate	**12.9%**	**14.4%**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

28.1. Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.
Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is managed by obtaining collateral, corporate and personal guarantees.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories

Classification into DPD categories

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

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

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

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

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

28.1. Credit risk [continued]

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

The expected future losses of the individually assessed item are determined by taking into considerations the above listed objective valuation aspects. The expected loss, the volume of the necessary reserve is defined by taking into account the value of the collaterals and comparing that with the value of the collaterals relating to the exposure. The expected recovery is calculated by applying the effective interest rate method and the discounted cash-flow method. The impairment preciously accounted for the item before 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	**Up to 90 days**	**91-360 days**	**Above 360 days**	**Total carrying amount / allowance**
Mortgage loans	2,106,636	58,194	279,892	**2,444,722**
Loans to medium and large corporates	1,968,782	32,134	188,534	**2,189,450**
Consumer loans	1,495,804	43,005	169,032	**1,707,841**
Loans to micro and small enterprises	455,345	10,419	87,498	**553,262**
Car-finance loans	217,656	2,948	32,045	**252,649**
Municipal loans	226,522	14	15	**226,551**
Gross portfolio	**6,470,745**	**146,714**	**757,016**	**7,374,475**
Placement with other banks	447,307	-	20	**447,327**
Bill of exchange	-	-	-	**-**
Total gross portfolio	**6,918,052**	**146,714**	**757,036**	**7,821,802**
Allowance for loans	(168,413)	(75,340)	(636,606)	**(880,359)**
Allowance for placements	(48)	-	(20)	**(68)**
Total allowance	**(168,461)**	**(75,340)**	**(636,626)**	**(880,427)**
Total net portfolio	**6,749,591**	**71,374**	**120,410**	**6,941,375**
Accrued interest				
for loans				36,236
for placements				116
Total accrued interest				**36,352**
Total net loans				**6,530,352**
Total net placements				**447,375**
Total net exposures				**6,977,727**

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

28.1. Credit risk [continued]

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

As at 31 December 2016

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

The Group's loan portfolio increased by 11.69% in the first half year of 2017. Analysing the contribution of loan types to the loan portfolio, the share of the mortgage loan types slightly decreased, the municipal loans and loans to medium and large enterprises slightly increased, while the other types of loans remained almost the same as at 30 June 2017 comparing with end of the previous year. The qualification of the loan portfolio is improving continuously started from the last few years, and now for the end of the first half year of 2017 the ratio of the more than 90 days past due to the above 360 days past due loans compared to the gross loan portfolio decreased from 13.9% to 11.55%. Among the qualified loan portfolio, the loans classified to the risk class of "more than 90 until 360 days past due" narrowed at the fastest level.

The Group has a prudent provisioning policy, the indicator which describes the coverage of loans by provision for impairment on loans classified as "Above 360 days" was 84.1% and 83.9% as at 30 June 2017 and 31 December 2016 respectively.

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

28.1. Credit risk [continued]

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

Not impaired loan portfolio

That part of loan portfolio, which are neither past due nor impaired, doesn't indicate any lowering of credit quality. The loan portfolio analysis of the gross values of the loans that are not impaired, not past due and past due is as follows:

As at 30 June 2017

Loan type	Not past due	Up to 90 days	91-360 days	Above 360 days	Total
Mortgage loans	1,809,412	264,117	1,164	2,458	2,077,151
Loans to medium and large corporates	1,719,723	79,836	787	4	1,800,350
Consumer loans	1,304,964	158,695	60	5	1,463,724
Placement with other banks	447,307	-	-	-	447,307
Loans to micro and small enterprises	403,849	32,684	17	121	436,671
Municipal loans	205,137	20,831	13	-	225,981
Car-finance loans	182,164	29,571	12	-	211,747
Total	**6,072,556**	**585,734**	**2,053**	**2,588**	**6,662,931**

As at 31 December 2016

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

Loans not past due or past due, but not impaired cover only balance sheet items.
The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 74.5% to 77.6% as at 30 June 2017 comparing to the end of the previous year. The ratio of the mortgage loans compared to the portfolio of loans neither past due nor impaired decreased slightly in the first half year of 2017, and in the same slight ratio, but increased the ratio of the municipal and loans to medium and large corporates.

The loans that are past due but not impaired are concentrated mainly in the mortgage loan and consumer loan type while in the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Group. The ratio of the mortgage loans and loans to micro and small enterprises compared to the portfolio of loans past due but not impaired decreased slightly and the ratio of the municipal loans increased as at 30 June 2017.

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

28.1. Credit risk [continued]

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

Loans individually assessed for provision

The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.
An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 30 June 2017 and 31 December 2016 is as follows:

As at 30 June 2017

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	199,409	110,058	185,969	2,657	2,814
Legal proceedings	124,584	96,111	73,795	376	843
Cross default	45,270	19,278	17,286	789	45
Other	165,351	74,328	95,878	16,410	9,558
Corporate total	**534,614**	**299,775**	**372,928**	**20,232**	**13,260**
Delay of payment	1,248	20	2,776	-	-
Municipal total	**1,248**	**20**	**2,776**	**-**	**-**
Placements with other banks	**-**	**-**	**-**	**-**	**-**
Total	**535,862**	**299,795**	**375,704**	**20,232**	**13,260**

As at 31 December 2016

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	182,668	116,988	106,145	108	1
Legal proceedings	174,355	138,794	44,157	60	54
Cross default	63,976	19,156	19,602	16,536	24
Other	176,367	79,317	101,621	10,370	1,197
Corporate total	**597,366**	**354,255**	**271,525**	**27,074**	**1,276**
Delay of payment	2,109	644	2,339	31	9
Legal proceedings	470	333	165	-	-
Cross default	52	1	-	-	-
Municipal total	**2,631**	**978**	**2,504**	**31**	**9**
Placements with other banks	**-**	**-**	**-**	**-**	**-**
Total	**599,997**	**355,233**	**274,029**	**27,105**	**1,285**

By 30 June 2017 the volume of the individually rated portfolio decreased by 10.5% in the corporate loan type. Among the rating factors of the corporate loan type, the decrease is mostly based on the improvement of the cross default factor and on the softening of the legal proceedings, while increase is based on the delay of payment as at 30 June 2017. The decrease was 52.6% in the individually rated loans in the municipal loan portfolio comparing with the end of the previous year, which is mostly based on the significant decrease of the delay of payment, and in other category there were not measureable individually impaired loan portfolio at all which obviously resulted in the improving municipal loan portfolio.

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

28.1. Credit risk [continued]

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

Loan portfolio by countries

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

	30 June 2017		31 December 2016	
Country	**Carrying amount of gross loan and placement with other banks portfolio**	**Allowance**	**Carrying amount of gross loan and placement with other banks portfolio**	**Allowance**
Hungary	2,982,629	238,076	2,875,526	270,618
Croatia	1,337,461	62,391	535,595	50,694
Bulgaria	1,231,524	138,171	1,218,526	144,240
Romania	537,184	40,263	535,506	37,666
Russia	511,397	107,884	594,064	116,850
Slovakia	380,563	33,460	381,850	30,799
Ukraine	355,011	162,468	386,616	190,378
Serbia	153,033	31,299	131,512	26,418
Montenegro	131,010	44,717	141,259	54,360
United Kingdom	72,441	978	54,405	1,131
Cyprus	29,689	15,076	30,935	14,973
Germany	26,321	94	31,237	125
Austria	9,420	10	11,148	4
Switzerland	8,657	14	1,919	5
France	8,336	19	543	17
Israel	8,139	1	13	1
United States of America	6,694	32	13,931	32
Czech Republic	5,431	15	3,992	8
Seychelles	4,753	4,753	4,786	4,786
Italy	4,204	28	8,237	15
Turkey	3,141	8	9,713	8
Poland	2,486	10	3,089	13
The Netherlands	1,823	104	1,981	97
Denmark	875	-	1,973	-
Japan	388	-	232	-
Ireland	364	68	611	68
Greece	297	54	257	30
Norway	282	20	2,575	1
Sweden	246	14	427	10
Belgium	196	47	4,773	40
Bosnia and Herzegovina	195	141	899	756
Spain	187	3	132	3
Canada	178	-	1,856	-
Kazakhstan	162	60	178	72
Egypt	87	5	87	6
Iceland	47	34	41	28
Australia	42	-	6,111	-
Latvia	41	18	45	19
United Arab Emirates	23	16	205	22
Luxembourg	-	-	27	-
Other[1]	6,845	76	516	75
Total[2]	**7,821,802**	**880,427**	**6,997,328**	**944,368**

[1] Other category in the first half year of 2017 includes e.g.: Slovenia, Pakistan, Iran, China, Macedonia, Armenia, Hong Kong, Portugal, Moldova, Jordan, Vietnam, India, Nigeria, Syria, Tunisia, Brazil, Finland, Morocco, South-Korea and Singapore.
[2] Without the amount of bill of exchange.

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

28.1. Credit risk [continued]

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

Loan portfolio by countries [continued]

The loan portfolio decreased mostly in Russia, Ukraine and Montenegro, while increased in Croatia and Serbia however there were no significant changes in the other countries of Group members. Their stock of provision increased mostly in Croatia, Serbia and Slovakia while decreased mostly in Montenegro, Ukraine and Hungary due to the slightly decreased loan portfolio in some countries but there were no significant movements in any of the other countries.

In some countries the stock of provision increased due to local regulations on the base of which required a compulsory fixed rate of provision on the non-qualified portfolio.

28.1.2. Collateral

The values of collateral held by the Group by type are as follows (**total collateral**). The collateral covers loans as well as off-balance sheet exposures.

Types of collateral	30 June 2017	31 December 2016
Mortgages	7,055,704	6,572,927
Assignments (revenue or other receivables)	401,900	445,756
Guarantees and warranties	295,165	324,415
Guarantees of state or organizations owned by state	220,071	73,225
Cash deposits	111,973	102,668
Securities	73,020	210,878
Other	950,039	806,961
Total	**9,107,872**	**8,536,830**

The values of collateral held by the Group by type are 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
Mortgages	3,203,542	3,055,552
Assignments (revenue or other receivables)	333,512	343,305
Guarantees of state or organizations owned by state	195,437	62,449
Guarantees and warranties	176,939	198,468
Cash deposits	52,522	37,755
Securities	46,351	169,716
Other	545,893	486,732
Total	**4,554,196**	**4,353,977**

The coverage level of the loan portfolio (total collateral) decreased by 6.62%, as well as the coverage level to the extent of the exposures decreased by 4.3% as at 30 June 2017.

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

28.1. Credit risk [continued]

28.1.3. Restructured loans

	30 June 2017		31 December 2016	
	Gross portfolio	**Allowance**	**Gross portfolio**	**Allowance**
Loans to medium and large corporates[1]	73,852	29,153	93,931	32,187
Retail loans	62,640	10,743	64,815	14,686
Loans to micro and small enterprises	10,979	893	13,589	2,008
Municipal loans	9	-	19	-
Total	**147,480**	**40,789**	**172,354**	**48,881**

Restructured portfolio definition

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

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

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

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

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

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

[1] They include project and syndicated loans.

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

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories[1]

Securities held for trading as at 30 June 2017

	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Not rated	Total
Government bonds	-	-	-	-	36,712	13,330	163	4,758	-	**54,963**
Interest bearing treasury bills	-	-	-	-	-	51,391	-	-	-	**51,391**
Shares	50	31	18	25	22	-	27	-	10,037	**10,210**
Discounted Treasury bills	-	-	-	-	-	1,385	-	-	-	**1,385**
Other securities	-	-	-	-	-	-	12,346	10,038	2,427	**24,811**
Other non-interest bearing securities	-	-	-	-	-	1,571	-	-	2,645	**4,216**
Total	**50**	**31**	**18**	**25**	**36,734**	**67,677**	**12,536**	**14,796**	**15,109**	**146,976**
Accrued interest										2,059
Total										**149,035**

Securities available-for-sale as at 30 June 2017

	A1	A2	A3	Baa2	Baa3	Ba1	Ba2	Ba3	Caa3	Not rated	Total
Government bonds	-	22,640	6,308	174,004	1,110,409	82,698	114,688	6,605	9,481	7,983	**1,534,816**
Discounted Treasury bills	-	-	-	-	156,255	3,116	50,988	-	-	-	**210,359**
Corporate bonds	-	-	-	1,386	31,775	9,295	9,255	-	-	106,706	**158,417**
Other securities	-	-	-	-	-	-	-	-	-	534	**534**
Other non-interest bearing securities	3,420	-	-	-	877	-	-	-	-	44,894	**49,191**
Total	**3,420**	**22,640**	**6,308**	**175,390**	**1,299,316**	**95,109**	**174,931**	**6,605**	**9,481**	**160,117**	**1,953,317**
Accrued interest											15,030
Total											**1,968,347**

[1] Moody's ratings

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

28.1. Credit risk [continued]

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

Securities held-to-maturity as at 30 June 2017

	A2	Baa2	Baa3	B1	Caa3	Not rated	Total
Government bonds	22,121	4,268	1,129,518	23,996	30,709	933	**1,211,545**
Discounted Treasury bills	-	-	-	-	-	117	**117**
Corporate bonds	-	-	-	-	-	5	**5**
Total	**22,121**	**4,268**	**1,129,518**	**23,996**	**30,709**	**1,055**	**1,211,667**
Accrued interest							21,119
Total							**1,232,786**

[1] Moody's ratings

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

28.2. Market risk

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

28.2.1. Market Risk sensitivity analysis

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

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

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. The diversification effect has not been validated among the various market risk types when capital calculation happens.
In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

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

Historical VaR (99%, one-day) by risk type	Average	
	30 June 2017	30 June 2016
Foreign exchange	142	460
Interest rate	267	1,329
Equity instruments	8	4
Diversification	-	(590)
Total VaR exposure	**417**	**1,203**

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

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

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

28.2. Market risk [continued]

28.2.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was short and amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) as at 30 June 2017. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at a Group level -, and so FX risk affects the Group's other comprehensive income and not its earnings.

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

Probability	Effects to the Consolidated Statement of Recognized Income in 3 months period	
	30 June 2017 In HUF billion	**30 June 2016** In HUF billion
1%	(11.9)	(8.7)
5%	(8.3)	(6.1)
25%	(3.4)	(2.4)
50%	(0.3)	0.3
25%	2.6	3.7
5%	6.8	8.7
1%	9.6	12.8

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.

28.2.3. Interest rate sensitivity analysis

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

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

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

28.2 Market risk [continued]

28.2.3. Interest rate sensitivity analysis [continued]

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

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

The net interest income in a one year period after 30 June 2017 would be decreased by HUF 1,062 million (probable scenario) and HUF 4,564 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 924 million (probable scenario) and HUF 3,416 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2016.
This effect is counterbalanced by capital gains HUF 245 million (or probable scenario), HUF 714 million (for alternative scenario) as at 30 June 2017 and (HUF 291 million for probable scenario, HUF 648 million for alternative scenario) as at 31 December 2016 on the government bond portfolio held for hedging (economic).

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

	30 June 2017		30 June 2016	
Description	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of available-for-sale government bonds)**	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of available-for-sale government bonds)**
HUF (0.1%) parallel shift	(1,635)	170	(836)	217
EUR (0.1%) parallel shift	(331)	-	(591)	-
USD (0.1%) parallel shift	(94)	-	(55)	-
Total	**(2,060)**	**170**	**(1,482)**	**217**

28.2.4. Equity price sensitivity analysis

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

Description	**30 June 2017**	**31 June 2016**
VaR (99%, one day, HUF million)	8	4
Stress test (HUF million)	(126)	(48)

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

28.2. Market risk [continued]

28.2.5. Capital management

Capital management

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

Capital adequacy

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

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

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

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 16.3%, the Regulatory capital was HUF 1,227,883 million and the Total regulatory capital requirement was HUF 603,625 million as at 30 June 2017. The same ratios calculated as at 31 December 2016 were the following: 18.2%, HUF 1,228,074 million and HUF 538,437 million.

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

28.2 Market risk [continued]

28.2.5. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	30 June 2017	31 December 2016
Core capital (Tier 1) = Common Equity Tier 1 (CET 1)	***1,061,477***	***1,060,338***
Issued capital	28,000	28,000
Reserves	1,387,255	1,388,187
Fair value corrections	52,428	44,265
Other capital components	(136,573)	(126,107)
Non-controlling interests	633	598
Treasury shares	(61,502)	(60,121)
Goodwill and other intangible assets	(171,939)	(164,343)
Other adjustments	(36,825)	(50,141)
Additional Tier 1 (AT1)	-	-
Supplementary capital (Tier 2)	***166,406***	***167,736***
Subordinated bonds and loans	76,126	77,458
Other issued capital components	89,935	89,935
Components recognized in T2 capital issued by subsidiaries	345	343
Regulatory capital[1]	**1,227,883**	**1,228,074**
Credit risk capital requirement	492,375	427,571
Market risk capital requirement	28,497	36,455
Operational risk capital requirement	82,753	74,411
Total requirement regulatory capital	**603,625**	**538,437**
Surplus capital	**624,258**	**689,637**
CET 1 ratio	14.1%	15.8%
Tier 1 ratio	14.1%	15.8%
Capital adequacy ratio	**16.3%**	**18.2%**

Basel III

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

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

[1] The consolidated regulatory capital of the Group contains the audited profit for year 2016 decreased by the paid dividend while in case of the first half of 2017doesn't contain the result decreased by the payable dividend in accordance with 575/2013 EU regulation.

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

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

Contingent liabilities

	30 June 2017	31 December 2016
Commitments to extend credit	1,611,258	1,234,450
Guarantees arising from banking activities	476,837	426,541
Legal disputes (disputed value)	38,880	13,053
Confirmed letters of credit	14,449	12,702
Other	327,594	302,362
Total	**2,469,018**	**1,989,108**

Legal disputes

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

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

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 19,606 million and HUF 15,067 million as at 30 June 2017 and 31 December 2016, respectively. (See Note 18.)

Commitments to extend credit, guarantees and letters of credit

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

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

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

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

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

Guarantees, payment undertakings arising from banking activities

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

Derivatives

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

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

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

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

The value of the discounted share-based payment at the performance assessment is determined by Supervisory Board[1] based on the average of the three previous trade day's middle rate of OTP'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 appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries.

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

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

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

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

[1] Until the end of 2014 Board of Directors.

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

	Share purchasing at a discounted price													Share purchasing at a discounted price		
Year	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Price of remu-neration exchanged to share	Exercise price	Maximum earnings	Price of remu-neration exchanged to share
	(HUF per share)															
	for the year 2010		**for the year 2011**		**for the year 2012**		**for the year 2013**		**for the year 2014**		**for the year 2015**			**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
2020	-	-	-		-	-	-	-	-	-	-	-	-	7,200	4,000	9,200

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

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

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

Based on parameters accepted by Supervisory Board relating to the year **2015** effective pieces are follows as at 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 2013-2015, can be modified based on risk assessment and personal changes.

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

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF mn)

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

Compensations	**30 June 2017**	**31 December 2016**
Short-term employee benefits	4,218	9,207
Share-based payment	1,132	2,330
Other long-term employee benefits	210	497
Termination benefits	9	26
Total	**5,569**	**12,060**

	30 June 2017	**31 December 2016**
Loans provided to companies owned by the Management (normal course of business)	83,438	49,383
Commitments to extend credit and guarantees	43,899	39,660
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions)	3,735	326

	30 June 2017		**31 December 2016**	
Types of transactions	Non-consolidated subsidiaries	Associated companies	Non-consolidated subsidiaries	Associated companies
Loans provided	4,524	2,142	2,196	2,174
Client deposits	940	2,634	1,552	106
Net interest income on loan provided	48	12	20	80
Net fee incomes	16	-	39	-

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 178,6 million and HUF 173,9 million as at 30 June 2017 and 31 December 2016 respectively.

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

	30 June 2017	**31 December 2016**
Members of Board of Directors and their close family members	33	30
Chief executives	6	-
Members of Supervisory Board	2	2

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

	30 June 2017	**31 December 2016**
Members of Board of Directors and their close family members	33	26

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

Member of Board of Directors and its family member owned AMEX Blue credit card loan in the amount of HUF 1.2 million as at 30 June 2017 and 31 December 2016, respectively.

Chief executives owned AMEX Gold credit card loan in the amount of HUF 4.5 million and HUF 3.5 million as at 30 June 2017 and 31 December 2016, respectively, while members of the Board of Directors and their close family members owned AMEX Gold credit card loan in the amount of HUF 2.8 million and HUF 5.9 million as at 30 June 2017 and 31 December 2016, respectively.

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned AMEX Platinum credit card loan in the amount of HUF 54.5 million and HUF 46.8 million, respectively as at 30 June 2017 and 31 December 2016, respectively.

Chief executives of the Bank owned Lombard loan in the amount of HUF 159 million and HUF 24.5 million as at 30 June 2017 and 31 December 2016, respectively and personal loans in the amount of HUF 10 million as at 31 December 2016.

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

	30 June 2017	31 December 2016
Members of Board of Directors	1,817	1,935
Members of Supervisory Board	89	168
Total	**1,906**	**2,103**

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

NOTE 32: ACQUISITION (in HUF mn)

a) Purchase and consolidation of subsidiaries

Based on the acquisition agreement on purchasing 100% shareholding of Splitska banka d.d., member of Société Générale Group signed on 20 December 2016 between OTP banka Hrvatska, the Croatian subsidiary of OTP Bank and Société Générale Group, on 2 May 2017 the financial closure of the transaction has been completed and Splitska banka was consolidated.

NOTE 32: ACQUISITION (in HUF mn) [continued]

a) Purchase and consolidation of subsidiaries [continued]

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

	Splitska banka group
Cash, amounts due from banks and balances with the National Banks	(16,896)
Placements with other banks, net of allowance for placement losses	(204,139)
Financial assets at fair value through profit or loss	(146)
Securities available-for-sale	(177,587)
Loans, net of allowance for loan losses	(668,732)
Associates and other investments	(10,002)
Securities held-to-maturity	-
Property and equipment	(9,613)
Intangible assets	(1,436)
Other assets	(22,918)
Amounts due to banks, the Hungarian Government, deposits from the National Banks	84,591
Deposits from customers	840,352
Liabilities from issued securities	-
Financial liabilities at fair value through profit or loss	439
Other liabilities	39,218
Subordinated bonds and loans	-
Net assets	**(146,869)**
Non-controlling interest	-
Negative goodwill	14,460
Cash consideration	**(132,409)**

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

	30 April 2017
Cash consideration	(132,409)
Cash acquired	16,896
Net cash outflow	**(115,513)**

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

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

Significant subsidiaries

Name	Ownership (Direct and Indirect) 30 June 2017	31 December 2016	Activity
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC “OTP Bank” (Russia)	97.89%	97.88%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	97.92%	97.92%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.26%	99.26%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	real estate management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd.	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

Significant associates and joint ventures[1]

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

As at 30 June 2017

	Szallas.hu Ltd.	*D-ÉG Thermoset Ltd.*	*Company for Cash Services Ltd.*	*Total*
Total assets	593	4,622	2,192	**7,407**
Total liabilities	169	3,983	133	**4,285**
Shareholders’ equity	424	639	2,059	**3,122**
Total revenues	751	571	514	**1,836**

[1] Based on unaudited financial statements.

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

Significant associates and joint ventures[1] [continued]

As at 31 December 2016

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

NOTE 34: TRUST ACTIVITIES (in HUF mn)

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

	30 June 2017	**31 December 2016**
The amount of loans managed by the Group as a trustee	38,856	35,383

NOTE 35: 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	21.45%	23.13%	28.36%

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

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

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

[1] Based on unaudited financial statements.

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

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

The essential 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 Group considers the effect of liquidity risk events caused by reasons arising in the bank business line (deposit withdrawal), the national economy (exchange rate shock yield curve shock) and the global financial system (capital market shock).

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

The liquidity reserves can be divided in two parts. There are separate decentralized liquid asset portfolios at subsidiary level and a centralized flexible liquidity pool at a 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 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 Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of potential liquidity risk exposure by high quality liquid assets is at all-time record highs. In year 2017 there were no material changes in the liquidity risk management process.

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

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

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

As at 30 June 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 Banks	1,038,059	445	-	-	2	1,038,506
Placements with other banks, net of allowance for placement losses	212,134	189,395	59,202	4,687	367	465,785
Securities held for trading	32,473	61,779	30,651	10,446	11,986	147,335
Securities available-for-sale	101,480	584,830	907,950	267,727	36,849	1,898,836
Loans, net of allowance for loan losses	1,068,872	1,232,226	2,539,737	2,156,292	-	6,997,127
Associates and other investments	-	-	-	-	10,312	10,312
Securities held-to-maturity	53,221	90,514	425,282	625,424	-	1,194,441
Property, equipment and intangible assets	916	1,506	9,713	20,828	348,965	381,928
Investment property, investment property subject to operating lease	4,170	-	483	5,928	17,213	27,794
Other assets[1]	157,641	27,567	51,301	14,050	24,175	274,734
TOTAL ASSETS	**2,668,966**	**2,188,262**	**4,024,319**	**3,105,382**	**449,869**	**12,436,798**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	178,654	77,870	106,994	170,964	313	534,795
Deposits from customers	7,683,251	1,131,662	316,739	102,776	1,633	9,236,061
Liabilities from issued securities	10,707	12,983	230,088	1,641	-	255,419
Other liabilities[1]	422,771	36,797	6,507	7,785	3,932	477,792
Subordinated bonds and loans	329	-	76,135	-	-	76,464
TOTAL LIABILITIES	**8,295,712**	**1,259,312**	**736,463**	**283,166**	**5,878**	**10,580,531**
NET POSITION	**(5,626,746)**	**928,950**	**3,287,856**	**2,822,216**	**443,991**	**1,856,267**
Receivables from derivative financial instruments classified as held for trading	931,559	709,838	588,650	129,306	-	2,359,353
Liabilities from derivative financial instruments classified as held for trading	(1,417,128)	(751,835)	(354,468)	(123,154)	-	(2,646,585)
Net position of financial instruments classified as held for trading	**(485,569)**	**(41,997)**	**234,182**	**6,152**	**-**	**(287,232)**
Receivables from derivative financial instruments designated as fair value hedge	2,880	7,318	171,278	58,118	-	239,594
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	**(209)**	**(281,747)**	**(317,433)**	**32,301**	**-**	**(567,088)**
Net position of derivative financial instruments total	**(485,778)**	**(323,744)**	**(83,251)**	**38,453**	**-**	**(854,320)**
Commitments to extend credit	741,577	604,047	198,215	67,372	47	1,611,258
Bank guarantees	82,914	199,427	133,506	59,497	1,493	476,837
Off-balance sheet commitments	**824,491**	**803,474**	**331,721**	**126,869**	**1,540**	**2,088,095**

[1] Without derivative financial instruments.

NOTE 36: MATURITY ANALYSIS OF ASSETS, 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 Banks	1,229,096	396,261	-	-	-	1,625,357
Placements with other banks, net of allowance for placement losses	280,215	29,213	52,133	15,431	228	377,220
Securities held-for-trading	13,545	22,445	24,416	11,782	7,869	80,057
Securities available-for-sale	56,516	104,970	1,001,181	256,265	30,292	1,449,224
Loans, net of allowance for loan losses	1,025,865	889,362	1,836,910	2,497,755	468	6,250,360
Associates and other investments	-	-	-	-	9,836	9,836
Securities held-to-maturity	57,025	65,146	362,898	582,257	-	1,067,326
Property, equipment and intangible assets	444	1,780	10,887	9,844	332,561	355,516
Investment property, investment property subject to operating lease	4,200	-	9,187	6,190	9,869	29,446
Other assets[1]	570	2,382	16,824	1,567	-	21,343
TOTAL ASSETS	**2,667,476**	**1,511,559**	**3,314,436**	**3,381,091**	**391,123**	**11,265,685**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	159,624	54,276	176,214	154,507	-	544,621
Deposits from customers	6,878,058	1,385,744	222,739	67,052	-	8,553,593
Liabilities from issued securities	24,586	29,374	86,613	6,958	-	147,531
Other liabilities[1]	324,404	31,697	16,440	8,340	2,582	383,463
Subordinated bonds and loans	353	164	1	-	76,945	77,463
TOTAL LIABILITIES	**7,387,025**	**1,501,255**	**502,007**	**236,857**	**79,527**	**9,706,671**
NET POSITION	**(4,719,549)**	**10,304**	**2,812,429**	**3,144,234**	**311,596**	**1,559,014**
Receivables from derivative financial instruments classified as held for trading	2,320,707	547,029	154,793	20,451	-	3,042,980
Liabilities from derivative financial instruments classified as held for trading	(2,306,574)	(539,463)	(143,258)	(23,499)	-	(3,012,794)
Net position of financial instruments classified as held for trading	**14,133**	**7,566**	**11,535**	**(3,048)**	**-**	**30,186**
Receivables from derivative financial instruments designated as fair value hedge	7,795	1,732	73,499	4,442	-	87,468
Liabilities from derivative financial instruments designated as fair value hedge	(6,687)	(205)	(98,096)	(4,233)	-	(109,221)
Net position of financial instruments designated as fair value hedge	**1,108**	**1,527**	**(24,597)**	**209**	**-**	**(21,753)**
Net position of derivative financial instruments total	**15,241**	**9,093**	**(13,062)**	**(2,839)**	**-**	**8,433**
Commitments to extend credit	410,141	589,593	188,911	45,689	116	1,234,450
Bank guarantees	145,896	114,319	59,638	104,974	1,714	426,541
Off-balance sheet commitments	**556,037**	**703,912**	**248,549**	**150,663**	**1,830**	**1,660,991**

[1] Without derivative financial instruments.

NOTE 36: MATURITY ANALYSIS OF ASSETS, 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 Banks	1,878,888	72	-	-	-	1,878,960
Placements with other banks, net of allowance for placement losses	291,888	7,489	1,022	178	317	300,894
Securities held-for-trading	4,718	6,042	15,929	8,565	3,762	39,016
Securities available-for-sale	7,854	95,051	925,349	194,913	38,966	1,262,133
Loans, net of allowance for loan losses	678,509	882,873	1,819,370	2,480,019	16,601	5,877,372
Associates and other investments	-	-	-	-	10,028	10,028
Securities held-to-maturity	59,171	84,297	407,096	412,147	-	962,711
Property, equipment and intangible assets	2,203	2,466	9,503	4,256	331,042	349,470
Investment property, investment property subject to operating lease	50	916	10,359	12,970	6,147	30,442
Other assets[1]	122,663	39,229	66,259	442	8,954	237,547
TOTAL ASSETS	**3,045,944**	**1,118,435**	**3,254,887**	**3,113,490**	**415,817**	**10,948,573**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	171,469	57,073	168,058	157,092	-	553,692
Deposits from customers	6,615,990	1,107,398	242,363	40,337	1	8,006,089
Liabilities from issued securities	42,910	60,197	105,590	34,370	-	243,067
Other liabilities[1]	296,857	82,815	3,395	8,785	9,302	401,154
Subordinated bonds and loans	1,817	127,336	9,292	8,439	110,566	257,450
TOTAL LIABILITIES	**7,129,043**	**1,434,819**	**528,698**	**249,023**	**119,869**	**9,461,452**
NET POSITION	**(4,083,099)**	**(316,384)**	**2,726,189**	**2,864,467**	**295,948**	**1,487,121**
Receivables from derivative financial instruments classified as held for trading	1,983,024	983,886	396,165	21,157	-	3,384,232
Liabilities from derivative financial instruments classified as held for trading	(1,972,569)	(978,896)	(372,370)	(21,240)	-	(3,345,075)
Net position of financial instruments classified as held for trading	**10,455**	**4,990**	**23,795**	**(83)**	**-**	**39,157**
Receivables from derivative financial instruments designated as fair value hedge	5,604	926	90,703	3,074	-	100,307
Liabilities from derivative financial instruments designated as fair value hedge	(5,554)	(368)	(102,437)	(882)	-	(109,241)
Net position of financial instruments designated as fair value hedge	**50**	**558**	**(11,734)**	**2,192**	**-**	**(8,934)**
Net position of derivative financial instruments total	**10,505**	**5,548**	**12,061**	**2,109**	**-**	**30,223**
Commitments to extend credit	347,477	562,694	241,577	14,638	-	1,166,386
Bank guarantees	74,107	79,463	123,525	96,792	535	374,422
Off-balance sheet commitments	**421,584**	**642,157**	**365,102**	**111,430**	**535**	**1,540,808**

[1] Without derivative financial instruments.

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

As at 30 June 2017

	USD	EUR	CHF	Others	Total
Assets	495,523	2,333,361	44,580	3,290,544	6,164,008
Liabilities	(536,412)	(2,150,489)	(67,537)	(2,795,437)	(5,549,875)
Off-balance sheet assets and liabilities, net[1]	105,405	23,597	(17,721)	(117,313)	(6,032)
Net position	**64,516**	**206,469**	**(40,678)**	**377,794**	**608,101**

As at 31 December 2016

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

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

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

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

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

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

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

[1] Off-balance sheet assets and liabilities, net category contains derivative instruments.

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

As at 30 June 2017

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
ASSETS	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Cash, amounts due from banks and balances with the National Banks	**239,481**	**253,891**	**105**	**970**	**-**	**446**	**-**	**-**	**-**	**-**	**109,625**	**433,988**	**349,211**	**689,295**	**1,038,506**
fixed rate	238,583	215,823	-	-	-	446	-	-	-	-	-	-	238,583	216,269	454,852
variable rate	898	38,068	105	970	-	-	-	-	-	-	-	-	1,003	39,038	40,041
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	109,625	433,988	109,625	433,988	543,613
Placements with other banks, net of allowance for placements losses	**103,119**	**257,095**	**4,163**	**17,946**	**599**	**38,044**	**1,187**	**1**	**222**	**1,534**	**71**	**23,394**	**109,361**	**338,014**	**447,375**
fixed rate	49,868	207,823	210	9,822	243	19,033	1,187	1	222	448	-	-	51,730	237,127	288,857
variable rate	53,251	49,272	3,953	8,124	356	19,011	-	-	-	1,086	-	-	57,560	77,493	135,053
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	71	23,394	71	23,394	23,465
Securities held for trading	**9,613**	**11,190**	**13,717**	**-**	**38,906**	**27,444**	**350**	**11,384**	**2,500**	**19,881**	**9,430**	**4,620**	**74,516**	**74,519**	**149,035**
fixed rate	5,938	11,125	12,056	-	35,606	27,444	223	11,384	2,500	19,881	-	-	56,323	69,834	126,157
variable rate	3,675	65	1,661	-	3,300	-	127	-	-	-	-	-	8,763	65	8,828
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	9,430	4,620	9,430	4,620	14,050
Securities available-for-sale	**26,123**	**67,960**	**23,207**	**1,525**	**434,667**	**193,225**	**157,477**	**83,710**	**510,151**	**426,577**	**18,778**	**24,550**	**1,170,403**	**797,547**	**1,967,950**
fixed rate	3,719	61,728	11,010	834	434,667	163,228	152,074	83,710	510,151	426,577	-	-	1,111,621	736,077	1,847,698
variable rate	22,404	6,232	12,197	691	-	29,997	5,403	-	-	-	-	-	40,004	36,920	76,924
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	18,778	24,550	18,778	24,550	43,328
Loans, net of allowance for loan losses	**920,947**	**2,123,982**	**726,148**	**463,482**	**331,702**	**558,596**	**233,579**	**180,023**	**445,367**	**424,857**	**52,213**	**69,456**	**2,709,956**	**3,820,396**	**6,530,352**
fixed rate	150,949	321,670	54,907	38,627	165,409	118,896	87,674	150,424	135,900	354,692	-	-	594,839	984,309	1,579,148
variable rate	769,998	1,802,312	671,241	424,855	166,293	439,700	145,905	29,599	309,467	70,165	-	-	2,062,904	2,766,631	4,829,535
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	52,213	69,456	52,213	69,456	121,669
Securities held-to-maturity	**-**	**32,838**	**-**	**75**	**100,613**	**532**	**139,721**	**13,734**	**876,923**	**49,358**	**18,103**	**95**	**1,135,360**	**96,632**	**1,231,992**
fixed rate	-	32,498	-	75	100,613	517	139,721	13,734	876,923	49,358	-	-	1,117,257	96,182	1,213,439
variable rate	-	340	-	-	-	15	-	-	-	-	-	-	-	355	355
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	18,103	95	18,103	95	18,198
Derivative financial instruments	**518,414**	**166,838**	**415,693**	**121,538**	**199,721**	**229,397**	**45,990**	**8,972**	**19,809**	**29,459**	**399,711**	**403,908**	**1,599,338**	**960,112**	**2,559,450**
fixed rate	495,092	162,607	244,796	117,666	195,847	218,614	45,967	8,972	19,809	29,459	-	-	1,001,511	537,318	1,538,829
variable rate	23,322	4,231	170,897	3,872	3,874	10,783	23	-	-	-	-	-	198,116	18,886	217,002
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	399,711	403,908	399,711	403,908	803,619

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

As at 30 June 2017 [continued]

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
LIABILITIES	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**81,922**	**148,150**	**9,500**	**90,785**	**30,942**	**15,595**	**4,615**	**13,403**	**105,461**	**32,472**	**96**	**1,313**	**232,536**	**301,718**	**534,254**
fixed rate	77,658	78,937	8,681	14,899	8,116	13,732	4,529	13,403	105,302	32,471	-	-	204,286	153,442	357,728
variable rate	4,264	69,213	819	75,886	22,826	1,863	86	-	159	1	-	-	28,154	146,963	175,117
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	96	1,313	96	1,313	1,409
Deposits from customers	**1,135,032**	**2,970,229**	**264,279**	**405,712**	**113,616**	**701,954**	**5,005**	**71,996**	**2,501,153**	**785,201**	**7,570**	**253,792**	**4,026,655**	**5,188,884**	**9,215,539**
fixed rate	431,668	1,572,807	252,308	403,118	113,616	701,954	5,005	71,996	274,078	277,887	-	-	1,076,675	3,027,762	4,104,437
variable rate	703,364	1,397,422	11,971	2,594	-	-	-	-	2,227,075	507,314	-	-	2,942,410	1,907,330	4,849,740
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7,570	253,792	7,570	253,792	261,362
Liabilities from issued securities	**52,167**	**2,904**	**1,839**	**5,576**	**5,803**	**2,660**	**42,637**	**227**	**137,772**	**45**	**6,463**	**46**	**246,681**	**11,458**	**258,139**
fixed rate	-	2,129	1,839	4,028	5,803	867	42,637	227	137,772	45	-	-	188,051	7,296	195,347
variable rate	52,167	775	-	1,548	-	1,793	-	-	-	-	-	-	52,167	4,116	56,283
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	6,463	46	6,463	46	6,509
Derivative financial instruments	**561,725**	**123,782**	**485,112**	**22,322**	**371,226**	**43,432**	**43,954**	**15,411**	**39,641**	**48,339**	**391,033**	**406,814**	**1,892,691**	**660,100**	**2,552,791**
fixed rate	538,046	119,139	338,423	9,738	370,378	34,576	43,954	15,411	39,641	48,339	-	-	1,330,442	227,203	1,557,645
variable rate	23,679	4,643	146,689	12,584	848	8,856	-	-	-	-	-	-	171,216	26,083	197,299
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	391,033	406,814	391,033	406,814	797,847
Subordinated bonds and loans	-	-	-	**76,130**	-	-	-	-	-	-	-	**334**	-	**76,464**	**76,464**
fixed rate	-	-	-	76,126	-	-	-	-	-	-	-	-	-	76,126	76,126
variable rate	-	-	-	4	-	-	-	-	-	-	-	-	-	4	4
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	334	-	334	334
Net position	**(13,149)**	**(331,271)**	**422,303**	**5,011**	**584,621**	**284,043**	**482,093**	**196,787**	**(929,055)**	**85,609**	**202,769**	**297,712**	**749,582**	**537,891**	**1,287,473**

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

As at 31 December 2016 (Restated)

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
ASSETS	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Cash, amounts due from banks and balances with the National Banks	**501,289**	**530,368**	**185**	**262**	**-**	**80**	**-**	**-**	**-**	**-**	**89,422**	**503,751**	**590,896**	**1,034,461**	**1,625,357**
fixed rate	500,465	443,693	9	174	-	80	-	-	-	-	-	-	500,474	443,947	944,421
variable rate	824	86,675	176	88	-	-	-	-	-	-	-	-	1,000	86,763	87,763
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	89,422	503,751	89,422	503,751	593,173
Placements with other banks, net of allowance for placements losses	**45,212**	**221,870**	**13,356**	**21,503**	**5**	**23,361**	**515**	**-**	**428**	**797**	**1,532**	**34,951**	**61,048**	**302,482**	**363,530**
fixed rate	41,410	119,703	2,265	16,124	5	9,676	515	-	428	400	-	-	44,623	145,903	190,526
variable rate	3,802	102,167	11,091	5,379	-	13,685	-	-	-	397	-	-	14,893	121,628	136,521
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,532	34,951	1,532	34,951	36,483
Securities held for trading	**6,224**	**916**	**6,634**	**2,213**	**11,757**	**13,311**	**119**	**12,187**	**5,235**	**15,431**	**3,263**	**4,178**	**33,232**	**48,236**	**81,468**
fixed rate	2,419	916	6,167	2,213	7,268	13,311	119	12,187	5,235	15,431	-	-	21,208	44,058	65,266
variable rate	3,805	-	467	-	4,489	-	-	-	-	-	-	-	8,761	-	8,761
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,263	4,178	3,263	4,178	7,441
Securities available-for-sale	**22,867**	**29,448**	**17,896**	**44,262**	**84,337**	**81,962**	**330,032**	**29,066**	**555,385**	**279,939**	**23,375**	**28,524**	**1,033,892**	**493,201**	**1,527,093**
fixed rate	-	23,320	1,772	14,040	84,337	81,960	330,032	29,066	555,385	279,939	-	-	971,526	428,325	1,399,851
variable rate	22,867	6,128	16,124	30,222	-	2	-	-	-	-	-	-	38,991	36,352	75,343
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	23,375	28,524	23,375	28,524	51,899
Loans, net of allowance for loan losses	**550,597**	**1,796,652**	**713,311**	**746,620**	**314,546**	**266,373**	**221,238**	**140,765**	**478,810**	**323,363**	**89,765**	**94,192**	**2,368,267**	**3,367,965**	**5,736,232**
fixed rate	26,310	296,834	46,718	66,807	63,103	186,381	67,008	124,752	166,910	299,293	-	-	370,049	974,067	1,344,116
variable rate	524,287	1,499,818	666,593	679,813	251,443	79,992	154,230	16,013	311,900	24,070	-	-	1,908,453	2,299,706	4,208,159
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	89,765	94,192	89,765	94,192	183,957
Securities held-to-maturity	**-**	**28,815**	**25,292**	**3,976**	**220,251**	**3,548**	**59,501**	**4,805**	**693,487**	**58,954**	**15,513**	**85**	**1,014,044**	**100,183**	**1,114,227**
fixed rate	-	28,184	25,292	3,976	220,251	3,534	59,501	4,805	693,487	58,954	-	-	998,531	99,453	1,097,984
variable rate	-	631	-	-	-	14	-	-	-	-	-	-	-	645	645
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	15,513	85	15,513	85	15,598
Derivative financial instruments	**440,563**	**790,425**	**533,092**	**178,159**	**197,126**	**85,164**	**25,585**	**140,406**	**32,478**	**35,595**	**484,840**	**356,806**	**1,713,684**	**1,586,555**	**3,300,239**
fixed rate	425,320	435,181	261,919	111,266	195,635	72,291	25,585	140,406	32,478	35,595	-	-	940,937	794,739	1,735,676
variable rate	15,243	355,244	271,173	66,893	1,491	12,873	-	-	-	-	-	-	287,907	435,010	722,917
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	484,840	356,806	484,840	356,806	841,646

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

As at 31 December 2016 (Restated) [continued]

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
LIABILITIES	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**79,392**	**141,526**	**6,066**	**16,888**	**53,690**	**8,908**	**34,791**	**8,471**	**180,193**	**11,766**	**102**	**1,982**	**354,234**	**189,541**	**543,775**
fixed rate	78,779	58,004	5,974	859	27,356	5,625	34,744	5,740	179,983	6,219	-	-	326,836	76,447	403,283
variable rate	613	83,522	92	16,029	26,334	3,283	47	2,731	210	5,547	-	-	27,296	111,112	138,408
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	102	1,982	102	1,982	2,084
Deposits from customers	**1,310,585**	**2,524,949**	**351,252**	**363,467**	**378,096**	**596,436**	**5,227**	**138,664**	**1,988,233**	**736,961**	**10,139**	**136,574**	**4,043,532**	**4,497,051**	**8,540,583**
fixed rate	514,177	1,185,713	326,181	360,605	378,096	596,436	5,227	138,664	4,454	99,215	-	-	1,228,135	2,380,633	3,608,768
variable rate	796,408	1,339,236	25,071	2,862	-	-	-	-	1,983,779	637,746	-	-	2,805,258	1,979,844	4,785,102
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	10,139	136,574	10,139	136,574	146,713
Liabilities from issued securities	**1**	**9,340**	**2,957**	**9,375**	**7,480**	**18,451**	**9,320**	**204**	**87,367**	**38**	**1,951**	**416**	**109,076**	**37,824**	**146,900**
fixed rate	1	8,238	2,957	8,386	7,480	16,542	9,320	204	87,367	38	-	-	107,125	33,408	140,533
variable rate	-	1,102	-	989	-	1,909	-	-	-	-	-	-	-	4,000	4,000
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,951	416	1,951	416	2,367
Derivative financial instruments	**1,105,795**	**124,832**	**534,213**	**150,853**	**249,185**	**11,700**	**161,519**	**16,746**	**41,332**	**59,631**	**374,777**	**449,963**	**2,466,821**	**813,725**	**3,280,546**
fixed rate	740,009	119,742	313,883	56,132	248,403	2,351	161,519	16,746	41,332	59,631	-	-	1,505,146	254,602	1,759,748
variable rate	365,786	5,090	220,330	94,721	782	9,349	-	-	-	-	-	-	586,898	109,160	696,058
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	374,777	449,963	374,777	449,963	824,740
Subordinated bonds and loans	-	-	-	**76,936**	-	-	-	-	-	-	-	**522**	-	**77,458**	**77,458**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	76,936	-	-	-	-	-	-	-	-	-	76,936	76,936
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	522	-	522	522
Net position	**(929,021)**	**597,847**	**415,278**	**379,476**	**139,571**	**(161,696)**	**426,133**	**163,144**	**(531,302)**	**(94,317)**	**320,741**	**433,030**	**(158,600)**	**1,317,484**	**1,158,884**

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

As at 31 December 2015 (Restated)

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
ASSETS	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Cash, amounts due from banks and balances with the National Banks	**1,204,852**	**124,465**	**251**	**129**	**-**	**18**	**-**	**-**	**-**	**-**	**78,000**	**471,245**	**1,283,103**	**595,857**	**1,878,960**
fixed rate	1,203,663	68,286	-	40	-	18	-	-	-	-	-	-	1,203,663	68,344	1,272,007
variable rate	1,189	56,179	251	89	-	-	-	-	-	-	-	-	1,440	56,268	57,708
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	78,000	471,245	78,000	471,245	549,245
Placements with other banks, net of allowance for placements losses	**40,110**	**158,875**	**5,083**	**40,634**	**26**	**13,270**	**3**	**696**	**11,983**	**4,780**	**15**	**25,093**	**57,220**	**243,348**	**300,568**
fixed rate	37,814	110,924	498	7,847	26	8,343	3	696	11,983	4,002	-	-	50,324	131,812	182,136
variable rate	2,296	47,951	4,585	32,787	-	4,927	-	-	-	778	-	-	6,881	86,443	93,324
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	15	25,093	15	25,093	25,108
Securities held for trading	**1,201**	**-**	**2,124**	**339**	**7,863**	**72**	**141**	**4,216**	**10,335**	**8,745**	**830**	**4,687**	**22,494**	**18,059**	**40,553**
fixed rate	299	-	1,856	339	5,950	54	141	4,216	10,335	8,745	-	-	18,581	13,354	31,935
variable rate	902	-	268	-	1,913	18	-	-	-	-	-	-	3,083	18	3,101
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	830	4,687	830	4,687	5,517
Securities available-for-sale	**21,671**	**15,155**	**18,953**	**19,551**	**9,271**	**70,052**	**21,419**	**58,096**	**854,494**	**137,196**	**50,940**	**28,688**	**976,748**	**328,738**	**1,305,486**
fixed rate	-	12,975	-	19,551	9,271	65,079	21,419	58,096	854,494	136,060	-	-	885,184	291,761	1,176,945
variable rate	21,671	2,180	18,953	-	-	4,973	-	-	-	1,136	-	-	40,624	8,289	48,913
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	50,940	28,688	50,940	28,688	79,628
Loans, net of allowance for loan losses	**494,685**	**1,679,202**	**565,545**	**830,627**	**263,497**	**284,342**	**153,606**	**121,203**	**506,656**	**255,515**	**86,347**	**168,742**	**2,070,336**	**3,339,631**	**5,409,967**
fixed rate	8,566	253,898	9,926	102,394	58,511	174,813	50,003	104,835	113,882	232,971	-	-	240,888	868,911	1,109,799
variable rate	486,119	1,425,304	555,619	728,233	204,986	109,529	103,603	16,368	392,774	22,544	-	-	1,743,101	2,301,978	4,045,079
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	86,347	168,742	86,347	168,742	255,089
Securities held-to-maturity	**-**	**37,159**	**16,085**	**5,858**	**35,710**	**2,429**	**86,409**	**1,376**	**678,012**	**47,847**	**14,767**	**1,025**	**830,983**	**95,694**	**926,677**
fixed rate	-	36,984	12,746	5,858	35,710	2,409	86,409	1,376	678,012	47,847	-	-	812,877	94,474	907,351
variable rate	-	175	3,339	-	-	20	-	-	-	-	-	-	3,339	195	3,534
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	14,767	1,025	14,767	1,025	15,792
Derivative financial instruments	**673,749**	**668,051**	**1,351,732**	**384,757**	**217,206**	**109,734**	**46,773**	**149,426**	**39,414**	**29,997**	**346,498**	**194,146**	**2,675,372**	**1,536,111**	**4,211,483**
fixed rate	500,878	227,526	428,021	135,754	216,291	66,795	46,773	149,426	39,414	29,997	-	-	1,231,377	609,498	1,840,875
variable rate	172,871	440,525	923,711	249,003	915	42,939	-	-	-	-	-	-	1,097,497	732,467	1,829,964
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	346,498	194,146	346,498	194,146	540,644

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

As at 31 December 2015 (Restated) [continued]

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
LIABILITIES	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**95,241**	**129,524**	**8,142**	**45,391**	**54,483**	**5,982**	**10,760**	**3,651**	**170,320**	**5,707**	**8**	**4,101**	**338,954**	**194,356**	**533,310**
fixed rate	95,174	64,590	7,049	7,382	23,383	5,427	10,760	3,651	170,320	5,706	-	-	306,686	86,756	393,442
variable rate	67	64,934	1,093	38,009	31,100	555	-	-	-	1	-	-	32,260	103,499	135,759
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	8	4,101	8	4,101	4,109
Deposits from customers	**1,306,653**	**2,484,899**	**472,572**	**473,728**	**136,025**	**703,014**	**2,224**	**68,831**	**1,818,548**	**397,140**	**3,230**	**117,715**	**3,739,252**	**4,245,327**	**7,984,579**
fixed rate	706,888	1,252,940	472,558	471,863	136,025	703,004	2,224	68,831	259,993	101,191	-	-	1,577,688	2,597,829	4,175,517
variable rate	599,765	1,231,959	14	1,865	-	10	-	-	1,558,555	295,949	-	-	2,158,334	1,529,783	3,688,117
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,230	117,715	3,230	117,715	120,945
Liabilities from issued securities	**1,916**	**6,202**	**157**	**9,082**	**11,002**	**41,623**	**16,153**	**8,443**	**137,495**	**236**	**7,021**	**46**	**173,744**	**65,632**	**239,376**
fixed rate	1,916	5,953	157	6,929	11,002	38,667	16,153	8,443	137,495	236	-	-	166,723	60,228	226,951
variable rate	-	249	-	2,153	-	2,956	-	-	-	-	-	-	-	5,358	5,358
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7,021	46	7,021	46	7,067
Derivative financial instruments	**1,248,271**	**98,165**	**1,083,679**	**636,911**	**158,671**	**134,008**	**190,632**	**6,931**	**40,977**	**72,001**	**227,762**	**275,151**	**2,949,992**	**1,223,167**	**4,173,159**
fixed rate	635,192	89,002	418,185	143,566	157,950	125,122	190,632	6,931	40,977	72,001	-	-	1,442,936	436,622	1,879,558
variable rate	613,079	9,163	665,494	493,345	721	8,886	-	-	-	-	-	-	1,279,294	511,394	1,790,688
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	227,762	275,151	227,762	275,151	502,913
Subordinated bonds and loans	**-**	**-**	**-**	**5**	**-**	**234,773**	**-**	**-**	**-**	**-**	**-**	**6**	**-**	**234,784**	**234,784**
fixed rate	-	-	-	-	-	234,773	-	-	-	-	-	-	-	234,773	234,773
variable rate	-	-	-	5	-	-	-	-	-	-	-	-	-	5	5
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	6	-	6	6
Net position	**(215,813)**	**(35,883)**	**395,223**	**116,778**	**173,392**	**(639,483)**	**88,582**	**247,157**	**(66,446)**	**8,996**	**339,376**	**496,607**	**714,314**	**194,172**	**908,486**

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

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the period 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
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	133,420	202,210
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,774,082	264,214,052
Basic Earnings per share (in HUF)	**510**	**765**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	133,420	202,210
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	261,855,436	264,266,374
Diluted Earnings per share (in HUF)	**510**	**765**

	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	18,225,928	15,785,958
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**261,774,082**	**264,214,052**
Dilutive effects of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares[1]	81,354	52,322
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**261,855,436**	**264,266,374**

[1] Both in the first half of 2017 and in year 2016 the dilutive effect is in connection with the Remuneration Policy.

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

As at 30 June 2017

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	756	-	-	-
Placements with other banks, net of allowance for placements losses	1,676	-	36	-
Securities held for trading	-	1,360	-	-
Securities available-for-sale	16,605	3,432	(2)	8,962
Loans, net of allowance for loan losses	253,347	8,974	(17,738)	-
Securities held-to-maturity	28,633	-	2	-
Other assets	1,360	-	-	-
Derivative financial instruments	3,197	519	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(4,428)	-	-	-
Deposits from customers	(24,472)	84,915	-	-
Liabilities from issued securities	(2,431)	-	-	-
Subordinated bonds and loans	(1,176)	-	-	-
Total	**273,067**	**99,200**	**(17,702)**	**8,962**

As at 31 December 2016

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

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

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

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

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

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

Classes of assets and liabilities not measured at fair value in the statement of financial position, 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 is measured at discounted cash-flow method. Fair value of loans, net of allowance for loan losses measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

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

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

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 Banks	1,038,506	1,034,742	1,625,357	1,625,466	1,878,960	1,880,223
Placements with other banks, net of allowance for placements losses	447,375	457,011	363,530	374,733	300,568	318,972
Financial assets at fair value through profit or loss	226,909	226,909	189,778	189,778	182,359	182,359
Securities held for trading	*149,035*	*149,035*	*81,468*	*81,468*	*40,553*	*40,553*
Fair value of derivative financial instruments classified as held for trading	*77,874*	*77,874*	*108,310*	*108,310*	*141,806*	*141,806*
Securities available-for-sale	1,967,950	1,967,950	1,527,093	1,527,093	1,305,486	1,305,486
Loans, net of allowance for loan losses[1]	6,530,352	6,978,339	5,736,232	6,385,775	5,409,967	6,028,495
Securities held-to-maturity	1,231,992	1,235,607	1,114,227	1,198,227	926,677	1,010,112
Fair value of derivative financial instruments designated as fair value hedge	8,072	8,072	7,887	7,887	16,009	16,151
Financial assets total	**11,451,156**	**11,908,630**	**10,564,104**	**11,308,959**	**10,020,026**	**10,741,798**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	534,254	524,795	543,775	540,194	533,310	533,338
Deposits from customers	9,215,539	9,203,759	8,540,583	8,511,959	7,984,579	7,969,922
Liabilities from issued securities	258,139	372,961	146,900	258,372	239,376	351,488
Fair value of derivative financial instruments designated as fair value hedge	19,732	19,732	20,002	20,002	13,723	13,723
Fair value of derivative financial instruments classified as held for trading	67,742	67,742	75,871	75,871	101,561	101,561
Subordinated bonds and loans	76,464	72,047	77,458	69,966	234,784	240,619
Financial liabilities total	**10,171,870**	**10,261,036**	**9,404,589**	**9,476,364**	**9,107,333**	**9,210,651**

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

NOTE 41: 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	31,643	38,878
Negative fair value of interest rate swaps classified as held for trading	(28,861)	(33,012)
Foreign exchange swaps classified as held for trading		
Positive fair value of foreign exchange swaps classified as held for trading	10,939	17,148
Negative fair value of foreign exchange swaps classified as held for trading	(13,821)	(13,125)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated as fair value hedge	6,492	6,888
Negative fair value of interest rate swaps designated as fair value hedge	(19,732)	(19,976)
CCIRS classified as held for trading		
Positive fair value of CCIRS classified as held for trading	23,750	33,768
Negative fair value of CCIRS classified as held for trading	(12,470)	(14,984)
Mark-to-market CCIRS classified as held for trading		
Positive fair value of mark-to-market CCIRS classified as held for trading	-	332
Negative fair value of mark-to-market CCIRS classified as held for trading	-	(700)
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated as fair value hedge	1,580	998
Negative fair value of CCIRS designated as fair value hedge	-	(26)
Other derivative contracts designated as fair value hedge		
Positive fair value of other derivative contracts designated as fair value hedge	-	1
Negative fair value of other derivative contracts designated as fair value hedge	-	-
Other derivative contracts classified as held for trading		
Positive fair value of other derivative contracts classified as held for trading	11,542	18,184
Negative fair value of other derivative contracts classified as held for trading	(12,590)	(14,050)
Derivative financial assets total	**85,946**	**116,197**
Derivative financial liabilities total	**(87,474)**	**(95,873)**
Derivative financial instruments total	**(1,528)**	**20,324**

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

c) Hedge accounting

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

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

As at 30 June 2017

Types of the hedges	Hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Fair value hedges	IRS	HUF (13,239) million	Interest rate
2) Fair value hedges	CCIRS	HUF 1,580 million	Interest rate / Foreign exchange
3) Net investment hedge in foreign operations[1]	CCIRS and issued securities	HUF (511) million	Foreign exchange

As at 31 December 2016

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

d) Fair value hedges

1. Securities available-for-sale

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

	30 June 2017	
Fair value of the hedging IRS instruments	(18,274)	(19,305)

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

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

d) Fair value hedges [continued]

2. Loans to customers / corporates

The Group has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows the Group entered into pay-fixed, receive 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.
The Bank has further floating interest rate loans denominated in RON and CHF. These loans are exposed to the change of foreign exchange of RON and CHF and the risk of changes in interest rates of CHF. In order to hedge the foreign currency risk and the interest rate risk OTP entered into CCIRS transactions.

	30 June 2017	
Fair value of the hedging IRS instruments	[illegible]	
Fair value of the hedging CCIRS instruments	[illegible]	[illegible]

3. Issued securities

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

	30 June 2017	
Fair value of the hedging IRS instruments	5,040	6,221

NOTE 41: 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	
				on the hedged items	on 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 customers	CCIRS	HUF 6,658 million	HUF 148 million	HUF (412) million	HUF 412 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	
				on the hedged items	on hedging instruments
Securities available-for-sale	IRS	HUF 881,730 million	HUF (19,305) million	HUF 11,723 million	HUF (13,619) million
Loans to customers	IRS	HUF 451 million	HUF (4) million	HUF (161) million	HUF 161 million
Loans to corporates	CCIRS	HUF 53,937 million	HUF 972 million	HUF (168) million	HUF 168 million
Liabilities from issued securities	IRS	HUF 69,959 million	HUF 6,221 million	HUF 7,512 million	HUF (7,512) million

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

e) Fair value levels

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

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

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

As at 30 June 2017	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	224,850	93,824	131,026	-
from this: securities held for trading	146,976	92,581	54,395	-
from this: positive fair value of derivative financial instruments classified as held for trading	77,874	1,243	76,631	-
Securities available-for-sale	1,952,920	1,507,761	437,494	7,665[1]
Positive fair value of derivative financial instruments designated as fair value hedge	8,072	-	8,072	-
Financial assets measured at fair value total	**2,185,842**	**1,601,585**	**576,592**	**7,665**
Negative fair value of derivative financial instruments classified as held for trading	67,742	184	67,558	-
Negative fair value of derivative financial instruments designated as fair value hedge	19,732	-	19,732	-
Financial liabilities measured at fair value total	**87,474**	**184**	**87,290**	**-**

As at 31 December 2016 (Restated)	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	188,848	62,876	125,972	-
from this: securities held for trading	80,538	62,789	17,749	-
from this: positive fair value of derivative financial instruments classified as held for trading	108,310	87	108,223	-
Securities available-for-sale	1,511,519	1,151,543	352,280	7,696[1]
Positive fair value of derivative financial instruments designated as fair value hedge	7,887	-	7,887	-
Financial assets measured at fair value total	**1,708,254**	**1,214,419**	**486,139**	**7,696**
Negative fair value of derivative financial instruments classified as held for trading	75,871	267	75,604	-
Negative fair value of derivative financial instruments designated as fair value hedge	20,002	-	19,943	59
Financial liabilities measured at fair value total	**95,873**	**267**	**95,547**	**59**

[1] The portfolio includes Visa Inc. "C" preferential shares too.

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

e) Fair value levels [continued]

As at 31 December 2015 (Restated)	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	181,688	32,053	149,635	-
from this: securities held for trading	39,882	32,032	7,850	-
from this: positive fair value of derivative financial instruments classified as held for trading	141,806	21	141,785	-
Securities available-for-sale	1,284,979	1,097,952	172,353	14,674[1]
Positive fair value of derivative financial instruments designated as fair value hedge	16,009	-	16,009	-
Financial assets measured at fair value total	**1,482,676**	**1,130,005**	**337,997**	**14,674**
Negative fair value of derivative financial instruments classified as held for trading	101,561	35	101,526	-
Negative fair value of derivative financial instruments designated as fair value hedge	13,723	-	13,723	-
Financial liabilities measured at fair value total	**115,284**	**35**	**115,249**	**-**

Movements in Level 3 financial instruments measured at fair value

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

Movement on securities available-for-sale in Level 3	**Opening balance**	**Increase / (Decrease)**	**Closing balance**
OTP Factoring Ltd.	2,096	33	**2,129**
DSK Bank EAD	1,658	61	**1,719**
OTP Bank Plc.	1,863	(145)	**1,718**
OTP Factoring Ukraine LLC	979	(9)	**970**
OTP banka Hrvatska d.d.	379	39	**418**
OTP Bank Romania S.A.	342	35	**377**
OTP Banka Slovensko a.s.	302	31	**333**
OTP banka Srbija a.d.	3	(2)	**1**
LLC AMC OTP Capital	74	(74)	**-**
Total	**7,696**	**(31)**	**7,665**

[1] The portfolio includes shares of Visa Europe too.

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

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

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

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

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

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

Goodwill / investment impairment and their tax saving effect:

In the half year ended 30 June 2017 and in the year ended 31 December 2016 no goodwill impairment was recognized. In the first half year ended 30 June 2017 in case of OTP Life Annuity Ltd. and R.E. Four d.o.o. HUF 512 million tax shield was recognized due to impairment on investment, which affect was compensated by HUF 782 million as release of impairment on subsidiaries: Merkantil Bank Ltd., Balansz Real Estate Fund and OTP Hungaro-Project. In year 2016 in OTP Factoring Ukraine LLC HUF 11,552 million due to the impairment on investment tax shield was recognized.

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

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

As at 30 June 2017

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. and Splitska banka d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**133,557**		**133,557**																
Adjustments (total)		**(11,462)**	**(11,462)**																
Dividends and net cash transfers (after income tax)		348	348																
Goodwill /investment impairment (after income tax)		(270)	(270)																
Bank tax on financial institutions (after income tax)		(14,899)	(14,899)																
Fine imposed by the Hungarian Competition Authority (after income tax)		177	177																
Effect of acquisition (after income tax)		3,182	3,182																
Consolidated adjusted net profit for the year	**133,557**	**11,462**	**145,019**	**90,197**	**46,569**	**11,230**	**5,816**	**25,372**	**860**	**(1,483)**	**5,094**	**(308)**	**(12)**	**6,479**	**4,203**	**2,207**	**69**	**1,392**	**382**
Profit before income tax	**153,394**	**13,128**	**166,522**	**101,741**	**55,804**	**14,455**	**7,164**	**28,268**	**1,354**	**(1,483)**	**6,290**	**(232)**	**(12)**	**7,036**	**4,454**	**2,410**	**172**	**1,605**	**336**
Adjusted operating profit	**171,096**	**14,891**	**185,987**	**81,381**	**96,843**	**34,773**	**9,093**	**31,670**	**5,752**	**473**	**10,511**	**3,509**	**1,062**	**6,007**	**3,877**	**2,309**	**(179)**	**1,605**	**151**
Adjusted total income	418,038	(24,758)	393,280	183,119	192,260	66,178	16,743	53,892	14,163	3,950	24,037	8,804	4,493	19,306	8,535	3,472	7,299	1,798	(3,203)
Adjusted net interest income	273,067	(3,961)	269,106	116,280	142,763	53,892	11,100	36,676	10,756	2,885	17,466	6,718	3,270	8,386	7,470	15	901	1,798	(121)
Adjusted net profit from fees and commissions	123,515	(25,206)	98,309	54,154	39,601	11,828	4,542	13,325	1,533	861	4,500	1,825	1,187	4,832	80	3,487	1,265	0	(278)
Adjusted other net non-interest income	21,456	4,409	25,865	12,685	9,896	458	1,101	3,891	1,874	204	2,071	261	36	6,088	985	(30)	5,133	0	(2,804)
Adjusted other administrative expenses	(246,942)	39,649	(207,293)	(101,738)	(95,417)	(31,405)	(7,650)	(22,222)	(8,411)	(3,477)	(13,526)	(5,295)	(3,431)	(13,299)	(4,658)	(1,163)	(7,478)	(193)	3,354
Total risk costs	**(17,702)**	**(4,606)**	**(22,308)**	**17,517**	**(41,039)**	**(20,318)**	**(1,929)**	**(3,402)**	**(4,398)**	**(1,956)**	**(4,221)**	**(3,741)**	**(1,074)**	**1,029**	**577**	**101**	**351**	**0**	**185**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(17,702)	911	(16,791)	16,061	(34,303)	(20,037)	(711)	375	(3,689)	(733)	(5,166)	(3,717)	(625)	1,129	1,152	0	(23)	0	322
Other provision (adjustment)	0	(5,517)	(5,517)	1,456	(6,736)	(281)	(1,218)	(3,777)	(709)	(1,223)	945	(24)	(449)	(100)	(575)	101	374	0	(137)
Total other adjustments (one-off items)[1]	0	2,843	**2,843**	2,843	**0**	0	0	0	0	0	0	0	0	**0**	0	0	0	0	0
Income tax	(19,837)	(1,666)	**(21,503)**	(11,544)	**(9,235)**	(3,225)	(1,348)	(2,896)	(494)	0	(1,196)	(76)	0	**(557)**	(251)	(203)	(103)	(213)	46
Total Assets	**12,145,924**	**0**	**12,145,924**	**7,250,346**	**5,782,355**	**588,230**	**307,137**	**1,813,437**	**600,792**	**137,637**	**1,710,654**	**437,280**	**187,188**	**775,507**	**495,599**	**18,013**	**261,895**	**1,525,703**	**(3,187,987)**
Total Liabilities	**10,649,662**	**0**	**10,649,662**	**5,898,821**	**5,044,018**	**454,202**	**276,623**	**1,587,690**	**557,534**	**109,883**	**1,481,648**	**410,348**	**166,090**	**581,596**	**460,362**	**5,060**	**116,174**	**733,976**	**(1,608,749)**

( ) used at: provisions, impairment and expenses

[1] One-off item consists of: the result of the treasury share swap agreement at OTP Core in the amount of HUF 2,843 million.

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

As at 31 December 2016 (Restated)

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**202,452**		**202,452**																
Adjustments (total)		**1,276**	**1,276**																
Dividends and net cash transfers (after income tax)		412	412																
Goodwill/investment impairment (after income tax)		11,552	11,552																
Bank tax on financial institutions (after income tax)		(13,950)	(13,950)																
Fine imposed by the Hungarian Competition Authority (after income tax)		1,922	1,922																
Expected corporate tax impact of switching to IFRS from HAS in Hungary		(5,766)	(5,766)																
Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary		(6,054)	(6,054)																
Gain on the sale of Visa Europe shares (after income tax)		13,160	13,160																
Consolidated adjusted net profit for the year	**202,452**	**(1,276)**	**201,176**	**122,190**	**73,623**	**14,636**	**10,202**	**47,383**	**1,653**	**39**	**3,782**	**(2,224)**	**(1,848)**	**12,997**	**3,967**	**6,723**	**2,307**	**(5,868)**	**(1,766)**
Profit before income tax	**236,395**	**8,376**	**244,771**	**151,866**	**86,165**	**19,648**	**11,679**	**52,380**	**2,136**	**5**	**4,647**	**(2,480)**	**(1,850)**	**15,199**	**4,264**	**8,114**	**2,821**	**(6,615)**	**(1,844)**
Adjusted operating profit	**329,868**	**6,032**	**335,900**	**143,672**	**179,108**	**54,537**	**22,217**	**70,111**	**8,543**	**697**	**13,538**	**6,780**	**2,685**	**18,745**	**8,550**	**7,894**	**2,301**	**(4,318)**	**(1,307)**
Adjusted total income	785,966	(49,651)	736,315	354,671	349,556	106,031	37,304	112,502	26,643	7,720	31,442	17,892	10,022	52,469	17,038	10,842	24,589	(4,015)	(16,366)
Adjusted net interest income	519,729	2,221	521,950	235,871	272,618	92,025	26,478	84,023	20,315	5,769	22,800	14,257	6,951	23,936	19,804	33	4,099	(4,015)	(6,460)
Adjusted net profit from fees and commissions	222,991	(47,025)	175,966	100,214	64,636	13,749	8,746	26,034	3,230	1,653	5,330	3,272	2,622	11,325	(491)	10,796	1,020	0	(209)
Adjusted other net non-interest income	43,246	(4,847)	38,399	18,586	12,302	257	2,080	2,445	3,098	298	3,312	363	449	17,208	(2,275)	13	19,470	0	(9,697)
Adjusted other administrative expenses	(456,098)	55,683	(400,415)	(210,999)	(170,448)	(51,494)	(15,087)	(42,391)	(18,100)	(7,023)	(17,904)	(11,112)	(7,337)	(33,724)	(8,488)	(2,948)	(22,288)	(303)	15,059
Total risk costs	**(93,473)**	**254**	**(93,219)**	**6,104**	**(92,943)**	**(34,889)**	**(10,538)**	**(17,731)**	**(6,407)**	**(692)**	**(8,891)**	**(9,260)**	**(4,535)**	**(3,546)**	**(4,286)**	**220**	**520**	**(2,297)**	**(537)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(93,473)	20,249	(73,224)	14,036	(83,905)	(34,021)	(11,866)	(12,980)	(5,541)	(890)	(5,331)	(8,987)	(4,289)	(3,010)	(3,088)	0	78	0	(345)
Other provision (adjustment)	0	(19,995)	(19,995)	(7,932)	(9,038)	(868)	1,328	(4,751)	(866)	198	(3,560)	(273)	(246)	(536)	(1,198)	220	442	(2,297)	(192)
Total other adjustments (one-off items)[1]	0	2,090	**2,090**	2,090	**0**	0	0	0	0	0	0	0	0	**0**	0	0	0	0	0
Income tax	(33,943)	(9,652)	**(43,595)**	(29,676)	**(12,542)**	(5,012)	(1,477)	(4,997)	(483)	34	(865)	256	2	**(2,202)**	(297)	(1,391)	(514)	747	78
Total Assets	**11,209,041**	**0**	**11,209,041**	**7,148,667**	**4,820,637**	**648,807**	**307,117**	**1,852,901**	**588,188**	**123,279**	**649,063**	**453,720**	**197,562**	**727,025**	**435,283**	**19,040**	**272,702**	**1,370,966**	**(2,858,254)**
Total Liabilities	**9,788,392**	**0**	**9,788,392**	**5,836,208**	**4,224,484**	**518,032**	**282,874**	**1,605,634**	**545,678**	**94,474**	**575,037**	**426,381**	**176,374**	**544,037**	**405,548**	**2,973**	**135,516**	**657,018**	**(1,473,355)**

( ) used at: provisions, impairment and expenses

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

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

As at 31 December 2015 (Restated)

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**63,171**		**63,171**																
Adjustments (total)		**(57,074)**	**(57,074)**																
Dividends and net cash transfers (after income tax)		144	144																
Goodwill /investment impairment (after income tax)		6,683	6,683																
Bank tax on financial institutions (after income tax)		(29,383)	(29,383)																
Fine imposed by the Hungarian Competition Authority (after income tax)		(662)	(662)																
Effect of Banco Popolare Croatia d.d. and Banca Millennium S.A. acquisition (after income tax)		1,550	1,550																
Actual and one-off effect in result due to changes in law related to customer loan agreements in Hungary (after income tax)		4,594	4,594																
Expected and current impact of regulatory changes related to Fx consumer contracts in Croatia, Romania and Serbia (after income tax)		(32,034)	(32,034)																
Risk cost created toward Crimean exposures from the second quarter of 2014 until 31 December 2015 (after income tax)		(169)	(169)																
Risk cost created toward exposues to Donetsk and Luhansk from the third quarter of 2014 until the end of year 2015 (after income tax)		(2,258)	(2,258)																
Revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes (after income tax)		(5,539)	(5,539)																
Consolidated adjusted net profit for the year	**63,171**	**57,073**	**120,244**	**123,359**	**(1,820)**	**(19,941)**	**(40,312)**	**52,537**	**1,481**	**(384)**	**2,967**	**923**	**909**	**4,526**	**1,785**	**2,713**	**28**	**(4,286)**	**(1,535)**
Profit before income tax	**60,024**	**86,033**	**146,057**	**149,216**	**(3,193)**	**(24,448)**	**(42,230)**	**58,266**	**1,581**	**(393)**	**1,711**	**1,412**	**908**	**6,189**	**1,685**	**3,620**	**884**	**(6,382)**	**227**
Adjusted operating profit	**378,707**	**(16,112)**	**362,595**	**170,599**	**184,772**	**58,495**	**25,184**	**73,136**	**6,074**	**1,293**	**10,844**	**6,600**	**3,146**	**14,327**	**6,810**	**6,109**	**1,408**	**(6,382)**	**(721)**
Adjusted total income	844,223	(89,311)	754,912	367,235	360,518	112,811	41,086	114,439	27,662	8,360	28,021	17,671	10,468	45,789	15,165	8,643	21,981	(5,761)	(12,869)
Adjusted net interest income	550,430	3,229	553,659	251,564	286,988	97,716	29,146	88,674	22,904	6,407	20,345	14,568	7,228	24,850	19,924	63	4,863	(5,761)	(3,982)
Adjusted net profit from fees and commissions	213,872	(46,621)	167,251	97,480	62,533	14,394	7,915	23,013	3,773	1,747	5,309	3,386	2,996	7,213	(2,133)	8,543	803	0	25
Adjusted other net non-interest income	79,921	(45,919)	34,002	18,191	10,997	701	4,025	2,752	985	206	2,367	(283)	244	13,726	(2,626)	37	16,315	0	(8,912)
Adjusted other administrative expenses	(465,516)	73,199	(392,317)	(196,636)	(175,746)	(54,316)	(15,902)	(41,303)	(21,588)	(7,067)	(17,177)	(11,071)	(7,322)	(31,462)	(8,355)	(2,534)	(20,573)	(621)	12,148
Total risk costs	**(318,683)**	**97,973**	**(220,710)**	**(25,555)**	**(187,965)**	**(82,943)**	**(67,414)**	**(14,870)**	**(4,493)**	**(1,686)**	**(9,133)**	**(5,188)**	**(2,238)**	**(8,138)**	**(5,125)**	**(2,489)**	**(524)**	**0**	**948**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(318,683)	107,019	(211,664)	(21,550)	(184,344)	(82,060)	(65,891)	(14,650)	(6,598)	(922)	(6,813)	(5,144)	(2,266)	(5,329)	(4,948)	0	(381)	0	(441)
Other provision (adjustment)	0	(9,046)	(9,046)	(4,005)	(3,621)	(883)	(1,523)	(220)	2,105	(764)	(2,320)	(44)	28	(2,809)	(177)	(2,489)	(143)	0	1,389
Total other adjustments (one-off items)[1]	**0**	**4,172**	**4,172**	**4,172**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Income tax	**3,147**	**(28,960)**	**(25,813)**	**(25,857)**	**1,373**	**4,507**	**1,918**	**(5,729)**	**(100)**	**9**	**1,256**	**(489)**	**1**	**(1,663)**	**100**	**(907)**	**(856)**	**2,096**	**(1,762)**
Total Assets	**10,652,062**	**0**	**10,652,062**	**6,707,414**	**4,651,454**	**514,491**	**292,882**	**1,778,326**	**646,042**	**119,224**	**649,870**	**450,819**	**199,800**	**655,859**	**395,233**	**14,116**	**246,510**	**1,410,729**	**(2,773,394)**
Total Liabilities	**9,418,403**	**0**	**9,418,403**	**5,496,465**	**4,142,684**	**423,514**	**327,685**	**1,524,857**	**599,376**	**89,847**	**580,307**	**420,389**	**176,709**	**520,898**	**371,201**	**4,775**	**144,922**	**731,090**	**(1,472,734)**

( ) used at: provisions, impairment and expenses

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

NOTE 43: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2017

1) Term Note Program

See details in Note 16.

2) New acquisition in Croatia

Based on the acquisition agreement on purchasing 100% shareholding of Splitska banka d.d., member of Société Générale Group signed on 20 December 2016 between OTP banka Hrvatska, the Croatian subsidiary of OTP Bank and Société Générale Group, on 2 May 2017 the financial closure of the transaction has been completed and Splitska banka was consolidated. The integration process may be completed by summer 2018.
Splitska banka is the fifth biggest player on the Croatian banking market and as a universal bank it has been active in the retail and corporate segment as well. As a result of the acquisition the market share of the Group will rise to approximately 10%.

NOTE 44: POST BALANCE SHEET EVENTS

1) New acquisition in Romania

OTP Bank Romania S.A., the Romanian subsidiary of OTP signed an acquisition agreement in July, 2017 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. signed in July 2017. Banca Romaneasca S.A. is the 14th biggest player on the Romanian banking market. As a result of the acquisition the Romanian market share of the Group will rise to approximately 4%, and will become the 8th largest bank in the country. The realization of the transaction is still subject to authority approvals but the financial closing of the transaction is expected to be completed by the beginning of 2018. The Group hasn't gained the whole control yet over the company so in these financial statements for the end of first half year, 2017 it hasn't been consolidated yet.

2) New acquisition in Serbia

OTP banka Srbija a.d. Novi Sad, the Serbian subsidiary of OTP signed an acquisition agreement on 4 August 2017 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. As a result of the acquisition the Serbian market share of the Group will rise to 5.7%, and will become the 7th largest bank in the country. The realization of the transaction is still subject to authority approvals but the financial closing of the transaction is expected to be completed by the end of 2017. The Group hasn't gained the whole control yet over the company so in these financial statements for the end of first half year, 2017 it hasn't been consolidated yet.

NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'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 European Central Bank 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.

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

In the first six months of 2017, economic growth accelerated 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 of 2016 – the underlying processes indicate that the fiscal position was even more favourable than that. By the end of the first half 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 NBH maintains its extremely loose monetary conditions. The easing cycle stopped at 0.9%, but the NBH capped the amount banks can place in 3-month central bank deposits, thus funnelling the banking system's liquidity to the interbank market. As a result, the 3-month interbank interest rate (the BUBOR) broke away from the benchmark rate and sank to close to 0%. The NBH is trying to fine-tune the banking system's liquidity through FX swap auctions too.

Russia's recovery from recent years' recession continued. In the middle of 2016 its GDP bottomed out, and its yearly growth rate reached 2.5% by the end of the first half of 2017. The factors that support its recovery include oil production's expansion amid the stabilizing oil prices, the slowing inflation bolsters real incomes, and the weaker exchange rate benefits non-petroleum exports, as well as import substitution. Thanks to the improving country risk profile, the RUB appreciated at the beginning of 2017, with the USD/RUB sinking below 55 in April. Meanwhile inflation intensively slowed, falling below the Central Bank of Russia's 4% target, to 3.9% by July, down from 5.4% in December 2016. This prompted the central bank to start a cautious interest rate cutting cycle, in which the benchmark rate dropped to 9% by August, from 10% in early 2017. The lower base rate halted the RUB's appreciation, and the USD/RUB returned to near-60 levels. The onset of economic growth boosted budget revenues, while the real value of expenditures diminished in line with the medium-term adjustment plans. This put the budget deficit on a decreasing trajectory, reducing the 12-month rolling deficit to 3.4% of GDP in 2016 to 2.5% by May 2017. Russia's external balance position is slightly improving in 2017 as the better terms of trade – the results of the growth in oil price since last year and the increasing volume of oil exports – are offsetting the balance-worsening effect of surging imports, simultaneously with the intensifying domestic demand. Capital outflow practically halted by 2017. Russia's FX reserves are gradually expanding, and the use of budget reserve funds has diminished.

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

The growth of **Ukraine's economy** somewhat slowed in the first half of 2017, mostly because of the trade blockade of the breakaway territories, starting from February this year. Those areas used to supply Ukraine's industry and electricity generation with coal and iron ore, among other goods. Cutting off these links caused a temporary blip in industrial production. In the first quarter of 2017, Ukraine's GDP grew 2.5% from the same period of the previous year. This cheering figure can be ascribed to faster-than-expected expansion in consumption, as well as to the shrinking imports, which already reflects the impact of the embargo. Still, the engines of growth in the first six months of the year were clearly consumption and investments. The former benefited from a 100% hike in minimum wages at end of 2016, while investments were bolstered by funds made available by the continuation of the International Monetary Fund ("IMF") programme.

Inflation has accelerated to 15.6%, up from 12.4% at the end of 2016, mostly because of an increase in staple food and administered prices. The UAH has been appreciating since the beginning of 2017, sending the USD/UAH to 26.1 (from 27.6) but its depreciation against the euro led the EUR/UAH to 29.9 (from 28.5) since the embargo started in February. Given the low level of core inflation (6.8%; likely to persist) and that headline inflation is expected to gradually decelerate until the end of this year, the National Bank of Ukraine lowered its base rate by one percentage point in April and by 0.5 percentage points a month later (from 14% to 12.5% in two steps).

In the middle of April the IMF released USD 1 billion loan to Ukraine (bringing the total amount tapped so far to USD 8.62 billion), as the latest review of its programme was successfully completed. Carrying out the land and pension reforms is crucial for continuing this programme. If it is successfully approved, the IMF may disburse further USD 3.5 billion to Ukraine. Since 2016, no headway has been made in the military conflict in eastern Ukraine.

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 adjusted total assets at the end of 2015 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 the first half of 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 the first half of 2017 the state subsidized housing loan applications represented HUF 53.8 billion at OTP's Hungarian operation, up by 17% on yearly base due to the additional demand generated by the **Housing Subsidy Scheme for Families** (CSOK). In the first half of 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 NBH 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 Bank contracted for HUF 102 billion under the scheme.

According to the decision of the NBH'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.