

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries for the year 2015, which consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2015 – which shows total assets of 10,718,848 million HUF, – and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net profit for the year of 63,171 million HUF –, consolidated statement of changes in equity and consolidated statement of cash-flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 76 to 159 of this Annual Report.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of OTP Bank Plc. and its subsidiaries as at December 31, 2015, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Other matters

We issued our auditors' report dated March 18, 2016, on the consolidated financial statements and the effects of subsequent events were examined until that date. The consolidated financial statements and the dividend were approved by the General Meeting on April 15, 2016. Our procedures regarding the subsequent events occurred after March 18, 2016 were limited to the General Meeting's decision on the dividend. The consolidated financial statements do not reflect and we have not examined the effects of subsequent events that occurred in the period between March 18, 2016 and May 6, 2016.

Other Reporting Obligation: Report on the Consolidated Business Report

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

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

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

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

Budapest, May 6, 2016



Nagyváradiné Szépfalvi Zsuzsanna
Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
000083



dr. Hruby Attila
registered statutory auditor
007118

Statement of financial position

(consolidated, based on IFRS, as at 31 December 2015, in HUF million)

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

Budapest, 18 March 2016

The accompanying notes to consolidated financial statements on pages 80 to 159 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

Statement of recognized income

(consolidated, based on IFRS, for the year ended 31 December 2015, in HUF million)

	Note	2015	2014
Interest Income			
Loans		575,619	708,873
Placements with other banks		114,025	94,941
Securities available-for-sale		31,063	41,969
Securities held-to-maturity		46,619	39,934
Amounts due from banks and balances with the National Banks		27,496	16,498
Other		7,606	7,015
Total Interest Income		802,428	909,230
Interest Expense			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		116,713	100,615
Deposits from customers		108,023	138,179
Liabilities from issued securities		6,786	13,826
Subordinated bonds and loans		13,633	13,883
Other		6,843	6,630
Total Interest Expense		251,998	273,133
NET INTEREST INCOME		550,430	636,097
Provision for impairment on loan and placement losses	5, 8, 23	318,683	446,830
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		231,747	189,267
Income from fees and commissions	24	257,431	265,392
Expense from fees and commissions	24	43,559	49,736
Net profit from fees and commissions		213,872	215,656
Foreign exchange gains, net		116,682	156,918
Gains on securities, net		11,616	6,911
Dividend income		3,345	4,824
Provision on securities available-for-sale and held-to maturity		(15)	(297)
Other operating income	25	22,973	14,379
Other operating expense	25	(74,680)	(232,609)
from this: release of provision/(provision) on contingent liabilities due to regulations related to customer loans	25	196,574	(194,798)
Net operating gain/(loss)		79,921	(49,874)
Personnel expenses	25	187,806	206,335
Depreciation and amortization	11	45,463	43,722
Goodwill impairment	11	–	22,225
Other administrative expenses	25	232,247	236,410
Other administrative expenses		465,516	508,692
PROFIT/(LOSS) BEFORE INCOME TAX		60,024	(153,643)
Income tax	26	3,147	51,385
NET PROFIT/(LOSS) FOR THE YEAR		63,171	(102,258)
From this, attributable to:			
Non-controlling interest		(412)	(273)
Owners of the company		63,583	(101,985)
Consolidated earnings per share (in HUF)			
Basic	38	242	(382)
Diluted	38	242	(382)

Statement of comprehensive income

(consolidated, based on IFRS, for the year ended 31 December 2015, in HUF million)

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

The accompanying notes to consolidated financial statements on pages 80 to 159 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

Statement of cash-flows

(consolidated, based on IFRS, for the year ended 31 December 2015, in HUF million)

OPERATING ACTIVITIES	Note	2015	2014
Profit/(Loss) before income tax		60,024	(153,643)
Dividend income		(3,345)	(4,824)
Goodwill impairment	11	–	22,225
Depreciation and amortization	11	45,463	43,722
Provision for impairment on securities	7, 10	15	297
Provision for impairment on loan and placement losses	5, 8, 23	318,683	446,830
Provision for impairment on investments	9	1,094	1,244
Provision for impairment on other assets	12	6,696	5,066
Provision on assets subject to operating leases	12	350	1,048
Provision on investment properties		101	3,612
(Release of provision)/Provision for impairment on off-balance sheet commitments and contingent liabilities	17	(146,360)	195,310
Share-based payment	2, 29	3,810	4,393
Change of actuarial losses related to employee benefits		(171)	(6)
Unrealized losses on fair value change of securities held for trading		(12,098)	(2,907)
Unrealized gains/(losses) on fair value change of derivative financial instruments		7,793	(33,140)
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		(5,238)	250,821
Net decrease/(increase) in loans, net of allowance for loan losses		40,677	(48,611)
(Increase)/Decrease in other assets before provisions for impairment		(739)	20,557
Decrease/(Increase) in assets subject to operating lease before provisions for impairment		1,248	(24,442)
Increase in investment properties before provision for impairment		(2,134)	(27,034)
Net increase in deposits from customers		311,102	806,872
Increase/(Decrease) in other liabilities		24,613	(26,908)
Net increase in compulsory reserves at the National Banks		(147,360)	(41,130)
Income tax paid		(14,676)	(20,571)
Net Cash Provided by Operating Activities		489,548	1,418,781
Interest received		803,868	911,671
Interest paid		(242,622)	(258,929)
INVESTING ACTIVITIES			
Net increase in placement with other banks before allowance for placements losses		(19,556)	(7,537)
Purchase of securities available-for-sale		(842,886)	(15,402,966)
Proceeds from sale of securities available-for-sale		373,078	16,213,064
Net decrease/(increase) in investments in associates		11,832	(2,185)
Net decrease in investments in other companies		427	1,397
Dividend income		3,345	4,824
Increase in securities held-to-maturity		(1,036,805)	(156,594)
Decrease in securities held-to-maturity		822,634	31,094
Additions to property, equipment and intangible assets		(50,376)	11,526
Disposals of property, equipment and intangible assets		21,107	12,455
Net decrease/(increase) in advances for investments included in other assets		28	(27)
Net Cash (Used in)/Provided by Investing Activities		(717,172)	705,051
FINANCING ACTIVITIES			
Net decrease in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(174,964)	(75,938)
Cash received from issuance of securities		60,944	56,165
Cash used for redemption of issued securities		(88,652)	(234,299)
(Decrease)/Increase in subordinated bonds and loans		(47,184)	14,806
Decrease in non-controlling interest		(698)	(1,418)
Payments to ICES holders	20	(3,928)	(4,002)
Increase in Treasury shares		24,641	27,180
Decrease in Treasury shares		(34,093)	(31,430)
Dividend paid		(40,473)	(40,594)
Net Cash Used in Financing Activities		(304,407)	(289,530)
Net (decrease)/increase in cash and cash equivalents		(532,031)	1,834,302
Cash and cash equivalents at the beginning of the period		2,003,324	275,947
Foreign currency translation		(44,001)	(106,925)
Cash and cash equivalents at the end of the period		1,427,292	2,003,324
Analysis of cash and cash equivalents			
Cash, amounts due from banks and balances with the National Banks		2,310,313	539,125
Net cash outflow due to acquisition		(2,681)	–
Compulsory reserve established by the National Banks		(304,308)	(263,178)
Cash and cash equivalents at the beginning of the period		2,003,324	275,947
Cash, amounts due from banks and balances with the National Banks		1,874,306	2,310,313
Net cash inflow/(outflow) due to acquisition	4	4,654	(2,681)
Compulsory reserve established by the National Banks	31	(451,668)	(304,308)
Cash and cash equivalents at the end of the period		1,427,292	2,003,324

The accompanying notes to consolidated financial statements on pages 80 to 159 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

Statement of changes in shareholders' equity

(consolidated, based on IFRS, for the year ended 31 December 2015, in HUF million)

	Note	Share capital	Capital reserve	Share-based Payment reserve	Retained earnings and reserves	Put option reserve*	Treasury shares	Non-controlling interest	Total
Balance as at 1 January 2014		28,000	52	16,504	1,571,076	(55,468)	(55,599)	4,767	1,509,332
Net profit for the year		–	–	–	(101,985)	–	–	(273)	(102,258)
Other Comprehensive Income		–	–	–	(97,881)	–	–	(1,145)	(99,026)
Share-based payment	29	–	–	4,393	–	–	–	–	4,393
Dividend for the year 2013		–	–	–	(40,600)	–	–	–	(40,600)
Sale of Treasury shares	21	–	–	–	–	–	27,180	–	27,180
Treasury shares									
– loss on sale		–	–	–	(3,908)	–	–	–	(3,908)
– acquisition	21	–	–	–	–	–	(27,522)	–	(27,522)
Payments to ICES holders	20	–	–	–	(3,425)	–	–	–	(3,425)
Balance as at 31 December 2014		28,000	52	20,897	1,323,277	(55,468)	(55,941)	3,349	1,264,166
Net profit for the year		–	–	–	63,583	–	–	(412)	63,171
Other Comprehensive Income		–	–	–	(44,001)	–	–	(286)	(44,287)
Share-based payment	29	–	–	3,810	–	–	–	–	3,810
Dividend for the year 2014		–	–	–	(40,600)	–	–	–	(40,600)
Sale of Treasury shares	21	–	–	–	–	–	24,641	–	24,641
Treasury shares									
– loss on sale		–	–	–	(7,372)	–	–	–	(7,372)
– acquisition	21	–	–	–	–	–	(26,721)	–	(26,721)
Payments to ICES holders	20	–	–	–	(3,149)	–	–	–	(3,149)
Balance as at 31 December 2015		28,000	52	24,707	1,291,738	(55,468)	(58,021)	2,651	1,233,659

The accompanying notes to consolidated financial statements on pages 80 to 159 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

* See Note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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 Nádor Street, Budapest 1051.

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

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 18 March 2016.

	2015	2014
The structure of the Share capital by shareholders:		
Domestic and foreign private and institutional investors	97%	97%
Employees	2%	2%
Treasury shares	1%	1%
Total	100%	100%

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide

network of 1,400 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

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

1.2 Base of Accounting

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

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

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

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

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

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

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

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

The adoption of these amendments to the existing standards and interpretations

has not led to any changes in the Group's accounting policies.

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

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

- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- Amendments to various standards “Improvements to IFRSs (cycle 2010–2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards “Improvements to IFRSs (cycle 2012–2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).
- Amendments to various standards “Improvements to IFRSs (cycle 2010–2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 12 “Income Taxes” – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 15 “Revenue from Contracts with Customers” and further amendments (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure

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

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

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

NOTE 2:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Presentation

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

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

2.2 Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's presentation currency are translated into HUF and are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates quoted by the National Bank of Hungary ("NBH"), or if there is no official rate, at exchange rates quoted by OTP as at the date of the Consolidated Financial Statements. Non-monetary items carried at fair value

that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest

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

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

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

2.3 Principles of consolidation

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

Consolidated Financial Statements as a whole (see Note 2.13).

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

2.4 Accounting for acquisitions

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

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

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

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

Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations. The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

The Group, in its strategic plan, has taken into consideration the effects of the present global

economic situation, the cautious recovery of economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

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

2.5 Securities held-to-maturity

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

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealized gains and losses

on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Recognized Income for the period. The Group mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income. Such securities consist of corporate shares, Hungarian and foreign government bonds, discounted and interest bearing treasury bills, mortgage bonds and other securities.

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.

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures

that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Foreign exchange options

A foreign exchange option is a derivative financial instrument that gives the owner the right to exchange money denominated in one currency into another currency at a pre-agreed exchange rate at a specified future date.

The transaction, for a fee, guarantees a worst-case exchange rate for the futures purchase of one currency for another. These options protect against unfavourable currency movements while preserving the ability to participate in favourable movements.

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

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

The ineffective element of the hedge is charged directly to the Consolidated Statement of Recognized Income.

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

Changes in fair value of derivatives that are designated and qualify as cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in equity are transferred to the Consolidated Statement of Recognized Income and classified

as revenue or expense in the periods during which the hedged assets and liabilities effect the Consolidated Statement of Recognized Income for the period. The ineffective element of the hedge is charged directly to the Consolidated Statement of Recognized Income. The Group terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

2.8 Offsetting

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

2.9 Embedded derivatives

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

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

2.10 Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities available-for-sale are measured at subsequent reporting dates at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Recognized Income for the applicable period.

Such securities consist of Hungarian and foreign government bonds, corporate bonds, discounted Treasury bills and other securities. Other securities include shares in investment funds, shares in non-financing companies and venture capital fund bonds.

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

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

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less provision for impairment, when appropriate. This exception is related only to equity instruments. Impairment on equity

available-for-sale securities is accounted only if there is a significant or prolonged decrease in the market value. Impairment losses recognised in profit or loss for equity AFS securities is not reversed through profit or loss.

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

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

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

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

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

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

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date.

The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.

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

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

The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IAS 39. If the Group has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence. A loan will be written off if it is overdue or was terminated by the Group. The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. Loan receivables legally demanded from clients are equal to the former gross amount of the loan before the partial write-off.

2.12 Sale and repurchase agreements, security lending

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

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

2.13 Associates and other investments

Companies where the Bank has the ability to exercise significant influence are accounted

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

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

2.14 Property and equipment, Intangible assets

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

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

Intangible assets

Software	3.33–50%
Property rights	5–50%
Property	1–33%
Office equipment and vehicles	2–50%

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

At each balance sheet date, the Group reviews the carrying value of its Property and equipment and Intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such

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

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

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

Reducing the foreign currency risk caused by firm commitment, forward foreign currency contracts may be concluded to ensure the amount payable in foreign currency on a specified future date on one hand and to eliminate the foreign currency risk arising until settlement date of the contract on the other hand. In the case of effective hedge the realised profit or loss of hedging instrument is stated as the part of the cost of the hedged asset as it has arisen until recognising the asset and it is tightly connecting to the purchasing.

2.15 Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. In connection to the financial liabilities at fair value through profit or loss, the Group presents the amount of change in their fair value originated from the changes of market conditions and business environment. Financial liabilities at fair value through profit or loss are either financial liabilities held for trading or they are designated upon initial recognition as at fair value through profit or

loss. In the case of financial liabilities measured at amortized cost fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument. In certain cases the Group repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the net profit or loss for the period and included in other operating income.

2.16 Leases

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

The Group as a lessor

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

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

The Group as a lessee

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

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

2.17 Investment properties

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

2.18 Treasury shares

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

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

2.19 Interest income and interest expense

Interest income and expenses are recognized in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily

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

2.20 Fees and Commissions

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

2.21 Dividend income

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

2.22 Income tax

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

Deferred taxation is accounted for using the balance sheet liability method in respect of

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

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

2.23 Off-balance sheet commitments and contingent liabilities

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

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

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

2.24 Share-based payment and employee benefit

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

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

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

2.25 Consolidated Statement of Cash-flows

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

2.26 Segment reporting

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

resources to the segments and to assess their performance.

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

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

2.27 Comparative figures

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

2.28 Government measures related to customer loan contracts

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

a) Act on Settlement

Based on these regulations expense in the amount of HUF 179.6 billion was recognised in 2014 as amounts charged to clients related to customer loans contracts were assumed unfair.

The provision related to the settlement was released during the year of 2015.

b) Act on Conversion mortgage backed loans into HUF

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

c) Act on Conversion customer loans into HUF

On 2 October 2015 the Hungarian Government accepted the Act CXLV of 2015 on "Resolving issues concerning the HUF conversion of receivables from certain customer loan

agreements". Accordingly, the applicable exchange rates were the spot market rates on 19 August 2015 (official exchange rates of the NBH on 19 August 2015 were 287.20 HUF/CHF and 309.20 HUF/EUR, respectively). Based on this regulation HUF 6.7 billion was recognized as expense in the Group's result.

However, based on the law a subsidy was given to clients in the amount of the difference between the FX rates used for the conversion of FX mortgage loans (256.47 HUF/CHF, 308.97 HUF/EUR) and the 19 August 2015 FX rates was borne equally by the banks and the State. The conversion was not mandatory for the clients.

The Group completed the conversion of foreign currency customer loans, and the relating subsidy was settled with the clients which has no significant effect to the Group's profitability.

NOTE 3:

SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

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

3.1 Impairment on loans and placements

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

in line with the further possibilities of accumulations of historic impairment data from the existing information systems and applications. As a consequence, acquiring new data by the Group could affect the level of impairment allowances in the future.

3.2 Valuation of instruments without direct quotations

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

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

3.3 Provisions

Provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes.

Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for (see Note 17).

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

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

3.4 Impairment on goodwill

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

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

NOTE 4:

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

	2015	2014
Cash on hand		
In HUF	78,182	66,332
In foreign currency	146,718	143,668
	224,900	210,000
Amounts due from banks and balances with the National Banks		
Within one year:		
In HUF	1,203,223	1,798,959
In foreign currency	449,139	298,035
	1,652,362	2,096,994
Over one year:		
In HUF	2	-
In foreign currency	-	-
	2	-
Accrued interest	1,696	638
	1,654,060	2,097,632
Total	1,878,960	2,307,632
Compulsory reserve set by the National Banks	451,668	304,308

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

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

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

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

Interest conditions of placements with other banks:

	2015	2014
In HUF	0.1%–6.4%	0.4%–6.6%
In foreign currency	0.01%–14.9%	0.01%–14.9%
Average interest rates on placements with other banks	0.88%	1.22%

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

Securities held for trading:

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

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

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

* CCIRS: Cross Currency Interest Rate Swaps (see Note 2.6.2).

An analysis of securities held for trading portfolio by currency:

	2015	2014
Denominated in HUF	84.0%	81.7%
Denominated in foreign currency	16.0%	18.3%
Total	100.0%	100.0%

An analysis of government bond portfolio by currency:

	2015	2014
Denominated in HUF	48.4%	54.0%
Denominated in foreign currency	51.6%	46.0%
Total	100.0%	100.0%
Interest rates on securities held for trading	1.1%–8.75%	1.5%–11.0%
Average interest rates on securities held for trading	4.33%	2.06%

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

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

NOTE 7:

SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

	2015	2014
Government bonds	1,142,470	680,323
Corporate bonds	51,278	37,457
from this:		
Listed securities:		
In HUF	–	–
In foreign currency	7,399	11,598
	7,399	11,598
Non-listed securities:		
In HUF	43,879	3,261
In foreign currency	–	22,598
	43,879	25,859
Discounted Treasury bills	33,970	42,168
Other securities	12,422	21,138
Other non-interest bearing securities	45,222	43,646
from this:		
Listed securities:		
In HUF	1,218	–
In foreign currency	7,410	7,114
	8,628	7,114
Non-listed securities:		
In HUF	17,562	28,346
In foreign currency	19,032	8,186
	36,594	36,532
	1,285,362	824,732
Accrued interest	20,507	15,694
Provision for impairment on securities available-for-sale	(383)	(1,274)
Total	1,305,486	839,152

An analysis of securities available-for sale by currency:

	2015	2014
Denominated in HUF	74.8%	84.6%
Denominated in foreign currency	25.2%	15.4%
Total	100.0%	100.0%

An analysis of government bonds by currency:

	2015	2014
Denominated in HUF	78.5%	81.2%
Denominated in foreign currency	21.5%	18.8%
Total	100.0%	100.0%

	2015	2014
Interest rates on securities available-for-sale denominated in HUF	0.8%–7.5%	1.7%–8.0%
Interest rates on securities available-for-sale denominated in foreign currency	0.4%–28.0%	0.3%–28.0%
Average interest rates on securities available-for-sale denominated in HUF	2.96%	3.07%
Average interest rates on securities available-for-sale denominated in foreign currency	3.48%	5.85%

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

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

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

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

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

NOTE 8:

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

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

An analysis of the gross loan portfolio by currency:

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

Interest rates of the loan portfolio are as follows:

	2015	2014
Short-term loans denominated in HUF	0.01%–40.7%	0.04%–42.0%
Long-term loans denominated in HUF	0.01%–40.7%	0.04%–42.0%
Short-term loans denominated in foreign currency	0.01%–66.9%	0.01%–64.9%
Long-term loans denominated in foreign currency	0.01%–59.7%	0.01%–66.9%
Average interest rates on loans denominated in HUF	4.53%	4.68%
Average interest rates on loans denominated in foreign currency	15.77%	16.23%
Gross loan portfolio on which interest to customers is not being accrued	16.9%	17.9%

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

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

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

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

NOTE 9:

ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)

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

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

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

* See details in Note 2.11.

** 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)

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

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

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

An analysis of securities held-to-maturity by currency:

	2015	2014
Denominated in HUF	89.6%	92.7%
Denominated in foreign currency	10.4%	7.3%
Total	100.0%	100%

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

	2015	2014
Interest rates of securities held-to-maturity with variable interest	0.01%–0.6%	0.02%–2.5%
Interest rates of securities held-to-maturity with fixed interest	0.1%–20.7%	0.9%–12.0%
Average interest rates on securities held-to-maturity	5.82%	6.34%

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

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

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

For the year ended 31 December 2015:

	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	345,855	196,923	161,855	11,983	716,616
Additions	39,057	13,068	14,950	15,484	82,559
Foreign currency translation differences	(8,707)	(3,534)	(3,535)	(110)	(15,886)
Disposals	(74,719)	(8,626)	(14,311)	(17,347)	(115,003)
Change in consolidation scope	53	1	26	–	80
Balance as at 31 December	301,539	197,832	158,985	10,010	668,366
Depreciation and Amortization					
Balance as at 1 January	187,134	46,745	117,576	–	351,455
Charge for the year (without goodwill impairment)	22,476	7,888	15,099	–	45,463
Foreign currency translation differences	(476)	437	(1,434)	–	(1,473)
Disposals	(63,404)	(1,619)	(11,526)	–	(76,549)
Balance as at 31 December	145,730	53,451	119,715	–	318,896
Net book value					
Balance as at 1 January	158,721	150,178	44,279	11,983	365,161
Balance as at 31 December	155,809	144,381	39,270	10,010	349,470

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

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

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

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

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

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

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

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

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

Present value calculation with the DCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case

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

Present value calculation with the EVA method

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

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

Based on the valuations of the subsidiaries no goodwill impairment was needed on Group level as at 31 December 2015, while as at 31 December 2014 the total IFRS goodwill in the amount of HUF 22,225 million, recorded for OTP Bank JSC (Ukraine) as at the balance sheet date, was impaired.

For the year ended 31 December 2014:

	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	374,911	222,634	188,906	26,341	812,792
Additions	41,354	7,292	14,785	18,246	81,677
Acquisition	252	1,472	430	2	2,156
Foreign currency translation differences	(20,986)	(3,887)	(5,142)	165	(29,850)
Disposals	(49,075)	(2,398)	(16,275)	(32,777)	(100,525)
Transfer	(628)	(28,190)	(20,939)	–	(49,757)
Change in consolidation scope	27	–	90	6	123
Balance as at 31 December	345,855	196,923	161,855	11,983	716,616
Depreciation and Amortization					
Balance as at 1 January	181,190	49,799	126,559	–	357,548
Charge for the year (without goodwill impairment)	22,614	5,346	15,762	–	43,722
Goodwill impairment	22,225	–	–	–	22,225
Foreign currency translation differences	3,207	(1,311)	(4,219)	–	(2,323)
Disposals	(41,945)	(180)	(13,168)	–	(55,293)
Transfer	(179)	(6,909)	(7,403)	–	(14,491)
Change in consolidation scope	22	–	45	–	67
Balance as at 31 December	187,134	46,745	117,576	–	351,455
Net book value					
Balance as at 1 January	193,721	172,835	62,347	26,341	455,244
Balance as at 31 December	158,721	150,178	44,279	11,983	365,161

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

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

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

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

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

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

Summary of the impairment test for the year ended 31 December 2014

Based on the valuations of the subsidiaries, the total IFRS goodwill, recorded for OTP Bank JSC (Ukraine) as at the balance sheet date,

was impaired, which meant HUF 22,225 million consolidated IFRS goodwill impairment as at 31 December 2014.

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

NOTE 12:

OTHER ASSETS* (in HUF mn)

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

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

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

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

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

* Other assets – except income tax receivable and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Income tax receivable will be enforced in the tax return for the year 2015. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.

** See Note 26.

*** Provision for impairment on other assets mainly consists of provision for impairment on investment properties and trade receivables.

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

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

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

	2015	2014
Within one year:		
In HUF	(1)%–3.6%	1.2%–5.2%
In foreign currency	0.01%–11.75%	0.05%–18.8%
Over one year:		
In HUF	0%–3.2%	0.1%–5.2%
In foreign currency	0.1%–17.0%	0.1%–18.0%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	1.97%	1.83%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency	1.54%	1.59%

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

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

Interest rates on deposits from customers are as follows:

	2015	2014
Within one year:		
In HUF	0.01%–4.0%	0.01%–10.3%
In foreign currency	0.01%–24.5%	0.01%–29.0%
Over one year:		
In HUF	0.01%–6.85%	0.01%–3.1%
In foreign currency	0.01%–20.5%	0.01%–26.0%
Average interest rates on deposits from customers denominated in HUF	0.48%	0.80%
Average interest rates on deposits from customers denominated in foreign currency	4.27%	5.52%

* It contains loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 standard. See more details in Note 44.

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

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

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

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

Interest rates on liabilities from issued securities are as follows:

	2015	2014
Issued securities denominated in HUF	0.01%–10.0%	0.10%–10.0%
Issued securities denominated in foreign currency	0.52%–12.8%	0.23%–10.5%
Average interest rates on issued securities denominated in HUF	3.21%	3.33%
Average interest rates on issued securities denominated in foreign currency	1.71%	5.04%

Issued securities denominated in HUF as at 31 December 2015:

Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged	
1.	OTP TBSZ 2016/I	14/01/2011–05/08/2011	15/12/2016	1,166	5.5	fixed	
2.	OTP TBSZ 2016/II	26/08/2011–29/12/2011	15/12/2016	626	5.5	fixed	
3.	OTP TBSZ 4 2016/I	18/01/2013–15/02/2013	15/12/2016	156	5	fixed	
4.	OTP TBSZ 6 2017/I	13/01/2012–22/06/2012	15/12/2017	231	6.5	fixed	
5.	OTP 2016/Ax	11/11/2010	03/11/2016	3,525	indexed	floating	hedged
6.	OTP 2016/Bx	16/12/2010	19/12/2016	2,589	indexed	floating	hedged
7.	OTP 2016/Ex	28/12/2012	27/12/2016	301	indexed	floating	hedged
8.	OTP 2016/Fx	22/03/2013	24/03/2016	649	indexed	floating	hedged
9.	OTP 2017/Ax	01/04/2011	31/03/2017	4,065	indexed	floating	hedged
10.	OTP 2017/Bx	17/06/2011	20/06/2017	3,926	indexed	floating	hedged
11.	OTP 2017/Cx	19/09/2011	25/09/2017	3,006	indexed	floating	hedged
12.	OTP 2017/Dx	20/10/2011	19/10/2017	431	indexed	floating	hedged
13.	OTP 2017/Ex	21/12/2011	28/12/2017	3,227	indexed	floating	hedged
14.	OTP 2018/Ax	03/01/2012	09/01/2018	547	indexed	floating	hedged
15.	OTP 2018/Bx	22/03/2012	22/03/2018	3,832	indexed	floating	hedged
16.	OTP 2018/Cx	18/07/2012	18/07/2018	3,289	indexed	floating	hedged
17.	OTP 2018/Dx	29/10/2012	26/10/2018	2,767	indexed	floating	hedged
18.	OTP 2018/Ex	28/12/2012	28/12/2018	2,814	indexed	floating	hedged
19.	OTP 2019/Ax	25/06/2009	01/07/2019	255	indexed	floating	hedged
20.	OTP 2019/Bx	05/10/2009–05/02/2010	14/10/2019	355	indexed	floating	hedged
21.	OTP 2019/Cx	14/12/2009	20/12/2019	285	indexed	floating	hedged
22.	OTP 2019/Dx	22/03/2013	21/03/2019	4,098	indexed	floating	hedged
23.	OTP 2019/Ex	28/06/2013	24/06/2019	3,183	indexed	floating	hedged
24.	OTP 2020/Ax	25/03/2010	30/03/2020	328	indexed	floating	hedged
25.	OTP 2020/Bx	28/06/2010	09/07/2020	332	indexed	floating	hedged
26.	OTP 2020/Cx	11/11/2010	05/11/2020	206	indexed	floating	hedged
27.	OTP 2020/Dx	16/12/2010	18/12/2020	215	indexed	floating	hedged
28.	OTP 2020/Ex	18/06/2014	22/06/2020	3,889	indexed	floating	hedged
29.	OTP 2020/Fx	10/10/2014	16/10/2020	3,408	indexed	floating	hedged
30.	OTP 2020/Gx	15/12/2014	21/12/2020	2,898	indexed	floating	hedged
31.	OTP 2021/Ax	01/04/2011	01/04/2021	289	indexed	floating	hedged
32.	OTP 2021/Bx	17/06/2011	21/06/2021	311	indexed	floating	hedged
33.	OTP 2021/Cx	19/09/2011	24/09/2021	287	indexed	floating	hedged
34.	OTP 2021/Dx	21/12/2011	27/12/2021	351	indexed	floating	hedged
35.	OTP 2022/Ax	22/03/2012	23/03/2022	264	indexed	floating	hedged
36.	OTP 2022/Bx	18/07/2012	18/07/2022	240	indexed	floating	hedged
37.	OTP 2022/Cx	29/10/2012	28/10/2022	270	indexed	floating	hedged
38.	OTP 2022/Dx	28/12/2012	27/12/2022	316	indexed	floating	hedged
39.	OTP 2023/Ax	22/03/2013	24/03/2023	395	indexed	floating	hedged
40.	OTP 2023/Bx	28/06/2013	26/06/2023	265	indexed	floating	hedged
41.	OTP 2024/Ax	18/06/2014	21/06/2024	270	indexed	floating	hedged
42.	OTP 2024/Bx	10/10/2014	16/10/2024	385	indexed	floating	hedged
43.	OTP 2024/Cx	15/12/2014	20/12/2024	320	indexed	floating	hedged
44.	OTP 2020/RF/A	12/07/2010	20/07/2020	2,739	indexed	floating	hedged
45.	OTP 2020/RF/B	12/07/2010	20/07/2020	1,280	indexed	floating	hedged
46.	OTP 2020/RF/C	11/11/2010	05/11/2020	2,937	indexed	floating	hedged
47.	OTP 2021/RF/A	05/07/2011	13/07/2021	2,484	indexed	floating	hedged
48.	OTP 2021/RF/B	20/10/2011	25/10/2021	2,487	indexed	floating	hedged
49.	OTP 2021/RF/C	21/12/2011	30/12/2021	492	indexed	floating	hedged
50.	OTP 2021/RF/D	21/12/2011	30/12/2021	328	indexed	floating	hedged
51.	OTP 2021/RF/E	21/12/2011	30/12/2021	49	indexed	floating	hedged
52.	OTP 2022/RF/A	22/03/2012	23/03/2022	1,414	indexed	floating	hedged
53.	OTP 2022/RF/B	22/03/2012	23/03/2022	458	indexed	floating	hedged
54.	OTP 2022/RF/C	28/06/2012	28/06/2022	146	indexed	floating	hedged
55.	OTP 2022/RF/D	28/06/2012	28/06/2022	188	indexed	floating	hedged
56.	OTP 2022/RF/E	29/10/2012	31/10/2022	485	indexed	floating	hedged
57.	OTP 2022/RF/F	28/12/2012	28/12/2022	363	indexed	floating	hedged
58.	OTP 2023/RF/A	22/03/2013	24/03/2023	415	indexed	floating	hedged
59.	OTP OJK 2016/I	26/08/2011–21/12/2011	26/08/2016	30	6.14	fixed	
60.	OTP OJK 2017/II	27/01/2012–13/07/2012	27/01/2017	14	7	fixed	
61.	OJB 2016/I	03/02/2006	03/02/2016	1,253	7.5	fixed	
62.	OJB 2016/II	31/08/2006	31/08/2016	4,648	10	fixed	
63.	OJB 2016/J	18/04/2006	28/09/2016	51	7.59	fixed	
64.	OJB 2019/I	17/03/2004	18/03/2019	31,517	9.48	fixed	
65.	OJB 2019/II	25/05/2011	18/03/2019	1,079	9.48	fixed	
66.	OJB 2020/I	19/11/2004	12/11/2020	5,503	9	fixed	
67.	OJB 2020/II	25/05/2011	12/11/2020	1,486	9	fixed	
68.	Other*			35,154			
Subtotal issued securities in HUF				157,562			
Unamortized premium				(6,202)			
Fair value adjustment				13,039			
Total issued securities in HUF				164,399			

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

Issued securities denominated in foreign currency as at 31 December 2015:

Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn) (HUF mn)		Interest conditions (in % p.a.)		Hedged
1. OTP EUR 1 2015/XXV	19/12/2014	02/01/2016	EUR	9.14	2,860	1.1	fixed	
2. OTP EUR 1 2015/XXVI	09/01/2015	23/01/2016	EUR	4.23	1,325	1.1	fixed	
3. OTP EUR 1 2016/I	30/01/2015	13/02/2016	EUR	9.93	3,109	1.1	fixed	
4. OTP EUR 1 2016/II	20/02/2015	06/03/2016	EUR	8.27	2,590	1.0	fixed	
5. OTP EUR 1 2016/III	20/03/2015	03/04/2016	EUR	12.94	4,052	0.9	fixed	
6. OTP EUR 1 2016/IV	10/04/2015	24/04/2016	EUR	7.14	2,237	0.9	fixed	
7. OTP EUR 1 2016/V	24/04/2015	08/05/2016	EUR	3.58	1,121	0.9	fixed	
8. OTP EUR 1 2016/VI	29/05/2015	12/06/2016	EUR	10.19	3,190	0.8	fixed	
9. OTP EUR 1 2016/VII	30/06/2015	14/07/2016	EUR	10.06	3,150	0.8	fixed	
10. OTP EUR 1 2016/VIII J003	24/07/2015	07/08/2016	EUR	6.13	1,919	0.7	fixed	
11. OTP EUR 1 2016/IX J003	25/09/2015	09/10/2016	EUR	21.34	6,681	0.6	fixed	
12. OTP EUR 1 2016/X	30/10/2015	13/11/2016	EUR	14.9	4,667	0.6	fixed	
13. OTP EUR 1 2016/XI	11/11/2015	25/11/2016	EUR	8.85	2,772	0.6	fixed	
14. OTP EUR 1 2016/XII	27/11/2015	11/12/2016	EUR	6.03	1,887	0.5	fixed	
15. OTP EUR 1 2016/XIII	30/12/2015	13/01/2017	EUR	26.09	8,168	0.5	fixed	
16. OTP EUR 2 2016/I	17/01/2014	17/01/2016	EUR	0.89	280	2.0	fixed	
17. OTP EUR 2 2016/II	31/01/2014	31/01/2016	EUR	0.82	256	2.0	fixed	
18. OTP EUR 2 2016/III	14/02/2014	14/02/2016	EUR	0.94	296	2.0	fixed	
19. OTP EUR 2 2016/IV	28/02/2014	28/02/2016	EUR	0.63	197	1.9	fixed	
20. OTP EUR 2 2016/V	14/03/2014	14/03/2016	EUR	0.72	227	1.8	fixed	
21. OTP EUR 2 2016/VI	21/03/2014	21/03/2016	EUR	0.21	66	1.8	fixed	
22. OTP EUR 2 2016/VII	11/04/2014	11/04/2016	EUR	0.71	223	1.8	fixed	
23. OTP EUR 2 2016/VIII	18/04/2014	18/04/2016	EUR	0.20	63	1.8	fixed	
24. OTP EUR 2 2016/IX	09/05/2014	09/05/2016	EUR	0.61	190	1.8	fixed	
25. OTP EUR 2 2016/X	23/05/2014	23/05/2016	EUR	0.60	187	1.8	fixed	
26. OTP EUR 2 2016/XI	06/06/2014	06/06/2016	EUR	0.64	200	1.8	fixed	
27. OTP EUR 2 2016/XII	20/06/2014	20/06/2016	EUR	0.59	185	1.5	fixed	
28. OTP EUR 2 2016/XIII	04/07/2014	04/07/2016	EUR	0.46	145	1.5	fixed	
29. OTP EUR 2 2016/XIV	18/07/2014	18/07/2016	EUR	0.31	98	1.5	fixed	
30. OTP EUR 2 2016/XV	30/07/2014	30/07/2016	EUR	1.55	484	1.5	fixed	
31. OTP EUR 2 2016/XVI	08/08/2014	08/08/2016	EUR	0.37	115	1.5	fixed	
32. OTP EUR 2 2016/XVII	29/08/2014	29/08/2016	EUR	1.31	412	1.5	fixed	
33. OTP EUR 2 2016/XVIII	12/09/2014	12/09/2016	EUR	0.99	309	1.5	fixed	
34. OTP EUR 2 2016/XIX	03/10/2014	03/10/2016	EUR	1.92	601	1.5	fixed	
35. OTP 2016/Cx	22/04/2011	22/04/2016	EUR	1.42	446	indexed		hedged
36. OTP 2016/Dx	22/12/2011	29/12/2016	EUR	1.08	339	indexed		hedged
37. OTP 2017/Fx	19/06/2012	16/06/2017	EUR	0.78	243	indexed		hedged
38. OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	194	indexed		hedged
39. OTP_VK_USD_1_2016/I	24/04/2015-02/07/2015	24/04/2016	USD	3.27	937	1.0	floating	
40. OTP_VK_USD_1_2016/II	24/07/2015	24/07/2016	USD	0.87	249	0.9	floating	
41. OTP_VK_USD_1_2016/III	25/09/2015-30/12/2015	25/09/2016	USD	7.61	2,182	0.8	floating	
42. OTP_VK_USD_2_2016/I	28/11/2014	28/11/2016	USD	6.76	1,937	1.4	floating	
43. OTP_VK_USD_2_2017/I	10/04/2015	10/04/2017	USD	0.33	95	1.1	floating	
44. Mortgage bonds OTP XXV	28/09/2012	28/09/2016	EUR	7.96	2,493	4.0	fixed	
45. Other*					2,296			
Subtotal issued securities in FX				65,673				
Unamortized premium					(189)			
Fair value adjustment					62			
Total issued securities in FX				65,546				
Accrued interest					9,431			
Total issued securities					239,376			

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

On 8 July 2014 the Bank initiated term note program in the value of HUF 500 billion with the intention of issuing registered dematerialized bonds in public. The NBH

approved on 29 July 2014 the prospectus of Term Note Program and the disclosure as at 25 July 2014. The prospectus is valid for 12 months following the disclosure.

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

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

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

On 30 June 2015 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 14 August 2015 the prospectus of Term Note Program and the disclosure as at 12 August 2015. The prospectus is valid for 12 months following the disclosure.

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

Certain structured bonds are hedged by interest rate swaps ("IRS") which may transfer to a transferee a fixed rate and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate

and amount of the structure if any based on a notional amount which is equal to the notional amount of the hedged bond. In certain cases amount of the structure is hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond. The hedge is highly effective if changes in fair value or cash-flows attributable to the hedged risk during the period for which the hedge is designated are within a range of 80–125 per cent.

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

NOTE 16: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

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

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

NOTE 17:

OTHER LIABILITIES* (in HUF mn)

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

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

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

* Other liabilities – except financial liabilities from OTP–MOL share swap transaction, deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP–MOL share swap transaction is settled in June of each year until the maturity date. The fair value adjustment of the swap transaction is HUF 3,236 million as at 31 December 2015. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity. Besides the total other liabilities mentioned above which are expected to be recovered or settled more than twelve months after the reporting period it should be mentioned accrued contractual liabilities, compulsory pension reserve, guarantee deposits in relation with leasing activities, loans from government and liabilities from preferential dividend shares.

** On 16 April 2009 OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. On 11 July 2012 the parties amended the final maturity of the share swap agreement for 11 July 2017 until which any party can initiate cash or physical settlement of the transaction. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the loss of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity with the amount of HUF 55.5 billion and a recognition of a corresponding liability. As at 31 December 2015 and 2014 HUF 66,787 million and HUF 56,445 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

*** See details in Note 2.28.

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

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

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

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

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

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

Interest rates on subordinated bonds and loans are as follows:

	2015	2014
Denominated in foreign currency	5.3%–5.9%	0.6%–8.25%
Average interest rates on subordinated bonds and loans	4.72%	4.82%

Subordinated bonds and loans can be detailed as follows:

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

* European Medium Term Note Program.

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

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

NOTE 20:**RETAINED EARNINGS AND RESERVES (in HUF mn)**

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

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

The legal reserves (general reserve and tied-up reserve) are not available for distribution.

The dividend has been determined on the basis of the net profit for the year determined in the separate financial statements in accordance with the HAS.

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

These Financial Statements subject to approval by the Board of Directors in the Annual General Meeting in April 2016. In 2015 the Bank paid dividend of HUF 40,600 million from the profit of the year 2014, which meant 145 HUF payable dividend by share to the shareholders.

In 2016 dividend of HUF 46,200 million are expected to be proposed by the Management from the profit of the year 2015, which means 165 HUF payable dividends by share to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 480,058 million and HUF 686,000 million) and reserves (HUF 780,971 million and HUF 602,757 million) as at 31 December 2015 and 31 December 2014 respectively. The reserves include mainly net profit for the year attributable to the owners of the company, the fair value adjustment of securities available-for-sale, additional reserves of Income Certificates Exchangeable for Shares (“ICES”), changes in equity accumulated in the previous year at the subsidiaries, changes due to consolidation and exchange differences. In the Consolidated Financial Statement the Group recognizes the non-monetary items on historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented among the shareholders' equity as difference of translation. The accumulated amounts of exchange differences were HUF 165,308 million and HUF 121,306 million as at 31 December 2015 and 2014 respectively.

On 19 October 2006, the Bank sold 14.5 million Treasury shares owned by the Group through an issue of ICES. Within the transaction 10 million shares owned by OTP, and further 4.5 million shares owned by OTP Group were

sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year

6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years, thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP has discretionary right to cancel the interest payments. The interest payable is non-cumulative. Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

NOTE 21: TREASURY SHARES (in HUF mn)

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

The changes in the carrying value of treasury shares are due to repurchase and sale

transactions on market authorised by the General Assembly.

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

Change in carrying value:		
	2015	2014
Balance as at 1 January	55,940	55,599
Additions	26,721	27,522
Disposals	(24,640)	(27,181)
Closing balance	58,021	55,940

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

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

NOTE 23:

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

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

NOTE 24:

NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions:

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

Expense from fees and commissions:

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

NOTE 25:

OTHER OPERATING INCOME AND EXPENSES
AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income	2015	2014
Refund by the State of cancelled receivables from customer loans converted into HUF*	6,631	–
Gains on transactions related to property activities	1,724	734
Other income from non-financial activities	14,618	13,645
Total	22,973	14,379
Other operating expenses	2015	2014
Expenses from regulations related to customer loans**	186,269	–
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	39,827	–
Financial support for sport association and organization of public utility	13,918	10,929
Provision for off-balance sheet commitments and contingent liabilities	10,387	512
Provision for impairment on other assets	6,696	5,066
Provision for impairment on investments***	1,094	1,244
Provision for assets subject to operating lease	350	1,048
Provision on investment properties	101	3,612
(Release of provision)/Provision on contingent liabilities due to regulations related to customer loans**	(196,574)	194,798
Other	12,612	15,400
Total	74,680	232,609
Other administrative expenses	2015	2014
Personnel expenses		
Wages	137,250	151,467
Taxes related to personnel expenses	37,304	41,319
Other personnel expenses	13,252	13,549
Subtotal	187,806	206,335
Depreciation and amortization****	45,463	65,947
Other administrative expenses		
Taxes, other than income tax*****	110,102	116,148
Administration expenses, including rental fees	46,137	51,119
Services	44,400	40,515
Professional fees	20,344	16,892
Advertising	11,264	11,736
Subtotal	232,247	236,410
Total	465,516	508,692

NOTE 26:

INCOME TAX (in HUF mn)

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

Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria,

12.5% in Cyprus, 15% in Serbia, 16% in Romania, 18% in Ukraine, 19% in Hungary, 20% in Croatia and Russia, 22% in Slovakia, 25% in the Netherlands and 35% in Malta.

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

** See details in Note 2.28.

*** See details in Note 9.

**** See details in Note 11.

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

The breakdown of the income tax expense is:

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

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

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

A breakdown of the deferred tax assets are as follows:

	2015	2014
Tax accrual caused by negative taxable income	43,265	15,207
Unused tax allowance	19,014	6,794
Fair value adjustment of securities held for trading and securities available-for-sale	8,330	8,704
Provision for impairment on investments (Goodwill)	8,030	10,705
Refundable tax in accordance with Acts on Customer Loans*	6,341	33,226
Repurchase agreement and security lending	4,102	4,176
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	2,582	593
Premium and discount amortization on bonds	1,959	177
Adjustment from effective interest rate method	1,272	–
Difference in depreciation and amortization	170	73
Difference in accounting for leases	160	177
Fair value adjustment of derivative financial instruments	84	8
Fair value adjustment related to customer loans	80	–
Other	14,373	16,373
Deferred tax asset	109,762	96,213
Fair value adjustment of securities held for trading and securities available-for-sale	(16,506)	(16,193)
Fair value adjustment of derivative financial instruments	(7,809)	(5,031)
Difference in depreciation and amortization	(4,971)	(5,051)
Adjustment from effective interest rate method	(4,258)	(2,380)
Temporary differences arising on consolidation	(2,988)	(1,817)
Net effect of treasury share transactions	(2,009)	(2,681)
Accounting of equity instrument (ICES)	(556)	(1,333)
Difference in accounting for leases	(139)	(3,992)
Premium and discount amortization on bonds	(14)	(23)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	–	(110)
Other	(2,043)	(6,448)
Deferred tax liabilities	(41,293)	(45,059)
Net deferred tax asset	68,469	51,154

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

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

* See details in Note 2.28.

Income tax adjustments due to permanent differences are as follows:

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

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

NOTE 27:

FINANCIAL RISK MANAGEMENT (in HUF mn)

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

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

27.1 Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due.

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

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

27.1.1 Analysis by loan types and by DPD categories

Classification into DPD categories

The Group presents the non-performing loan portfolio according delay of payment above 90 days past due. When determining the impairment beside the delay of payment other information available for the Group is also taking into consideration.

The foreseeable risks and expected losses are considered, when the Group during determining the result of the current year, calculates and accounts impairment and credits provisions. The impairments and provisions are accounted notwithstanding whether the result recognized in the current year is gain or loss. The Group when calculates the impairment of the loans applies the

requirement of IFRS and the principles defined in the impairment policy of the Group.

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

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

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

- the credit rating of the customer or the partner: the financial position, stability and income-generating capacity affected by the

financial or investment service and issuer of the security, and any changes thereto;

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

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

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

As at 31 December 2015:

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

As at 31 December 2014:

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

The Group's loan portfolio decreased by 7.5% in year 2015. Analysing the contribution of loan types to the loan portfolio, the share of the consumer loan types slightly decreased, the loans to medium and large enterprises slightly increased, while the other types of loans remained almost the same as at 31 December 2015 comparing with the previous year.

The qualification of the loan portfolio started to improve from the previous year, and now for the end of year 2015 the ratio of the more than

90 days past due to the above 360 days past due loans compared to the gross loan portfolio decreased from 18.6% to 16.6%. Among the qualified loan portfolio, the loans classified to the risk class of "more than 90 until 360 days past due" narrowed at the fastest level.

The Group has a prudent provisioning policy, the indicator which describes the coverage of loans by provision for impairment on loans classified as "Above 360 days", was 78.6% and 74.5% as at 31 December 2015 and 2014 respectively.

Not impaired loan portfolio

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

As at 31 December 2015:

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

As at 31 December 2014:

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

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

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

The loans that are past due but not impaired are concentrated mainly in the mortgage loan type while in the other loan types the low level of loans past due but not impaired is

a consequence of the prudent provisioning policy of the Group. The ratio of the mortgage and car-finance loans compared to the portfolio of loans past due but not impaired increased slightly and the ratio of the consumer loans decreased in the year ended 31 December 2015.

Loans individually assessed for provision

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

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 31 December 2015 and 2014 is as follows:

As at 31 December 2015:

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

As at 31 December 2014:

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

By 31 December 2015 the volume of the individually rated portfolio decreased by 5.7% in the corporate loan type. Among the rating factors of the corporate loan type, the decrease is mostly based on the regularity of payment and on the decrease of client classification, while increase is based on the restructuring and legal proceedings as at 31 December 2015.

The decrease was 70.8% in the municipal loan portfolio comparing with the end of the previous year, where the decrease is mostly based on the decreasing number of legal proceedings as well as the decrease of the delay of payment and on the improving client classification. Increase was not experienced at all according to none of the above listed factors.

Transactions with high level of risk

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

Business lines risks

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

Loan portfolio by countries

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

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

* Other category in year of 2015 includes e.g.: China, Hong Kong, Moldova, Macedonia, Armenia, Israel, Singapore, Brazil, Vietnam, Finland, Slovenia, Morocco, Kyrgyzstan and Georgia.

** Without the amount of bill of exchange.

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

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

27.1.2 Collaterals

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

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

The values of collaterals held by the Group by types are as follows (to the extent of the

exposures). The collaterals cover loans as well as off-balance sheet exposures.

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

The coverage level of the loan portfolio (total collaterals) increased by 9.7%, as well as the

coverage level to the extent of the exposures increased by 3.98% as at 31 December 2015.

27.1.3 Restructured loans

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

* They include project and syndicated loans.

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.

27.1.4 Financial instruments by rating categories*

Securities held for trading as at 31 December 2015:

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

* Moody's ratings.

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

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

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

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

27.2 Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

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

27.2.1 Market Risk sensitivity analysis

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

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

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

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

Historical VaR (99%, one-day) by risk type	Average in HUF million	
	2015	2014
Foreign exchange	441	1,263
Interest rate	459	391
Equity instruments	3	12
Diversification	(215)	(278)
Total VaR exposure	688	1,388

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 27.2.2, for interest rate risk in Note 27.2.3, and for equity price sensitivity analysis in Note 27.2.4 below.

27.2.2 Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the

reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.

The strategic open position related to the foreign operations was short, amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) as at 31 December 2015. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at Group level –, and so FX risk affects the Group's other comprehensive income and not its earnings.

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

Probability	Effects to the Consolidated Statement of Recognized Income in 3 months period in HUF billion	
	2015	2014
1%	(14.6)	(15.2)
5%	(10.0)	(10.6)
25%	(4.4)	(4.6)
50%	(0.5)	(0.8)
25%	3.1	2.9
5%	7.8	7.9
1%	10.9	11.7

Notes:

(1) The short-term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.

(2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2015.

27.2.3 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date.

The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. The analysis was prepared by assuming only adverse interest rate changes.

The main assumptions were as follows:

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

- The sensitivity of interest income to changes in BUBOR, EURIBOR and USD LIBOR is analyzed.

The simulations were prepared by assuming two scenarios:

- (1) HUF base rate and BUBOR decreases gradually to 0.85% (probable scenario)
- (2) HUF base rate and BUBOR decreases gradually to 0.35% (alternative scenario)

The net interest income in a one year period after 31 December 2015 would be decreased by HUF 1,616 million (probable scenario) and HUF 3,874 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,030 million (probable scenario) and HUF 4,098 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2014.

This effect is counterbalanced by capital gains (HUF 291 million for probable scenario, HUF 1,109 million for alternative scenario) as at 31 December 2015 and (HUF 899 million for probable scenario, HUF 3,689 million for alternative scenario) as at 31 December 2014 on the government bond portfolio held for hedging (economic).

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

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

27.2.4 Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as

risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability. The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2015	2014
VaR (99%, one day, HUF million)	(3)	(13)
Stress test (HUF million)	(53)	(43)

27.2.5 Capital management

Capital management

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

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

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

The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability.

In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures.

A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global

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

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

The Group has entirely complied with the regulatory capital requirements in year 2015 as well as in 2014.

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

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 16.2%, the Regulatory capital was HUF 1,064,383 million and the Total regulatory capital requirement was HUF 526,101 million as at 31 December 2015. The same ratios calculated as at 31 December 2014 were the following: 17.5%, HUF 1,201,874 million and HUF 548,755 million.

Calculation on IFRS basis	2015	2014
Core capital (Tier1) = Common Equity Tier1 (CET1)	873,124	969,935
Issued capital	28,000	28,000
Reserves	1,230,035	1,280,396
Fair value corrections	28,125	25,389
Other capital components	(152,808)	(113,047)
Non-controlling interests	572	736
Treasury shares	(58,021)	(55,940)
Goodwill and other intangible assets	(158,370)	(158,681)
Other adjustments	(44,409)	(36,918)
Additional Tier1 (AT1)	–	–
Supplementary capital (Tier2)	191,259	231,939
Subordinated bonds and loans	99,054	133,217
Other issued capital components	92,092	96,019
Components recognized in T2 capital issued by subsidiaries	113	2,703
Regulatory capital*	1,064,383	1,201,874
Credit risk capital requirement	419,670	450,073
Market risk capital requirement	37,183	26,848
Operational risk capital requirement	69,248	71,834
Total requirement regulatory capital	526,101	548,755
Surplus capital	538,282	653,119
CET1 ratio	13.3%	14.1%
Tier1 ratio	13.3%	14.1%
Capital adequacy ratio	16.2%	17.5%

Basel III

The components of the Common Equity Tier1 capital (CET1) 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 (Tier2): Subordinated loan capital, Supplementary loan capital, Other issued capital components, Components recognized in T2 capital issued by subsidiaries.

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

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

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

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

NOTE 28:

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

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the Consolidated Statement of Financial Position

and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities:

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

Legal disputes

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

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 6,680 million and HUF 7,454 million as at 31 December 2015 and 2014, respectively (see Note 17).

Commitments to extend credit, guarantees and letters of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event

that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

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

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

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

* See details in Note 2.28.

market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

Guarantees, payment undertakings arising from banking activities

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

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

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

Derivatives

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

NOTE 29:

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

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

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50–50%. Assignment is based on OTP shares,

furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

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

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

* Until the end of 2014 Board of Directors.

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

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with concerning EU-directives –, therefore a decision was made to cancel the share-based payment in the referred countries. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies. In case of the jubilee benefits both standards contain regulations. Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve

months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

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

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

Year	Exercise price per share	Maximum earnings per share	Exercise price per share	Maximum earnings per share	Exercise price per share	Maximum earnings per share	Exercise price per share	Maximum earnings per share	Exercise price per share	Maximum earnings per share
	for the year 2010		for the year 2011		for the year 2012		for the year 2013		for the year 2014	
2011	3,946	2,500	–	–	–	–	–	–	–	–
2012	3,946	3,000	1,370	3,000	–	–	–	–	–	–
2013	4,446	3,500	1,870	3,000	2,886	3,000	–	–	–	–
2014	4,946	3,500	1,870	4,000	2,886	3,000	2,522	2,500	–	–
2015	–	–	1,870	4,000	2,886	3,000	2,522	3,000	3,930	2,500
2016	–	–	–	–	2,886	3,500	2,522	3,500	3,930	3,000
2017	–	–	–	–	–	–	2,522	3,500	3,930	3,000
2018	–	–	–	–	–	–	–	–	3,930	3,000

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

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2015	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2011	–	340,950	11,622	5,731	329,328
Share purchasing period started in 2012	–	735,722	714,791	4,593	20,931
Share purchasing period started in 2013	–	419,479	31,789	4,808	387,690
Share purchasing period started in 2014	–	497,451	495,720	5,838	1,731

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

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

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

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2015	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2013	–	450,861	445,671	4,413	5,190
Share purchasing period started in 2014	–	1,156,631	1,151,890	4,982	4,741
Share purchasing period started in 2015	1,971	555,845	553,874	5,654	–
Share purchasing period starting in 2016	688,990	–	–	–	–

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

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

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

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2015	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2015	–	176,459	176,459	5,828	–
Share purchasing period starting in 2016	366,669	–	–	–	–
Share purchasing period starting in 2017	214,392	–	–	–	–
Share purchasing period starting in 2018	237,013	–	–	–	–

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

In connection with shares as a part of the Bank Group Policy on Payments modified by

8/2014 resolution of Annual General Meeting and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,810 million was recognized as expense as at 31 December 2015.

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

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

Compensations	2015	2014
Short-term employee benefits	6,227	8,373
Share-based payment	2,276	2,937
Other long-term employee benefits	532	739
Termination benefits	42	135
Total	9,077	12,184
Commitments to extend credit and guarantees	33,943	15,690
Loans provided to companies owned by the Management (normal course of business)	25,734	13,357
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions)	340	334
Loans provided to unconsolidated subsidiaries	1,790	1,304
Interest income on loan provided to unconsolidated subsidiaries	42	44

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

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

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

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

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

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

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

The members of the Board of Directors, members of the Supervisory Board, chief

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

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

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

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

In the normal course of business, the Bank enters into other transactions with its subsidiaries, the amounts and

volumes of which are not significant to these consolidated financial statements taken as a whole.

NOTE 31: ACQUISITION (in HUF mn)

a) Purchase and consolidation of subsidiaries
On 31 January 2014 OTP banka Hrvatska d.d. signed a purchase agreement with the Croatian Banco Popolare d.d. on acquiring a 98.37% stake in the bank. The transaction was closed by setting the purchase price on 24 April 2014. The acquisition contributes to a more optimal economies

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

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

	Banca Millennium S.A.	Banco Popolare Croatia d.d.
Cash, amounts due from banks and balances with the National Banks	(16,933)	(1,719)
Placements with other banks, net of allowance for placement losses	(7,376)	(26,797)
Financial assets at fair value through profit or loss	(25)	–
Securities available-for-sale	(14,757)	(4,555)
Loans, net of allowance for loan losses	(117,893)	(52,566)
Associates and other investments	(2)	–
Securities held-to-maturity	(5,272)	–
Property and equipment	(2,205)	(2,320)
Intangible assets	(80)	(248)
Other assets	(4,999)	(188)
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	52,928	4,067
Deposits from customers	98,370	72,565
Liabilities from issued securities	–	–
Financial liabilities at fair value through profit or loss	–	–
Other liabilities	4,120	2,798
Subordinated bonds and loans	–	–
Net assets	(14,124)	(8,963)
Non-controlling interest	–	–
Negative goodwill	1,845	4,563
Cash consideration	(12,279)	(4,400)

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

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

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

Investments in companies in which the Bank has a significant interest are detailed below. They are fully consolidated companies and

incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

Significant subsidiaries

Name	Ownership (Direct and Indirect)		Activity
	2015	2014	
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.87%	97.86%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	97.92%	97.90%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.26%	99.26%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	flat finance and reconstruction
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	real estate management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd.	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

Significant associates and joint ventures*

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

As at 31 December 2015:

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

* Based on unaudited financial statements.

As at 31 December 2014:

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

NOTE 33: TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes.

The ultimate risk for these loans rests with the party advancing the funds.

As these loans and related funds are not considered to be assets or liabilities of the Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

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

NOTE 34: CONCENTRATION OF ASSETS AND LIABILITIES

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

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

for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

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

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

NOTE 35: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF mn)

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

with regulations prescribed by the NBH. The essential of the liquidity risk management strategy is to identify all relevant systemic and idiosyncratic sources of liquidity risk and to measure the probability and severity of such

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years,

the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is in all-time record highs. In year 2015 there were no material changes in liquidity risk management process.

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

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

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

As at 31 December 2015:

	Within 3 months	Within one year and over 3 months	Within 5 year and over one year	Over 5 years	Without maturity	Total
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	171,469	57,073	168,058	157,092	–	553,692
Deposits from customers	6,615,990	1,107,398	242,363	40,337	1	8,006,089
Liabilities from issued securities	42,910	60,197	105,590	34,370	–	243,067
Other liabilities*	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
Receivables from derivative financial instruments classified as held for trading	763,344	391,447	157,808	2,640	–	1,315,239
Liabilities from derivative financial instruments classified as held for trading	(781,065)	(427,003)	(195,825)	(17,375)	–	(1,421,268)
Net position of financial instruments classified as held for trading	(17,721)	(35,556)	(38,017)	(14,735)	–	(106,029)
Receivables from derivative financial instruments designated as fair value hedge	5,553	70	17,851	154	–	23,628
Liabilities from derivative financial instruments designated as fair value hedge	(5,554)	(151)	(35,068)	(67)	–	(40,840)
Net position of financial instruments designated as fair value hedge	(1)	(81)	(17,217)	87	–	(17,212)
Net position of derivative financial instruments total	(17,722)	(35,637)	(55,234)	(14,648)	–	(123,241)
Commitments to extend credit	347,477	562,694	241,577	14,638	–	1,166,386
Bank guarantees	74,107	79,463	123,525	96,792	535	374,422
Off-balance sheet commitments	421,584	642,157	365,102	111,430	535	1,540,808

As at 31 December 2014:

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

* Without derivative financial instruments designated as fair value hedge.

** See Note 18.

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

As at 31 December 2015:

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

As at 31 December 2014:

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

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within 'Others'. 'Others' category contains mainly foreign currencies in RON, RSD, HRK, UAH, RUB and BGN. Whilst the Group monitors its foreign exchange position for

compliance with the regulatory requirements of the National Banks and own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the "VaR" limit on the foreign exchange exposure of the Group.

NOTE 37: INTEREST RATE RISK MANAGEMENT (in HUF mn)

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

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

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

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

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

As at 31 December 2015:

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

As at 31 December 2015:

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	95,241	129,524	8,142	45,391	54,483	5,982	10,760	3,651	170,320	5,707	8	4,101	338,954	194,356	533,310
fixed rate	95,174	64,590	7,049	7,382	23,383	5,427	10,760	3,651	170,320	5,706	-	-	306,686	86,756	393,442
variable rate	67	64,934	1,093	38,009	31,100	555	-	-	-	1	-	-	32,260	103,499	135,759
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	8	4,101	8	4,101	4,109
Deposits from customers	1,306,653	2,484,899	472,572	473,728	136,025	703,014	2,224	68,831	1,818,548	397,140	3,230	117,715	3,739,252	4,245,327	7,984,579
fixed rate	706,888	1,252,940	472,558	471,863	136,025	703,004	2,224	68,831	1,818,548	397,140	-	-	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
fixed rate	-	-	-	-	-	234,773	-	-	-	-	-	-	-	-	234,773
variable rate	-	-	-	5	-	-	-	-	-	-	-	-	-	-	5
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	6	-	6	6
Net position	(215,813)	(35,883)	395,223	116,778	173,392	(639,483)	88,582	247,157	(66,446)	8,996	410,799	496,607	785,737	194,172	979,909

As at 31 December 2014:

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

As at 31 December 2014:

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

NOTE 38:

CONSOLIDATED EARNINGS PER SHARE (in HUF mn)

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

	2015	2014
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	63,583	(101,985)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	262,204,162	267,035,159
Basic Earnings per share (in HUF)	242	(382)
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	63,583	(101,985)
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	262,419,544	267,323,299
Diluted Earnings per share (in HUF)	242	(382)
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	17,795,848	12,964,851
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	262,204,162	267,035,159
Dilutive effects of options issued in accordance with the Remuneration Policy/Management Option Program and convertible into ordinary shares*	215,382	288,140
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	262,419,544	267,323,299

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

* Both in 2015 and 2014 the dilutive effect is in connection with the Remuneration Policy.

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

As at 31 December 2015:

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

As at 31 December 2014:

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

NOTE 40:

FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

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

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

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the

non-performing loans, the amortized cost less impairment is considered as fair value,

- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

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

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

a) Fair value of financial assets and liabilities

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Banks	1,878,960	1,880,223	2,307,632	2,307,632
Placements with other banks, net of allowance for placements losses	300,568	318,972	281,006	280,999
Financial assets at fair value through profit or loss	253,782	253,782	289,275	289,275
Securities held for trading	111,976	111,976	94,640	94,640
Fair value of derivative financial instruments classified as held for trading	141,806	141,806	194,635	194,635
Securities available-for-sale	1,305,486	1,305,486	839,152	839,152
Loans, net of allowance for loan losses	5,409,967	6,028,495	5,864,241	6,506,922
Securities held-to-maturity	926,677	1,010,112	709,369	704,875
Fair value of derivative financial instruments designated as fair value hedge	16,009	16,151	30,454	30,454
Financial assets total	10,091,449	10,813,221	10,321,129	10,959,309
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	533,310	533,338	708,274	708,284
Deposits from customers	7,984,579	7,969,922	7,673,478	7,672,819
Liabilities from issued securities	239,376	351,488	267,084	317,834
Fair value of derivative financial instruments designated as fair value hedge	13,723	13,723	85,679	85,679
Fair value of derivative financial instruments classified as held for trading	101,561	101,561	183,994	183,994
Subordinated bonds and loans	234,784	240,619	281,968	281,968
Financial liabilities total	9,107,333	9,210,651	9,200,477	9,250,578

b) Fair value of derivative instruments

	Fair value		Notional value, net	
	2015	2014	2015	2014
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	33,770	43,401	40,475	45,929
Negative fair value of interest rate swaps classified as held for trading	(30,453)	(63,691)	(37,135)	(67,678)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	15,551	48,636	14,083	42,458
Negative fair value of foreign exchange swaps classified as held for trading	(7,687)	(51,537)	(8,000)	(48,154)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated as fair value hedge	15,393	14,032	7,932	8,539
Negative fair value of interest rate swaps designated as fair value hedge	(13,723)	(3,463)	(17,211)	(4,602)
Foreign exchange swaps designated as fair value hedge				
Positive fair value of foreign exchange swaps designated as fair value hedge	–	2,437	–	2,276
Negative fair value of foreign exchange swaps designated as fair value hedge	–	(2,276)	–	(2,066)
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	84,270	85,010	84,721	83,611
Negative fair value of CCIRS classified as held for trading	(53,505)	(53,724)	(54,309)	(51,012)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	–	–	–	–
Negative fair value of mark-to-market CCIRS classified as held for trading	(2,370)	–	(2,143)	–
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated as fair value hedge	604	13,940	693	14,095
Negative fair value of CCIRS designated as fair value hedge	–	(70,364)	–	(70,124)
Mark-to-market CCIRS designated as fair value hedge				
Positive fair value of mark-to-market CCIRS designated as fair value hedge	–	–	–	–
Negative fair value of mark-to-market CCIRS designated as fair value hedge	–	(9,576)	–	(9,856)
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated as fair value hedge	12	45	12	39
Negative fair value of other derivative contracts designated as fair value hedge	–	–	–	–
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	8,215	17,588	5,098	14,592
Negative fair value of other derivative contracts classified as held for trading	(7,546)	(15,042)	(4,290)	(11,844)
Derivative financial assets total	157,815	225,089	153,014	211,539
Derivative financial liabilities total	(115,284)	(269,673)	(123,088)	(265,336)
Derivative financial instruments total	42,531	(44,584)	29,926	(53,797)

c) Hedge accounting

The Group regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging trans-

action do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading.

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

As at 31 December 2015:

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

As at 31 December 2014:

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

d) Fair value hedges

1. Deposits from customers

The interest payment cash-flows of some structured deposits of the Group denominated in HUF and EUR are exposed to the change of equity prices, equity indices or the change of HUF/EUR exchange rate. In order to hedge

the interest rate risk of the interest payments the Group entered into interest rate swap transactions, where the risk of the cash-flow's from the structured deposits were swapped to payments linked to 3 month BUBOR or EURIBOR, resulting in a decrease in the fair value exposure of the deposits from customers.

	2015	2014
Fair value of the hedging instruments	–	107

2. Securities available-for-sale

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

In order to hedge the interest rate risk of the cash-flows the Group entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 12 month EURIBOR and the risk from the cash-flows of the bonds are swapped to payments linked to 6 month BUBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

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

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

3. Loans to customers/corporates

The Group has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows the Group entered into pay-fixed, receive-floater interest rate swap transactions, where the risk of the payments from the loans are swapped to

payments linked to 3 month EURIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.

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

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

4. Issued securities

The cash-flows of the fixed rate securities issued by the Group are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS and index option

transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

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

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

As at 31 December 2015:

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

As at 31 December 2014:

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/Losses on the hedged items	Gains/Losses on hedging instruments
Securities available-for-sale	IRS	HUF 286,344 million	HUF (2,570) million	HUF 1,691 million	HUF (1,691) million
Loans to customers	IRS	HUF 12,158 million	HUF (417) million	HUF (101) million	HUF 101 million
Deposits from customers	IRS	HUF 1,627 million	HUF 107 million	HUF (6) million	HUF 6 million
Liabilities from issued securities	IRS	HUF 88,309 million	HUF 13,449 million	HUF (5,070) million	HUF 5,070 million
Liabilities from issued securities	Index option	HUF 651 million	HUF 9 million	HUF 3 million	HUF (3) million

e) Fair value classes

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:	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 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;	Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).
Level 2: inputs other than quoted prices included within Level 1, that are	

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

As at 31 December 2015:

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

As at 31 December 2014:

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

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

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

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

NOTE 41:

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

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

The reportable segments of the Group on the base of IFRS 8 are the following:
OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries and Corporate Center.

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

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

The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., OTP Factoring Montenegro d.o.o. and OTP Factoring

Slovensko s.r.o. are included into the foreign banks segment.

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

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

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

Goodwill/investment impairment and their tax saving effect:

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

The tax saving effect was HUF (17,210) million in relation with goodwill and investment impairment of OTP Bank JSC (Ukraine) in the year ended as at 31 December 2014.

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

As at 31 December 2015:

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of accounting reports	Adjustments on the accounting 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)
	a	b	1=a+b 1=2+3+12+16+17	2	3=4+...+11	4	5	6
Net profit for the year	63,171		63,171					
Adjustments (total)		(57,074)	(57,074)					
Dividends and net cash transfers (after income tax)		144	144					
Goodwill/investment impairment (after income tax)		6,683	6,683					
Bank tax on financial institutions (after income tax)		(29,383)	(29,383)					
Fine imposed by the Hungarian Competition Authority (after income tax)		(662)	(662)					
Effect of Banco Popolare Croatia d.d. and Banca Millennium S.A. acquisition (after income tax)		1,550	1,550					
Actual and one-off effect in result due to changes in law related to customer loan agreements in Hungary (after income tax)		4,594	4,594					
Expected and current impact of regulatory changes related to Fx consumer contracts in Croatia, Romania and Serbia (after income tax)		(32,034)	(32,034)					
Risk cost created toward Crimean exposures from the second quarter of 2014 until 31 December 2015 (after income tax)		(169)	(169)					
Risk cost created toward exposures to Donetsk and Luhansk from the third quarter of 2014 until the end of year 2015 (after income tax)		(2,258)	(2,258)					
Revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes (after income tax)		(5,539)	(5,539)					
Consolidated adjusted net profit for the year	63,171	57,073	120,244	123,359	(1,820)	(19,941)	(40,312)	52,537
Profit before income tax	60,024	86,033	146,057	149,216	(3,193)	(24,448)	(42,230)	58,266
Adjusted operating profit	378,707	(16,112)	362,595	170,599	184,772	58,495	25,184	73,136
Adjusted total income	844,223	(89,311)	754,912	367,235	360,518	112,811	41,086	114,439
Adjusted net interest income	550,430	3,229	553,659	251,564	286,988	97,716	29,146	88,674
Adjusted net profit from fees and commissions	213,872	(46,621)	167,251	97,480	62,533	14,394	7,915	23,013
Adjusted other net non-interest income	79,921	(45,919)	34,002	18,191	10,997	701	4,025	2,752
Adjusted other administrative expenses	(465,516)	73,199	(392,317)	(196,636)	(175,746)	(54,316)	(15,902)	(41,303)
Total risk costs	(318,683)	97,973	(220,710)	(25,555)	(187,965)	(82,943)	(67,414)	(14,870)
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)
Other provision (adjustment)	0	(9,046)	(9,046)	(4,005)	(3,621)	(883)	(1,523)	(220)
Total other adjustments (one-off items)*	0	4,172	4,172	4,172	0	0	0	0
Income tax	3,147	(28,960)	(25,813)	(25,857)	1,373	4,507	1,918	(5,729)
Total Assets	10,718,848	0	10,718,848	6,774,200	4,651,454	514,491	292,882	1,778,326
Total Liabilities	9,485,189	0	9,485,189	5,563,251	4,142,684	423,514	327,685	1,524,857

() used at: provisions, impairment and expenses.

* 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.

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
7	8	9	10	11	12=13+14+15	13	14	15	16	17
1,481	(384)	2,967	923	909	4,526	1,785	2,713	28	(4,286)	(1,535)
1,581	(393)	1,711	1,412	908	6,189	1,685	3,620	884	(6,382)	227
6,074	1,293	10,844	6,600	3,146	14,327	6,810	6,109	1,408	(6,382)	(721)
27,662	8,360	28,021	17,671	10,468	45,789	15,165	8,643	21,981	(5,761)	(12,869)
22,904	6,407	20,345	14,568	7,228	24,850	19,924	63	4,863	(5,761)	(3,982)
3,773	1,747	5,309	3,386	2,996	7,213	(2,133)	8,543	803	0	25
985	206	2,367	(283)	244	13,726	(2,626)	37	16,315	0	(8,912)
(21,588)	(7,067)	(17,177)	(11,071)	(7,322)	(31,462)	(8,355)	(2,534)	(20,573)	(621)	12,148
(4,493)	(1,686)	(9,133)	(5,188)	(2,238)	(8,138)	(5,125)	(2,489)	(524)	0	948
(6,598)	(922)	(6,813)	(5,144)	(2,266)	(5,329)	(4,948)	0	(381)	0	(441)
2,105	(764)	(2,320)	(44)	28	(2,809)	(177)	(2,489)	(143)	0	1,389
0	0	0	0	0	0	0	0	0	0	0
(100)	9	1,256	(489)	1	(1,663)	100	(907)	(856)	2,096	(1,762)
646,042	119,224	649,870	450,819	199,800	655,859	395,233	14,116	246,510	1,410,729	(2,773,394)
599,376	89,847	580,307	420,389	176,709	520,898	371,201	4,775	144,922	731,090	(1,472,734)

As at 31 December 2014:

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)
	a	b	1=a+b 1=2+3+12+16+17	2	3=4+...+11	4	5	6
Net profit for the year	(102,258)		(102,258)					
Adjustments (total)		(220,273)	(220,273)					
Dividends and net cash transfers (after income tax)		191	191					
Goodwill/investment impairment (after income tax)		(5,015)	(5,015)					
Bank tax on financial institutions (after income tax)		(30,193)	(30,193)					
Effect of Banco Popolare acquisition (after income tax)		4,131	4,131					
Impact of the expected refund obligation stemming from the invalidity of using FX margin in Hungary (after income tax)		(26,923)	(26,923)					
Potential refund obligation stemming from the presumed unfairness of unilateral amendments to loan contracts in Hungary (after income tax)		(128,985)	(128,985)					
Risk cost created toward Crimean exposures in 2014 (after income tax)		(7,943)	(7,943)					
Risk cost created toward exposures to Donetsk and Luhansk in 2014 (after income tax)		(25,536)	(25,536)					
Consolidated adjusted net profit for the year	(102,258)	220,272	118,014	137,418	(17,196)	(14,541)	(43,166)	39,170
Profit before income tax	(153,643)	295,983	142,340	161,097	(19,237)	(17,678)	(47,322)	43,587
Adjusted operating profit	293,187	121,346	414,533	181,952	219,065	101,028	27,269	62,392
Adjusted total income	801,879	24,180	826,059	375,668	419,716	179,392	52,078	102,238
Adjusted net interest income	636,097	73	636,170	266,329	349,904	158,972	45,327	79,116
Adjusted net profit from fees and commissions	215,656	(46,076)	169,580	94,244	67,306	21,378	10,306	20,262
Adjusted other net non-interest income	(49,874)	70,183	20,309	15,095	2,506	(958)	(3,555)	2,860
Adjusted other administrative expenses	(508,692)	97,166	(411,526)	(193,716)	(200,651)	(78,364)	(24,809)	(39,846)
Total risk costs	(446,830)	172,081	(274,749)	(23,411)	(238,302)	(118,706)	(74,591)	(18,805)
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(446,830)	183,318	(263,512)	(22,088)	(231,272)	(117,623)	(71,947)	(17,526)
Other provision (adjustment)	0	(11,237)	(11,237)	(1,323)	(7,030)	(1,083)	(2,644)	(1,279)
Total other adjustments (one-off items)*	0	2,556	2,556	2,556	0	0	0	0
Income tax	51,385	(75,711)	(24,326)	(23,679)	2,041	3,137	4,156	(4,417)
Total Assets	10,971,052	0	10,971,052	7,251,833	4,678,642	750,747	423,363	1,603,812
Total Liabilities	9,706,886	0	9,706,886	5,932,448	4,122,494	638,968	417,903	1,355,819

() used at: provisions, impairment and expenses.

* One-off items consist of: revaluation result of FX-swap at OTP Core in the amount of HUF (824) million; result of the treasury share swap agreement in the amount of HUF 3,380 million.

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
7	8	9	10	11	12=13+14+15	13	14	15	16	17
765	49	103	33	391	(1,172)	(1,588)	5,529	(5,113)	(1,210)	174
765	45	627	367	372	793	(1,508)	6,753	(4,452)	(1,433)	1,120
9,807	1,358	7,527	5,895	3,789	13,404	5,970	6,704	730	(1,433)	1,545
23,410	8,555	25,426	17,099	11,518	43,483	14,073	9,041	20,369	(1,175)	(11,633)
19,388	6,612	17,923	14,207	8,359	21,675	17,405	81	4,189	(1,175)	(563)
2,429	1,851	5,203	3,000	2,877	7,934	(2,611)	9,895	650	0	96
1,593	92	2,300	(108)	282	13,874	(721)	(935)	15,530	0	(11,166)
(13,603)	(7,197)	(17,899)	(11,204)	(7,729)	(30,079)	(8,103)	(2,337)	(19,639)	(258)	13,178
(9,042)	(1,313)	(6,900)	(5,528)	(3,417)	(12,611)	(7,478)	49	(5,182)	0	(425)
(8,881)	(1,202)	(5,747)	(5,277)	(3,069)	(9,682)	(8,312)	1	(1,371)	0	(470)
(161)	(111)	(1,153)	(251)	(348)	(2,929)	834	48	(3,811)	0	45
0	0	0	0	0	0	0	0	0	0	0
0	4	(524)	(334)	19	(1,965)	(80)	(1,224)	(661)	223	(946)
476,352	109,509	654,793	464,296	195,770	370,127	362,858	513	6,756	1,668,257	(2,997,807)
441,371	79,312	583,637	432,554	172,930	345,423	339,162	69	6,192	830,085	(1,523,564)

NOTE 42:

SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2015

1) Government measures related to customer loan contracts

See details in Note 2.28.

2) Term Note Program

See details in Note 15.

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

On 2 November 2015 Visa Inc. and Visa Europe Limited reached an agreement on the purchase of the shares of Visa Europe (owned by European banks) by Visa Inc. According to the deal the purchase price will be transferred by cash and Visa Inc. "C-type" preferential shares with limited marketability, after the settlement of the transaction (after receiving all the necessary approvals). In addition, the framework terms of

the transaction provide for a deferred earn-out payment, which will be paid in cash after sixteen quarters from the date of the transaction settlement (if the relevant criteria of the earn-out component are reached). According to the notification of Visa sent in mid-December 2015, the expected amount of cash is about EUR 34.2 million (around HUF 10.8 billion, which was calculated with the closing official exchange rate of NBH as at 31 December 2015). Prior to the transaction the book value of OTP's share in Visa Europe was close to zero, but at the end of 2015 it was revaluated, which has been recognized on the of Fair value adjustment of available for sale securities line in the Consolidated Statement of Comprehensive Income. The above said cash component of the purchase price will be booked in the Consolidated Statement of Recognized Income at the settlement of the transaction, and shown presumably in the second quarter of 2016. For the time being the value of the earn-out component cannot be reliably measured.

NOTE 43:

POST BALANCE SHEET EVENTS

Agreement on purchasing unit of AXA Bank Hungary

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

The retail-focused AXA Bank is present in Hungary since 2009. AXA Bank has been offering innovative online customer services, and the bank has strong positions in the local mortgage market. After the completion of the purchase the Bank's mortgage portfolio will increase with almost 25%. According to the plans the integration process can be closed at the end of 2016 after obtaining all the necessary supervisory approvals.

STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS

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

Hungary's economy grew by 2.9% in 2015, down from 3.6% in 2014. After the election year, the volume of investments fell, but net exports' contribution returned to positive territory after being in red in the previous year. Nonetheless, the engine of growth was clearly the further accelerating consumption of households. The increase in the value added by market services has largely contributed to the economy's expansion. Even though the deceleration of Germany's manufacturing poses risks to the demand for Hungary's export products, it seems that these fears did not get in the way of production. Moreover, mostly owing to the improved terms of trade, Hungary's trade surplus also hit an all-time high, at EUR 8.1 billion (or 8% of GDP) in 2015. A weaker-than-2014 year pushed agriculture's contribution to GDP into negative territory. Non-farm private sector GDP was as strong as elsewhere in the CEE region; it may have grown by more than 4%.

At the end of the third quarter of 2015 Hungary's four-quarter rolling deficit amounted to 0.8% of GDP. This exceptionally low figure can be put down to the higher rate of EU-co-financing and the larger-than-expected revenues. The government's deficit target is 2.4% for 2015. Gross government debt stood at 76.9% at the end of the third quarter of 2015. Consumer prices dropped by 0.1% on average in 2015, thanks to the steadily falling commodity prices; demand-sensitive inflation accelerated until the end of summer, but somewhat slowed towards the end of the year.

The lower-than-expected inflation justified the continuation of the monetary easing cycle; the last cut brought the base rate to 1.35% in July. The NBH's Self-Financing Programme introduced plan consisting of 2 layers to boost lending for SMEs, then the MNB decided to terminate the two-week deposit in order to boost commercial banks' appetite for government securities. At the end of 2015 the NBH announced plans to introduce unconventional monetary policy tools because inflation was likely to remain below its target throughout the entire forecast horizon. Russia sank into recession in 2015, with its GDP contracting by 3.7%. Reversing the improvement in the third quarter, cyclical developments deteriorated in the fourth quarter of 2015. The underlying reason is the short-term oversupply on the oil market and OPEC's reluctance to reduce production at its December meeting. By the end of 2015, the RUB weakened to 73 against the USD, extending its losses by another 26% after depreciating by 74% in 2014. The weakening of the RUB, which started at the end of 2014, accelerated 2015 inflation to 15.6% on average, but since then a steady deceleration pushed CPI back to single-digit territory; consumer prices rose by 9.8% in January 2016. The Central Bank of Russia ("CBR") continues to pursue tight monetary policy; the base rate has been kept at 11% since the end of July 2015. This can be explained by the presumed backward-looking

attitude of the CBR and paying attention to the fact inflation figures instead of monitoring the expected inflation when pursuing the monetary policy and deciding on the base rate. The concerns about external balance and the adequacy of reserves were not justified: despite the falling oil prices Russia's current account surplus amounted to 5.3% of GDP in 2015, the capital outflow slowed, and its size was less than the current account surplus. Due to the conflict in the East, the structural problems of the country and the decline in Ukraine's GDP continued in the first half of 2015. In the second half of the year the economy grew on a quarter-on-quarter basis mainly due to a sharp fall in imports and one-off factors. Therefore in 2015 Ukraine's economy fell by 10%, as industrial production contracted by 13.5% and retail sales shrank by 20.7% compared to 2014. At the beginning of 2015 the FX reserves of the National Bank of Ukraine declined to the danger zone, therefore the hryvnia depreciated sharply, falling 114% against the dollar between January and February. Later the hryvnia stabilized between 21 and 24 due the IMF package and the planned reforms. The depreciation of the hryvnia also influenced the inflation, which reached 48.7% in 2015. Due to the depreciating hryvnia, the increasing inflation and accelerating deposit outflow, the NBU increased the base rate from 14% to 30%, but from August the base rate was decreased to 22%. The government debt increased to 69% of GDP in the third quarter of 2015 – it could have been higher if Ukraine had not reached a deal with private creditors about the restructuring of the public debt. The deal contained 20% haircut in percentage of the face value, an increase in maturities and a coupon payment dependent on macroeconomic performance. In November 2015 Ukrainian separatists cut the energy supply of Crimea, which led to a series of temporary trade embargoes between Ukraine and Russia. On 23 December Ukraine missed its repayment deadline concerning a USD 3 billion worth bond owed to Russia, but the IMF decided to change its rules on lending to countries in payment arrears. Nonetheless, in the lack of

definitive actions against corruption and lack of reforms, the IMF did not disburse the latest USD 1.7 billion tranche from the USD 17.5 billion IMF package. At the end of the year, Ukraine's government passed the 2016 budget law, which assumes 2% economic growth for 2016 and 3.7% budget deficit.

In Hungary by 31 December 2015 the contractual period of the second phase of the Funding for Growth Scheme and the Growth Scheme Plus expired. Under these two schemes contracts with a total amount of around HUF 1,425 billion were signed on the sector level, of which OTP's share represented 19%. According to legislations passed in 2014 the settlement of the existing and matured (or prepaid) FX mortgage and consumer loan contracts at the Bank and OTP Mortgage Bank Ltd. was completed in March 2015. In the first quarter of 2015 the conversion of FX mortgage loans into HUF has been completed (except for OTP Real Estate Leasing Ltd.). In the second quarter of 2015 the settlement with Merkantil Bank Ltd., Merkantil Car Ltd. and OTP Real Estate Leasing Ltd. clients has been executed, clients' obligations arising from FX lease contracts were converted into HUF. In the third quarter of 2015 the settlement of existing and matured HUF consumer contracts at the Bank, OTP Mortgage Bank Ltd., Merkantil Bank Ltd., Merkantil Car Ltd. and OTP Real Estate Leasing Ltd. has been completed.

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

In Russia the funding costs increased immediately following the base rate hike by the CBR in December 2014, this manifested in narrowing net interest margin in the first quarter of 2015, which normalized in the rest of the year. The Bank's reaction to the

deteriorating market environment was to limit the disbursements of certain loan products, these limits have been gradually lifted in the course of 2015, nevertheless, newly disbursed volumes showed a substantial setback year-over-year. Performing (DPD0–90) loan volumes dropped by 26% year-over-year on an FX-adjusted basis. Amid unfavourable economic environment the volume growth of DPD90+ loans (FX-adjusted, excluding the impact of loan sales and write-offs) accelerated in the first half of the year, while it showed substantial deceleration both in the third and fourth quarter. In Ukraine the annual risk costs grew by 35% year-over-year in local currency terms. The material increase in the first quarter of 2015 risk costs was related to the drastic depreciation of UAH against USD which

required higher provision coverage due to the FX loans' revaluation (LTV – loan to value effect). In the second quarter the case was the opposite, whereas in the third quarter the Ukrainian operation made additional provisions mostly for the legacy corporate exposures originated before the crisis, while in the fourth quarter elevated risk costs were mainly related to the USD-based mortgages at the local Factoring unit. Portfolio quality deterioration moderated substantially year-over-year. Under the scope of the Bank's own restructuring programme the volume of FX mortgage loans converted into UAH at market FX rate got close to UAH 1.8 billion by the end of 2015. Under the scheme the Bank offers either certain debt forgiveness and/or an interest rate concession at the beginning of the maturity.



Deloitte Auditing and Consulting Ltd.
H-1068 Budapest, Dózsa György út 84/C, Hungary
H-1438 Budapest, P.O.Box 471, Hungary

Tel: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.hu

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INDEPENDENT AUDITORS' REPORT

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

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of OTP Bank Plc. for the year 2015, which separate financial statements comprise the separate statement of financial position as at December 31, 2015 and the related separate statement of recognized income, separate statements of comprehensive income, separate statement of changes in equity and separate statement of cash-flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 162-235 of this Annual Report.

Management's Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of OTP Bank Plc. as at December 31, 2015, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Matters

In the note 2.3 of the separate financial statements, it is stated that the consolidated financial statements of OTP Bank Plc. prepared in accordance with International Financial Reporting Standards as adopted by the European Union have been published separately. The consolidated financial statements of OTP Bank Plc. as of and for the year ended December 31, 2015 were audited by us and our report dated March 18, 2016 expressed an unqualified opinion.

We issued our auditors' report dated March 18, 2016, on the separate financial statements and the effects of subsequent events were examined until that date. The dividend was approved by the General Meeting on April 15, 2016. Our procedures regarding the subsequent events occurred after March 18, 2016, were limited to the General Meeting's decision on the dividend. The separate financial statements do not reflect and we have not examined the effects of subsequent events that occurred in the period between March 18, 2016 and May 6, 2016.

Budapest, May 6, 2016



Nagyváradiné Szépfalvi Zsuzsanna

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
000083

Statement of financial position

(separate, based on IFRS, as at 31 December 2015, in HUF million)

	Note	2015	2014
Cash, amounts due from banks and balances with the National Bank of Hungary	4	1,326,197	1,897,778
Placements with other banks, net of allowance for placement losses	5	647,724	712,112
Financial assets at fair value through profit or loss	6	252,140	351,753
Securities available-for-sale	7	1,462,660	1,215,907
Loans, net of allowance for loan losses	8	1,679,184	1,908,631
Investments in subsidiaries, associates and other investments	9	657,531	604,209
Securities held-to-maturity	10	824,801	662,947
Property and equipment	11	63,440	68,114
Intangible assets	11	32,438	36,091
Other assets	12	150,261	97,930
TOTAL ASSETS		7,096,376	7,555,472
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	13	829,122	1,142,491
Deposits from customers	14	4,323,239	4,235,256
Liabilities from issued securities	15	150,231	162,667
Financial liabilities at fair value through profit or loss	16	144,592	375,363
Other liabilities	17	300,027	253,952
Subordinated bonds and loans	18	266,063	294,612
TOTAL LIABILITIES		6,013,274	6,464,341
Share capital	19	28,000	28,000
Retained earnings and reserves	20	1,064,255	1,070,204
Treasury shares	21	(9,153)	(7,073)
TOTAL SHAREHOLDERS' EQUITY		1,083,102	1,091,131
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		7,096,376	7,555,472

Budapest, 18 March 2016

The accompanying notes to separate financial statements on pages 166 to 235 form an integral part of these separate financial statements.

Statement of recognized income

(separate, based on IFRS, for the year ended 31 December 2015, in HUF million)

	Note	2015	2014
Interest Income			
Loans		129,575	162,533
Placements with other banks, net of allowance for placement losses		151,938	128,444
Securities available-for-sale		50,655	72,056
Securities held-to-maturity		39,973	36,518
Amounts due from banks and balances with National Bank of Hungary		26,574	15,556
Rental income for operation of investment properties		60	–
Total Interest Income		398,775	415,107
Interest Expense			
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		152,613	127,809
Deposits from customers		29,744	52,544
Liabilities from issued securities		2,091	4,206
Subordinated bonds and loans		16,686	16,825
Expenses from operation of investment properties		35	–
Total Interest Expense		201,169	201,384
NET INTEREST INCOME		197,606	213,723
Provision for impairment on loan and placement losses	5, 8, 22	39,548	23,213
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		158,058	190,510
Income from fees and commissions	23	186,030	169,041
Expenses from fees and commissions	23	24,304	22,495
Net profit from fees and commissions		161,726	146,546
Foreign exchange gains		15,158	20,581
Gains on securities, net		24,461	8,752
Dividend income	9	58,597	42,795
Other operating income	24	8,713	3,294
Net other operating expenses	24	(131,179)	(285,883)
from this: provision for impairment on investments in subsidiaries	9	(47,470)	(226,730)
from this: release of provision/(provision) on contingent liabilities due to regulations related to customer loans	2,26, 24	42,529	(43,795)
Net operating expense		(24,250)	(210,461)
Personnel expenses	24	86,769	87,458
Depreciation and amortization	24	21,320	22,177
Other administrative expenses	24	141,091	134,793
Other administrative expenses		249,180	244,428
PROFIT/(LOSS) BEFORE INCOME TAX		46,354	(117,833)
Income tax benefit	25	(3,291)	(43,364)
NET PROFIT/(LOSS) FOR THE YEAR		49,645	(74,469)
Earnings per share (in HUF)			
Basic	35	182	(268)
Diluted	35	181	(267)

Statement of comprehensive income

(separate, based on IFRS, for the year ended 31 December 2015, in HUF million)

	Note	2015	2014
NET PROFIT/(LOSS) FOR THE YEAR		49,645	(74,469)
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of securities available-for-sale		(9,970)	15,775
Deferred tax related to securities available-for-sale	25.	1,894	(2,998)
TOTAL		(8,076)	12,777
NET COMPREHENSIVE INCOME		41,569	(61,692)

The accompanying notes to separate financial statements on pages 166 to 235 form an integral part of these separate financial statements.

Statement of cash-flows

(separate, based on IFRS, for the year ended 31 December 2015, in HUF million)

OPERATING ACTIVITIES	Note	2015	2014
Profit/(loss) before income tax		46,354	(117,833)
Depreciation and amortization		21,355	22,177
Provision for impairment on loan and placement losses	5, 8, 22	39,548	23,213
Provision for impairment on investments in subsidiaries	9	47,470	226,730
Provision for impairment on other assets	12	2,141	2,763
(Release of provision)/provision on off-balance sheet commitments and contingent liabilities	17	(4,185)	42,683
Share-based payment	28	3,810	4,393
Unrealised losses on fair value adjustment of securities available-for-sale and held for trading		(12,096)	(2,903)
Unrealised (losses)/gains on fair value adjustment of derivative financial instruments		(13,701)	5,401
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		4,452	219,463
Changes in financial liabilities at fair value through profit or loss		(32,611)	(1,990)
Net decrease in loans, net of allowance for loan losses		100,464	205,341
Increase in other assets, excluding advances for investments and before provisions for losses		(43,682)	(14,009)
Net increase in deposits from customers		88,089	557,789
Increase/(decrease) in other liabilities		56,111	(17,335)
Net decrease/(increase) in the compulsory reserve established by the National Bank of Hungary		47,712	(57,365)
Dividend income		(58,597)	(42,795)
Income tax paid		(3,823)	(2,864)
Net cash provided by operating activities		288,811	1,052,859
Interest received		390,187	420,581
Interest paid		(199,393)	(204,448)
INVESTING ACTIVITIES			
Net decrease/(increase) in placements with other banks before allowance for placement losses		64,385	(79,217)
Purchase securities available-for-sale		(652,482)	(14,729,107)
Proceeds from sale of securities available-for-sale		404,592	15,525,643
Increase in investments in subsidiaries		(100,792)	(161,617)
Decrease in investments in subsidiaries		-	-
Dividend income		58,597	42,795
Increase in securities held-to-maturity		(229,114)	(154,743)
Decrease in securities held-to-maturity		70,395	20,663
Additions to property, equipment and intangible assets		(37,510)	(18,426)
Disposal to property, equipment and intangible assets		17,306	7,185
Net decrease/(increase) in advances for investments included in other assets		3	(36)
Net cash (used in)/provided by investing activities		(404,620)	453,140
FINANCING ACTIVITIES			
Net (decrease)/increase in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		(313,369)	239,747
Cash received from issuance of securities		51,389	56,165
Cash used for redemption of issued securities		(63,473)	(69,387)
(Decrease)/increase in subordinated bonds and loans		(28,549)	16,371
Payments to ICES holders	20	(4,133)	(4,159)
Increase in Treasury shares		24,641	27,180
Decrease in Treasury shares		(34,093)	(31,430)
Dividend paid		(40,473)	(40,594)
Net cash (used in)/provided by financing activities		(408,060)	193,893
Net (decrease)/increase in cash and cash equivalents		(523,869)	1,699,892
Cash and cash equivalents at the beginning of the year		1,762,727	62,835
Cash and cash equivalents at the end of the year		1,238,858	1,762,727
Analysis of cash and cash equivalents			
Cash, amounts due from banks and balances with the National Bank of Hungary		1,897,778	140,521
Compulsory reserve established by the National Bank of Hungary		(135,051)	(77,686)
Cash and cash equivalents at the beginning of the year		1,762,727	62,835
Cash, amounts due from banks and balances with the National Bank of Hungary	4	1,326,197	1,897,778
Compulsory reserve established by the National Bank of Hungary	4	(87,339)	(135,051)
Cash and cash equivalents at the end of the year		1,238,858	1,762,727

The accompanying notes to separate financial statements on pages 166 to 235 form an integral part of these separate financial statements.

Statement of changes in shareholders' equity

(separate, based on IFRS, for the year ended 31 December 2015, in HUF million)

	Note	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve*	Treasury Shares	Total
Balance as at 1 January 2014		28,000	52	16,504	1,214,503	(55,468)	(6,731)	1,196,860
Net loss for the year		–	–	–	(74,469)	–	–	(74,469)
Other comprehensive income		–	–	–	12,777	–	–	12,777
Share-based payment	28	–	–	4,393	–	–	–	4,393
Payments to ICES holders	20	–	–	–	(3,580)	–	–	(3,580)
Sale of treasury shares	21	–	–	–	–	–	27,180	27,180
Loss on sale of treasury shares		–	–	–	(3,908)	–	–	(3,908)
Acquisition of treasury shares	21	–	–	–	–	–	(27,522)	(27,522)
Dividend for the year 2013		–	–	–	(40,600)	–	–	(40,600)
Balance as at 31 December 2014		28,000	52	20,897	1,104,723	(55,468)	(7,073)	1,091,131
Net profit for the year		–	–	–	49,645	–	–	49,645
Other comprehensive income		–	–	–	(8,076)	–	–	(8,076)
Share-based payment	28	–	–	3,810	–	–	–	3,810
Payments to ICES holders	20	–	–	–	(3,356)	–	–	(3,356)
Sale of treasury shares	21	–	–	–	–	–	24,641	24,641
Loss on sale of treasury shares		–	–	–	(7,372)	–	–	(7,372)
Acquisition of treasury shares	21	–	–	–	–	–	(26,721)	(26,721)
Dividend for the year 2014		–	–	–	(40,600)	–	–	(40,600)
Balance as at 31 December 2015		28,000	52	24,707	1,094,964	(55,468)	(9,153)	1,083,102

The accompanying notes to separate financial statements on pages 166 to 235 form an integral part of these separate financial statements.

* See Note 17.

NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1 General information

OTP Bank Plc. (the "Bank" or "OTP Bank") was established on 31 December 1990, when the previously State-owned company was transformed into a limited liability company.

The Bank's registered office address is 16 Nádor Street, Budapest 1051.

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

These financial statements were approved by the board of directors and authorised for issue on 18 March 2016.

	2015	2014
The structure of the Share capital by shareholders:		
Domestic and foreign private and institutional investors	97%	97%
Employees	2%	2%
Treasury shares	1%	1%
Total	100%	100%

The Bank provides a full range of commercial banking services through a nationwide network of 378 branches in Hungary.

	2015	2014
Number of the employees of the Bank:		
Number of employees	7,911	8,016
Average number of employees	7,940	8,004

1.2 Accounting

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

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

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial standards. Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with the International

Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). Certain adjustments have been made to the Bank's Hungarian separate statutory accounts (see Note 38), in order to present the separate financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").

The separate financial statements have been prepared in accordance with IFRS as adopted by the EU. IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") which has not

been approved by the EU. As the Bank does not apply portfolio hedge accounting under IAS 39, there would be no impact on these separate financial statements, had it been approved by the EU before the preparation of these financial statements.

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

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

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

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

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

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

- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective

for annual periods beginning on or after 1 January 2016),

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

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets

between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),

- Amendments to IAS 12 "Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

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

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

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements except of the application of IFRS 9 and IFRS 16 which might have significant impact on the Bank separate financial statements, the Bank is planning to analyse the impact in 2016.

NOTE 2:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of presentation

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

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

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result

in a change in estimates that could have a material impact on future separate financial statements.

2.2 Foreign currency translation

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

2.3 Consolidated financial statements

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

2.4 Investments in subsidiaries, associated companies and joint ventures

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

with the investee and has the ability to use its power to affect its returns.

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

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

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

OTP Bank calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash-generating units. OTP Bank in its strategic plan has taken into consideration the cautious recovery of global economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

2.5 Securities held-to-maturity

Investments in securities, traded in active market (with fixed or determinable cash-flows) are accounted for on a settlement date basis and are initially measured at fair value.

At subsequent reporting dates, securities that the Bank has the expressed intention and ability to hold to maturity (securities held-to-maturity) are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivables over the term of the investment so that the revenue

recognized in each period represents a constant yield on the investment.

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

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

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

2.6.2 Derivative financial instruments

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap

agreements and options. These financial instruments are used by the Bank both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes.

It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost its entire open derivative transactions collateralised. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the separate statement of recognized income for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

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

Foreign currency contracts

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

* First In First Out

risk management and trading purposes.

The Bank's risk management foreign currency contracts were used to hedge the exchange rate fluctuations of loans and deposits denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

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

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

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

Cross-currency interest rate swaps

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

Equity and commodity swaps

Equity swaps obligate two parties to exchange more payments calculated with reference periodically reset rates of interest and performance of indices. A specific notional principal amount is the base of the interest calculation. The payment of index return is

calculated on the basis of current market price compared to the previous market price. In case of commodity swaps payments are calculated on the basis of the strike price of a predefined commodity compared to its average market price in a period.

Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate.

Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

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

Foreign exchange options

A foreign exchange option is a derivative financial instrument that gives the owner the right to exchange money denominated in one currency into another currency at a pre-agreed exchange rate at a specified future date.

The transaction, for a fee, guarantees a worst-case exchange rate for the futures purchase of one currency for another. These options protect against unfavourable currency movements while preserving the ability to participate in favourable movements.

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of recognized income along with the corresponding change in fair value of the

hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the separate statement of recognized income. The conditions of hedge accounting applied by the Bank are the following: formally designed as hedge, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.

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

The ineffective element of the hedge is charged directly to the separate statement of recognized income.

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

2.8 Offsetting

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

2.9 Embedded derivatives

Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) affecting cash-flows or

otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:

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

2.10 Securities available-for-sale

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

The provision for impairment is calculated based on discounted cash-flow methodology for debt instruments and calculated based on fair value on equity instruments, using the expected future cash-flow and original effective interest

* First In First Out

rate if there is objective evidence of impairment based on significant or prolonged decrease on fair value.

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

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

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

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

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

The amount of allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash-flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate. Allowance for losses on loans and placements with other banks represent management assessment for potential losses in relation to these activities.

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date.

The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.

If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as

an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

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

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

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

2.12 Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the statement of financial position and the consideration received is recorded in Other liabilities or Amounts due to banks and the

Hungarian Government, deposits from the National Bank of Hungary and other banks, or Deposits from customers. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the statement of financial position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement.

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

2.13 Property, equipment and intangible assets

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

Intangible assets

Software	15–33.3%
Property rights	16.7%
Property	1–2%
Office equipment and vehicles	9–33.3%

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

If such indication exists, the recoverable amount of the asset is estimated to determine

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

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

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

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

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

2.14 Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. In connection to the financial liabilities at fair value through profit or loss, the Bank presents the amount of change in their fair value originated from the changes of market conditions and business environment. Financial liabilities at fair value through profit or loss are either financial liabilities held for trading or they are designated upon initial recognition as at fair value through profit or loss. In the case of financial liabilities measured

at amortized cost, fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument. In certain cases the Bank repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the net profit or loss for the period and included in other operating income.

2.15 Leases

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

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

2.16 Treasury shares

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

2.17 Interest income and interest expense

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

2.18 Fees and Commissions

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

2.19 Dividend income

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

2.20 Income tax

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted

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

2.21 Off-balance sheet commitments and contingent liabilities

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

2.22 Share-based payment and employee benefit

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

The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured

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

2.23 Separate statement of cash-flows

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

2.24 Segment reporting

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

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

business and geographical segments.

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

2.25 Comparative figures

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

2.26 Government measures related to customer loan contracts

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

a) Act on Settlement

Based on these regulations expense in the amount of HUF 40 billion was recognised as amounts charged to clients related to customer loans contracts were assumed unfair. The provision related to the settlement was released during the year of 2015. In relation to the settled customer loans sold to debt management company, further provision in the amount of HUF 1,598 million was recognised

on subsequent purchase price compensation payable for the debt management company. The purchase price compensation is expected to be settled during the first half of 2016.

b) Act on Conversion mortgage backed loans into HUF

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

c) Act on Conversion customer loans into HUF

On 2 October 2015 the Hungarian Government accepted the Act CXLV of 2015 on "Resolving

issues concerning the HUF conversion of receivables from certain customer loan agreements". Accordingly, the applicable exchange rates were the spot market rates on 19 August 2015 (official exchange rates of the NBH on 19 August 2015 were 287.20 HUF/CHF and 309.20 HUF/EUR, respectively).

However, based on the law a subsidy was given to clients in the amount of the difference between the FX rates used for the conversion of FX mortgage loans (256.47 HUF/CHF, 308.97 HUF/EUR) and the 19 August 2015 FX rates was borne equally by the banks and the State. The conversion was not mandatory for the clients.

OTP Bank completed the conversion of foreign currency customer loans, and the relating subsidy was settled with the clients which has no significant effect to the OTP Bank's profitability.

NOTE 3:

SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

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

3.1 Impairment on loans and placements

The Bank regularly assesses its loan portfolio for impairment. Management determines the

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

acquiring new data by the Bank could affect the level of impairment allowances in the future.

3.2 Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data.

While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. for correlations, volatilities etc). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.

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

asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3 Provisions

Provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes.

Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for (see Note 17).

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

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

NOTE 4:

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

	2015	2014
Cash on hand:		
In HUF	76,320	65,059
In foreign currency	6,483	5,579
	82,803	70,638
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	1,200,884	1,795,868
In foreign currency	40,818	30,640
	1,241,702	1,826,508
Accrued interest	1,692	632
Total	1,326,197	1,897,778
Compulsory reserve	87,339	135,051
Rate of the compulsory reserve	2%	3%

NOTE 5:

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

	2015	2014
Within one year:		
In HUF	426,484	294,712
In foreign currency	166,623	302,186
	593,107	596,898
Over one year:		
In HUF	40,592	5,000
In foreign currency	12,736	108,586
	53,328	113,586
Total placements	646,435	710,484
Accrued interest	1,318	1,654
Provision for impairment on placement losses	(29)	(26)
Total	647,724	712,112

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

	2015	2014
Balance as at 1 January	26	22
Provision for the year	3	4
Balance as at 31 December	29	26

Interest conditions of placements with other banks:

	2015	2014
Placements with other banks in HUF	2.35%–5.85%	3%–6.6%
Placements with other banks in foreign currency	0.02%–10%	0.58%–13%
Average interest of placements with other banks	1.43%	2.19%

NOTE 6:

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

Securities held for trading:

	2015	2014
Shares	71,779	58,559
Government bonds	12,613	13,777
Hungarian government interest bearing Treasury Bills	7,768	4,175
Hungarian government discounted Treasury Bills	366	288
Mortgage bonds	94	71
Securities issued by credit institutions	–	67
Other securities	510	216
Subtotal	93,130	77,153
Accrued interest	433	434
Total	93,563	77,587

Derivative financial instruments:

	2015	2014
CCIRS and mark-to-market CCIRS*	102,125	152,540
Interest rate swaps	33,869	43,538
Foreign currency swaps	14,352	60,833
Other derivative transactions**	8,231	17,255
Subtotal	158,577	274,166
Total	252,140	351,753

* CCIRS: Cross Currency Interest Rate Swap (see Note 2.6.2).

** Incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option (see Note 2.6.2).

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

	2015	2014
Within five years:		
variable interest	2,194	1,125
fixed interest	15,188	13,878
	17,382	15,003
Over five years:		
variable interest	5	6
fixed interest	3,614	3,566
	3,619	3,572
Non-interest bearing securities	72,129	58,578
Total	93,130	77,153

	2015	2014
Securities held for trading denominated in HUF	99.49%	97.65%
Securities held for trading denominated in foreign currency	0.51%	2.35%
Securities held for trading total	100%	100%
Government bonds denominated in HUF	99.35%	90%
Government bonds denominated in foreign currency	0.65%	10%
Government securities total	100%	100%
Interest rates on securities held for trading	0.8%–10%	1.74%–10%
Average interest on securities held for trading	2.42%	2.48%

NOTE 7:

SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

	2015	2014
Government bonds	755,627	375,040
Mortgage bonds	597,226	741,567
Other securities	81,238	64,593
listed securities	10,326	31,535
in HUF	–	–
in foreign currency	10,326	31,535
non-listed securities	70,912	33,058
in HUF	58,800	27,397
in foreign currency	12,112	5,661
Subtotal	1,434,091	1,181,200
Accrued interest	28,569	34,707
Securities available-for-sale total	1,462,660	1,215,907

	2015	2014
Securities available-for-sale denominated in HUF	70%	67%
Securities available-for-sale denominated in foreign currency	30%	33%
Securities available-for-sale total	100%	100%
Interest rates on securities available-for-sale denominated in HUF	2.5%–11%	3.5%–11%
Interest rates on securities available-for-sale denominated in foreign currency	0.58%–6.25%	1.99%–5.88%
Average interest on securities available-for-sale	4.54%	4.67%

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

	2015	2014
Within five years:		
variable interest	324,400	320,729
fixed interest	838,523	571,816
	1,162,923	892,545
Over five years:		
variable interest	40,624	4,587
fixed interest	201,128	251,803
	241,752	256,390
Non-interest bearing securities	29,416	32,265
Total	1,434,091	1,181,200

Certain fixed-rate mortgage bonds and other securities are hedged against interest rate risk (see Note 37).

	2015	2014
Net gain reclassified from equity to statement of recognized income	9,818	2,995
Fair value of the hedged securities:		
Mortgage bonds	317,230	–
Government bonds	665,228	261,608
Corporate bonds	3,256	24,736
Total	985,714	286,344

NOTE 8:

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

	2015	2014
Short-term loans and promissory notes (within one year)	1,019,240	1,014,363
Long-term loans and promissory notes (over one year)	754,722	972,626
Loans gross total	1,773,962	1,986,989
Accrued interest	4,885	7,039
Provision for impairment on loan losses	(99,663)	(85,397)
Total	1,679,184	1,908,631

An analysis of the loan portfolio by currency:

	2015	2014
In HUF	51%	43%
In foreign currency	49%	57%
Total	100%	100%

Interest rates of the loan portfolio are as follows:

	2015	2014
Loans denominated in HUF, with a maturity within one year	4.9%–35%	5.6%–28.8%
Loans denominated in HUF, with a maturity over one year	1.4%–18.5%	2.1%–18.5%
Loans denominated in foreign currency	1.2%–10.2%	1.8%–14%
Average interest on loans denominated in HUF	11.24%	11.72%
Average interest on loans denominated in foreign currency	2.64%	3.91%
Gross loan portfolio on which interest to customers is not being accrued	12.7%	11.3%

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

	2015		2014	
Retail loans	476,664	27%	518,058	26%
Retail consumer loans	266,643	15%	291,497	15%
Retail mortgage backed loans*	77,960	4%	112,358	5%
Micro and small enterprises loans	132,061	8%	114,203	6%
Corporate loans	1,297,298	73%	1,468,931	74%
Loans to medium and large corporates	1,277,292	72%	1,420,631	71%
Municipality loans	20,006	1%	28,471	2%
Loans to the State	–	–	19,829	1%
Total	1,773,962	100%	1,986,989	100%

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

	2015	2014
Balance as at 1 January	85,397	150,513
Provision for the year	69,926	52,096
Release of provision	(52,185)	(54,793)
Partial write-off**	(3,475)	(62,419)
Balance as at 31 December	99,663	85,397

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

	2015	2014
Provision for impairment on placement losses	3	4
Provision for impairment on loan losses	39,545	23,209
Total	39,548	23,213

The Bank sells non-performing loans wholly owned subsidiary, OTP Factoring Ltd. without recourse at estimated fair value to a (see Note 29).

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

	2015	2014
Investments in subsidiaries		
Controlling interest	1,245,801	1,147,839
Other investments	3,511	681
Subtotal	1,249,312	1,148,520
Provision for impairment	(591,781)	(544,311)
Total	657,531	604,209

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

* Incl. housing loans.

** See Note 2.11.

Significant subsidiaries

Investments in companies in which the Bank has a controlling interest (direct) are detailed

below. All companies are incorporated in Hungary unless indicated otherwise:

	2015		2014	
	% Held (direct)	Gross book value	% Held (direct)	Gross book value
OTP Bank JSC (Ukraine)	100%	311,390	100%	279,469
OTP Mortgage Bank Ltd.	100%	144,294	100%	126,839
OTP Bank Romania S.A. (Romania)	100%	94,085	100%	61,081
OTP banka Srbija a.d. (Serbia)	97.92%	91,159	97.90%	91,153
DSK Bank EAD (Bulgaria)	100%	86,832	100%	86,832
JSC "OTP Bank" (Russia)	97.87%	74,321	97.86%	74,318
OTP banka Hrvatska d.d. (Croatia)	100%	72,940	100%	72,940
Crnogorska komercijalna banka a.d. (Montenegro)	100%	58,484	100%	58,484
OTP Factoring Ltd.	100%	53,032	100%	60,192
LLC Alliance Reserve (Russia)	100%	50,074	100%	50,074
OTP Holding Malta Ltd. (Malta)	100%	32,359	100%	32,359
Balansz Real Estate Institute Fund	100%	29,150	100%	18,520
Merkantil Bank Ltd.	100%	23,241	100%	18,426
Inga Kettő Ltd.	100%	17,892	100%	17,892
OTP Banka Slovensko a.s. (Slovakia)	99.26%	17,125	99.26%	16,706
Bank Center No. 1. Ltd.	100%	16,063	100%	16,063
OTP Life Annuity Ltd.	100%	15,300	100%	15,300
OTP Real Estate Ltd.	100%	10,023	100%	9,520
Air-Invest Ltd.	100%	9,698	100%	9,698
Monicomp Ltd.	100%	9,234	100%	9,234
OTP Real Estate Leasing Ltd.	100%	7,368	100%	9,118
R.E. Four d.o.o. (Serbia)	85.13%	4,357	–	–
OTP Venture Capital Fund	100%	3,000	–	–
OTP Funds Servicing and Consulting Ltd.	100%	2,469	100%	2,469
Fordulat Venture Capital Fund	50%	2,025	50%	1,555
OTP Holding Ltd. (Cyprus)	100%	2,000	100%	2,000
OTP Building Society Ltd.	100%	1,950	100%	1,950
OTP Fund Management Ltd.	100%	1,653	100%	1,653
OTP Real Estate Investment Fund Management Ltd.	100%	1,352	100%	1,352
CIL Babér Ltd.	100%	1,225	100%	1,225
OTP Financing Netherlands B.V. (the Netherlands)	100%	481	100%	481
OTP Card Factory Ltd.	100%	450	100%	450
OTP Financing Cyprus Company Limited (Cyprus)	100%	301	–	–
Portfolion Ltd.	100%	150	100%	150
OTP Financing Malta Company Ltd. (Malta)	100%	31	100%	31
HIF Ltd. (United Kingdom)*	–	–	100%	81
Other	–	293	–	224
Total		1,245,801		1,147,839

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

	2015	2014
Balance as at 1 January	544,311	317,581
Provision for the year	47,470	226,730
Balance as at 31 December	591,781	544,311

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. The Bank prepared impairment tests of the subsidiaries based on two different net present value calculation methods that show the same result; however they represent different economical logics. On one hand is the

discount cash-flow method (DCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are

* Liquidation process was completed on 17 November 2015 and HIF Ltd. has been dissolved on 17 February 2016.

expected to generate in the future. Applying the EVA method was more practically than DCF method because it gives a more realistic picture about how the explicit period and the residual value can contribute to the value of the company. The Bank, in its strategic plan, has taken into

consideration the effects of the present global economic situation, the cautious recovery of economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

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

	2015	2014
OTP Bank JSC (Ukraine)*	270,104	252,411
OTP Mortgage Bank Ltd.	117,294	99,838
OTP banka Srbija a.d. (Serbia)	63,233	63,233
OTP Factoring Ltd.	51,621	58,781
Crnogorska komercijalna banka a.d. (Montenegro)	26,714	26,714
Merkantil Bank Ltd.	21,641	16,826
OTP banka Hrvatska d.d. (Croatia)	9,232	9,232
OTP Real Estate Leasing Ltd.	7,368	8,949
Total	567,207	535,984

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

	2015	2014
DSK Bank EAD (Bulgaria)	43,822	25,054
OTP Holding Ltd. (Cyprus)	3,700	3,355
OTP Fund Management Ltd.	5,343	3,024
OTP Building Society Ltd.	900	2,100
OTP Mortgage Bank Ltd.	–	5,097
Other	2,319	1,134
Subtotal	56,084	39,764
Dividend from shares held-for-trading	2,513	3,031
Total	58,597	42,795

Significant associates and joint ventures

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

As at 31 December 2015:

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

* In 2015 provision for impairment was recognised in the amount of HUF 17,693 million as a result of business valuation (see Note 41).

** Based on unaudited financial statements.

As at 31 December 2014:

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

On 15 December 2015 OTP Bank announces that as a result of a sale executed by OTP Bank's subsidiaries as sellers, the indirect ownership of

OTP Bank held in KITE Mezőgazdasági Szolgáltató és Kereskedelmi (Agricultural Service and Trade) Ltd. has been ceased to exist.

Capital transactions in subsidiaries are as follows:

	Date of transaction	Registered capital before transaction	Registered capital after transaction	Amount of transaction
OTP Bank Romania S.A. (Romania)	21/01/2015	RON 782,908,800	RON 958,252,800	RON 175,344,000
OTP Bank JSC (Ukraine)	15/05/2015	UAH 2,868,190,521	UAH 3,668,186,135	UAH 799,995,614
OTP Bank Romania S.A. (Romania)	7/01/2016	RON 958,252,800	RON 1,254,252,720	RON 295,999,920
OTP Bank JSC (Ukraine)	25/01/2016	UAH 3,668,186,135	UAH 6,186,023,111	UAH 2,517,836,976

On 3 February 2016 OTP Bank announces that AXA Bank Europe SA and OTP Bank signed an agreement on purchasing the business unit of AXA Bank Hungary. The purchase agreement includes the take-over of the retail credits and savings, as well as the corporate portfolio and the employees of AXA Bank. The retail-focused AXA Bank is present in Hungary since 2009. AXA Bank has been

offering innovative online customer services, and the bank has strong positions in the local mortgage market. After the completion of the purchase OTP Bank's mortgage portfolio will increase with almost 25%. According to the plans the integration process can be closed at the end of 2016 after obtaining all the necessary supervisory approvals.

NOTE 10:

SECURITIES HELD-TO-MATURITY (in HUF mn)

	2015	2014
Government bonds	803,802	641,645
Mortgage bonds	4,758	4,756
Hungarian government discounted Treasury bills	-	346
Subtotal	808,560	646,747
Accrued interest	16,241	16,200
Total	824,801	662,947

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

	2015	2014
Within five years:		
variable interest	3,339	6,677
fixed interest	386,238	352,702
	389,577	359,379
Over five years:		
fixed interest	418,983	287,368
	418,983	287,368
Total	808,560	646,747

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

	2015	2014
Securities held-to-maturity denominated in HUF	100%	100%
Securities held-to-maturity total	100%	100%
Interest rates on securities held-to-maturity	2.75%–9.48%	2.5%–9.5%
Average interest on securities held-to-maturity denominated in HUF	7.54%	6.3%

In most cases, interest on variable rate securities is based on the interest rates of 90 day Hungarian government

Treasury bills, and it is adjusted semi-annually. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

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

For the year ended 31 December 2015:

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

For the year ended 31 December 2014:

	Intangible assets	Property	Office equipment and vehicles	Construct on in progress	Total
Cost					
Balance as at 1 January	137,349	69,829	73,012	16,815	297,005
Additions	25,133	1,562	4,681	5,541	36,917
Disposals	(8,429)	(563)	(7,709)	(20,351)	(37,052)
Balance as at 31 December	154,053	70,828	69,984	2,005	296,870
Depreciation and Amortization					
Balance as at 1 January	105,795	17,246	56,963	–	180,004
Charge for the year	14,416	1,846	5,915	–	22,177
Disposals	(2,249)	(160)	(7,107)	–	(9,516)
Balance as at 31 December	117,962	18,932	55,771	–	192,665
Net book value					
Balance as at 1 January	31,554	52,583	16,049	16,815	117,001
Balance as at 31 December	36,091	51,896	14,213	2,005	104,205

NOTE 12:

OTHER ASSETS* (in HUF mn)

	2015	2014
Deferred tax assets**	41,905	33,557
Fair value of derivative financial instruments designated as fair value hedge	33,768	14,041
Prepayments and accrued income	19,319	17,974
Receivables from OTP Mortgage Bank Ltd.***	13,734	773
Current income tax receivable	11,381	2,561
Receivables from investment services	8,769	5,923
Receivables from card operations	7,865	9,615
Trade receivables	3,778	4,162
Other advances	2,871	1,283
Investment properties****	2,803	–
Stock exchange deals	2,048	3,970
Due from Hungarian Government from interest subsidies	1,197	837
Advances for securities and investments	631	634
Inventories	457	632
Other	6,794	6,407
Subtotal	157,320	102,369
Provision for impairment on other assets*****	(7,059)	(4,439)
Total	150,261	97,930

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

	2015	2014
CCIRS designated as fair value hedge	18,375	–
Interest rate swaps designated as fair value hedge	15,393	14,032
Other	–	9
Total	33,768	14,041

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

	2015	2014
Balance as at 1 January	4,439	1,676
Charge for the year	2,914	3,589
Release of provision	(294)	(826)
Balance as at 31 December	7,059	4,439

* Other assets – except income tax receivable and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Income tax receivable will be enforced in the tax return for the year 2015. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.

** See Note 25.

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

**** OTP Bank recognized rental income in the amount of HUF 60 million from OTP Facility Management Llc. for the operation of the investment properties in 2015.

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

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

	2015	2014
Within one year:		
In HUF	325,384	321,228
In foreign currency	165,024	685,318
	490,408	1,006,546
Over one year:		
In HUF	260,607	92,169
In foreign currency	73,648	42,961
	334,255	135,130
Subtotal	824,663	1,141,676
Accrued interest	4,459	815
Total*	829,122	1,142,491

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

	2015	2014
Within one year:		
In HUF	(1%)–3.6%	2.21%–5.24%
In foreign currency	0%–1.27%	4.18%–7%
Over one year:		
In HUF	0%–3.24%	0.08%–3.08%
In foreign currency	0.1%–12.13%	0.1%–4.48%
Average interest on amounts due to banks in HUF	2.44%	1.7%
Average interest on amounts due to banks in foreign currency	0.59%	1.09%

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

	2015	2014
Within one year:		
In HUF	3,504,480	3,600,806
In foreign currency	782,143	599,127
	4,286,623	4,199,933
Over one year:		
In HUF	34,373	31,419
	34,373	31,419
Subtotal	4,320,996	4,231,352
Accrued interest	2,243	3,904
Total	4,323,239	4,235,256

Interest rates on deposits from customers are as follows:

	2015	2014
Within one year in HUF	0.01%–4%	0.01%–10.3%
Over one year in HUF	0.01%–6.85%	0.01%–3.1%
In foreign currency	0.01%–10%	0.01%–6.6%
Average interest on deposits from customers in HUF	0.66%	1.23%
Average interest on deposits from customers in foreign currency	0.39%	0.9%

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

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

	2015		2014	
Retail deposits	2,544,375	59%	2,242,240	53%
Household deposits	2,074,581	48%	1,860,109	44%
Deposits micro and small enterprises	469,794	11%	382,131	9%
Corporate deposits	1,776,621	41%	1,989,112	47%
Deposits to medium and large corporates	1,468,427	34%	1,659,484	39%
Municipality deposits	308,194	7%	329,628	8%
Total	4,320,996	100%	4,231,352	100%

NOTE 15:

LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2015	2014
Within one year:		
In HUF	11,865	24,280
In foreign currency	60,264	39,024
	72,129	63,304
Over one year:		
In HUF	75,185	86,781
In foreign currency	591	10,061
	75,776	96,842
Subtotal	147,905	160,146
Accrued interest	2,326	2,521
Total	150,231	162,667

Interest rates on liabilities from issued securities are as follows:

	2015	2014
Issued securities denominated in HUF	0.01%–7%	0.1%–7%
Issued securities denominated in foreign currency	0.5%–3%	1.1%–3%
Average interest on issued securities denominated in HUF	1.32%	2.66%
Average interest on issued securities denominated in foreign currency	1.42%	2.24%

Issued securities denominated in foreign currency as at 31 December 2015:

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % actual)	Hedged
1.	OTP EUR 1 2016/XIII	30/12/2015	13/01/2017	EUR	26.09	8,169	0.5 fixed	
2.	OTP EUR 1 2016/IX J003	25/09/2015	09/10/2016	EUR	21.34	6,681	0.6 fixed	
3.	OTP EUR 1 2016/X	30/10/2015	13/11/2016	EUR	14.90	4,667	0.6 fixed	
4.	OTP EUR 1 2016/III	20/03/2015	03/04/2016	EUR	12.94	4,052	0.9 fixed	
5.	OTP EUR 1 2016/VI	29/05/2015	12/06/2016	EUR	10.19	3,190	0.8 fixed	
6.	OTP EUR 1 2016/VII	30/06/2015	14/07/2016	EUR	10.06	3,150	0.8 fixed	
7.	OTP EUR 1 2016/I	30/01/2015	13/02/2016	EUR	9.93	3,109	1.1 fixed	
8.	OTP EUR 1 2015/XXV	19/12/2014	02/01/2016	EUR	9.14	2,860	1.1 fixed	
9.	OTP EUR 1 2016/XI	11/11/2015	25/11/2016	EUR	8.85	2,772	0.6 fixed	
10.	OTP EUR 1 2016/II	20/02/2015	06/03/2016	EUR	8.27	2,590	1.0 fixed	
11.	OTP EUR 1 2016/IV	10/04/2015	24/04/2016	EUR	7.14	2,237	0.9 fixed	
12.	OTP_VK_USD_1_2016/III	25/09/2015 30/12/2015	25/09/2016	USD	7.61	2,182	0.8 floating	
13.	OTP_VK_USD_2_2016/I	28/11/2014	28/11/2016	USD	6.76	1,937	1.4 floating	
14.	OTP EUR 1 2016/VIII J003	24/07/2015	07/08/2016	EUR	6.13	1,919	0.7 fixed	
15.	OTP EUR 1 2016/XII	27/11/2015	11/12/2016	EUR	6.03	1,887	0.5 fixed	
16.	OTP EUR 1 2015/XXVI	09/01/2015	23/01/2016	EUR	4.23	1,325	1.1 fixed	
17.	OTP EUR 1 2016/V	24/04/2015	08/05/2016	EUR	3.58	1,121	0.9 fixed	
18.	OTP_VK_USD_1_2016/I	24/04/2015 02/07/2015	24/04/2016	USD	3.27	937	1.0 floating	
19.	OTP EUR 2 2016/XIX	03/10/2014	03/10/2016	EUR	1.92	601	1.5 fixed	
20.	OTP EUR 2 2016/XV	30/07/2014	30/07/2016	EUR	1.55	484	1.5 fixed	
21.	OTP 2016/Cx	22/04/2011	22/04/2016	EUR	1.42	446	indexed	hedged
22.	OTP EUR 2 2016/XVII	29/08/2014	29/08/2016	EUR	1.31	412	1.5 fixed	
23.	OTP 2016/Dx	22/12/2011	29/12/2016	EUR	1.08	339	indexed	hedged
24.	OTP EUR 2 2016/XVIII	12/09/2014	12/09/2016	EUR	0.99	309	1.5 fixed	
25.	OTP EUR 2 2016/III	14/02/2014	14/02/2016	EUR	0.94	296	2.0 fixed	
26.	OTP EUR 2 2016/I	17/01/2014	17/01/2016	EUR	0.89	280	2.0 fixed	
27.	OTP EUR 2 2016/II	31/01/2014	31/01/2016	EUR	0.82	256	2.0 fixed	
28.	OTP_VK_USD_1_2016/II	24/07/2015	24/07/2016	USD	0.87	249	0.9 floating	
29.	OTP 2017/Fx	19/06/2012	16/06/2017	EUR	0.78	243	indexed	hedged
30.	OTP EUR 2 2016/V	14/03/2014	14/03/2016	EUR	0.72	227	1.8 fixed	
31.	OTP EUR 2 2016/VII	11/04/2014	11/04/2016	EUR	0.71	223	1.8 fixed	
32.	OTP EUR 2 2016/XI	06/06/2014	06/06/2016	EUR	0.64	200	1.8 fixed	
33.	OTP EUR 2 2016/IV	28/02/2014	28/02/2016	EUR	0.63	197	1.9 fixed	
34.	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	194	indexed	hedged
35.	OTP EUR 2 2016/IX	09/05/2014	09/05/2016	EUR	0.61	190	1.8 fixed	
36.	OTP EUR 2 2016/X	23/05/2014	23/05/2016	EUR	0.60	187	1.8 fixed	
37.	OTP EUR 2 2016/XII	20/06/2014	20/06/2016	EUR	0.59	185	1.5 fixed	
38.	OTP EUR 2 2016/XIII	04/07/2014	04/07/2016	EUR	0.46	145	1.5 fixed	
39.	OTP EUR 2 2016/XVI	08/08/2014	08/08/2016	EUR	0.37	115	1.5 fixed	
40.	OTP EUR 2 2016/XIV	18/07/2014	18/07/2016	EUR	0.31	98	1.5 fixed	
41.	OTP_VK_USD_2_2017/I	10/04/2015	10/04/2017	USD	0.33	95	1.1 floating	
42.	OTP EUR 2 2016/VI	21/03/2014	21/03/2016	EUR	0.21	66	1.8 fixed	
43.	OTP EUR 2 2016/VIII	18/04/2014	18/04/2016	EUR	0.20	63	1.8 fixed	
Subtotal issued securities in FX					60,885			
Unamortized premium						(92)		
Fair value hedge adjustment						62		
Total					60,855			

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

On 8 July 2014 OTP Bank initiated term note program in the value of HUF 500 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 29 July 2014 the prospectus of Term Note Program and the disclosure as at 25 July 2014. The prospectus is valid for 12 months following the disclosure.

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

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

On 30 June 2015 OTP Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 14 August 2015 the prospectus of Term Note Program and the disclosure as at 12 August 2015. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the

Budapest, Slovakian, Romanian and Bulgarian Stock Exchange without any obligation.

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

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

Issued securities denominated in HUF as at 31 December 2015:

	Name	Date of issuance	Maturity	Nominal value in HUF million	Interest conditions (in % actual)	Hedged
1.	OTP 2019/Dx	22/03/2013	21/03/2019	4,098	indexed	hedged
2.	OTP 2017/Ax	01/04/2011	31/03/2017	4,065	indexed	hedged
3.	OTP 2017/Bx	17/06/2011	20/06/2017	3,926	indexed	hedged
4.	OTP 2020/Ex	18/06/2014	22/06/2020	3,889	indexed	hedged
5.	OTP 2018/Bx	22/03/2012	22/03/2018	3,832	indexed	hedged
6.	OTP 2016/Ax	11/11/2010	03/11/2016	3,525	indexed	hedged
7.	OTP 2020/Fx	10/10/2014	16/10/2020	3,408	indexed	hedged
8.	OTP 2018/Cx	18/07/2012	18/07/2018	3,289	indexed	hedged
9.	OTP 2017/Ex	21/12/2011	28/12/2017	3,227	indexed	hedged
10.	OTP 2019/Ex	28/06/2013	24/06/2019	3,183	indexed	hedged
11.	OTP 2017/Cx	19/09/2011	25/09/2017	3,006	indexed	hedged
12.	OTP 2020/RF/C	11/11/2010	05/11/2020	2,937	indexed	hedged
13.	OTP 2020/Gx	15/12/2014	21/12/2020	2,898	indexed	hedged
14.	OTP 2018/Ex	28/12/2012	28/12/2018	2,814	indexed	hedged
15.	OTP 2018/Dx	29/10/2012	26/10/2018	2,767	indexed	hedged
16.	OTP 2020/RF/A	12/07/2010	20/07/2020	2,739	indexed	hedged
17.	OTP 2016/Bx	16/12/2010	19/12/2016	2,589	indexed	hedged
18.	OTP 2021/RF/B	20/10/2011	25/10/2021	2,487	indexed	hedged
19.	OTP 2021/RF/A	05/07/2011	13/07/2021	2,484	indexed	hedged
20.	OTP 2022/RF/A	22/03/2012	23/03/2022	1,414	indexed	hedged
21.	OTP 2020/RF/B	12/07/2010	20/07/2020	1,280	indexed	hedged
22.	OTP TBSZ2016/I	14/01/2011	05/08/2011	1,166	5.5	fixed
23.	OTP 2016/Fx	22/03/2013	24/03/2016	649	indexed	hedged
24.	OTP TBSZ2016/II	26/08/2011	29/12/2011	626	5.5	fixed
25.	OTP 2018/Ax	03/01/2012	09/01/2018	547	indexed	hedged
26.	OTP 2021/RF/C	21/12/2011	30/12/2021	492	indexed	hedged
27.	OTP 2022/RF/E	29/10/2012	31/10/2022	485	indexed	hedged
28.	OTP 2022/RF/B	22/03/2012	23/03/2022	458	indexed	hedged
29.	OTP 2017/Dx	20/10/2011	19/10/2017	431	indexed	hedged
30.	OTP 2023/RF/A	22/03/2013	24/03/2023	415	indexed	hedged
31.	OTP 2023/Ax	22/03/2013	24/03/2023	395	indexed	hedged
32.	OTP 2024/Bx	10/10/2014	16/10/2024	385	indexed	hedged
33.	OTP 2022/RF/F	28/12/2012	28/12/2022	363	indexed	hedged
34.	OTP 2019/Bx	05/10/2009	05/02/2010	355	indexed	hedged
35.	OTP 2021/Dx	21/12/2011	27/12/2021	351	indexed	hedged
36.	OTP 2020/Bx	28/06/2010	09/07/2020	332	indexed	hedged
37.	OTP 2021/RF/D	21/12/2011	30/12/2021	328	indexed	hedged
38.	OTP 2020/Ax	25/03/2010	30/03/2020	328	indexed	hedged
39.	OTP 2024/Cx	15/12/2014	20/12/2024	320	indexed	hedged
40.	OTP 2022/Dx	28/12/2012	27/12/2022	316	indexed	hedged
41.	OTP 2021/Bx	17/06/2011	21/06/2021	311	indexed	hedged
42.	OTP 2016/Ex	28/12/2012	27/12/2016	301	indexed	hedged
43.	OTP 2021/Ax	01/04/2011	01/04/2021	289	indexed	hedged
44.	OTP 2021/Cx	19/09/2011	24/09/2021	287	indexed	hedged
45.	OTP 2019/Cx	14/12/2009	20/12/2019	285	indexed	hedged
46.	OTP 2022/Cx	29/10/2012	28/10/2022	270	indexed	hedged
47.	OTP 2024/Ax	18/06/2014	21/06/2024	270	indexed	hedged
48.	OTP 2023/Bx	28/06/2013	26/06/2023	265	indexed	hedged
49.	OTP 2022/Ax	22/03/2012	23/03/2022	264	indexed	hedged
50.	OTP 2019/Ax	25/06/2009	01/07/2019	255	indexed	hedged
51.	OTP 2022/Bx	18/07/2012	18/07/2022	240	indexed	hedged
52.	OTP TBSZ6 2017/I	13/01/2012	22/06/2012	231	6.5	fixed
53.	OTP 2020/Dx	16/12/2010	18/12/2020	215	indexed	hedged
54.	OTP 2020/Cx	11/11/2010	05/11/2020	206	indexed	hedged
55.	OTP 2022/RF/D	28/06/2012	28/06/2022	188	indexed	hedged
56.	OTP TBSZ 4 2016/I	18/01/2013	15/02/2013	156	5	fixed
57.	OTP 2022/RF/C	28/06/2012	28/06/2022	146	indexed	hedged
58.	OTP 2021/RF/E	21/12/2011	30/12/2021	49	indexed	hedged
59.	OTP OJK 2016/I	26/08/2011	21/12/2011	30	6.14	fixed
60.	OTP OJK 2017/I	27/01/2012	13/07/2012	14	7	fixed
61.	Other			230		
Subtotal issued securities in HUF				77,101		
Unamortized premium				(3,090)		
Fair value hedge adjustment				13,039		
Total issued securities in HUF				87,050		
Accrued interest				2,326		
Total issued securities				150,231		

NOTE 16: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

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

	2015	2014
CCIRS and mark-to-market CCIRS	97,719	236,743
IRS	30,453	63,670
Foreign currency swaps	9,265	60,110
Other derivative contracts*	7,155	14,840
Total	144,592	375,363

NOTE 17: OTHER LIABILITIES (in HUF mn)**

	2015	2014
Financial liabilities from OTP-MOL share swap transaction***	66,787	56,445
Provision on other liabilities, off-balance sheet commitments, contingent liabilities	51,411	55,596
Liabilities from investment services	39,399	41,853
Fair value of derivative financial instruments designated as fair value hedge	35,701	3,463
Accrued expenses	25,664	32,353
Accounts payable	20,038	11,479
Salaries and social security payable	16,817	17,266
Suspended liabilities	7,589	1,852
Short-term liabilities due to repurchase agreement transactions	7,452	6,980
Giro clearing and other clearing accounts	6,143	5,678
Current income tax payable	6,044	7,789
HUF denominated liabilities from purchase of customers with cards	5,804	4,992
Liabilities related to housing loans	1,475	216
Expected liabilities ordered by law related to customer loans****	995	-
Liabilities connected to loans for collection	875	909
Other	7,833	7,081
Total	300,027	253,952

* Incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option.

** Other liabilities – except financial liabilities from OTP-MOL share swap transaction, deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP-MOL share swap transaction is settled in June of each year until the maturity date. The fair value adjustment of swap transaction is HUF 3,236 million as at 31 December 2015. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity.

*** On 16 April 2009, OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. On 11 July 2012 the parties amended the final maturity of the share swap agreement for 11 July 2017 until which any party can initiate cash or physical settlement of the transaction. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the loss of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity with the amount of HUF 55.5 billion and a recognition of a corresponding liability. As at 31 December 2015 and 2014 HUF 66,787 and HUF 56,445 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

**** See Note 2.26.

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

	2015	2014
Provision on expected liability in relation to OTP Holding Ltd. (Cyprus)	43,080	–
Provision on contingent liabilities due to regulations related to customer loans*	1,598	44,127
Provision for losses on other off-balance sheet commitments and contingent liabilities	3,103	3,365
Provision for litigation	1,112	998
Provision for retirement pension and severance pay	1,000	426
Provision on promissory obligation	–	3,525
Provision for taxation	–	1,000
Provision on other liabilities	1,518	2,155
Total	51,411	55,596

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

	2015	2014
CCIRS	21,978	–
IRS	13,723	3,463
Total	35,701	3,463

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

	2015	2014
Balance as at 1 January	55,596	12,913
Provision for the year	80,329	50,923
Release of provision	(84,514)	(7,724)
Provision for impairment on promissory obligation	–	(516)
Balance as at 31 December	51,411	55,596

NOTE 18:

SUBORDINATED BONDS AND LOANS (in HUF mn)

	2015	2014
Within one year:		
In foreign currency	156,481	29,375
	156,481	29,375
Over one year:		
In foreign currency	108,200	263,843
	108,200	263,843
Subtotal	264,681	293,218
Accrued interest	1,382	1,394
Total	266,063	294,612

Interest rates on subordinated bonds and loans are as follows:

	2015	2014
Subordinated bonds and loans denominated in foreign currency	5.3%–5.9%	0.6%–5.9%
Average interest on subordinated bonds and loans denominated in foreign currency	5.57%	5.41%

* See Note 2.26.

Subordinated loans and bonds are detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 31 December 2015
Subordinated bond	EUR 353.1 million	07/11/2006	Perpetual bond	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	5.875%
Subordinated bond (under EMTN* program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN* program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%

NOTE 19: SHARE CAPITAL (in HUF mn)

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

NOTE 20: RETAINED EARNINGS AND RESERVES (in HUF mn)

The reserves of the Bank under Hungarian Accounting Standards ("HAS")**:

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

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

These Financial Statements subject to approval by the Board of Directors in the Annual General

Meeting in April 2016. In 2015 the Bank paid dividend of HUF 40,600 million from the profit of the year 2014, which means HUF 147 dividend/share payment. In 2016 dividend of HUF 46,200 million are expected to be proposed by the Management from the profit of the year 2015, which means HUF 165 payable dividends by share to the shareholders.

On 19 October 2006 the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares ("ICES"). Within the transaction 10 million shares owned by OTP Bank and 4.5 million OTP shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the

* European Medium Term Note Program.

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

Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during

the first 10 years thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP Bank has discretionary right to cancel the payments. The interest payable is non-cumulative.

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

NOTE 21:

TREASURY SHARES (in HUF mn)

	2015	2014
Nominal value (ordinary shares)	157	161
Carrying value at acquisition cost	9,153	7,073

The changes in the carrying value of treasury shares are due to repurchase and sale

transactions on market authorised by the General Assembly.

Change in number of shares:

	2015	2014
Number of shares as at 1 January	1,605,311	1,402,369
Additions	5,284,354	6,474,942
Disposals	(5,316,728)	(6,272,000)
Number of shares as at 31 December	1,572,937	1,605,311

Change in carrying value:

	2015	2014
Balance as at 1 January	7,073	6,731
Additions	26,721	27,522
Disposals	(24,641)	(27,180)
Balance as at 31 December	9,153	7,073

NOTE 22:

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

	2015	2014
Provision for impairment on loan losses		
Provision for the year	69,926	52,096
Release of provision	(58,016)	(54,793)
Provision on loan losses	27,635	25,906
	39,545	23,209
Provision for impairment on placement losses		
Provision for the year	3	4
	3	4
Provision for impairment on loan and placement losses	39,548	23,213

NOTE 23:

NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)**Income from fees and commissions:**

	2015	2014
Deposit and account maintenance fees and commissions	76,222	74,584
Fees and commissions related to the issued bank cards	28,885	26,795
Fees and commissions related to security trading	24,919	23,046
Fees related to the cash withdrawal	21,522	22,171
Fees and commissions received from OTP Mortgage Bank Ltd.	19,112	6,204
Fees and commissions related to lending	6,766	6,462
Net fee income related to card insurance services and loan agreements	2,805	1,962
Other	5,799	7,817
Total	186,030	169,041

Expenses from fees and commissions:

	2015	2014
Fees and commissions related to issued bank cards	9,749	9,331
Fees and commissions related to lending	3,813	3,150
Interchange fee	3,770	3,439
Cash withdrawal transaction fees	1,114	1,186
Money market transaction fees and commissions	1,047	425
Fees and commissions related to security trading	1,011	713
Fees and commissions relating to deposits	869	855
Postal fees	241	297
Insurance fees	216	491
Other	2,474	2,608
Total	24,304	22,495
Net profit from fees and commissions	161,726	146,546

NOTE 24:

OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

	2015	2014
Other operating income		
Refund by the State of cancelled receivables from consumer loans converted into HUF*	6,631	-
Gains on transactions related to property activities	130	87
Income from non-financing services	13	1,922
Other	1,939	1,285
Total	8,713	3,294

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

Net other operating expenses	2015	2014
Provision for impairment on investments in subsidiaries	47,470	226,730
(Release of provision)/provision on contingent liabilities due to regulations related to customer loans*	(42,529)	43,795
Expenses from regulations related to customer loans*	40,234	–
Provision/(release of provision) for off-balance sheet commitments and contingent liabilities	38,344	(1,112)
Expenses from promissory obligation to OTP Financing Solutions B.V.	26,690	948
Financial support for sport association and organization of public utility	13,918	10,929
Non-repayable assets contributed	3,183	115
Provision for impairment on other assets	2,236	2,811
Fine imposed by Competition Authority	18	38
Other	1,615	1,629
Total	131,179	285,883

Other administrative expenses	2015	2014
Personnel expenses		
Wages	59,303	59,510
Taxes related to personnel expenses	18,969	19,238
Other personnel expenses	8,497	8,710
Subtotal	86,769	87,458
Depreciation and amortization	21,320	22,177

Other administrative expenses	2015	2014
Taxes, other than income tax**	84,750	84,637
Services	21,658	18,325
Administration expenses, including rental fees	21,553	21,524
Professional fees	7,639	4,741
Advertising	5,491	5,566
Subtotal	141,091	134,793
Total	249,180	244,428

NOTE 25: INCOME TAX (in HUF mn)

The Bank is presently liable for income tax at a rate of 19% of taxable income.

A breakdown of the income tax expense is:

	2015	2014
Current tax expense	2,386	2,284
Deferred tax income	(5,677)	(45,548)
Total	(3,291)	(43,364)

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

	2015	2014
Balance as at 1 January	33,557	(9,672)
Deferred tax income	5,677	45,648
Tax effect of fair value adjustment of available-for-sale securities recognized in other comprehensive income and ICES	2,671	(2,419)
Balance as at 31 December	41,905	33,557

* See Note 2.26.

** Special tax of financial institutions was paid by OTP Bank in the amount of HUF 24 billion for the year 2015 and 2014, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2015 financial transaction duty was paid by the Bank in the amount of HUF 45 billion.

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

	2015	2014
Tax accrual caused by negative taxable income	26,417	1,517
Unused tax allowance	17,821	6,794
Provision for impairment on investments	8,030	10,705
Refundable tax in accordance with Acts on Customer Loans*	6,341	30,596
Repurchase agreements and security lending	4,102	4,176
Amounts unenforceable by tax law	414	182
Difference in accounting for finance leases	147	166
Fair value correction related to customer loans	80	–
Deferred tax assets	63,352	54,136
Fair value adjustment of held for trading and available-for-sale securities	(12,432)	(11,048)
Fair value adjustment of derivative financial instruments	(2,793)	(1,902)
Effect of redemption of issued securities	(2,009)	(2,681)
Difference in depreciation and amortization	(1,962)	(1,957)
Effect of using effective interest rate method	(1,695)	(1,658)
Valuation of equity instrument (ICES)	(556)	(1,333)
Deferred tax liabilities	(21,447)	(20,579)
Net deferred tax asset	41,905	33,557
	2015	2014
Profit/(loss) before income tax	46,354	(117,833)
Income tax at statutory tax rate (19%)	8,807	(22,388)

Income tax adjustments due to permanent differences are as follows:

	2015	2014
Tax refund in accordance with Acts on Customer Loans	22,755	(22,189)
Provision on expected liability	8,230	–
Share-based payment	724	835
Accounting of equity instrument (ICES)	(9)	(211)
Amounts unenforceable by tax law	(232)	584
OTP–MOL share swap transaction	(615)	(80)
Treasury share transaction	(1,729)	(917)
Revaluation of investments denominated in foreign currency to historical cost	(4,601)	(185)
Deferred use of tax allowance	(11,028)	(6,335)
Dividend income	(11,133)	(8,115)
Differences in carrying value of subsidiaries	(16,039)	14,982
Use of tax allowance in the current year	–	(2,479)
Other	1,579	3,134
Income tax	(3,291)	(43,364)
Effective tax rate	(7.1%)	36.8%

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

* See Note 2.26.

NOTE 26:

FINANCIAL RISK MANAGEMENT (in HUF mn)

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

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

26.1 Credit risk

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

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

26.1.1 Analysis by loan types

Classification into risk classes

Exposures with small amounts (retail and micro and small enterprises sector) are subject to collective valuation method, which is a simplified assessment. The exposures subject to collective valuation method are classified into five valuation groups which have been

formed based on past due days from which three classes were presented A: 0–90 days past due – DPD, B: 91–360 DPD, C: over 360 days past due).

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

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

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

The expected future losses of the individually assessed item are determined by taking into consideration the above listed objective valuation aspects. The expected loss, the volume of the necessary reserve, is defined by

taking into account the value of the collaterals compared to the value of the collaterals relating to the exposure. The expected recovery is calculated by applying the effective interest rate method and the discounted cash-flow

method. The impairment accounted for the item before should be completed to this level by increasing the amount of the impairment or by releasing the provision accounted before.

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

As at 31 December 2015:

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

As at 31 December 2014:

Loan type	DPD 0–90	DPD 91–360	DPD 360+	Total carrying amount/allowance
Placements with other banks	710,484	–	–	710,484
Total placements with other banks	710,484	–	–	710,484
Allowance on placements with other banks	(26)	–	–	(26)
Consumer loans	281,923	7,888	1,686	291,497
Mortgage and housing loans	90,467	6,749	15,142	112,358
Micro and small enterprises loans	112,970	928	305	114,203
Loans to medium and large corporates	1,363,904	12,918	43,809	1,420,631
Municipal loans	48,220	28	52	48,300
Gross loan portfolio total	1,897,484	28,511	60,994	1,986,989
Allowance on loans	(37,088)	(15,613)	(32,696)	(85,397)
Net portfolio total	2,570,854	12,898	28,298	2,612,050
Accrued interest				
Placements with other banks				1,654
Loans				7,039
Total accrued interest				8,693
Total placements with other banks				712,112
Total loans				1,908,631
Total				2,620,743

The Bank's gross loan portfolio decreased by 10.3% in the year ended 31 December 2015. Analysing the contribution of loan types to the loan portfolio, the share of several business lines hardly changed. The ratio of the DPD90– loans compared to the gross loan portfolio increased slightly from 96.68% to 96.78% as at

31 December 2015, while the ratio of DPD90+ loans in gross loan portfolio decreased from 3.32% to 3.22%.

The Bank has a prudent provisioning policy, the coverage of loans by provision for impairment on DPD90+ loans decreased from 53.97% to 67.45% in the year ended 31 December 2015.

Not impaired loan portfolio

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

As at 31 December 2015:

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

As at 31 December 2014:

Loan type	Not past due	DPD 0–90	DPD 91–360	DPD 360+	Total
Placements with other banks	710,458	–	–	–	710,458
Consumer loans	221,734	38,324	109	37	260,204
Mortgage and housing loans	55,858	7,592	2,089	5,423	70,962
Micro and small enterprises loans	109,552	706	22	–	110,280
Loans to medium and large corporates	1,151,217	272	47	5	1,151,541
Municipal loans	48,455	263	19	34	48,771
Total	2,297,274	47,157	2,286	5,499	2,352,216

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 85.16% to 89.74% as at 31 December 2015 compared to 31 December 2014. The loans that are neither past due nor impaired are concentrated in the corporate business line. The ratio of the gross value of the loans past due not impaired compared to the whole portfolio increased from 2.04% to 2.68%.

The loans that are past due but not impaired are concentrated in the retail business line. During collective valuation method the Bank recognizes provision for impairment on loans over a 30 day delay. Those loans which are guaranteed by state and are past due 30 days not impaired due to the state guarantee. The level of corporate loans past due but not impaired is possible because

of endorsing collaterals considering during the individual evaluation. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank. Among the past due loans, the share of certain loan types changed insignificantly as at 31 December 2015 compared to 31 December 2014.

Loans individually assessed for provision

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

As at 31 December 2015:

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

As at 31 December 2014:

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off balance sheet contingent liabilities
Delay of repayment	73,344	61,928	17,941	–	–
Regularity of payment	429	162	394	–	–
Legal proceedings	45,467	37,774	14,099	84	47
Decrease of client classification	88,896	15,971	53,294	12,300	592
Loan characteristics	39,370	1,975	27,341	–	–
Business lines risks	44,219	5,052	8,454	16,004	508
Refinancing of subsidiaries portfolio	–	–	–	120,664	3,525
Cross default	13,250	3,781	5,708	441	51
Other	10,066	2,082	5,228	4,925	183
Corporate total	315,041	128,725	132,459	154,418	4,906
Delay of repayment	–	–	–	–	–
Regularity of payment	–	–	–	–	–
Legal proceedings	4	4	–	–	–
Decrease of client classification	–	–	–	3	–
Cross default	–	–	–	–	–
Other	96	1	–	381	4
Municipal total	100	5	–	384	4
Placements with other banks	–	–	–	–	–
Total	315,141	128,730	132,459	154,802	4,910

Regarding corporate business line in the individually rated portfolio the ratio of the carrying value of loans classified due to Decrease of client classification, Regularity of payment and Delay of repayment decreased significantly as at 31 December 2015 compared to 31 December 2014, while the carrying value of loans classified due to Legal proceedings increased by 78.4% as at 31 December 2015.

Transactions with high level of risk

Loans to customers are classified by using this category name if the clients are performing

according to the contracts but the risks of the transactions are higher than usual (balloon payment, using loan to finance the monetary expenditures in the phase of investment).

Business lines risks

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

Loan portfolio by countries

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

Country	2015		2014	
	Gross loan and placement with other banks portfolio	Allowance	Gross loan and placement with other banks portfolio	Allowance
Hungary	1,672,842	50,229	1,837,626	38,764
Belgium	23,790	–	1	1
Bulgaria	69,848	674	66,575	750
Croatia	32,371	201	33,339	639
Cyprus	42,062	18,308	47,276	10,443
France	7,909	–	5,237	–
Germany	15,413	1	10,109	4
Luxembourg	42	–	–	–
Montenegro	41,843	15,411	51,932	20,561
Norway	5,438	–	4,405	–
Poland	3,250	–	1,426	–
Romania	216,571	5,226	195,004	6,364
Russia	68,778	3,326	100,562	2,611
Serbia	13,432	–	9,777	2
Seychelles	4,818	4,818	4,877	4,855
Slovakia	22,261	131	32,768	148
Switzerland	8,367	88	3,065	149
Ukraine	103,382	1,250	165,150	42
United Kingdom	54,952	–	118,514	26
United States of America	994	29	2,376	44
Other	12,034*	–	7,454*	20
Total	2,420,397	99,692	2,697,473	85,423

26.1.2 Collaterals

The collateral value held by the Bank by collateral types is as follows (**total collateral**

value). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	2015	2014
Mortgages	699,275	716,079
Guarantees and warranties	216,552	217,022
Deposit	57,353	59,587
from this: Cash	38,115	41,966
Securities	16,366	16,492
Other	2,872	1,129
Assignment	570	1,886
Other	613	861
Total	974,363	995,435

The collateral value held by the Bank by collateral types is as follows (**to the extent of**

the exposures). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	2015	2014
Mortgage	279,700	326,062
Guarantees and warranties	125,345	132,803
Deposit	24,486	26,179
from this: Cash	15,401	18,927
Securities	6,604	6,529
Other	2,481	723
Assignment	351	527
Other	312	793
Total	430,194	486,364

The coverage level of loan portfolio to the extent of the exposures decreased from 18.03% to 17.77% as at 31 December 2015, while the coverage to the total collateral value improved from 36.90% to 40.26%.

* Austria, Czech Republic, Denmark, Italy, the Netherlands, Turkey and others.

26.1.3 Restructured loans

	2015		2014	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	11,545	4,962	13,027	1,286
Loans to medium and large corporates*	62,630	23,252	88,715	20,761
Micro and small enterprises loans	1,824	24	2,005	32
Municipality loans	–	–	21	–
Total	75,999	28,238	103,768	22,079

Restructured portfolio definition

Restructured portfolio for **retail business**

line contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

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

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

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

Restructured portfolio for **corporate/micro and small enterprises/municipal business**

line contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- independently from the date of the restructuring the following restructuring tool was applied:
 - cancellation of principal outstanding (cancelled or partially cancelled principal receivables);

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

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

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

* Incl.: project and syndicated loans.

Financial instruments by rating categories*

Held-for-trading securities as at 31 December 2015:

	A1	A2	A3	Aa3	Aaa	Ba1	Ba2	Baa1	Baa2	Baa3	Not rated	Total
Shares	24	66	53	19	11	26	6	59	–	26	71,489**	71,779
Government bonds	–	–	–	–	–	12,613	–	–	–	–	–	12,613
Mortgage bonds	–	–	–	–	–	18	–	–	76	–	–	94
Hungarian government discounted Treasury Bills	–	–	–	–	–	366	–	–	–	–	–	366
Hungarian government interest bearing Treasury Bills	–	–	–	–	–	7,768	–	–	–	–	–	7,768
Other securities	–	–	–	–	–	–	–	–	–	–	510	510
Total	24	66	53	19	11	20,791	6	59	76	26	71,999	93,130
Accrued interest												433
Total												93,563

Available-for-sale securities as at 31 December 2015:

	Ba1	Baa2	Not rated	Total
Mortgage bonds	–	590,055***	7,171	597,226
Government bonds	755,627	–	–	755,627
Other securities	–	–	81,238	81,238
Total	755,627	590,055	88,409	1,434,091
Accrued interest				28,569
Total				1,462,660

Held-to-maturity securities as at 31 December 2015:

	Ba1	Baa2	Total
Government bonds	803,802	–	803,802
Mortgage bonds	–	4,758	4,758
Subtotal	803,802	4,758	808,560
Accrued interest			16,241
Total			824,801

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

Country	2015	2014
Hungary	2,308,787	1,883,103
Slovakia	7,171	7,908
Austria	7,357	7,055
Luxembourg	6,444	5,660
United States of America	5,679	1,235
Germany	343	139
Total	2,335,781	1,905,100

* Moody's ratings

** Corporate shares listed on Budapest Stock Exchange

*** The whole portfolio was issued by OTP Mortgage Bank Ltd.

26.2 Market risk

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

26.2.1 Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over

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

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

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

Historical VaR (99%, one-day) by risk type	Average in HUF million	
	2015	2014
Foreign exchange	184	184
Interest rate	143	75
Equity instruments	3	12
Diversification	(107)	(62)
Total VaR exposure	223	209

While VaR captures the Bank’s daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Bank to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 26.2.2 below and, for interest rate risk, in Note 26.2.3 below.

26.2.2 Foreign currency sensitivity analysis

The following table details the Bank’s sensitivity to an increase and decrease in the HUF exchange rate against EUR and USD, over a

3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was short, amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries). High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at Group level –, and so FX risk affects the Group’s other

comprehensive income and not its income. A positive number below indicates an increase in profit where the HUF strengthens against the EUR and the USD. For a weakening

of the HUF against the EUR and USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the P&L in 3 months period in HUF billion	
	2015	2014
1%	(14.6)	(15.0)
5%	(10.0)	(10.5)
25%	(4.4)	(4.5)
50%	(0.5)	(0.6)
25%	3.1	3.2
5%	7.8	8.2
1%	10.9	11.8

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 2015.

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

26.2.3 Interest rate sensitivity analysis

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

- Floating-rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.

The simulation was prepared by assuming two scenarios:

1. HUF base rate decreases gradually to 0.85% (probable scenario)
2. HUF base rate decreases gradually to 0.35% (alternative scenario)

The net interest income in a one year period beginning with 1 January 2016 would be decreased by HUF 1,221 million (probable scenario) and HUF 3,058 million (alternative scenario) as a result of these simulations. This effect is counterbalanced by capital gains (HUF 291 million for probable scenario, HUF 1,109 million for alternative scenario) on the government bond portfolio held for hedging (economic).

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

Description	2015		2014	
	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(571)	195	(138)	374
EUR (0.1%) parallel shift	(214)	–	(134)	–
USD 0.1% parallel shift	(134)	–	(73)	–
Total	(919)	195	(345)	374

26.2.4 Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Bank uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing

offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

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

Description	2015	2014
VaR (99%, one day, million HUF)	(3)	(13)
Stress test (million HUF)	(53)	(43)

26.2.5 Capital management

Capital management

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

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

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

includes the monitoring and forecast of the capital position of the Bank.

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

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (commonly known as the Basel III agreement) into the EU

legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business. The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with HAS applying the current directives, rulings and indicators from 1 January 2014.

The Bank has entirely complied with the regulatory capital requirements in 2015 as well as in 2014.

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

The calculation of the Capital Adequacy ratio as at 31 December 2015 and 2014 is as follows:

	Basel III	
	2015	2014
Tier1 capital	831,469	525,849
Common equity Tier1 capital (CET1)	831,469	525,849
Additional Tier1 capital (AT1)	–	–
Tier2 capital	143,721	146,471
Regulatory capital	975,190	672,320
Credit risk capital requirement	232,651	217,891
Market risk capital requirement	40,619	43,188
Operational risk capital requirement	20,550	22,650
Total requirement regulatory capital	293,820	283,729
Surplus capital	681,370	388,591
CET1 ratio	22.64%	14.83%
Capital adequacy ratio	26.55%	18.96%

Basel III

Common equity Tier1 capital (CET1):
 Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due

to investments, adjustments due to temporary disposals.

Tier2 capital: Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals.

NOTE 27:

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

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred

to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities and commitments	2015	2014
Commitments to extend credit	948,917	753,152
Guarantees arising from banking activities	419,210	366,756
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	123,938	102,133
Promissory obligation to OTP Financing Solutions B.V.	–	120,664
Legal disputes (disputed value)	35,382	53,729
Contingent liabilities ordered by law related to customer loans*	1,598	44,127
Confirmed letters of credit	171	108
Other	92,558	33,428
Total	1,497,836	1,371,964

Legal disputes

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

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provision due to legal disputes was HUF 1,112 million and HUF 998 million as at 31 December 2015 and 2014, respectively (see Note 17).

Commitments to extend credit, guarantees and letter of credit

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

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

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

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

* See Note 2.26.

Guarantees, payment undertakings arising from banking activities

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

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

Contingent liabilities related to OTP Mortgage Bank Ltd.

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

Derivatives

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

NOTE 28:

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

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

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

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

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

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 concerning EU-directives –, therefore a decision was made to cancel the share-based payment in referred countries.

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

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

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

* Until the end of 2014 Board of Directors.

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

Year	Exercise price per share	Maximum earnings per share	Exercise price per share	Maximum earnings per share	Exercise price per share	Maximum earnings per share	Exercise price per share	Maximum earnings per share	Exercise price per share	Maximum earnings per share
	for the year 2010		for the year 2011		for the year 2012		for the year 2013		for the year 2014	
2011	3,946	2,500	–	–	–	–	–	–	–	–
2012	3,946	3,000	1,370	3,000	–	–	–	–	–	–
2013	4,446	3,500	1,870	3,000	2,886	3,000	–	–	–	–
2014	4,946	3,500	1,870	4,000	2,886	3,000	2,522	2,500	–	–
2015	–	–	1,870	4,000	2,886	3,000	2,522	3,000	3,930	2,500
2016	–	–	–	–	2,886	3,500	2,522	3,500	3,930	3,000
2017	–	–	–	–	–	–	2,522	3,500	3,930	3,000
2018	–	–	–	–	–	–	–	–	3,930	3,000

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

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2015	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2011	–	340,950	11,622	5,731	329,328
Share purchasing period started in 2012	–	735,722	714,791	4,593	20,931
Share purchasing period started in 2013	–	419,479	31,789	4,808	387,690
Share purchasing period started in 2014	–	497,451	495,720	5,838	1,731

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

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

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

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2015	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2013	–	450,861	445,671	4,413	5,190
Share purchasing period started in 2014	–	1,156,631	1,151,890	4,982	4,741
Share purchasing period started in 2015	1,971	555,845	553,874	5,654	–
Share purchasing period starting in 2016	688,990	–	–	–	–

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

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

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

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2015	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2015	–	176,459	176,459	5,828	–
Share purchasing period starting in 2016	366,669	–	–	–	–
Share purchasing period starting in 2017	214,392	–	–	–	–
Share purchasing period starting in 2018	237,013	–	–	–	–

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

In connection with shares as a part of the Bank Group Policy on Payments modified by 8/2014 resolution of Annual General

Meeting and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,810 million was recognized as expense as at 31 December 2015.

NOTE 29: RELATED PARTY TRANSACTIONS (in HUF mn)

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

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

a) Loans provided to related parties

	2015	2014
OTP Financing Malta Company Ltd. (Malta)	344,003	–
OTP Mortgage Bank Ltd.	262,444	300,562
Merkantil Bank Ltd.	170,919	159,847
OTP Factoring Ltd.	134,220	174,422
OTP Real Estate Leasing Ltd.	23,967	27,518
OTP Bank Romania S.A. (Romania)	21,125	–
Merkantil Lease Ltd.	18,763	21,356
JSC "OTP Bank" (Russia)	11,085	68,625
OTP Financing Netherlands B.V. (the Netherlands)	7,567	82,453
OTP Leasing Ukraine	5,358	17,744
OTP Holding Malta Ltd. (Malta)	5,010	–
OTP banka Srbija a.d. (Serbia)	2,731	–
D-ÉG Thermoset Ltd.	2,531	2,886
Merkantil Real Estate Leasing Ltd.	2,285	3,180
Merkantil Car Ltd.	150	1,040
OTP Holding Ltd./OTP Financing Cyprus Co. Ltd. (Cyprus)	–	149,086
OTP Financing Solutions B.V. (the Netherlands)	–	120,664
DSK Leasing AD (Bulgaria)	–	17,319
OTP Leasing d.d. (Croatia)	–	26,591
OTP Factoring Slovensko a.s. (Slovakia)	–	10,506
Inga Kettő Ltd.	–	10,281
OTP Bank JSC (Ukraine)	–	7,750
Bank Center Ltd.	–	6,000
Other	6,481	4,564
Total	1,018,639	1,212,394

* Associate company.

b) Deposits from related parties

	2015	2014
DSK Bank EAD (Bulgaria)	250,655	330,829
OTP Mortgage Bank Ltd.	70,597	148,124
OTP Banka Slovensko a.s. (Slovakia)	39,873	63,001
OTP Funds Servicing and Consulting Ltd.	32,091	26,369
OTP Bank Romania S.A. (Romania)	31,507	24,114
OTP Building Society Ltd.	28,122	33,312
JSC "OTP Bank" (Russia)	25,852	19,126
OTP banka Hrvatska d.d. (Croatia)	17,240	19,225
Crnogorska komercijalna banka a.d (Montenegro)	15,680	15,876
Inga Kettő Ltd.	15,368	1,518
Balansz Real Estate Institute Fund	8,858	2,436
Merkantil Bank Ltd.	7,233	13,018
Bank Center Ltd.	6,428	2,506
OTP Life Annuity Ltd.	3,090	3,195
OTP Factoring Ltd.	1,843	13,438
OTP Real Estate Leasing Ltd.	1,725	5,700
OTP Holding Ltd./OTP Financing Cyprus Co. Ltd. (Cyprus)	1,509	2,591
OTP Financing Malta Company Ltd. (Malta)	1,253	1,679
OTP banka Srbija a.d. (Serbia)	1,079	3,922
OTP Financing Netherlands B. V. (the Netherlands)	1,078	1,384
Monicomp Ltd.	804	1,292
Other	4,083	665
Total	565,968	733,320

c) Interests received by the Bank*

	2015	2014
OTP Mortgage Bank Ltd.	5,096	5,711
OTP Financing Malta Company Ltd. (Malta)	4,281	–
OTP Financing Solutions B.V. (the Netherlands)	4,033	5,627
Merkantil Bank Ltd.	2,884	4,912
OTP Factoring Ltd.	2,346	3,557
OTP Leasing Ukraine	1,101	936
Merkantil Lease Ltd.	614	766
OTP Real Estate Leasing Ltd.	524	426
OTP Holding Ltd./OTP Financing Cyprus Co. Ltd. (Cyprus)	443	8,716
JSC "OTP Bank" (Russia)	362	1,697
OTP Financing Netherlands B.V. (the Netherlands)	347	2,141
Inga Kettő Ltd.	323	91
Bank Center Ltd.	189	273
D-ÉG Thermoset Ltd.**	122	152
OTP Leasing d.d. (Croatia)	86	542
DSK Leasing AD (Bulgaria)	53	356
OTP Factoring Slovensko a.s. (Slovakia)	27	264
OTP Banka Slovensko a.s. (Slovakia)	–	260
Merkantil Car Ltd.	–	96
Other	609	736
Total	23,440	37,259

* Derivatives and interest on securities are not included.

** Associate company.

d) Interests paid by the Bank*

	2015	2014
DSK Bank EAD (Bulgaria)	5,711	2,811
OTP Mortgage Bank Ltd.	2,419	1,799
OTP Banka Slovensko a.s. (Slovakia)	1,045	664
Merkantil Lease Ltd.	984	1,278
OTP Building Society Ltd.	560	559
OTP Funds Servicing and Consulting Ltd.	542	715
OTP Bank Romania S.A. (Romania)	480	244
JSC "OTP Bank" (Russia)	456	460
OTP banka Hrvatska d.d. (Croatia)	264	279
Crnogorska komercijalna banka a.d (Montenegro)	133	284
OTP Factoring Ltd.	58	139
OTP Life Annuity Ltd.	53	91
Bank Center Ltd.	38	80
Merkantil Bank Ltd.	22	111
OTP banka Srbija a.d. (Serbia)	11	45
Balansz Real Estate Institute Fund	–	32
OTP Real Estate Leasing Ltd.	–	14
Other	32	20
Total	12,808	9,625

e) Commissions received by the Bank

	2015	2014
From OTP Fund Management Ltd. in relation to trading activity	9,931	10,476
From OTP Bank JSC (Ukraine) in relation to lending activity	1,202	1,666
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	1,200	2,973
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	948	592
From Merkantil Bank Ltd. in relation to account management and activity as agent	757	785
From OTP Funds Servicing and Consulting Ltd. in relation to banking	421	419
From OTP Fund Management Ltd. in relation to custody activity	171	67
Total	14,630	16,978

f) Commissions paid by the Bank

	2015	2014
OTP Bank Romania S.A. (Romania) related to loan portfolio handling	177	244
Crnogorska komercijalna banka a.d. (Montenegro) related to loan portfolio handling	–	124
Total	177	368

g) Transactions related to OTP Mortgage Bank Ltd.

	2015	2014
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	19,112	5,967
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	1,453	1,440
The gross book value of the loans sold	1,453	1,440

* Derivatives and interest on securities are not included.

h) Transactions related to OTP Factoring Ltd.

	2015	2014
The gross book value of the loans sold	17,565	24,605
Provision for loan losses on the loans sold	7,453	12,667
Loans sold to OTP Factoring Ltd. without recourse (including interest)	4,992	7,261
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	5,120	4,677

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

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

	2015	2014
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	7,202	7,872

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

	2015	2014
The gross book value of the loans sold	589	5,913
The selling price of the loans sold	–	2,775

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

	2015	2014
The gross book value of the loans sold (including interest)	315,031	31,293
The selling price of the loans sold (including interest and premium/discount)	314,737	31,506

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

	2015	2014
The gross book value of the loans sold	7,199	–
The selling price of the loans sold	5,512	–

m) Related party transactions with key management

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

Compensations	2015	2014
Short-term employee benefits	1,851	3,453
Share-based payment	2,276	2,937
Long-term employee benefits (on the basis of IAS 19)	290	443
Total	4,417	6,833

	2015	2014
Loans provided to companies owned by the Management (in the normal course of business)	24,233	11,854
Commitments to extend credit and bank guarantees	33,817	15,545
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	134	136

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 139.3 and 139.7 million as at 31 December 2015 and 2014.

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

	2015	2014
Members of Board of Directors and their close family members	18	18
Members of Supervisory Board	2	4
Chief executive	2	2

The family member of a member of the Board of Directors owned AMEX Blue credit card loan in the amount of HUF 0.6 million as at 31 December 2015.
Chief executives owned AMEX Gold loading card loan in the amount of

HUF 3.5 million as at 31 December 2015.
Member of Board of Directors, members of Supervisory Board and chief executives with their close family members owned AMEX Platinum credit card loan in the amount of HUF 48.8 million as at 31 December 2015.

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

	2015	2014
Members of Board of Directors	629	539
Members of Supervisory Board	72	73
Total	701	612

In the normal course of business, OTP Bank enters into other transactions with its subsidiaries, the amounts and

volumes of which are not significant to these financial statements taken as a whole.

NOTE 30:

TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds.

As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying separate statement of financial position.

	2015	2014
Loans managed by the Bank as a trustee	37,518	39,618

NOTE 31:

CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2015	2014
Receivables from, or securities issued by the Hungarian Government or the NBH	43%	44%
Securities issued by the OTP Mortgage Bank Ltd.	8.38%	9.77%

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

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

Further to this obligatory reporting to the Authority, OTP Bank pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.
The organisational unit of OTP Bank in charge of partner-risk management analyses the

biggest partners on a constant basis and sets limits on OTP Bank's and the Group's exposure separately partner-by-partner. If necessary, it

modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas.

NOTE 32:

MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF mn)

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over) coverage of risk liquidity risk exposure by high quality liquid assets is in all-time record highs. In 2015 there were no material changes in liquidity risk management process.

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

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.

As at 31 December 2015:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	449,413	45,377	308,137	38,473	–	841,400
Deposits from customers	4,017,478	269,279	21,987	14,558	–	4,323,302
Liabilities from issued securities	31,140	50,160	33,839	34,339	–	149,478
Other liabilities*	152,750	134,665	–	–	–	287,415
Subordinated bonds and loans	1,382	156,560	–	–	110,566**	68,508
TOTAL LIABILITIES	4,652,163	656,041	363,963	87,370	110,566	5,870,103
Receivables from derivative financial instruments classified as held for trading	841,408	435,640	235,379	2,640	–	1,515,067
Liabilities from derivative financial instruments classified as held for trading	(869,256)	(480,115)	(295,415)	(17,375)	–	(1,662,161)
Net position of financial instruments classified as held for trading	(27,848)	(44,475)	(60,036)	(14,735)	–	(147,094)
Receivables from derivative financial instruments designated as fair value hedge	–	155,065	176,098	154	–	331,317
Liabilities from derivative financial instruments designated as fair value hedge	–	(174,364)	(195,969)	(67)	–	(370,400)
Net position of financial instruments designated as fair value hedge	–	(19,299)	(19,871)	87	–	(39,083)
Net position of derivative financial instruments total	(27,848)	(63,774)	(79,907)	(14,648)	–	(186,177)
Commitments to extend credit	96,504	649,095	203,318	–	–	948,917
Bank guarantees	46,749	40,679	103,825	227,957	–	419,210
Off-balance sheet commitments	143,253	689,774	307,143	227,957	–	1,368,127

As at 31 December 2014:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	950,833	56,734	85,328	61,561	–	1,154,456
Deposits from customers	3,952,755	251,993	17,039	13,208	–	4,234,995
Liabilities from issued securities	22,705	41,355	57,667	29,174	–	150,901
Other liabilities*	215,057	102,572	–	–	–	317,629
Subordinated bonds and loans	30,820	–	168,481	–	111,191**	310,492
TOTAL LIABILITIES	5,172,170	452,654	328,515	103,943	111,191	6,168,473
Receivables from derivative financial instruments classified as held for trading	2,202,779	968,403	566,209	5,578	–	3,742,969
Liabilities from derivative financial instruments classified as held for trading	(2,334,158)	(1,086,572)	(668,861)	(19,340)	–	(4,108,931)
Net position of financial instruments classified as held for trading	(131,379)	(118,169)	(102,652)	(13,762)	–	(365,962)
Receivables from derivative financial instruments designated as fair value hedge	–	202	16,050	3,273	–	19,525
Liabilities from derivative financial instruments designated as fair value hedge	(1)	(710)	(19,518)	(3,898)	–	(24,127)
Net position of financial instruments designated as fair value hedge	(1)	(508)	(3,468)	(625)	–	(4,602)
Net position of derivative financial instruments total	(131,380)	(118,677)	(106,120)	(14,387)	–	(370,564)
Commitments to extend credit	220,283	434,835	66,152	31,882	–	753,152
Bank guarantees	44,380	76,055	42,793	203,528	–	366,756
Off-balance sheet commitments	264,663	510,890	108,945	235,410	–	1,119,908

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

** See Note 18.

NOTE 33: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 31 December 2015:

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

As at 31 December 2014:

	USD	EUR	CHF	Others	Total
Assets*	279,394	1,105,039	476,074	99,485	1,959,992
from this: loans concerned in conversion into HUF**	–	820	46,338	49	47,207
Liabilities	(191,873)	(1,186,305)	(92,377)	(69,823)	(1,540,378)
from this: provision for loans concerned in conversion into HUF**	–	(118)	(6,833)	(401)	(7,352)
Off-balance sheet assets and liabilities, net	(40,738)	(56,494)	(277,512)	(13,483)	(388,227)
Net position	46,783	(137,760)	106,185	16,179	31,387

The table above provides an analysis of the Bank's main foreign currency exposures. The remaining foreign currencies are shown within 'Others'. Whilst the Bank monitors its foreign exchange position for compliance with the regulatory

requirements of the NBH and own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn)

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

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

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

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

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

** Loans were converted into HUF at foreign exchange rates applied in conversion due to Acts on Customer loans so these do not bear further foreign currency risk or exposure. Loans denominated in JPY are included by others. See Note 2.26.

As at 31 December 2015:

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

As at 31 December 2015:

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

As at 31 December 2014:

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	1,795,868	30,640	-	-	-	-	-	-	-	-	65,691	5,579	1,861,559	36,219	1,897,778
fixed interest	1,795,868	30,640	-	-	-	-	-	-	-	-	-	-	1,795,868	30,640	1,826,508
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	65,691	5,579	65,691	5,579	71,270
Placements with other banks	244,689	155,569	5,023	241,423	50,000	13,754	-	-	-	-	1,293	361	301,005	411,107	712,112
fixed interest	9,504	41,481	23	89,459	50,000	798	-	-	-	-	-	-	59,527	131,738	191,265
variable interest	235,185	114,088	5,000	151,964	-	12,956	-	-	-	-	-	-	240,185	279,008	519,193
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,293	361	1,293	361	1,654
Securities held for trading	251	-	1,362	66	3,894	124	94	64	11,488	1,232	58,671	341	75,760	1,827	77,587
fixed interest	165	-	1,241	66	3,080	16	94	64	11,488	1,232	-	-	16,068	1,378	17,446
variable interest	86	-	121	-	814	108	-	-	-	-	-	-	1,021	108	1,129
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	58,671	341	58,671	341	59,012
Securities available-for-sale	-	153,169	-	171,458	64,475	21,475	162,483	9,493	539,770	26,612	56,956	10,016	823,684	392,223	1,215,907
fixed interest	-	-	-	3,897	64,475	21,475	162,483	9,493	539,770	26,612	-	-	766,728	61,477	828,205
variable interest	-	153,169	-	167,561	-	-	-	-	-	-	-	-	-	320,730	320,730
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	56,956	10,016	56,956	10,016	66,972
Loans, net of allowance for loan losses	562,470	389,547	157,059	617,098	28,882	40,575	23,298	5,650	63,678	13,335	4,085	2,954	839,472	1,069,159	1,908,631
fixed interest	1,752	396	4,287	1,408	25,805	32,701	23,298	5,650	63,678	13,335	-	-	118,820	53,490	172,310
variable interest	560,718	389,151	152,772	615,690	3,077	7,874	-	-	-	-	-	-	716,567	1,012,715	1,729,282
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,085	2,954	4,085	2,954	7,039
Securities held-to-maturity	-	-	63,374	-	346	-	36,271	-	546,756	-	16,200	-	662,947	-	662,947
fixed interest	-	-	56,697	-	346	-	36,271	-	546,756	-	-	-	640,070	-	640,070
variable interest	-	-	6,677	-	-	-	-	-	-	-	-	-	6,677	-	6,677
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	16,200	-	16,200	-	16,200
Derivative financial instruments	892,417	1,380,421	899,135	2,425,913	136,282	812,239	8,578	19,996	31,973	41,671	-	1,300	1,968,385	4,681,540	6,649,925
fixed interest	514,405	1,148,879	147,078	1,009,941	85,034	809,065	8,578	19,996	31,973	41,671	-	-	787,068	3,029,552	3,816,620
variable interest	378,012	231,542	752,057	1,415,972	51,248	3,174	-	-	-	-	-	-	1,181,317	1,650,688	2,832,005
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	1,300	-	1,300	1,300

As at 31 December 2014:

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	488,536	465,214	26,437	15,430	37,198	5,875	5,109	3,646	88,368	5,863	429	386	646,077	496,414	1,142,491
fixed interest	488,536	301,144	24,964	12,386	9,371	5,834	5,109	3,646	88,368	5,863	-	-	616,348	328,873	945,221
variable interest	-	164,070	1,473	3,044	27,827	41	-	-	-	-	-	-	29,300	167,155	196,455
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	429	386	429	386	815
Deposits from customers	2,026,492	216,669	318,340	122,814	146,518	98,188	4,056	-	1,136,819	161,456	3,473	431	3,635,698	599,558	4,235,256
fixed interest	1,564,995	210,633	307,855	122,220	146,518	98,188	4,056	-	5,607	-	-	-	2,029,031	431,041	2,460,072
variable interest	461,497	6,036	10,485	594	-	-	-	-	1,131,212	161,456	-	-	1,603,194	168,086	1,771,280
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,473	431	3,473	431	3,904
Liabilities from issued securities	6,082	3,827	5,544	5,230	11,397	31,069	13,862	8,520	74,176	439	174	2,347	111,235	51,432	162,667
fixed interest	6,082	3,827	5,544	5,230	11,397	30,707	13,862	8,520	74,176	439	-	-	111,061	48,723	159,784
variable interest	-	-	-	-	-	362	-	-	-	-	-	-	-	362	362
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	174	2,347	174	2,347	2,521
Derivative financial instruments	618,118	1,696,937	675,674	2,636,782	286,480	732,283	6,698	19,847	23,515	41,313	26	2,871	1,610,511	5,130,033	6,740,544
fixed interest	617,938	1,043,376	152,869	1,023,806	283,456	701,466	6,698	19,847	23,515	41,313	-	-	1,084,476	2,829,808	3,914,284
variable interest	180	653,561	522,805	1,612,976	3,024	30,817	-	-	-	-	-	-	526,009	2,297,354	2,823,363
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	26	2,871	26	2,871	2,897
Subordinated bonds and loans	-	-	-	29,375	-	-	-	-	-	-	263,843	-	1,394	-	294,612
fixed interest	-	-	-	-	-	-	-	-	-	-	263,843	-	-	-	263,843
variable interest	-	-	-	29,375	-	-	-	-	-	-	-	-	-	-	29,375
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	1,394	-	1,394	1,394
NET POSITION	356,467	(273,301)	99,958	646,327	(197,714)	20,752	200,999	3,190	(129,213)	(390,064)	198,794	13,122	529,291	20,026	549,317

NOTE 35:**EARNINGS PER SHARE**

Earnings per share attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary shareholders, after the deduction of declared preference dividends, by

the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

	2015	2014
Net (loss)/profit for the year attributable to ordinary shareholders (in HUF mn)	49,645	(74,469)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	273,524,198	278,355,195
Basic Earnings per share (in HUF)	182	(268)
Separate net profit/(loss) for the year attributable to ordinary shareholders (in HUF mn)	49,645	(74,469)
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	273,739,580	278,643,335
Diluted Earnings per share (in HUF)	181	(267)

	2015	2014
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(6,475,812)	(1,644,815)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	273,524,198	278,355,195
Dilutive effect of options issued in accordance with the Remuneration Policy/Management Option Program and convertible into ordinary shares*	215,382	288,140
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	273,739,580	278,643,335

The ICES bonds could potentially dilute basic EPS in the future, but were not included in the

calculation of diluted EPS because they are antidilutive for the period presented.

NOTE 36:**NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn)****As at 31 December 2015:**

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

* In 2015 and 2014 dilutive effect is in connection with the Remuneration Policy.

As at 31 December 2014:

	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	15,556	–	–	–
Placements with other banks, net of allowance for placement losses	14,689	–	(4)	–
Securities held for trading	–	4,283	–	–
Securities available-for-sale	72,056	4,947	–	51,404
Loans, net of allowance for loan losses	153,501	9,280	2,696	–
Securities held-to-maturity	36,518	–	–	–
Derivative financial instruments	3,636	(67)	–	–
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(14,779)	–	–	–
Deposits from customers	(46,423)	108,737	–	–
Liabilities from issued securities	(4,206)	–	–	–
Subordinated bonds and loans	(16,825)	–	–	–
Total	213,723	127,180	2,692	51,404

NOTE 37:

FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 37. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,

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

Classes of assets and liabilities not measured at fair value in the statement of financial position, income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, fair value of other classes not measured at fair value of the statement of financial position measured at discounted cash-flow method. Fair value of loans, net of allowance for loan losses measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

a) Fair value of financial assets and liabilities

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Bank of Hungary	1,326,197	1,327,460	1,897,778	1,897,778
Placements with other banks, net of allowance for placement losses	647,724	666,128	712,112	746,469
Financial assets at fair value through profit or loss	252,140	252,140	351,753	351,753
Held for trading securities	93,563	93,563	77,587	77,587
Derivative financial instruments classified as held for trading	158,577	158,577	274,166	274,166
Securities available-for-sale	1,462,660	1,462,660	1,215,907	1,215,907
Loans, net of allowance for loan losses*	1,679,184	1,974,713	1,908,631	2,277,701
Securities held-to-maturity	824,801	883,697	662,947	721,436
Derivative financial instruments designated as hedging instruments	33,768	33,768	14,041	14,041
FINANCIAL ASSETS TOTAL	6,226,474	6,600,566	6,763,169	7,225,085
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	829,122	829,150	1,142,491	1,128,655
Deposits from customers	4,323,239	4,307,291	4,235,256	4,242,841
Liabilities from issued securities	150,231	168,338	162,667	171,909
Derivative financial instruments designated as hedging instruments	35,701	35,701	3,463	3,463
Financial liabilities at fair value through profit or loss	144,592	144,592	375,363	375,363
Financial liabilities from OTP–MOL transaction	66,787	66,787	56,445	56,445
Subordinated bonds and loans	266,063	271,884	294,612	292,746
FINANCIAL LIABILITIES TOTAL	5,815,735	5,823,743	6,270,297	6,271,422

b) Fair value of derivative instruments

	Fair value		Notional value, net	
	2015	2014	2015	2014
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	33,869	43,538	40,702	46,128
Negative fair value of interest rate swaps classified as held for trading	(30,453)	(63,670)	(37,158)	(66,510)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	14,352	60,833	14,994	57,280
Negative fair value of foreign exchange swaps classified as held for trading	(9,265)	(60,110)	(7,615)	(55,697)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated in fair value hedge	15,393	14,032	7,932	8,539
Negative fair value of interest rate swaps designated in fair value hedge	(13,723)	(3,463)	(17,211)	(4,602)
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	102,125	152,540	103,253	144,886
Negative fair value of CCIRS classified as held for trading	(95,349)	(227,167)	(96,285)	(222,373)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	–	–	–	–
Negative fair value of mark-to-market CCIRS classified as held for trading	(2,370)	(9,576)	(2,143)	(9,856)
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated in fair value hedge	18,375	–	18,263	–
Negative fair value of CCIRS designated in fair value hedge	(21,978)	–	(21,872)	–
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	8,231	17,255	5,342	14,088
Negative fair value of other derivative contracts classified as held for trading	(7,155)	(14,840)	(3,900)	(11,526)
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated in fair value hedge	–	9	–	4
Negative fair value of other derivative contracts designated in fair value hedge	–	–	–	–
Derivative financial assets total	192,345	288,207	190,486	270,925
Derivative financial liabilities total	(180,293)	(378,826)	(186,184)	(370,564)
Derivative financial instruments total	12,052	(90,619)	4,302	(99,639)

* Fair value of loans increased in the year ended 31 December 2015 and 2014 due to decrease of short-term and long-term interests.

c) Hedge accounting

OTP Bank regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transactions do not meet the criteria to account for

hedge accounting, therefore these transactions were accounted as derivatives held for trading. Net investment hedge in foreign operations is not applicable in separate financial statements.

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

As at 31 December 2015:

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

As at 31 December 2014:

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash-flow hedges	–	–	–
Fair value hedges	IRS/Index option	HUF 10,578 million	Interest rate

d) Fair value hedges

1. Deposits from customers

The interest payment cash-flows of some structured deposits of OTP Bank denominated in HUF and EUR are exposed to the change of equity prices, equity indices or the change of HUF/EUR exchange rate. In order to hedge

the interest rate risk of the interest payments OTP Bank entered into interest rate swap transactions, where the risk of the cash-flow's from the structured deposits were swapped to payments linked to 3 month BUBOR or EURIBOR, resulting in a decrease in the fair value exposure of the deposits from customers.

	2015	2014
Fair value of the hedging instruments	–	107

2. Securities available-for-sale

OTP Bank holds fixed interest rate securities denominated in HUF and fixed interest rate government bonds denominated in HUF and EUR within the available-for-sale portfolio. These fixed interest rate securities and bonds are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order to hedge the interest rate risk of the cash-flows OTP Bank entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to

payments linked to 3 or 12 month EURIBOR and the risk from the cash-flows of the bonds are swapped to payments linked to 6 month BUBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale. OTP Bank holds floating interest rate bonds denominated in EUR within the available-for-sale portfolio. The cash-flows of the securities are exposed to the change in the EUR foreign exchange rate and the risk of change in interest rates of EUR. The interest rate risk and foreign exchange risk related to these securities are hedged with CCIRS transactions.

	2015	2014
Fair value of the IRS hedging instruments	(11,266)	(2,570)
Fair value of the CCIRS hedging instruments	(3,668)	–

3. Loans to customers/corporates

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

EURIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.

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

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

4. Issued securities

The cash-flows of the fixed rate securities issued by OTP Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS and index option

transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulted a decrease in the interest rate and foreign exchange exposure of issued securities.

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

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

As at 31 December 2015:

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

As at 31 December 2014:

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 286,344 million	HUF (2,570) million	HUF 1,691 million	HUF (1,691) million
Loans to customers	IRS	HUF 12,158 million	HUF (417) million	HUF (101) million	HUF 101 million
Deposits from customers	IRS	HUF 1,627 million	HUF 107 million	HUF (6) million	HUF 6 million
Liabilities from issued securities	IRS	HUF 88,309 million	HUF 13,449 million	HUF (5,070) million	HUF 5,070 million
Liabilities from issued securities	Index option	HUF 651 million	HUF 9 million	HUF 3 million	HUF (3) million

d) Fair value classes

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are

observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December 2015:

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	251,707	85,301	166,406	–
from this: securities held for trading	93,130	85,280	7,850	–
from this: positive fair value of derivative financial instruments classified as held for trading	158,577	21	158,556	–
Securities available-for-sale	1,434,091	670,809	757,615	5,667*
Positive fair value of derivative financial instruments designated as fair value hedge	33,768	–	33,768	–
Financial assets measured at fair value total	1,719,566	756,110	963,456	5,667
Negative fair value of derivative financial instruments classified as held for trading	144,592	34	144,558	–
Negative fair value of derivative financial instruments designated as fair value hedge	35,701	–	35,701	–
Financial liabilities measured at fair value total	180,293	34	180,259	–

As at 31 December 2014:

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	351,319	73,090	278,229	–
from this: securities held for trading	77,153	72,634	4,519	–
from this: positive fair value of derivative financial instruments classified as held for trading	274,166	456	273,710	–
Securities available-for-sale	1,181,200	342,629	838,571	–
Positive fair value of derivative financial instruments designated as fair value hedge	14,041	–	14,041	–
Financial assets measured at fair value total	1,546,560	415,719	1,130,841	–
Negative fair value of derivative financial instruments classified as held for trading	375,363	478	374,885	–
Negative fair value of derivative financial instruments designated as fair value hedge	3,463	–	3,463	–
Financial liabilities measured at fair value total	378,826	478	378,348	–

* Whole portfolio includes shares of Visa Europe (see Note 39). The purchase price includes three components (upfront component: cash and Visa Inc. "C" preferential shares with limited marketability; and deferred earn-out payment). The book value of the shares is valued up to the amount of the upfront component. Sensitivity analysis is not applicable.

NOTE 38:**RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HAS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF mn)**

	Retained Earnings and Reserves 1 January 2015	Net profit for the year ended 31 December 2015	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves as at 31 December 2015
Financial Statements in accordance with HAS	940,826	(98,094)	(46,200)	84,418	880,950
Premium and discount amortization of financial instruments measured at amortised cost	2,797	362	–	(683)	2,476
Effect of redemption of issued securities	14,111	(3,535)	–	–	10,576
Differences in carrying value of subsidiaries	34,115	84,418	–	(84,418)	34,115
Difference in accounting for finance leases	(873)	99	–	–	(774)
Effects of using effective interest rate method	5,934	511	–	–	6,445
Fair value adjustment of held for trading and available-for-sale financial assets	58,141	16,578	–	(7,203)	67,516
Fair value adjustment of derivative financial instruments	10,011	4,689	–	(2,084)	12,616
Reversal of statutory goodwill	40,596	–	–	–	40,596
Revaluation of investments denominated in foreign currency to historical cost	(32,671)	24,217	–	–	(8,454)
Difference in accounting of security lending	(21,981)	392	–	–	(21,589)
Treasury share transaction	–	7,372	–	(7,372)	–
Share-based payment	–	(3,810)	–	3,810	–
Payments to ICES holders	7,014	46	–	(4,133)	2,927
OTP-MOL share swap transaction	(54,067)	3,236	–	–	(50,831)
Provision for exchange of customer loans to HUF	(7,906)	7,487	–	–	(419)
Deferred taxation	33,557	5,677	–	2,671	41,905
Dividend paid for 2014	40,600	–	(40,600)	–	–
Dividend payable in 2015	–	–	46,200	–	46,200
Financial Statements in accordance with IFRS	1,070,204	49,645	(40,600)	(14,994)	1,064,255

NOTE 39:**SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2015****1) Government measures related to customer loan contracts**

See details in Note 2.26.

4) Capital increase at OTP Bank JSC (Ukraine)

See details in Note 9.

2) Cessation of the indirect ownership in KITE Ltd.

See details in Note 9.

5) Term Note Program

See details in Note 15.

3) Capital increase at OTP Bank Romania

See details in Note 9.

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

On 2 November 2015 Visa Inc. and Visa Europe Limited reached an agreement on the purchase

of the shares of Visa Europe (owned by European banks) by Visa Inc. According to the deal the purchase price will be transferred by cash and Visa Inc. "C-type" preferential shares with limited marketability after the settlement of the transaction (after receiving all the necessary approvals). In addition, the framework terms of the transaction provide for a deferred earn-out payment, which will be paid in cash after sixteen quarters from the date of the transaction settlement (if the relevant criteria of the earn-out component are reached). According to the notification of Visa sent in mid-December 2015, the expected amount

of cash is about EUR 18 million (around HUF 5.667 billion). Prior to the transaction the book value of OTP's share in Visa Europe was close to zero, but at the end of 2015 it was revaluated, which has been recognized on the of Fair value adjustment securities available-for-sale line in the Statement of Comprehensive Income. The above said cash component of the purchase price will be booked in the Statement of Recognised Income at the settlement of the transaction, and shown presumably in second quarter of 2016. For the time being the value of the earn-out component cannot be reliably measured.

NOTE 40:

POST BALANCE SHEET EVENTS

1) Capital increase at OTP Bank Romania

See details in Note 9.

2) Capital increase at OTP Bank JSC (Ukraine)

See details in Note 9.

3) Agreement on purchasing unit of AXA Bank Hungary

See details in Note 9.

STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS

In 2015 the macroeconomic processes were mostly shaped by the different monetary policies expected from the Federal Reserve System ("Fed") and the European Central Bank ("ECB"), and by the continued slump in commodity prices, which started in 2014. In December 2015 the Fed embarked on interest rate hikes (0.25–0.5%) because of the accelerating growth and the favourable labour market processes in the USA, while the ECB decided to extend its asset purchase programme and cut the interest rate on overnight deposits further (to –0.3%).

For the first time since the onset of the crisis the Eurozone posted meaningful growth (1.5%), but with significant discrepancies among the regions of the EU. Preliminary GDP data for the fourth quarter of 2015 suggest that Central and South Eastern Europe remained the strongest region. The several-month-long negotiations with Greece which ultimately resulted in a temporary solution to the country's debt crisis failed to cast a cloud on the supportive sentiment of global markets.

Hungary's economy grew by 2.9% in 2015, down from 3.6% in 2014. After the election year, the volume of investments fell, but net exports' contribution returned to positive territory after being in red in the previous year. Nonetheless, the engine of growth was clearly the further accelerating consumption of households. The increase in the value added by market services has largely contributed to the economy's expansion. Even though the deceleration of Germany's manufacturing poses risks to the demand for Hungary's export products, it seems that these fears did not get in the way of production. Moreover, mostly owing to the improved terms of trade, Hungary's trade surplus also hit an all-time high, at EUR 8.1 billion (or 8% of GDP) in 2015. A weaker-than-2014 year pushed agriculture's

contribution to GDP into negative territory.

Non-farm private sector GDP was as strong as elsewhere in the CEE region; it may have grown by more than 4%.

At the end of third quarter of 2015 Hungary's four-quarter rolling deficit amounted to 0.8% of GDP. This exceptionally low figure can be put down to the higher rate of EU-co-financing and the larger-than-expected revenues.

The government's deficit target is 2.4% for 2015. Gross government debt stood at 76.9% at the end of third quarter of 2015.

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

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

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

According to legislations passed in 2014 the settlement of the existing and matured (or prepaid) FX mortgage and consumer loan contracts at OTP Bank and OTP Mortgage Bank

Ltd. was completed in March 2015. In the first quarter of 2015 the conversion of FX mortgage loans into HUF has been completed (except for OTP Real Estate Leasing Ltd.). In the second quarter of 2015 the settlement with Merkantil Bank Ltd., Merkantil Car Ltd. and OTP Real Estate Leasing Ltd. clients has been executed,

clients' obligations arising from FX lease contracts were converted into HUF.

In the third quarter of 2015 the settlement of existing and matured HUF consumer contracts at OTP Bank, OTP Mortgage Bank Ltd., Merkantil Bank Ltd., Merkantil Car Ltd. and OTP Real Estate Leasing Ltd. has been completed.