



OTP BANK PLC.

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

FOR THE YEAR
ENDED 31 DECEMBER 2016

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	Note	2016	2015
Cash, amounts due from banks and balances with the National Bank of Hungary		928,846	1,326,197
Placements with other banks, net of allowance for placement losses		915,654	647,724
Financial assets at fair value through profit or loss	4.	271,516	252,140
Securities available-for-sale	5.	1,484,522	1,462,660
Loans, net of allowance for loan losses	6.	1,902,937	1,679,184
Investments in subsidiaries, associates and other investments	7.	668,869	657,531
Securities held-to-maturity	8.	858,150	824,801
Property and equipment		62,361	63,440
Intangible assets		27,767	32,438
Other assets		<u>131,134</u>	<u>150,261</u>
TOTAL ASSETS		<u>7,251,756</u>	<u>7,096,376</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		646,271	829,122
Deposits from customers	9.	4,745,051	4,323,239
Liabilities from issued securities	10.	104,103	150,231
Financial liabilities at fair value through profit or loss		96,668	144,592
Other liabilities		336,882	300,027
Subordinated bonds and loans		<u>110,358</u>	<u>266,063</u>
TOTAL LIABILITIES		<u>6,039,333</u>	<u>6,013,274</u>
Share capital		28,000	28,000
Retained earnings and reserves		1,193,132	1,064,255
Treasury shares		<u>(8,709)</u>	<u>(9,153)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>1,212,423</u>	<u>1,083,102</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>7,251,756</u>	<u>7,096,376</u>

	Note	2016	2015
Interest Income	12.	314,410	398,775
Interest Expense	12.	<u>141,571</u>	<u>201,169</u>
NET INTEREST INCOME	12.	<u>172,839</u>	<u>197,606</u>
Provision for impairment on loan and placement losses	6.	13,632	39,548
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES		<u>159,207</u>	<u>158,058</u>
Net profit from fees and commissions		163,477	161,726
Net operating income / (expense)		120,929	(24,250)
Other administrative expenses		<u>250,139</u>	<u>249,180</u>
PROFIT BEFORE INCOME TAX		<u>193,474</u>	<u>46,354</u>
Income tax expense / (benefit)		<u>21,096</u>	<u>(3,291)</u>
NET PROFIT FOR THE YEAR		<u>172,378</u>	<u>49,645</u>
Earnings per share (in HUF)			
Basic		<u>619</u>	<u>182</u>
Diluted		<u>619</u>	<u>181</u>

The comprehensive income items are as follows:

	2016	2015
NET PROFIT FOR THE YEAR	<u>172,378</u>	<u>49,645</u>
Items that may be reclassified subsequently to profit or loss:		
Fair value adjustment of securities available-for-sale	1,951	(9,970)
Deferred tax (19%) related to securities available-for-sale	(371)	1,894
Effect of the tax rate-modification related to securities available-for-sale (19%→9%)	<u>5,758</u>	<u>-</u>
Total	<u>7,338</u>	<u>(8,076)</u>
NET COMPREHENSIVE INCOME	<u>179,716</u>	<u>41,569</u>

	2016	2015
Profit before income tax	193,474	46,354
Income tax paid	(264)	(3,823)
Depreciation and amortization	21,907	21,355
Provision for impairment	24,985	84,974
Share-based payment	3,530	3,810
Unrealised losses on fair value adjustment of securities available-for-sale and held for trading	(9,970)	(12,096)
Unrealised losses on fair value adjustment of derivative financial instruments	(14)	(13,701)
Net changing in assets and liabilities in operating activities	<u>164,119</u>	<u>161,938</u>
Net cash provided by operating activities	<u>397,767</u>	<u>288,811</u>
Net cash used in investing activities	<u>(335,863)</u>	<u>(404,620)</u>
Net cash used in financing activities	<u>(420,496)</u>	<u>(408,060)</u>
Net decrease in cash and cash equivalents	<u>(358,592)</u>	<u>(523,869)</u>
Cash and cash equivalents at the beginning of the year	<u>1,238,858</u>	<u>1,762,727</u>
Cash and cash equivalents at the end of the year	<u>880,266</u>	<u>1,238,858</u>
Cash, amounts due from banks and balances with the National Bank of Hungary	1,326,197	1,897,778
Compulsory reserve established by the National Bank of Hungary	<u>(87,339)</u>	<u>(135,051)</u>
Cash and cash equivalents at the beginning of the year	<u>1,238,858</u>	<u>1,762,727</u>
Cash, amounts due from banks and balances with the National Bank of Hungary	928,846	1,326,197
Compulsory reserve established by the National Bank of Hungary	<u>(48,580)</u>	<u>(87,339)</u>
Cash and cash equivalents at the end of the year	<u>880,266</u>	<u>1,238,858</u>

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR
ENDED 31 DECEMBER 2016 (in HUF mn)

	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Put option reserve	Treasury Shares	Total
Balance as at 1 January 2015	<u>28,000</u>	<u>52</u>	<u>20,897</u>	<u>1,104,723</u>	<u>(55,468)</u>	<u>(7,073)</u>	<u>1,091,131</u>
Net profit for the year	-	-	-	49,645	-	-	49,645
Other comprehensive income	-	-	-	(8,076)	-	-	(8,076)
Share-based payment	-	-	3,810	-	-	-	3,810
Payments to ICES holders	-	-	-	(3,356)	-	-	(3,356)
Sale of treasury shares	-	-	-	-	-	24,641	24,641
Loss on sale of treasury shares	-	-	-	(7,372)	-	-	(7,372)
Acquisition of treasury shares	-	-	-	-	-	(26,721)	(26,721)
Dividend for the year 2014	-	-	-	(40,600)	-	-	(40,600)
Balance as at 31 December 2015	<u>28,000</u>	<u>52</u>	<u>24,707</u>	<u>1,094,964</u>	<u>(55,468)</u>	<u>(9,153)</u>	<u>1,083,102</u>
Net profit for the year	-	-	-	172,378	-	-	172,378
Other comprehensive income	-	-	-	7,338	-	-	7,338
Share-based payment	-	-	3,530	-	-	-	3,530
Payments to ICES holders	-	-	-	(3,943)	-	-	(3,943)
Sale of treasury shares	-	-	-	-	-	12,426	12,426
Loss on sale of treasury shares	-	-	-	(4,226)	-	-	(4,226)
Acquisition of treasury shares	-	-	-	-	-	(11,982)	(11,982)
Dividend for the year 2015	-	-	-	(46,200)	-	-	(46,200)
Balance as at 31 December 2016	<u>28,000</u>	<u>52</u>	<u>28,237</u>	<u>1,220,311</u>	<u>(55,468)</u>	<u>(8,709)</u>	<u>1,212,423</u>

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS**1.1. General information**

These interim condensed financial statements had been prepared in accordance with the prescriptions of IAS 34.

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 is different from those generally recognized in international financial markets. 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"). Certain adjustments have been made to the Bank's Hungarian separate statutory accounts 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"), which are referred to as IFRS.

The separate financial statements have been prepared in accordance with IFRS as adopted by the European Union (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.

NOTE 2: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2016

- 1) Agreement on purchasing unit of AXA Bank Hungary
- 2) New acquisition in Croatia

See details about the events above in Note 7.

NOTE 3: POST BALANCE SHEET EVENTS

- 1) Capital increase at OTP Real Estate Lease

See details about the event above in Note 7.

NOTE 4: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	2016	2015
<i>Securities held for trading:</i>		
Shares	103,537	71,779
Hungarian government interest bearing Treasury Bills	15,639	7,768
Securities issued by credit institutions	13,396	-
Government bonds	10,857	12,613
Hungarian government discounted Treasury Bills	97	366
Mortgage bonds	82	94
Other securities	<u>3,816</u>	<u>510</u>
Subtotal	<u>147,424</u>	<u>93,130</u>
Accrued interest	<u>516</u>	<u>433</u>
Total	<u>147,940</u>	<u>93,563</u>
<i>Derivative financial instruments:</i>		
CCIRS and mark-to-market CCIRS ¹	43,538	102,125
Interest rate swaps	38,413	33,869
Foreign currency swaps	23,385	14,352
Other derivative transactions ²	<u>18,240</u>	<u>8,231</u>
Subtotal	<u>123,576</u>	<u>158,577</u>
Total	<u>271,516</u>	<u>252,140</u>

NOTE 5: SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

	2016	2015
Government bonds	1,040,541	755,627
Mortgage bonds	266,938	597,226
Other securities	163,949	81,238
- <i>listed securities</i>	<u>72,820</u>	<u>10,326</u>
<i>in HUF</i>	36,348	-
<i>in foreign currency</i>	36,472	10,326
- <i>non-listed securities</i>	<u>91,129</u>	<u>70,912</u>
<i>in HUF</i>	48,522	58,800
<i>in foreign currency</i>	42,607	12,112
Subtotal	<u>1,471,428</u>	<u>1,434,091</u>
Accrued interest	<u>13,094</u>	<u>28,569</u>
Securities available-for-sale total	<u>1,484,522</u>	<u>1,462,660</u>

¹ CCIRS: Cross Currency Interest Rate Swap

² incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option

NOTE 6: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn)

	2016	2015
Short-term loans and promissory notes (within one year)	934,288	1,019,240
Long-term loans and promissory notes (over one year)	<u>1,053,829</u>	<u>754,722</u>
Loans gross total	<u>1,988,117</u>	<u>1,773,962</u>
Accrued interest	<u>6,155</u>	<u>4,885</u>
Provision for impairment on loan losses	<u>(91,335)</u>	<u>(99,663)</u>
Total	<u>1,902,937</u>	<u>1,679,184</u>

Partial write-off

OTP Bank applies partial 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 at the time of emergence. A loan will be partially written off if it has matured 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 is being 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. Whole amount of accrued interest being part of the amortized cost, recognized as income up to the partial write-off, will be written off.

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

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

	2016		2015	
Retail loans	631,096	32%	476,664	27%
Retail consumer loans	272,530	14%	266,643	15%
Retail mortgage backed loans ¹	211,057	11%	77,960	4%
Micro and small enterprises loans	147,509	7%	132,061	8%
Corporate loans	1,357,021	68%	1,297,298	73%
Loans to medium and large corporates	1,323,220	67%	1,277,292	72%
Municipality loans	<u>33,801</u>	<u>1%</u>	<u>20,006</u>	<u>1%</u>
Total	<u>1,988,117</u>	<u>100%</u>	<u>1,773,962</u>	<u>100%</u>

An analysis of the loan portfolio by currency is as follows:

	2016	2015
In HUF	62%	51%
In foreign currency	<u>38%</u>	<u>49%</u>
Total	<u>100%</u>	<u>100%</u>

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

	2016	2015
Balance as at 1 January	99,663	85,397
Provision for the period	47,249	69,926
Release of provision	(54,752)	(52,185)
Partial write-off	<u>(825)</u>	<u>(3,475)</u>
Balance as at 31 December	<u>91,335</u>	<u>99,663</u>

¹ incl. housing loans

NOTE 7: INVESTMENTS IN SUBSIDIARIES (in HUF mn)

	2016	2015
Investments in subsidiaries:		
Controlling interest	1,305,273	1,245,801
Other investments	<u>3,513</u>	<u>3,511</u>
	<u>1,308,786</u>	<u>1,249,312</u>
 Provision for impairment	 <u>(639,917)</u>	 <u>(591,781)</u>
 Total	 <u>668,869</u>	 <u>657,531</u>

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

	2016	2015
Balance as at 1 January	591,781	544,311
Provision for the period	<u>48,136</u>	<u>47,470</u>
Balance as at 31 December	<u>639,917</u>	<u>591,781</u>

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.

On 2 August 2016 following the decision of the Hungarian Competition Authority, the National Bank of Hungary has granted permission as well for the transfer of the Hungarian business unit – as defined in the business transfer agreement – of AXA Bank to OTP Bank as of 31 October 2016 based on the business transfer agreement concluded on 2 February 2016 among AXA Bank Europe SA, the Hungarian Branch Office of AXA Bank Europe SA and OTP Bank. The transfer was completed as at 1 November 2016.

Nearly, whole loan portfolio taken over consists of mortgage backed loans; HUF 162 billion performing and HUF 15 billion 90⁺ days past due mortgage backed loans in net value as at 1 November 2016. Book value of deposit portfolio taken over from AXA Bank was HUF 60 billion as at 31 December 2016; from that HUF 51 billion is in retail segment.

OTP banka Hrvatska, the Croatian subsidiary of OTP Bank, signed an acquisition agreement on purchasing 100% shareholding of Splitska Banka, member of Société Générale Group.

Societe Generale Splitska is the fifth biggest player on the Croatian banking market and as a universal bank it has been active in the retail and corporate segment as well. As a result of the acquisition the market share of OTP Group will rise to approximately 10%.

OTP Bank has been present in Croatia since 2005 and its operation has been continuously profitable even during the economic crisis started in 2008. The financial closure of the transaction is expected in the summer 2017, whereas the integration process may be completed by summer 2018.

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

NOTE 8: SECURITIES HELD-TO-MATURITY (in HUF mn)

	2016	2015
Government bonds	837,256	803,802
Mortgage bonds	<u>4,778</u>	<u>4,758</u>
Subtotal	<u>842,034</u>	<u>808,560</u>
Accrued interest	<u>16,116</u>	<u>16,241</u>
Total	<u>858,150</u>	<u>824,801</u>

NOTE 9: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2016	2015
Within one year:		
In HUF	3,777,547	3,504,480
In foreign currency	<u>936,403</u>	<u>782,143</u>
	<u>4,713,950</u>	<u>4,286,623</u>
Over one year:		
In HUF	<u>26,831</u>	<u>34,373</u>
	<u>26,831</u>	<u>34,373</u>
Subtotal	<u>4,740,781</u>	<u>4,320,996</u>
Accrued interest	<u>4,270</u>	<u>2,243</u>
Total	<u>4,745,051</u>	<u>4,323,239</u>

An analysis of deposits from customers by type is as follows:

	2016		2015	
Retail deposits	2,904,762	61%	2,544,375	59%
Household deposits	2,372,751	50%	2,074,581	48%
Deposits micro and small enterprises	532,011	11%	469,794	11%
Corporate deposits	1,836,019	39%	1,776,621	41%
Deposits to medium and large corporates	1,425,572	30%	1,468,427	34%
Municipality deposits	<u>410,447</u>	<u>9%</u>	<u>308,194</u>	<u>7%</u>
Total	<u>4,740,781</u>	<u>100%</u>	<u>4,320,996</u>	<u>100%</u>

NOTE 10: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2016	2015
Within one year:		
In HUF	18,494	11,865
In foreign currency	<u>36,002</u>	<u>60,264</u>
	<u>54,496</u>	<u>72,129</u>
Over one year:		
In HUF	49,432	75,185
In foreign currency	<u>198</u>	<u>591</u>
	<u>49,630</u>	<u>75,776</u>
Subtotal	<u>104,126</u>	<u>147,905</u>
Accrued interest	<u>(23)</u>	<u>2,326</u>
Total	<u>104,103</u>	<u>150,231</u>

NOTE 11: OFF BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

(a) Contingent liabilities and commitments

	2016	2015
Commitments to extend credit	897,808	948,917
Guarantees arising from banking activities	444,501	419,210
<i>from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank</i>	<i>128,812</i>	<i>123,938</i>
Legal disputes (disputed value)	5,095	35,382
Confirmed letters of credit	139	171
Contingent liabilities ordered by law related to customer loans	-	1,598
Other	<u>118,306</u>	<u>92,558</u>
Total	<u>1,465,849</u>	<u>1,497,836</u>

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 362 million and HUF 1,112 million as at 31 December 2016 and 31 December 2015, respectively.

NOTE 11: OFF BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

(b) Fair value of derivative instruments

	Fair value		Notional value, net	
	2016	2015	2016	2015
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	38,413	33,869	35,852	40,702
Negative fair value of interest rate swaps classified as held for trading	(33,031)	(30,453)	(33,205)	(37,158)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	23,385	14,352	25,995	14,994
Negative fair value of foreign exchange swaps classified as held for trading	(13,351)	(9,265)	(13,704)	(7,615)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated in fair value hedge	6,887	15,393	9,428	7,932
Negative fair value of interest rate swaps designated in fair value hedge	(20,607)	(13,723)	(32,211)	(17,211)
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	43,206	102,125	40,066	103,253
Negative fair value of CCIRS classified as held for trading	(35,489)	(95,349)	(32,668)	(96,285)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	332	-	383	-
Negative fair value of mark-to-market CCIRS classified as held for trading	(700)	(2,370)	(665)	(2,143)
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated in fair value hedge	999	18,375	1,031	18,263
Negative fair value of CCIRS designated in fair value hedge	(827)	(21,978)	(409)	(21,872)
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	18,240	8,231	13,297	5,342
Negative fair value of other derivative contracts classified as held for trading	(14,097)	(7,155)	(8,646)	(3,900)
Derivative financial assets total	<u>131,462</u>	<u>192,345</u>	<u>126,052</u>	<u>190,486</u>
Derivative financial liabilities total	<u>(118,102)</u>	<u>(180,293)</u>	<u>(121,508)</u>	<u>(186,184)</u>
Derivative financial instruments total	<u>13,360</u>	<u>12,052</u>	<u>4,544</u>	<u>4,302</u>

As at 31 December 2016 the Bank has derivative instruments with positive fair values of HUF 131,462 million and negative fair values of HUF 118,102 million. Corresponding figures as at 31 December 2015 are HUF 192,345 million and HUF 180,293 million.

Positive fair values of derivative instruments designated as hedge accounting relationships are included in other assets, while positive fair values of derivative instruments classified as held for trading are included in financial assets at fair value through profit or loss. Negative fair values of hedging derivative instruments are included in other liabilities, negative fair values of derivatives held for trading are included in the negative fair value of derivative financial instruments classified as held for trading line.

NOTE 12: NET INTEREST INCOME (in HUF mn)

	2016	2015
<i>Interest Income:</i>		
Loans	125,110	129,575
Placements with other banks, net of allowance for placement losses	102,317	151,938
Securities available-for-sale	35,766	50,655
Securities held-to-maturity	41,327	39,973
Amounts due from banks and balances with National Bank of Hungary	9,830	26,574
Rental income from operation of investment properties	<u>60</u>	<u>60</u>
Total Interest Income	<u>314,410</u>	<u>398,775</u>
<i>Interest Expense:</i>		
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	103,633	152,613
Deposits from customers	22,853	29,744
Liabilities from issued securities	1,329	2,091
Subordinated bonds and loans	13,721	16,686
Expenses from operation of investment properties	<u>35</u>	<u>35</u>
Total Interest Expense	<u>141,571</u>	<u>201,169</u>
NET INTEREST INCOME	<u>172,839</u>	<u>197,606</u>

NOTE 13: RELATED PARTY TRANSACTIONS (in HUF mn)

The Bank enters into transactions for services with a number of subsidiaries. Such transactions are conducted at rates which approximate market conditions.

Related party transactions can be detailed as follows:

Transactions related to OTP Mortgage Bank Ltd.:

	2016	2015
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	15,890	19,112
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	565	1,453
The gross book value of the loans sold	565	1,453

Transactions related to OTP Factoring Ltd.:

	2016	2015
The gross book value of the loans	32,700	17,565
Provision for loan losses on the loans sold	11,799	7,453
Loans sold to OTP Factoring Ltd. without recourse (including interest)	18,710	4,992
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	2,191	5,120

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