Documents for the Annual General Meeting

Annual General Meeting of OTP Bank Plc.

to be held on 12 April 2017

Date and venue of the AGM: 12 April 2017, 10 a.m.
Sofitel Budapest Chain Bridge

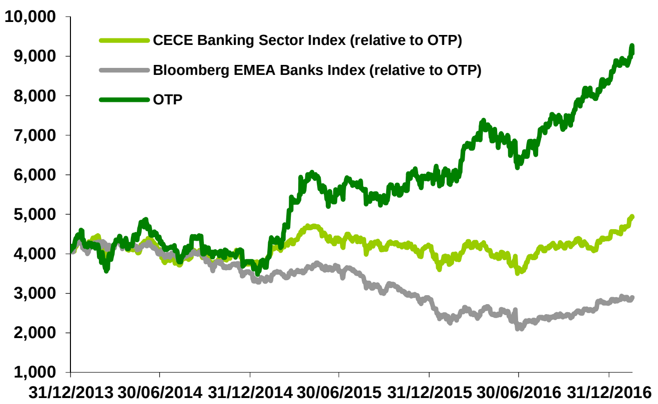
AGENDA ITEMS OF THE ANNUAL GENERAL MEETING

THE REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S BUSINESS OPERATIONS IN 2016

CONSOLIDATED FINANCIAL HIGHLIGHTS AND SHARE DATA[1]

Main components of the Statement of recognised income	2015 HUF million	2016 HUF million	Change %
Consolidated after tax profit	**63,171**	**202,452**	**220**
Adjustments (total)	**(57,073)**	**1,276**	**(102)**
Consolidated adjusted after tax profit without the effect of adjustments	**120,245**	**201,176**	**67**
Pre-tax profit	146,057	244,772	68
Operating profit	362,594	335,900	(7)
Total income	754,912	736,316	(2)
Net interest income	553,659	521,949	(6)
Net fees and commissions	167,250	175,966	5
Other net non-interest income	34,002	38,400	13
Operating expenses	(392,317)	(400,416)	2
Total risk costs	220,709)	(93,218)	(58)
One off items	4,172	2,090	(50)
Corporate taxes	(25,813)	(43,596)	69
Main components of balance sheet closing balances	2015	2016	%
Total assets	10,718,848	11,307,665	5
Total customer loans (net, FX adjusted)	**5,454,536**	**5,736,232**	**5**
Total customer loans and advances (gross)	**6,423,588**	**6,680,504**	**4**
Total customer loans (gross, FX adjusted)	**6,483,245**	**6,680,504**	**3**
Allowances for possible loan losses	(1,013,620)	(944,273)	(7)
Allowances for possible loan losses (FX adjusted)	(1,028,709)	(944,273)	(8)
Total customer deposits (FX adjusted)	**8,025,435**	**8,540,583**	**6**
Issued securities	239,376	146,900	(39)
Subordinated loans	234,784	77,458	(67)
Total shareholders' equity	1,233,659	1,420,649	15
Indicators based on one-off adjusted earnings	2015	2016	pps
ROE (from accounting net earnings)	5.1%	15.3%	10.2
ROE (from accounting net earnings, on 12.5% CET1 ratio)	5.3%	17.9%	12.5
ROE (from adjusted net earnings)	9.6%	15.2%	5.5
ROA (from adjusted net earnings)	1.1%	1.8%	0.7
Operating profit margin	3.34%	3.05%	(0.29)
Total income margin	6.96%	6.69%	(0.28)
Net interest margin	5.11%	4.74%	(0.37)
Cost-to-asset ratio	3.62%	3.64%	0.02
Cost/income ratio	52.0%	54.4%	2.4
Risk cost to average gross loans	3.18%	1.13%	(2.06)
Total risk cost-to-asset ratio	2.04%	0.85%	(1.19)
Effective tax rate	17.7%	17.8%	0.1
Net loan/(deposit+retail bond) ratio (FX adjusted)	67%	66%	0
Capital adequacy ratio (consolidated, IFRS) - Basel3	16.2%	16.0%	(0.2)
Tier1 ratio - Basel3	13.3%	13.5%	0.3
Common Equity Tier 1 ('CET1') ratio - Basel3	13.3%	13.5%	0.3
Share Data	2015	2016	%
EPS diluted (HUF) (from unadjusted net earnings)	242	765	216
EPS diluted (HUF) (from adjusted net earnings)	458	761	66
Closing price (HUF)	6,000	8,400	40
Highest closing price (HUF)	6,158	8,411	37
Lowest closing price (HUF)	3,479	5,714	64
Market Capitalization (EUR billion)	5.4	7.6	41
Book Value Per Share (HUF)	4,406	5,074	15
Tangible Book Value Per Share (HUF)	3,840	4,487	17
Price/Book Value	1.4	1.7	22
Price/Tangible Book Value	1.6	1.9	20
P/E (trailing, from accounting net earnings)	26.6	11.6	(56)
P/E (trailing, from adjusted net earnings)	14.0	11.7	(16)
Average daily turnover (EUR million)	15	15	(2)
Average daily turnover (million share)	0.9	0.7	(26)

SHARE PRICE PERFORMANCE



MOODY'S RATINGS

OTP Bank

Foreign currency long term deposits — Baa3

OTP Mortgage Bank

Covered mortgage bond — Baa1

STANDARD & POOR'S RATING

OTP Bank and OTP Mortgage Bank

Long term credit rating — BB+

FITCH'S RATING

OTP Bank Russia

Long term credit rating — BB

[1] Structural adjustments made on consolidated IFRS profit and loss statement together with the calculation methodology of adjusted indicators are detailed in the Supplementary data section of the Report.

MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2016 RESULTS OF OTP GROUP

In 2016 the Hungarian economic output increased by 2% y-o-y with bulk of the macroeconomic indicators demonstrating material y-o-y improvement. Due to stronger revenues and despite the significant year-end fiscal stimulus the overall budget deficit remained below 2% and the public debt to GDP declined below 74%. Within that the FX component and the share of non-resident holding eroded substantially, as a result the public debt financing conditions improved a lot and the vulnerability of Hungary declined further.

The Central Bank continued its loose monetary policy supporting the sustainable economic growth through conventional and non-conventional tools. The policy rate remained unchanged at 0.9% since May 2016, whereas the interbank reference rates (of which the most relevant for the banking sector is the 3M BUBOR) dropped well below that level as a result of Central Bank measures.

Apart from the supporting operating environment the banking sector also benefited from those government measures (scaling back the banking tax, extending the Housing Subsidy Scheme for Families, the so-called CSOK) which aimed at the longer term stable and balanced growth of the economy.

It is of great importance for the stable development of the sector that after several consecutive years of loan portfolio erosion the long-awaited turnaround in lending activity did take place in 2016: net loan flows turned into positive on sector level and due to strong underwriting activities corporate volumes have already increased.

The favourable macroeconomic trends and positive regulatory changes induced upgrades at rating agencies, too: by November 2016 Hungary became investment grade rated again at all major rating agencies. Such steps will undoubtedly support an even more cost-effective refinancing of public debt and stronger FDI flows.

Regarding 2017 economic outlook, OTP Bank's own forecast is a 3.9% GDP growth supported by further improving local consumption and more active utilization of EU funds. Fiscal deficit might drop well below 2%, whereas the average inflation may be around 2.9%. As a result of the tight labour market, the year-end wage agreements and additional government measures, the nominal wage increase is expected to hover between 7-8%.

As for the rest of OTP's operation in the CEE region the management calculates with improving macroeconomic conditions in each country, thus 2017 might be the first year since the crisis when all regional economies might post positive GDP growth. Besides Hungary the GDP increase is expected to be the strongest in Romania and Bulgaria (above 4% and 3% respectively), in case of Romania the new Government announced massive fiscal expansion plans in January 2017.

In case of Ukraine and Russia, local subsidiaries became profitable earlier and in bigger scale than expected, and the operational environment supports cautious optimism for both countries.

If the base case scenario prevails without any major negative geopolitical disruption the Ukrainian GDP might expand between 2.5-3.0% and further structural reforms might be carried on (one good example of that was the forced nationalization of the largest local bank, PrivatBank in December 2016) which overall can have a stabilizing impact on Ukraine.

With the current oil price above 50 USD/barrel the Russian authorities enjoy the benefit of some fiscal manoeuvring potential; it also does have a positive impact on RUB and helps loading the fiscal reserves. Furthermore, it might allow the CBR to continue its cautious rate-cut moves. As a whole it may support consumption/investment behaviour.

In line with its strategic goals and utilizing its outstanding liquidity and capital position in 2016 OTP Group completed a successful acquisition in Hungary and announced another one in December in Croatia.

The take-over of AXA Bank's Hungarian portfolio was completed on 1 November, thus the relevant balance sheet and P&L items were consolidated in 4Q 2016.

The acquisition of Splitska banka in Croatia was announced on 21 December 2016, the consolidation is expected to take place in 2H 2017, whereas the full integration process will be completed in 2018.

Changes related to FX mortgage loans affecting OTP Bank's foreign subsidiaries

1. Romania

By 31 August 2016 OTP Bank Romania's own CHF mortgage loan conversion programme that started on 9 December 2015 was completed with around 73% of the eligible clients participating (i.e. it involved about 7,000 individual contracts).

On 13 May 2016 the so-called 'walk-away' law came into effect. Accordingly, eligible borrowers might simply return the property to the banks in exchange for getting rid of the mortgage loan. Clients' interest was fairly benign: by 31 December only 269 customers applied for the scheme (with a gross volume of RON 83 million). OTP Bank Romania has already created the necessary individual and collective provisions. On 25 October 2016 the Romanian Constitutional Court declared several parts of the law unconstitutional and ruled the issue into the competence of local courts to deal with the insolvency and unforeseen developments issues of clients.

On 18 October 2016 the Romanian Parliament unanimously passed a law requiring banks to convert all mortgages originated in CHF into local currency at rates prevailing at origination, however on 24 October the Romanian Government sent the law to the Constitutional Court for review, consequently the President has not signed the Act either. On 7 February 2017 the Constitutional Court declared the Act as a whole unconstitutional.

2. Croatia

In Croatia the conversion programme of retail CHF loans (into EUR) with discount started in 4Q 2015, in line with the relevant Act. By the end of September 2016 the programme has been basically completed with 87% of the eligible portfolio being converted.

Consolidated earnings: HUF 201 billion adjusted after-tax profit, eroding income margin and net interest income margin, massively declining risk costs, further improving credit quality trends, increasing DPD90+ coverage

The consolidated accounting profit was HUF 202.5 billion in 2016 versus HUF 63.2 billion posted in 2015. Against the last couple of years this time adjustment items had a limited impact on the annual accounting profit.

The adjusted 2016 ROE improved to 15.2% (+5.5 pps y-o-y), whereas the ROA reached 1.8% (+0.7 pp y-o-y). Based on the accounting profit the annual ROE reached 15.3%. In case the accounting ROE was calculated with a CET1 ratio of 12.5% targeted by the management, the ROE would be 17.9%.

During the course of 2016 the Bank booked all-in +HUF 1.3 billion adjustments which is materially different compared to 2014 or 2015 (-HUF 220 billion and -HUF 57 billion respectively).

In 2016 the adjustment items were as follows:

- In 2016 the banking taxes paid by Group members resulted in an after tax negative impact of HUF 13.9 billion, including the Hungarian special tax of financial institutions and the Slovakian banking levy. As for the Hungarian banking tax, the base for calculating the 2016 levy did not change, i.e. it remained the adjusted total assets at the end of 2009; the applicable upper rate, however, was reduced to 0.24%.
- The proceeds from the sale of OTP Group members' stake in Visa Europe has been transferred in 2Q 2016. The cash transfer affected five group members: OTP Bank, DSK Bank, OTP Bank Romania, OTP Bank Croatia and OTP Bank Slovakia. The after tax impact of the transaction represented HUF 13.2 billion (HUF 15.9 billion before tax) which included the realized cash transfer (HUF 9.6 billion after tax) and the discounted present values of deferred earn-out components due in 3 years and the C-type VISA Inc. shares (HUF 0.8 billion and HUF 2.8 billion respectively).

  The P&L impact of the VISA transaction was eliminated from the individual group members' quarterly P&L and was presented among the adjustment items on consolidated level.

  The originally calculated cash component (EUR 34.2 million before tax) has been already recognized in 4Q 2015 within the Comprehensive Income Statement on the Fair Value Adjustment of Available for Sale Securities line.
- In 2016 further impairments were booked in relation to the investment in the Ukrainian Factoring company under Hungarian Accounting Rules. While under IFRS they had direct effect neither on the consolidated balance sheet nor on the P&L, there was a related positive tax shield of altogether HUF 11.6 billion that added to the Group's accounting profit according to International Financial Reporting Standards as adopted by the European Union (IFRS).
- Based on the ruling of the Supreme Court on 16 December 2016 related to a fine imposed earlier by the Hungarian Competition Authority a HUF 1.9 billion positive item emerged (after tax).
- In Hungary the switching from Hungarian Accounting Rules (HAR) into IFRS from January 2017 resulted in a negative impact in the amount of HUF 5.8 billion.

In Hungary it is mandatory for credit institution to shift from HAR to IFRS, but the deadline is optional: it can happen either from 2017 or 2018. In 3Q 2016 OTP Bank and several other Group members officially notified the National Bank of Hungary, the National Tax and Customs Administration, as well as the Central Statistical Office about their intention to implement the shift to IFRS from 2017.

Accordingly, after the switch the IFRS financials will be used for the corporate income tax calculation, however the shift will have a one-off tax effect. The reason is that there are different book value calculation rules for subsidiary investments under HAR and IFRS (under the latter the book value was calculated based on the historical FX rates, whereas under HAR there was a constant FX revaluation, and there were differences in accounting of goodwill, too). So far the Group treated those differences as permanent, however in accordance with the act on corporate income tax and the decision about the switch to IFRS, by 30 September those differences must be accounted for as temporary differences. Due to these differences in the subsidiary investments' book value calculation rules under the two accounting standards, in 2016 deferred tax liability was booked in the total amount of HUF 5.8 billion. In the adjusted P&L structure this item was presented on consolidated level among the adjustment items on the 'Expected corporate tax impact of switching to IFRS from HAR in Hungary' line.

Due to FX rate moves there was a tax shield effect in the adjusted P&L of OTP Core in 3Q and 4Q, too (inducing a tax saving of altogether HUF 0.6 billion). Simultaneously, the same amount (but with negative sign) was shown on consolidated level on the above mentioned adjustment line.

- Effective from 1 January 2017 the Hungarian corporate tax rate was cut uniformly to 9% and the move implied revaluation of deferred tax assets and liabilities at Hungarian Group members. These revaluations had a total impact of -HUF 2.7 billion stemming from two components: on one hand there was a -HUF 6.1 billion P&L impact booked among the adjustment items. Also, the revaluation impact booked directly against equity in 4Q 2016 is +HUF 3.4 billion. This item is owing to the revaluation of deferred tax liabilities related to the mark-to-market valuation gains of AFS (available for sale) securities booked directly against equity (in the Comprehensive Income Statement).
- HUF 0.4 billion dividend and net cash transfer (after tax).

In 2016 OTP Group posted HUF 201.2 billion adjusted after tax profit (+67% y-o-y). The tax burden increased by almost HUF 18 billion y-o-y, but the effective tax rate remained almost unchanged (17.8%). The operating income eroded by 7%, however it was comfortably offset by lower risk costs which plummeted to around one third in the base period.

Within the annual consolidated adjusted after tax profit significant shift has happened in case of individual contributions: after posting losses in the last two years, the Russian subsidiary realized above HUF 20 billion profit after tax, while the Ukrainian bottom line result reached HUF 10.2 billion. The y-o-y improvement was HUF 35.6 billion and HUF 50.5 billion, respectively, which mainly drove the y-o-y earnings improvement on Group level. Despite a y-o-y decline in their net results, OTP Core (HUF 122.2 billion) and DSK Bank (HUF 47.4 billion) still maintained their dominant position. Material improvement was realized in Croatia (HUF 3.8 billion), as well as at Merkantil Group (HUF 2.6 billion) and OTP Fund Management (HUF 6.7 billion). Out of foreign subsidiaries Slovakia and Montenegro turned into red (-HUF 2.2 billion and 1.8 billion, respectively) as a result of higher risk costs. Furthermore, the Russian online operation, Touch Bank remained a loss maker in 2016, too with -HUF 5.9 billion.

Within 2016 total income the net interest income dropped by 6%. Despite performing loan volumes expanded by 6% y-o-y (FX-adjusted), their average volume was fairly stable, thus the main reason behind lower NII was the eroding net interest margin. The lower NIM (4.74%, -37 bps y-o-y) was mainly due to the declining overall interest rate environment and the dilution effect of the increasing balance sheet. The average of the quarterly NIMs however showed a higher annual rate (4.81%). The lower interest rate environment took its toll almost at all Group members: in 2016 only the Croatian subsidiary managed to increase its NII in HUF terms. In local currency terms, however both Russia and Ukraine achieved higher NII (+2.5% in RUB and +7.3% in UAH terms, respectively).

Net fees and commissions had a good run (+5% y-o-y) supported mainly by strengthening lending activity and stronger transactional turnover. Other net non-interest income increased by 13% y-o-y. As a result total income fell short of the base period by 2% y-o-y.

Operating expenses grew by 2% y-o-y. Higher personnel expenses reflected the impact of on-going wage inflation in several countries, while administrative expenses grew due to higher marketing spending induced by stronger lending activity, but also to higher contributions paid to regulatory bodies and higher IT costs.

The FX-adjusted consolidated loan portfolio grew by 3% y-o-y. Given the significant volumes of sold and written off non-performing exposures, volume trends in performing book would give a more realistic picture. Accordingly, DPD0-90 volumes increased by 6% y-o-y. Within that the performing portfolio at OTP Core advanced by 12% y-o-y, true, also reflecting the impact of the AXA portfolio take-over in 4Q. Without the AXA-effect volumes would have increased by 3% y-o-y. In Ukraine and Bulgaria volumes expended quite remarkably (+5% and 4% y-o-y), whereas in Russia the strong 4Q loans sales broke the declining trend and the overall portfolio started growing again even in y-o-y comparison.

As for the major credit categories: on consolidated level the large corporate exposure and the SME book increased by 12 and 13% respectively ,mainly due to the strong Bulgarian and Hungarian performance. In the retail segment the performing consumer book grew by 2% y-o-y and the mortgage book by 5%. Without AXA-effect the mortgage volumes would have contracted by 3% y-o-y.

Despite the on-going interest rate reduction the FX-adjusted deposit volumes grew by 6% y-o-y. As a result the consolidated net loan-to-(deposit+retail bonds) ratio remained almost flat (66%).

The volume of issued securities declined by 39% y-o-y, redemptions occurred mainly at OTP Core. The outstanding volume of subordinated bonds and loans dropped by 67% y-o-y. In September an LT2 facility matured and was repaid with EUR 500 million face value. The Bank did not buy back subordinated debt during 2016.

The consolidated volume of securities reached HUF 2,934 billion by the end of 2016 (+18% y-o-y); the dominant part was government securities.

In 4Q 2016 the Bank had an option to redeem its Perpetual bonds and exchangeable bonds (ICES) after the elapse of the first 10 years of maturity, but the issuers' management did not exercise its right. In both cases there was a change in the original conditions of the coupon: in case of the Perpetual bonds the 5.875% annual coupon, for ICES the 3.95% annual coupon changed in both cases into 3M EURIBOR +300 bps. A lower interest payment obligation resulted in savings on interest expense of HUF 0.7 billion in 4Q 2016 at the Corporate Centre.

By end-December 2016 the Group's liquidity position was comfortably stable: the operative liquidity reserves of the Group comprised EUR 8.1 billion equivalent.

Similar to the previous years, Group members sold or wrote off non-performing exposures in 2016 with a value of HUF 172 billion (FX-adjusted).

In line with the management's original expectation and supported by the improving macroeconomic environment overall credit quality trends continued to be favourable: new DPD90+ volumes (adjusted for FX and without the effect of sales and write offs) grew by HUF 82 billion versus HUF 133 billion a year ago. In 2016 HUF 15 billion DPD90+ loan volume growth was explained by the AXA portfolio take-over. The most meaningful improvement was witnessed in Russia, whereas in Hungary and Bulgaria practically there was no further deterioration and Ukraine showed a promising picture, too. The consolidated DPD90+ ratio declined to 14.7% (-2.3 pps y-o-y). In Hungary the rate dropped to 9.8%, last time the DPD90+ ratio was below 10% in 2010. The DPD90+ total coverage stood at 96.8% (+3.4 pps y-o-y).

OTP Core: marginally lower adjusted net earnings, eroding NIM, increasing loan portfolio, favourable credit quality trends with the DPD90+ ratio dropping below 10%

The adjusted after tax profit of ***OTP Core*** (basic activity in Hungary) reached HUF 122.2 billion in 2016, underpinning a 1% y-o-y decline.

The profit before tax improved by 2% y-o-y, within that the operating income declined by 16% as a result of lower net interest income (-6%) and higher operating expenses (+7%).

The net interest margin (3.36%) eroded by 25 bps y-o-y mainly due to lower interest rate environment. Most of the variable-rate assets are priced on 3 months BUBOR, its level dropped from 1.35% at the beginning of the year to 0.37% in late December.

The y-o-y decrease in operating income was offset by significantly lower risk costs. While total provisions in 2015 comprised HUF 25.6 billion, in 2016 HUF 6.1 billion total provisions (within that HUF 14.0 billion provisions for loan losses) were released. The loan portfolio quality demonstrated further improvement: the FX-adjusted DPD90+ volume formation (without sales and write-offs) was HUF 12 billion (versus a decline of HUF 11 billion in 2015), however HUF 15 billion growth was related to the AXA portfolio consolidation in 4Q 2016. The total volume of DPD90+ book declined by around HUF 34 billion y-o-y as a result of sales and write-offs. Consequently, the DPD90+ ratio dropped below 10% (9.8%, -2.3 pps y-o-y) for the first time since 2010. The coverage of DPD90+ loans by total allowances for loan losses declined to 82.7% from end-3Q 86.5%. If the AXA portfolio hadn't been taken over net of allowances for loan losses, the coverage would have stood at 86.3% in 4Q.

The annual operating expenses grew by 7%: on one hand contributions to different regulatory bodies increased by HUF 3 billion y-o-y, and the strengthening business activity was coupled with higher marketing costs. The y-o-y increase was partially related to the AXA deal.

The sector-level turnaround in lending activity can be witnessed at OTP Bank, too. Performing volumes increased by 12% y-o-y (without AXA by 5%). The strongest improvement was posted in the corporate and SME sector (+15% and +11% y-o-y, respectively). As for the retail segment, performing volumes including AXA increased by 12% y-o-y, without it the erosion was 3%. The annual volume of portfolio amortization still exceeded that of the new flows.

New mortgage originations continued to be meaningful, new flows grew by 40% y-o-y. OTP Bank maintained its leading position: out of new yearly flows it captured 29.1% in 2016.

OTP Bank plays a dominant role in originating subsidized mortgages; in 2016 around 75% of new applications were submitted to the Bank. OTP also maintained its leading position in originating CSOK-loans (Housing Subsidy Scheme for Families): every second approved CSOK application was registered with the Bank. Positive that 67% of applications were coupled with the Bank's own mortgage loan offers.

The performing consumer book grew by 4% y-o-y.

The FX-adjusted deposit book with retail bonds grew by 8% y-o-y. The year-end volume of deposits taken over from AXA comprised about HUF 60 billion. As a result, the net loan-to-(deposit+retail bonds) ratio grew marginally to 49% (+1 pp y-o-y, FX-adjusted).

In 2016 ***Merkantil Group*** posted HUF 2.6 billion adjusted profit after tax. The y-o-y 60% increase was due the stable total income (+3%) and lower risk costs and operating expenses. The FX-adjusted gross loan volumes started increasing and grew by 5% y-o-y, both the corporate exposures and car loans expanded. New car loan origination increased by 9% y-o-y.

OTP Fund Management posted HUF 6.7 billion after-tax profit (+38% y-o-y). The outstanding performance was driven by higher success fees. The volume of total assets under management moderately declined y-o-y (2016: HUF 1,530 billion). The company retained its market leading position with around 20% market share.

Foreign subsidiaries' performance: meaningful, though y-o-y declining Bulgarian profit, strong Russian and Ukrainian, and improving Croatian, Romanian and Serbian performance, net losses in Slovakia and Montenegro due to prudent provisioning

The ***Bulgarian subsidiary's*** profit contribution is still the second largest within OTP Group despite its 2016 net earnings of HUF 47.4 billion felt short the base period by 10%.

The annual operating profit declined by 4% with total income eroding by 2% y-o-y. The lower net interest income (-5%) was due to eroding net interest margin (4.63%). The fees and commissions income remained favourable (+13% y-o-y) mainly due to dynamic corporate lending activity, but higher deposit and transaction related fee income played a role, too.

The credit quality improved further with the DPD90+ ratio declining to 11.5% (-3.4 pps y-o-y), the coverage of DPD90+ volumes by total allowances for loan losses surged to 108%. The DPD90+ volumes (without sales and write offs, FX-adjusted) also showed favourable trends: in 2015 they increased by HUF 6 billion, whereas in 2016 the decline was HUF 3 billion.

Total risk costs grew by 19% y-o-y, within that provisions for loan losses moderated by 11% y-o-y. As a result the annual risk cost rate was 1.12% (-14 bps y-o-y).

The FX-adjusted gross loan portfolio stagnated y-o-y mainly as a result of the non-performing portfolio sales and write-offs. The FX-adjusted performing volumes, however, grew by 4%. Due to the strong new loan origination in the large corporate segment the corporate book advanced by +15% y-o-y. The retail segment decreased despite better new loan sales: the performing mortgage book melted down by 1%, while the consumer book stagnated.

Due to the profitable operation of the bank and its strong reputation the FX-adjusted deposits advanced by 4% y-o-y. As a result, the net loan to deposit ratio declined further to 65%. DSK Bank's profitability and efficiency is outstanding: its annual ROE stood at 18.9%, whereas its cost-to-income ratio was 37.7%.

There was a remarkable turnaround in the performance of the ***Russian subsidiary*** (without Touch Bank) and the bank posted HUF 20.5 billion profit against a loss of HUF 15.1 billion a year ago. In RUB terms the bank realized its third best annual result. The material improvement was due to the y-o-y 58% drop in risk costs which easily offset the weaker operating income (-4% y-o-y). Despite the average depreciation of RUB against HUF eased a lot (2015: -25%, 2016: -8%), earning trends are more realistically presented in RUB terms.

Accordingly, the annual operating income improved by 5%, within that the net interest income grew by 3%, fees and commissions by 7% respectively. The stronger NII was supported by higher net interest margins (in RUB the NIM improved by 2.5 pps), the average performing loan portfolio declined.

Operating expenses moderated by 1% despite the average annual inflations was around 7%.

In line with the stabilization of the overall Russian macroeconomic situation credit quality trends turned to be positive: the FX-adjusted DPD90+ inflow without sales and write-offs amounted to HUF 110 billion in 2015 and HUF 48 billion in 2016. Also as a result of non-performing portfolio sales/write offs the DPD90+ ratio changed to 20.2%, its total provisioning coverage was 117.6%.

The FX-adjusted performing portfolio increased by 1% y-o-y. With POS-lending being in the focus of business activity, performing POS-volumes advanced by 17% y-o-y. Credit card volumes further eroded, but the cash loan portfolio grew by 7%.

The FX-adjusted deposit book eroded by 6% y-o-y. As a result, by the end of December the net loan-to-deposit ratio stood at 108%.

The annual risk cost rate (in HUF terms) was 7.7%, positive that within the consumer loan portfolio both POS and cash loan risk cost rates declined (to 6.1% and 7.7% respectively), only the credit card loans' CoR exceeded 12%.

The annual net interest margin (in HUF) was 16.25% (+0.69 pps y-o-y), whereas the ROE stood at 19.1%.

Touch Bank, the Bank's digital bank in Russia operating under the same banking license, but as a separate business line still remained in red after the second year of operation and posted HUF 5.9 billion loss (+22% y-o-y) mainly due to the operating expenses surging by 25% y-o-y. Parallel with the client acquisition volumes have been gradually building up, however on the asset side the increase was slower than expected. By the end of 2016 deposit volumes reached HUF 20.5 billion equivalent. From 2Q 2016 the sale of credit card loans and revolving cash loan facilities started, too but volumes remained marginal.

Following massive losses in the last two years in 2016 the ***Ukrainian subsidiary*** turned into profit again, its annual net earnings reached HUF 10.2 billion.

Key driver in profitability improvement was the sharp decline in risk costs.

P&L developments are better demonstrated in UAH terms given the volatility of the Ukrainian currency. The average FX-rate of the local currency against HUF y-o-y depreciated by 15%.

Accordingly the annual operating income increased by 6% y-o-y; stronger total revenues (+8% y-o-y) offset the impact of higher operating expenses (+11%). The expense growth, however, felt short of the annual rate of inflation (13.9%). Positive that the net interest income improved by 7% y-o-y. The better net interest income was related to the higher volume of performing loans, but also to the prepayment of intragroup funding. The annual net interest margin reached 8.83% (+0.7 pp y-o-y).

Surging net fee and commission income (+29% y-o-y) was explained by base effect and strengthening business activity.

Credit quality trends demonstrated definite improvement: following a significant portfolio clean-up in 2015 in 2016 risk costs sharply declined (-84% y-o-y). The DPD90+ volume increase (FX-adjusted, without the effect of loan sales and write-offs) normalized at levels seen already in 2015 (HUF 11 billion). The DPD90+ ratio moderated to 41.9% (-6.6 pps y-o-y), its total provisioning coverage is stable and exceeds 118%.

The FX-adjusted performing portfolio increased by 5% y-o-y. Within that the retail book declined by 5%, however, the corporate exposure advanced by 8%. The mortgage loan sales are still suspended and the credit card loan origination is fairly subdued. POS origination, however demonstrates gradual improvement: new placements grew by 62% y-o-y and performing volumes by 49% respectively.

The FX-adjusted deposit book grew by 9% q-o-q and by 13% y-o-y. The net loan-to-deposit ratio remained practically flat at 84% by December 2016.

During the course of the year the total outstanding intragroup exposure towards the Ukrainian operation declined by HUF 61 billion and dropped to HUF 46 billion equivalent by end-2016.

The ***Romanian subsidiary*** realized HUF 1.65 billion net profit in 2016 which underpins a y-o-y 12% improvement. The annual operating income increased by 41% y-o-y: somewhat lower total income was easily offset by a 16% decline in operating expenses which already reflects the cost synergy impacts of the Banca Millennium acquisition in 2015. Within core banking revenues the net interest income dropped by 11% y-o-y partly as a result of the bank's own conversion programme launched for CHF mortgage customers. The 80 bps erosion in the net interest margin (3.29%) is also explained by the impact of the conversion programme.

The FX-adjusted gross loan portfolio shrank by 3% y-o-y. The lower retail volumes are reasoned by the partial debt forgiveness offered in the bank's own CHF mortgage conversion programme. The 2% y-o-y growth of the corporate book partially offset that impact. As a result of a moderate growth in deposits the net loan-to-deposit ratio dropped to 134% (-8 pps y-o-y, FX-adjusted). The DPD90+ ratio somewhat increased to 17.4%; its total provisioning coverage improved and reached 81.7%.

The ***Croatian subsidiary*** managed to improve its annual results and posted HUF 3.8 billion profit in 2016 (+27% y-o-y). The annual operating income grew by 25%, whereas risk costs dropped by 22%. The annual NIM improved by 39 bps y-o-y and reached 3.51%. The FX-adjusted loan portfolio stagnated partly as a reflection of the retail CHF exposure settlement. The credit quality improved, the DPD90+ ratio decreased (12.1%, -1.0 pp y-o-y), its total provisioning coverage improved substantially (87.6%, +16.7 pps y-o-y).

The ***Slovakian subsidiary*** couldn't repeat its profitable operation seen in the last two years and posted a loss of HUF 2.2 billion in 2016. The turnaround in net earnings to a great extent is reasoned by increasing risk costs. Operating income improved by 3% y-o-y, however, risk costs surged by 75%. Positive that despite the eroding interest environment the bank managed to stabilize its annual net interest margin (3.15%). The FX-adjusted loan portfolio increased by 2% both y-o-y and q-o-q, of that the mortgage book grew the fastest. The credit quality deteriorated, the DPD90+ ratio grew to 11.2% (+1.5 pps y-o-y), its total provisioning coverage improved significantly (74.2%, +11.2 pps y-o-y).

The ***Serbian subsidiary*** posted a small profit in 2016 (HUF 39 million). Operating income suffered a significant setback (-46% y-o-y), however, it was offset by lower risk costs (-59%). The FX-adjusted portfolio kept increasing (+12% y-o-y); both the retail and corporate segments demonstrated strong expansion with SME being the fastest growing portfolio. The DPD90+ ratio declined further (32.7%), its total provisioning coverage was stable (74.2%).

The ***Montenegrin subsidiary*** failed to continue its profitable operation witnessed since 2013 and the bank posted HUF 1.8 billion loss. The major reason behind that was the y-o-y doubling risk cost, but the y-o-y 15% lower operating income also took its toll. The FX-adjusted loan book shrank by 4% y-o-y, while deposits grew by 1%. The DPD90+ ratio decreased (42.2%), the total provisioning coverage of the DPD90+ portfolio surged by 10pps y-o-y (92.9%).

Consolidated and stand-alone capital adequacy ratio (in accordance with BASEL III)

By the end of December 2016 the consolidated Common Equity Tier1 ratio under IFRS was 13.5%, +0.2 pp q-o-q. Neither the annual net result was included, nor was the accrued dividend amount deducted from the regulatory capital when calculating the IFRS consolidated capital adequacy ratios. Including those items the CET1 ratio would be 15.8%.

OTP Bank's standalone Common Equity Tier1 ratio stood at 24.8% in December 2016, the accrued dividend amount and retained earnings are already reflected in this number.

Credit rating, shareholder structure

On 29 June Moody's changed the outlook on **OTP Bank's** 'Baa3' long-term HUF deposit rating from stable to positive and affirmed the long-term foreign currency deposit rating at 'Ba2' with positive outlook. On 7 November 2016 OTP Bank's long-term foreign currency deposit rating was upgraded by 2 notches to 'Baa3' from 'Ba2' with stable outlook, the short-term foreign currency deposit rating improved from 'Not Prime' to 'Prime-3'; whereas its long-term HUF deposit rating remained 'Baa3' with positive outlook along with its short-term HUF deposit rating at level 'Prime-3'.

On 29 June 2016 Moody's assigned a 'Ba1' local currency issuer rating to **OTP Mortgage Bank** with positive outlook, while its deposit ratings were withdrawn since the bank is a specialized financial institution. On 7 November 2016 the mortgage bond ratings were upgraded by one notch to 'Baa1' by Moody's.

Furthermore, on 21 July 2016 S&P upgraded the ratings of **OTP B**ank and **OTP Mortgage Bank** from 'BB' to 'BB+', at the same time the outlook was changed from positive to stable.

In February 2015 the **Russian subsidiary** initiated the cancellation of the rating service with Moody's and on 11 May 2016 Moody's has withdrawn the Russian bank's ratings. OTP Bank Russia holds a 'BB' rating from Fitch with stable outlook.

Regarding the ownership structure of the Bank, by 30 December 2016 the following investors had more than 5% influence (voting rights) in the Company: the Rahimkulov family (8.30%), MOL (the Hungarian Oil and Gas Company, 8.69%), the Groupama Group (8.21%) and OPUS Securities (5.25%).

POST BALANCE SHEET EVENTS

Hungary

- On 14 February 2017, the flash estimate of the Hungarian GDP growth was published, accordingly the economy grew by 2% y-o-y, while the expansion in 4Q represented 1.6% y-o-y.
- On 15 February, OJB2021/I covered bonds were issued with a face value of HUF 85 billion within OTP Mortgage Bank Ltd. covered bond programme of HUF 1,000 billion framework. The bonds are rated 'Baa1' by Moody's

Romania

- On 7 February 2017, the Romanian Constitutional Court ruled that the Act on obliging banks to convert CHF mortgages into local currency at rates prevailing at origination was entirely unconstitutional.

Croatia

- On 27 January 2017; Fitch rating agency modified the outlook of Croatia from negative to stable, while the country's long term FX and HRK 'BB' credit rating was confirmed.

Russia

- On 17 February 2017 Moody's changed the negative outlook for stable on the Russian sovereign rating with confirming all the previous ratings.

CONSOLIDATED AFTER TAX PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)[2]

	2015 HUF million	2016 HUF million	Change %/pps
Consolidated after tax profit	**63,171**	**202,452**	**220**
Adjustments (total)	**(57,073)**	**1,276**	**(102)**
Consolidated adjusted after tax profit without the effect of adjustments	**120,240**	**201,176**	**67**
Banks total without one-off items[1]	117,253	189,950	62
OTP CORE (Hungary)[2]	123,359	122,190	(1)
Corporate Centre (after tax)[3]	(4,286)	(5,868)	37
OTP Bank Russia[4]	(15,101)	20,535	(236)
Touch Bank (Russia)[5]	(4,840)	(5,898)	22
OTP Bank Ukraine[6]	(40,312)	10,202	(125)
DSK Bank (Bulgaria)[7]	52,537	47,385	(10)
OBR (Romania)[8]	1,480	1,655	12
OTP banka Srbija (Serbia)[9]	(385)	39	(110)
OBH (Croatia)[10]	2,968	3,783	27
OBS (Slovakia)[11]	924	(2,223)	(341)
CKB (Montenegro)[12]	909	(1,849)	(303)
Leasing	1,786	3,968	122
Merkantil Bank + Car, adj. (Hungary)[13]	1,625	2,605	60
Foreign leasing companies (Croatia, Bulgaria, Romania)[14]	161	1,363	747
Asset Management	2,713	6,723	148
OTP Asset Management (Hungary)	4,817	6,658	38
Foreign Asset Management Companies (Ukraine, Romania, Bulgaria)[15]	(2,104)	65	(103)
Other Hungarian Subsidiaries	(323)	1,903	(689)
Other Foreign Subsidiaries (Slovakia, United Kingdom, Montenegro, Romania, Serbia, Croatia, Belize)[16]	352	403	14
Eliminations	(1,535)	(-1,771)	15
Total adjusted after tax profit of HUNGARIAN subsidiaries[17]	123,656	125,718	2
Total adjusted after tax profit of FOREIGN subsidiaries[18]	(3,411)	75,458	
Share of foreign profit contribution, %	(3)	38	

[2] Belonging footnotes are in the Supplementary data section of the Report.

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME [3]

Main components of the Statement of recognized income	2015 HUF million	2016 HUF million	Change %
Consolidated after tax profit	**63,171**	**202,452**	**220**
Adjustments (total)	**(57,073)**	**1,276**	**(102)**
Dividends and net cash transfers (after tax)	144	412	186
Goodwill/investment impairment charges (after tax)	6,683	11,552	73
Special tax on financial institutions (after corporate income tax)	(29,383)	(13,950)	(53)
Impact of fines imposed by the Hungarian Competition Authority (after tax)	(662)	1,922	(390)
Effect of acquisitions (after tax)	1,550	0	(100)
One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary (after tax)	4,594	0	(100)
Expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia (after tax)	(6,331)	0	(100)
One-off impact of regulatory changes related to FX consumer contracts in Serbia (after tax)	(211)	0	(100)
Expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania (after tax)	(25,492)	0	(100)
Risk cost created toward Crimean exposures from 2Q 2014 until 4Q 2015 (after tax)	(169)	-	
Risk cost created toward exposures to Donetsk and Luhansk from 3Q 2014 until 4Q 2015 (after tax)	(2,258)	-	
Corporate tax impact of switching to IFRS from HAR in Hungary	0	(5,766)	
Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary	0	(6,054)	
Gain on the sale of Visa Europe shares (after tax)	0	13,160	
Revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes (after tax)	(5,539)	0	(100)
Consolidated adjusted after tax profit without the effect of adjustments	**120,245**	**201,176**	**67**
Before tax profit	**146,057**	**244,772**	**68**
Operating profit	**362,594**	**335,900**	**(7)**
Total income	**754,912**	**736,316**	**(2)**
Net interest income	**553,659**	**521,949**	**(6)**
Net fees and commissions	**167,250**	**175,966**	**5**
Other net non-interest income	**34,002**	**38,400**	**13**
Foreign exchange result, net	18,476	12,941	(30)
Gain/loss on securities, net	9,197	5,655	(39)
Net other non-interest result	6,329	19,803	213
Operating expenses	**(392,317)**	**(400,416)**	**2**
Personnel expenses	(187,806)	(191,443)	2
Depreciation	(45,463)	(44,428)	(2)
Other expenses	(159,048)	(164,545)	3
Total risk costs	**(220,709)**	**(93,218)**	**(58)**
Provision for loan losses	(211,663)	(73,223)	(65)
Other provision	(9,046)	(19,995)	121
Total one-off items	**4,172**	**2,090**	**(50)**
Revaluation result of FX swaps at OTP Core[1]	(679)	-	
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	
Result of the treasury share swap at OTP Core	4,852	2,090	(57)
Corporate taxes	**(25,813)**	**(43,596)**	**69**
Performance indicators	2015	2016	%/pps
ROE (from accounting net earnings)	5.1%	15.3%	10.2
ROE (from accounting net earnings, on 12.5% CET1 ratio)	5.3%	17.9%	12.5
ROE (from adjusted net earnings)	9.6%	15.2%	5.5
ROA (from adjusted net earnings)	1.1%	1.8%	0.7
Operating profit margin	3.34%	3.05%	(0.29)
Total income margin	6.96%	6.69%	(0.28)
Net interest margin	5.11%	4.74%	(0.37)
Net fee and commission margin	1.54%	1.60%	0.06
Net other non-interest income margin	0.31%	0.35%	0.04
Cost-to-asset ratio	3.62%	3.64%	0.02
Cost/income ratio	52.0%	54.4%	2.4
Risk cost for loan losses-to-average gross loans	3.18%	1.13%	(2.06)
Risk cost for loan losses-to-average FX adjusted gross loans	3.15%	1.12%	(2.03)
Total risk cost-to-asset ratio	2.04%	0.85%	(1.19)
Effective tax rate	17.7%	17.8%	0.1
Non-interest income/total income	27%	29%	2
EPS base (HUF) (from unadjusted net earnings)	242	765	216
EPS diluted (HUF) (from unadjusted net earnings)	242	765	216
EPS base (HUF) (from adjusted net earnings)	459	761	66
EPS diluted (HUF) (from adjusted net earnings)	458	761	66

[3] Adjustments on the consolidated Statement of recognized income are summarised in the Supplementary data section of this report.

Comprehensive Income Statement	2015	2016	%
Consolidated after tax profit	63,171	202,452	220
Fair value adjustment of securities available-for-sale (recognised directly through equity)	(246)	11,824	
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	0	0	
Fair value adjustment of strategic open FX position hedging net investment in foreign operations	431	525	22
Foreign currency translation difference	(44,301)	24,554	(155)
Change of actuarial losses (IAS 19)	(171)	61	(136)
Net comprehensive income	**18,884**	**239,416**	
o/w Net comprehensive income attributable to equity holders	19,582	238,775	
Net comprehensive income attributable to non-controlling interest	(698)	641	(192)
Average exchange rate	2015 HUF	2016 HUF	Change %
HUF/EUR	310	311	1
HUF/CHF	291	286	(2)
HUF/USD	279	281	1

[1] From 2Q 2015 this item (booked within the net interest income of OTP Core from accounting point of view) is not shown separately among the one-off items, but on the net interest income line.

ASSET-LIABILITY MANAGEMENT

Similar to previous periods OTP Group maintained a strong and safe liquidity position…

The primary objective of OTP Group in terms of asset-liability management has not changed, that is to ensure that the Group's liquidity is maintained at a safe level.

Refinancing sources of the European Central Bank are still available for OTP, thus the refinancing risk of maturing FX mortgage bonds is low. As a result of the high level of liquidity reserves, the Group could safely function without considerable fund raising, only refinancing loan of Funding for Growth Scheme was used in the amount of HUF 7 billion (HUF 242 billion was the total used amount at group level as at end of 2H 2016).

After the non-refinanced EUR 500 million subordinated debt maturity in September the total liquidity reserves of OTP Bank remained steadily and substantially above the safety level. As of 31 December 2016 the gross liquidity buffer was above EUR 8 billion equivalent. This buffer is significantly higher than the maturing debt within one year and the reserves required to protect against possible liquidity shocks. Due to governmental FX lending measures and FX loan conversion FX liquidity need of the Group has considerably declined. The maturing long term FX-swaps were not refinanced and the ECB refinancing facilities are currently not utilized the FX liquidity reserves are at safe levels (at EUR 1.73 billion on 31 December 2016).

The volume of issued securities decreased by 39% y-o-y. The yearly decrease is mainly explained by the shrinkage of Hungarian retail and institutional bonds, the reclassification of Merkantil bonds into deposits in the amount of HUF 30 billion; additionally Hungarian mortgage bonds matured in the amount of about HUF 5.9 billion, and the volume of mortgage bonds issued by the Slovakian bank shrank by HUF 2.5 billion equivalent.

The volume of subordinated debt decreased by HUF 157 billion y-o-y, reasoned by a subordinated bond repayment of OTP Bank in the amount of EUR 500 million in 3Q.

…and kept its interest-rate risk exposures low.

Interest-rate risk exposure of OTP Group is determined primarily by the positions of OTP Bank Plc. and OTP Mortgage Bank Ltd. Due to the forint liabilities on OTP Bank's balance sheet, which respond to yield changes only to a moderate extent, the Bank has an interest-rate risk exposure resulting from its business operations. The Bank considers the reduction and closing of this exposure as a strategic matter. Consequently it has been reducing its interest-rate risk exposure through the purchase of fixed-rate government securities in order to offset the negative impact of declining yields on net interest income.

Market Risk Exposure of OTP Group

The consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure represented HUF 45.2 billion in total, primarily due to the capital requirement of the FX risk exposure.

OTP Group is an active participant of the international FX and derivative market. Open FX positions of group members are restricted to individual and global net open position limits (overnight and intraday), and to stop-loss limits. The open positions of the group members outside Hungary except for the Bulgarian DSK Bank – the EUR/BGN exposure of DSK under the current exchange rate regime does not represent real risk – were negligible measured against either the balance sheet total or the regulatory capital. Therefore the group level FX exposure was concentrated at OTP Bank. Thus the main part of the FX exposure booked at OTP Bank – in line with the previous years' practice – was the strategic open FX position kept to hedge the currency risk of the expected FX-denominated net earnings (EUR 310 million for 2 years) of the main foreign subsidiaries.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF OTP GROUP

Main components of balance sheet	2015 HUF million	2016 HUF million	Change %
TOTAL ASSETS	**10,718,848**	**11,307,665**	**5**
Cash and amount due from banks	1,878,961	1,625,357	(13)
Placements with other banks	300,569	363,530	21
Financial assets at fair value	253,782	293,106	15
Securities available-for-sale	1,305,486	1,527,093	17
Net customer loans	5,409,967	5,736,232	6
Net customer loans (FX adjusted[1])	**5,454,536**	**5,736,232**	**5**
Gross customer loans	6,423,588	6,680,504	4
Gross customer loans (FX adjusted[1])	**6,483,245**	**6,680,504**	**3**
o/w Retail loans	4,323,854	4,398,239	2
Retail mortgage loans (incl. home equity)	2,328,706	2,357,614	1
Retail consumer loans	1,500,572	1,520,476	1
SME loans	494,577	520,149	5
Corporate loans	1,892,757	2,017,725	7
Loans to medium and large corporates	1,799,890	1,943,863	8
Municipal loans	92,867	73,862	(20)
Car financing loans	210,838	217,898	3
Bills and accrued interest receivables related to loans	55,795	46,641	(16)
Allowances for loan losses	(1,013,620)	(944,273)	(7)
Allowances for loan losses (FX adjusted[1])	(1,028,709)	(944,273)	(8)
Equity investments	10,028	9,836	(2)
Securities held-to-maturity	926,677	1,114,227	20
Premises, equipment and intangible assets, net	349,469	355,516	2
o/w Goodwill, net	95,994	104,282	9
Premises, equipment and other intangible assets, net	253,475	251,234	(1)
Other assets	283,909	282,770	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**10,718,848**	**11,307,665**	**5**
Liabilities to credit institutions and governments	533,310	543,775	2
Customer deposits	7,984,579	8,540,583	7
Customer deposits (FX adjusted[1])	**8,025,435**	**8,540,583**	**6**
o/w Retail deposits	5,699,031	6,139,337	8
Household deposits	4,773,719	5,141,627	8
SME deposits	925,312	997,711	8
Corporate deposits	2,306,862	2,385,603	3
Deposits to medium and large corporates	1,899,476	1,844,184	(3)
Municipal deposits	407,386	541,419	33
Accrued interest payable related to customer deposits	19,542	15,644	(20)
Issued securities	239,376	146,900	(39)
o/w Retail bonds	64,777	36,921	(43)
Issued securities without retail bonds	174,599	109,978	(37)
Other liabilities	493,140	578,300	17
Subordinated bonds and loans[2]	234,784	77,458	(67)
Total shareholders' equity	**1,233,659**	**1,420,649**	**15**
Indicators	2015	2016	%/pps
Loan/deposit ratio (FX adjusted[1])	80%	78%	(2)
Net loan/(deposit + retail bond) ratio (FX adjusted[1])	67%	66%	0
90+ days past due loan volume	1,085,694	975,952	(10)
90+ days past due loans/gross customer loans	17.0%	14.7%	(2.3)
Total provisions/90+ days past due loans	93.4%	96.8%	3.4
Consolidated capital adequacy - Basel3	2015	2016	pps
Capital adequacy ratio (consolidated, IFRS)	16.2%	16.0%	(0.2)
Tier1 ratio	13.3%	13.5%	0.3
Common Equity Tier1 ('CET1') capital ratio	13.3%	13.5%	0.3
Regulatory capital (consolidated)	1,064,383	1,079,064	1
o/w Tier1 Capital	873,124	911,328	4
o/w Common Equity Tier1 capital	873,124	911,328	4
Tier2 Capital	191,259	167,736	(12)
o/w Hybrid Tier2	92,093	89,935	(2)
Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk)	6,576,258	6,730,467	2
o/w RWA (Credit risk)	5,245,874	5,344,636	2
RWA (Market & Operational risk)	1,330,384	1,385,831	4
Closing exchange rates	2015 HUF	2016 HUF	Change %
HUF/EUR	313	311	(1)
HUF/CHF	289	289	0
HUF/USD	287	294	2

[1] For the FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods.
[2] The ICES bonds are considered as Tier2 debt, but accounting-wise they are treated as part of the shareholders' equity.

OTP BANK'S HUNGARIAN CORE BUSINESS

OTP Core Statement of recognized income:

Main components of the Statement of recognised income	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	123,359	122,194	(1)
Corporate income tax	(25,857)	(29,680)	15
Pre-tax profit	149,216	151,874	2
Operating profit	170,598	143,680	(16)
Total income	367,234	354,698	(3)
Net interest income	251,564	235,871	(6)
Net fees and commissions	97,480	100,213	3
Other net non-interest income	18,191	18,614	2
Operating expenses	(196,636)	(211,018)	7
Total risk costs	(25,555)	6,104	(124)
Provisions for possible loan losses	(21,550)	14,036	(165)
Other provisions	(4,005)	(7,933)	98
Total one-off items	4,172)	2,090	(50)
Revaluation result of FX swaps	(679)	-	0
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	0
Revaluation result of the treasury share swap agreement	4,852	2,090	(57)
Revenues by Business Lines			
RETAIL			
Total income	266,216	243,375	(9)
Net interest income	179,327	152,141	(15)
Net fees and commissions	83,510	87,333	5
Other net non-interest income	3,379	3,901	15
CORPORATE			
Total income	43,681	40,507	(7)
Net interest income	27,697	26,558	(9)
Net fees and commissions	14,997	12,808	(15)
Other net non-interest income	988	1,140	15
Treasury ALM			
Total income	55,626	66,824	20
Net interest income	44,540	57,172	28
Net fees and commissions	(1,102)	73	(107)
Other net non-interest income	12,187	9,579	(21)
Indicators	2015	2016	pps
ROE	10.3%	9.7%	(0.6)
ROA	1.8%	1.7%	0.0
Operating profit margin (operating profit / avg. total assets)	2.5%	2.0%	(0.4)
Total income margin	5.28%	5.06%	(0.22)
Net interest margin	3.62%	3.36%	(0.25)
Net fee and commission margin	1.40%	1.43%	0.03
Net other non-interest income margin	0.26%	0.27%	0.00
Operating costs to total assets ratio	2.8%	3.0%	0.2
Cost/income ratio	53.5%	59.5%	5.9
Cost of risk/average gross loans[1]	0.84%	(0.56%)	(1.40)
Cost of risk/average gross loans[1] (FX adjusted)	0.82%	(0.56%)	(1.39)
Effective tax rate	17.3%	19.5%	2.2

[1] Negative volume of Cost of risk/average gross loan volumes imply provision release

- ***In 2016 OTP Core posted HUF 122.2 billion adjusted profit marking a 1% y-o-y decline***
- ***The annual net interest income declined by 6% due to narrowing net interest margin***
- ***On the total risk cost line the annual provisioning release represented HUF 6.1 billion***
- ***Favourable credit quality trends remained intact, the DPD90+ ratio dropped below 10% (-2.3 pps y/y), the coverage decreased mainly because the AXA portfolio was taken over net of provisions (-3.1 pps y-o-y)***

P&L developments

Without the effect of adjustment items[4] **OTP Core** posted a profit after tax of HUF 122.2 billion in 2016 underpinning a 1% y-o-y decline.

The effective corporate income tax rate was 19.5% in 2016 practically the same as the Hungarian corporate tax rate. The tax shield effect on the revaluation of subsidiary investments[5] as a result of HUF exchange rate moves caused HUF 3.1 billion tax saving in 2015, but resulted in HUF 2.0 billion additional tax payment in 2016. Since the switch from Hungarian Accounting Rules into IFRS financials became effective from January 2017 in Hungary, from 2017 the corporate tax line of OTP Core won't be distorted anymore by the tax shield related to the HUF exchange rate movements.

The annual profit before tax improved by 2% y-o-y since the 16% decline in operating result was offset by the massive decrease of total risk costs.

On the total risk costs line a release of 6.1 billion was recognized in 2016 versus HUF 25.6 billion total risk cost creation booked in 2015. Within that on the provisions for possible loan losses line HUF 14.0 billion release was recognized in 2016. The trend of credit quality improvement continued: the DPD90+ volumes adjusted for FX rate movements and sales and write offs grew by HUF 12 billion in 2016 versus HUF 11 billion in 2015.The take-over of the AXA portfolio itself increased the DPD90+ volumes by HUF 15 billion in 4Q 2016; without that the overall credit quality trends remained favourable. In 2016 overall DPD90+ volumes declined by HUF 34 billion y-o-y. These changes were influenced by non-performing loan sales and write offs, too: HUF 44 billion exposures were sold or written off in 2016. As a result, the DPD90+ ratio moderated by 2.3 pps y-o-y to 9.8%. The provision coverage ratio (82.7%) calculated as total provisions/DPD90+ loans declined by 3.1 pps y-o-y, mainly explained by the AXA portfolio take-over net of provisions.

The annual total income eroded by 3%, within that the net interest income declined by 6% reasoned mainly by the y-o-y 25 bps lower net interest margin. The lower NIM was mainly driven by the declining interest rate environment that took its toll through lower deposit margins and lower gross interest income on customer loans. Furthermore, the structural changes within the loan book also had a negative NIM-effect as the share of corporate exposures with lower margins increased y-o-y.

The annual net fee and commission income increased by 3% y-o-y. The improvement was mainly due to stronger card-related fees induced by growing transactional turnover. The annual other net non-interest income grew by 2% y-o-y.

Total one-off revenue items represented HUF 2.1 billion in 2016, mainly related to dividends received within the framework of the treasury share swap agreement.

Annual operating expenses increased by 7% y-o-y due to the following reasons: OTP had to pay y-o-y HUF 3.0 billion higher contributions into the National Deposit Protection Fund (OBA), the Investor Protection Fund (Beva) and the Resolution Fund. Furthermore, reviving business activity coupled with higher marketing spending, but higher deductible taxes and the one-off costs related to organizational changes occurring in 2Q played a role, too. Finally, at the Bank there was an average base salary increase of 4% in April 2016. The takeover of AXA businesses added almost HUF 640 million additional operating cost in 4Q 2016; two-third of this amount emerged on the personnel expenses line.

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[4] Adjustments emerged in the presented periods: special tax on financial institutions, dividends and net cash transfers, goodwill impairment charges, impact of fines imposed by the Hungarian Competition Authority, one-off impact of regulatory changes in relation to consumer contracts, the impact of the related methodological changes and the revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd., the gain realized on securities from the Visa Europe share transaction, the corporate tax impact of switching to IFRS from HAR in Hungary as well as the revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary.

[5] In 4Q 2016 the closing rate of HUF typically depreciated q-o-q against the functional currencies of the subsidiary investments. Therefore a revaluation gain was realized under Hungarian Accounting Standards when translating the value of these subsidiary investments into HUF, increasing the corporate tax base. So, the corporate income tax both under HAS and IFRS went up *ceteris paribus*.

Main components of OTP Core's Statement of financial position:

Main components of balance sheet closing balances	2015 HUF million	2016 HUF million	Change %
Total Assets	6,774,200	7,247,297	7
Net customer loans	2,145,475	2,398,694	12
Net customer loans (FX adjusted)	**2,142,887**	**2,398,694**	**12**
Gross customer loans	2,394,362	2,610,277	9
Gross customer loans (FX adjusted)	**2,392,865**	**2,610,277**	**9**
Retail loans	1,624,516	1,748,278	8
Retail mortgage loans (incl. home equity)	1,163,765	1,274,873	10
Retail consumer loans	316,985	315,357	(1)
SME loans	143,766	158,048	10
Corporate loans	768,349	862,000	12
Loans to medium and large corporates	747,207	838,586	12
Municipal loans	21,142	23,413	11
Provisions	(248,887)	(211,583)	(15)
Provisions (FX adjusted)	**(249,979)**	**(211,583)**	**(15)**
Deposits from customers + retail bonds	4,559,728	4,942,606	8
Deposits from customers + retail bonds (FX adjusted)	**4,559,928**	**4,942,606**	**8**
Retail deposits + retail bonds	2,859,725	3,201,149	12
Household deposits + retail bonds	2,358,402	2,635,416	12
o/w: Retail bonds	64,777	36,921	(43)
SME deposits	501,323	565,733	13
Corporate deposits	1,700,203	1,741,457	2
Deposits to medium and large corporates	1,337,805	1,231,876	(8)
Municipal deposits	362,398	509,581	41
Liabilities to credit institutions	376,886	329,442	(13)
Issued securities without retail bonds	202,309	192,097	(5)
Total shareholders' equity	1,210,949	1,312,464	8
Loan Quality	2015	2016	%/pps
90+ days past due loan volume (in HUF million)	290,052	255,841	(11.8)
90+ days past due loans/gross customer loans	12.1%	9.8%	(2.3)
Total provisions/90+ days past due loans	85.8%	82.7%	(3.1)
Market Share	2015	2016	pps
Loans	19.2%	21.0%	1.9
Deposits	25.5%	27.2%	1.7
Total Assets	26.0%	25.6%	(0.5)
Performance Indicators	2015	2016	pps
Net loans to (deposits + retail bonds) (FX adjusted)	47%	49%	2
Leverage (Shareholder's Equity/Total Assets)	17.9%	18.1%	0.2
Leverage (Total Assets/Shareholder's Equity)	5.6x	5.5x	
Capital adequacy ratio (OTP Bank, non-consolidated, Basel3, HAS)	26.6%	27.7%	1.1
Common Equity Tier1 ratio (OTP Bank, non-consolidated, Basel3, HAS)	22.6%	24.8%	2.1

- ***Following the steady erosion of performing loan volumes in the last couple of years there was a 12% y-o-y increase in 2016, supported also by the take-over of AXA business volumes in November***
- ***The dynamic portfolio expansion was visible in all segments: the performing SME and large corporate loans advanced by 11% and 15% y-o-y(FX-adjusted)***
- ***Performing consumer loans grew by 4% y-o-y***
- ***In 2016 new mortgage loan disbursements advanced by 40%. Performing mortgage volumes grew by 12%, without AXA they would have declined by 3%. In 2H 2016 the overall portfolio stabilized (without AXA)***

Balance sheet trends

There has been a lending turnaround in 2016 at the Hungarian operation of OTP. In 2016 OTP Core's FX-adjusted gross loan portfolio increased by 9%. However, due to the sales and write-offs of non-performing loans during 2016 performing (DPD0-90) loan volume developments are more illustrative: they advanced by 12% y-o-y.

On 1 November 2016 OTP Bank has taken over the retail lending and savings, as well as the corporate businesses of AXA Bank, while the employees of AXA Bank have been transferred to OTP Bank by 1 November 2016 within the framework of an employer's succession. The migrated loan portfolio consisted of almost 100% mortgages. Altogether HUF 162 billion net performing (DPD0-90) mortgage loans and HUF 15 billion net DPD90+ mortgage loans were migrated on 1 November. Due to normal amortization and early repayments during November and December, as well as accounting corrections and other technical effects the gross performing volumes represented HUF 154 billion at the end of December 2016.

Adjusted for the AXA-effect (i.e. deducting the end-2016 balance of loans taken over from AXA) the performing loan portfolio of OTP Core grew by 5% y-o-y. Without the AXA-effect the mortgage book would have shrunk by 3% y-o-y and would have remained basically flat in 2H 2016.

The organic portfolio expansion was mainly fuelled by the corporate volumes: the gross micro and small enterprise loan portfolio advanced by 11% y-o-y, while the large corporate exposures grew by 15%. It is important that the agricultural financing which is considered by the Bank as a strategic area within corporate lending demonstrated a strong increase in new disbursements in 4Q similar to the previous quarter; OTP's market share edged up steadily and already exceeded 18% according to latest available data.

In 2016 the National Bank of Hungary launched the third, so called "phasing out" part of the Funding for Growth Scheme. According to the data published by the NBH on 3 January 2017 the Hungarian credit institutions participating in the scheme have already contracted for HUF 473 billion by the end of 2016 of which OTP's share represented HUF 74 billion. In October 2016 NBH decided about applying more flexible conditions for utilizing FGS loan facilities and also extended the drawdown deadline by 6 months (until 29 June 2018). In November the Monetary Council decided to extend the deadline for conclusion of loan contracts until 31 March 2017.

New mortgage disbursements[6] showed a favourable trend (+40% y-o-y). OTP Bank's market share in new mortgage loan contractual amounts reached 29.1% in 2016.

As for the new mortgage applications, application volumes at OTP Bank exceeded HUF 239 billion (+70% y-o-y). State subsidized housing loan applications increased substantially (+127% y-o-y) due to the demand generated by the Housing Subsidy for Families (CSOK). Thus, within the total housing loan applications the demand for the subsidized housing loans represented 44% (versus 35% in 2015).

OTP Bank experienced strong business activity for the extended CSOK facility, too: in 2016 close to 10,500 applications were registered with a value of over HUF 34 billion. Applicants also combined CSOK with subsidized or market-based loan applications in the amount of HUF 47 billion.

The performing consumer loan volumes advanced by 4% y-o-y, within that cash loan volumes kept growing (+13% y-o-y). OTP's market share in the cash loan segment remained strong both in terms of stock and new disbursements. At the end of December the bank had a market share of 32.5% in total cash loan volumes. OTP Bank's market share in new cash loan flows reached 36.0% in 2016.

FX-adjusted deposit volumes (including retail bonds) increased by 8% y-o-y on an FX-adjusted basis. The annual increase was induced primarily by retail and municipal deposit inflows. The volume of retail deposits (with retail bonds) advanced by 12%, whereas the municipality deposits advanced by 41%. The year-end volume of deposits taken over from AXA added HUF 60 billion to the overall deposit volumes, of that HUF 51 billion was household deposit.

On 20 September the National Bank of Hungary announced that the cumulative volume of 3 months deposits placed with the central bank can't exceed HUF 900 billion through the October, November and December 2016 tenders. Starting from August 2016 the frequency of 3M deposit tenders changed from a weekly one to a monthly one. By the end of December 2016 OTP kept HUF 212 billion in the 3 months instruments with NBH. According to the decision of the Monetary Council in December 2016 the maximum amount of 3 months deposits placed with the central bank in 1Q 2017 was further reduced and set at HUF 750 billion. The overnight central bank deposit interest rate remained unchanged at -5 bps since 23 March 2016.

[6] Mortgage loan application and disbursement statistics include the performance of OTP Building Society.

OTP FUND MANAGEMENT (HUNGARY)

Changes in assets under management and financial performance of OTP Fund Management:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit w/o dividends and net cash transfer	4,817	6,658	38
Income tax	(897)	(1,379)	54
Profit before income tax	5,714	8,038	41
Operating profit	5,922	7,816	32
Total income	7,951	10,232	29
Net interest income	0	0	509
Net fees and commissions	7,942	10,217	29
Other net non-interest income	9	15	67
Operating expenses	(2,029)	(2,416)	19
Other provisions	(208)	222	(206)
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	12,924	17,780	38
Total shareholders' equity	8,314	14,995	80
Asset under management	**2015 HUF billion**	**2016 HUF billion**	**%**
Assets under management, total (w/o duplicates)	**1,576**	**1,530**	**(3)**
Retail investment funds (closing, w/o duplicates)	1,079	1,000	(7)
Volume of managed assets (closing, w/o duplicates)	497	530	7
Volume of investment funds (with duplicates)	1,204	1,153	(4)
money market	378	295	(22)
bond	419	412	(2)
mixed	21	25	19
security	109	123	13
guaranteed	105	61	(42)
other	171	237	38

The OTP Fund Management posted HUF 6.7 billion profit after tax in 2016 which is 38% higher than in 2015.

The full-year 2016 operating profit grew by 32% y-o-y, which was the result of increasing net fees and commissions income (+29% y-o-y) on one hand and higher operating expenses (+19% y-o-y) on the other. The surging fees and commissions income is mainly reasoned by the performance fees registered in 4Q.

Considering the whole market, in 2016 the managed assets of BAMOSZ members slightly increased y-o-y.

Although the total volume of managed assets varied within a narrow range during the whole year, realignments can be seen in certain categories: money market funds and fixed income funds suffered capital outflow, while derivative funds, commodity funds and real estate funds experienced increasing capital inflow.

Assets under management at the Company dwindled by 4% y-o-y. The structural shift within the different types of investment funds influenced the assets of OTP Fund Management, too. The volume of mixed funds, equity funds and other asset classes grew, while money market fund, debt funds and fixed income funds shrunk. The market share of OTP Fund Management (without duplications) was 19.9%, lower by 3.7 pps compared to the end of 2015. The Company still holds its market leading position.

MERKANTIL GROUP (HUNGARY)[7]

Performance of Merkantil Bank and Car:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	1,625	2,605	60
Income tax	0	(43)	(100)
Profit before income tax	1,625	2,648	63
Operating profit	6,678	7,370	10
Total income	13,062	13,427	3
Net interest income	17,736	16,837	(5)
Net fees and commissions	(2,536)	(991)	(61)
Other net non-interest income	(2,138)	(2,419)	13
Operating expenses	(6,383)	(6,057)	(5)
Total provisions	(5,053)	(4,722)	(7)
Provision for possible loan losses	(5,064)	(3,374)	(33)
Other provision	11	(1,348)	

[7] Excluding Merkantil Bérlet and Merkantil Ingatlanlízing Zrt.

Main components of balance sheet closing balances	2015	2016	Change %
Total assets	332,791	349,891	5
Gross customer loans	274,024	286,296	4
Gross customer loans (FX-adjusted)	273,955	286,296	5
Retail loans	22,237	25,498	15
Corporate loans	82,636	87,329	6
Car financing loans	169,082	173,469	3
Allowances for possible loan losses	(36,075)	(37,051)	3
Allowances for possible loan losses (FX-adjusted)	(36,075)	(37,051)	3
Deposits from customers	10,910	34,554	217
Deposits from customer (FX-adjusted)	10,910	34,554	217
Retail deposits	3,280	28,493	769
Corporate deposits	7,630	6,060	(21)
Liabilities to credit institutions	256,997	286,401	11
Issued securities	35,004	3	(100)
Total shareholders' equity	21,146	24,530	16
Loan Quality	2015	2016	%/pps
90+ days past due loan volume (in HUF million)	29,451	32,356	10
90+ days past due loans/gross customer loans	10.7%	11.3%	0.6
Cost of risk/average gross loans	1.88%	1.20%	(0.68)
Cost of risk/average (FX-adjusted) gross loans	1.85%	1.20%	(0.64)
Total provisions/90+ days past due loans	122.5%	114.5%	(8.0)
Performance Indicators	2015	2016	pps
ROA	0.5%	0.8%	0.3
ROE	7.9%	11.4%	3.5
Total income margin	4.04%	3.93%	(0.11)
Net interest margin	5.49%	4.93%	(0.56)
Cost/income ratio	48.9%	45.1%	(3.8)

The **Merkantil Bank and Car** posted HUF 2.6 billion aggregated adjusted after tax profit in 2016 versus HUF 1.6 billion net earnings in the base period (+60% y-o-y).

The higher operating profit (+10% y-o-y) was fuelled mainly by a strong performance in 4Q. Total risk costs in 2016 dropped by 7% y-o-y.

The total income increased by 3% y-o-y. Within that the comparability of net interest income and net fees and commissions income with the base period is distorted by changes in the methodology[8].

Furthermore, in 4Q a HUF 1.5 billion one-off item supported the net interest income line due to a change in the accounting treatment. Formerly, the booked but unpaid interest in case of exposures with over 30 days delinquency in the previous period was recorded under suspended off-balance sheet interest pursuant to HAR (and not recognized in the income statement). In December 2016 the switching to IFRS induced the realization of suspended interests on the net interest income line within income statement. At the same risk costs for possible loan losses and other risk costs were booked, too.

Operating expenses declined by 5% y-o-y: while postages and the volume of deductible taxes dropped, marketing expenses increasedTotal risk cost declined by 7% y-o-y. Higher annual other risk costs were due to the switching to IFRS and provision created for litigations. Possible loan losses fell by a quarter. In 4Q DPD90+ volumes (adjusted for FX rate changes and sold and written off volumes) increased by HUF 0.4 billion against an average of HUF 1.6 billion for the last three quarters. The ratio of DPD90+ loans increased by 0.6 pp q-o-q to 11.3%, while the total coverage ratio of 114,5% decreased by 8.0 pps y-o-y).

The FX-adjusted loan portfolio expanded by 5% on a yearly basis due to the favourable origination activity in the corporate) and car loan segments (+6% and +3% y-o-y, respectively). Total new loan origination eroded by 4% y-o-y, albeit within that the volume of newly disbursed car loans improved by 9% y-o-y. Merkantil Bank and Car is a market leader in terms of new loan disbursements and volumes.

[8] Fee expenses paid to dealers (being part of net interest income from accounting point of view) were reclassified from net interest income to the net fee income line in the P&L of Merkantil until 4Q 2015. Starting from 1Q 2016 this adjustment has been discontinued.

IFRS REPORTS OF THE MAIN FOREIGN SUBSIDIARIES OF OTP BANK

DSK GROUP (BULGARIA)

Performance of DSK Group:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	52,537	47,385	(10)
Income tax	(5,729)	(4,997)	(13)
Profit before income tax	58,266	52,381	(10)
Operating profit	73,136	70,113	(4)
Total income	114,440	112,503	(2)
Net interest income	88,674	84,023	(5)
Net fees and commissions	23,013	26,034	13
Other net non-interest income	2,752	2,445	(11)
Operating expenses	(41,303)	(42,391)	3
Total provisions	(14,870)	(17,731)	19
Provision for possible loan losses	(14,650)	(12,980)	(11)
Other provision	(220)	(4,751)	
Main components of balance sheet closing balances	2015	2016	%
Total assets	1,778,326	1,852,901	4
Gross customer loans	1,158,894	1,151,210	(1)
Gross customer loans (FX-adjusted)	1,151,148	1,151,210	0
Retail loans	852,641	824,614	(3)
Corporate loans	298,507	326,596	9
Allowances for possible loan losses	(164,898)	(142,386)	(14)
Allowances for possible loan losses (FX-adjusted)	(163,837)	(142,386)	(13)
Deposits from customers	1,489,542	1,547,669	4
Deposits from customer (FX-adjusted)	1,482,405	1,547,669	4
Retail deposits	1,243,730	1,329,264	7
Corporate deposits	238,675	218,405	(8)
Liabilities to credit institutions	14,951	21,782	46
Total shareholders' equity	253,468	247,267	(2)
Loan Quality	2015	2016	%/pps
90+ days past due loan volume (in HUF million)	172,124	131,889	(23)
90+ days past due loans/gross customer loans	14.9%	11.5%	(3.4)
Cost of risk/average gross loans	1.26%	1.12%	(0.14)
Cost of risk/average (FX-adjusted) gross loans	1.28%	1.13%	(0.15)
Total provisions/90+ days past due loans	95.8%	108.0%	12.2
Performance Indicators	2015	2016	pps
ROA	3.1%	2.6%	(0.5)
ROE	21.0%	18.9%	(2.0)
Total income margin	6.77%	6.20%	(0.57)
Net interest margin	5.24%	4.63%	(0.62)
Cost/income ratio	36.1%	37.7%	1.6
Net loans to deposits (FX-adjusted)	67%	65%	(1)
FX rates	2015 HUF	2016 HUF	Change %
HUF/BGN (closing)	160.1	159.0	(1)
HUF/BGN (average)	158.5	159.3	1

- ***The full-year 2016 profit reached HUF 47.4 billion (-10% y-o-y); the results were shaped mainly by higher total risk costs and moderating net interest income***
- ***The annual net interest income eroded by 5%; the net interest margin eroded in 2016***
- ***Loan quality developments remained favourable: the DPD90+ ratio declined and the coverage improved***
- ***Higher lending activity: outstanding performing corporate loan growth of 15%; basically stagnating performing volumes on the household side***

DSK Group posted an after tax profit of HUF 47.4 billion in 2016 (-10% compared with the previous year's record high result), marking a return on equity (ROE) of 18.9%.

The operating profit moderated by 4%. Within total income the net interest income eroded by 5% y-o-y, which was attributable mainly to the continuing repricing and refinancing of household loans that resulted in declining interest revenues through lower margins, as well as to the steadily decreasing interest rate environment observed through 2016. The above effects were only partially mitigated by the further declining interest expenditures on deposits along with reduced deposit interest rates. The net interest income was also shaped by the change in the methodology[9] effective from October 2015 regarding the accounting treatment of recoveries collected from DPD90+ exposures. The net interest margin declined by 62 bps y-o-y to 4.63%, explained partially by the above reasons, but also by the dilutive effect of steady deposit inflow inducing faster growth in average total assets (+7% y-o-y) than in loans.

The net fee and commission income grew by 13% as deposits and transactions-related fee revenues rose parallel with expanding business volumes and stronger account keeping fee income. Soaring corporate loan disbursements also helped fee income generation.

Other net non-interest income (making up 2% of total income) weakened by 11% y-o-y.

Operating expenses went up by 3% y-o-y in 2016, mainly due to higher personnel expenses and marketing costs, but the expert fees on the local AQR process emerged in 2Q 2016 played a role, too. On the other hand, supervisory fees and deductible taxes moderated y-o-y.

Credit quality trends remained healthy. During the whole year the ratio of DPD90+ loans to total gross loans sank to 11.5% (-3.4 pps y-o-y). At the same time, the total provision coverage ratio of DPD90+ loans edged up to 108%. In 2016 altogether HUF 35 billion non-performing portfolio was sold or written off. The FX-adjusted DPD90+ volume changes excluding the impact of loan sales and write-offs remained favourable (in HUF billion: 2015: 6, 2016: -3). With respect to this indicator, especially the mortgage and corporate loans showed improvement during 2016.

Total risk costs went up by 19% y-o-y in 2016. Within that, loan-related risk costs fell by 11%, thus the risk cost rate moderated to 112 bps (-14 bps y-o-y). The bank's consistently conservative and prudent provisioning policy has not changed. The y-o-y increase of risk costs is partially explained by the tightening of the classification of restructured loans. This methodological change resulted in an incremental risk cost of around HUF 4 billion in 4Q 2016. (According to the new methodology, restructured loans remain in restructured category for longer after the resumption of payment on schedule.)

In 2016 the other risk cost line was shaped mainly by provisions for potential future losses booked in 4Q 2016.

Business activity demonstrated a strengthening trend: the FX-adjusted performing (DPD0-90) loan portfolio grew by 4% y-o-y, fuelled mainly by outstanding corporate loan dynamics (+15% y-o-y FX-adjusted) supported by the doubling new corporate loan origination. DSK Bank's market share in the corporate loan stock stood at 7.5% at the end of 2016, up from 7.0% a year ago.

As for the retail segment, performing mortgage loans eroded by a mere 1%, whereas DPD0-90 consumer loans remained stable y-o-y (FX-adjusted). Annual mortgage loan disbursements advanced by 3%, and new consumer loan sales were up by 7% y-o-y.

As a result of non-performing loan sales and write-offs the FX-adjusted total gross loan portfolio remained stable y-o-y.

The FX-adjusted deposit base advanced by 4% y-o-y. Retail deposits grew by 7% y-o-y, despite persistently lower than market average and even gradually further declining deposit rates offered by DSK Bank. Corporate deposits saw an 8% y-o-y decline (FX-adjusted).

The capital adequacy ratio of DSK Bank calculated in accordance with local regulation stood at 17.6%. The reason behind the 2% y-o-y decrease of shareholders' equity was the dividend payment to the mother company.

Following the completion of the AQR, the Bulgarian National Bank published the results of the stress test on 13 August 2016. The results confirmed that DSK Bank's capital position is strong and stable.

[9] Effective from October 2015 the accounting treatment of recoveries collected from DPD90+ exposures has been changed. According to the previous methodology such recoveries were treated as recoveries of the previously suspended off-balance sheet interest income. Starting from October the order of accounting changed; consequently recoveries reduce on-balance sheet claims first. The change in methodology affects the provisions for possible loan losses, too. Therefore it is neutral for the profit after tax and influences the structure of the P&L account only.

OTP BANK RUSSIA

Performance of OTP Bank Russia:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(15,101)	20,535	(236)
Income tax	3,318	(6,480)	(295)
Profit before income tax	(18,419)	27,015	(247)
Operating profit	64,515	61,866	(4)
Total income	113,052	106,155	(6)
Net interest income	97,871	91,816	(6)
Net fees and commissions	14,478	14,098	(3)
Other net non-interest income	703	240	(66)
Operating expenses	(48,536)	(44,289)	(9)
Total provisions	(82,934)	(34,851)	(58)
Provision for possible loan losses	(82,060)	(33,988)	(59)
Other provision	(874)	(863)	(1)
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	507,082	622,666	23
Gross customer loans	393,914	490,086	24
Gross customer loans (FX-adjusted)	477,900	490,086	3
Retail loans	443,218	450,353	2
Corporate loans	32,879	38,528	17
Car financing loans	1,803	1,205	(33)
Gross DPD0-90 customer loans (FX-adjusted)	385,763	391,062	1
Retail loans	357,319	357,183	0
Allowances for possible loan losses	(88,017)	(116,458)	32
Allowances for possible loan losses (FX-adjusted)	(106,216)	(116,458)	10
Deposits from customers	307,646	345,241	12
Deposits from customer (FX-adjusted)	369,171	345,241	(6)
Retail deposits	303,511	279,980	(8)
Corporate deposits	65,659	65,261	(1)
Liabilities to credit institutions	42,974	91,641	113
Issued securities	1,024	1,038	0
Subordinated debt	21,820	24,778	14
Total shareholders' equity	89,504	125,190	40
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	76,403	99,024	30
90+ days past due loans/gross customer loans	19.4%	20.2%	0.8
Cost of risk/average gross loans	17.05%	7.69%	(9.36)
Cost of risk/average (FX-adjusted) gross loans	15.07%	7.02%	(8.04)
Total provisions/90+ days past due loans	115.2%	117.6%	2.4
Performance Indicators	**2015**	**2016**	**pps**
ROA	(2.4%)	3.6%	6.0
ROE	(15.0%)	19.1%	34.1
Total income margin	17.98%	18.79%	0.82
Net interest margin	15.56%	16.25%	0.69
Cost/income ratio	42.9%	41.7%	(1.2)
Net loans to deposits (FX-adjusted)	101%	108%	8
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/RUB (closing)	3.9	4.8	23
HUF/RUB (average)	4.6	4.2	(8)

- ***Profitable operation in each and every quarter of 2016, HUF 20.5 billion after tax profit in 2016 is the result of operating profit improving by 5% in RUB terms and risk cost halving y-o-y***
- ***Pace of portfolio deterioration moderated further, DPD90+ ratio stood at around 20%***
- ***Net interest margin widened in 2016***
- ***FX-adjusted annual performing loan volume change turned into positive (+1 % y-o-y)***

The HUF denominated financial figures of OTP Bank Russia are distorted by the HUF/RUB moves: the 4Q 2016 closing exchange rate showed a 23% y-o-y rouble strengthening; while the average 2016 exchange rate depreciated by 8% y-o-y. Therefore local currency P&L dynamics can be materially different from those in HUF terms.

After two loss-making years in 2016 **OTP Bank Russia** delivered its third ever highest profit in RUB terms and realised HUF 20.5 billion after tax profit. This is a material improvement over the HUF 15.1 billion loss in the base period. The main driver behind the substantial change was the 54% drop of risk cost in RUB terms, in addition performing loans increased on the yearly basis and the moderating funding costs also helped.

As for the rouble denominated profit dynamics, the 2016 operating profit development (+5% y-o-y) was driven by the 3% y-o-y growth of total income, while operating expenses fell by 1%.

The net interest income for the year increased by 3% y-o-y in rouble terms, despite average performing loan portfolio was smaller compared to the base period Only with a seasonally strong disbursement activity at the end of year the bank managed to exceed the 2015 year-end closing volume y-o-y. The interest income decrease induced by lower loan volumes was counterbalanced by the decrease of interest rates of liabilities, as a result the yearly net interest margin improved by 2.5 pps y-o-y in RUB terms. In 4Q net interest income increased by 5% q-o-q: funding cost further diminished and performing loan volumes grew – however with narrowing interest margins earned on loans.

The 2016 net fee and commission income advanced by 7% y-o-y in RUB terms supported by insurance fee income on cash loans with insurance and other lending related F&C income.

Operating expenses in 2016 decreased by 1% y-o-y in RUB terms in spite of the 7% yearly average Russian inflation rate (adjusted to the one-off[10] item in 3Q 2016 it would have decreased by 3%). Branch network rationalisation was practically completed in the first half of 2015; number of branches was stable in the course of 2016. The number of the Bank's employees (without agents) decreased by 1% y-o-y to 4,744 while the number of agents remained practically the same.

The FX-adjusted DPD90+ volume growth excluding the impact of sold/written-off non-performing loans showed a trend-like moderation after 2Q 2015, so the total growth in 2016 was less than half of the 2015 figure (in HUF billion: 2015: 110, 2016: 48)The DPD90+ ratio increased by 0.8 pps y-o-y to 20.2% in 2016. The improvement was supported in 2016 by the sale and write-off of non-performing loans in the amount of RUB 6.5 billion . The development of total risk cost demonstrated a favourable trend: in 2016 it decreased y-o-y by 54% in rouble terms.. In 2016 the risk cost rate decreased considerably and sank below 8%. The total provision coverage of DPD90+ loans was 117.6% by the end of 2016 (+2 pps y-o-y).

Due to the favourable loan sales dynamics in the second half of the year the FX-adjusted performing (DPD0-90) consumer loan portfolio increased by 1% y-o-y. POS lending strengthened, the 2016 disbursements were higher by 27% compared to 2015 levels. In 2016 FX-adjusted performing POS loan volumes advanced by 17% y-o-y. With regards to cross-sale of credit cards, the mass delivery of credit characterised mainly 3Q, in 4Q the number of sent cards declined. As a result, the erosion of the FX-adjusted performing card loan volumes continued (-24% y-o-y). Yearly disbursed volumes of cash loans more than doubled y-o-y in 2016. The FX-adjusted volume of performing cash loans increased by 7% y-o-y. FX-adjusted performing corporate loan volumes surged significantly in 4Q, as a result the annual growth of volumes was 20% y-o-y, mainly due to the favourable development of working capital financing and commercial factoring.

FX-adjusted total deposits contracted by 6% y-o-y. The FX-adjusted net loan-to-deposit ratio stood at 108% at the end of 2016 (+8 pps y-o-y).

The capital adequacy ratio of the bank calculated in line with local regulation stood at 16.2% at the end of 2016 (+0.8 pp y-o-y).

[10] In 3Q 2016 deposit protection fund contributions paid in the first nine months of 2016 have been reclassified from the other net non-interest income line to operating expenses. Thus for the whole year other net non-interest income increased by about HUF 1.0 billion and operating expenses grew in absolute terms by the same amount.

TOUCH BANK (RUSSIA)

Performance of Touch Bank:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(4,840)	(5,898)	22
Income tax	1,189	1,468	23
Profit before income tax	(6,029)	(7,366)	22
Operating profit	(6,020)	(7,328)	22
Total income	(241)	(122)	(49)
Net interest income	(155)	209	(235)
Net fees and commissions	(84)	(349)	314
Other net non-interest income	(2)	17	
Operating expenses	(5,779)	(7,205)	25
Total provisions	(9)	(38)	346
Provision for possible loan losses	0	(33)	
Other provision	(9)	(5)	(43)
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	7,410	26,141	253
Gross customer loans	4	1,609	
Gross customer loans (FX-adjusted)	5	1,609	
Retail loans	5	1,609	
Corporate loans	0	0	
Allowances for possible loan losses	0	(36)	
Allowances for possible loan losses (FX-adjusted)	0	(36)	
Deposits from customers	4,250	20,455	381
Deposits from customer (FX-adjusted)	5,220	20,455	292
Retail deposits	5,220	20,455	292
Corporate deposits	0	0	
Liabilities to credit institutions	4	0	(100)
Subordinated debt	1,653	0	(100)
Total shareholders' equity	1,474	5,585	279
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	0	5	
Cost of risk/average gross loans	2.60%	4.13%	1.53
Cost of risk/average (FX-adjusted) gross loans	2.11%	4.13%	2.02
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/RUB (closing)	3.9	4.8	23
HUF/RUB (average)	4.6	4.2	(8)

- ***HUF 5.9 billion loss in 2016***
- ***Intensifying business activity, about 62 thousand activated cards, slowly growing cross-sale lending activities***
- ***Around four-fold growth in total deposits in rouble terms (2016: HUF 20.5 billion)***

Touch Bank is part of OTP Bank Russia from legal point of view, and it is operating under the same banking license, but as a separate digital banking business line. In order to provide transparent information Touch Bank is presented as a separate virtual entity.

The 2016 result of **Touch Bank** in its second year of operation was shaped again by the operating expenditures. For the whole year HUF 5.9 billion after tax loss was realized. The yearly loss shows a 30% increase compared to 2015 in rouble terms. The acquisition of new customers continued: by the end of 2016 the number of activated cards reached 62 thousand. Total deposits expanded four-fold y-o-y on an FX-adjusted basis and almost reached HUF 20.5 billion equivalent. Credit card and revolving cash loan origination started to accelerate in March, total loan portfolio was HUF 1.6 billion by year-end.

OTP BANK UKRAINE

Performance of OTP Bank Ukraine:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	(40,312)	10,202	(125)
Income tax	1,918	(1,477)	(177)
Profit before income tax	(42,230)	11,679	(128)
Operating profit	25,185	22,217	(12)
Total income	41,087	37,304	(9)
Net interest income	29,146	26,478	(9)
Net fees and commissions	7,915	8,746	10
Other net non-interest income	4,025	2,080	(48)
Operating expenses	(15,902)	(15,087)	(5)
Total provisions	(67,414)	(10,538)	(84)
Provision for possible loan losses	(65,891)	(11,866)	(82)
Other provision	(1,523)	1,328	(187)
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	292,882	307,117	5
Gross customer loans	421,330	381,662	(9)
Gross customer loans (FX-adjusted)	415,512	381,662	(8)
Retail loans	214,527	164,404	(23)
Corporate loans	177,208	195,539	10
Car financing loans	23,777	21,719	(9)
Gross DPD0-90 customer loans (FX-adjusted)	210,892	221,653	5
Retail loans	52,811	50,102	(5)
Corporate loans	146,764	159,093	8
Car financing loans	11,316	12,457	10
Allowances for possible loan losses	(242,515)	(189,450)	(22)
Allowances for possible loan losses (FX-adjusted)	(241,894)	(189,450)	(22)
Deposits from customers	211,346	228,568	8
Deposits from customer (FX-adjusted)	203,157	228,568	13
Retail deposits	122,776	107,465	(12)
Corporate deposits	80,381	121,103	51
Liabilities to credit institutions	99,083	46,270	(53)
Subordinated debt	8,571	0	(100)
Total shareholders' equity	(34,804)	24,243	(170)
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	204,635	160,009	(22)
90+ days past due loans/gross customer loans	48.569%	41.9%	(6.6)
Cost of risk/average gross loans	13.32%	2.96%	(10.36)
Cost of risk/average (FX-adjusted) gross loans	13.36%	2.98%	(10.38)
Total provisions/90+ days past due loans	118.5%	118.4%	(0.1)
Performance Indicators	**2015**	**2016**	**pps**
ROA	(11.3%)	3.4%	14.7
ROE	n/a	n/a	
Total income margin	11.49%	12.43%	0.94
Net interest margin	8.15%	8.83%	0.68
Cost/income ratio	38.7%	40.4%	1.7
Net loans to deposits (FX-adjusted)	85%	84%	(1)
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/UAH (closing)	11.9	10.8	(9)
HUF/UAH (average)	12.9	11.0	(15)

- ***In 2016 the Ukrainian subsidiary turned into profit: 2016 adjusted net after tax profit exceeded HUF 10.2 billion***
- ***The profitable operation was mainly shaped by favourable credit quality trends coupled with lower risk costs supported by the base effect of the portfolio clean up in 2015***
- ***DPD90+ ratio dropped by 6.6 pps y-o-y due to NPL sales and write-offs; stable provisioning coverage, above 118%***
- ***FX-adjusted performing loans increased by 5% y-o-y, while deposits advanced by 13% respectively***

The financial performance and indicators of OTP Bank Ukraine in HUF terms were significantly distorted by the HUF/UAH exchange rate moves: in 4Q 2016 the closing rate of HUF appreciated by 9% y-o-y against the Ukrainian hryvnia. The annual average rate strengthened by 15% y-o-y, the 4Q average rate *by 11% y-o-y against UAH. Therefore local currency P&L and balance sheet dynamics are materially different from those in HUF terms.*

OTP Bank Ukraine posted HUF 10.2 billion adjusted[11] after tax profit in 2016 marking a sharp improvement compared to the loss in the base periods.

Given the significant FX rate movements, we analyse the P&L developments in UAH terms.

In 2016 operating result in UAH terms increased by 6% y-o-y (-12% in HUF), total income improved by 8% y-o-y.

The full-year 2016 net interest income surged by 7% y-o-y in UAH. This improvement was reasoned by several factors: on one hand there was a drop in interest expenses due to the conversion of intra-group financing and subordinated debt into equity in December 2015. Furthermore, it was positive that the restructuring of dollar-based mortgage loans' took place mainly in 2015: in case of loans involved in the bank's own restructuring programme, the total NPV decline for the whole duration of the restructured loan is accounted for in one lump sum on the net interest income line at the time of the restructuring. At the end of December the restructured USD mortgage loan volumes reached USD 108 million.

At the end of 2016 the net performing USD mortgage loan volumes stood at HUF 6.0 billion, whereas the UAH denominated net performing mortgages amounted to HUF 14.2 billion.

The bank changed the methodology[12] on booking interest income on impaired exposures in July and August 2016 (different timing for different product categories). Such change had a negative forward-looking impact in the bank's standalone income statement starting from July.

The annual net fees and commissions income in 2016 surged by 29% in UAH terms due to the repayment of a subordinated debt facility to third party in 4Q 2015, as no further fee expenses occurred (the Ukrainian subsidiary used to pay a guarantee fee to OTP Bank as guarantor).

Regarding the net non-interest revenues, the y-o-y change was mainly shaped by base effect: in 1Q 2015 a large one-off FX gain was realized due to the hectic moves in FX rates.

Operating expenses increased by 11% y-o-y in hryvnia terms amid declining inflation (in 2016 the average CPI was 13.9%). The y-o-y growth was partly induced by higher personal expenses, as well as higher expert and regulatory expenses.

Total risk costs in UAH dropped by around 4/5 on a yearly basis. Such a decline was shaped by no major big ticket provisions occurring already in 2016.[13] Favourable credit quality trends in previous quarters were also manifesting through the stable non-performing volumes (FX-adjusted DPD90+ volume growth excluding the impact of loan sales and write-offs in HUF billion: 2015: 11, 2016: 11).

In 2016 around HUF 51 billion equivalent non-performing loans were sold or written off, of that HUF 17 billion in 4Q respectively. The DPD90+ ratio shrank by 6.6 pps y-o-y to 41.9%,, the total provision coverage ratio of DPD90+ loans remained above 118%.

Regarding lending activity, mortgage disbursement has not been resumed yet. New credit card sales generated only limited volume increase. New POS loans sales kept increasing, their disbursement grew by 62% y-o-y supported by seasonality. The volume of performing consumer loans expanded by 9% y-o-y. The volume of POS loans comprising 58% of the consumer loans surged by 49% y-o-y.

The FX-adjusted total performing loan expanded by 5.1% y-o-y. The volume of retail loans eroded by 5.1% y-o-y. Corporate exposures increased on a yearly basis (+8.4 pps y-o-y).

Deposits (adjusted for the FX-effect) expanded by 13% y-o-y amid further declining offered deposit rates. The volume of retail deposits increased by -12% y-o-y. Corporate deposits increased on yearly basis (+51% y-o-y).

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[11] As one-off items not related to the normal course of business activity, the risk costs created in relation to the Crimean exposures from 2Q 2014 until 4Q 2015, as well as risk costs made for exposures to Donetsk and Luhansk counties from 3Q 2014 to 4Q 2015 were eliminated from the Ukrainian P&L and shown amongst the adjustment items on consolidated level. Balance sheet lines were not adjusted for these items.

[12] According to the old method the bank recognized interest revenues based on gross loan volumes. Simultaneously, risk costs were created for the booked interest revenues in line with the provision coverage level.

In line with the new methodology interest revenues based on net loan volumes. Further details are available in 'Supplementary Data' section of the report.

[13] In 1Q 2015 high risk costs were set aside since the sharp weakening of the hryvnia against the USD triggered additional provisioning need in case of covered loans denominated in FX. Also, in 3Q 2015 the bank made provisions for the corporate exposures especially for those originated before the financial crisis (so called legacy book).

The standalone IFRS capital adequacy ratio of the Ukrainian Banking Group according to local calculation rules stood at 12.44% at the end of December 2016.

The shareholders' equity of the Ukrainian banking group under IFRS was HUF 24.2 billion at the end of December 2016. The Ukrainian shareholders' equity includes that of 3 entities: the Bank, the Leasing and Factoring companies' equity. Accordingly, the standalone equity of the Bank under IFRS reached HUF 25.8 billion by December 2016, whereas the equity of the Leasing Company comprised -HUF 0.6 billion. As for the Factoring company its equity increased from -HUF 52.6 billion by June 2016 to -HUF 1 billion by December as a result of a capital increase; simultaneously bulk of the intragroup funding was repaid. A temporary change in local regulation made it possible to implement such debt into equity conversion in a rapid way without facing major FX exchange risk. Accordingly, in case of the Ukrainian Factoring USD 187 million capital increase was implemented through several steps, simultaneously bulk of the USD 207 million exposure towards OTP Bank (in fact USD 187 million, of that USD 30 million in 4Q) has been repaid.

As a result, by December 2016 the total amount of intragroup exposure against the Ukrainian group members dropped to HUF 46 billion (HUF -61 billion y-o-y) and were as follows: there was an outstanding exposure of USD 137 million against the Leasing Company and USD 20 million against the Factoring unit, respectively.

OTP BANK ROMANIA

Performance of OTP Bank Romania:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	1,480	1,655	12
Income tax	(100)	(483)	382
Profit before income tax	1,580	2,138	35
Operating profit	6,074	8,545	41
Total income	27,662	26,644	(4)
Net interest income	22,904	20,315	(11)
Net fees and commissions	3,773	3,230	(14)
Other net non-interest income	985	3,098	215
Operating expenses	(21,588)	(18,100)	(16)
Total provisions	(4,493)	(6,407)	43
Provision for possible loan losses	(6,598)	(5,541)	(16)
Other provision	2,105	(866)	(141)
Main components of balance sheet closing balances in HUF mn	**2015**	**2016**	**%**
Total assets	646,042	588,188	(9)
Gross customer loans	546,148	524,576	(4)
Gross customer loans (FX-adjusted)	543,347	524,576	(3)
Retail loans	404,106	382,021	(5)
Corporate loans	139,241	142,555	2
Allowances for possible loan losses	(72,305)	(74,645)	3
Allowances for possible loan losses (FX-adjusted)	(72,015)	(74,645)	4
Deposits from customers	334,346	336,991	1
Deposits from customer (FX-adjusted)	332,030	336,991	1
Retail deposits	255,609	255,729	0
Corporate deposits	76,420	81,262	6
Liabilities to credit institutions	201,187	167,372	(17)
Total shareholders' equity	46,667	42,510	(9)
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	91,359	91,328	0
90+ days past due loans/gross customer loans	16.7%	17.4%	0.7
Cost of risk/average gross loans	1.35%	1.03%	(0.32)
Cost of risk/average (FX-adjusted) gross loans	1.34%	1.04%	(0.30)
Total provisions/90+ days past due loans	79.1%	81.7%	2.6
Performance Indicators	**2015**	**2016**	**pps**
ROA	0.3%	0.3%	0.0
ROE	3.6%	3.7%	0.1
Total income margin	4.93%	4.32%	(0.61)
Net interest margin	4.08%	3.29%	(0.79)
Cost/income ratio	78.0%	67.9%	(10.1)
Net loans to deposits (FX-adjusted)	142%	134%	(8)
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/RON (closing)	69.2	68.5	(1)
HUF/RON (average)	69.7	69.4	(1)

- ***The Romanian operation posted HUF 1.7 billion net profit in 2016***
- ***Operating income advanced by 41% y-o-y mainly due to lower operating expenses (-16% y-o-y) while total income eroded by 4%***
- ***The y-o-y erosion of FX-adjusted retail loan portfolio reflects the impact of the bank's own conversion programme***

OTP Bank Romania delivered HUF 1.7 billion profit after tax in 2016 (+12% y-o-y). Earnings before tax (HUF 2.1 billion) demonstrated an even stronger y-o-y improvement (+35%) as a result of higher effective tax rate being applied in 2016.

The operating profit surged by 41% y-o-y as a result of lower revenues (-4% y-o-y) and moderating operational expenses (-16% y-o-y). On the total income line the full-year net interest income dropped by 11% y-o-y due to methodology change[14] in 4Q 2016 and also the CHF mortgage conversion (a partial principal write off resulted in lower volumes and the converted loans carried lower margins). The annual net interest margin dropped to 3.29% (-79 bps y-o-y).

The full-year net fees and commissions income eroded by 14%. On the one hand there was a negative impact of lower card related fees induced by EU-directives effective from 2015[15]. On the other hand, in 1Q the bank had to pay a one-off guarantee fee after loans originated in 2015 by Banca Millennium under the Prima Casa programme.

Other net non-interest income grew by HUF 2.1 billion y-o-y due to a base effect: in 4Q 2015 one-off items resulted in HUF 1.7 billion loss. Of that HUF 0.8 billon was related to one-off losses induced by asset write-offs, real estate sales or revaluations connected to branch closures and IT system write-off. An additional HUF 0.9 billion was due to the integration expenses of Banca Millennium. The latter had no P&L impact as they were offset by lower lending related and other provisions.

In 2016 operating expenses dropped by 16% which already reflects the cost synergies of the Banca Millennium transaction. During 2016 administrative costs dropped by 25% as the bank posted savings on the IT and real estate side. Furthermore personal expenses declined by 7% y-o-y and the amortization costs also dropped by 12% respectively.

Total risk costs surged by 43% y-o-y in 2016. Within that other risk cost dynamics were influenced by several factors: other provisions made for the integration expenses of the Banca Millennium were released mainly in 4Q 2015. Also, in 4Q 2016 the bank created provisions for litigation cases.

Provisions on loan losses dropped by 16% y-o-y, as a result the annual risk cost rate moderated to 103 bps. The annual DPD90+ loan volume growth (adjusted for FX rate changes and sold and written off volumes) amounted to HUF 9.1 billion in 2016 versus HUF 12.1 billion in 2015. In 2016 in total HUF 9.8 billion non-performing exposures were sold/written off. The DPD90+ ratio stood at to 17.4%(0.7 pp y-o-y), their total provision coverage ratio increased to 81.7% (+2.6 pps y-o-y) the highest level since 2009.

The FX-adjusted gross loan portfolio declined by 3% y-o-y. Retail volumes eroded by 5% y-o-y which was partially offset by the increasing corporate portfolio (+2%). New mortgage disbursement more than quadrupled y-o-y partially due active participation in the state subsidized Prima Casa Programme.

The total FX-adjusted deposit volumes increased by mere 1% y-o-y supported by corporate inflows.

According to the local regulation the Bank's standalone capital adequacy ratio stood at 14.4% at the end of 2016.

[14] 2016 and 4Q net interest income, as well the other net-non interest income is difficult to reconcile y-o-y due to a methodological change effective from 1Q 2016. Accordingly, the total revaluation result from intragroup swap deals – earlier booked partly within net interest income, but also within other net non-interest income – will be presented on the net interest income line on a net base.

[15] From December 2015 the interchange fee cannot exceed 0.2% in case of debit cards and 0.3% in case of credit card transactions.

OTP BANKA HRVATSKA (CROATIA)

Performance of OTP banka Hrvatska:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	2,968	3,783	27
Income tax	1,256	(865)	(169)
Profit before income tax	1,711	4,648	172
Operating profit	10,844	13,538	25
Total income	28,020	31,442	12
Net interest income	20,345	22,800	12
Net fees and commissions	5,309	5,330	0
Other net non-interest income	2,367	3,312	40
Operating expenses	(17,177)	(17,904)	4
Total provisions	(9,132)	(8,890)	(3)
Provision for possible loan losses	(6,813)	(5,331)	(22)
Other provision	(2,320)	(3,560)	53
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	649,870	649,063	0
Gross customer loans	470,862	471,346	0
Gross customer loans (FX-adjusted)	469,573	471,346	0
Retail loans	299,868	307,791	3
Corporate loans	169,545	163,424	(4)
Car financing loans	161	131	(18)
Allowances for possible loan losses	(43,905)	(50,051)	14
Allowances for possible loan losses (FX-adjusted)	(43,987)	(50,051)	14
Deposits from customers	509,317	515,450	1
Deposits from customer (FX-adjusted)	509,291	515,450	1
Retail deposits	451,463	450,278	0
Corporate deposits	57,828	65,171	13
Liabilities to credit institutions	48,974	44,141	(10)
Total shareholders' equity	69,563	74,026	6
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	61,906	57,127	(8)
90+ days past due loans/gross customer loans	13.1%	12.1%	(1.0)
Cost of risk/average gross loans	1.45%	1.13%	(0.32)
Cost of risk/average (FX-adjusted) gross loans	1.45%	1.13%	(0.32)
Total provisions/90+ days past due loans	70.9%	87.6%	16.7
Performance Indicators	**2015**	**2016**	**pps**
ROA	0.5%	0.6%	0.1
ROE	4.2%	5.3%	1.1
Total income margin	4.30%	4.84%	0.55
Net interest margin	3.12%	3.51%	0.39
Cost/income ratio	61.3%	56.9%	(4.4)
Net loans to deposits (FX-adjusted)	84%	82%	(2)
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/HRK (closing)	41.0	41.1	0
HUF/HRK (average)	40.7	41.3	2

- ***HUF 3.8 billion net profit in 2016 (+27% y-o-y) as a result of increasing operating profit and slightly declining risk costs***
- ***In 2016 the net interest income grew by 12% y-o-y supported by decreasing funding costs***
- ***The DPD90+ ratio declined to 12.1%, the total provision coverage improved***

In December 2016 OTP banka Hrvatska signed an acquisition agreement on purchasing Splitska banka. Societe Generale Splitska is the 5th biggest player on the Croatian banking market, as a result of the acquisition the market share of OTP Group will rise to approximately 11%. The financial closure of the transaction is expected in the summer 2017, therefore the presented numbers of OBH exclude the acquisition effects.

OTP banka Hrvatska posted HUF 3.8 billion adjusted[16] after tax profit in 2016, exceeding the base period by 27%. Adjusting the base period figures from the one-off items[17] that emerged in 2Q 2015, however, the yearly profit surged by 159% y-o-y.

The y-o-y 25% higher operating profit in 2016 was supported by increasing total income (+12%), whereas operating expenses increased by 4%. The cost-to-income ratio declined y-o-y by 4 pps to 57%. Higher y-o-y net interest income (+12%) was supported by lower funding costs; as a result, the net interest margin improved to 3.51% (+39 bps y-o-y). Net fees and commission income was flat on the yearly basis. The 40% y-o-y growth in other net non-interest income is related mainly to a property sale and also to one-off loss posted in 1Q 2015. The CHF fixing exerted a HUF 360 million negative effect on other non-interest income as a reflection of lower principal part of the repayments due to the fixing.

Portfolio quality trends are promising. In 2016 HUF442 million loans were sold or written-off in total, bulk of it in the first quarter.The DPD90+ ratio decreased to 12.1% (-1.0 pp y-o-y). Provisions for loan losses in 2016 dropped by 22% y-o-y. Total provision coverage of DPD90+ portfolio improved by 16.7 pps y-o-y, and reached 87.6% as a result of prudent provisioning.

In 2015 HUF 1.4 billion other risk cost was created related to a litigation case against the predecessor of the OBH. Another litigation case related to the predecessor of OBH resulted in provisions with the amount of HUF 3.1 billion in 2016 recognized in other provisions.

FX-adjusted gross loans were flat on the yearly comparison, notwithstanding the HUF 6.3 billion drop in gross loans resulting from the conversion of CHF mortgages with a principal discount mostly in the first half of 2016. Nevertheless, performing (DPD0-90) loans grew by 2% in 2016. New mortgage loan disbursements have been on the rise since March 2016, thus the amount of disbursed volumes in 2016 doubled y-o-y. Mortgage volumes grew by 6% y-o-y (FX-adjusted). Consumer loan volumes hardly changed y-o-y.

FX-adjusted total deposits grew by 1% y-o-y . Net loan-to-deposit ratio diminished by 2 pps to 82% y-o-y.

[16] On 18 September 2015 the Croatian Parliament adopted amendments to the Consumer Lending Act, which determined the conditions of the conversion of CHF denominated retail loans into EUR at an exchange rate valid at origination. The one-off negative impact due to the amendments of the Act has been eliminated from the OBH P&L and booked on consolidated level within adjustment items. Balance sheet data have not been adjusted.

Furthermore, the gain on sale of Visa Europe shares booked in 2Q 2016 have been eliminated from the OBH P&L and are booked on consolidated level within adjustment items. Balance sheet data have not been adjusted.

[17] In 2Q 2015 the after tax profit was positively affected by income tax refund, which tax was imposed on badwill of the Banco Popolare Croatia acquisition in 2Q 2014 (it was shown on consolidated level, among adjustments) and the Bank utilized the BPC's deferred tax of former years. These two items improved the profit by HUF +1.5 billion on income tax line.

OTP BANKA SLOVENSKO (SLOVAKIA)

Performance of OTP Banka Slovensko*:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	924	(2,223)	(341)
Income tax	(489)	256	(152)
Profit before income tax	1,413	(2,479)	(276)
Operating profit	6,601	6,781	3
Total income	17,672	17,893	1)
Net interest income	14,568	14,257	(2)
Net fees and commissions	3,386	3,272	(3)
Other net non-interest income	(283)	363	(228)
Operating expenses	(11,071)	(11,112)	0
Total provisions	(5,188)	-9,260)	78
Provision for possible loan losses	(5,144)	(8,987)	75
Other provision	(44)	(273)	523
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	450,819	453,720	1
Gross customer loans	382,500	388,926	2
Gross customer loans (FX-adjusted)	379,935	388,926	2
Retail loans	313,202	327,544	5
Corporate loans	66,592	61,321	(8)
Allowances for possible loan losses	(22,702)	(31,462)	39
Allowances for possible loan losses (FX-adjusted)	(22,550)	(31,462)	40
Deposits from customers	385,082	366,976	(5)
Deposits from customer (FX-adjusted)	382,659	366,976	(4)
Retail deposits	360,122	341,516	(5)
Corporate deposits	22,536	25,459	13
Liabilities to credit institutions	11,113	8,104	(27)
Subordinated debt	6,265	6,223	(1)
Total shareholders' equity	30,430	27,339	(10)
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	37,099	43,451	17
90+ days past due loans/gross customer loans (%)	9.7%	11.2%	1.5
Cost of risk/average gross loans (%)	1.37%	2.33%	0.96
Cost of risk/average (FX-adjusted) gross loans	1.38%	2.34%	0.96
Total provisions/90+ days past due loans (%)	61.2%	72.4%	11.2
Performance Indicators	**2015**	**2016**	**pps**
ROA	0.2%	(0.5%)	(0.7)
ROE	3.1%	(7.7%)	(10.8)
Total income margin	3.86%	3.96%	0.09
Net interest margin	3.18%	3.15%	(0.03)
Cost/income ratio	62.6%	62.1%	(0.5)
Net loans to deposits (FX-adjusted)	93%	97%	4
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/EUR (closing)	313.1	311.0	(1)
HUF/EUR (average)	309.9	312.1	1

*P&L account lines and indicators are adjusted for banking tax and Deposit Protection Fund contributions. The securities gain realized by the bank on the sale of the VISA Europe shares in 2Q 2016 was eliminated from OTP Banka Slovensko P&L and shown among the adjustment items on consolidated level.

- ***HUF 2.2 billion loss was due to the increasing risk cost (+78% y-o-y)***
- ***Higher DPD90+ ratio (11.2%), improving coverage ratio (72.4%; +11.2 pps y-o-y)***
- ***Stable net interest margin (2016: 3.15%), 2% y-o-y increase of the FX-adjusted loan book***

The **OTP Banka Slovensko** posted HUF 2.2 billion loss in 2016, versus HUF 0.9 billion profit in 2015. The sharp increase (+78% y-o-y) of loan loss provisioning in 4Q 2016 was the major reason for the weaker performance which was only partially offset by the increasing operating income (3% y-o-y).

Net interest margin slightly dropped (-3 bps), while net loans decreased by 1% y-o-y, thus net interest income moderated by 2% y-o-y.

In 2016 net fees and commissions income dropped by 3% y-o-y. The reason behind increasing other net non-interest income was due to higher FX result.

In 2016 operating expenses stagnated y-o-y, approaching the end of the year some IT and marketing costs increase arose

In 2016 the increase in the FX-adjusted DPD90+ formation (without the effect of non-performing loan sales and write-offs) was HUF 6 billion versus HUF 4 billion in the base period. The DPD90+ ratio increased by 1.5 pps on a yearly basis to 11.2%. In 2016 around HUF 0.3 billion in non-performing loans were sold or written off.

Total risk cost grew by 78% y-o-y. The DPD90+ coverage ratio (72.4%) increased on a yearly basis (+11.2 pps y-o-y).

The FX-adjusted loan book expanded by 2% on a yearly basis due to the intensifying retail lending (+5% y-o-y). The yearly increase of newly disbursed mortgage loans (+90% y-o-y) was related to intensified early repayments and loan refinancing. Disbursement of consumer loans decreased by 20% y-o-y, however their FX-adjusted volume improved by 12% y-o-y. The corporate loan book eroded by 8% y-o-y.

The FX-adjusted deposit volume moderated on a yearly basis by 4%.The volume of corporate deposits comprising 7% of the deposit book increased by 13% y-o-y.

The standalone IFRS capital adequacy ratio stood at 12.92% at the end of December 2016.

OTP BANKA SRBIJA (SERBIA)

Performance of OTP banka Srbija:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	(385)	39	(110)
Income tax	9	34	280
Profit before income tax	(394)	5	(101)
Operating profit	1,292	697	(46)
Total income	8,359	7,720	(8)
Net interest income	6,407	5,769	(10)
Net fees and commissions	1,747	1,653	(5)
Other net non-interest income	206	298	45
Operating expenses	(7,067)	(7,023)	(1)
Total provisions	(1,686)	(692)	(59)
Provision for possible loan losses	(922)	(890)	(4)
Other provision	(764)	198	(126)
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	119,224	123,279	3
Gross customer loans	108,327	108,704	0
Gross customer loans (FX-adjusted)	106,918	108,704	2
Retail loans	45,409	48,180	6
Corporate loans	61,509	60,524	(2)
Allowances for possible loan losses	(31,835)	(26,349)	(17)
Allowances for possible loan losses (FX-adjusted)	(31,230)	(26,349)	(16)
Deposits from customers	73,385	78,583	7
Deposits from customer (FX-adjusted)	72,411	78,583	9
Retail deposits	44,531	48,231	8
Corporate deposits	27,880	30,352	9
Liabilities to credit institutions	10,234	8,572	(16)
Subordinated debt	2,532	2,511	(1)
Total shareholders' equity	29,377	28,805	(2)
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	42,519	35,504	(16)
90+ days past due loans/gross customer loans	39.3%	32.7%	(6.6)
Cost of risk/average gross loans	0.89%	0.82%	(0.07)
Cost of risk/average (FX-adjusted) gross loans	0.90%	0.83%	(0.08)
Total provisions/90+ days past due loans	74.9%	74.2%	(0.7)
Performance Indicators	**2015**	**2016**	**pps**
ROA	(0.3%)	0.0%	0.4
ROE	(1.3%)	0.1%	1.4
Total income margin	7.31%	6.37%	(0.94)
Net interest margin	5.60%	4.76%	(0.84)
Cost/income ratio	84.5%	91.0%	6.4
Net loans to deposits (FX-adjusted)	105%	105%	0
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/RSD (closing)	2.6	2.5	(2)
HUF/RSD (average)	2.6	2.5	(1)

- ***HUF 39 million profit in 2016 due to y-o-y almost halving operating profit and risk cost decreasing by 59%***
- ***The DPD90+ ratio declined to 32.7% (-6.6 pps y-o-y) with a coverage at 74.2%***
- ***Performing loans expanded by 12%, while gross loans grew by 2% y-o-y, FX-adjusted***

OTP banka Srbija posted HUF 39 million adjusted[18] profit in 2016 as opposed to the HUF 385 million loss in the base period.

The y-o-y 46% decline of operating profit in 2016 is reasoned by the 8% drop in total income, while operating expenses decreased by 1% y-o-y. Net interest income fell by 10% y-o-y, as the net interest margin shrank by 84 bps y-o-y due to the lower interest rate environment. The net fees and commissions income sank by 5% on yearly basis. The yearly profit development was favourably affected by the 59% drop of risk cost y-o-y. Improvement in other provision is due to base effect: in 4Q 2015 litigation related provisions were made.

The FX-adjusted increase of the DPD90+ portfolio (adjusted to sales and write-offs) moderated in 2016 (2015: 2.4, 2016: 0.3 billion HUF).The DPD90+ ratio decreased to 32.5% (-6.7 pps y-o-y). The improvement of the ratio was positively affected by around HUF 6.1 billion non-performing loan sale/write-offs during the last four quarters. The total provision coverage of DPD90+ loans slightly decreased y-o-y .

The loan portfolio shows favourable trend, the FX-adjusted performing (DPD0-90) loan book expanded by 12% y-o-y. The corporate segment grew by 12% y-o-y. Retail performing loan volumes also increased (+13% y-o-y). In 2016 cash loan disbursements were strong throughout the whole year, performing cash loans expanded by 11% y-o-y on an FX-adjusted basis. Retail mortgage loans also advanced (+7% y-o-y).

FX-adjusted total deposits surged by 9% y-o-y. Net loan-to-deposit ratio stood at 105% by year-end (almost flat y-o-y). The capital adequacy ratio of the bank stood at 22.4% at the end of 2016.

18 *Due to a series of decisions on FX mortgages made by the central bank on 24 February 2015 the bank suffered a loss of HUF 211 million in 2015. Those losses were taken out of the P&L of the Serbian subsidiary and were presented on consolidated level within adjustment items.*

CRNOGORSKA KOMERCIJALNA BANKA (MONTENEGRO)

Performance of CKB:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit w/o dividends and net cash transfer	909	(1,849)	(303)
Income tax	1	2	186
Profit before income tax	909	(1,851)	(304)
Operating profit	3,146	2,684	(15)
Total income	10,468	10,022	(4)
Net interest income	7,228	6,951	(4)
Net fees and commissions	2,996	2,622	(12)
Other net non-interest income	244	449	84
Operating expenses	(7,322)	(7,337)	0
Total provisions	(2,238)	(4,535)	103
Provision for possible loan losses	(2,266)	(4,289)	89
Other provision	28	(246)	(970)
Main components of balance sheet closing balances in HUF mn	2015	2016	%
Total assets	199,800	197,562	(1)
Gross customer loans	149,775	143,331	(4)
Gross customer loans (FX-adjusted)	148,771	143,331	(4)
Retail loans	72,575	71,683	(1)
Corporate loans	76,196	71,648	(6)
Allowances for possible loan losses	(52,991)	(56,513)	7
Allowances for possible loan losses (FX-adjusted)	(52,636)	(56,513)	7
Deposits from customers	148,117	149,119	1
Deposits from customer (FX-adjusted)	147,348	149,119	1
Retail deposits	113,836	113,697	0
Corporate deposits	33,512	35,422	6
Liabilities to credit institutions	21,829	20,765	(5)
Subordinated debt	0	0	
Total shareholders' equity	23,091	21,188	(8)
Loan Quality	2015	2016	%/pps
90+ days past due loan volume (in HUF million)	63,881	60,801	(5)
90+ days past due loans/gross customer loans	42.7%	42.4%	(0.2)
Cost of risk/average gross loans	1.47%	2.93%	1.46
Cost of risk/average (FX-adjusted) gross loans	1.49%	2.94%	1.45
Total provisions/90+ days past due loans	83.0%	92.9%	10.0
Performance Indicators	2015	2016	pps
ROA	0.5%	(0.9)%	(1.4)
ROE	4.0%	(8.4)%	(12.3)
Total income margin	5.29%	5.04%	(0.25)
Net interest margin	3.65%	3.50%	(0.16)
Cost/income ratio	69.9%	73.2%	3.3
Net loans to deposits (FX-adjusted)	65%	58%	(7)
FX rates	2015 HUF	2016 HUF	Change %
HUF/EUR (closing)	313.1	311.0	(1)
HUF/EUR (average)	309.9	311.5	1

- ***HUF 1.8 billion loss in 2016***
- ***Operating profit decreased by 15% y-o-y reasoned by the decline of core banking revenues***
- ***The annual risk cost doubled, the coverage ratio improved***
- ***The FX adjusted gross customer loans declined by 4% y-o-y, customer deposits increased by 1% y-o-y***

The Montenegrin CKB Bank posted HUF 1.8 billion adjusted after tax loss in 2016 versus HUF 0.9 billion profit posted in 2015.

The annual operating profit declined by 15% y-o-y reasoned by a y-o-y 4% decrease in the total income. Within that, the net interest income declined by 4% y-o-y, while net fees and commissions dropped by 12% y-o-y. The narrowing margins and the decreasing average performing loans had negative impact on the net interest income. Other net non-interest income increased by 84% y-o-y.

The annual operating expenses stagnated in 2016 compare to the previous year.

The total provisions doubled in 2016, mainly due to the increase of provision for possible loan losses in 4Q.

The DPD90+ ratio (42.4%) improved slightly; it decreased by 0.2 pp on annual basis. The DPD90+ loan volume declined by HUF 2 billion (FX adjusted, without the effect of non-performing loan sales and write-offs) against HUF 1 billion increase in 2015. In 2016, HUF 0.5 billion non-performing loans was sold or written off, from which 4Q represented HUF 0.4 billion. The total coverage ratio increased further, it stood at 92.9% at the end of year (+10 pps y-o-y,).

The FX adjusted gross loans declined by 4% y-o-y. The erosion was higher in case of corporate loans (-6% y-o-y), but lower for retail loans (-1% y-o-y).

The FX adjusted deposits rose by 1% y-o-y explained by the 6% y-o-y increase of corporate deposits.

The capital adequacy ratio calculated according to local requirements stood at 21.0% at the end of 2016.

STAFF LEVEL AND OTHER INFORMATION

The closing staff number of OTP Group (including the number of employed selling agents) was 32,335 as of 31 December 2016.

OTP Group provides services through 1,302 branches and more than 3,927 ATMs in 9 countries of the CEE-region. In Hungary, OTP Bank has an extensive distribution network, which includes 367 branches and 1,883 ATM terminals. The Bank (Hungary) has close to 60 thousands POS terminals.

	31/12/2016				31/12/2015			
	Branches[2]	ATM	POS	Headcount (closing)	Branches	ATM	POS	Headcount (closing)
OTP Core	367	1,883	59,988	8,293	375	1,895	55,288	8,142
DSK Group	372	892	5,723	4,679	383	874	5,207	4,502
OTP Bank Russia (w/o employed agents)	134	267	1,446	4,744	134	233	1,751	4,787
Touch Bank (Russia)	0	0	0	268	0	0	0	219
OTP Bank Ukraine (w/o employed agents)	84	118	246	2,151	85	105	315	2,146
OTP Bank Romania	100	147	3,374	1,119	108	150	2,848	1,139
OTP banka Hrvatska	103	273	2,269	1,097	110	247	2,048	1,082
OTP Banka Slovenko	61	142	223	667	60	141	216	678
OTP banka Srbija	52	118	2,303	611	56	128	2,248	633
CKB	29	87	4,991	424	29	84	4,895	431
Foreign subsidiaries, total	**935**	**2,044**	**20,575**	**15,758**	**965**	**1,962**	**19,528**	**15,615**
Other Hungarian and foreign subsidiaries[1]				1,327				1,206
OTP Group (w/o employed agents)				**25,378**				**24,963**
OTP Bank Russia - employed agents				*6,324*				*6,328*
OTP Bank Ukraine - employed agents				*633*				*423*
OTP Group (aggregated)	**1,302**	**3,927**	**80,563**	**32,335**	**1,340**	**3,857**	**74,816**	**31,713**

[1] Due to the changes of the data provider group members, the historical employee figures of the other Hungarian and foreign subsidiaries are not comparable.
[2] Starting from 3Q 2016 a new branch count calculation method has been applied. Under the new method only branches with active employees are included into the branch number. Therefore, the end-2016 branch numbers are not comparable with the previous periods.

STATEMENT ON CORPORATE GOVERNANCE PRACTICE

Corporate governance practice

OTP Bank Plc., being registered in Hungary, has a corporate governance policy that complies with the provisions on companies of the act applicable (Civil Code). As the company conducts banking operations, it also adheres to the statutory regulations pertaining to credit institutions.

Beyond fulfilling the statutory requirements, as a listed company on the Budapest Stock Exchange (BSE), the company also makes an annual declaration on its compliance with the BSE's Corporate Governance Recommendations. After being approved by the General Meeting, this declaration is published on the websites of both the Stock Exchange (www.bet.hu) and the Bank (www.otpbank.hu).

The purposes of applying the Corporate Governance Recommendations of the BSE is to facilitate the transparent and efficient market operation, support the enforcement of the laws as well as harmonise the interests of the organisation, the investors and the organisation's environment.
On the basis of the Corporate Governance Recommendations of the BSE – in line with the "comply or explain" principle – organisations need to report on their compliance with the provisions of certain specific points of the recommendation as well as whether they apply certain suggestions as provided for in the recommendation. Conforming to and observing the provisions of the Corporate Governance Recommendations of the BSE is recommended, although not compulsory for companies listed on the stock exchange and a negative answer in itself does not indicate a deficiency. With regard to the suggestions, companies only need to indicate whether they apply the given guideline or not, they are not required to provide additional explanation.

OTP Bank Plc. provided a negative answer to the following recommendations and suggestions:

R 1.1.2 The Company follows the "one share – one vote" principle
Each of the Company's ordinary shares ensures one voting right. In keeping with the stipulations of the Company's Articles of Association, voting rights depend specifically on the size of the shareholding.
Transactions, specified in 2.6.2, which depart from regular business practices and the conditions thereof were accepted by the Supervisory Board (Audit Committee).
The Company prepared procedural rules for approving transactions that depart from usual business practices, and this ensures adequate control.
R 2.7.2 The Board of Directors evaluated its own performance in a given business year.
The Company has a Nomination Committee, which has assessed the board's work.
R 2.7.2.1 The Supervisory Board evaluated its own performance in a given business year.
The Company has a Nomination Committee, which has assessed the board's work.
R 2.7.7 The Company has prepared a Declaration on Remuneration and presented it to the General Meeting.
The Declaration on Remuneration contains the remuneration of certain members of the Board of Directors, the Supervisory Board, and the management.
R 4.1.11 The Company has published in its annual report and on its website a Declaration on Remuneration, which describes the remuneration guidelines used and, specifically, the guidelines pertaining to the remuneration of members of the Board of Directors, the Supervisory Board and the management.
G 3.4.5 The Remuneration Committee ensures that a declaration on remuneration is prepared.
In compliance with the applicable European Union directive (CRD IV) and the provisions of the Act on Credit Institutions and Financial Enterprises, the Bank's General Meeting concluding the year 2015, its Board of Directors and Supervisory Board have provided for the review of the Remuneration Policy of the Bank and the Bank Group. In line with the national and EU legislative environment, the process of implementing the Bank Group's Remuneration Policy includes the methodological framework relating to the identification of activities and employees with a material impact on risk, which constitutes the basis for determining the group of persons subject to the Bank Group's Remuneration Policy, and the rules of procedure relating to the annual evaluation process.
The purpose of the Bank Group's Remuneration Policy is, remaining within the limits of the Bank Group's risk-bearing capacity, to recognise and provide motivational support for the achievement of Bank and Group-level results by the management and holders of key positions at the Bank, and the managers of subsidiaries in the Bank Group.
The Bank Group's Remuneration Policy applies to the members of the Bank's Board of Directors and Supervisory Board, and – among the staff in an employment relationship with the Bank – the members of the Bank's Management (Chairman & CEO and the deputies thereof), and managers who materially influence the Bank's risk profile and its profit, managers performing special executive functions, managers with control

functions, all managers whose salaries are in the same pay scale as that of the managers who are subject to the Remuneration Policy due to their function. Among the managers employed by the subsidiaries of the Bank Group that are subject to consolidated supervision, the subsidiaries' chief executive officers, and in the case of certain subsidiaries their level-2 (deputy) managers, and the managers of certain foreign subsidiary banks with special management and decision-making authority determined under national statutory provisions. The resolution on the persons to whom the Bank Group's Remuneration Policy applies is made by the Bank's Supervisory Board.

The members of the Board of Directors and the Supervisory Board receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For the other personnel included in the scope of the Remuneration Policy, the remuneration is composed of fixed and performance-based components. The proportions of fixed and performance-based components of remuneration are determined by the Bank's Supervisory Board based on the function, size and complexity of the unit being managed. The proportion of performance-based remuneration may not exceed 100% of fixed remuneration for any person concerned.

The most important basic principle of the Bank Group's Remuneration Policy is that the extent of performance-based remuneration – subject to a preliminary and retrospective assessment of the risks – depends on the extent to which Bank Group/Bank/Subsidiary-level and individual targets are met.

In the case of managers in an employment relationship with the Bank, the evaluation of performance, besides an assessment of the return on risk-weighted assets (RORAC) indicator for the given activity, takes place on the basis of the criteria used to measure strategic and individual performance (financial indicators and indicators of the quality of work performance). In the case of managers at subsidiaries in the Bank Group the evaluation of performance takes place in a differentiated manner, in keeping with the characteristics of the companies' activities. The target values of the indicators are determined by the Bank's Supervisory Board on the basis of the effective financial plan for the given year.

The performance evaluation-based, variable remuneration takes the form of a cash bonus and – where permitted by national legislation – remuneration exchanged for shares or a preferentially-priced share package, in equal proportions. At all the members of the Bank Group, the share-based part of the variable remuneration is provided to the employees concerned by the Bank.

Employees employed by OTP Bank Plc. subject to the personal scope of the Bank Group's Remuneration Policy receiving performance-based remuneration are entitled to acquire a membership stake in OTP Bank ESOP Organisation to the extent of the share-based part of their performance-based remuneration on the basis of their voluntary resolution. The membership stake in OTP Bank ESOP Organisation is non-marketable, cannot be credited, cannot be offered as collateral and only enables the individual to receive the actual settlement of the share package if the conditions as stipulated in the Remuneration Policy (the result of the performance evaluation, the subsequent risk assessment) are met. Membership stakes not meeting the conditions revert to OTP Bank Plc.

In keeping with the Credit Institutions Act, as a general rule, payment of 60% of the variable remuneration is staggered over a period of three years, during which period the deferred amount is determined annually in equal proportions. Determination of eligibility to receive the deferred instalments takes place on the basis of a retrospective assessment of the risks. The assessment of the risks is based both on quantitative criteria used to measure prudent operation, and on qualitative evaluation criteria. Based on the assessment of the risks related to the activities of the employees concerned, the deferred part of the performance-based remuneration may be reduced or withheld completely. A further prerequisite for entitlement to the deferred part is a continuing employment relationship.

The remuneration of the members of the Supervisory Board and the Board of Directors, which is determined in a resolution of the General Meeting, is public, while with respect to the remuneration policy, the Bank complies with its public disclosure obligation in accordance with the prevailing statutory provisions.

R 3.1.6 The company published on its website the tasks delegated to the Audit Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).

OTP Bank Plc. has established and operates an Audit Committee, which supports the work of the Supervisory Board, and the Bank has published the names of the members, each with a brief CV. The tasks delegated to the Audit Committee, and the objectives and procedural rules of the Committee, are not in the public domain.

R 3.1.6.1 The company published on its website the tasks delegated to the Nomination Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).

OTP Bank Plc. has established and operates an Audit Committee, which supports the work of the Supervisory Board, and the Bank has published the names of the members, each with a brief CV. The tasks delegated to the Audit Committee, the objectives and procedural rules of the Committee are not in the public domain.

R 3.4.4.2 The Remuneration Committee reviewed the terms and conditions of contracts that were concluded with the management.
A review of the terms of contracts concluded with members of the management does not fall within the remit of the Remuneration Committee.
R 3.5.1 The Board of Directors has disclosed its reasons for merging the Remuneration and the Nomination Committee.
The Company operates both a Remuneration Committee and a Nomination Committee.
R 3.5.2 The Board of Directors performed the tasks of the Nomination Committee and issued a statement on its reasons for doing so.
The Nomination Committee performed its own tasks.
R 3.5.2.1 The Board of Directors performed the tasks of the Remuneration Committee and issued a statement on its reasons for doing so.
The Remuneration Committee performed its own tasks.
R 4.1.10 The Company provided information about the internal organisation and operation of the Board of Directors and the Supervisory Board.
The Company's website provides information about the operation of its management bodies in the Articles of Association.
G 1.3.1 The Company's General Meeting accepted the chairman of the General Meeting prior to the actual discussion of the agenda items.
For the purpose of the Articles of Association of the Company, the Chairman of the Board or another person mandated by the Board of Directors for this purpose chairs the General Meeting.
G 1.4.2 The Company published its guidelines concerning solutions for preventing hostile takeovers directed at the Company.
The domestic legislation provide appropriate guarantee for the procedures relating to acquisitions and the enforcement of the shareholders' interests.
G 2.5.3 The Company provided information about how it ensures that the Board of Directors remains objective in its evaluation of the management activities in the event that the position of Chairman & CEO is combined.
A Nomination Committee operates at the Company which evaluates the activity.
G 2.5.5 No member of the Company's Supervisory Board held a position on the Company's Board of Directors or in the management in the three years prior to his/her nomination.
The Supervisory Board of the Company has such a member who held a position in the management of the company in the three years preceding his designation.
G 2.9.1.3 The rules of procedure of the Nomination Committee include the procedure to be followed when the services of an external consultant are used.
For the procedure to be followed when using the services of an external consultant, the Company drafted rules of procedure which provide the appropriate control.
G 2.9.1.4 The rules of procedure of the Remuneration Committee include the procedure to be followed when the services of an external consultant are used.
For the procedure to be followed when using the services of an external consultant, the Company drafted rules of procedure which provide the appropriate control.
G 3.1.2 The chairman of the Audit Committee regularly informs the Board of Directors of the individual meetings of the committee, and the committee prepares at least one report each business year for the executive body and the Supervisory Board.
Based on the Civil Code the Audit Committee is a body assisting the Supervisory Board, its members are elected by the General Meeting from among the independent members of the Supervisory Board. Since the functions of these bodies are closely linked to each other, the chairman of one board is the vice president of the other board and vice versa, so the Supervisory Board is aware of the Audit Committee's decisions. Special reporting is not justified for the Supervisory Board. The Audit Committee does not need to report for the executive body.
G 3.3.5 The Nomination Committee's rules of procedure include the stipulations specified in point 3.3.5.
For the conditions of performing the evaluation activity, the Company has drafted rules of procedure which provide appropriate control.

System of internal controls

The main function of the internal audit system is to protect customers, the company's assets and shareholder's interests, as well as to facilitate and monitor operation in compliance with the statutory provisions.
The internal audit system extends to all of the company's organisational units, business lines and activities, including outsourced activities. To ensure effective auditing, the internal audit system consists of several modular control levels, and is also segmented in line with the departmental structure of the organisation. The

elements of the internal audit system are comprised of in-process and management controls, and an independent internal audit unit and management information system.

OTP Bank Plc. has developed and applies such a uniform internal audit system consistently throughout the Bank Group that is proportionate to the size of the OTP Group and the market share of the Company, includes shareholder audits conducted at the foreign and domestic group members as well as the professional oversight of the internal audit organisations of the financial institutions that are subject to consolidated supervision as specified in the Credit Institutions Act. To this end, standardised internal audit procedures and methodologies pertaining to the operation and activities of group members' internal audit departments are developed, enhanced and applied on a continuous basis. Internal audit also liaises regularly and cooperates with external auditing bodies.

The independent internal audit unit assists in the legally compliant and effective management of assets and liabilities and the protection of property; it supports secure business operation, the effectiveness, cost-efficiency and success of internal control systems, the minimisation of risks, and moreover – alongside the compliance unit – it detects and reports departures from the provisions of the statutory regulations and internal policies, makes recommendations for the elimination of deficiencies, and monitors the implementation of the measures. It performs its activities independently, objectively and professionally. Its independence is ensured by the fact that it is professionally overseen by the Supervisory Board, within the framework set out by the Credit Institutions Act. The independent internal audit organisation was set up in a manner that the execution of ownership controls at the Organisation, in the network and at the foreign and domestic group members, as well as the professional supervision of the foreign and domestic internal audit organisation is properly ensured.

The independent internal audit organisation has an annual audit plan which is approved by the Supervisory Board. The annual plan is prepared using a risk-based methodology and, in addition to focusing on the areas that entail regulatory, business and operational risk, and the other main risk exposures, it emphasizes especially the control of reporting and data, further, it also takes into account the company's prevailing strategic priorities.

The internal audit organisation makes independent reports on its auditing activities for the management bodies at quarterly and annual intervals. In its quarterly reports it gives a group-level, summary account of the audits conducted in the given quarter, the risks identified in the course of its own audits and audits conducted by the authorities, and the success of any action taken to eliminate them. In exceptional cases that require immediate intervention, it provides the management with extraordinary briefings. The audit organisation reports annually on the performance of the tasks stipulated in the group-level annual audit schedule, the audits conducted and other activities, and on the circumstances of the organisation's operation, as well as on any changes to the internal audit system.

The organisation annually prepares, for the Supervisory Board, objective and independent reports in respect of the operation of risk management, internal control mechanisms and corporate governance functions.

The basis for effective group-level risk management is the operation of a standardised, "OTP-compatible" organisational structure as well as regulations and procedures at the subsidiaries concerned. The Company has detailed risk management rules for each of the various types of risk (liquidity, market, country, counterparty, credit, operational, compliance), and these rules are in harmony with the statutory regulations pertaining to prudential banking operations. The annual report describes the risk management practices, the limits, and compliance with these limits.

Within the Company, the Credit Approval and Risk Management Division and the Strategy and Finance Division exercise functional control over the guidelines, methodology and infrastructure of the Bank Group's risk management strategy, the purpose of which is to create a clearly defined, transparent, standardised credit, country, counterparty, market and operational risk management system at group level which complies with the expectations of the supervisory authority and local conditions. The Bank Group's Risk Strategy, as well and the rules on risk prescribed by the Credit Institutions Act, are approved by the Bank's Board of Directors.

The Risk Strategy determines, with respect to the entire Bank Group, the framework for risk management and the principles and guidelines of risk assumption.

With respect to the cornerstones of the risk management methodologies, and the main risk topics for Bank Group members, the final decision-making competence is held by the Group members' risk committees (Credit and Limit Committee, Workout Committee, Group Operational Risk Committee).

The Bank's risk management system encompasses the identification of the risks, assessment of their impact, elaboration of the necessary action plans, and the monitoring of their effectiveness and results. The management make their business decisions in a knowledge of all the key risks. All significant risks related to internal and external operations, or to compliance with financial and legal requirements, as well as numerous other risks, are evaluated and managed using a clearly-defined and transparent internal mechanism.

In adopting its accounting policy and defining its accounting order the Bank uses its own control mechanisms and processes ensuring properly to reach the following goals: to draw up reliable financial reports, to carry out various successful and effective operations for the company, to comply with the legislation in force and to

fully comply with the provisions related to the supplying of data to the Regulators. All competencies of the banking units responsible for drawing up the report and the accounting control are set up in an internal regulation instrument.
The internal regulation shall define the closing competencies and data supplying necessary for drawing up the interim (monthly, quarterly and six-month) and the annual disclosure reports. It provides a complete guidance for the interim (monthly, quarterly, six-month) and the annual closing competencies, tasks and supplying of data. The internal regulation sets up deadlines and appoints responsible officers for the tasks.
The internal regulation also orders the inventory and conciliation of ledger records containing provisional registration of items which – for various reasons – could not be immediately cleared on a real account of assets/ liabilities or on the general ledger accounts serving for registration of items outside the balance sheet at the time when they emerged.
Act no. 100 of 2000 on Accounting provides that the report shall rest on an inventory. Internal regulation sets detailed rules of inventory tasks in order to ensure a genuine balance sheet rest on proper definition of stocks of assets and liabilities, to check the bookkeeping and the accountancies and to reinforce this way the documentary discipline, to protect belongings, to explore inventories of decreased value and the assets out of use.

Furthermore, the Bank draws up and applies a detailed accounting system and continuously adapts new accounting measurements related the actual products and activities. Internal regulations on accounting are revised annually and updated if necessary. The legal, the internal audit and the compliance area are involved in the drafting and amending of these regulations.

General meeting, Articles of Association

The General Meeting is the supreme governing body of OTP Bank Plc. The regulations pertaining to its operation are set forth in the Company's Bylaws, and comply fully with both general and special statutory requirements. Information on the General Meeting is available in the Corporate Governance Report.

Regulations and information to be presented in the Business Report concerning securities conferring voting rights issued by the Company and senior officials, according to the effective Articles of Association, and ownership structure

The Company's registered capital is HUF 28,000,001,000, that is twenty-eight thousand million one thousand Hungarian forint, divided into 280,000,010 that is Two hundred and eighty million and ten dematerialised ordinary shares with a nominal value of HUF 100 each, and a total nominal value of HUF 28,000,001,000, that is twenty eight billion one thousand Hungarian forint.

There are no restrictions in place concerning the transfer of issued securities constituting the registered capital of the Company.

No securities with special control rights have been issued by the Company.

The Company does not run control systems prescribed by an employee ownership program, where control rights are not exercised directly by the employees.

Rules on the restrictions of the voting rights:

The Company's ordinary shares confer one vote per share.

An individual shareholder or group of shareholders may not exercise voting rights in respect of in an extent exceeding 25%, or – if the voting rights of another shareholder or group of shareholders exceed 10% – exceeding 33% of the total voting rights represented by the shares conferring voting rights at the Company's General Meeting.

The shareholder is obliged to notify the Company's Board of Directors without delay if the shareholder directly or indirectly, or together with other shareholders in the same group of shareholders, holds more than 2% of the voting rights represented by the shares conferring voting rights at the Company's General Meeting. Concurrently with this, the shareholder is obliged to designate the shareholders through which the indirect voting right exists, or the members of the group of shareholders. In the event of a failure to provide such notification, or if there are substantive grounds for assuming that the shareholder has made a misleading declaration regarding the composition of the shareholder group, then the shareholder's voting right shall be suspended and may not be exercised until the shareholder has met the above obligations. The notification obligation stipulated in this paragraph and the related legal consequences are also incumbent upon individuals who are classified or may be classified as the Company's shareholders under Article 61 of the Capital Markets Act. The Company must also be provided with proof of the conditions for exemption from the notification obligation in accordance with Section 61 (7)-(8) and Section 61 (10)-(11)-(12), of the Capital Markets Act.

Shareholder group: the shareholder and another shareholder, in which the former has either a direct or indirect shareholding or has an influence without a shareholding (collectively: a direct and/or indirect influence); furthermore: the shareholder and another shareholder who is exercising or is willing to exercise its voting rights together with the former shareholder, regardless of what type of agreement between the participants underlies such concerted exercising of rights.

For determining the existence and extent of the indirect holding, the rules of the Credit Institutions Act relating to the calculation of indirect ownership shall be applied.

If the voting rights that may be exercised by a shareholder group exceed the threshold stipulated in the first paragraph of this section, the voting rights shall be reduced in such a way that the voting rights relating to the shares most recently acquired by the group of shareholders shall not be exercisable.

If there are substantive grounds to presume that the exercising of voting rights by any shareholder or shareholders might result in a breach of the rules of the Capital Markets Act relating to the acquisition of a controlling interest, the Board of Directors' authorised representative responsible for the registration of shareholders at the venue of the General Meeting, or the Chairman of the General Meeting, may exclude the affected shareholders from attending the General Meeting or exercising voting rights.

The General Meeting has exclusive authority with respect to the decision regarding the delisting of the shares (qualified majority).

The Company is not aware of any kind of agreements among the owners that could give rise to the restriction of the transfer of issued securities and/or the voting rights.

Rules on the appointment and removal of executive officers, and rules on amendment of the Articles of Association:

When making the decisions, shares embodying multiple voting rights shall represent one share.The members of the Board of Directors are elected by the General Meeting based on its decision uniformly either for an indefinite period or for five years; in the latter case the mandate ends with the General Meeting concluding the fifth financial year following the election. The mandate of a member elected during this period expires together with the mandate of the Board of Directors.

The Board of Directors elects a Chairman and, may elect one or more Deputy Chairmen, from among its own members, whose period of office shall be equal to the mandate of the Board of Directors. The Chairman of the Board of Directors is also the Chief Executive Officer (Chairman & CEO) of the Company.

The membership of the Board of Directors ceases to exist by

a. expiry of the mandate,
b. resignation,
c. recall,
d. death,
e. the occurrence of grounds for disqualification as regulated by law.
f. termination of the employment of internal (executive) Board members.

The General Meeting has exclusive authority with respect to the following matters:

- the recall of members of the Board of Directors, the Supervisory Board and Audit Committee, and of the auditor; (qualified majority)
  More than one third of the members of the Board of Directors and the non-executive members of the Supervisory Board may be recalled within a 12-month period only if any shareholder holds more than 33% of the shares issued by the Company, which have been obtained by the shareholder by way of a public purchase offer.
- except in the cases referred by these Articles of Association to the authority of the Board of Directors, the establishment and amendment of the Articles of Association; (qualified majority); the General Meeting decides on proposals concerning the amendment of the Articles of Association – based on a resolution passed by shareholders with a simple majority – either individually or en masse.

The Board of Directors is exclusively authorised to make decisions regarding any change in the Company’s name, registered office, permanent establishments and branches, and in the Company’s activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association.

The Board of Directors is obliged to

- prepare the Company’s financial statements in accordance with the Accounting Act, and make a proposal for the use of the profit after taxation;
- prepare a report once a year for the General Meeting, and once every three months for the Supervisory Board, concerning management, the status of the Company’s assets and business policy;
- provide for the proper keeping of the Company's business books;
- perform the tasks referred to its authority under the Credit Institutions Act, in particular:
  - ensuring the integrity of the accounting and financial reporting system;
  - elaborating the appropriate strategy and determining risk tolerance levels for each business unit concerned;
  - setting risk assumption limits;
  - providing the necessary resources for the management or risk, the valuation of assets, the use of external credit ratings and the application of internal models.

The following, in particular, come under the exclusive authority of the Board of Directors:

- election of the Chairman & Chief Executive Officer of the Company, and exercising employer’s right in respect thereof;
- election of one or more Deputy Chairmen of the Board of Directors;
- determination of the annual plan;
- the analysis and assessment of the implementation of business-policy guidelines, on the basis of the Company’s quarterly balance sheet;
- decisions on transactions referred to the authority of the Board of Directors by the Company's organisational and operational regulations;
- decision on launching, suspending, or terminating the performance of certain banking activities within the scope of the licensed activities of the Company;
- designation of the employees entitled to sign on behalf of the Company;
- decision on the increasing of registered capital at the terms set out in the relevant resolution of the General Meeting;
- decision to acquire treasury shares at the terms set out in the relevant resolution of the General Meeting;
- decision on approving internal loans in accordance with the Credit Institutions Act;
- decision on the approval of regulations that fundamentally determine banking operations, or are referred to its authority by the Credit Institutions Act. The following shall qualify as such regulations:
  - the collateral evaluation regulations,
  - the risk-assumption regulations,
  - the customer rating regulations,
  - the counterparty rating regulations,
  - the investment regulations,
  - the regulations on asset classification, impairment and provisioning,
  - the organisational and operational regulations, which contain the regulations on the procedure for assessing requests related to large loans,
  - the regulations on the transfer of signatory rights;
- the decision on approving the Rules of Procedure of the Board of Directors;
- decision on steps to hinder a public takeover procedure;
- decision on the acceptance of a public purchase offer received in respect of treasury shares;
- decision on the commencement of trading in the shares in a regulated market (flotation);
- decision on the cessation of trading in the shares in a given regulated market, provided that the shares are traded in another regulated market (hereinafter: transfer).

The Board of Directors is exclusively authorised to:

- decide, in the cases specified in the Civil Code, on acceptance of the Company's interim balance sheet, subject to the prior approval of the Supervisory Board;
- decide, instead of the General Meeting, to pay an advance on dividends, subject to the preliminary approval of the Supervisory Board;
- make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association;
- make decision on mergers (if, according to the provisions of the law on the transformation, merger and demerger of legal entities, the approval of the General Meeting is not required in order for the merger to take place).

The Board of Directors directly exercises employer's rights in respect of the Chairman & CEO. The person affected by a decision may not participate in the decision making. Employer rights in respect of the executive directors of the Company are exercised by the Board of Directors through the Chairman & CEO, with the proviso that the Board of Directors must be notified in advance of the appointment and dismissal of the Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the Chief Executive Officer and by the senior company employees defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors.

The Board of Directors may delegate, to individual members of the Board of Directors, to executive directors employed by the Company, and to the heads of the individual service departments, any task that does not come under the exclusive authority of the Board of Directors in accordance with these Articles of Association or a General Meeting resolution.

The Company may acquire treasury shares in accordance with the rules of the Civil Code. The prior authorisation of the General Meeting is not required for the acquisition of treasury shares if the acquisition of the shares is necessary in order to prevent a direct threat of severe damage to the Company (this provision is not applicable in the event of a public purchase offer aimed at buying up the Company's shares), as well as if the Company acquires the treasury shares in the context of a judicial procedure aimed at the settlement of a claim to which the Company is entitled, or in the course of a transformation.

The Company has not made agreements in the meaning of points (j) and (k) in paragraph 95/A of Act No. C of 2000 on Accounting.

Ownership structure of OTP Bank Plc.

as at 31 December 2016

Description of owner	Total equity					
	At the beginning of actual year			End of actual period		
	%[1]	%[2]	Qty	%[1]	%[2]	Qty
Domestic institution/company	20.31%	20.58%	56,865,293	20.20%	20.47%	56,561,346
Foreign institution/company	63.77%	64.62%	178,546,741	64.83%	65.71%	181,528,602
Domestic individual	5.95%	6.03%	16,656,480	3.88%	3.93%	10,852,905
Foreign individual	0.43%	0.44%	1,215,093	0.16%	0.16%	447,025
Employees, senior officers	1.37%	1.38%	3,825,466	1.33%	1.35%	3,726,348
Treasury shares[3]	1.31%	0.00%	3,677,506	1.33%	0.00%	3,737,768
Government held owner[4]	0.09%	0.09%	238,312	0.08%	0.08%	225,928
International Development Institutions[5]	0.01%	0.01%	38,242	0.02%	0.02%	49,715
Other[6]	6.76%	6.85%	18,936,877	8.17%	8.28%	22,870,373
TOTAL	**100.00%**	**100.00%**	**280,000,010**	**100.00%**	**100.00%**	**280,000,010**

[1] Ownership share
[2] Voting rights
[3] Treasury shares include the aggregated amount of own shares held by the mother company, the subsidiaries and ESOP.
[4] E.g.: State Privatization Holding Co. Ltd., Social Security, Municipality, 100% state-owned companies, Pension Reform and Debt Reduction Fund etc.
[5] E.g.: EBRD, EIB, etc.
[6] Non-identified shareholders according to the shareholders' registry.

Number of treasury shares held in the year under review (2016)

	1 January	31 March	30 June	30 September	31 December
OTP Bank	1,603,946	1,575,975	1,644,899	1,769,833	1,281,704
ESOP					382,504
Subsidiaries	2,073,560	2,073,560	2,073,560	2,073,560	2,073,560
TOTAL	3,677,506	3,649,535	3,718,459	3,843,393	3,737,768

Shareholders with over/around 5% stake as at 31 December 2016

Name	Number of shares	Ownership	Voting rights
Megdet, Timur and Ruszlan Rahimkulov	22,931,972	8.19%	8.30%
MOL (Hungarian Oil and Gas Company Plc.)	24,000,000	8.57%	8.69%
Groupama Group	22,692,685	8.10%	8.21%
OPUS Securities S.A.	14,496,476	5.18%	5.25%

Committees

Members of the Board of Directors
Dr. Sándor Csányi– Chairman
Mr. Antal György Kovács
Mr. László Wolf
Mr. Mihály Baumstark
Dr. Tibor Bíró
Mr. Tamás Erdei
Dr. István Gresa
Dr. Antal Pongrácz
Dr. László Utassy
Dr. József Vörös

Members of the Supervisory Board
Mr. Tibor Tolnay – Chairman
Dr. Gábor Horváth – Deputy Chairman
Mr. András Michnai
Mrs. Ágnes Rudas
Mr. Dominique Uzel
Dr. Márton Gellért Vági

Members of the Audit Committee
Dr. Gábor Horváth – Chairman
Mr. Tibor Tolnay
Mr. Dominique Uzel
Dr. Márton Gellért Vági

The résumés of the committee and board members are available in the Corporate Governance Report/Annual Report.

Personal and organizational changes

In the first half 2016 there was no change in the composition of Audit Committee and the Auditor of the Bank.

In accordance with the decision of the Board of Directors of the Bank, effective from 25 January 2016 Mr. András Tibor Johancsik has been in charge of running the IT and Operations Division as the Head of it, furthermore from 24 February 2016 his Deputy CEO nomination came into force.

OTP Bank's Board of Directors member Mr. Péter Braun passed away on 7 April 2016

From 14 April 2016, Mr. György Kovács Antal's membership in the Supervisory Board ceased.

From 14 April 2016, the memberships of Mr. Zsolt Hernádi and Mr. István Kocsis in the Board of Directors ceased.

The employment of Dr. Antal Pongrácz, Deputy Chairman, Deputy CEO and Head of Staff Division, as well as that of Dr István Gresa, Deputy CEO and Head of the Credit Approval and Risk Management Division ceased on 14 April 2016 due to their retirement. Effective from 15 April 2016 the Chairman and CEO of the Bank entrusted Mr. György Kiss-Haypál to run the Credit Approval and Risk Management

Division (according to the terms of the Act on Financial Institutions this position will not be deemed as executive).

The Annual General Meeting appointed Dr. Sándor Csányi, Mr. Mihály Baumstark, Dr. Tibor Bíró, Mr. Tamás György Erdei, Dr. István Gresa, Mr. Antal György Kovács, Dr. Antal Pongrácz, Dr. László Utassy, Dr. József Vörös, Mr. László Wolf as member of the Board of Directors of the Company until the Annual General Meeting closing the 2020 business year of the Company, but no later than 30 April 2021.

The Annual General Meeting appointed Mrs. Ágnes Rudas, as member of the Supervisory Board of the Company until the Annual General Meeting closing the 2016 business year of the Company, but no later than 30 April 2017

Operation of the executive boards

OTP Bank Plc. has a dual governance structure, in which the Board of Directors is the Company's executive body, while the Supervisory Board performs oversight tasks. The effective operation of Supervisory Board is supported by the Audit Committee.

In order to assist the performance of the governance functions the Board of Directors founded and operates, as permanent or special committees, such as the Management Committee, the Management Coordination Committee or the Remuneration Committee, the Nomination Committee and the Risk Assumption and Risk Management Committee. To ensure effective operation OTP Bank Plc. also has a number of other permanent and special committees.

OTP Bank Plc. gives an account of the activities of the executive boards and the committees every year in its Corporate Governance Report.

The Board of Directors held 7, the Supervisory Board held 9 meetings, while the Audit Committee gathered 2 times in 2016. In addition, resolutions were passed by the Board of Directors on 97, by the Supervisory Board on 29 and by the Audit Committee on 10 occasions by written vote.

Policy of diversity

OTP Bank Plc. determines and regulates the criteria for the selection of senior executives in line with European Union as well as domestic legal requirements and directives fundamentally determining the operation of credit institutions.

When designating members of the management bodies (Board of Directors, Supervisory Board) as well as appointing members of the Board of Directors and administrative members (Management), OTP Bank Plc. considers the existence of professional preparation, the high-level human and leadership competence, the versatile educational background, the widespread business experience and business reputation of the utmost importance, at the same time, it is also highly committed to taking efficient measures in order to ensure diversity with regard to corporate operation, including the gradual improvement in women's participation rate.

With this in mind, OTP Bank Plc.'s Nomination Committee continuously keeps tracking the European Union and domestic legislation relating to women's quota on its agenda, in that when unambiguously worded expectations are announced, it promptly takes the necessary measures.

It is important to note, however, that, as a public limited company, the selection of the members of the management bodies falls within the exclusive competence of the General Meeting upon which – beyond its capacity to designate enforcing the above aspects to maximum effect – OTP Bank Plc. has no substantive influence.

For the purposes of OTP Bank Plc.'s Articles of Association, a Board of Directors comprising 5-11 members and a Supervisory Board comprising 5-9 members are set up at the Bank. The Board of Directors in its current form operates with 10 members and has no female member, while the Supervisory Board comprises 6 members and has one female member as of 15 April, 2016. The management of OTP Bank Plc. currently comprises 5 members and has no female member.

ENVIRONMENTAL POLICY, ENVIRONMENTAL PROJECTS

Aspiring to be a good corporate citizen, OTP Bank assigns top priority to environmental protection, good environmental stewardship, leading by example, and last but not least to inspire others to adopt environmentally conscious practices. In addition to providing top-of-the-line financial services, the Bank intends to exert more and more effort each year to reduce transaction-related paperwork and energy consumption, to constantly be on the lookout for solutions with low environmental impact, as well as to strive for and achieve the broadest possible application of such measures.

OTP Group is a law-abiding corporate citizen in the area of environmental stewardship. No environmental fine has been levied on OTP Bank or any of its subsidiary banks in 2016. Besides compliance with the applicable law, the Group's efforts in this domain continue to be guided by rationalization and efficient resource management, as well as by stable operational expenditures. Still, the Group is always ready to extend immediate and effective assistance in crisis situations, as the preservation of natural treasures and the reduction of the respective environmental impact of operations are core values of OTP Bank corporate social responsibility.

The Foundations of our Responsible Operations

Our core CSR values have remained constant in recent years. Our Corporate Social Responsibility strategy (CSR Strategy) sets forth and defines our applicable guidelines and objectives. Our annual Corporate Social Responsibility Report presents our goals and accomplishments and is published on our website. Furthermore, the Bank's Code of Ethics has stated the commitment to environmental protection and to a healthy workplace. The Bank's Environmental Protection Regulations have been effective since 2009, while the internal corporate guidelines continue to enable environmentally conscious operations in compliance with applicable law.

OTP Facility Management coordinates the company's environmental activities in line with the existing time schedule. The organization carries out tasks related to regulatory reporting, coordinates and supervises the collection and disposal of hazardous waste (worn out office equipment and electronic waste), in compliance with prevailing regulations, on the company-wide level.

Environmentally conscious waste management

The Bank steadily continues to enforce the following order of priority: "prevention of waste production: reuse/recycling/disposal". Collecting waste selectively and cutting back on paper use is an integral part of this effort.

As compared to the corresponding period in the previous year, it can be established that within OTP Bank, in regard of the central office buildings, the selectively collected amount of PET and office paper shows a downward trend. Waste from PET plastic bottles has lessened by 8% while waste from office paper dropped by 28%. The reduction of PET waste can be attributed to a change in consumption habits, while the decreased amount of paper waste is due to the efficiency of the measures taken to cut back on paper use. This latter is realized by reducing the scope of documents to be printed, by networking printers, and by digitizing documents.

Reducing paper use

OTP Group has set the goal to cut back on paper use by reducing printing. Over the past two years, virtually all of our subsidiary banks have launched projects to that effect. Where allowed by applicable law, electronic account statements have been available for years from all members of OTP Group. We have continuously been providing incentives for customers to cancel paper-based statements. The proportion of electronic statements has significantly grown at our Romanian, Ukrainian, Russian and also Serbian subsidiary banks in the past year, in equal proportions pertaining to retail deposit accounts, statements related to cards, as well as foreign currency bank account statements. At our Serbian subsidiary bank, the proportion of e-statements is almost 100%.

We are continuously examining on a group level how our services and the materials to be provided for customers could be provided electronically, which would further reduce the use of paper and printing ink. In OTP Bank, we expect that the introduction of E-Repository will save us approximately 1.4 million pages of paper annually.

Our actions and activities have, for several years, been guided by the effort to sustain our operational costs at the prevailing level. We are performing targeted investments and are focusing on expanding the scope of paper-free processes.

We have made our services accessible online in case of taking loans in the form of personal loans or in case of concluding contracts for current account loans. The possibility of making statements in an electronic form is also viable in the case of Long Term Investment deposits and securities accounts. From 2016 on, the opening of a business account and the taking of a loan can be performed simply and in a paper-free manner through an online channel. In order to facilitate a paper-free client service, digital signing pads have been introduced in our branch offices.

At our foreign subsidiaries:

- At DSK Bank branches, we have introduced printing on both sides of the paper. On several occasions we sent e-mails to our customers instead of printed letters.
- In Romania, due to the integration of Millennium Bank and the CHF conversion program, we had to inform our customers on paper pursuant to the regulatory provisions. We have been striving to replace paper use with electronic means of information wherever possible.
- In Serbia, paper use has decreased thanks to the new logistics software. On the other hand, paper use has increased due to the legally mandated mandatory client information obligation.
- In Ukraine, we only issue electronic documents on account movements, instead of paper based ones.
- In Russia, we have launched a paper-free POS project so that in the future, the number of paper sheets necessary for a loan application can be decreased from 47 to 1 or 2.

Environmentally conscious energy use

We are continuously modernizing our systems at all of our subsidiary banks and have been installing energy-efficient, modern building engineering solutions and energy-efficient lighting as part of our construction investments. In the last few years, we have given priority to replacing the lightning on advertising walls and facades in branches, with LED lamps, both in the parent bank and foreign subsidiary banks, thereby achieving approximately 85% energy savings with such equipment.

- In the Serbian central office, the procurement of reactive power compensation equipment has been completed.
- In Ukraine and Russia, after introducing energy efficient lighting indoors, outdoor lighting panels were also replaced with LED lighting.
- In two branches of CKB Bank, we replaced the old heating system with new, more energy efficient equipment; we insulated the building and installed energy saving lighting.
- We have installed LED lighting in 105 DSK branch offices.
- The new energy supplier of OTP Banka Slovensko supplies the bank with renewable energy, i.e. provides green energy solutions.

We are proud to use renewable energy sources. Our Hungarian sites continue to operate solar collectors on nearly 460 square meters, while our central archive uses geothermic energy.

First among Croatian banks OTP banka Hrvatska generates a part of the energy required for its operation through solar power plants. Currently, the renewable energy is supplied by the power plants built in Dubrovnik and Zadar. The facility in Zadar is the second solar power plant of OTP banka Hrvatska (a 21 kWP output photovoltaic system), as a 25kWp output solar plant on the rooftop of the Bank's office building in Dubrovnik has been operating for a year. The energy generated is utilised by the office buildings (air-conditioning, lighting, IT, elevators, etc.). The magnitude of the second investment comes to 361,000 Kuna, which has been fully financed by the Bank. OTP banka Hrvatska plans to build a third solar plant, on top of its Headquarters in Pula. The output of the new facility will be 30 kWp and is planned to be completed in 2016/2017. Measures aimed at reducing the environmental load play an important role in the business strategy of OTP banka Hrvatska, consequently they plan to implement projects with the objective of utilising renewable energy. In addition to all this,

OTP banka Hrvatska offers a loan product titled “Sunny loan” in its services portfolio designed to build energy efficient apartments, attracting considerable interest from clients. In its program titled “Green way for environment protection” the bank aims to reduce its ecological footprint, increase energy efficiency and improve the performance of its waste management system.

Shaping perceptions

Protection of our natural resources and treasures has long been a priority of OTP Bank. The Bank operates a Hiking/Touring Group (with a 150 members) with the intent of raising the interest of employees in hiking and touring, increasing the number of those participating in exploring the nature, and consequently them taking part in several voluntary programs during the year. We have organised a number of voluntary programs during the past years in order to involve members of the group in tangible environment protection efforts. Programs of this kind were litter picking around the Tisza Lake, or previously the restoration of a resting place in Hárs-hegy (Hárs Peak) that was built by OTP employees a decade earlier. Our colleagues have, for years, incessantly participated in voluntary work related to events such as the „TeSzedd a Kéken" (litter picking) and Earth Day.

Since 2012 OTP Bank has been taking part in WWF's International Global Climate Energy Initiative, the Earth Hour, raising awareness to the importance of climate protection.

Since years, CKB Bank has been the supporter of the National Parks of Montenegro. Employees take an active role in the relevant campaigns.

Starting from 2015, OTP Bank has been providing trainings not only for its employees, but also its partners (agents, brokers) on the bank's corporate social responsibility and environment-friendly operation. In order for agents to perform their work according to the bank's corporate ethics, compliance with the Code of Ethics and Bank Security regulations is a prerequisite, which is verified by regular test purchases.

Awards and Recognition

RFU CEERIUS INDEX: In recognition of our performance in the field of sustainability, we have been selected to be listed on the Responsible Investment Universe Index of the Vienna Stock Exchange since 2009. The index may feature regional listed companies that are awarded the best ratings in sustainability analysis in social, environmental and economic terms compiled by RFU (Reinhard Friesenbichler Unternehmens-beratung).

We wish to make the stewardship of our environment a priority to our staff and customers. Accordingly, we provide ongoing updates about our environmental protection activities on our corporate social responsibility webpage: https://www.otpbank.hu/csr/en/main

SUPPLEMENTARY DATA

FOOTNOTES TO THE TABLE 'CONSOLIDATED NET PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)'

General note: regarding OTP Core and other subsidiaries, profit after tax is calculated without received dividends and net cash transfers. Dividends and net cash transfers received from non-group member companies are shown on a separate line in one sum in the table, regardless to the particular receiver or payer group member company.

(1) OTP Core, Corporate Centre and foreign banks aggregated, excluding one-timers.

(2) OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials of OTP Core are calculated from the partially consolidated IFRS financial statements of the companies engaged in OTP 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. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

(3) Within OTP Group, the Corporate Centre acts as a virtual entity established by the equity investment of OTP Core for managing the wholesale financing activity for all the subsidiaries within OTP Group but outside OTP Core. Therefore the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core, the intragroup lending received from other subsidiaries, and the subordinated debt and senior notes arranged by OTP Bank under its running EMTN program. From this funding pool, the Corporate Centre is to provide intragroup lending to, and hold equity stakes in OTP subsidiaries outside OTP Core. Main subsidiaries financed by Corporate Centre are as follows: Hungarians: Merkantil Bank Ltd, Merkantil Car Ltd, Merkantil Leasing Ltd, OTP Real Estate Leasing Ltd, OTP Fund Management Ltd, OTP Real Estate Fund Management Ltd, OTP Life Annuity Ltd; foreigners: banks, leasing companies, factoring companies.

(4) From 1Q 2015 the performance of OTP Bank Russia does not contain the volumes and financial result of Touch Bank. (The performance of Touch Bank was shown separately from OTP Bank Russia's performance for the first time in the *Summary of the full-year 2015 results*, with retroactive effect from 1Q 2015.) From 1Q 2015 the statement of recognised income and balance sheet of LLC MFO OTP Finance" was included in the Russian performance. The pre-tax gain realised on the perpetual EUR 500 million subordinated Notes transaction within the Group in 3Q 2014 was eliminated from the performance of OTP Bank Russia.

(5) Touch Bank is a digital bank being part of OTP Bank Russia from legal point of view, and it is operating under the same banking license, but as a separate business line. In order to provide transparent information Touch Bank is presented as a separate virtual entity and as an independent activity. The performance of Touch Bank was shown separately from OTP Bank Russia's performance for the first time in the Summary of the full-year 2015 results, with retroactive effect from 1Q 2015.

(6) From 4Q 2008 figures are based on the aggregated financial statements of OTP Bank JSC and LLC OTP Leasing Ukraine, from 4Q 2009 the result of LLC OTP Factoring Ukraine was also aggregated, while in 4Q 2010 the statement of recognised income and balance sheet of LLC OTP Credit was also added.

(7) From 3Q 2010, statements are based on the aggregated financials of DSK Group and the newly established Bulgarian collection company, OTP Factoring Bulgaria LLC. DSK Group balance sheet contains the loans sold to the factoring company at before sale gross value and the related provisions as well.

(8) Net earnings are adjusted with the result of CIRS swap transactions executed with OTP Bank Hungary in relation to interbank financing. Before transfer balance sheet numbers are displayed. From 2Q 2010 the statement of recognised income and balance sheet of OTP Faktoring SRL was included.

(9) Including the financial performance of OTP Factoring Serbia d.o.o from 4Q 2010. Banca Millennium was consolidated into OBR's results from 1Q 2015.

(10) Banco Popolare Croatia was consolidated into OBH's results from 2Q 2014. From 1Q 2015 including the financial result and volumes of OTP Faktoring d.o.o.

(11) From 2011 on the balance sheet contains consolidated data of OTP Banka Slovensko and OTP Faktor Slovensko s.r.o., adjusted for loans sold to OTP Bank Plc. and OTP Factoring Ltd., and the related interbank financing in the net amount of the sold loans. The recoveries of sold loans to OTP Faktoring are recognised in the P&L accounts as risk cost decreasing elements since 2011. From 2012 on P&L data and related indices are adjusted for the special banking tax and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, as well as the contribution into the Resolution Fund.

(12) Including the financial performance of OTP Factoring Montenegro d.o.o.

(13) Aggregated after tax profit of Merkantil Bank and Merkantil Car without dividends, net cash transfer, other adjustment items and provisioning for investments in subsidiaries.

(14) From 4Q 2009: OTP Leasing Romania IFN S.A. (Romania), Z plus d.o.o. (Croatia) (until 3Q 2011), OTP Leasing d.d. (Croatia), DSK Leasing AD (Bulgaria).

(15) LLC AMC OTP Capitol (Ukraine) and OTP Asset Management SAI S.A. (Romania), DSK Asset Management (Bulgaria).

(16) HIF Ltd. (United Kingdom), OTP Faktoring Slovensko (Slovakia) (until 1Q 2011), OTP Buildings (Slovakia), OTP Real Slovensko (Slovakia), Velvin Ventures Ltd. (Belize), Debt Management Project 1 Montenegro d.o.o. (Montenegro), R.E. Four d.o.o., Novi Sad (Serbia), SC Aloha Buzz SRL, SC Favo Consultanta SRL, SC Tezaur Cont SRL (Romania), Cresco d.o.o. (Croatia).

(17) Total Hungarian subsidiaries: sum of the adjusted after tax results of Hungarian group members, Corporate Centre and related eliminations.

(18) Total Foreign subsidiaries: sum of the adjusted after tax profits of foreign subsidiaries and one-off items (after tax).

CALCULATION OF ADJUSTED LINES OF IFRS PROFIT AND LOSS STATEMENTS PRESENTED IN THE BUSINESS REPORT

In order to present Group level trends in a comprehensive way in the Interim Management Report, the presented consolidated and separate profit and loss statements of the Report were adjusted in the following way, and the adjusted P&Ls are shown and analysed in the Report. Consolidated accounting figures together with Separate accounting figures of OTP Bank are still disclosed in the Financial Data section of the Report.

Adjustments:

- As non-recurring results, the after tax effect of the following items are shown separately on the Statement of Recognised Income: received dividends, received and paid cash transfers, goodwill write-offs, the tax shield effect of investment write-offs, special tax on financial institutions, the one-timer payment compensating the underperformance of the financial transaction tax in 2013, the fine imposed by the Hungarian Competition Authority and the risk cost created in relation to the decision of the Hungarian Competition Authority, the corporate tax impact of the transfer of general risk reserves to retained earnings, the effect of acquisitions, the one-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary, the expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia, the one-off impact of regulatory changes related to FX consumer contracts in Serbia, the expected one-off impact of the CHF mortgage loan conversion programme in Romania, the risk cost created toward Crimean exposures from 2Q 2014, the risk cost related toward exposure to Donetsk and Luhansk from 3Q 2014, the revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes, and the net loss from early repayment of FX mortgage loans in Hungary. Beside the Slovakian banking levy, the total amount of the special banking tax includes and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too.
- Other non-interest income elements stemming from provisioning release in connection with provisions on loans originated before the acquisitions of the subsidiaries have been reclassified to and deducted from the volume of provisions for possible loan losses in the income statement.
- From 2Q 2014 OTP Bank's share in the change in the shareholders' equity of companies consolidated with equity method is reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line.
- Other non-interest income is shown together with gains/losses on real estate transactions, but without the above mentioned income from the release of pre-acquisition provisions and without received cash transfers. However other non-interest expenses stemming from non-financial activities are added to the adjusted net other non-interest income line, therefore the latter incorporates the net amount of other non-interest income from non-financial activities.
- Out of other expenses, other provisions are deducted and shown separately as other risk costs in the adjusted income statement. Other provisions contain provisioning on off-balance sheet liabilities and on legal contests, provisioning on securities, shares and other investments as well as provisioning on other assets.
- Other administrative expenses have been adjusted in the following way in order to create a category comprising administrative cost items exclusively. Other costs and expenses and other non-interest expenses were included into the adjusted Other non-interest expenses. At the same time, the following cost items were excluded from adjusted other non-interest expenses: paid cash transfers – except for movie subsidies and cash transfers to public benefit organisations –, Other non-interest expenses stemming from non-financial activities, Special tax on financial institutions and the one-timer payment compensating the underperformance of the financial transaction tax.
- From 4Q 2010 onwards, the fee expenses paid by Merkantil Group to car dealers ('dealer fees') were registered as interest expense in the accounting income statement. Earlier this item had been booked as fee expense. In order to create a comparable time series, since 4Q 2010 dealer fees have been reclassified from net interest income to net fees and commissions – both on the consolidated and on a standalone level.
- Within the aggregated income statement of Merkantil Bank and Car, other risk cost related to leasing companies – as investments of the Merkantil Group – is eliminated. The reason behind is that this provisioning is eliminated in the consolidated income statement of OTP Group, and only the net result of the leasing companies is making part of OTP Group's consolidated net earnings.
- Performing indicators such as cost/income ratio, net interest margin, risk cost to average gross loans as well as ROA and ROE ratios are calculated on the basis of the adjusted profit and loss statement, excluding adjustment items such as received dividends and net cash transfers, goodwill write-offs, the tax shield effect of investment write-offs, special tax on financial institutions, the one-timer payment compensating the underperformance of the financial transaction tax in 2013, the fine imposed by the Hungarian Competition Authority and the risk cost created in relation to the decision of the Hungarian Competition Authority, the corporate tax impact of the transfer of general risk reserves to retained earnings, the effect of Banco Popolare Croatia acquisitions, the one-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary, the expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia, the one-off impact of regulatory changes related to FX consumer contracts in Serbia, the expected one-off impact of the CHF mortgage loan conversion programme in Romania, the risk cost created toward Crimean exposures from 2Q 2014, the risk cost related toward exposure to Donetsk and Luhansk from 3Q 2014, the revaluation of reverse mortgage portfolio of OTP

Life Annuity Ltd. simultaneous with regulatory changes, and the net loss from early repayment of FX mortgage loans in Hungary.

- OTP Group is hedging the revaluation result of the FX provisions on its FX loans by keeping hedging open FX positions. In the accounting statement of recognized income, the revaluation of FX provisions is part of the risk costs (within line "Provision for loan losses") and Other provisions, whereas the revaluation result of the hedging open FX positions is made through other non-interest income (within line "Foreign exchange result, net"). The two items have the same absolute amount but an opposite sign. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L. By modifying only the structure of the income statement, this correction does not have any impact on the bottom line net profits.
- In 3Q 2012 and in 2Q 2013, seven subsidiaries of OTP Real Estate Ltd. were for the first time consolidated into OTP Group. The cumulated loss of the companies' previous operation was recognised as Other expenses in the accounting P&L, while loan loss and other provisioning earlier made by OTP Bank and OTP Real Estate in relation to these companies were released. By influencing only the structure of the income statement, the net effect of these two entries was neutral to consolidated net earnings. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L.
- Tax deductible transfers paid by Hungarian group members from 3Q 2012 were reclassified from Other non-interest expenses to Corporate income tax. As a result, the net P&L effect of the transfers (i.e. the paid transfer less the related tax allowances) is recognised in the corporate income tax line of the adjusted P&L.
- From 2012 credit institutions' contribution tax was recognised in the accounting P&L of OTP Group and OTP Core as OTP Core's burden share in the fixed exchange rate scheme provided to Hungarian FX mortgage debtors. The paid contribution tax equals 50% of the forgiveness provided on the interest payments of the clients. In the adjusted P&L the contribution tax is reclassified from other (administrative) expenses and to a lesser extent from other risk cost to net interest income.
- The financial transaction tax paid from the beginning of 2013 in Hungary is reclassified from other (administrative) expenses to net fee and commission income, both on consolidated and OTP Core level.
- Due to regulatory changes related to consumer contracts in Hungary the actual negative effects of the financial settlement with clients and the conversion of FX consumer contracts prescribed by regulatory changes related to consumer contracts in Hungary as well as the impact of the related methodological changes were recognized within the accounting P&L in each quarters of 2015 on the net interest income, net fees and commissions, foreign exchange gains (net), net other non-interest result, other non-interest expenses, provision for loan losses, other risk cost and dividends and net cash transfers lines. These items booked in these periods were eliminated from all of the affected lines and were shown separately among adjustment items on consolidated level, whereas the estimate on the one-off negative impact of regulatory changes related to consumer contracts was booked on the other risk cost line in the accounting P&L.
- The revaluation result booked on Other provisions line due to regulatory changes related to FX mortgage loans in Hungary were moved to the Foreign exchange result line in 4Q 2014.
- Within the report, FX-adjusted statistics for business volume developments and their product breakdown are disclosed, too. For FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods. (In Hungary in case of FX mortgage loans converted into HUF in 1Q 2015 pursuant to the Act No. LXXVII of 2014 the fixed FX rates stipulated by the law were used for the FX adjustment.) Thus the FX adjusted volumes will be different from those published earlier.

ADJUSTMENTS ON THE CONSOLIDATED STATEMENT OF RECOGNIZED INCOME (IFRS)

	2015 HUF million	2016 HUF million
Net interest income	**550,430**	**519,729**
(-) Agent fees paid to car dealers by Merkantil Group	(2,084)	0
(+) Credit institutions' contribution tax paid in relation to the fixed exchange rate scheme	(232)	0
(+) Other risk costs recognised in relation to the fixed exchange rate scheme	0	0
(-) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(697)	0
(-) Revaluation result of FX provisions		823
(+) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations		(440)
(+) Structural correction related to the amendment of interest income recognition methodology in Ukraine in 3Q 2016		3,484
Net interest income (adj.) with one-offs	**552,980**	**521,949**
(-) Revaluation result of FX swaps at OTP Core (booked within net interest income)	(679)	-
Net interest income (adj.) without one-offs	**553,659**	**521,949**
Net profit from fees and commissions	**213,872**	**222,991**
(+) Agent fees paid to car dealers by Merkantil Group	(2,084)	0
(+) Financial Transaction Tax	(45,076)	(47,025)
(-) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(539)	0
Net fees and commissions (adj.)	**167,250**	**175,966**
Foreign exchange result	**116,682**	**36,142**
(-) Revaluation result of FX positions hedging the revaluation of FX provisions	96,814	16,804
(-) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	1,321	0
(-) Expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia	70	0
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations		(440)
(-) Gains and losses on derivative financial instruments		6,838
Foreign exchange result (adj.) with one-offs	**18,476**	**12,941**
Foreign exchange result (adj.) without one-offs	**18,476**	**12,941**
Gain/loss on securities, net	**11,616**	**20,828**
(-) Gain on the sale of Visa Europe shares		15,924
Gain/loss on securities, net (adj.) with one-offs	**11,616**	**4,904**
(-) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net (adj.) at OTP Core)	2,418	(751)
Gain/loss on securities, net (adj.) without one-offs	**9,197**	**5,655**
Other operating income	**22,973**	**19,628**
(+) Gains and losses on derivative financial instruments		6,838
(-) Received cash transfers	9	37
(-) Non-interest income from the release of pre-acquisition provisions	1,518	735
(+) Other other non-interest expenses	(182,726)	(29,221)
(+) Change in shareholders' equity of companies consolidated with equity method	690	(163)
(-) Badwill booked in relation to acquisitions	1,845	0
(-) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(170,420)	0
(-) One-off impact of regulatory changes related to FX consumer contracts in Serbia	(211)	0
(-) Adjustment of the one-off reclassification between Net other non-interest result and Other provisions in 4Q 2015	1,868	
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia		(9,068)
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania		(18,347)
(-) Impact of fines imposed by the Hungarian Competition Authority		3,922
Net other non-interest result (adj.) with one-offs	**6,329**	**19,803**
(-) Gain on the repurchase of own Upper and Lower Tier2 Capital (booked as Net other non-interest result (adj.) at OTP Core and at the Corporate Centre)	0	0
Net other non-interest result (adj.) without one-offs	**6,329**	**19,803**
Provision for loan losses	**(318,683)**	**(93,472)**
(+) Non-interest income from the release of pre-acquisition provisions	1,518	735
(-) Revaluation result of FX provisions	(95,783)	(17,648)
(-) Risk cost created toward Crimean exposures from 2Q 2014 until 4Q 2015	(240)	0
(-) Risk cost created toward exposures to Donetsk and Luhansk from 3Q 2014 until 4Q 2015	(2,684)	0
(-) Expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia	2,058	(574)
(-) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(8,852)	0
(-) Expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania		(4,776)
(+) Structural correction related to the amendment of interest income recognition methodology in Ukraine in 3Q 2016		(3,484)
Provision for loan losses (adj.)	**(211,663)**	**(73,223)**
Dividend income	**3,345**	**3,054**
(+) Received cash transfers	9	37
(+) Paid cash transfers	(15,862)	(13,131)
(-) Sponsorships, subsidies and cash transfers to public benefit organisations	(15,473)	(13,130)
(-) Dividend income of swap counterparty shares kept under the treasury share swap agreement	2,433	2,841
(-) Change in shareholders' equity of companies consolidated with equity method	690	(163)
(-) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(303)	0
After tax dividends and net cash transfers	**144**	**412**

	2015 HUF million	2016 HUF million
Income taxes	**3,148**	**(33,944)**
(-) Corporate tax impact of goodwill/investment impairment charges	6,683	11,552
(-) Corporate tax impact of the special tax on financial institutions	6,609	3,120
(+) Tax deductible transfers	(12,200)	(9,565)
(-) Corporate tax impact of the effect of fines imposed by the Hungarian Competition Authority	151	0
(-) Corporate tax impact of the badwill booked in relation to acquisitions	(295)	0
(-) Corporate tax impact of the one-off effect of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(4,173)	0
(-) Corporate tax impact of risk cost created toward Crimean exposures from 2Q 2014 until 4Q 2015	71	0
(-) Corporate tax impact of risk cost created toward exposures to Donetsk and Luhansk from 3Q 2014 until 4Q 2015	426	0
(-) Corporate tax impact of revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes	1,299	0
(-) Corporate tax impact of the expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia	1,583	0
(-) Corporate tax impact of the expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	4,408	0
(-) Corporate tax impact of the gain on the sale of Visa Europe shares		(2,764)
(-) Corporate tax impact of switching to IFRS from HAR in Hungary		(5,766)
(-) Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary		(6,054)
Corporate income tax (adj.)	**(25,813)**	**(43,596)**
Other operating expense	**(74,680)**	**(36,461)**
(+) Release of provision / (Provision) on securities available-for-sale and held-to-maturity	**(15)**	**55**
(-) Other costs and expenses	(14,211)	(5,639)
(-) Other non-interest expenses	(198,588)	(42,351)
(-) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	197,569	0
(-) Revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes (booked within other risk cost)	(6,838)	0
(-) Revaluation result of FX provisions	(1,031)	22
(-) Expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia	(10,042)	9,642
(-) Expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(29,828)	23,123
(-) Impact of fines imposed by the Hungarian Competition Authority	(813)	(1,207)
(-) Adjustment of the one-off reclassification between Net other non-interest result and Other provisions in 4Q 2015	(1,868)	0
Other provisions (adj.)	**(9,046)**	**(19,995)**

Other administrative expenses	**(232,248)**	**(220,228)**
(+) Other costs and expenses	(14,211)	(5,639)
(+) Other non-interest expenses	(198,588)	(42,351)
(-) Paid cash transfers	(15,862)	(13,131)
(+) Film subsidies and cash transfers to public benefit organisations	(15,473)	(13,130)
(-) Other other non-interest expenses	(182,726)	(29,221)
(-) Special tax on financial institutions (recognised as other administrative expenses)	(35,992)	(17,069)
(-) Tax deductible transfers	(12,200)	(9,565)
(-) Credit institutions' contribution tax paid in relation to the fixed exchange rate scheme	(232)	0
(-) Financial Transaction Tax	(45,076)	(47,025)
(-) Impact of fines imposed by the Hungarian Competition Authority	0	(793)
(-) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(9,312)	0
(-) Expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(72)	0
Other non-interest expenses (adj.)	**(159,048)**	**(164,545)**

STATEMENT OF RECOGNIZED INCOME OF OTP BANK PLC., ACCORDING TO HUNGARIAN ACCOUNTING STANDARDS (UNCONSOLIDATED, AUDITED)

Statement of recognized income HUF million	2015	2016	Change %
Net interest income	174,250	186,357	**7**
Interest received and similar income	372,403	315,263	(15)
Interest paid and similar charges	(198,153)	(128,906)	(35)
Net fee and commission income	**160,090**	**161,991**	**1**
Commissions and fees received or due	187,617	191,893	2
Commissions and fees paid or payable	(27,527)	(29,902)	9
Other income	**468,758**	**242,440**	**(48)**
Income from securities	58,597	90,467	54
Net profit or net loss on financial operations	(12,308)	37,323	(403)
Other operating income	422,469	114,650	(73)
General administrative expenses	**(135,018)**	**(138,648)**	**3**
Depreciation	**(16,413)**	**(19,840)**	**21**
Other operating charges	**(526,752)**	**(142,993)**	**(73)**
Value adjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	**(52,827)**	**(29,161)**	**(45)**
Value readjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	**25,891**	**23,340**	**(10)**
Difference between formation and utilization of general risk provisions	**0**	**0**	
Value adjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests	**(39,373)**	**(104,017)**	**164**
Value readjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests	**81**	**44,219**	**54,491**
Profit or loss on ordinary activities	**58,687**	**223,688**	**281**
Extraordinary profit or loss	(155,910)	(10,496)	(93)
Profit or loss before tax	**(97,223)**	**213,192**	**(319)**
Taxes on income	(871)	(11,551)	1,226
Profit or loss after tax	**(98,094)**	**201,641**	**(306)**
General reserve	98,094	(20,164)	(121)
Profit or loss for the financial year	0	**181,477**	

BALANCE SHEET OF OTP BANK PLC., ACCORDING TO HUNGARIAN ACCOUNTING STANDARDS (UNCONSOLIDATED, AUDITED)

Main balance sheet items in HUF million	2015	2016	Change %
Total assets	**6,883,826**	**7,109,622**	**3**
1. Liquid assets	1,324,505	928,617	(30)
2. Treasury bills and similar securities	1,577,974	1,891,155	20
3. Loans and advances to credit institutions	663,431	932,678	41
4. Loans and advances to customers	**1,693,195**	**1,938,777**	**15**
5. Debt securities, including fixed-income securities	674,896	457,916	(32)
6. Shares and other variable-yield securities	129,853	128,230	(1)
7. Shares and participations in corporations held as financial fixed assets	584	2,432	316
8. Shares and participating interests in affiliated companies	490,984	583,007	19
9. Intangible assets	65,365	22,954	(65)
10. Tangible assets	65,734	64,628	(2)
11. Own shares	9,168	8,870	(3)
12. Other assets	79,616	41,394	(48)
13. Prepayments and accrued income	108,521	108,964	0
Total liabilities	**6,883,826**	**7,109,622**	**3**
1. Amounts owed to credit institutions	837,020	658,491	(21)
2. Amounts owed to customers	**4,366,507**	**4,830,024**	**11**
3. Debts evidenced by certificates	187,569	151,603	(19)
4. Other liabilities	54,849	65,474	19
5. Accruals and deferred income	81,146	90,518	12
6. Provisions for liabilities and charges	88,465	47,661	(46)
7. Subordinated liabilities	313,120	155,510	(50)
8. Shareholders' equity	**955,150**	**1,110,341**	16
Performance indicators			pps
Loans and advances to customers/amounts owed to customers	39%	40%	1

STATEMENT OF RECOGNIZED INCOME OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS (CONSOLIDATED, AUDITED, ACCOUNTING STRUCTURE)

	2016 HUF million	2015 HUF million	Change %
Loans	510,449	575,619	(11)
Placements with other banks	74,588	114,024	(35)
Amounts due from banks and balances with the National Banks	9,866	27,495	(64)
Securities held for trading	0	0	
Securities available-for-sale	34,557	31,063	11
Securities held-to-maturity	51,427	46,619	10
Other	8,804	7,607	16
Total interest income	*689,691*	*802,428*	*(14)*
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	(75,925)	(116,713)	(35)
Deposits from customers	(72,554)	(108,023)	(33)
Liabilities from issued securities	(4,726)	(6,786)	(30)
Subordinated bonds and loans	(10,239)	(13,633)	(25)
Other	(6,518)	(6,844)	(5)
Total interest expense	*(169,962)*	*(251,998)*	*(33)*
Net interest income	**519,729**	**550,430**	**(6)**
Provision for impairment on loans and placement losses	(93,473)	(318,683)	(71)
NET INRETEST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES	426,256	231,747	84
Income from fees and commissions	272,235	257,431	6
Expense from fees and commissions	(49,244)	(43,559)	13
NET PROFIT FROM FEES AND COMMISSIONS	222,991	213,872	4
Foreign exchange gains, net	36,142	116,682	(69)
Gains on securities, net	20,828	11,616	79
Dividend income	3,054	3,345	(9)
Release of provision / Provision on securities available-for-sale	55	(15)	
Other operating income	19,628	22,973	(15)
Other operating expense	(36,461)	(74,680)	(51)
-from this:release of provision on contingent liabilities due to regulations related to customer loans	-	196,574	
NET OPERATING GAIN	43,246	79,922	(46)
Personnel expenses	(191,442)	(187,806)	2
Depreciation and amortization	(44,427)	(45,463)	(2)
Other administrative expenses	(220,229)	(232,248)	(5)
OTHER ADMINISTRATIVE EXPENSES	(456,098)	(465,517)	(2)
PROFIT BEFORE INCOME TAX	**236,395**	**60,024**	**294**
Income tax	(33,943)	3,148	
NET PROFIT FOR THE YEAR	**202,452**	**63,171**	**220**
From this, attributable to: Non-controlling interest	(242)	412	(159)
Owners of the company	**202,210**	**63,583**	**218**

BALANCE SHEET OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS (CONSOLIDATED, AUDITED)

	2016 HUF million	2015 HUF million	Change %
Cash, amounts due from banks and balances with the National Banks	1,625,357	1,878,960	(13)
Placements with other banks, net of allowance for placement losses	363,530	300,568	21
Financial assets at fair value through profit or loss	293,106	253,782	15
Securities available-for-sale	1,527,093	1,305,486	17
Loans, net of allowance for loan losses	5,736,232	5,409,967	6
Associates and other investments	9,836	10,028	(2)
Securities held-to-maturity	1,114,227	926,677	20
Property and equipment	193,485	193,661	0
Intangible assets	162,031	155,809	4
Investment property, investment property subject to operating lease	29,446	30,319	-3
Other assets	253,322	253,591	0
TOTAL ASSETS	**11,307,665**	**10,718,848**	**5**
Amounts due to banks and Hungarian Government, deposits from the National Banks and other banks	543,775	533,310	2
Deposits from customers	8,540,583	7,984,579	7
Liabilities from issued securities	146,900	239,376	(39)
Financial liabilities at fair value through profit or loss	75,871	101,561	(25)
Other liabilities	502,429	391,579	28
Subordinated bonds and loans	77,458	234,784	(67)
TOTAL LIABILITIES	**9,887,015**	**9,485,189**	**4**
Share capital	28,000	28,000	0
Retained earnings and reserves	1,449,478	1,261,029	15
Treasury shares	(60,121)	(58,021)	4
Non-controlling interest	3,292	2,651	24
TOTAL SHAREHOLDERS' EQUITY	**1,420,649**	**1,233,659**	**15**
TOTAL LIABILTITIES AND SHAREHOLDERS' EQUITY	**11,307,665**	**10,718,848**	**5**

FINANCIAL STATEMENTS ON 2016

HAS (SEPARATE)

OTP BANK PLC.

ASSETS

Figures in million HUF

		31 December 2015	31 December 2016
1.	**Liquid assets**	**1,324,505**	**928,617**
2.	**Treasury bills and similar securities**	**1,577,974**	**1,891,155**
	a) held for trading	63,796	162,191
	b) held as financial fixed assets	1,514,178	1,728,964
2/A.	Valuation difference on treasury bills	-	-
3.	**Loans and advances to credit institutions**	**663,431**	**932,678**
	a) repayable on demand	20,054	24,000
	b) other loans and advances in connection with financial services	626,349	889,376
	ba) with remaining maturity of less than one year	573,024	700,191
	Showing separately: - to affiliated companies	414,304	560,200
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	- to the NBH	-	-
	- to central securities depository, central counterparty	-	-
	bb) with a remaining maturity of more than one year	53,325	189,185
	Showing separately: - to affiliated companies	53,325	182,153
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	4,700
	- to the NBH	-	-
	- to central securities depository, central counterparty	-	-
	c) in connection with investment services	17,028	19,302
	Showing separately: - to affiliated companies	134	106
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	- to central securities depository, central counterparty	-	-
3/A.	Valuation difference on loans and advances to credit institutions	-	-
4.	**Loans and advances to customers**	**1,693,195**	**1,938,777**
	a) in connection with financial services	1,670,590	1,923,047
	aa) with a remaining maturity of less than one year	948,048	912,921
	Showing separately: - to affiliated companies	488,978	358,381
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	4,377	7,842
	ab) with a remaining maturity of more than one year	722,542	1,010,126
	Showing separately: - to affiliated companies	58,796	165,233
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	4,757	5,002
	b) in connection with investment services	22,605	15,730
	Showing separately: - to affiliated companies	2,269	1,284
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	ba) receivables in connection with investment services on the exchange markets	-	-
	bb) receivables in connection with investment services outside the exchange mar	-	-
	bc) receivables from customers in connection with investment services	22,605	15,730
	bd) receivables from central securities depository, central counterparty	-	-
	be) receivables in connection with other investment services	-	-
4/A.	Valuation difference on loans and advances to customers	-	-
5.	**Debt securities, including fixed-income securities**	**674,896**	**457,916**
	a) issued by local governments and other public bodies	-	-
	(not including treasury bills and similar securities)		
	aa) held for trading	-	-
	ab) held as financial fixed assets	-	-
	b) securities issued by other borrowers	674,896	457,916
	ba) held for trading	314,950	251,066
	Showing separately: - issued by affiliated companies	258,742	177,401
	- issued by other companies linked by virtue of major participating interests	-	-
	- issued by other companies linked by virtue of participating interests	20	2,863
	- own shares repurchased	52,646	56,121
	bb) held as financial fixed assets	359,946	206,850
	Showing separately: - issued by affiliated companies	304,125	90,139
	- issued by other companies linked by virtue of major participating interests	-	-
	- issued by other companies linked by virtue of participating interests	2,795	28,039
5/A.	Valuation difference on debt securities	-	-
6.	**Shares and other variable-yield securities**	**129,853**	**128,230**
	a) shares and participations in corporations held for trading	88,957	88,085
	Showing separately: - issued by affiliated companies	-	-
	- issued by other companies linked by virtue of major participating interests	-	-
	- issued by other companies linked by virtue of participating interests	82,694	88,085
	b) variable-yield securities	40,896	40,145
	ba) held for trading	366	2,718
	bb) held as financial fixed assets	40,530	37,427
6/A.	Valuation difference on shares and other variable-yield securities	-	-

		31 December 2015	31 December 2016
7.	**Shares and participations in corporations held as financial fixed assets**	**584**	**2,432**
	a) shares and participations in corporations held as financial fixed assets	584	2,432
	Showing separately: - participating interests in credit institutions	-	-
	b) adjusted value of shares and participations in corporations held as financial	-	-
	Showing separately: - participating interests in credit institutions	-	-
7/A.	Valuation difference on shares and participations in corporations held as financial	-	-
8.	**8) Shares and participating interests in affiliated companies**	**490,984**	**583,007**
	a) shares and participations in corporations held as financial fixed assets	490,984	583,007
	Showing separately: - participating interests in credit institutions	361,948	430,807
	b) adjusted value of shares and participations in corporations held as financial	-	-
	Showing separately: - participating interests in credit institutions	-	-
9.	**Intangible assets**	**65,365**	**22,954**
	a) intangible assets	65,365	22,954
	b) adjusted value of intangible assets	-	-
10.	**Tangible assets**	**65,734**	**64,628**
	a) tangible assets for financial and investment services	62,366	61,170
	aa) land and buildings	48,870	48,484
	ab) machinery, equipment, fittings, fixtures and vehicles	10,479	9,948
	ac) tangible assets in course of construction	3,017	2,738
	ad) payments on account	-	-
	b) tangible assets not directly used for financial and investment services	3,368	3,458
	ba) land and buildings	2,530	2,626
	bb) machinery, equipment, fittings, fixtures and vehicles	838	832
	bc) tangible assets in course of construction	-	-
	bd) payments on account	-	-
	c) adjusted value of tangible assets	-	-
11.	**Own shares**	**9,168**	**8,870**
12.	**Other assets**	**79,616**	**41,394**
	a) stocks	460	577
	b) other receivables	79,156	40,817
	Showing separately: - from affiliated companies	59,844	14,770
	- from other companies linked by virtue of major participating interests	-	-
	- from other companies linked by virtue of participating interests	87	566
12/A.	Valuation difference on other receivables	-	-
12/B.	Positive valuation difference on derivatives	-	-
13.	**Prepayments and accrued income**	**108,521**	**108,964**
	a) accrued income	104,259	100,397
	b) accrued costs and expenses	4,123	8,559
	c) deferred charges	139	8
	Total assets	**6,883,826**	**7,109,622**
	Showing separately:		
	- CURRENT ASSETS	*3,462,117*	*3,155,085*
	[1+2/a+3/a+3/ba+3/c+4/aa+4/b+5/aa+5/ba+6/a+6/ba+11+12+		
	+ the sums from 2/A, 3/A, 4/A, 5/A, 6/A, 12/A and 12/B as pertaining		
	to the previous items]		
	- *FIXED ASSETS*	*3,313,188*	*3,845,573*
	[2/b+3/bb+4/ab+5/ab+5/bb+6/bb+7+8+9+10+ the sums from 2/A, 3/A,		
	4/A, 5/A, 6/A, 7/A, 12/A and 12/B as pertaining to the previous items]		

OTP BANK PLC.

LIABILITIES

Figures in million HUF

		31 December 2015	31 December 2016
1.	**Amounts owed to credit institutions**	**837,020**	**658,491**
	a) repayable on demand	26,066	33,814
	b) with agreed maturity dates or periods of notice in connection with financial services	810,953	624,671
	ba) with remaining maturity of less than one year	464,342	248,920
	Showing separately: - to affiliated companies	284,323	62,308
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	- to the NBH	34,188	33,942
	- to central securities depository, central counterparty	-	-
	bb) with remaining maturity of more than one year	346,611	375,751
	Showing separately: - to affiliated companies	197,844	208,164
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	- to the NBH	103,003	126,989
	- to central securities depository, central counterparty	-	-
	c) in connection with investment services	1	6
	Showing separately: - to affiliated companies	-	-
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	- to central securities depository, central counterparty	-	-
1/A.	Valuation difference on amounts owed to credit institutions	-	-
2.	**Amounts owed to customers**	**4,366,507**	**4,830,024**
	a) savings deposits	119,920	136,821
	aa) repayable on demand	53,745	53,347
	ab) with remaining maturity of less than one year	66,175	83,474
	ac) with remaining maturity of more than one year	-	-
	b) other liabilities in connection with financial services	4,244,286	4,685,285
	ba) repayable on demand	2,292,100	3,270,637
	Showing separately: - to affiliated companies	10,671	33,349
	- to companies linked by virtue of major participating interest	-	98
	- to other companies linked by virtue of participating interests	3,674	5,024
	bb) with remaining maturity of less than one year	1,918,567	1,388,931
	Showing separately: - to affiliated companies	58,995	55,688
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	24,024	30,124
	bc) with remaining maturity of more than one year	33,619	25,717
	Showing separately: - to affiliated companies	-	-
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	c) in connection with investment services	2,301	7,918
	Showing separately: - to affiliated companies	-	-
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	ca) liabilities in connection with investment services on the stock exchange marke	-	-
	cb) liabilities in connection with investment services outside the stock exchange r	-	-
	cc) liabilities to customers in connection with investment services	2,301	7,918
	cd) liabilities to central securities depository, central counterparty	-	-
	ce) liabilities in connection with other investment services	-	-
2/A.	Valuation difference on amounts owed to customers	-	-
3.	**Debts evidenced by certificates**	**187,569**	**151,603**
	a) debt securities in issue	181,562	146,131
	aa) with remaining maturity of less than one year	71,771	54,959
	Showing separately: - to affiliated companies	-	-
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	ab) with remaining maturity of more than one year	109,791	91,172
	Showing separately: - to affiliated companies	-	-
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	b) other debt securities issued	229	226
	ba) with remaining maturity of less than one year	229	226
	Showing separately: - to affiliated companies	-	-
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	bb) with remaining maturity of more than one year	-	-
	Showing separately: - to affiliated companies	-	-
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-

		31 December 2015	31 December 2016
	c) debt instruments treated as securities for accounting purposes, which are not	5,778	5,246
	recognized as debt securities under the Capital Markets Act		
	ca) with remaining maturity of less than one year	2,851	2,588
	Showing separately: - to affiliated companies	-	-
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	cb) with remaining maturity of more than one year	2,927	2,658
	Showing separately: - to affiliated companies	-	-
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
4.	**Other liabilities**	**54,849**	**65,474**
	a) with remaining maturity of less than one year	54,818	65,392
	Showing separately: - to affiliated companies	6,918	3,422
	- to companies linked by virtue of major participating interest	18	18
	- to other companies linked by virtue of participating interests	650	1,011
	b) with remaining maturity of more than one year	31	82
	Showing separately: - to affiliated companies	-	-
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
4/A.	Negative valuation difference on derivatives	-	-
5.	**Accruals and deferred income**	**81,146**	**90,518**
	a) deferred income	3,438	5,195
	b) deferred costs and expenses	77,562	84,622
	c) deferred income	146	701
6.	**Provisions for liabilities and charges**	**88,465**	**47,661**
	a) provisions for pension and severance pay	1,000	1,000
	b) provisions for contingent liabilities and for (future) commitments	4,215	3,587
	c) general risk provisions	-	-
	d) other provisions	83,250	43,074
7.	**Subordinated liabilities**	**313,120**	**155,510**
	a) subordinated loan capital	156,560	0
	Showing separately: - to affiliated companies	-	-
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	b) other contributions received from members in respect of co-operative credit instituti	-	-
	c) other subordinated liabilities	156,560	155,510
	Showing separately: - to affiliated companies	-	-
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	-	-
	- to other economic entities	-	-
8.	**Subscribed capital**	**28,000**	**28,000**
	Showing separately: - own shares repurchased on nominal value	157	126
9.	**Subscribed capital called but unpaid (-)**	-	-
10.	**Capital reserve**	**52**	**52**
	a) difference between the par value and the purchase price of shares and securities (pre	-	-
	b) other	52	52
11.	**General reserve**	**14,123**	**34,287**
12.	**Profit reserve (±)**	**903,190**	**857,019**
13.	**Tied-up reserves**	**9,785**	**9,506**
14.	**Revaluation reserve**	-	-
	a) revaluation reserve on value adjustments	-	-
	b) fair value reserve	-	-
15.	**Profit or loss for the financial year (±)**	-	**181,477**
	Total liabilities	**6,883,826**	**7,109,622**
	Showing separately:		
	- SHORT-TERM LIABILITIES	4,952,966	5,210,212
	(1/a+1/ba+1/c+1/A+2/aa+2/ab+2/ba+2/bb+2/c+2/A+3/aa+		
	+3/ba+3/ca+4/a+4/A)		
	- LONG-TERM LIABILITIES	806,099	650,890
	(1/bb+2/ac+2/bc+3/ab+3/bb+3/cb+4/b+7)		
	- EQUITY CAPITAL (8-9+10+11±12+13+14±15)	955,150	1,110,341

OTP BANK PLC.

PROFIT AND LOSS ACCOUNT

Figures in million HUF

		Year ended 31 December 2015	Year ended 31 December 2016
1.	Interest received and similar income	372,403	315,263
	a) interest received and similar income from fixed-income securities	105,417	101,378
	Showing separately: - from affiliated companies	34,830	14,578
	- from other companies linked by virtue of major participating interests	-	-
	- from other companies linked by virtue of participating interests	927	675
	b) other interest received and similar income	266,986	213,885
	Showing separately: - from affiliated companies	52,941	38,930
	- from other companies linked by virtue of major participating interests	-	-
	- from other companies linked by virtue of participating interests	1,207	644
2.	Interest paid and similar charges	198,153	128,906
	Showing separately: - to affiliated companies	40,137	27,865
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	340	440
	BALANCE (1-2)	**174,250**	**186,357**
3.	Income from securities	58,597	90,467
	a) income from shares and participations held for trading (dividends and profit-sharing)	2,513	2,929
	b) income from participating interests in affiliated companies (dividends and profit-sharing)	56,065	87,526
	c) income from companies linked by virtue of major participating interest (dividends and profit-sharing)	-	-
	d) income from other participating interests (dividends and profit-sharing)	19	12
4.	Commissions and fees received or due	187,617	191,893
	a) in connection with other financial services	162,777	165,525
	Showing separately: - from affiliated companies	24,100	19,702
	- from companies linked by virtue of major participating interests	-	-
	- from other companies linked by virtue of participating interests	298	323
	b) in connection with investment services (not including trading operations)	24,840	26,368
	Showing separately: - from affiliated companies	10,837	9,893
	- from companies linked by virtue of major participating interests	-	-
	- from other companies linked by virtue of participating interests	-	-
5.	Commissions and fees paid or payable	27,527	29,902
	a) in connection with other financial services	26,505	28,744
	Showing separately: - to affiliated companies	886	896
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	2,478	2,753
	b) in connection with investment services (not including trading operations)	1,022	1,158
	Showing separately: - to affiliated companies	33	26
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	72	108
6.	Net profit or net loss on financial operations [6.a)-6.b)+6.c)-6.d)]	-12,308	37,323
	a) in connection with other financial services	46,313	75,115
	Showing separately: - from affiliated companies	15,060	39,715
	- from other companies linked by virtue of participating interests	-	-
	- from other companies linked by virtue of participating interests	4	7,249
	- valuation difference	-	-
	b) in connection with other financial services	70,662	27,936
	Showing separately: - to affiliated companies	-27,402	1,480
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	3,912	482
	- valuation difference	-	-
	c) in connection with investment services (income from trading operations)	73,249	39,594
	Showing separately: - from affiliated companies	1,182	851
	- from companies linked by virtue of major participating interests	-	-
	- from other companies linked by virtue of participating interests	521	252
	- value readjustments of transferable securities held for trading	-	-
	- valuation difference	-	-
	d) in connection with investment services (expenses on trading operations)	61,208	49,450
	Showing separately: - to affiliated companies	836	578
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	1,986	1,066
	- value adjustments in respect of securities held for trading	-	-
	- valuation difference	-	-
7.	Other operating income	422,469	114,650
	a) income from operations other than financial and investment services	13,445	12,494
	Showing separately: - from affiliated companies	4,944	4,521
	- from companies linked by virtue of major participating interests	-	-
	- from other companies linked by virtue of participating interests	44	2
	b) other income	409,024	102,156
	Showing separately: - from affiliated companies	322,755	65,137
	- from companies linked by virtue of major participating interests	-	-
	- from other companies linked by virtue of participating interests	9	-
	- value readjustments in respect of stocks	-	2

		Year ended 31 December 2015	Year ended 31 December 2016
			Figures in million HUF
8.	General administrative expenses	135,018	138,648
	a) staff costs	82,960	85,190
	aa) wages and salaries	55,493	55,662
	ab) other employee benefits	8,533	10,569
	Showing separately: - social security costs	2,559	2,605
	= costs relating to pensions	1,566	1,625
	ac) contributions on wages and salaries	18,934	18,959
	Showing separately: - social security costs	17,681	17,698
	= costs relating to pensions	-424	-
	b) other administrative expenses (materials and supplies)	52,058	53,458
9.	Depreciation	16,413	19,840
10.	Other operating charges	526,752	142,993
	a) charges on operations other than financial and investment services	9,176	7,965
	Showing separately: - to affiliated companies	34	166
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	56	99
	b) other charges	517,576	135,028
	Showing separately: - to affiliated companies	391,255	9,811
	- to companies linked by virtue of major participating interest	-	-
	- to other companies linked by virtue of participating interests	1	-
	- value adjustments in respect of stocks	-	38
11.	Value adjustments in respect of loans and advances and risk provisions for	52,827	29,161
	a) value adjustments in respect of loans and advances	49,044	26,885
	b) risk provisions for contingent liabilities and for (future) commitments	3,783	2,276
12.	Value readjustments in respect of loans and advances and risk provisions for	25,891	23,340
	a) value readjustments in respect of loans and advances	18,556	20,452
	b) risk provisions for contingent liabilities and for (future) commitments	7,335	2,888
12/A.	Difference between formation and utilization of general risk provisions	-	-
13	Value adjustments in respect of transferable debt securities held as financial fixed	39,373	104,017
14.	Value readjustments in respect of transferable debt securities held as financial fixed	81	44,219
15.	**Profit or loss on ordinary activities**	**58,687**	**223,688**
	Showing separately: - PROFIT OR LOSS ON FINANCIAL AND INVESTMENT	54,418	219,159
	- PROFIT OR LOSS ON OPERATIONS OTHER THAN FINANCIAL AND	4,269	4,529
16.	Extraordinary income	712	50,371
17.	Extraordinary charges	156,622	60,867
18.	Extraordinary profit or loss (16-17)	-155,910	-10,496
19.	**Profit or loss before tax (+15+18)**	**-97,223**	**213,192**
20.	Taxes on income	871	11,551
21.	**Profit or loss after tax (+19-20)**	**-98,094**	**201,641**
22.	General reserve (±)	98,094	-20,164
23.	**Profit or loss for the year (21-22)**	-	181,477

CASH-FLOW STATEMENT

figures in HUF million

	Description	2015	2016
1.	Interest Income	372,403	315,263
2.	Income from other financial services (expect value adjustments in respect of securities and the positive valuation difference of receivables)	209,090	234,332
3.	Other income (except value readjustments in respect of provisions, value adjustments in respect of stocks and readjustments in respect of extraordinary depreciation)	324,352	27,347
4.	+Income from other investment financial services (except value adjustments in respect of securities and positive valuation difference)	98,089	65,962
5.	Income from operations other than financial and investment services	13,445	12,494
6.	Dividend income	58,597	90,467
7.	Extraordinary income	707	50,364
8.	Interest charges	-198,153	-128,906
9.	Charges on other financial services (except value adjustments in respect of securities and the negative valuation difference of receivables)	-105,032	-57,031
10.	Other charges (except provisions, value adjustments in respect of stocks, and extraordinary depreciation)	-466,276	-149,983
11.	Charges on investment services (except value adjustments in respect of securities and negative valuation difference)	-62,287	-50,609
12.	Charges on operations other than financial and investment services	-9,176	-7,965
13.	General administrative expenses	-135,018	-138,648
14.	Extraordinary charges (not including corporate tax payable for the financial year)	-156,575	-60,815
15.	Corporate tax payable for the financial year	-871	-11,551
16.	Dividends paid	-40,558	-46,263
17.	**OPERATING CASH-FLOW**	**-97,263**	**144,458**
18.	± Variation in liabilities (increase (+), decrease (-))	-254,337	102,100
19.	± Variation in receivables (increase (-), decrease (+))	246,425	-431,049
20.	± Variation in stocks (increase (-), decrease (+))	175	-153
21.	± Variation in securities shown under current assets (increase (-), decrease (+))	208,100	-48,802
	Description	**2015**	**2016**
22.	± Variation in securities shown under fixed assets (increase (-), decrease (+))	-672,332	-194,339
23.	± Variation in tangible assets in course of construction (including payments on account) (increase (-), decrease (+))	-1,013	279
24.	± Variation in intangible assets (increase (-), decrease (+))	-10,533	31,380
25.	± Variation in tangible assets (except tangible assets in course of construction and payments on account) (increase (-), decrease (+))	-4,335	-8,441
26.	± Variation in prepayments and accrued income (increase (-), decrease (+))	31,961	-443
27.	± Variation in accruals and deferred income (increase (+), decrease (-))	-103,907	9,372
28.	+ Issue of shares at par value	0	0
29.	+ Non-repayable funds received by virtue of legal regulation	0	0
30.	- Non-repayable funds transferred by virtue of legal regulation*	84,418	-250
31.	- Nominal value of shares and share certificates withdrawn	0	0
32.	**NET CASH-FLOW**	**-572,641**	**-395,888**
	Net cash-flow showing separately:		
33.	- variation in cash in hand (HUF and foreign currencies, checks)	12,165	16,549
34.	- variation in account balances (HUF and foreign currency accounts placed with the NBH, deposit accounts with remaining maturity of less than one year, and current deposit accounts maintained in HUF at other credit institutions by virtue of specific other legislation)	-584,806	-412,437

* - Supplementary payments covering the losses of the subsidiaries

PROPOSAL FOR THE USE OF AFTER-TAX PROFIT OF THE PARENT COMPANY AND FOR DIVIDEND PAYMENT

PROPOSAL FOR THE USE OF PROFIT AFTER TAX OF THE PARENT COMPANY AND FOR DIVIDEND PAYMENT

	HUF million
Profit after tax	201,641
Increase in General reserves	-20,164
Profit for the year	181,477

A PART OF THE PROPOSAL OF RESOLUTION

For the year ended 2016 the Annual General Meeting determines

> *the parent company's balance sheet* with total assets of HUF 7,109,622 million, and with profit after tax of HUF 201,641 million, whilst the profit after tax for the period is allocated as follows:
>
> the general reserve must be increased by HUF 20,164 million, and from the profit for the year of HUF 181,477 million, HUF 53,200 million shall be paid as dividend.

The dividend per share is HUF 190, compared to the face value of shares it's 190%. The actual rate of dividend paid to shareholders is calculated and paid based on the Articles of Association, so the Company distributes the dividends for its own shares among the shareholders who are entitled for dividends. The dividends shall be paid from 6 June 2017 in accordance with the policy determined in the Articles of Association.

(The text above is part of the proposal of Annual General Meeting resolution)

FINANCIAL STATEMENTS ON 2017

IFRS (CONSOLIDATED)

OTP BANK PLC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(in HUF mn)

	Note	2016	2015
Cash, amounts due from banks and balances with the National Banks	*4.*	1,625,357	1,878,960
Placements with other banks, net of allowance for placement losses	*5.*	363,530	300,568
Financial assets at fair value through profit or loss	*6.*	293,106	253,782
Securities available-for-sale	*7.*	1,527,093	1,305,486
Loans, net of allowance for loan losses	*8.*	5,736,232	5,409,967
Associates and other investments	*9.*	9,836	10,028
Securities held-to-maturity	*10.*	1,114,227	926,677
Property and equipment	*11.*	193,485	193,661
Intangible assets	*11.*	162,031	155,809
Investment property, investment property subject to operating lease	*12.*	29,446	30,319
Other assets	*13.*	253,322	253,591
TOTAL ASSETS		**11,307,665**	**10,718,848**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	*14.*	543,775	533,310
Deposits from customers	*15.*	8,540,583	7,984,579
Liabilities from issued securities	*16.*	146,900	239,376
Financial liabilities at fair value through profit or loss	*17.*	75,871	101,561
Other liabilities	*18.*	502,429	391,579
Subordinated bonds and loans	*19.*	77,458	234,784
TOTAL LIABILITIES		**9,887,016**	**9,485,189**
Share capital	*20.*	28,000	28,000
Retained earnings and reserves		1,449,478	1,261,029
Treasury shares	*22.*	(60,121)	(58,021)
Non-controlling interest	*23.*	3,292	2,651
TOTAL SHAREHOLDERS' EQUITY		**1,420,649**	**1,233,659**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**11,307,665**	**10,718,848**

Budapest, 16 March 2017

OTP BANK Nyrt.

Dr. Sándor Csányi
Chairman and Chief Executive Officer

OTP BANK PLC.
CONSOLIDATED STATEMENT OF RECOGNIZED INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(in HUF mn)

	Note	2016	2015
Interest Income:			
Loans		510,449	575,619
Placements with other banks		74,588	114,025
Securities available-for-sale		34,557	31,063
Securities held-to-maturity		51,427	46,619
Amounts due from banks and balances with the National Banks		9,866	27,496
Other		8,804	7,606
Total Interest Income		**689,691**	**802,428**
Interest Expense:			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		75,925	116,713
Deposits from customers		72,554	108,023
Liabilities from issued securities		4,726	6,786
Subordinated bonds and loans		10,239	13,633
Other		6,518	6,843
Total Interest Expense		**169,962**	**251,998**
NET INTEREST INCOME		**519,729**	**550,430**
Provision for impairment on loan and placement losses	*5.,8.,24.*	93,473	318,683
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**426,256**	**231,747**
Income from fees and commissions	*25.*	272,235	257,431
Expense from fees and commissions	*25.*	49,244	43,559
Net profit from fees and commissions		**222,991**	**213,872**
Foreign exchange gains, net		36,142	116,682
Gains on securities, net		20,828	11,616
Dividend income		3,054	3,345
Release of provision / (Provision) on securities available-for-sale and held-to-maturity		55	(15)
Other operating income	*26.*	19,628	22,973
Other operating expense	*26.*	(36,461)	(74,680)
- from this: release of provision on contingent liabilities due to regulations related to customer loans	*26.*	-	196,574
Net operating gain		**43,246**	**79,921**
Personnel expenses	*26.*	191,442	187,806
Depreciation and amortization	*11.*	44,427	45,463
Goodwill impairment	*11.*	-	-
Other administrative expenses	*26.*	220,229	232,247
Other administrative expenses		**456,098**	**465,516**
PROFIT BEFORE INCOME TAX		**236,395**	**60,024**
Income tax (expense) / benefit	*27.*	(33,943)	3,147
NET PROFIT FOR THE YEAR		**202,452**	**63,171**
From this, attributable to:			
Non-controlling interest		**242**	**(412)**
Owners of the company		**202,210**	**63,583**
Consolidated earnings per share (in HUF)			
Basic	*39.*	**765**	**242**
Diluted	*39.*	**765**	**242**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(in HUF mn)

	2016	2015
NET PROFIT FOR THE YEAR	**202,452**	**63,171**
Items that may be reclassified subsequently to profit or loss:		
Fair value adjustment of securities available-for-sale	11,248	(880)
Deferred tax related to securities available-for-sale	(1,665)	633
Effect of tax rate-modification related to securities available-for-sale	2,241	-
Net investment hedge in foreign operations	525	431
Foreign currency translation difference	24,554	(44,301)
Change of actuarial losses related to employee benefits	61	(170)
NET COMPREHENSIVE INCOME	**239,416**	**18,884**
From this, attributable to:		
Non-controlling interest	641	(698)
Owners of the company	238,775	19,582

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in HUF mn)

OPERATING ACTIVITIES	Note	2016	2015
Profit before income tax		**236,395**	**60,024**
Dividend income		(3,054)	(3,345)
Depreciation and amortization	*11.*	44,427	45,463
(Release of provision) / Provision for impairment on securities	*7.,10.*	(55)	15
Provision for impairment on loan and placement losses	*5.,8., 24.*	93,473	318,683
Provision for impairment on investments	*9.*	687	1,094
Provision for impairment on investment properties and on investment properties subject to operating leases	*12.*	833	490
Provision for impairment on other assets	*13.*	2,218	6,657
Release of provision for impairment on off-balance sheet commitments and contingent liabilities	*18.*	(15,268)	(146,360)
Share-based payment	*2.,30.*	3,530	3,810
Change of actuarial gains / (losses) related to employee benefits		61	(171)
Unrealized losses on fair value change of securities held for trading		(9,969)	(12,098)
Unrealized gains on fair value change of derivative financial instruments		14,762	7,793
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		(72,891)	(5,238)
Net (increase) / decrease in loans, net of allowance for loan losses		(412,425)	40,677
Increase in other assets before provisions for impairment		(30,555)	(1,331)
Net increase in deposits from customers		556,004	311,102
Increase in other liabilities		132,104	24,613
Net increase in compulsory reserves at the National Banks		(45,079)	(147,360)
Income tax paid		(19,922)	(14,676)
Net Cash Provided by Operating Activities		**475,276**	**489,842**
Interest received		702,276	803,868
Interest paid		(158,181)	(242,622)
INVESTING ACTIVITIES			
Net increase in placement with other banks before allowance for placements losses		(62,830)	(19,556)
Purchase of securities available-for-sale		(814,918)	(842,886)
Proceeds from sale of securities available-for-sale		613,661	373,078
Net (increase) / decrease in investments in associates		(467)	11,832
Net (increase) / decrease in investments in other companies		(191)	427
Dividends received		3,217	3,345
Purchase of securities held-to-maturity		(877,412)	(1,036,805)
Decrease in securities held-to-maturity		692,831	822,634
Purchase of property, equipment and intangible assets		(71,575)	(50,376)
Proceeds from disposals to property, equipment and intangible assets		19,537	21,107
Decrease / (Increase) in investment properties and in investment properties subject to operating lease before provision for impairment		40	(294)
Net (increase) / decrease in advances for investments included in other assets		(3)	28
Net Cash Used in Investing Activities		**(498,110)**	**(717,466)**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in HUF mn)
[continued]

FINANCING ACTIVITIES	**Note**	**2016**	**2015**
Net increase / (decrease) in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		10,465	(174,964)
Cash received from issuance of securities		27,539	60,944
Cash used for redemption of issued securities		(120,015)	(88,652)
Decrease in subordinated bonds and loans		(157,326)	(47,184)
Increase / (Decrease) in non-controlling interest		640	(698)
Payments to ICES holders	*21.*	(9,135)	(3,928)
Purchase of Treasury shares		9,881	24,641
Sales of Treasury shares		(15,897)	(34,093)
Dividends paid		(46,152)	(40,473)
Net Cash Used in Financing Activities		**(300,000)**	**(304,407)**
Net decrease in cash and cash equivalents		**(322,834)**	**(532,031)**
Cash and cash equivalents at the beginning of the period		**1,427,292**	**2,003,324**
Foreign currency translation		24,152	(44,001)
Cash and cash equivalents at the end of the period		**1,128,610**	**1,427,292**

Analysis of cash and cash equivalents

Cash, amounts due from banks and balances with the National Banks		1,874,306	2,310,313
Net cash inflow / (outflow) due to acquisition		4,654	(2,681)
Compulsory reserve established by the National Banks		(451,668)	(304,308)
Cash and cash equivalents at the beginning of the period		**1,427,292**	**2,003,324**
Cash, amounts due from banks and balances with the National Banks	*4.*	1,625,357	1,874,306
Net cash inflow due to acquisition	*32.*	-	4,654
Compulsory reserve established by the National Banks	*4.*	(496,747)	(451,668)
Cash and cash equivalents at the end of the period		**1,128,610**	**1,427,292**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(in HUF mn)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Put option reserve[19]	Treasury shares	Non-controlling interest	Total
Balance as at 1 January 2015		**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	*30.*	-	-	3,810	-	-	-	-	3,810
Dividend for the year 2014		-	-	-	(40,600)	-	-	-	(40,600)
Sale of Treasury shares	*22.*	-	-	-	-	-	24,641	-	24,641
Treasury shares									
– loss on sale		-	-	-	(7,372)	-	-	-	(7,372)
– acquisition	*22.*	-	-	-	-	-	(26,721)	-	(26,721)
Payments to ICES holders	*21.*	-	-	-	(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**
Net profit for the year		-	-	-	202,210	-	-	242	202,452
Other Comprehensive Income		-	-	-	36,565	-	-	399	36,964
Share-based payment	*30.*	-	-	3,530	-	-	-	-	3,530
Dividend for the year 2015		-	-	-	(46,200)	-	-	-	(46,200)
Sale of Treasury shares	*22.*	-	-	-	-	-	9,882	-	9,882
Treasury shares									
– loss on sale		-	-	-	(3,915)	-	-	-	(3,915)
– acquisition	*22.*	-	-	-	-	-	(11,982)	-	(11,982)
Payments to ICES holders	*21.*	-	-	-	(3,741)	-	-	-	(3,741)
Balance as at 31 December 2016		**28,000**	**52**	**28,237**	**1,476,657**	**(55,468)**	**(60,121)**	**3,292**	**1,420,649**

[19] See Note 18.

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

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

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 17 March 2017.

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

	2016	2015
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 1,302 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

The number of employees at the Group:

	2016	2015
The number of employees at the Group	38,575	38,203
The average number of employees at the Group	37,782	38,114

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 2016

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 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 – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- 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” - 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).

The adoption of these amendments to the existing standards and interpretations has not led to any material changes in the Group’s financial statements.

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

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

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

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

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

The Group started its preparation for IFRS 9 during 2016 led by the Bank’s Risk Management and Finance Divisions. The preparations cover the key challenges that the Bank faces with the new standard.

The identification of gaps between its currently used methodologies and the IFRS 9 requirements in classification and measurement, impairment and hedge accounting was completed.

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

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

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

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

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

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

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

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

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance contracts" – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018, or when IFRS 9 "Financial Instruments" is applied first time),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),

- Amendments to IFRS 15 "Revenue from Contracts with Customers" – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 40 "Investment property" – Transfers of Investment Property (issued on 8 December 2016, effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

Relating to the adoption of the IFRS 16 Leases standard, the Group is in a position of lessor, and doesn't expect significant impact due to the application, however detailed impact analysis has not been performed yet.
Hedge accounting regarding the portfolio of financial assets and liabilities, whose principle has not been adopted by the EU, is still unregulated.
According to the Group's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements of the Group, if applied as at the balance sheet date.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

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

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

2.2. Foreign currency translation

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see note 2.7. below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in Other Comprehensive Income and reclassified from equity to profit or loss on repayment of the monetary items.

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

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

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

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

2.3. Principles of consolidation

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

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, mortgage bonds and corporate bonds.

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

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

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.

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[1] First In First Out

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. Equity and commodity swap deals made by the Bank enables both local players to open positions in international capital markets (leading benchmark indices like S&P 500 or commodity futures like WTI Light Crude Oil), without facing the transaction costs of accessing these markets and international players to open positions in domestic equity instruments, without the need of funding these positions. Exposures taken from the clients are hedged on equity or future markets.

Forward rate agreements (FRA)

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

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

Foreign exchange options

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

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

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

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

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

2.8. Offsetting

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

2.9. Embedded derivatives

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

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

2.10. Securities available-for-sale

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

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

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

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

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

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

[1] First In First Out

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	3.33-67%
Property rights	5-50%
Property	1-38.7%
Office equipment and vehicles	1-50%

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

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

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

2.15. Financial liabilities

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

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 2015 have been restructured within the particular note to conform with the current year presentation and these amounts are not significant.

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 s tatements and their reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

3.1. Impairment on loans and placements

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

3.2. Valuation of instruments without direct quotations

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

3.3. Provisions

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

3.4. Impairment on goodwill

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

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

	2016	2015
Cash on hand		
In HUF	89,402	78,182
In foreign currency	165,425	146,718
	254,827	**224,900**

Amounts due from banks and balances with the National Banks

	2016	2015
Within one year:		
In HUF	501,249	1,203,223
In foreign currency	869,034	449,139
	1,370,283	**1,652,362**
Over one year:		
In HUF	-	2
In foreign currency	-	-
	-	**2**
Accrued interest	247	1,696
	1,370,530	**1,654,060**
Total	**1,625,357**	**1,878,960**
Compulsory reserve set by the National Banks	**496,747**	**451,668**

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

	2016	2015
Within one year		
In HUF	55,804	57,207
In foreign currency	299,755	241,952
	355,559	**299,159**
Over one year		
In HUF	5,206	-
In foreign currency	2,699	1,396
	7,905	**1,396**
Accrued interest	161	63
Provision for impairment on placement losses	(95)	(50)
Total	**363,530**	**300,568**

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

	2016	2015
Balance as at 1 January	**50**	**47**
Provision for the period	46	3
Foreign currency translation difference	(1)	-
Closing balance	**95**	**50**

Interest conditions of placements with other banks:

	2016	2015
In HUF	0.01% - 2.86%	0.1% - 6.4%
In foreign currency	(15.0)% - 16.5%	0.01% - 14.9%

	2016	2015
Average interest rates on placements with other banks	1.25%	0.88%

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

	2016	2015
Securities held for trading		
Shares	104,402	72,620
Government bonds	40,095	25,866
Interest bearing treasury bills	15,639	7,768
Discounted Treasury bills	97	366
Other securities	14,396	178
Other non-interest bearing securities	9,237	4,507
	183,866	**111,305**
Accrued interest	930	671
Total	**184,796**	**111,976**

Positive fair value of derivative financial instruments classified held for trading

	2016	2015
Interest rate swaps classified as held for trading	38,878	33,770
CCIRS and mark-to-market CCIRS[1] classified as held for trading	34,100	84,270
Foreign exchange swaps classified as held for trading	17,148	15,551
Foreign exchange forward contracts classified as held for trading	94	124
Other derivative transactions classified as held for trading	18,090	8,091
	108,310	**141,806**
Total	**293,106**	**253,782**

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

	2016	2015
Denominated in HUF (%)	74.1%	84.0%
Denominated in foreign currency (%)	25.9%	16.0%
Total	**100.0%**	**100.0%**

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

	2016	2015
Denominated in HUF (%)	25.8%	48.4%
Denominated in foreign currency (%)	74.2%	51.6%
Total	**100.0%**	**100.0%**

	2016	2015
Interest rates on securities held for trading	0.33% - 7.75%	1.1% - 8.75%
Average interest rates on securities held for trading	0.60%	4.33%

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

	2016	2015
Within one year		
With variable interest	1,845	18
With fixed interest	32,219	8,547
	34,064	**8,565**
Over one year		
With variable interest	3,111	2,181
With fixed interest	33,052	23,432
	36,163	**25,613**
Non-interest bearing securities	113,639	77,127
Total	**183,866**	**111,305**

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

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

	2016	2015
Securities available-for-sale		
Government bonds	1,323,178	1,142,470
Corporate bonds	130,533	51,278
From this:		
Listed securities:		
In HUF	*41,448*	-
In foreign currency	*23,871*	*7,399*
	65,319	*7,399*
Non-listed securities:		
In HUF	*38,990*	*43,879*
In foreign currency	*26,224*	-
	65,214	*43,879*
Discounted Treasury bills	20,944	33,970
Other securities	441	12,422
Other non-interest bearing securities	36,728	45,222
From this:		
Listed securities:		
In HUF	*1,460*	*1,218*
In foreign currency	*49*	*7,410*
	1,509	*8,628*
Non-listed securities:		
In HUF	*12,541*	*17,562*
In foreign currency	*22,678*	*19,032*
	35,219	*36,594*
	1,511,824	**1,285,362**

	2016	2015
Accrued interest	15,574	20,507
Provision for impairment on securities available-for-sale	(305)	(383)
Total	**1,527,093**	**1,305,486**

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

	2016	2015
Denominated in HUF (%)	68.1%	74.8%
Denominated in foreign currency (%)	31.9%	25.2%
Total	**100.0%**	**100.0%**

An analysis of government bonds by currency (%):

	2016	2015
Denominated in HUF (%)	70.6%	78.5%
Denominated in foreign currency (%)	29.4%	21.5%
Total	**100.0%**	**100.0%**

	2016	2015
Interest rates on securities available-for-sale denominated in HUF	0.33% - 7.5%	0.8% - 7.5%
Interest rates on securities available-for-sale denominated in foreign currency	0.1% - 26.4%	0.4% - 28.0%

	2016	2015
Average interest rates on securities available-for-sale denominated in HUF	2.30%	2.96%
Average interest rates on securities available-for-sale denominated in foreign currency	3.25%	3.48%

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

	2016	2015
Within one year		
With variable interest	597	431
With fixed interest	161,781	130,717
	162,378	**131,148**
Over one year		
With variable interest	40,340	42,372
With fixed interest	1,272,378	1,066,620
	1,312,718	**1,108,992**
Non-interest bearing securities	36,728	45,222
Total	**1,511,824**	**1,285,362**

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

	2016	2015
Balance as at 1 January	**383**	**1,274**
Provision for the period	3	17
Release of provision	(58)	-
Use of provision	(2)	(831)
Foreign currency translation difference	(21)	(77)
Closing balance	**305**	**383**

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

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

	2016	2015
Short-term loans and promissory notes (within one year)	2,242,709	2,112,909
Long-term loans and promissory notes (over one year)	4,397,045	4,260,765
	6,639,754	**6,373,674**
Accrued interest	40,751	49,913
Provision for impairment on loan losses	(944,273)	(1,013,620)
Total	**5,736,232**	**5,409,967**

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

	2016	2015
In HUF	38%	36%
In foreign currency	62%	64%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2016	2015
Short-term loans denominated in HUF	0.0% - 44.1%	0.01% - 40.7%
Long-term loans denominated in HUF	(0.35)% - 37.5%	0.01% - 40.7%
Short-term loans denominated in foreign currency	(0.7)% - 64.9%	0.01% - 66.9%
Long-term loans denominated in foreign currency	(0.7)% - 59.7%	0.01% - 59.7%

	2016	2015
Average interest rates on loans denominated in HUF	8.48%	10.27%
Average interest rates on loans denominated in foreign currency	8.35%	9.37%

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

	2016	2015
Balance as at 1 January	**1,013,620**	**1,129,085**
Provision for the period	419,801	607,856
Release of provision	(358,545)	(332,171)
Use of provision	(94,188)	(195,846)
Partial write-off[1]	(36,267)	(84,537)
Foreign currency translation difference	(148)	(110,767)
Closing balance	**944,273**	**1,013,620**

[1] See details in Note 2.11.

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

	2016	2015
Release of provision on placement losses	(132)	(6)
Provision for impairment on loan losses	93,605	318,689
Total	**93,473**	**318,683**

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

	2016	2015
Investments[1]		
Investments in associates (non-listed)	6,240	5,936
Other investments (non-listed) at cost	7,926	7,974
	14,166	**13,910**
Provision for impairment on investments	(4,330)	(3,882)
Total	**9,836**	**10,028**

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

	2016	2015
Balance as at 1 January	**3,882**	**3,304**
Provision for the period	687	1,094
Use of provision	(234)	(139)
Change due to merge	-	(375)
Foreign currency translation difference	(5)	(2)
Closing balance	**4,330**	**3,882**

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

	2016	2015
Government bonds	1,095,897	909,556
Discounted Treasury bills	113	116
Mortgage bonds	52	-
Corporate bonds	5	5
	1,096,067	**909,677**
Accrued interest	18,960	17,807
Provision for impairment on securities held-to-maturity	(800)	(807)
Total	**1,114,227**	**926,677**

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

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

	2016	2015
Within one year		
With variable interest	10	3,339
With fixed interest	120,079	91,778
	120,089	**95,117**
Over one year		
With variable interest	635	195
With fixed interest	975,343	814,365
	975,978	**814,560**
Total	**1,096,067**	**909,677**

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

	2016	2015
Denominated in HUF (%)	91.0%	89.6%
Denominated in foreign currency (%)	9.0%	10.4%
Total	**100.0%**	**100.0%**

	2016	2015
Interest rates of securities held-to-maturity with variable interest	0.9% - 4.7%	0.01% - 0.6%
Interest rates of securities held-to-maturity with fixed interest	2.2% - 14.0%	0.1% - 20.7%

	2016	2015
Average interest rates on securities held-to-maturity	5.13%	5.82%

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

	2016	2015
Balance as at 1 January	**807**	**814**
Provision for the period	18	15
Release of provision	(18)	(17)
Use of provision	(7)	(2)
Foreign currency translation difference	-	(3)
Closing balance	**800**	**807**

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

For the year ended 31 December 2016

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

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

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

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

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

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

Net book value	
Balance as at 1 January	**95,994**
Balance as at 31 December	**104,282**

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

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

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.

On the base of the Management's opinion in the Bank it was needed to prepare the impairment test as at 31 December 2016, where in case of two companies JSC "OTP Bank" (Russia) and OTP Bank JSC (Ukraine) a five-year (2017-2021) cash-flow model while in case of the other subsidiaries three-year cash-flow model was applied with an explicit period between 2017-2019. The base of the estimation was the annual financial strategic plan for year 2016, while for the three-year explicit period the Bank applied the prognosis for year 2017 accepted by the Management Committee of the subsidiaries and on the base of this prognosis the prepared medium-term (2018-2019) forecasts. When the Bank prepared the calculations for the period 2017-2019, considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these and the expected changes of the mentioned factors.

Present value calculation with the DCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case of OTP banka Hrvatska d.d. (Croatia) the yield of the local government bonds in foreign currency with a period of one year was applied, while in case of the other subsidiaries the base rates of these National Banks were considered presented in the actual macro forecasts. The Bank calculated risk premiums on the 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 growth rate in the explicit period is the growth rate of the profit after tax adjusted by the interest rate of the cash and subordinated loans. The supposed growth rates for the periods of residual values reflect the long-term economic expectations in case of every country.

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

Present value calculation with the EVA method

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

Summary of the impairment test for year ended 31 December 2016

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

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

For the year ended 31 December 2015

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

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

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

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

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

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

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

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

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.

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

For the year ended 31 December 2016

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

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

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

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

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

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

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

Fair values	**27,806**	**5,641**	**33,447**

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

For the year ended 31 December 2015

Gross value	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	**34,723**	**10,246**	**44,969**
Additions from purchase	4,087	-	4,087
Additions due to receiving from debtors for the receivables	1,129	-	1,129
Other additions	126	-	126
Disposals due to transfer to inventories or owner-occupied properties	-	(2,616)	(2,616)
Disposals due to transfer to properties classified as held for sale	(440)	-	(440)
Other disposals	(1,407)	-	(1,407)
Foreign currency translation difference	(1,079)	(25)	(1,104)
Closing balance	**37,139**	**7,605**	**44,744**

Depreciation and amortization	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	**3,401**	**2,013**	**5,414**
Charge for the period	366	297	663
Disposals due to transfer to inventories or owner-occupied properties	-	(1,092)	(1,092)
Other disposals for the period	(23)	-	(23)
Foreign currency translation difference	(25)	(2)	(27)
Closing balance	**3,719**	**1,216**	**4,935**

Impairment	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	**7,900**	**1,140**	**9,040**
Impairment for the period	262	389	651
Release of impairment	(161)	-	(161)
Use of impairment	(1)	-	(1)
Foreign currency translation difference	(35)	(4)	(39)
Closing balance	**7,965**	**1,525**	**9,490**

Net values	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	**23,422**	**7,093**	**30,515**
Balance as at 31 December	**25,455**	**4,864**	**30,319**
Fair values	**28,594**	**4,686**	**33,280**

Incomes and expenses	Investment property	Investment property subject to operating lease	Total
Rental income	1,823	641	**2,464**
Direct operating expenses of investment properties – income generating	238	6	**244**
Direct operating expenses of investment properties – non income generating	194	-	**194**

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

	2016	2015
Inventories	53,772	46,195
Deferred tax receivables[2]	52,593	73,079
Prepayments and accrued income	33,118	25,136
Assets subject to operating lease	21,405	17,026
Receivables from card operations	16,572	7,865
Current income tax receivable	11,679	20,492
Trade receivables	11,369	10,891
Other advances	9,588	7,083
Fair value of derivative financial instrument designated as fair value hedge	7,887	16,009
Receivable from the National Asset Management	6,967	6,645
Receivables due from pension funds and investment funds	5,610	2,516
Other receivables from Hungarian Government	4,292	1,233
Receivables from investment services	4,244	6,369
Stock exchange deals	2,827	2,163
Loans sold under deferred payment scheme	2,276	2,410
Receivables from leasing activities	1,616	1,470
Advances for securities and investments	666	663
Other	34,914	34,338
Subtotal	**281,395**	**281,583**
Provision for impairment on other assets[3]	(28,073)	(27,992)
Total	**253,322**	**253,591**

[1] 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 2016. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.

[2] See Note 27.

[3] Provision for impairment on trade receivables and on inventories was recognized the most impairment among the Provision for impairment on other assets.

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

	2016	2015
Interest rate swaps designated as fair value hedge	6,888	15,393
CCIRS and mark-to-market CCIRS designated as fair value hedge	998	604
Other transactions designated as fair value hedge	1	12
Total	**7,887**	**16,009**

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

	2016	2015
Balance as at 1 January	**27,992**	**23,862**
Provision for the period	1,476	6,529
Use of provision	(1,569)	(1,569)
Foreign currency translation difference	174	(830)
Closing balance	**28,073**	**27,992**

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

	2016	2015
Within one year		
In HUF	129,739	134,081
In foreign currency	126,361	115,423
	256,100	**249,504**
Over one year		
In HUF	223,415	205,221
In foreign currency	63,720	78,015
	287,135	**283,236**
Accrued interest	540	570
Total[1]	**543,775**	**533,310**

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

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

	2016	2015
Within one year		
In HUF	0.0% - 0.9%	(1.0)% - 3.6%
In foreign currency	(0.4)% - 10.5%	0.01% - 11.75%
Over one year		
In HUF	0.0% - 3.8%	0.0% - 3.2%
In foreign currency	(0.06)% - 10.85%	0.1% - 17.0%

	2016	2015
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	1.41%	1.97%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency	1.55%	1.54%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2016	2015
Within one year		
In HUF	3,725,744	3,565,248
In foreign currency	4,413,976	4,121,267
	8,139,720	**7,686,515**
Over one year		
In HUF	308,199	169,177
In foreign currency	77,020	109,345
	385,219	**278,522**
Accrued interest	15,644	19,542
Total	**8,540,583**	**7,984,579**

Interest rates on deposits from customers are as follows:

	2016	2015
Within one year		
In HUF	0.0% - 9.65%	0.01% - 4.0%
In foreign currency	0.0% - 20.5%	0.01% - 24.5%
Over one year		
In HUF	0.0% - 9.65%	0.01% - 6.85%
In foreign currency	0.01% - 22.0%	0.01% - 20.5%

	2016	2015
Average interest rates on deposits from customers denominated in HUF	0.43%	0.75%
Average interest rates on deposits from customers denominated in foreign currency	1.08%	1.95%

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

	2016		2015	
Retail deposits	6,112,174	72%	5,663,139	71%
Corporate deposits	1,946,298	23%	1,948,422	25%
Municipality deposits	466,467	5%	353,476	4%
Total	**8,524,939**	**100%**	**7,965,037**	**100%**

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

	2016	2015
With original maturity		
Within one year		
In HUF	18,498	18,388
In foreign currency	37,348	64,762
	55,846	**83,150**
Over one year		
In HUF	88,640	146,011
In foreign currency	251	784
	88,891	**146,795**
Accrued interest	2,163	9,431
Total	**146,900**	**239,376**

Interest rates on liabilities from issued securities are as follows:

	2016	2015
Issued securities denominated in HUF	0.01% - 9.5%	0.01% - 10.0%
Issued securities denominated in foreign currency	0.1% - 9.0%	0.52% - 12.8%

	2016	2015
Average interest rates on issued securities denominated in HUF	3.10%	3.21%
Average interest rates on issued securities denominated in foreign currency	1.07%	1.71%

Issued securities denominated in HUF as at 31 December 2016 (in HUF mn)

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP 2017/Ax	01/04/2011	31/03/2017	3,939	indexed	floating	hedged
2	OTP 2017/Bx	17/06/2011	20/06/2017	3,727	indexed	floating	hedged
3	OTP 2017/Cx	19/09/2011	25/09/2017	2,838	indexed	floating	hedged
4	OTP 2017/Dx	20/10/2011	19/10/2017	385	indexed	floating	hedged
5	OTP 2017/Ex	21/12/2011	28/12/2017	3,072	indexed	floating	hedged
6	OTP 2018/Ax	03/01/2012	09/01/2018	472	indexed	floating	hedged
7	OTP 2018/Bx	22/03/2012	22/03/2018	3,601	indexed	floating	hedged
8	OTP 2018/Cx	18/07/2012	18/07/2018	3,113	indexed	floating	hedged
9	OTP 2018/Dx	29/10/2012	26/10/2018	2,660	indexed	floating	hedged
10	OTP 2018/Ex	28/12/2012	28/12/2018	2,614	indexed	floating	hedged
11	OTP 2019/Ax	25/06/2009	01/07/2019	231	indexed	floating	hedged
12	OTP 2019/Bx	05/10/2009-05/02/2010	14/10/2019	343	indexed	floating	hedged
13	OTP 2019/Cx	14/12/2009	20/12/2019	285	indexed	floating	hedged
14	OTP 2019/Dx	22/03/2013	21/03/2019	3,845	indexed	floating	hedged
15	OTP 2019/Ex	28/06/2013	24/06/2019	3,063	indexed	floating	hedged
16	OTP 2020/Ax	25/03/2010	30/03/2020	316	indexed	floating	hedged
17	OTP 2020/Bx	28/06/2010	09/07/2020	305	indexed	floating	hedged
18	OTP 2020/Cx	11/11/2010	05/11/2020	195	indexed	floating	hedged
19	OTP 2020/Dx	16/12/2010	18/12/2020	207	indexed	floating	hedged
20	OTP 2020/Ex	18/06/2014	22/06/2020	3,686	indexed	floating	hedged
21	OTP 2020/Fx	10/10/2014	16/10/2020	3,257	indexed	floating	hedged
22	OTP 2020/Gx	15/12/2014	21/12/2020	2,753	indexed	floating	hedged
23	OTP 2021/Ax	01/04/2011	01/04/2021	256	indexed	floating	hedged
24	OTP 2021/Bx	17/06/2011	21/06/2021	284	indexed	floating	hedged
25	OTP 2021/Cx	19/09/2011	24/09/2021	277	indexed	floating	hedged
26	OTP 2021/Dx	21/12/2011	27/12/2021	338	indexed	floating	hedged
27	OTP 2022/Ax	22/03/2012	23/03/2022	252	indexed	floating	hedged
28	OTP 2022/Bx	18/07/2012	18/07/2022	230	indexed	floating	hedged
29	OTP 2022/Cx	29/10/2012	28/10/2022	246	indexed	floating	hedged
30	OTP 2022/Dx	28/12/2012	27/12/2022	305	indexed	floating	hedged
31	OTP 2023/Ax	22/03/2013	24/03/2023	371	indexed	floating	hedged
32	OTP 2023/Bx	28/06/2013	26/06/2023	265	indexed	floating	hedged
33	OTP 2024/Ax	18/06/2014	21/06/2024	256	indexed	floating	hedged
34	OTP 2024/Bx	10/10/2014	16/10/2024	365	indexed	floating	hedged
35	OTP 2024/Cx	15/12/2014	20/12/2024	299	indexed	floating	hedged
36	OTP 2020/RF/A	12/07/2010	20/07/2020	3,070	indexed	floating	hedged
37	OTP 2020/RF/B	12/07/2010	20/07/2020	1,417	indexed	floating	hedged
38	OTP 2020/RF/C	11/11/2010	05/11/2020	3,345	indexed	floating	hedged
39	OTP 2021/RF/A	05/07/2011	13/07/2021	2,946	indexed	floating	hedged
40	OTP 2021/RF/B	20/10/2011	25/10/2021	2,955	indexed	floating	hedged
41	OTP 2021/RF/C	21/12/2011	30/12/2021	586	indexed	floating	hedged
42	OTP 2021/RF/D	21/12/2011	30/12/2021	392	indexed	floating	hedged
43	OTP 2021/RF/E	21/12/2011	30/12/2021	61	indexed	floating	hedged
44	OTP 2022/RF/A	22/03/2012	23/03/2022	1,773	indexed	floating	hedged
45	OTP 2022/RF/B	22/03/2012	23/03/2022	565	indexed	floating	hedged
46	OTP 2022/RF/C	28/06/2012	28/06/2022	169	indexed	floating	hedged
47	OTP 2022/RF/D	28/06/2012	28/06/2022	218	indexed	floating	hedged
48	OTP 2022/RF/E	29/10/2012	31/10/2022	618	indexed	floating	hedged
49	OTP 2022/RF/F	28/12/2012	28/12/2022	341	indexed	floating	hedged
50	OTP 2023/RF/A	22/03/2013	24/03/2023	567	indexed	floating	hedged
51	OTP OJK 2017/I	27/01/2012-13/07/2012	27/01/2017	1	7	fixed	
52	OJB 2019/I	17/03/2004	18/03/2019	31,483	9.48	fixed	
53	OJB 2019/II	31/05/2011	18/03/2019	1,058	9.48	fixed	
54	OJB 2020/I	19/11/2004	12/11/2020	5,503	9	fixed	
	Subtotal			**105,719**			

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
55	OJB 2020/II	25/05/2011	12/11/2020	1,487	9	fixed	
56	OTP TBSZ6 2017/I	13/01/2012-22/06/2012	15/12/2017	223	6.5	fixed	
57	Other[1]			229			
	Subtotal			**1,939**			
	Subtotal issued securities in HUF			**107,658**			
	Unamortized premium			(5,909)			
	Fair value adjustment			5,389			
	Total issued securities in HUF			**107,138**			

Issued securities denominated in foreign currency as at 31 December 2016 (in HUF mn)

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	Nominal value (HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP EUR 1 2016/XIII	30/12/2015	13/01/2017	EUR	25.32	7,876	0.5	fixed	
2	OTP EUR 1 2017/I	29/01/2016	12/02/2017	EUR	14.58	4,536	0.4	fixed	
3	OTP EUR 1 2017/II	12/02/2016	26/02/2017	EUR	4.35	1,354	0.4	fixed	
4	OTP EUR 1 2017/III	26/02/2016	12/03/2017	EUR	7.47	2,323	0.4	fixed	
5	OTP EUR 1 2017/IV	18/03/2016	01/04/2017	EUR	6.47	2,011	0.2	fixed	
6	OTP EUR 1 2017/V	15/04/2016	29/04/2017	EUR	8.59	2,673	0.2	fixed	
7	OTP EUR 1 2017/VI	27/05/2016	10/06/2017	EUR	11.67	3,629	0.1	fixed	
8	OTP EUR 1 2017/VII	10/06/2016	24/06/2017	EUR	3.62	1,126	0.1	fixed	
9	OTP EUR 1 2017/VIII	01/07/2016	15/07/2017	EUR	6.78	2,110	0.1	fixed	
10	OTP EUR 1 2017/IX	10/08/2016	24/08/2017	EUR	8.67	2,696	0.1	fixed	
11	OTP EUR 1 2017/X	16/09/2016	30/09/2017	EUR	4.45	1,385	0.1	fixed	
12	OTP 2017/Fx	19/06/2012	16/06/2017	EUR	0.78	243	indexed		hedged
13	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	192	indexed		hedged
14	OTP_VK_USD_1_2017/I	29/01/2016	29/01/2017	USD	3.88	1,140	0.8	floating	
15	OTP_VK_USD_1_2017/II	18/03/2016	18/03/2017	USD	1.97	577	0.8	floating	
16	OTP_VK_USD_1_2017/III	27/05/2016	27/05/2017	USD	6.26	1,837	0.8	floating	
17	OTP_VK_USD_1_2017/IV	16/09/2016	16/09/2017	USD	1.45	427	0.8	fixed	
18	OTP_VK_USD_2_2017/I	10/04/2015	10/04/2017	USD	0.29	84	1.1	floating	
19	Other[2]					1,427			
	Subtotal issued securities in FX					**37,646**			
	Unamortized premium					(30)			
	Fair value adjustment					(17)			
	Total issued securities in FX					**37,599**			
	Accrued interest					2,163			
	Total issued securities					**146,900**			

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.

[1] From the total amount HUF 3 million is mobil deposits of Merkantil Bank Ltd.

[2] Other category includes promissory notes issued by OTP Banka Slovensko a.s. in the amount of HUF 359 million and by JSC "OTP Bank" (Russia) in the amount of HUF 1,068 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 12 August 2015 the prospectus of Term Note Program and the disclosure as at 14 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 Hungarian, Slovakian, Romanian and Bulgarian Stock Exchange without any obligations.

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

On 5 July 2016 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 3 August 2016 the prospectus of Term Note Program and the disclosure as at 10 August. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Croatian and Bulgarian Stock Exchange without any obligations.

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

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

	2016	2015
Interest rate swaps classified as held for trading	33,012	30,453
CCIRS and mark-to-market CCIRS classified as held for trading	15,684	55,875
Foreign exchange swaps classified as held for trading	13,125	7,687
Foreign exchange forward contracts classified as held for trading	5,941	3,551
Option contracts classified as held for trading	3,081	1,899
Forward rate agreements classified as held for trading (FRA)	38	29
Forward security agreements classified as held for trading	4	860
Other transactions classified as held for trading	4,986	1,207
Total	**75,871**	**101,561**

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

	2016	2015
Financial liabilities from OTP-MOL share swap transaction[2]	98,688	66,787
Liabilities from investment services	72,102	39,413
Provision for impairment on off-balance sheet commitments and contingent liabilities	48,166	31,685
Accrued expenses	39,885	33,153
Liabilities connected to Cafeteria benefits	31,194	27,811
Salaries and social security payable	28,235	25,423
Accounts payable	27,085	25,455
Liabilities from repo transactions	21,488	7,452
Fair value of derivative financial instruments designated as fair value hedge	20,002	13,723
Current income tax payable	16,066	13,684
Liabilities from card transactions	12,837	5,804
Clearing, settlement and pending accounts	9,269	12,065
Giro clearing accounts	7,153	11,302
Liabilities related to housing loans	6,496	1,523
Advances received from customers	6,429	4,271
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	6,402	39,314
Deferred tax liabilities	3,234	4,610
Liabilities connected to loans for collection	814	876
Loans from government	716	683
Dividend payable	73	546
Liabilities connected to leasing activities	18	1,583
Other	45,012	24,159
Subtotal	**501,364**	**391,322**
Accrued interest	1,065	257
Total	**502,429**	**391,579**

[1] Other liabilities – except financial liabilities from OTP-MOL share swap transaction, deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP-MOL share swap transaction is settled in June of each year until the maturity date. The fair value adjustment of the swap transaction is HUF 67 million as at 31 December 2016. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity. Besides the total other liabilities mentioned above which are expected to be recovered or settled more than twelve months after the reporting period it should be mentioned accrued contractual liabilities, compulsory pension reserve, guarantee deposits in relation with leasing activities, loans from government and liabilities from preferential dividend shares.

[2] On 16 April 2009 OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. On 11 July 2012 the parties amended the final maturity of the share swap agreement for 11 July 2017 until which any party can initiate cash or physical settlement of the transaction. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the loss of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity with the amount of HUF 55.5 billion and a recognition of a corresponding liability. As at 31 December 2016 and 2015 HUF 98,688 million and HUF 66,787 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.

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

	2016	2015
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	6,402	39,314
Provision for litigation	15,067	6,680
Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending	13,585	7,010
Provision for expected pension commitments	2,678	2,664
Provision for other liabilities	16,836	15,331
Total	**54,568**	**70,999**

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

	2016	2015
Balance as at 1 January	**70,999**	**217,351**
Release of provision for the period	(15,268)	(146,360)
Use of provision	(1,045)	(1,838)
Change due to acquisition	-	3,115
Foreign currency translation differences	(118)	(1,269)
Closing balance	**54,568**	**70,999**

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

	2016	2015
Interest rate swaps designated as fair value hedge	19,976	13,723
CCIRS and mark-to-market CCIRS designated as fair value hedge	26	-
Total	**20,002**	**13,723**

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

	2016	2015
Within one year:		
In HUF	-	-
In foreign currency	-	156,487
	-	**156,487**
Over one year:		
In HUF	-	-
In foreign currency	76,946	77,200
	76,946	**77,200**
Accrued interest	512	1,097
Total	**77,458**	**234,784**

Interest rates on subordinated bonds and loans are as follows:

	2016	2015
Denominated in foreign currency	2.69%	5.3% - 5.9%

	2016	2015
Average interest rates on subordinated bonds and loans	7.06%	4.72%

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions
Subordinated bond	EUR 247.2 million	07/11/2006	Perpetual, 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)

NOTE 20: SHARE CAPITAL (in HUF mn)

	2016	2015
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000

NOTE 21: 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):

	2016	2015
Capital reserve	52	52
General reserve	34,287	14,123
Retained earnings	857,019	856,990
Tied-up reserve	9,506	9,785
Total	**900,864**	**880,950**

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 are subject to approval by the Board of Directors in the Annual General Meeting in April 2017. In 2016 the Bank paid dividend of HUF 46,200 million from the profit of the year 2015, which meant 165 HUF payable dividend by share to the shareholders. In 2017 dividend of HUF 53,200 million are expected to be proposed by the Management from the profit of the year 2016, which means 190 HUF payable dividends by share to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 514,417 million and HUF 480,058 million) and reserves (HUF 935,061 million and HUF 780,971 million) as at 31 December 2016 and 2015 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 141,156 million and HUF 165,308 million as at 31 December 2016 and 2015 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 discretional right to cancel the interest payments. The interest payable is non-cumulative.

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

NOTE 22: TREASURY SHARES (in HUF mn)

	2016	2015
Nominal value (Ordinary shares)	1,822	1,814
Carrying value at acquisition cost	60,121	58,021

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:

	2016	2015
Number of shares as at 1 January	**18,142,973**	**18,175,347**
Additions	1,750,152	5,284,354
Disposals	(1,677,123)	(5,316,728)
Closing number of shares	**18,216,002**	**18,142,973**

Change in carrying value:

	2016	2015
Balance as at 1 January	**58,021**	**55,940**
Additions	11,982	26,721
Disposals	(9,882)	(24,640)
Closing balance	**60,121**	**58,021**

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

	2016	2015
Balance as at 1 January	**2,651**	**3,349**
Non-controlling interest included in net profit for the year	242	(412)
Changes due to ownership structure	(8)	(18)
Foreign currency translation difference	407	(268)
Closing balance	**3,292**	**2,651**

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

	2016	2015
Provision for impairment on loan losses		
Provision for the period	419,801	607,856
Release of provision	(358,545)	(332,171)
Provision for impairment on loan losses	32,349	43,004
	93,605	**318,689**
Release of provision on placement losses		
Provision for the period	46	3
Release of provision	-	-
Release of provision for impairment on placement losses	(178)	(9)
	(132)	**(6)**
Provision for impairment on loan and placement losses	**93,473**	**318,683**

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

Income from fees and commissions	**2016**	**2015**
Deposit and account maintenance fees and commissions	114,404	111,280
Fees and commissions related to the issued bank cards	43,963	42,573
Fees related to cash withdrawal	27,920	27,706
Fees and commissions related to lending	20,715	17,277
Fees and commissions related to security trading	20,329	14,697
Fees and commissions related to fund management	18,865	18,184
Other	26,039	25,714
Total	**272,235**	**257,431**

Expense from fees and commissions	**2016**	**2015**
Fees and commissions related to issued bank cards	15,093	13,170
Fees and commissions paid on loans	9,641	7,070
Interchange fees	7,421	6,634
Fees and commissions related to deposits	3,449	2,596
Fees and commissions related to security trading	1,736	1,707
Cash withdrawal transaction fees	1,430	1,791
Fees and commissions related to collection of loans	959	1,660
Postal fees	889	1,017
Insurance fees	177	257
Money market transaction fees and commissions	128	1,101
Other	8,321	6,556
Total	**49,244**	**43,559**
Net profit from fees and commissions	**222,991**	**213,872**

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

Other operating income	2016	2015
Fine refund by Hungarian Competition Authority[1]	3,960	-
Gains on transactions related to property activities	1,923	1,724
Refund by the State of cancelled receivables from customer loans converted into HUF[2]	-	6,631
Other income from non-financial activities	13,745	14,618
Total	**19,628**	**22,973**

Other operating expenses	2016	2015
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	27,438	-
Provision for off-balance sheet commitments and contingent liabilities	18,034	10,387
Financial support for sport association and organization of public utility	8,731	13,918
Provision for impairment on other assets	2,249	6,696
Provision on investment properties	833	101
Provision for impairment on investments[3]	687	1,094
Fine imposed by Competition Authority	67	18
Release of provision on contingent liabilities due to regulations related to customer loans	-	(196,574)
(Incomes) / Expenses from regulations related to customer loans[2]	(5)	186,269

Other operating expenses [continued]	2016	2015
(Release of provision) / Provision for assets subject to operating lease	(31)	350
(Release of provision) / Provision for expected losses due to foreign currency loan conversion at foreign subsidiaries	(33,302)	39,827
Other	11,760	12,594
Total	**36,461**	**74,680**

[1] See details in Note 28.
[2] 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.
[3] See details in Note 9.

Other administrative expenses	2016	2015
Personnel expenses		
Wages	138,785	137,250
Taxes related to personnel expenses	37,005	37,304
Other personnel expenses	15,652	13,252
Subtotal	**191,442**	**187,806**
Depreciation and amortization[1]	**44,427**	**45,463**
Other administrative expenses		
Taxes, other than income tax [2]	92,380	110,102
Administration expenses, including rental fees	45,666	46,137
Services	45,551	44,400
Professional fees	22,823	20,344
Advertising	13,809	11,264
Subtotal	**220,229**	**232,247**
Total	**456,098**	**465,516**

NOTE 27: INCOME TAX (in HUF mn)

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

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

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

	2016	2015
Current tax expense	12,562	11,624
Deferred tax expense / (benefit)	21,381	(14,771)
Total	**33,943**	**(3,147)**

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

	2016	2015
Balance as at 1 January	**68,469**	**51,154**
Deferred tax (expense) / benefit	(21,381)	14,771
Deferred tax related to items recognized directly in equity and in Other Comprehensive Income	1,406	6,288
Foreign currency translation difference	865	(3,744)
Closing balance	**49,359**	**68,469**

[1] See details in Note 11.

[2] Special tax of financial institutions was paid by the Group in the amount of HUF 15.4 billion and HUF 35 billion for year 2016 and 2015 respectively, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2016 financial transaction duty was paid by the Bank in the amount of HUF 47 billion.

A breakdown of the deferred tax assets are as follows:

	2016	2015
Unused tax allowance	22,354	19,014
Tax accrual caused by negative taxable income	20,494	43,265
Refundable tax in accordance with Acts on Customer Loans	5,239	6,341
Fair value adjustment of securities held for trading and securities available-for-sale	3,737	8,330
Premium and discount amortization on bonds	3,604	1,959
Provision for impairment on investments (Goodwill)	2,535	8,030
Repurchase agreement and security lending	1,964	4,102
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	1,497	2,582
Difference in reserves under HAS and IFRS	1,012	-
Adjustment from effective interest rate method	112	1,272
Fair value adjustment of derivative financial instruments	98	84
Difference in accounting for leases	50	160
Fair value corrections related to customer loans	28	80
Difference in depreciation and amortization	27	170
Other	12,555	14,373
Deferred tax asset	**75,306**	**109,762**

A breakdown of the deferred tax liabilities are as follows:

	2016	2015
Fair value adjustment of securities held for trading and securities available-for-sale	(9,414)	(16,506)
Provision for impairment on investments	(5,051)	-
Fair value adjustment of derivative financial instruments	(3,929)	(7,809)
Difference in depreciation and amortization	(2,448)	(4,971)
Temporary differences arising on consolidation	(1,122)	(2,988)
Adjustment from effective interest rate method	(909)	(4,258)
Net effect of treasury share transactions	(625)	(2,009)
Accounting of equity instrument (ICES)	(438)	(556)
OTP-MOL transaction	(423)	-
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(406)	-
Difference in accounting for leases	(152)	(139)
Premium and discount amortization on bonds	(2)	(14)
Other	(1,028)	(2,043)
Deferred tax liabilities	**(25,947)**	**(41,293)**
Net deferred tax asset	**49,359**	**68,469**

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

	2016	2015
Profit before income tax	236,395	60,024
Income tax expense at statutory tax rates	37,123	7,090

Income tax adjustments due to permanent differences are as follows:

	2016	2015
Differences in carrying value of subsidiaries	12,589	(16,039)
Effect of the tax rate change	3,356	-
Tax refund in accordance with Acts on Customer Loans	1,102	22,776
Share-based payment	671	724
OTP-MOL share swap transaction	411	(615)
Reversal of statutory general provision	287	-
Difference of accounting of equity instrument (ICES)	-	(9)
Revaluation of investments denominated in foreign currency to historical cost	-	(4,601)
Treasury share transactions	(991)	(1,729)
Deferred use of tax allowance	(5,843)	(11,028)
Use of tax allowance in the current year	(6,708)	-
Other	(8,054)	284
Income tax	**33,943**	**(3,147)**
Effective tax rate	**14.4%**	**(5.2%)**

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

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

28.1. Credit risk

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

28.1.1. Analysis by loan types and by DPD categories

Classification into DPD categories

The Group presents the non-performing loan portfolio according delay of payment above 90 days past due. When determining the impairment beside the delay of payment other information available for the Group is also 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 2016

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

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**

The Group’s loan portfolio increased by 4.93% in year 2016. Analysing the contribution of loan types to the loan portfolio, the share of the mortgage loan types slightly decreased, the loans to medium and large enterprises and consumer loans slightly increased, while the other types of loans remained almost the same as at 31 December 2016 comparing with end of the previous year. The qualification of the loan portfolio is improving continuously started from the last few years, and now for the end of the year 2016 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 16.6% to 13.9%. 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 83.9% and 78.6% as at 31 December 2016 and 2015 respectively.

Not impaired loan portfolio

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

As at 31 December 2016

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

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**

Loans not past due or past due, but not impaired cover only balance sheet items.
The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 71.2% to 74.5% as at 31 December 2016 comparing to the end of the previous year. The ratio of the mortgage loans and municipal loans compared to the portfolio of loans neither past due nor impaired decreased slightly in year 2016, while the ratio of the loans to medium and large corporates increased mostly.

The loans that are past due but not impaired are concentrated mainly in the mortgage loan and consumer loan type while in the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Group. The ratio of the mortgage and consumer loans compared to the portfolio of loans past due but not impaired decreased slightly and the ratio of the loans to medium and large corporates increased as at 31 December 2016.

Loans individually assessed for provision

The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.
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 2016 and 31 December 2015 is as follows:

As at 31 December 2016

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	182,668	116,988	106,145	108	1
Legal proceedings	174,355	138,794	44,157	60	54
Decrease of client classification	95,583	47,384	59,774	5,003	278
Cross default	63,976	19,156	19,602	16,536	24
Country risk	24,724	13,723	6,913	-	-
Loan characteristics	22,222	4,647	15,207	-	-
Restructuring	10,724	5,984	3,918	-	-
Business lines risks	8,193	2,981	3,985	3,094	134
Regularity of payment	442	119	498	-	-
Other	14,479	4,479	11,326	2,273	785
Corporate total	**597,366**	**354,255**	**271,525**	**27,074**	**1,276**
Delay of payment	2,109	644	2,339	31	9
Legal proceedings	470	333	165	-	-
Cross default	52	1	-	-	-
Municipal total	**2,631**	**978**	**2,504**	**31**	**9**
Placements with other banks	**-**	**-**	**-**	**-**	**-**
Total	**599,997**	**355,233**	**274,029**	**27,105**	**1,285**

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
Cross default	50,230	20,950	9,824	133	47
Country risk	53,284	27,153	15,416	-	-
Loan characteristics	54,682	9,780	35,618	-	-
Restructuring	7,537	5,385	3,994	-	-
Business lines risks	12,114	4,331	6,234	2,768	138
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**

By 31 December 2016 the volume of the individually rated portfolio decreased by 14.2% in the corporate loan type. Among the rating factors of the corporate loan type, the decrease is mostly based on the improving of the loan characteristic factor and on the softening of the country risk, while increase is based on the regularity of payment and restructuring as at 31 December 2016. The decrease was 8.3% at the individually rated loans in the municipal loan portfolio comparing with the end of the previous year, which is mostly based on the decrease of the delay of payment, although the legal proceeding increased but this rate wasn't so high to offset the improving municipal loan portfolio.

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:

	2016		2015	
Country	**Carrying amount of gross loan and placement with other banks portfolio**	**Allowance**	**Carrying amount of gross loan and placement with other banks portfolio**	**Allowance**
Hungary	2,875,526	270,618	2,585,533	291,976
Bulgaria	1,218,526	144,240	1,226,958	165,843
Russia	594,064	116,850	448,751	90,683
Croatia	535,595	50,694	502,823	44,555
Romania	535,506	37,666	565,103	37,120
Ukraine	386,616	190,378	426,158	243,752
Slovakia	381,850	30,799	381,571	22,164
Montenegro	141,259	54,360	157,764	58,945
Serbia	131,512	26,418	135,040	31,858
United Kingdom	54,405	1,131	59,813	2,251
Germany	31,237	125	28,583	89
Cyprus	30,935	14,973	42,293	18,344
United States of America	13,931	32	12,990	36
Austria	11,148	4	22,489	3
Turkey	9,713	8	1,434	11
Italy	8,237	15	293	12
Australia	6,111	-	19	-
Seychelles	4,786	4,786	4,818	4,818
Belgium	4,773	40	23,896	23
Czech Republic	3,992	8	4,074	7
Poland	3,089	13	3,918	5
Norway	2,575	1	5,813	-
The Netherlands	1,981	97	1,774	84
Denmark	1,973	-	601	-
Switzerland	1,919	5	14,577	88
Canada	1,856	-	79	-
Bosnia and Herzegovina	899	756	865	708
Ireland	611	68	459	70
France	543	17	7,992	15
Sweden	427	10	290	10
Greece	257	30	160	22
Japan	232	-	405	-
United Arab Emirates	205	22	319	13
Kazakhstan	178	72	175	60
Spain	132	3	67	5
Egypt	87	6	87	6
Latvia	45	19	52	36
Island	41	28	41	28
Luxembourg	27	-	42	-
Other[1]	529	76	228	30
Total[2]	**6,997,328**	**944,368**	**6,668,347**	**1,013,670**

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

[1] Other category in year 2016 includes e.g.: Iran, Slovenia, Macedonia, Finland, Singapore, Armenia, Hong Kong, Syria, Portugal, Moldova, Jordan, China, India, Vietnam, Nigeria, Israel, Tunisia, Brazil, Morocco and South-Korea.
[2] Without the amount of bill of exchange.

28.1.2. 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	2016	2015
Mortgages	6,572,927	5,694,831
Assignments (revenue or other receivables)	445,756	387,422
Guarantees and warranties	324,415	268,361
Securities	210,878	193,706
Cash deposits	102,668	73,245
Guarantees of state or organizations owned by state	73,225	103,498
Other	806,961	799,489
Total	**8,536,830**	**7,520,552**

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	2016	2015
Mortgages	3,055,552	2,801,423
Assignments (revenue or other receivables)	343,305	320,728
Guarantees and warranties	198,468	172,853
Securities	169,716	155,886
Guarantees of state or organizations owned by state	62,449	92,216
Cash deposits	37,755	39,387
Other	486,732	455,688
Total	**4,353,977**	**4,038,181**

The coverage level of the loan portfolio (total collaterals) increased by 6.97%, as well as the coverage level to the extent of the exposures increased by 1.09% as at 31 December 2016.

28.1.3. Restructured loans

	2016		2015	
	Gross portfolio	**Allowance**	**Gross portfolio**	**Allowance**
Loans to medium and large corporates[1]	93,931	32,187	171,394	60,019
Retail loans	64,815	14,686	74,733	18,153
Loans to micro and small enterprises	13,589	2,008	11,134	1,570
Municipal loans	19	-	-	-
Total	**172,354**	**48,881**	**257,261**	**79,742**

[1] 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.

28.1.4. Financial instruments by rating categories[1]

Securities held for trading as at 31 December 2016

	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Not rated	Total
Shares	31	34	31	15	16	-	17	-	104,258	**104,402**
Government bonds	-	-	-	-	29,069	10,857	169	-	-	**40,095**
Interest bearing treasury bills	-	-	-	-	-	15,639	-	-	-	**15,639**
Discounted Treasury bills	-	-	-	-	-	97	-	-	-	**97**
Other securities	-	-	-	-	-	-	2,519	11,492	385	**14,396**
Other non-interest bearing securities	-	-	-	-	-	1,602	-	-	7,635	**9,237**
Total	**31**	**34**	**31**	**15**	**29,085**	**28,195**	**2,705**	**11,492**	**112,278**	**183,866**
Accrued interest										930
Total										**184,796**

Securities available-for-sale as at 31 December 2016

	A1	A2	Baa2	Baa3	Ba1	Ba2	B1	C	Caa3	Not rated	Total
Government bonds	-	14,806	100,763	1,122,876	33,938	28,948	-	-	14,888	6,959	**1,323,178**
Corporate bonds	-	-	-	1,359	11,469	4,331	914	2	-	112,458	**130,533**
Discounted Treasury bills	-	-	-	12,320	-	8,624	-	-	-	-	**20,944**
Other securities	-	-	-	-	-	-	-	-	-	441	**441**
Other non-interest bearing securities	3,954	-	-	500	-	-	-	-	-	32,274	**36,728**
Total	**3,954**	**14,806**	**100,763**	**1,137,055**	**45,407**	**41,903**	**914**	**2**	**14,888**	**152,132**	**1,511,824**
Accrued interest											15,574
Total											**1,527,398**

[1] Moody's ratings

Securities held-to-maturity as at 31 December 2016

	A2	Baa2	Baa3	Ba1	B1	Caa3	Not rated	Total
Government bonds	22,302	4,349	1,012,642	-	27,235	28,184	1,185	**1,095,897**
Discounted Treasury bills	-	-	-	-	-	-	113	**113**
Mortgage bonds	-	-	-	52	-	-	-	**52**
Corporate bonds	-	-	-	-	-	-	5	**5**
Total	**22,302**	**4,349**	**1,012,642**	**52**	**27,235**	**28,184**	**1,303**	**1,096,067**
Accrued interest								18,960
Total								**1,115,027**

28.2. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' (VaR) methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk is, foreign currency risk and interest rate risk is detailed in Note 36, 37 and 38, respectively.)

28.2.1. Market Risk sensitivity analysis

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

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

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. 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**	
	2016	**2015**
Foreign exchange	237	441
Interest rate	724	459
Equity instruments	2	3
Diversification	(213)	(215)
Total VaR exposure	**750**	**688**

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

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

28.2.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was short, 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 2016. 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	
	2016	**2015**
	In HUF billion	In HUF billion
1%	(12.3)	(14.6)
5%	(8.4)	(10.0)
25%	(3.5)	(4.4)
50%	(0.3)	(0.5)
25%	2.7	3.1
5%	6.9	7.8
1%	9.8	10.9

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 2016.

28.2.3. Interest rate sensitivity analysis

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

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

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

(1) HUF base rate stays unchanged and BUBOR decreases gradually to 0.2% (probable scenario)
(2) HUF base rate and BUBOR decreases gradually to 0.0% (alternative scenario)

The net interest income in a one year period after 31 December 2016 would be decreased by HUF 924 million (probable scenario) and HUF 3,416 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,616 million (probable scenario) and HUF 3,874 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2015.
This effect is counterbalanced by capital gains HUF 291 million (or probable scenario), HUF 648 million (for alternative scenario) as at 31 December 2016 and (HUF 291 million for probable scenario, HUF 1,109 million for alternative scenario) as at 31 December 2015 on the government bond portfolio held for hedging (economic).

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

	2016		2015	
Description	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of available-for-sale government bonds)**	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of available-for-sale government bonds)**
HUF (0.1%) parallel shift	(1,383)	195	(588)	195
EUR (0.1%) parallel shift	(594)	-	(614)	-
USD (0.1%) parallel shift	(100)	-	(41)	-
Total	**(2,077)**	**195**	**(1,243)**	**195**

28.2.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	**2016**	**2015**
VaR (99%, one day, HUF million)	2	(3)
Stress test (HUF million)	(21)	(53)

28.2.5. Capital management

Capital management

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

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

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

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

Capital adequacy

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

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

The Group has entirely complied with the regulatory capital requirements in year 2016 as well as in year 2015.

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 16.0%, the Regulatory capital was HUF 1,079,064 million and the Total regulatory capital requirement was HUF 538,437 million as at 31 December 2016. The same ratios calculated as at 31 December 2015 were the following: 16.2%, HUF 1,064,383 million and HUF 526,101 million.

Calculation on IFRS basis	**2016**	**2015**
Core capital (Tier 1) = Common Equity Tier 1 (CET 1)	***911,328***	***873,124***
Issued capital	28,000	28,000
Reserves	1,239,177	1,230,035
Fair value corrections	44,265	28,125
Other capital components	(126,107)	(152,808)
Non-controlling interests	598	572
Treasury shares	(60,121)	(58,021)
Goodwill and other intangible assets	(164,343)	(158,370)
Other adjustments	(50,141)	(44,409)
Additional Tier 1 (AT1)	-	-
Supplementary capital (Tier 2)	***167,736***	***191,259***
Subordinated bonds and loans	77,458	99,054
Other issued capital components	89,935	92,092
Components recognized in T2 capital issued by subsidiaries	343	113
Regulatory capital[1]	**1,079,064**	**1,064,383**
Credit risk capital requirement	427,571	419,670
Market risk capital requirement	36,455	37,183
Operational risk capital requirement	74,411	69,248
Total requirement regulatory capital	**538,437**	**526,101**
Surplus capital	**540,627**	**538,282**
CET 1 ratio	13.5%	13.3%
Tier 1 ratio	13.5%	13.3%
Capital adequacy ratio	**16.0%**	**16.2%**

Basel III

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

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

[1] The regulatory capital contains neither the unaudited profit for year 2016 nor the payable dividend from the result of 2016 and 2015 in accordance with 575/2013 EU regulation.

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

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

Contingent liabilities

	2016	2015
Commitments to extend credit	1,234,450	1,166,386
Guarantees arising from banking activities	426,541	374,422
Legal disputes (disputed value)	13,053	54,732
Confirmed letters of credit	12,702	18,237
Other	302,362	283,819
Total	**1,989,108**	**1,897,596**

Legal disputes

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

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

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 15,067 million and HUF 6,680 million as at 31 December 2016 and 2015, respectively. (See Note 18.)

Commitments to extend credit, guarantees and letters of credit

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

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

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

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

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 time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Group in most of the cases requires margin deposits.

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

The Bank Group Policy on Payments was accepted in resolution of Annual General Meeting regarding CRD IV. 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.
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.

Pieces of shares per capita, used for settlement of share-based quota as part of performance based payments, must be determined as quota of the total amount of share-based payments and price per share assessed by Supervisory Board.[1]
The price per share for determining pieces of shares is assessed by 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 before the date of the decision made within ten days previous to performance based payment.
At the same time, factual conditions of discounted share-based payment are determined so, that discounted share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date can be maximum HUF 4,000.

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)

[1] Until the end of 2014 Board of Directors

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:

Share purchasing at a discounted price

Year	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price per share	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Price of remuneration exchanged to share
	(HUF per share)												
	for the year 2010		**for the year 2011**		**for the year 2012**		**for the year 2013**		**for the year 2014**		**for the year 2015**		
2011	3,946	2,500	-	-	-	-	-	-	-	-	-	-	-
2012	3,946	3,000	1,370	3,000	-	-	-	-	-	-	-	-	-
2013	4,446	3,500	1,870	3,000	2,886	3,000	-	-	-	-	-	-	-
2014	4,946	3,500	1,870	4,000	2,886	3,000	2,522	2,500	-	-	-	-	-
2015	-	-	1,870	4,000	2,886	3,000	2,522	3,000	3,930	2,500	-	-	-
2016	-	-	-	-	2,886	3,500	2,522	3,500	3,930	3,000	4,892	2,500	6,892
2017	-	-	-	-	-	-	2,522	3,500	3,930	3,000	4,892	3,000	6,892
2018	-	-	-	-	-	-	-	-	3,930	3,000	4,892	3,000	6,892
2019	-	-	-	-	-	-	-	-	-	-	4,892	3,000	6,892

Based on parameters accepted by Board of Directors relating to the year **2010** effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2011	-	340,950	11,622	5,731	329,328
Share purchasing period started in 2012	-	735,722	714,791	4,593	20,931
Share purchasing period started in 2013	-	419,479	31,789	4,808	387,690
Share purchasing period started in 2014	-	497,451	495,720	5,838	1,731

Based on parameters accepted by Board of Directors relating to the year **2011** effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2012	-	471,240	464,753	3,758	6,487
Share purchasing period started in 2013	-	1,267,173	1,256,529	4,886	10,644
Share purchasing period started in 2014	-	609,137	609,137	4,799	-
Share purchasing period started in 2015	-	608,118	608,118	5,621	-

Based on parameters accepted by Board of Directors relating to the year **2012** effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2013	-	450,861	445,671	4,413	5,190
Share purchasing period started in 2014	-	1,156,631	1,151,890	4,982	4,741
Share purchasing period started in 2015	-	555,845	555,845	5,658	-
Share purchasing period started in 2016	1,221	581,377	580,156	6,568	-

Based on parameters accepted by Board of Directors relating to the year **2013** effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2014	-	406,044	404,263	4,369	1,781
Share purchasing period started in 2015	-	804,469	804,469	4,918	-
Share purchasing period started in 2016	37,808	393,750	355,942	6,588	-
Share purchasing period starting in 2017	549,909	-	-	-	-

Based on parameters accepted by Board of Directors relating to the year **2014** effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2015	-	176,459	176,459	5,828	-
Share purchasing period started in 2016	13,886	360,425	346,539	6,956	-
Share purchasing period starting in 2017	214,392	-	-	-	-
Share purchasing period starting in 2018	237,013	-	-	-	-

Based on parameters accepted by Supervisory Board relating to the year **2015** effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2016	-	152,247	152,247	7,373	-
Remuneration exchanged to share provided in 2016	-	10,947	10,947	6,509	-
Share purchasing period starting in 2017	305,613	-	-	-	-
Remuneration exchanged to share applying in 2017	21,490	-	-	-	-
Share purchasing period starting in 2018	166,321	-	-	-	-
Remuneration exchanged to share applying in 2018	9,543	-	-	-	-
Share purchasing period starting in 2019	204,585	-	-	-	-
Remuneration exchanged to share applying in 2019	10,671	-	-	-	-

Effective pieces relating to the periods starting in 2016-2019 settled during valuation of performance of year 2013-2015, can be modified based on risk assessment and personal changes.

In connection with shares given as a part of payments detailed in the *Direction of Chief Executive about the Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,530 million was recognized as expense as at 31 December 2016.

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF mn)

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

Compensations	**2016**	**2015**
Short-term employee benefits	9,207	6,227
Share-based payment	2,330	2,276
Other long-term employee benefits	497	532
Termination benefits	26	42
Total	**12,060**	**9,077**

	2016	**2015**
Loans provided to companies owned by the Management (normal course of business)	49,383	25,734
Commitments to extend credit and guarantees	39,660	33,943
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions)	326	340

Types of transactions	2016 Non-consolidated subsidiaries	2016 Associated companies	2015 Non-consolidated subsidiaries	2015 Associated companies
Loans provided	2,196	2,174	1,790	2,531
Client deposits	1,552	106	509	49
Net interest income on loan provided	20	80	36	122
Net fee incomes	39	-	41	-

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 173,9 million and HUF 168 million as at 31 December 2016 and 2015 respectively.

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

	2016	2015
Members of Board of Directors and their close family members	30	24
Members of Supervisory Board	2	2
Chief executives	-	2

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

	2016	2015
Members of Board of Directors and their close family members	26	35

Member of Board of Directors and its family member owned AMEX Blue credit card loan in the amount of HUF 1.2 million and HUF 0.6 million as at 31 December 2016 and 2015, respectively.

Chief executives owned AMEX Gold credit card loan in the amount of HUF 3.5 million as at 31 December 2016 and 2015, respectively, while members of the Board of Directors and their close family members owned AMEX Gold credit card loan in the amount of HUF 5.9 million as at 31 December 2016.

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 46.8 million and HUF 48.8 million, respectively as at 31 December 2016 and 2015.

Chief executives of the Bank owned Lombard loan in the amount of HUF 24.5 million and personal loans in the amount of HUF 10 million as at 31 December 2016.

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

	2016	2015
Members of Board of Directors	1,935	1,767
Members of Supervisory Board	168	144
Total	**2,103**	**1,911**

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

NOTE 32: ACQUISITION (in HUF mn)

a) Purchase and consolidation of subsidiaries

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, which meant 250 people.
The retail-focused AXA Bank is presented 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 Group's Hungarian mortgage portfolio increased with 18%.

Following the decision of the Hungarian Competition Authority, on 2 August 2016 the NBH has granted permission as well for the transfer of the Hungarian business unit – as defined in the business transfer agreement – of AXA Bank to the Bank. as at 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 the Bank, which 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. The costs related to the taken-over of AXA Hungarian business unit was HUF 640 million in the fourth quarter of 2016 which included mainly personnel costs. Due to the transaction neither goodwill nor badwill was recognized.

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.
Cash, amounts due from banks and balances with the National Banks	(16,933)
Placements with other banks, net of allowance for placement losses	(7,376)
Financial assets at fair value through profit or loss	(25)
Securities available-for-sale	(14,757)
Loans, net of allowance for loan losses	(117,893)
Associates and other investments	(2)
Securities held-to-maturity	(5,272)
Property and equipment	(2,205)
Intangible assets	(80)
Other assets	(4,999)
Amounts due to banks, the Hungarian Government, deposits from the National Banks	52,928
Deposits from customers	98,370
Liabilities from issued securities	-
Financial liabilities at fair value through profit or loss	-
Other liabilities	4,120
Subordinated bonds and loans	-
Net assets	**(14,124)**
Non-controlling interest	-
Negative goodwill	1,845
Cash consideration	**(12,279)**

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

	2015
Cash consideration	(12,279)
Cash acquired	16,933
Net cash outflow	**4,654**

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

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

Significant subsidiaries

Name	Ownership (Direct and Indirect)		Activity
	2016	**2015**	
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)	97.88%	97.87%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	97.92%	97.92%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.26%	99.26%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	real estate management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd.	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

Significant associates and joint ventures[1]

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

As at 31 December 2016

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

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**

NOTE 34: TRUST ACTIVITIES (in HUF mn)

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

	2016	**2015**
The amount of loans managed by the Group as a trustee	35,383	37,554

NOTE 35: CONCENTRATION OF ASSETS AND LIABILITIES

	2016	**2015**
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	22.9%	28.2%

There were no other significant concentrations of the assets or liabilities of the Group as at 31 December 2016 or 2015.

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

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

[1] Based on unaudited financial statements.

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

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

The essential 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 2016 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 assets and liabilities about the non-discounted cash-flow into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at 31 December 2016	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,229,096	396,261	-	-	-	1,625,357
Placements with other banks, net of allowance for placement losses	280,215	29,213	52,133	15,431	228	377,220
Securities held for trading	13,545	22,445	24,416	11,782	90,167	162,355
Securities available-for-sale	56,516	104,970	1,001,181	256,265	30,292	1,449,224
Loans, net of allowance for loan losses	1,025,865	889,362	1,836,910	2,497,755	468	6,250,360
Associates and other investments	-	-	-	-	9,836	9,836
Securities held-to-maturity	57,025	65,146	362,898	582,257	-	1,067,326
Property, equipment and intangible assets	444	1,780	10,887	9,844	332,561	355,516
Investment property, investment property subject to operating lease	4,200	-	9,187	6,190	9,869	29,446
Other assets[1]	570	2,382	16,824	1,567	-	21,343
TOTAL ASSETS	**2,667,476**	**1,511,559**	**3,314,436**	**3,381,091**	**473,421**	**11,347,983**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	159,624	54,276	176,214	154,507	-	544,621
Deposits from customers	6,878,058	1,385,744	222,739	67,052	-	8,553,593
Liabilities from issued securities	24,586	29,374	86,613	6,958	-	147,531
Other liabilities[1]	324,404	31,697	16,440	8,340	2,582	383,463
Subordinated bonds and loans[2]	353	164	1	-	76,945	77,463
TOTAL LIABILITIES	**7,387,025**	**1,501,255**	**502,007**	**236,857**	**79,527**	**9,706,671**
NET POSITION	**(4,719,549)**	**10,304**	**2,812,429**	**3,144,234**	**393,894**	**1,641,312**
Receivables from derivative financial instruments classified as held for trading	2,320,707	547,029	154,793	20,451	-	3,042,980
Liabilities from derivative financial instruments classified as held for trading	(2,306,574)	(539,463)	(143,258)	(23,499)	-	(3,012,794)
Net position of financial instruments classified as held for trading	**14,133**	**7,566**	**11,535**	**(3,048)**	**-**	**30,186**
Receivables from derivative financial instruments designated as fair value hedge	7,795	1,732	73,499	4,442	-	87,468
Liabilities from derivative financial instruments designated as fair value hedge	(6,687)	(205)	(98,096)	(4,233)	-	(109,221)
Net position of financial instruments designated as fair value hedge	**1,108**	**1,527**	**(24,597)**	**209**	**-**	**(21,753)**
Net position of derivative financial instruments total	**15,241**	**9,093**	**(13,062)**	**(2,839)**	**-**	**8,433**
Commitments to extend credit	410,141	589,593	188,911	45,689	116	1,234,450
Bank guarantees	145,896	114,319	59,638	104,974	1,714	426,541
Off-balance sheet commitments	**556,037**	**703,912**	**248,549**	**150,663**	**1,830**	**1,660,991**

[1] Without derivative financial instruments.
[2] See Note 19.

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
Cash, amounts due from banks and balances with the National Banks	1,878,888	72	-	-	-	1,878,960
Placements with other banks, net of allowance for placement losses	291,888	7,489	1,022	178	317	300,894
Securities held-for-trading	4,718	6,042	15,929	8,565	86,083	121,337
Securities available-for-sale	7,854	95,051	925,349	194,913	38,966	1,262,133
Loans, net of allowance for loan losses	678,509	882,873	1,819,370	2,480,019	16,601	5,877,372
Associates and other investments	-	-	-	-	10,028	10,028
Securities held-to-maturity	59,171	84,297	407,096	412,147	-	962,711
Property, equipment and intangible assets	2,203	2,466	9,503	4,256	331,042	349,470
Investment property, investment property subject to operating lease	50	916	10,359	12,970	6,147	30,442
Other assets[1]	122,663	39,229	66,259	442	8,954	237,547
TOTAL ASSETS	**3,045,944**	**1,118,435**	**3,254,887**	**3,113,490**	**498,138**	**11,030,894**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	171,469	57,073	168,058	157,092	-	553,692
Deposits from customers	6,615,990	1,107,398	242,363	40,337	1	8,006,089
Liabilities from issued securities	42,910	60,197	105,590	34,370	-	243,067
Other liabilities[1]	296,857	82,815	3,395	8,785	9,302	401,154
Subordinated bonds and loans[2]	1,817	127,336	9,292	8,439	110,566	257,450
TOTAL LIABILITIES	**7,129,043**	**1,434,819**	**528,698**	**249,023**	**119,869**	**9,461,452**
NET POSITION	**(4,083,099)**	**(316,384)**	**2,726,189**	**2,864,467**	**378,269**	**1,569,442**
Receivables from derivative financial instruments classified as held for trading	1,983,024	983,886	396,165	21,157	-	3,384,232
Liabilities from derivative financial instruments classified as held for trading	(1,972,569)	(978,896)	(372,370)	(21,240)	-	(3,345,075)
Net position of financial instruments classified as held for trading	**10,455**	**4,990**	**23,795**	**(83)**	**-**	**39,157**
Receivables from derivative financial instruments designated as fair value hedge	5,604	926	90,703	3,074	-	100,307
Liabilities from derivative financial instruments designated as fair value hedge	(5,554)	(368)	(102,437)	(882)	-	(109,241)
Net position of financial instruments designated as fair value hedge	**50**	**558**	**(11,734)**	**2,192**	**-**	**(8,934)**
Net position of derivative financial instruments total	**10,505**	**5,548**	**12,061**	**2,109**	**-**	**30,223**
Commitments to extend credit	347,477	562,694	241,577	14,638	-	1,166,386
Bank guarantees	74,107	79,463	123,525	96,792	535	374,422
Off-balance sheet commitments	**421,584**	**642,157**	**365,102**	**111,430**	**535**	**1,540,808**

[1] Without derivative financial instruments.
[2] See Note 19.

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

As at 31 December 2016

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

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**

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 38: INTEREST RATE RISK MANAGEMENT (in HUF mn)

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

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

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

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

As at 31 December 2016

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
ASSETS	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Cash, amounts due from banks and balances with the National Banks	**501,289**	**530,368**	**185**	**262**	**-**	**80**	**-**	**-**	**-**	**-**	**89,422**	**503,751**	**590,896**	**1,034,461**	**1,625,357**
fixed rate	500,465	443,693	9	174	-	80	-	-	-	-	-	-	500,474	443,947	944,421
variable rate	824	86,675	176	88	-	-	-	-	-	-	-	-	1,000	86,763	87,763
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	89,422	503,751	89,422	503,751	593,173
Placements with other banks, net of allowance for placements losses	**45,212**	**221,870**	**13,356**	**21,503**	**5**	**23,361**	**515**	**-**	**428**	**797**	**1,532**	**34,951**	**61,048**	**302,482**	**363,530**
fixed rate	41,410	119,703	2,265	16,124	5	9,676	515	-	428	400	-	-	44,623	145,903	190,526
variable rate	3,802	102,167	11,091	5,379	-	13,685	-	-	-	397	-	-	14,893	121,628	136,521
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,532	34,951	1,532	34,951	36,483
Securities held for trading	**6,224**	**916**	**6,634**	**2,213**	**11,757**	**13,311**	**119**	**12,187**	**5,235**	**15,431**	**106,591**	**4,178**	**136,560**	**48,236**	**184,796**
fixed rate	2,419	916	6,167	2,213	7,268	13,311	119	12,187	5,235	15,431	-	-	21,208	44,058	65,266
variable rate	3,805	-	467	-	4,489	-	-	-	-	-	-	-	8,761	-	8,761
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	106,591	4,178	106,591	4,178	110,769
Securities available-for-sale	**22,867**	**29,448**	**17,896**	**44,262**	**84,337**	**81,962**	**330,032**	**29,066**	**555,385**	**279,939**	**23,375**	**28,524**	**1,033,892**	**493,201**	**1,527,093**
fixed rate	-	23,320	1,772	14,040	84,337	81,960	330,032	29,066	555,385	279,939	-	-	971,526	428,325	1,399,851
variable rate	22,867	6,128	16,124	30,222	-	2	-	-	-	-	-	-	38,991	36,352	75,343
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	23,375	28,524	23,375	28,524	51,899
Loans, net of allowance for loan losses	**550,597**	**1,796,652**	**713,311**	**746,620**	**314,546**	**266,373**	**221,238**	**140,765**	**478,810**	**323,363**	**89,765**	**94,192**	**2,368,267**	**3,367,965**	**5,736,232**
fixed rate	26,310	296,834	46,718	66,807	63,103	186,381	67,008	124,752	166,910	299,293	-	-	370,049	974,067	1,344,116
variable rate	524,287	1,499,818	666,593	679,813	251,443	79,992	154,230	16,013	311,900	24,070	-	-	1,908,453	2,299,706	4,208,159
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	89,765	94,192	89,765	94,192	183,957
Securities held-to-maturity	**-**	**28,815**	**25,292**	**3,976**	**220,251**	**3,548**	**59,501**	**4,805**	**693,487**	**58,954**	**15,513**	**85**	**1,014,044**	**100,183**	**1,114,227**
fixed rate	-	28,184	25,292	3,976	220,251	3,534	59,501	4,805	693,487	58,954	-	-	998,531	99,453	1,097,984
variable rate	-	631	-	-	-	14	-	-	-	-	-	-	-	645	645
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	15,513	85	15,513	85	15,598
Derivative financial instruments	**440,563**	**790,425**	**533,092**	**178,159**	**197,260**	**86,216**	**25,585**	**140,406**	**32,478**	**35,595**	**485,787**	**356,806**	**1,714,765**	**1,587,607**	**3,302,372**
fixed rate	425,320	435,181	261,919	111,266	195,702	72,817	25,585	140,406	32,478	35,595	-	-	941,004	795,265	1,736,269
variable rate	15,243	355,244	271,173	66,893	1,558	13,399	-	-	-	-	-	-	287,974	435,536	723,510
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	485,787	356,806	485,787	356,806	842,593

As at 31 December 2016

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
LIABILITIES	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**79,392**	**141,526**	**6,066**	**16,888**	**53,690**	**8,908**	**34,791**	**8,471**	**180,193**	**11,766**	**102**	**1,982**	**354,234**	**189,541**	**543,775**
fixed rate	78,779	58,004	5,974	859	27,356	5,625	34,744	5,740	179,983	6,219	-	-	326,836	76,447	403,283
variable rate	613	83,522	92	16,029	26,334	3,283	47	2,731	210	5,547	-	-	27,296	111,112	138,408
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	102	1,982	102	1,982	2,084
Deposits from customers	**1,310,585**	**2,524,949**	**351,252**	**363,467**	**378,096**	**596,436**	**5,227**	**138,664**	**1,988,233**	**736,961**	**10,139**	**136,574**	**4,043,532**	**4,497,051**	**8,540,583**
fixed rate	514,177	1,185,713	326,181	360,605	378,096	596,436	5,227	138,664	4,454	99,215	-	-	1,228,135	2,380,633	3,608,768
variable rate	796,408	1,339,236	25,071	2,862	-	-	-	-	1,983,779	637,746	-	-	2,805,258	1,979,844	4,785,102
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	10,139	136,574	10,139	136,574	146,713
Liabilities from issued securities	**1**	**9,340**	**2,957**	**9,375**	**7,480**	**18,451**	**9,320**	**204**	**87,367**	**38**	**1,951**	**416**	**109,076**	**37,824**	**146,900**
fixed rate	1	8,238	2,957	8,386	7,480	16,542	9,320	204	87,367	38	-	-	107,125	33,408	140,533
variable rate	-	1,102	-	989	-	1,909	-	-	-	-	-	-	-	4,000	4,000
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,951	416	1,951	416	2,367
Derivative financial instruments	**1,105,795**	**124,832**	**534,213**	**150,853**	**249,185**	**11,700**	**161,519**	**16,746**	**41,332**	**59,631**	**374,777**	**449,963**	**2,466,821**	**813,725**	**3,280,546**
fixed rate	740,009	119,742	313,883	56,132	248,403	2,351	161,519	16,746	41,332	59,631	-	-	1,505,146	254,602	1,759,748
variable rate	365,786	5,090	220,330	94,721	782	9,349	-	-	-	-	-	-	586,898	109,160	696,058
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	374,777	449,963	374,777	449,963	824,740
Subordinated bonds and loans	**-**	**-**	**-**	**76,936**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**522**	**-**	**77,458**	**77,458**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	76,936	-	-	-	-	-	-	-	-	-	76,936	76,936
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	522	-	522	522
Net position	**(929,021)**	**597,847**	**415,278**	**379,476**	**139,705**	**(160,644)**	**426,133**	**163,144**	**(531,302)**	**(94,317)**	**425,016**	**433,030**	**(54,191)**	**1,318,536**	**1,264,345**

As at 31 December 2015

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

As at 31 December 2015

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

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

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the 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.

	2016	2015
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	202,210	63,583
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	264,214,052	262,204,162
Basic Earnings per share (in HUF)	**765**	**242**
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	202,210	63,583
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	264,266,374	262,419,544
Diluted Earnings per share (in HUF)	**765**	**242**

	2016	2015
	Number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	15,785,958	17,795,848
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**264,214,052**	**262,204,162**
Dilutive effects of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares[1]	52,322	215,382
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**264,266,374**	**262,419,544**

[1] Both in the year 2016 and 2015 the dilutive effect is in connection with the Remuneration Policy.

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

As at 31 December 2016

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

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)**

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

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 40. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.
To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortized cost, the Group used the discounted cash-flow analyses (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Banks represent amounts available immediately thus the fair value equals to the cost.
The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

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

Classes of assets and liabilities not measured at fair value in the statement of financial position, 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

	2016		2015	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Banks	1,625,357	1,625,466	1,878,960	1,880,223
Placements with other banks, net of allowance for placements losses	363,530	374,733	300,568	318,972
Financial assets at fair value through profit or loss	293,106	293,106	253,782	253,782
Securities held for trading	*184,796*	*184,796*	*111,976*	*111,976*
Fair value of derivative financial instruments classified as held for trading	*108,310*	*108,310*	*141,806*	*141,806*
Securities available-for-sale	1,527,093	1,527,093	1,305,486	1,305,486
Loans, net of allowance for loan losses[1]	5,736,232	6,385,775	5,409,967	6,028,495
Securities held-to-maturity	1,114,227	1,198,227	926,677	1,010,112
Fair value of derivative financial instruments designated as fair value hedge	7,887	7,887	16,009	16,151
Financial assets total	**10,667,432**	**11,412,287**	**10,091,449**	**10,813,221**

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

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	543,775	540,194	533,310	533,338
Deposits from customers	8,540,583	8,511,959	7,984,579	7,969,922
Liabilities from issued securities	146,900	258,372	239,376	351,488
Fair value of derivative financial instruments designated as fair value hedge	20,002	20,002	13,723	13,723
Fair value of derivative financial instruments classified as held for trading	75,871	75,871	101,561	101,561
Subordinated bonds and loans	77,458	69,966	234,784	240,619
Financial liabilities total	**9,404,589**	**9,476,364**	**9,107,333**	**9,210,651**

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	38,878	33,770	35,435	40,475
Negative fair value of interest rate swaps classified as held for trading	(33,012)	(30,453)	-33,264	(37,135)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	17,148	15,551	17,744	14,083
Negative fair value of foreign exchange swaps classified as held for trading	(13,125)	(7,687)	-13,405	(8,000)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated as fair value hedge	6,888	15,393	9,428	7,932
Negative fair value of interest rate swaps designated as fair value hedge	(19,976)	(13,723)	-31,580	(17,211)
Foreign exchange swaps designated as fair value hedge				
Positive fair value of foreign exchange swaps designated as fair value hedge	-	-	-	-
Negative fair value of foreign exchange swaps designated as fair value hedge	-	-	-	-
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	33,768	84,270	31,646	84,721
Negative fair value of CCIRS classified as held for trading	(14,984)	(53,505)	-13,473	(54,309)
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)

	Fair value 2016	Fair value 2015	Notional value, net 2016	Notional value, net 2015
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated as fair value hedge	998	604	1,031	693
Negative fair value of CCIRS designated as fair value hedge	(26)	-	(14)	-
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	-	-	-	-
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated as fair value hedge	1	12	1	12
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	18,184	8,215	13,098	5,098
Negative fair value of other derivative contracts classified as held for trading	(14,050)	(7,546)	(8,616)	(4,290)
Derivative financial assets total	**116,197**	**157,815**	**108,766**	**153,014**
Derivative financial liabilities total	**(95,873)**	**(115,284)**	**(101,017)**	**(123,088)**
Derivative financial instruments total	**20,324**	**42,531**	**7,749**	**29,926**

c) Hedge accounting

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

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

As at 31 December 2016

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

As at 31 December 2015

Types of the hedges	Hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Fair value hedges	IRS	HUF 1,670 million	Interest rate
2) Fair value hedges	CCIRS	HUF 65 million	Interest rate / Foreign currency
3) Net investment hedge in foreign operations[1]	CCIRS and issued securities	HUF 548 million	Foreign exchange

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

d) Fair value hedges

1. Securities available-for-sale

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

	2016	**2015**
Fair value of the hedging IRS instruments	(19,305)	(11,266)

2. Loans to customers / corporates

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

	2016	**2015**
Fair value of the hedging IRS instruments	(4)	(165)
Fair value of the hedging CCIRS instruments	972	65

3. Issued securities

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

	2016	**2015**
Fair value of the hedging IRS instruments	6,221	13,101

As at 31 December 2016

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/ Losses	
				on the hedged items	on hedging instruments
Securities available-for-sale	IRS	HUF 853,804 million	HUF (19,305) million	HUF 11,723 million	HUF (13,619) million
Loans to customers	IRS	HUF 451 million	HUF (4) million	HUF (161) million	HUF 161 million
Loans to corporates	CCIRS	HUF 53,937 million	HUF 972 million	HUF (168) million	HUF 168 million
Liabilities from issued securities	IRS	HUF 69,959 million	HUF 6,221 million	HUF 7,512 million	HUF (7,512) million

As at 31 December 2015

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/ Losses	
				on the hedged items	on hedging instruments
Securities available-for-sale	IRS	HUF 668,484 million	HUF (11,266) million	HUF 9,818 million	HUF (8,696) million
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

e) Fair value levels

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

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

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

As at 31 December 2016	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	292,176	166,204	125,972	-
from this: securities held for trading	183,866	166,117	17,749	-
from this: positive fair value of derivative financial instruments classified as held for trading	108,310	87	108,223	-
Securities available-for-sale	1,511,519	1,151,543	352,280	7,696
Positive fair value of derivative financial instruments designated as fair value hedge	7,887	-	7,887	-
Financial assets measured at fair value total	**1,811,582**	**1,317,747**	**486,139**	**7,696**
Negative fair value of derivative financial instruments classified as held for trading	75,871	267	75,604	-
Negative fair value of derivative financial instruments designated as fair value hedge	20,002	-	19,943	59
Financial liabilities measured at fair value total	**95,873**	**267**	**95,547**	**59**

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

[1] From the whole portfolio HUF 2,886 million includes shares of Visa Inc. as at 31 December 2016 and HUF 10,789 million includes shares of Visa Europe as at 31 December 2015. The purchase price includes three components (upfront component: cash and Visa Inc. "C" preferential shares with limited marketability; and deferred earn-out payment). Sensitivity analysis is not applicable. (See details in Note 43.)

Movements in Level 3 financial instruments measured at fair value

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

Movement on securities available-for-sale in Level 3	Opening balance	Increase / (Decrease)	Closing balance
OTP Bank Plc.	5,667	(3,804)	**1,863**
DSK Bank EAD	3,031	(1,373)	**1,658**
OTP Factoring Ltd.	2,087	9	**2,096**
OTP banka Hrvatska d.d.	1,136	(757)	**379**
OTP Bank Romania S.A.	1,027	(685)	**342**
OTP Banka Slovensko a.s.	907	(605)	**302**
OTP Factoring Ukarine LLC	717	262	**979**
OTP banka Srbija a.d.	27	(24)	**3**
LLC AMC OTP Capital	74	-	**74**
Total	**14,673**	**(6,977)**	**7,696**

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

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

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

The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., OTP Factoring Montenegro d.o.o. and OTP Factoring Slovensko s.r.o. are included into the foreign banks segment.
The activities of the other subsidiaries are out of the leasing and fund management activity, 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 ex penses, 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:

Nor in the year ended 31 December 2016 neither in the year ended 31 December 2015 no goodwill impairment was recognized at all. In the year 2016 due to the impairment on investment in OTP Factoring Ukraine LLC HUF 11,552 million, while in year 2015 in OTP Bank JSC (Ukraine) HUF 6,683 million tax shield was recognized.

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

As at 31 December 2016

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**202,452**		**202,452**																
Adjustments (total)		**1,276**	**1,276**																
Dividends and net cash transfers (after income tax)		412	412																
Goodwill /investment impairment (after income tax)		11,552	11,552																
Bank tax on financial institutions (after income tax)		(13,950)	(13,950)																
Fine imposed by the Hungarian Competition Authority (after income tax)		1,922	1,922																
Expected corporate tax impact of switching to IFRS from HAS in Hungary		(5,766)	(5,766)																
Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary		(6,054)	(6,054)																
Gain on the sale of Visa Europe shares (after income tax)		13,160	13,160																
Consolidated adjusted net profit for the year	**202,452**	**(1,276)**	**201,176**	**122,190**	**73,623**	**14,636**	**10,202**	**47,383**	**1,653**	**39**	**3,782**	**(2,224)**	**(1,848)**	**12,997**	**3,967**	**6,723**	**2,307**	**(5,868)**	**(1,766)**
Profit before income tax	**236,395**	**8,376**	**244,771**	**151,866**	**86,165**	**19,648**	**11,679**	**52,380**	**2,136**	**5**	**4,647**	**(2,480)**	**(1,850)**	**15,199**	**4,264**	**8,114**	**2,821**	**(6,615)**	**(1,844)**
Adjusted operating profit	**329,868**	**6,032**	**335,900**	**143,672**	**179,108**	**54,537**	**22,217**	**70,111**	**8,543**	**697**	**13,538**	**6,780**	**2,685**	**18,745**	**8,550**	**7,894**	**2,301**	**(4,318)**	**(1,307)**
Adjusted total income	785,966	(49,651)	736,315	354,671	349,556	106,031	37,304	112,502	26,643	7,720	31,442	17,892	10,022	52,469	17,038	10,842	24,589	(4,015)	(16,366)
Adjusted net interest income	519,729	2,221	521,950	235,871	272,618	92,025	26,478	84,023	20,315	5,769	22,800	14,257	6,951	23,936	19,804	33	4,099	(4,015)	(6,460)
Adjusted net profit from fees and commissions	222,991	(47,025)	175,966	100,214	64,636	13,749	8,746	26,034	3,230	1,653	5,330	3,272	2,622	11,325	(491)	10,796	1,020	0	(209)
Adjusted other net non-interest income	43,246	(4,847)	38,399	18,586	12,302	257	2,080	2,445	3,098	298	3,312	363	449	17,208	(2,275)	13	19,470	0	(9,697)
Adjusted other administrative expenses	(456,098)	55,683	(400,415)	(210,999)	(170,448)	(51,494)	(15,087)	(42,391)	(18,100)	(7,023)	(17,904)	(11,112)	(7,337)	(33,724)	(8,488)	(2,948)	(22,288)	(303)	15,059
Total risk costs	**(93,473)**	**254**	**(93,219)**	**6,104**	**(92,943)**	**(34,889)**	**(10,538)**	**(17,731)**	**(6,407)**	**(692)**	**(8,891)**	**(9,260)**	**(4,535)**	**(3,546)**	**(4,286)**	**220**	**520**	**(2,297)**	**(537)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(93,473)	20,249	(73,224)	14,036	(83,905)	(34,021)	(11,866)	(12,980)	(5,541)	(890)	(5,331)	(8,987)	(4,289)	(3,010)	(3,088)	0	78	0	(345)
Other provision (adjustment)	0	(19,995)	(19,995)	(7,932)	(9,038)	(868)	1,328	(4,751)	(866)	198	(3,560)	(273)	(246)	(536)	(1,198)	220	442	(2,297)	(192)
Total other adjustments (one-off items)[1]	0	2,090	**2,090**	2,090	**0**	0	0	0	0	0	0	0	0	**0**	0	0	0	0	0
Income tax	(33,943)	(9,652)	**(43,595)**	(29,676)	**(12,542)**	(5,012)	(1,477)	(4,997)	(483)	34	(865)	256	2	**(2,202)**	(297)	(1,391)	(514)	747	78
Total Assets	**11,307,665**	**0**	**11,307,665**	**7,247,291**	**4,820,637**	**648,807**	**307,117**	**1,852,901**	**588,188**	**123,279**	**649,063**	**453,720**	**197,562**	**727,025**	**435,283**	**19,040**	**272,702**	**1,370,966**	**(2,858,254)**
Total Liabilities	**9,887,016**	**0**	**9,887,016**	**5,934,832**	**4,224,484**	**518,032**	**282,874**	**1,605,634**	**545,678**	**94,474**	**575,037**	**426,381**	**176,374**	**544,037**	**405,548**	**2,973**	**135,516**	**657,018**	**(1,473,355)**

( ) used at: provisions, impairment and expenses

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

As at 31 December 2015

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

( ) used at: provisions, impairment and expenses

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

NOTE 43: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2016

1) Term Note Program

See details in Note 16.

2) New acquisition in Croatia

OTP banka Hrvatska d.d., the Croatian subsidiary of OTP, 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 the Group will rise to approximately 10%.
The Bank has been presented 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.

3) Agreement on purchasing unit of AXA Bank Hungary

See details in Note 32.

4) 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. In the second quarter the proceeds after the sale of the Group members' stake in Visa Europe has been transferred and exceeded the amount that was flagged (according to Visa's notification on15 December 2015). The cash transfer affected five group members: the Bank, DSK Bank EAD, OTP Bank Romania S.A., OTP banka Hrvatska d.d. and OTP Banka Slovensko a.s.. The after tax impact of the transaction represented HUF 13.2 billion (HUF 15.9 billion before tax) which included the realized cash transfer (HUF 9.6 billion after tax) and the discounted present values of deferred earn-out components due in 3 years and the C-type VISA Inc. shares (HUF 0.8 billion and HUF 2.8 billion respectively).

NOTE 44: POST BALANCE SHEET EVENTS

There were no significant events after the balance sheet date.

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

In 2016 macroeconomic developments were still shaped by fragile global growth, intensifying fears surrounding China's slowing economy, concerns about the Brexit referendum, and the political uncertainty caused by the US presidential election. Economic growth accelerated in both the USA and the Eurozone at the end of the year. Having bottomed out in spring, commodity prices started to recover, helping inflation rise worldwide at the end of the year. The new American president's programme, which is based on tax reduction, investments into infrastructure, and more pronounced protectionist measures, and which is expected to lead to larger budget deficit, boost growth, and raise inflation, led to higher long-term yields, causing the Fed to launch a slow tightening cycle, yet the forward-looking US real interest rates may stay in negative territory until the end of next year. The same will apply to European markets, because despite the Eurozone's accelerated growth, the European Central Bank remains committed to maintaining loose monetary conditions.

In 2016, the economic performance of Central and Southeast Europe remained convincing, mainly because the fast contraction in unemployment and the acceleration in wage dynamics have bolstered consumption, counterbalancing the fall in EU-co-financed investments. Thus the region's economic growth slowed at milder pace, from 3-4% in 2015 to near 3% annually, and this pace is likely to persist throughout 2017 and 2018.

Hungary's economy grew by 2% in 2016, after expanding by 3% in 2015 and 4% in 2014. Economic growth decelerated to 1.6% by the fourth quarter. Most of this slowing can be put down to a sharp fall in EU-co-financed investments, and a setback in industrial production. Nevertheless, growth without one-off items (EU funds and agriculture) reached 3% in 2016. The main reason for this is the faster private consumption and the continued increase in market services value added. Another encouraging sign is that in industries that are less affected by EU funds (manufacturing and market services) investments have speeded up meaningfully because of the lack of capacity; a number of industries may see double-digit annual growth. The situation is similar on the real property market, where the rising prices, and the 'catalyst effect' of the earlier announced government measures sent building permit numbers soaring, in residential and commercial properties alike. Hungary's economic growth may draw near or exceed 4% in 2017, as the favourable underlying processes are likely to continue their upturn – in the case of consumption, they will be boosted by the government's measures announced at the end of 2016 that will accelerate wages' growth in 2017 (through cutting employers' social contributions, while raising minimum wages and guaranteed minimum wages for skilled workers); besides, EU fund inflow is likely to pick up in 2017, recovering from its fall in 2016.

The balance indicators of the Hungarian economy remain promising. On a four-quarter rolling basis, the general government swung into a surplus of 0.2% of GDP by the third quarter, which would have allowed a balanced budget. In order to boost the economy, the government decided to carry out significant one-off payments in the last months of the year, thus the budget ended the year with a deficit of 1.6% of GDP. Despite the announced tax cuts, we think plenty of fiscal room is left for 2017 to remain within the 2.4% deficit target. Hungary's public debt shrank further, to around 74% of GDP by the end of 2016.

In the second half of the year inflation picked up, ending the almost-three-year-long period of near-zero inflation (-0.2% in 2014, -0.1% in 2015, and +0.3% in 2016). By the end of the year, 12-month inflation climbed to 1.8%, chiefly owing to the higher commodity prices, and also because of the increase in demand-sensitive market services prices. Even though imported inflation is likely to remain low, looking forward, inflation will oscillate around the NBH's 3% target in 2017, and we expect annual inflation to average 2.9%.

Seeing the lower-than-expected global interest rate environment, the NBH launched an easing cycle in spring 2016, lowering the three-month deposit rate from 1.35% to 0.9%. Later, under the Self-Financing Programme, the Monetary Council launched new unconventional instruments, to prevent an unwanted forint firming, and in order that the targeted yield reduction could reach the longer end of the yield curve too. The former weekly auctions were replaced by four-weekly 3M deposit auctions. Since September, the NBH has been setting a cap on 3M deposits in each quarter, while it boosts the banking system's liquidity through FX swap auctions. As a result of these measures, short-term money market interest rates sank near zero, and the 3M BUBOR rate dropped to 25 basis points.

Russia is slow to recover from the recent years' recession. Its GDP contracted by 0.3% in whole year 2016. There is a dichotomy in its economic developments. The weaker RUB, the surge in oil production and the stabilizing oil prices helped its industrial output grow. On the other hand, the falling real incomes and the tight lending conditions dented consumption and investment in 2016 too, and consumption could not pick up even in the fourth quarter. The RUB bottomed out in January 2016 (leading the USD/RUB near 86); since then it has firmed to near-60 levels. The RUB's stabilization and the falling domestic demand led to lower inflation: prices' growth slowed from its highest of 15.9% in March 2015, to 5.0% by January 2017. The Central Bank of Russia follows strict monetary policy to ensure that inflation draws near its 4% target. To that end, the forward-looking real interest rate is kept at high level; the base rate is at 10%. Budget deficit amounted to 3.5% of GDP in 2016. The tight fiscal control may allow the deficit to gradually shrink; a part of oil revenues is spent on replenishing the fiscal reserve funds, which are becoming rather exhausted. Russia's current account surplus dropped to 1.7% of GDP in 2016 due to the lower oil revenues; the external surplus may improve in 2017 again as energy prices recover. Capital withdrawal significantly decelerated in 2016, thus Russia's external financing remained on a stable footing. Retail loan volumes slightly rose in 2016, but mostly because of the 13% year-on-year increase in mortgage loans until November owing to a subsidy programme. Consumer loans' volume stabilized in the second half-year of 2016, but it was still 6% lower year-on-year in November 2016. The expected growth in households' income may bring back demand for loans, but the high real interest rates may keep households' willingness to save at elevated level.

Ukraine's economy slowly stabilized in the first three quarters of 2016, and its fourth-quarter growth has far exceeded expectations. Ukraine's GDP expanded by 4.7% comparing with the same period of the last year (+2% quarter-to-quarter) in the fourth quarter thanks to the continued rise in consumption expenditure and the soaring constructions, which improved economic outlook compared to the previous quarters. Thus the Ukrainian economy's 1.6% growth rate in the whole of 2016 has beaten expectations. However, geopolitical risks are still high, as proved by the mounting tension at the beginning of 2017 in the East.

In the fourth quarter of 2016 industrial production grew by 3.3%, retail sales by 4.3%, and construction by 13.6% year-on-year. Inflation slowed from 43.3% in December 2015 to 12.4% in December 2016 due to the fading of the previous year's base effects, low domestic demand, better-than-expected agricultural production, and stabilizing inflation expectations. The rapid fall in inflation caused the National Bank of Ukraine to cut its base rate from 22% to 14% by October 2016. The hryvnia weakened against the USD by 20% in the first quarter, but in the second quarter it appreciated from 26.2 to 24.8 due to the low inflation pressure and the high base rate.

From November the hryvnia depreciated to 27 against the USD, due to the appreciating dollar and the uncertainties surrounding the International Monetary Fund ("IMF") programme. In the second quarter the central bank relaxed some of its FX restrictions and it may abolish all of them if its FX reserves reach USD 20 billion. This has not happened yet.

There has been no progress in the IMF programme since October 2016, but according to the IMF and Ukraine's government officials the third review of the programme could be completed soon and the fourth tranche could be disbursed by the end of February.

On 15 December 2015 the **Hungarian Parliament** amended the Act No. CCXVII of 2015, which contained amendments to the special tax on financial institutions. Pursuant to the amended law the HUF 34.9 billion special banking tax paid by the Group's Hungarian members in 2015 declined to HUF 16.1 billion in 2016. The total annual amount of the banking tax payable in 2016 was booked in one sum in the first quarter of 2016.

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

From 2016 the Government significantly eased the conditions of purchasing new and used flats and widened the range of eligible families within the framework of the Housing Subsidy for Families (Hungarian abbreviation: "CSOK"). At OTP Core the State subsidized housing loan applications increased substantially (+127% year-to-year) due to the demand generated by the Housing Subsidy for Families. Thus, within the total housing loan applications the demand for the subsidized housing loans represented 44% (versus 35% in 2015). In 2016 close to 10,500 applications were registered with a value of over HUF 34 billion. Applicants also combined CSOK with subsidized or market-based loan applications in the amount of HUF 47 billion.

The NBH launched the third phase of the Funding for Growth Scheme ("FGS") from the beginning of 2016. According to the data published by the NBH on 3 January 2017 the Hungarian credit institutions participating in the scheme had contracted for loans in the amount of HUF 473 billion in 2016 under the FGS, of which OTP's share represented HUF 74 billion. In October 2016 NBH decided about applying more flexible conditions for utilizing FGS loan facilities, and also extended the deadline to draw down loans under the FGS by 6 months (until 29 June 2018). In November the Monetary Council decided to extend the closing date for conclusion of loan contracts until 31 March 2017.

Effective from 1 January 2017 the Hungarian corporate tax rate was cut uniformly to 9% and the move implied revaluation of deferred tax assets and liabilities at Hungarian Group members. These revaluations had a total impact of -HUF 2.7 billion stemming from two components: on one hand there was a -HUF 6.1 billion profit and loss impact booked among the adjustment items. Also, the revaluation impact booked directly against equity in the fourth quarter of 2016 is +HUF 3.4 billion. This item is owing to the revaluation of deferred tax liabilities related to the mark-to-market valuation gains of available-for-sale securities booked directly against equity.

In OTP Bank Romania S.A., its own CHF mortgage loan conversion programme that started on 9 December 2015 was completed with around 73% of the eligible clients participating by 31 August 2016 (i.e. it involved about 7,000 individual contracts).

On 13 May 2016 the so-called 'walk-away' law came into effect. Accordingly, eligible borrowers might simply return the property to the banks in exchange for getting rid of the mortgage loan. So far the interest was fairly benign: by 31 December 269 clients applied for the scheme (with a gross volume of RON 83 million). OTP Bank Romania has already created the necessary individual and collective provisions. On 25 October 2016 the Romanian Constitutional Court declared several parts of the law unconstitutional and ruled the issue into the competence of local courts to deal with the insolvency and unforeseen developments issues of clients.

On 18 October 2016 the Romanian Parliament passed a law requiring banks to convert all mortgages originated in CHF into local currency at rates prevailing at origination, however on 24 October the Romanian Government sent the law to the Constitutional Court for review, consequently the President has not signed the Act either. On 7 February 2017 the Constitutional Court declared the Act as a whole unconstitutional.

In Croatia the conversion programme of retail CHF loans (into EUR) with discount started in the fourth quarter of 2015, in line with the relevant Act. By the end of September 2016 the programme has been basically completed with 87% of the eligible portfolio being converted.

REPORT OF THE SUPERVISORY BOARD

ON THE ANNUAL FINANCIAL STATEMENTS FOR 2016

AND ITS PROPOSAL REGARDING THE USE OF AFTER-TAX PROFIT

In 2016, the Supervisory Board conducted its activity and performed its duties in compliance with the procedures regulated in Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, as well as in Act V of 2013 on the Civil Code and in its own procedural rules.

The Supervisory Board continued to perform its **controlling function** in 2016, protecting the assets of the company and the interests of the shareholders.

As a part of this, at its nine meetings held last year – in addition to its approved work schedule – it requested reports from the executive management, heard briefings and passed resolutions. At meetings of the Bank's Board of Directors the Supervisory Board was represented by its chairman.

The Supervisory Board exercised control over the management of the Company in the following manner:

- *based on the financial statements, it continuously monitored*
  - the development of results, based on the Bank's interim management reports,
  - the content of the Bank's interim financial statements approved by the auditor,
  - the development of the quality of the Bank Group's portfolio,
  - compliance with the provisions of the Act on Credit Institutions and Financial Enterprises,
  - the activity of the controlling units included in the uniform internal audit system,
  - the findings contained in the audit reports of the regular reporting service related to the client cash and securities collateral coverage, assigned to the tasks of internal audit in the relevant paragraph of the Investment Services Act ("Bszt."),
  - the implementation of the tasks included in the action plans compiled in the wake of the MNB's audits,
  - the fulfilment of the resolutions passed by the Supervisory Board.

- *it heard reports and briefings*
  - on OTP Bank Plc.'s business activity in 2015,
  - on OTP Bank Plc.'s business results for 2015,
  - as part of the auditor's report, on the 2015 financial report of the parent company prepared in accordance with the accounting laws and other domestic financial reporting rules (balance sheet, profit and loss account, cash flow statement, notes to the financial statements),
  - on the proposal for the use of after-tax profit of the parent company and dividend payments;
  - as part of the auditor's report, on the 2015 IFRS-based consolidated financial reports of the Bank (financial situation report, profit and loss account, comprehensive income statement, cash flow statement, statement on changes in equity, explanatory notes);
  - on the results of the audit of the 2015 financial reports received from the auditor,
  - as part of the audit report, on the Bank's stand-alone report prepared in accordance with International Financial Reporting Standards (IFRS) in respect of the year 2015,
  - in relation to the material data of the 2015 financial report that is to be published,
  - on the General Meeting's authorisation with regard to the acquisition of treasury shares,
  - on the establishing of the remuneration of the members of the Board of Directors, the Supervisory Board and the Audit Committee,
  - on the activity of the Remuneration Committee in 2015, as well as on the implementation and annual review of the remuneration policy of OTP Bank Plc. and the Bank Group,

- on the review conducted by the 2015 internal audit on the functioning of the Remuneration Policy of OTP Bank Plc. and the Bank Group,
- on decisions relating to the implementation of the Remuneration Policy,
- on the review of the effectiveness of public disclosure processes,
- on the provisions of the Conflict of Interest Regulations,
- on the provisions of the regulations entitled “Insider status, and the various obligations and prohibitions related thereto”,
- on the basic regulations defining the activity of the Internal Audit Directorate that is under its professional supervision,
- on the group-level operation of the Unified Internal Audit System and the improvement of the system, and
- on the operation of the Internal Audit Directorate in accordance with Article 154, section (12) of the Credit Institutions Act, and on
- on the compliance and bank-security situation of OTP Bank Plc. and the foreign subsidiary banks,
- on the provisions of the regulations entitled Compliance and Security Policy of OTP Bank Plc.,
- on the findings related to the management of complaints, on the consumer protection audit conducted by the MNB, as well as on the briefing on customer complaints received by the foreign subsidiaries, and
- on other current issues.

➢ *approved*

- the remuneration guidelines of OTP Bank Plc.,
- the basic principles of the 2016 incentives system of OTP Bank Plc. and the Bank Group subsidiaries, and the main performance evaluation criteria in respect of managers who fall within the scope of the Remuneration Policy,
- the amendment of the 2016 performance-measurement and evaluation criteria with respect to managers of the Bank Group subsidiaries who fall within the scope of the Remuneration Policy,
- amendment of the regulations pertaining to the Remuneration Policy,
- in respect of the 2015 share-based portion of the performance remuneration, the conditions applicable to the awarding of shares,
- the proposal regarding the amendment, and the submission to the General Meeting, of the OTP Bank Plc. Articles of Association,
- the proposal regarding the amendment of its own rules of procedure and the amendment of the Audit Committee’s rules of procedure,
- the 2015 Corporate Governance Report,
- the report of the Supervisory Board on the annual financial statements of 2015 and the proposal regarding utilisation of the after-tax profit,
- the proposal on the selection of the Company’s auditor, the determination of the remuneration of, and the determination of the substantive content elements of the contract to be concluded with, the auditor,
- the 2016-2020 strategic plan of the Internal Audit Directorate that is under its professional supervision.

➢ *accepted*

- in relation to its tasks determined in its own rules of procedure, the annual report on risk management, internal control mechanisms and the operation of corporate governance functions, in full knowledge of the preliminary opinion of the Audit Committee.

- *supported*
  - the Nomination Committee, in its proposal, presented for a vote to the General Meeting, regarding the Board of Directors and Supervisory Board members recommended by the Committee,
- *consented*
  - to the loan requests of customers and customer groups approved by OTP Bank Plc.'s Board of Directors, and to the setting up of customer group limits.
- *obtained information*
  - on the Supervisory measures taken in respect of the Bank.
    As part of this, it determined that in the course of 2016, the National Bank of Hungary had imposed fines of HUF 61,050,000 on the Bank due to a breach of the provisions regarding the obligation to provide information to customers, a breach of the statutory provisions on the prohibition of unfair commercial practices towards consumers, a breach of the regulations related to payment services, and the non-comprehensive observance of the rules set out in the provisions on the public disclosure of information, as well as due to a few omissions and inaccuracies related to its applied transactions ratings, to its determination of income-proportionate loan repayments, its supervisory reporting obligations, the regulating and documenting of its IT systems, and to its records on its investment service activity.

The Supervisory Board performed its **governance role** in accordance with the provisions of the Credit Institutions Act, through the audits performed by the internal audit unit under its professional supervision (Internal Audit Directorate) and through the audits that it, itself, performed.

In accordance with the applicable statutory provisions and its Rules of Procedure, which are in harmony with such provisions, the Supervisory Board took steps to ensure the availability of auditing bodies capable of comprehensive and effective operation at OTP Bank Plc. and at the credit institutions, financial enterprises and investment enterprises that are subject to consolidated supervision.

As a part of its oversight of the internal auditing units, the Supervisory Board

- commented on, and subsequently approved, the **annual audit plan** of the Internal Audit Directorate and the Bank Group members subject to consolidated supervision, which was elaborated on the basis of risk analyses. Besides the mandatory audits prescribed in the statutory regulations and the Supervisory Recommendations, it designated the topics that were examined in the context of a group-level audit, such as reviews that focused on the management of uncollected receivables, the degree of regulation of IT change management and the practices related thereto, as well as on the activity related to preferred private individual (private banking) customers.

  Based on the audit plan for 2016 and other, unscheduled tasks, the Internal Audit Directorate **completed 163 audits** and **commenced 27 audits** during the year. Following the completed audits, it drew up **1,333** accepted **recommendations**.
- discussed the reports prepared by internal audit and monitored the execution of the necessary measures. Based on the findings of the audits it accepted recommendations and proposals, and prescribed further obligations to provide information.

  Through the bank group-level quarterly, annual and stand-alone reports, the internal audit unit reported, to the Supervisory Board of OTP – as well as to the Executive Bodies of the

Bank – on the internal auditing activities performed within the group, the findings of group-level theme audits of key importance, completion of the tasks undertaken in action plans drawn up by the audited departments, as well as extraordinary events and findings entailing a high degree of risk that came to light in the course of internal audit activities and which are also of significance at group level.

Prior to the present ordinary annual General Meeting of 2017, the Supervisory Board, in fulfilment of its statutory obligation, **reviewed** all the material business policy reports on the agenda of the General Meeting, as well as all the proposals relating to matters that fall within the exclusive competence of the company's supreme body.

The Supervisory Board studied the content of the audited **annual financial statements** and **consolidated annual financial statements**, and heard the briefings of the **auditor**.

The Supervisory Board commented on and approved the **Corporate Governance Report** (for 2016) prior to its proposal to the General Meeting.

The Supervisory Board – based on prior agreement with the Board of Directors – **makes a proposal at the 2017 General Meeting** regarding the identity and the remuneration of the **auditor** to be selected.

The Supervisory Board evaluated **the performance of the senior officers during the business year** and made a proposal to the 2017 Annual General Meeting on whether to grant the senior officers discharge from liability.

Prior to the 2017 Annual General Meeting, the Supervisory Board ascertains that the Bank has, in compliance with its statutory obligations, **published** its material data, its declaration on remuneration, and the information that is required by law to be made public.

The Supervisory Board has, in this proposal, prepared its report on **the 2016 annual financial statements** and the proposal for the **use of the after-tax profit,** and it will submit it to the 2017 Annual General Meeting.

Based on the documents made available to it in respect of the 2016 business year, the Supervisory Board has concluded that OTP Bank Plc. prepared its annual financial statements in accordance with the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, Act C of 2000 on Accounting, and Government Decree 250/2000. (XII. 24.) on special provisions regarding the annual reporting and book-keeping obligation of credit institutions and financial enterprises.

The Bank accounted for impairment and set aside risk provisions in accordance with the requirements of the Act on Credit Institutions and Financial Enterprises, the government decree on the specific characteristics of the annual reporting and book-keeping obligations of credit institutions and financial enterprises, as well as the Bank's Accounting Policy, by applying the regulations, agreed with the auditor, on rating and on valuation, impairment and provisioning.

Based on the documents made available to it in respect of the **consolidated annual financial statements** of OTP Bank Plc., the Supervisory Board has concluded that the Bank prepared the latter in accordance with the provisions of Act C of 2000 on Accounting and with international financial reporting standards (IFRS) as accepted by the European Union.

The Supervisory Board of OTP Bank Plc. judges that in the course of OTP Bank Plc.'s activity throughout the year, the principles of legality and respect for shareholder interests were upheld.

The Supervisory Board of OTP Bank Plc., in line with the contents of the auditor's report, and having accepted

- the non-consolidated financial statements on the 2016 business year prepared in accordance with Hungarian Accounting Standards (HAS)

  with a ***balance sheet total of HUF 7,109,622 million,*** *and*

- the consolidated annual financial statements on the 2016 business year prepared in accordance with International Financial Reporting Standards

  with a ***balance sheet total of HUF 11,307,665 million,*** *and*

- ***after-tax profit*** under HAS ***of HUF 201,641 million*** *and*

- the Board of Directors' **report on business operations**,

hereby recommends the above for approval by the Company's General Meeting.

The Supervisory Board agrees on the proposal of the Board of Directors according to which **dividend in the amount of HUF 190 /share** is going to be paid in accordance with the Company's Articles of Association.

AUDIT COMMITTEE'S REPORT

ON THE ANNUAL FINANCIAL STATEMENTS FOR 2016

AND PROPOSAL FOR THE USE OF THE AFTER-TAX PROFIT

In 2016 the Audit Committee (AC) conducted its activity and performed its duties in compliance with the procedures regulated in Act V of 2013 on the Civil Code, as well as in its own procedural rules accepted by the Bank's Supervisory Board.

In support of the work of the Bank's Audit Committee and Supervisory Board, and as part of a close working relationship between the various Committees, it collaborated in the monitoring of the financial reporting system, in the selection of the auditor and in maintaining the expected and appropriate cooperation with the auditor.

The Audit Committee, in addition to what was discussed at the meetings of the Supervisory Board,

- *heard reports*
  - as part of the auditor's report, on the 2015 financial report of the parent company prepared in accordance with the accounting laws and other domestic financial reporting rules (balance sheet, profit and loss account, cash flow statement, notes to the financial statements),
  - on the proposal for the use of after-tax profit of the parent company and dividend payments;
  - as part of the auditor's report, on the 2015 IFRS-based consolidated financial reports of the Bank (financial situation report, profit and loss account, comprehensive income statement, cash flow statement, statement on changes in equity, explanatory notes);
  - on the results of the audit of the 2015 financial reports received from the auditor,
  - as part of the audit report, on the Bank's stand-alone report prepared in accordance with International Financial Reporting Standards (IFRS) in respect of the year 2015,
  - on the material data of the 2015 financial report that is to be published.

  It has agreed with the contents of the reports, and proposed that these be presented to the General Meeting.

- *monitored*
  - in the interim financial statements approved by the auditor, changes in the results, as well as the contents of the interim balance sheet and the independent auditor's reports.

- *received a briefing*
  - on the 2016 auditing schedules of the Internal Audit Directorate,

- *commented on*
  - the content of the report entitled "Annual report on risk management, internal control mechanisms and the operation of corporate governance functions", to be proposed to the Supervisory Board.

- *commented on, and accepted,*

  the proposal on the selection of the Company's auditor, the determination of the remuneration and the definition of the main elements of the contract to be concluded with the auditor.

- *approved*
  - The report of the Audit Committee on the 2015 annual financial reports and the proposal regarding the use of the after-tax profit.

Prior to the General Meeting the Audit Committee examined and evaluated the audited annual financial statements and the consolidated annual financial statements featuring as items on the agenda of the General Meeting, and heard the briefing of the auditor. It accepts the proposal on the selection of the Company's auditor.

Based on the documents made available to it in respect of the 2016 business year, the Audit Committee has concluded that OTP Bank Plc. prepared its annual financial statements in accordance with the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, Act C of 2000 on Accounting, and Government Decree 250/2000. (XII. 24.) on special provisions regarding the annual reporting and book-keeping obligation of credit institutions and financial enterprises.

The Bank accounted for impairment and set aside risk provisions in accordance with the requirements of the Act on Credit Institutions and Financial Enterprises, the government decree on the specific characteristics of the annual reporting and book-keeping obligations of credit institutions and financial enterprises, as well as the Bank's Accounting Policy, by applying the regulations, agreed with the auditor, on rating and on valuation, impairment and provisioning.

Based on the documents made available to it in respect of the **consolidated annual financial statements** of OTP Bank Plc., the Audit Committee has concluded that the Bank prepared the latter in accordance with the provisions of Act C of 2000 on Accounting and with international financial reporting standards (IFRS) as accepted by the European Union.

The Audit Committee, based on the reports it has read and evaluated, and in agreement with the auditor, finds that the Bank's Board of Directors may submit for approval to the General Meeting, in respect of the 2016 Business year:

- the non-consolidated financial statements prepared in accordance with Hungarian Accounting Standards

  *with **a balance sheet total of HUF 7,109,622 million,** and*

- the consolidated annual financial statements prepared in accordance with International Financial Reporting Standards,

  *with **a balance sheet total of HUF 11,307,665 million,** and*

- ***after-tax profit*** under HAS ***of HUF 201,641 million.***

The Audit Committee agrees with the proposal of the Board of Directors according to which **dividend in the amount of HUF 190 /share** is going to be paid in accordance with the Company's Articles of Association.

RESULTS OF THE INDEPENDENT AUDITORS'S REPORT FOR THE YEAR ENDED 2016

Deloitte.

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.com/Hungary

Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

Translation of the Hungarian original

INDEPENDENT AUDITOR'S REPORT

on the financial statements submitted for the forthcoming General Meeting of OTP Bank Plc.

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

Opinion

We have audited the financial statements of OTP Bank Plc. (the „Bank") for the year 2016 which comprise the balance sheet as at December 31, 2016 (which shows an equal amount of total assets and total liabilities of HUF 7.109.622 million and a net profit for the year of HUF 181.477 million), as well as the related profit and loss account for the year then ended and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2016 and its financial performance for the year then ended in accordance with Act C of 2000 on Accounting (hereinafter: "the Accounting Act") effective in Hungary.

Basis for the opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the Bank in compliance with the Hungarian ethical requirements pertaining to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Impairment of loan receivables	
(See Sections III.4. and VII.7. of the notes to the financial statements for the details) The net value of loans to customers in an amount of HUF 1,938,777 million comprise 27.3% of the consolidated total assets (gross book value of HUF 2,055,981 million), the relevant impairment charge recorded in the current year was HUF 29,161 million. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific impairment of loans. The most significant assumptions applied in provisioning calculation are the following: - valuation of collaterals, - estimated time to realize collaterals, - probability of default, - estimation of future cash-flows expected to be realized. Based on the significance of the above described circumstances the calculation of impairment of loan receivables was considered as a key audit matter.	The relevant audit procedures performed by us included the following: - evaluating internal controls relating to monitoring of loans and calculating and recording of impairment, - sample based testing of specific loan impairments, including the review of consideration and valuation of collaterals and estimations of expected future cash-flows, - assessing the appropriateness of collective provisioning models, and review of the assumptions and management estimates applied and parameters, including comparison with historical data, and recalculation of impairment charge with the involvement of our experts.

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Key audit matter	How our audit addressed the matter
Valuation of investments	
(See Sections III.6 of the notes to the financial statements for the details) The Bank performed several acquisitions in prior years, and as a result of these acquisitions a net amount of HUF 583,007 million investments in related parties (investments) is presented in the financial statements. As required by the applicable accounting standards, management conducts regular impairment tests (at least annually) to assess whether there is a need to record impairment with respect to the investments. The Bank applies the DCF (discounted cash-flow) and the EVA (economic value added) methods to determine the recoverable amounts in the impairment tests. These methods are based on several material assumptions and the professional judgement of management (e.g. discount rates applied, growth rates, cost levels, future risk costs, fx rates, etc). Accordingly, the valuation of investments is considered to be a key audit matter.	In our audit procedures on the impairment test of investments we focused on the assessing of the appropriateness of the assumptions applied by management. We reviewed the valuation models applied by management together with the applied assumptions with the involvement of our valuation experts. We examined whether the plans are in accordance with historical results, and performed sensitivity analysis on the key parameters of the models when needed. We also audited the appropriate application of the relevant accounting standards, the related journal entries and disclosures.

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<table>
<tr><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td colspan="2">Valuation of complex financial instruments (including derivatives) and application of hedge accounting</td></tr>
<tr><td>(See Section III.15., III.19., IV.1.,IV.2., VII.7., VII.10. and VII.12. of the notes to the financial statements for the details)

The Bank has several complex financial instruments (including derivatives) of which valuation is based on complex models, and the valuation also involves significant management estimates. The input data used in the valuation models are based on market prices and also other market based and non-market based information. The most significant input data applied by the Bank in its fair valuation models are the estimations of forward rates and estimation of yield curves using financial-mathematical models, which inputs are used by the Bank to value derivatives and complex derivatives to manage market risks (foreign exchange risks, interest rate risks, etc.).

The recognition and valuation of transactions under hedge accounting in accordance with the Bank's risk management strategy, together with the required assessment of hedge effectiveness is also an area of high complexity.

Based on the significance of the above described circumstances the valuation of financial instruments and the hedge accounting were considered as a key audit matter.</td><td>We tested the operating effectiveness of the key internal controls implemented by the Bank relating to fair value measurement of financial instruments.

We analyzed the appropriateness of the valuation models applied by the Bank, tested the accuracy of input data and the applied assumptions including any management estimates and financial-mathematical models.
We tested the fair value measurement of the financial instruments on a sample basis, and examined whether their accounting is in line with the applicable accounting standards.
We reviewed the hedge documentation (which includes the risk management strategy) of the transactions involved in hedge accounting, together with the assessment of hedge effectiveness and their accounting treatment, whether it is in line with the applicable accounting standards.
We also examined whether the disclosures relating to financial instruments are appropriate.</td></tr>
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Other information

Other information comprises the information included in the sections called "Management's Analysis" and "Corporate Governance" of the annual report and the business report of OTP Bank Plc. for 2016 which we obtained prior to the date of this auditor's report, and the sections called "Message to the Shareholders" and "Macroeconomic and financial environment in 2016" included in the annual report, which is expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our report entitled "Opinion" does not apply to the other information.

Our responsibility in connection with our audit of the financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B (2) a)-d), g) and h) has been provided in the business report.

In our opinion, the business report of OTP Bank Plc. for 2016 corresponds to the financial statements of OTP Bank Plc. for 2016 and the business report was prepared in accordance with the provisions of the Accounting Act. The information referred to in Section 95/B (2) a)-d), g) and h) of the Accounting Act has been provided.

As the Bank is not subject to additional requirements under any other regulation in connection with the business report, our opinion on the business report does not include an opinion under Section 156 (5) h) of the Accounting Act.

In addition to the above, based on the information obtained about the Bank and its environment, we must report on whether we became aware of any material misstatements in the other information that we obtained prior to the date of this auditor's report and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

The auditor's responsibilities for the audit of the financial statements

Our objectives during the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Bank's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditor's report are the signatories of the report.

Budapest, March 16, 2017

The original Hungarian version has been signed.

Nagyváradiné Szépfalvi Zsuzsanna

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

dr. Hruby Attila

Statutory registered auditor
Registration number: 007118

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Deloitte.

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.com/hungary

Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries (together the "Group") for the year 2016 which comprise the consolidated statement of financial position as at December 31, 2016 – which shows total assets of HUF 11,307,665 million – and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net profit for the year of HUF 202,452 million –, the consolidated statement of changes in equity and the consolidated statement of cash-flows for the year then ended, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of OTP Bank Plc. and its subsidiaries as at December 31, 2016, 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.

Basis for the opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The auditor's responsibilities for the audit of the consolidated financial statements*" section of our report.

We are independent of the Group in compliance with the Hungarian ethical requirements pertaining to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Impairment of loan receivables	
(See notes 8., 24., and 28.1. of the notes to the consolidated financial statements for the details) The net value of loans to customers in an amount of HUF 5,736,232 million comprise 50.7% of the consolidated total assets (gross book value of HUF 6,639,754 million), the relevant impairment charge recorded in the current year was HUF 93,473 million. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific impairment of loans. The most significant assumptions applied in provisioning calculation are the following: - valuation of collaterals, - estimated time to realize collaterals, - probability of default, - estimation of future cash-flows expected to be realized. Based on the significance of the above described circumstances the calculation of impairment of loan receivables was considered as a key audit matter.	The relevant audit procedures performed by us included the following: - evaluating internal controls relating to monitoring of loans and calculating and recording of impairment, - sample based testing of specific loan impairments, including the review of consideration and valuation of collaterals and estimations of expected future cash-flows, - assessing the appropriateness of collective provisioning models, and review of the assumptions and management estimates applied and parameters, including comparison with historical data, and recalculation of impairment charge with the involvement of our experts.

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<table>
<tr><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td colspan="2">Valuation of goodwill</td></tr>
<tr><td>(See notes 11. and 32. of the notes to the consolidated financial statements for the details)

The Bank performed several acquisitions in prior years, and as a result of these acquisitions a net amount of HUF 104,282 million goodwill is presented in the consolidated statement of financial position. As required by the applicable accounting standards, management conducts regular impairment tests (at least annually) to assess whether there is a need to record impairment with respect to the goodwill.
The Bank applies the DCF (discounted cash-flow) and the EVA (economic value added) methods to determine the recoverable amounts in the impairment tests. These methods are based on several material assumptions and the professional judgement of management (e.g. discount rates applied, growth rates, cost levels, future risk costs, fx rates, etc).

Accordingly, the valuation of goodwill is considered to be a key audit matter.</td><td>In our audit procedures on the impairment test of goodwill we focused on the assessing of the appropriateness of the assumptions applied by management. We reviewed the valuation models applied by management together with the applied assumptions with the involvement of our valuation experts.

We examined whether the plans are in accordance with historical results, and performed sensitivity analysis on the key parameters of the models when needed.

We also audited the appropriate application of the relevant accounting standards, the related journal entries and disclosures.</td></tr>
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<table>
<tr><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td colspan="2">Valuation of complex financial instruments (including derivatives) and application of hedge accounting</td></tr>
<tr><td>(See note 41. of the notes to the consolidated financial statements for the details)

The Group has several complex financial instruments (including derivatives) of which valuation is based on complex models, and the valuation also involves significant management estimates. The input data used in the valuation models are based on market prices and also other market based and non-market based information. The most significant input data applied by the Group in its fair valuation models are the estimations of forward rates and estimation of yield curves using financial-mathematical models, which inputs are used by the Group to value derivatives and complex derivatives to manage market risks (foreign exchange risks, interest rate risks, etc.).

The recognition and valuation of transactions under hedge accounting in accordance with the Group's risk management strategy, together with the required assessment of hedge effectiveness is also an area of high complexity.

Based on the significance of the above described circumstances the valuation of financial instruments and the hedge accounting were considered as a key audit matter.</td><td>We tested the operating effectiveness of the key internal controls implemented by the Group relating to fair value measurement of financial instruments.

We analyzed the appropriateness of the valuation models applied by the Group, tested the accuracy of input data and the applied assumptions including any management estimates and financial-mathematical models.

We tested the fair value measurement of the financial instruments on a sample basis, and examined whether their accounting is in line with the applicable accounting standards.

We reviewed the hedge documentation (which includes the risk management strategy) of the transactions involved in hedge accounting, together with the assessment of hedge effectiveness and their accounting treatment, whether it is in line with the applicable accounting standards.

We also examined whether the disclosures relating to financial instruments are appropriate.</td></tr>
</table>

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Other information

Other information comprises the information included in the sections called "Management's Analysis" and "Corporate Governance" of the annual report and the consolidated business report of OTP Bank Plc. and its subsidiaries for 2016 which we obtained prior to the date of this auditors' report and the sections called "Message to the shareholders" and "Macroeconomic and financial environment in 2016" of the annual report which are expected to be made available to us after that date, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Act C of 2000 on Accounting (the "Accounting Act") and other regulations. Our opinion on the consolidated financial statements provided in the section of our report entitled "Opinion" does not apply to the other information.

Our responsibility in connection with our audit of the consolidated financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B (2) a)-d), g) and h) has been provided in the consolidated business report.

In our opinion, the consolidated business report of OTP Bank Plc. and its subsidiaries for 2016 corresponds to the consolidated financial statements of OTP Bank Plc. and its subsidiaries for 2016 and the consolidated business report was prepared in accordance with the provisions of the Accounting Act. The information referred to in Section 95/B (2) a)-d), g) and h) of the Accounting Act has been provided.

As the Group is not subject to additional requirements under any other regulation in connection with the consolidated business report, our opinion on the consolidated business report does not include an opinion under Section 156 (5) h) of the Accounting Act.

In addition to the above, based on the information obtained about the Group and its environment, we must report on whether we became aware of any material misstatements in the other information that we obtained prior to the date of this auditor's report and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the sections of the annual report that were not yet made available to us until the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

The auditor's responsibilities for the audit of the consolidated financial statements

Our objectives during the audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Group's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditor's report are the signatories of the report.

Budapest, March 16, 2017

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

dr. Hruby Attila
Statutory registered auditor
Registration number: 007118

7/7

RESOLUTION PROPOSAL No. 1/2017

The Annual General Meeting accepts the Board of Directors' report on the Company's financial activity for the year ended 2016, furthermore with full knowledge of the Independent Auditor's Report, the Audit Committee's Report and the Supervisory Board's report, accepts the proposal of the parent company's annual financial statements in accordance with Act on Accounting and the Bank's consolidated financial statements in accordance with the International Financial Reporting Standards, and the proposal for the allocation of the profit after taxation.

The Annual General Meeting determines the balance sheet for the year ended 2016 with total assets of HUF 7,109,622 million and with profit after tax of HUF 201,641 million. The profit after tax for the period is allocated as follows: the general reserve must be increased by HUF 20,164 million, and from the profit for the year of HUF 181,477 million, HUF 53,200 million shall be paid as dividend.

The dividend per share is HUF 190, compared to the face value of shares it's 190%. The actual rate of dividend paid to shareholders is calculated and paid based on the Articles of Association, so the Company distributes the dividends for its own shares among the shareholders who are entitled for dividends. The dividends shall be paid from 6 June 2017 in accordance with the policy determined in the Articles of Association.

The Annual General Meeting determines the Company's consolidated balance sheet with total assets of HUF 11.307.665 million, and with HUF 202.452 million as net profit. The profit for shareholders is HUF 202.210 million.

APPROVAL OF THE CORPORATE GOVERNANCE REPORT FOR Y2016

Corporate Governance Report

Introduction

OTP Bank Plc. (hereinafter: OTP Bank, Bank or Company) treats the development and maintenance of an **advanced corporate governance system**, conforming to Hungarian and international standards, as a key priority. A reliable governance system, accurate financial planning, responsible management and the appropriate control mechanisms are what form the basis for efficient and profitable operation.
To this end, the Bank is continuously reviewing and developing its corporate governance practices.

Our corporate governance practice is an important means of ensuring the **fulfilment of our strategic objectives**. Accordingly, within the effective statutory frameworks, we have developed a corporate governance system that simultaneously ensures the confidence and satisfaction of our customers, growth in shareholder value, and our socially responsible corporate conduct. There is no perfect, universally applicable corporate governance solution through which every goal can be achieved as efficiently as possible. For this reason we continuously monitor our governance practices, identifying any deficiencies arising as the result of external and internal changes, and effect those modifications that best serve the fulfilment of our objectives.

The resulting governance structure, optimised to suit our objectives, takes into account the special characteristics of our operations as well as the statutory, supervisory and stock-market requirements that apply to the Bank, while also endeavouring to comply with the related Budapest Stock Exchange (hereinafter: BSE) guidelines. The purpose of the BSE's corporate governance guidelines is for the governance and operating structures of stock exchange-listed companies to be **transparent and comparable** based on a uniform set of criteria. This enables investors, taking into consideration the special characteristics of a given company's operations, the complexity of its activities, and the statutory requirements related to its risk management and financial reporting, to make a well-founded judgement regarding the extent to which the given corporate governance practice ensures reliable and profitable operation.

Like all organisations that provide financial and investment services, the operations of the Bank are, to a high degree, regulated in statutory provisions. As a consequence, not only certain business activities, but our operations as a whole are regulated in detail and monitored by the authorities on a continuous basis. The individual internal control functions (risk management, compliance, and internal audit) have to conform to strict standards, and their effectiveness must be attested not only within the internal corporate governance system, but also to the satisfaction of the external supervisory authorities. All these factors guarantee purposeful, comprehensive and verified risk management procedures, as well as reliable and appropriately supervised data reporting. Therefore, our status as a financial and investment service provider requires us to implement complex and effective corporate governance practices that simultaneously ensure **responsible conduct towards clients and shareholders, reliable operation, and long-term profitability**.

1.) Statement on Corporate Governance Practice

The Bank's operation fully complies with the provisions of the relevant statutory regulations, the decrees of the supervisory authorities and the regulations of the BSE. The structure and operating conditions of the Company are contained in the Articles of Association, which are approved by the General Meeting.

1.1. Management bodies

Board of Directors

The Company’s management body is the Board of Directors. In its objectives and activities, particular emphasis is placed on increasing shareholder value, profitability and efficiency, and on managing risks and complying fully with external requirements – in other words on ensuring the most effective enforcement of business, ethical and internal control policies.
The scope of its authority is defined in the effective statutory provisions, the Company's Articles of Association, General Meeting resolutions, and the Organisational and Operational Regulations. The procedural rules include the legal status and composition, as well as the operating and decision-making rules relevant to the Board of Directors.
The members of the Board of Directors are elected by the General Meeting for a term of five years. All the obligations and prohibitions specified for executive officers under Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act) apply to the members of the Board of Directors.
The Board of Directors has an managing role in the governance of the Bank, and this is reflected in its members’ remuneration, an important element of which is the share-based honorarium, which serves to harmonise the interests of the board with those of the shareholders.
It oversees the Company’s operative management through the Chairman & CEO. The Chairman & CEO is empowered to decide in all matters that do not, pursuant to the Articles of Association, fall within the scope of authority of the General Meeting or the Board of Directors. The employer’s rights towards the managing directors of the Company are exercised by the Board of Directors as a corporate body as a general rule, with the proviso that with respect to deputy CEOs, employer’s rights are exercised through the Chairman & CEO, and the Board of Directors must be notified in advance for appointing or withdrawing the appointment of deputy CEOs.
Since the Board of Directors also has an important role in overseeing the work of the management, it is consequential that **the Board of Directors, by principle, has a majority of non-executive members**. The makeup of the Board of Directors ensures that professional expertise, experience, and a degree of impartiality that goes beyond the above-mentioned independence requirement, are brought to bear in equal measure in the decision-making processes.

Members of the Board of Directors of OTP Bank Plc.:

Executive members:

Dr. Sándor Csányi
Chairman & CEO

Dr. Sándor Csányi graduated from the College of Finance and Accountancy in 1974 with a bachelor's degree in business administration and in 1980 from the Marx Károly University of Economic Sciences with a degree in economics. He is an economist with a specialisation in finance, and a certified auditor. After graduation he worked at the Revenue Directorate and then at the Secretariat of the Ministry of Finance, after which, between 1983 and 1986, he was a departmental head at the Ministry of Agriculture and Food Industry. From 1986 to 1989 he worked as a head of department at Magyar Hitel Bank. He was deputy CEO of K&H Bank from 1989 to 1992. He has been Chairman & CEO of OTP Bank Plc. since 1992. He is a member of the European Advisory Board of MasterCard, one of the world's leading payment card companies, and is Vice Chairman of the Board of Directors of MOL Plc., Co-Chairman of the National Association of Entrepreneurs and Employers (VOSZ), and Co-Chairman of the Chinese-Hungarian Business Council. He has been Chairman of the Hungarian Football Association (MLSZ) since July 2010, and a member of the UEFA Executive Committee since March 2015. Since January 2017 he has been a member of FIFA's Financial Committee.
As of 31 December 2016 he held 416,753 ordinary OTP shares (while the total number of OTP shares held by him directly and indirectly was 2,216,753).

Antal György Kovács
Deputy CEO
Retail Division

Mr. Antal György Kovács graduated from the Marx Károly University of Economic Sciences with a degree in economics. He began his professional career in 1990 at the Nagyatád branch of K&H Bank, where he worked as a branch manager between 1993 and 1995. He has been working at OTP Bank Plc. since 1995, first as a county director and from 1998 as the managing director of OTP Bank's South Transdanubian Region. Since 1 July 2007 he has served as OTP Bank's Deputy CEO. He has received additional training at the International Training Centre for Bankers and on various courses held by the World Trade Institute.
Between April 2009 and April 2012 he was Chairman of the Supervisory Board of OTP Banka Hrvatska. He has been Chairman of the Supervisory Board of OTP Bank Romania SA since 12 December 2012. He has been Chairman of the Board of Directors of OTP Mortgage Bank Ltd. and OTP Building Society Ltd. since 24 April 2014. He is Chairman of the Supervisory Board of OTP Fund Management and OTP Mobile Kft.
He was a member of OTP Bank's Supervisory Board from 2004 to 14 April 2016.
He has been a member of OTP Bank's Board of Directors since 15 April 2016.
As of 31 December 2016 he held 22,000 ordinary OTP shares.

<u>László Wolf</u>
Deputy CEO
Commercial Banking Division

Mr. László Wolf graduated from the Marx Károly University of Economic Sciences in 1983.
After graduation, he worked at the Bank Relations Department of the National Bank of Hungary for 8 years, and then served as head of Treasury at BNP-KH-Dresdner Bank between 1991 and 1993.
From April 1993 he was managing director of OTP Bank’s Treasury Directorate, and since 1994 he has been Deputy CEO of the Commercial Banking Division and a member of the Supervisory Board of DSK Bank. He has been Chairman of the Board of Directors of OTP banka Srbija since 10 December 2010. He is Chairman of the Supervisory Board of OTP Real Estate Ltd.
He has been a member of OTP Bank's Board of Directors since 15 April 2016.
As of 31 December 2016 he held 595,791 ordinary OTP shares.

<u>Non-executive members:</u>

<u>Mihály Baumstark</u>
Agricultural Business Administration, Economics

Mr. Mihály Baumstark graduated with a degree in agricultural business administration at Gödöllő University of Agriculture (1973), and went on to do a masters in economics at the Marx Károly University of Economic Science (1981). He was employed by the Ministry of Agriculture and Food Industry between 1978 and 1989. When he left the Ministry he was deputy head of the Investment Policy Department. After this he was managing director of Hubertus Bt., and from 1999 to 2012 he was deputy CEO and then Chairman & CEO of Villányi Winery Ltd. (now Csányi Winery Ltd.). He is currently retired. He was a member of OTP Bank’s Supervisory Board from 1992 to 1999, and has been a non-executive member of OTP Bank’s Board of Directors since 1999. He has been Chairman of OTP Bank's Ethics Committee since 2010, as well as a member of its Remuneration Committee since 2011, and of its Nomination Committee since 2014.
As of 31 December 2016 he held 44,800 ordinary OTP shares.

<u>Dr. Tibor Bíró</u>
College Associate Professor

Dr. Tibor Bíró graduated from the College of Finance and Accountancy (1974) and from the Marx Károly University of Economics (1978) with a degree in business administration. He has been a certified auditor and chartered accountant since 1986. He was the Head of the Financial Department of the City Council of Tatabánya from 1978 to 1982. From 1982, he was a professor at the College of Finance and Accounting, and between 1990 and 2013 head of department at the Budapest Business School. Since his retirement in 2015, he has been a visiting lecturer, and working actively in his auditing and consulting company.
From 2000 onwards, for a period of ten years, he was a member of the Presidium of the Budapest branch of the Chamber of Hungarian Auditors, and also worked as a member of the Chamber’s Education Committee for five years.
He has been a non-executive member of OTP Bank’s Board of Directors since 1992. He has been a member of OTP Bank's Remuneration Committee since 2009, and of its Nomination Committee since 2014.
As of 31 December 2016 he held 31,956 ordinary OTP shares.

Tamás Erdei
Business Administration

Mr. Tamás Erdei graduated in 1978 with a degree from the College of Finance and Accounting. He began his professional career at OTP, in a variety of administrative roles (his last position was branch manager), before going on to work at the Ministry of Finance in the area of bank supervision.
Since 1983 he has been employed by the Hungarian Foreign Trade Bank (today MKB), where he gradually worked his way up through the ranks. In 1985 he became managing director, in 1990 he was appointed deputy CEO, then in 1994 he was made CEO, and from 1997 until the end of March 2012 he was Chairman & CEO.
Between 1997 and 2008, and between 2009 and 2011, he was the elected president of the Hungarian Banking Association.
He is the chairman of the Supervisory Board of the International Children's Safety Service.
He has been a member of OTP Bank's Board of Directors since 27 April 2012. He has been a member of OTP Bank's Risk Assumption and Risk Management Committee, and of its Nomination Committee, since 2014.
As of 31 December 2016 he held 6,439 ordinary OTP shares.

Dr. István Gresa
Business Administration and Economics

Dr. István Gresa graduated from the College of Finance and Accountancy in 1974 and received a degree in economics from the Marx Károly University of Economic Sciences in 1980. He earned a PhD from the same establishment in 1983.
He has worked in the banking sector since 1989. Between 1989 and 1993 he was branch manager of Budapest Bank's Zalaegerszeg branch.
From 1993 he was director of OTP Bank's Zala County Directorate, and from 1998 he served as the managing director of the bank's West Transdanubian Region.
From 1 March 2006 until 14 April 2016 – when he retired – he was deputy CEO of the Credit Approval and Risk Management Division. He is also Chairman of the Board of Directors at OTP Factoring Ltd.
He has been a member of OTP Bank's Board of Directors since 27 April 2012.
As of 31 December 2016 he held 132,041 ordinary OTP shares.

Dr. Antal Pongrácz
Economics

Dr. Antal Pongrácz graduated from the Marx Károly University of Economic Sciences in 1969 and earned a PhD in 1971. From 1969 he worked as an analyst at the Petrochemical Investment Company, then as a group manager at the Revenue Directorate until 1975. From 1976 he held various executive positions at the Ministry of Finance. After that, he was the first Deputy Chairman of the State Office for Youth and Sports. Between 1988 and 1990 he was the first Deputy CEO of OTP Bank. Between 1991 and 1994 he was CEO, and then Chairman & CEO, of the European Commercial Bank Rt. Between 1994 and 1998 he was Chairman & CEO of Szerencsejáték Rt, then in 1998-99 he served as CEO of Hungarian flagship carrier, Malév. Since 2001 he has been managing director of OTP Bank's Staff Division and more recently – up until his retirement on 14 April 2016 – Deputy CEO.
Since 12 April 2012 he has been Chairman of the Supervisory Board of OTP banka Hrvatska d.d.
He has been a member of OTP Bank's Board of Directors since 2002. He was a member of OTP Bank Plc's Board of Directors from 9 June 2009 to 14 April 2016.
As of 31 December 2016 he held 70,077 ordinary OTP shares.

Dr. László Utassy
Chairman & CEO
Merkantil Bank Zrt.

Dr. László Utassy graduated from the Faculty of Law of Eötvös Loránd University in Budapest in 1978.
He held various positions at the State Insurance Company between 1978 and 1995 and then went on to work at ÁB-Aegon Rt. He was Chairman & CEO of OTP Garancia Insurance from 1996 to 2008. He was managing director of OTP Bank between 2009 and 2010. Since 1 January 2011 he has been Chairman & CEO of Merkantil Bank Ltd.
He has been a member of OTP Bank's Board of Directors since 2001. He has been a member of OTP Bank's Risk Assumption and Risk Management Committee since 2014.
As of 31 December 2016 he held 264,000 ordinary OTP shares.

Dr. József Vörös
Professor, academician
University of Pécs

Dr. József Vörös earned a degree in economics from the Marx Károly University of Economic Science in 1974. In 1984 he earned a PhD in economics from the Hungarian Academy of Sciences, and a Doctor of Science degree in 1993. He has been a member of the Hungarian Academy of Sciences since 2013. Between 1990 and 1993 he was the dean of the Faculty of Business and Economics, Janus Pannonius University (JPTE) in Pécs. In 1993 he attended a course in management for senior executives at Harvard University. From 1994 he was a professor at JPTE, and was the senior Vice Rector of the University from 2004-2007, between 2007 and 2011 he was chairman of the Board of Trustees.
He has been a non-executive member of OTP Bank's Board of Directors since 1992. He has been Chairman of OTP Bank's Remuneration Committee since 2009, and of its Risk Assumption and Risk Management Committee since 2014.
As of 31 December 2016 he held 156,114 ordinary OTP shares.

Péter Braun
Electrical Engineering

Mr. Péter Braun earned his degree in electrical engineering from the Technical University of Budapest. Between 1954 and 1989 he worked for the Research Institute for Electrical Energy, with his last position there being head of department. After that, he was the managing director of K&H Bank Rt., working in its Computer and Information Centre. He was Deputy CEO of OTP Bank from 1993 until his retirement in 2001. Since the second half of 2009 he has been the chairman of the Chief Information Officers' Association (VISZ).
He was a member of OTP Bank's Board of Directors from 1997 until 7 April 2016.

Zsolt Hernádi
Chairman & CEO
MOL Plc.

Mr. Zsolt Hernádi graduated in 1986 from the department of industrial planning at the Marx Károly University of Economic Science. Between 1989 and 1994 he held a number of positions at Kereskedelmi és Hitelbank Rt., where from 1992 to 1994 he was deputy CEO of the financial institution. Between 1994 and 2001 he was CEO and a member of the Board of Directors at Magyar Takarékszövetkezeti Bank Rt. He has been a member of MOL's Board of Directors since 1994, and its Chairman since 2000, while since 11 June 2001 he has been the company's Chairman & CEO. He is also a member of the Corporate Governance and Remuneration Committee of MOL's Board of Directors.
He was a member of OTP Bank's Board of Directors from 29 April 2011 to 14 April 2016.

Dr. István Kocsis
Managing Director
Merkantil Bank Zrt.

Dr. István Kocsis obtained his degree in mechanical engineering from the Mechanical Engineering Faculty of the Technical University of Budapest in 1976, and earned his PhD in 1985. Career highlights: 2002-2005 Paks Nuclear Power Plant, CEO; 2005-2008 Hungarian Power Companies Ltd. (MVM Zrt.), CEO; 2008-2011, CEO of Budapest Transport Corporation (BKV Zrt.); since 2011 Managing Director of Merkantil Bank Zrt. Offices held: Chairman of the Ányos Jedlik Society; chairman of the Scientific Society For Measurement, Automation and Informatics; member of the Social Senate of the University of Pecs; member of the national Presidium of the Hungarian Chamber of Commerce and Industry; chairman of the endowment advisory board of the Duna-Mecsek Regional Development Foundation.
He was a non-executive member of OTP Bank's Board of Directors from 1997 to 14 April 2016.

The members of the Board of Directors are elected by the General Meeting for a term of five years.

Meetings of the **Board of Directors** are convened by the Chairman & CEO by means of a written invitation, in accordance with the prevailing work schedule.

The Chairman & CEO must convene a meeting of the Board of Directors if
- the Board of Directors has passed a resolution calling for an expedited meeting of the Board of Directors;
- At least three Board members initiates a meeting in writing by designating the reason and the purpose, and the items of the agenda, and by submitting a written proposal in respect of the decision to be made;
- The Supervisory Board or the auditor initiates such a meeting in writing;
- The National Bank of Hungary (hereinafter: MNB or Supervisory Authority) requires it;
- Under the law, a decision must be made about whether to convene an extraordinary General Meeting.

The Board of Directors meets at least six times a year.

The Board of Directors passes resolutions in accordance with the rules of procedure, by simple majority; minutes must be taken of its meetings, and its resolutions must be documented.

The table below provides a brief overview of the number of Board of Directors meetings held in 2016, and of the attendance at these meetings:

Board of Directors meetings
2016

Date	*Present*	*Absent*
29 Feb.	*7*	*2*
18 March	*8*	*1*
15 April	*10*	*-*
07 June	*10*	*-*
04 Oct.	*10*	*-*
25 Nov.	*10*	*-*
14 Dec.	*10*	*-*

Note:
In 2016 the Board of Directors met on a total of 7 occasions. In addition, resolutions were passed on 97 occasions by written vote.
Péter Braun's membership of the board terminated on 7 April 2016.
On 15 April 2016 the Bank's General Meeting elected a 10-member Board of Directors (the mandates of Zsolt Hernádi and Dr. István Kocsis expired, and two new members were elected: Antal György Kovács and László Wolf).

The items on the agenda of the Board of Directors included, among other things, the tasks stipulated by law, such as making a decision on convening, and specifying the agenda of, the General Meeting, the acceptance of the documents submitted to the annual ordinary General Meeting, preparing a proposal concerning the annual report prepared in accordance with the Accounting Act and the use of the after-tax profit, preparation of the report on the management, on the Company's asset/liability position and on its business policy, measures taken to ensure the appropriate management of the Bank's trading books.
Additional, strategic tasks are, for example, the approval and annual review of the Bank's strategy, determination of its business plan, a review of the Bank's asset/liability position based on the quick reports, review of the Bank's liquidity situation, evaluation of changes in the qualified receivables portfolio, approval and review of the regulations that fall within the Board of Director's scope of authority (collateral evaluation, risk assumption, customer rating, etc.), regular review of compliance with the Credit Institutions Act and Act CXX of 2001 on the Capital Market (hereinafter: Capital Market Act), compliance, and customer complaints management. Furthermore, the Board of Directors is informed of any undertaking of obligations in excess of HUF 3 billion.
In addition, as part of its operative duties, the Board of Directors may make case-by-case decisions in respect of transactions that exceed the threshold value limit.

Supervisory Board

At the Bank, in line with the two-tier governance structure, the Supervisory Board performs the oversight of the Company's management and business activity. For this reason – and in accordance with the legal provisions – the principle of a majority of independent (non-executive) members is fully enforced in respect of the composition of the Supervisory Board.

Supervisory Board members are elected by the General Meeting for a term of three years. The ratio of independent (non-executive) Supervisory Board members (4 persons) to the total number of Supervisory Board members (6 persons) is 67%.

In order to avoid conflicts of interest, the General Meeting may not appoint the members of the Board of Directors and their close relatives to the Supervisory Board. The rules applicable to the appointment and recall of the employee member of the Supervisory Board are defined by the Works Council operating at the Company, and the Company does not consider such a member to be independent.

The Supervisory Board establishes its own procedural rules.

The Company's internal audit organisation is governed by the Supervisory Board, in keeping with the provisions specified in the Credit Institutions Act. The Supervisory Board exercises a preliminary right of consent in respect of decisions relating to the establishment and termination of the employment of, and well as the determination of the remuneration of, the managers of the internal audit department.

Members of the Supervisory Board of OTP Bank Plc.:

Tibor Tolnay
Chairman of the Supervisory Board

In 1973, Mr. Tibor Tolnay graduated from the Budapest University of Technology with a degree in civil engineering and then in economic engineering in 1983, and subsequently received a degree in economics from the Budapest University of Economics in 1993.
From 1994 to 2015 he was Chairman & CEO of Magyar Építő Rt. He has been the managing director of ÉRTÉK Kft. since 1994, and a member of OTP Bank's Supervisory Board since 1992, and Chairman of the same Board since 1999. He was a member of OTP Bank's Audit Committee between 2007 and 2011, and has been again since 2014.
As of 31 December 2016 he held 54 ordinary OTP shares.

Dr. Gábor Horváth
Deputy Chairman of the Supervisory Board
Lawyer

Dr. Gábor Horváth earned a degree in law from Eötvös Loránd University in Budapest in 1980. From 1983 he worked for the Hungarian State Development Bank. From 1983 he worked for the Hungarian State Development Bank. He has been a lawyer since 1986, and since 1990 has run his own law firm, which specialises in corporate finance and corporate governance. His main fields of expertise are corporate finance and corporate governance. He has been a member of the Supervisory Board of OTP Bank since 1995, and was a member of MOL Plc’s Board of Directors between 1999 and 2014.
He has been Deputy Chairman of OTP Bank's Supervisory Board since 2007. He was a member of OTP Bank's Audit Committee between 2007 and 2011, and has been again since 2014. He has been a member of the Board of Directors of INA Industrija Nafte d.d. since 2014.
As of 31 December 2016 he held no ordinary OTP shares.

Ágnes Rudas
Managing Director
Presidential Cabinet Office

Mrs. Ágnes Rudas, who represents the employees of OTP Bank, graduated from the College of Finance and Accounting with a degree in business economics in 1979. She is a certified accountant.
She has worked for the bank since 1992, first as a head of department coordinating the secretarial services supporting the bank’s operative activity, then from 1994 onwards she managed organisational development, process engineering and efficiency-boosting projects. Since 1999 she has coordinated human resource management activity, initially as a director and from 2007 as a managing director. She has been head of the Presidential Cabinet Office since 2016.
She has been a member of the Board of Directors of the OTP Voluntary Supplementary Pension Fund since 1 January 2008, and a member of the Supervisory Board of OTP Banka Slovensko a.s. since 12 April 2012.
With effect from 15 April 2016 she is a member of OTP Bank’s Supervisory Board.
As of 31 December 2016 she held 141,138 ordinary OTP shares.

András Michnai
Managing Director

Mr. András Michnai graduated in 1981 from the College of Finance and Accounting with a degree in business administration.
He has been an employee of the Bank since 1974, and until 1981 held a variety of posts in the branch network. Following this he held a management position in the central network coordination department before returning to work in the branch network. From 1994, as deputy managing director, he participated in the central coordination of the branch network. Between 2005 and 2014 he headed the Bank's Compliance Department as a managing director. He further expanded his professional skills, earning a Master's degree at the Budapest Business School, and is a registered tax advisor.
He has been a member of OTP Bank's Supervisory Board, and representative of the Bank's employees, since 2008. He has been Secretary of OTP Bank's Employees' Trade Union since December 2011.
As of 31 December 2016 he held 100 ordinary OTP shares.

Dominique Uzel
Director
Groupama International SA

Mr. Dominique Uzel graduated as an agricultural development engineer, then obtained a Master's degree in agricultural and food industry management at the ESSEC Business School. He joined Gan in 1991 as head of the agricultural division. Five years later he left France to join Gan España, where he headed the subsidiary's department responsible for planning and auditing, then became technical director of the newly established Groupama Seguros. In 2008 he was appointed Managing Director of the insurance business, in which capacity he was instrumental in the launch and roll-out of Click Seguros, a direct marketing tool on the Spanish insurance market. In July 2010 he joined the international board of Groupama S.A. as director of direct insurance, but he also continued to be responsible for the management of the direct insurance division in Spain and Poland. Since 1 October 2012 he has coordinated the international operations of Groupama.
He has been a member of OTP Bank's Supervisory Board since 2013. He has been a member of OTP Bank's Audit Committee since 2014.
As of 31 December 2016 he held no ordinary OTP shares.

Dr. Márton Gellért Vági
General Secretary
Hungarian Football Association

Dr. Márton Gellért Vági graduated in 1987 from the department of foreign economics at the Marx Károly University of Economic Science (today the Corvinus University of Budapest), where he also earned his doctorate in 1994. From 1987 to 2000 he was a member of the university faculty, in the capacity of associate professor and head of department from 1994 onwards. Between 2000 and 2006 he worked at the State Holding and Privatisation Co. (ÁPV Zrt.), as managing director, deputy CEO and then CEO. Between 2006 and 2010 he was Chairman of the National Development Agency. From July 2002 until 1 January 2011 he was a member of the Board of Directors of FHB Nyrt., during which period he also spent four years as Chairman of the Board. Since 2010 he has been general secretary of the Hungarian Football Association. He has authored or co-authored more than 80 research papers, essays and books.
He has been a member of OTP Bank's Supervisory Board since 2011. He has been a member of OTP Bank's Audit Committee since 2014.
As of 31 December 2016 he held no ordinary OTP shares.

The **Supervisory Board** meets at least six times a year.

The meetings of the Supervisory Board are convened by the chairman. The meetings must also be convened if a member of the Supervisory Board or at least two members of the Board of Directors, or the auditor, requests it in writing, indicating the objectives and reasons for the meeting.

The Supervisory Board passes its resolutions by simple majority; minutes are taken of its meetings, and its resolutions are documented.

If decisions are made without convening a meeting, instead of the minutes, a summary must be prepared about the resolutions and attached to the minutes of the next Supervisory Board meeting that follows the successful written voting.

The table below provides a brief overview of the number of Supervisory Board meetings held in 2016, and of the attendance at these meetings:

Supervisory Board Meetings
2016

Date	***Present***	***Absent***
12 Feb.	*5*	*1*
04 March	*4*	*2*
18 March	*5*	*1*
20 May	*4*	*2*
07 June	*5*	*1*
24 June	*4*	*2*
07 Oct.	*5*	*1*
25 Nov.	*5*	*1*
14 Dec.	*6*	*-*

Note:
In 2016 the Supervisory Board met on a total of 9 occasions. In addition, resolutions were passed on 29 occasions by written vote.
Antal György Kovács's membership of the Supervisory Board terminated on 14 April 2016.
On 15 April 2016 the General Meeting elected Ágnes Rudas as a member of the Supervisory Board.

The main function of the Supervisory Board is to see to it that the Bank has a comprehensive and effectively operating system of oversight and control. The agendas of the meetings included, among other things, the review of documents to be submitted to the annual ordinary General Meeting, a report on the annual financial statements and on the proposal concerning the use of the after-tax profit, the review of the Bank's annual and interim financial reports, and the proposal to the General Meeting regarding the auditor to be elected as well as his/her remuneration.
The tasks concerning the management of the internal audit unit includes the acceptance of the audit plan at the bank-group level, and the discussion of the report at the bank-group level of the audits performed by the internal audit units and of the performance of the audit tasks at the bank-group level. Additional agenda items include compliance with the provisions of the Credit Institutions Act, the situation in terms of implementation at group level of the Unified Internal Audit System and the further development of the system, a review of the volume and composition of the qualified receivables portfolio, changes in impairment and the risk provisioning obligations, report on compliance activity, etc.

Determining the remuneration of the Board of Directors and the Supervisory Board is in the competence of the Company’s supreme body, the General Meeting. The principles and frameworks of the long-term remuneration and incentives system for employees in senior positions are also determined by the General Meeting. Accordingly – on the basis of the provisions on remuneration policy set forth in the Credit Institutions Act, which complies with the relevant EU directives – the Bank’s Annual General Meeting of 2011, in its resolution no. 9/2011, approved for the first time the principles and rules of the remuneration policy of the Bank and the Bank Group, and the Board of Directors issued the internal regulations and procedures necessary for their implementation, which documents have been amended several times in recent years by the Bank’s General Meeting and Board of Directors, and, due to the statutory amendments made in 2014, by the Supervisory Board. With effect from 2014, the provisions of the Bank Group's Remuneration Policy are approved, implemented and reviewed by the Supervisory Board, while the Board of Directors is responsible for their monitoring. At the annual General Meetings the Remuneration Committee gives a briefing on the basic principles and broad terms and conditions of the remuneration policy, the annual and medium-term objectives providing the basis for performance-based remuneration, and on their fulfilment.

1.2 Audit Committee

The Audit Committee is a body that assists the work of the Supervisory Board in relation to the monitoring of the financial reporting system, selection of the auditor, and cooperation with the auditor.

The following fall within the competence of the Audit Committee:
- giving an opinion on the financial statements prepared in accordance with the Accounting Act;
- drafting the agreement to be concluded with the auditor, obtaining a written declaration on the person nominated for the post of auditor, which specifies whether there is a conflict-of-interest relationship between the company and the nominee;
- liaising with the auditor, and as a part of this, monitoring compliance with the professional standards and conflict-of-interest rules applicable to the auditor, and where necessary making a recommendation to the Supervisory Board regarding any measures to be taken;
- assisting the work of the Supervisory Board in the interest of ensuring the appropriate monitoring of the financial reporting system, and as a part of this, assessing the operation of the financial reporting system and making recommendations regarding any measures that need to be taken;
- receiving regular briefings on the work schedule of Internal Audit and of the independent auditor; receiving the auditor's reports on any identified problems;
- issuing a preliminary opinion on the annual report, presented to the Supervisory Board, on the operation of risk management, the internal control mechanisms and the corporate governance functions.

The Audit Committee consists of four members, and its members are elected by the General Meeting from among the **non-executive** members of the Supervisory Board. The Audit Committee elects a chairperson from among its own members.

The Audit Committee meets at least two times a year.

The table below provides a brief overview of the number of Audit Committee meetings held in 2016, and of the attendance at these meetings:

Audit Committee meetings
2016

Date	*Present*	*Absent*
18 March	3	1
14 Dec.	4	-

Note:
In 2016 the Audit Committee met on a total of 2 occasion. In addition, resolutions were passed on 10 occasions by written vote.

The items on the agenda of the Audit Committee meetings included, among others, a briefing on the profit approved by the Company's auditor, the Company's non-consolidated financial statements prepared in accordance with International Financial Reporting Standards, the report on the financial statements and on the proposal regarding the distribution of the profit, and a recommendation on the selection of the Company's auditor, approval of the person nominated to be responsible for the audit, and the determining of his/her remuneration. The procedural rules of the Audit Committee expanded to include new powers, which it exercises with effect from 1 January 2017.

1.3. The operation of the committees

a) Committees that operate with the participation of non-executive members of the Company’s Board of Directors:

Remuneration Committee
The Remuneration Committee, established by the Board of Directors and meeting on a continuous basis, prepares proposals to the management bodies for elaborating and monitoring the principles and system of remuneration, as well as for specific remuneration decisions.
The Remuneration Committee exercises its authority as a body.
Its chairperson and members are appointed by the Board of Directors, and its procedural rules are also approved by the Board of Directors.

Nomination Committee
This committee, which was established by the Board of Directors in 2014 and operates on a continuous basis, elaborates the principles for selection of the members of the Bank's executive bodies, and nominates candidates accordingly, and also makes recommendations regarding the basic principles and framework for the testing of compliance with the requirements prescribed in respect of members of the executive bodies of the Bank and the Bank Group, and in respect of employees in management and key positions.
Its chairperson and members are appointed by the Board of Directors, and its procedural rules are approved by the committee itself.

Risk Assumption and Risk Management Committee
This committee, which was established by the Board of Directors and operates on a continuous basis, fulfils a decision support function, commenting on the Bank's risk assumption strategy and propensity for risk, and providing support for the supervision of implementation of the risk assumption strategy.
Its chairperson and members are appointed by the Board of Directors, and its procedural rules are approved by the committee itself.

b) **Special committee:**

Ethics Committee
A special committee of the Bank established by the Board of Directors – and consisting of delegated members thereof – presided over by one of the non-executive members of the Board of Directors.
The committee gives guidance on compliance with standards of ethical conduct through its position statements issued in general and specific cases, and its decisions serving to assist with interpretation. The committee also makes decisions in the event of reports, relating to the Bank, made via the ethical complaints hotline, or investigates the reports and makes a decision in a second-tier procedure.
Its procedural rules are approved by the committee itself.

c) **Permanent committee** established by the Bank's Management in support of management functions:

Management Committee
The Management Committee is a permanent committee established by the Board of Directors. It is a forum that directly supports the work of the Chairman & CEO and is the supreme management body of the Bank. It has decision making power in the issues that are relegated into its scope of authority by the Organisational and Operational Regulations, it takes a preliminary position and prepares decisions in the majority of issues that are discussed by the General Meeting, the Board of Directors and the Supervisory Board, and plays a coordinating role in the senior management of the Bank.
The Management Committee also ensures that the Bank can respond flexibly and effectively to market and regulatory factors and that the Bank as a whole can act in a coordinated fashion.
The Management Committee performs its work on the basis of a six-month work schedule approved by the committee itself, and meets once a month (and on an ad-hoc basis as and when necessary). Their order of business is determined by its procedural rules.

The following additional permanent committees operate within the Company for the performance of specific tasks:
- Asset-Liability Committee (ALCO)
- Product Development, Sales and Pricing Committee (TÉÁB)
- International Product Development, Sales and Pricing Committee (NTÉÁB)
- Work-Out Committee (WOB)
- Credit and Limits Committee (HLB)
- IT and Operations Board (ITOB)
- Group Operational Risk Management Committee (OpRisk)

Decisions to establish permanent committees are made by the Bank's Board of Directors. The chairpersons of the committees are nominated by the Chairman & CEO, and their procedural rules – with the exception of the Management Committee – are approved by the head of the Legal Directorate. The Management Committee approves its own procedural rules. In respect of resolutions, the Asset-Liability Committee, the Credit and Limits Committee, the Group Operational Risk Management Committee, the International Product Development, Sales and Pricing Committee, and the Work-Out Committee, operate on the principle of simple majority, whereas the Management Committee, the Product Development, Sales and Pricing Committee and the IT and Operations Board also pass decisions by a simple majority, but the chairperson has a right of veto.

1.4. Members of OTP Bank Plc.'s senior management[1] (with CV):

Dr. Sándor Csányi
Chairman & CEO

(For his CV, see the section entitled 'Management bodies')

László Bencsik
Chief Strategy and Finance Officer
Strategy and Finance Division

In 1996, Mr. László Bencsik graduated from the Faculty of Business Administration at the Budapest University of Economic Sciences, and in 1999 he obtained a Masters in Business Administration (MBA) from INSEAD Business School in France.
Between 1996 and 2000 he worked as a consultant at Andersen Consulting (now Accenture). From 2000 to 2003 he was a project manager at consulting firm McKinsey & Company.
He joined OTP Bank in September 2003, when he became managing director of the Bank Operations Management Directorate, and the manager with overall responsibility for controlling and planning. He has been deputy CEO of OTP Bank, and head of the Strategy and Finance Division, since August 2009. Since 13 March 2012 he has been Chairman of the Supervisory Board of DSK Bank.
As of 31 December 2016 he held 30,033 ordinary OTP shares.

Dr. István Gresa
Member of the Board of Directors, Deputy CEO
Credit Approval and Risk Management Division
His appointment as Deputy CEO terminated on 14 April 2016 due to retirement.

(For his CV, see the section entitled 'Management bodies')

Tibor András Johancsik
Deputy CEO
IT and Bank Operations Division

Mr. Tibor András Johancsik graduated from the Budapest Technical University with a degree in electrical engineering in 1988, and then in 1993 earned a further degree in foreign trade business administration from the College of Foreign Trade. He began his professional career at as a researcher in the field of industrial automation at the Hungarian Academy of Sciences Institute for Computer Science and Control (MTA SZTAKI). From 1994 onwards he held management positions at the Hungarian subsidiaries of international IT development companies (ICL, Unisys, Cap Gemini).
From 2001 he worked as an advisor in the fields of IT and organisational development, then from 2003, as managing director of JET-SOL Kft., he participated in the development of numerous systems in Hungary and abroad.
Since 24 February 2016 he has been Deputy CEO in charge of OTP Bank's IT and Bank Operations Division.
As of 31 December 2016 he held no ordinary OTP shares.

[1] The appointments of Dr. Antal Pongrácz, Vice Chairman and Deputy CEO in charge of the Staff Division, and Dr. István Gresa, Deputy CEO in charge of the Credit Approval and Risk Management Division, terminated with effect from 14 April 2016 (for their CVs, see the listing of non-executive members of the Board of Directors).

Antal György Kovács
Member of the Board of Directors, Deputy CEO
Retail Division

(For his CV, see the section entitled 'Management bodies')

Dr. Antal Pongrácz
Member of the Board of Directors, Deputy CEO
Staff Division
Dr. Antal Pongrácz's appointment as Deputy CEO terminated on 14 April 2016 due to retirement.

(For his CV, see the section entitled 'Management bodies')

László Wolf
Member of the Board of Directors, Deputy CEO
Commercial Banking Division

(For his CV, see the section entitled 'Management bodies')

1.5. Internal control system

The appropriate functioning of the internal control system is provided for, at bank-group level, in accordance with the relevant statutory regulations and in keeping with the relevant Recommendations.
The internal control system, alongside responsible corporate governance, is a cornerstone of the internal lines of defence that promote prudent, reliable and effective operation in accordance with the statutory regulations and internal regulations, protects the economic interests and social objectives of the customers and the owners and ensures continued trust in the Company.
The internal control functions are independent of each other and of the areas they supervise and audit. A significant aspect of their operation is management support; however, internal control functions are also expected to provide support to the senior management in making sound decisions.

Internal audit

The main function of the internal audit system is to protect customers, the company's assets and shareholder's interests, as well as to facilitate and monitor operation in compliance with the statutory provisions.

The internal audit system extends to all of the company's organisational units, business lines and activities, including outsourced activities. To ensure effective auditing, the internal audit system consists of several modular control levels, and is also segmented in line with the departmental structure of the organisation. The elements of the internal audit system are comprised of in-process and management controls, and an independent internal audit unit and management information system.

OTP Bank Plc. has developed and applies such a uniform internal audit system consistently throughout the Bank Group that is proportionate to the size of the OTP Group and the market share of the Company, includes shareholder audits conducted at the foreign and domestic group members as well as the professional oversight of the internal audit organisations of the financial institutions that are subject to consolidated supervision as specified in the Credit Institutions Act. To this end, standardised internal audit procedures and methodologies pertaining to the operation and activities of group members' internal audit departments are developed, enhanced and applied on a continuous basis. Internal audit also liaises regularly and cooperates with external auditing bodies.

The independent internal audit unit assists in the legally compliant and effective management of assets and liabilities and the protection of property; it supports secure business operation, the effectiveness, cost-efficiency and success of internal control systems, the minimisation of risks, and moreover – alongside the compliance unit – it detects and reports departures from the provisions of the statutory regulations and internal policies, makes recommendations for the elimination of deficiencies, and monitors the implementation of the measures. It performs its activities independently, objectively and professionally. Its independence is ensured by the fact that it is professionally overseen by the Supervisory Board, within the framework set out by the Credit Institutions Act. The internal auditing organisation is structured in a way that ensures the performance of owner's audits at the Company, in the branch network and at the foreign and Hungarian subsidiaries, as well as the professional supervision of the subsidiaries' own internal audit organisations in Hungary and abroad.

The independent internal audit organisation has an annual audit plan which is approved by the Supervisory Board. The annual plan is prepared using a risk-based methodology and, in addition to focusing on the areas that entail regulatory, business and operational risk, and the other main risk exposures, it treats the making of reports and the controlling of data as a priority, and takes into account the Company's prevailing strategic priorities.

The internal audit organisation makes independent reports on its auditing activities for the management bodies at quarterly and annual intervals. In its quarterly reports it gives a group-level, summary account of the audits conducted in the given quarter, the risks identified in the course of its own audits and audits conducted by the authorities, and the success of any action taken to eliminate them. In exceptional cases that require immediate intervention, it provides the management with extraordinary briefings. The audit organisation reports annually on the performance of the tasks set out in the group-level annual plan, the audits conducted and other activities, and on the circumstances of the organisation's operation, as well as on any changes to the internal audit system.

The organisation annually prepares, for the Supervisory Board, objective and independent reports in respect of the operation of risk management, internal control mechanisms and corporate governance functions.

Risk management

The basis for effective group-level risk management is the operating of a standardised, 'OTP-compliant' organisational structure as well as regulations and procedures at the subsidiaries concerned. The Company has detailed risk management rules for each of the various types of risk (liquidity, market, country, counterparty, credit, operational, compliance), and these rules are in harmony with the statutory regulations pertaining to prudential banking operations. The annual report describes the risk management practices, the limits, and compliance with these limits.

Within the Company, the Credit Approval and Risk Management Division and the Strategy and Finance Division exercise functional control over the guidelines, methodology and infrastructure of the bank-group risk management strategy, the purpose of which is to create a clearly defined, transparent, standardised credit, country, counterparty, market and

operational risk management system at group level which complies with the expectations of the supervisory authority and local conditions. The Bank Group's Risk Strategy, as well and the rules on risk prescribed by the Credit Institutions Act, are approved by the Bank's Board of Directors.
The Risk Strategy determines, with respect to the entire Bank Group, the framework for risk management and the principles and guidelines of risk assumption.

With respect to the cornerstones of the risk management methodologies, and the main risk topics for Bank Group members, the final decision-making competence is held by the Group members' risk committees (Credit and Limit Committee, Workout Committee, Group Operational Risk Committee).
The Bank's risk management system encompasses the identification of the risks, assessment of their impact, elaboration of the necessary action plans, and the monitoring of their effectiveness and results. The management make their business decisions in a knowledge of all the key risks. All significant risks related to internal and external operations, or to compliance with financial and legal requirements, as well as numerous other risks, are evaluated and managed using a clearly-defined and transparent internal mechanism.

Compliance

In accordance with EU regulations and with the Hungarian statutory provisions an independent organisational unit (the Compliance and Security Directorate) operates at the Company, with the task of exploring and managing compliance risks. This function is supported by the appropriate regulatory documents: the compliance and security policy, strategy and work plan. The purpose of the compliance and security policy is to set out a summary of the Bank's key principles related to compliance and security, and to mark out the main strategy relating to independent compliance and security activity, which together facilitate and support the Bank's compliant, lawful, secure and prudent operation. The compliance policy is approved by the Board of Directors of the Bank. The Bank Group's senior management is responsible for the implementation in practice of the compliance and security policy.
The Compliance and Security Directorate prepares a comprehensive report each year about the Bank Group's compliance activities and position, which is approved by the Bank's Board of Directors.

Auditor

The General Meeting has the authority to elect the company performing the audit, and to approve the nomination of the member responsible for the audit.

Our Company is audited by Deloitte Auditing and Advisory Kft. (Cg. 01-09-071057). Last year the auditor did not perform any activity that might have compromised its independence.
The Board of Directors must inform the Company's General Meeting and Supervisory Board if the auditor is given any other material mandates. In addition, if warranted, the Company's Board of Directors, Supervisory Board and other boards may use the services of an external consultant as well.

In the course of developing its accounting policy and accounting procedures, the Company establishes internal controls that reliability assure fulfilment of the Company's objectives in the interest of ensuring the reliability of financial reporting, the effectiveness and efficiency of the various corporate operations, consistency with the latest statutory provisions, and full compliance with the reporting requirements towards the individual regulatory bodies. The detailed tasks relating to the production or reports and to accounting audits are regulated in

internal regulatory documents, the scope of which extends to all of the Bank's organisational units involved in the compilation of the financial statements.
An internal regulatory document provides instructions on the account-closing and reporting tasks related to the Company's interim (monthly, quarterly, half-yearly) and annual financial statements, and sets out in a consolidated format the account-closing operations, tasks and reporting actions to be performed monthly, quarterly, half-yearly and at the end of the year, specifying the deadline for completion of the tasks and the persons responsible.
Another regulatory document instructions on the inventory-taking and reconciliation of general ledger accounts serving the temporary recording of items that, at the time they arise, cannot for various reasons be stated in actual asset or liability accounts, or in accounts that serve the stating of off-balance sheet items.
Pursuant to the Accounting Act, the financial statements must be supported with an inventory report. An internal regulatory document sets out in detail the tasks related to inventory-taking, in the interest of assuring the authenticity of the balance sheet through the accurate valuation of assets and liabilities, and ensuring the auditing of records, and through this a strengthening of documentary discipline, the protection of property, and the identification of any depreciated inventory stock and assets that are no longer in use.
In addition to the foregoing, the Company has elaborated and applies detailed accounting procedures, and continuously adapts the related accounting rules in relation to individual new products and activities. The individual internal accounting documents relating to accounting are regularly (annually) reviewed, and updated where necessary. The legal, internal auditing and compliance units also participate in the elaboration and amendment of the Bank's internal regulatory documents.

1.6. Disclosure of information

Providing regular, authentic information is essential if the shareholders and the other participants in the capital market are to make sound decisions, and the way in which the Company discloses information also has an impact on its reputation.

The Company discloses information in strict compliance with the provisions of Act V of 2013 on the Civil Code (hereinafter: Civil Code), the Capital Market Act, the Credit Institutions Act, Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and the Regulations governing their Activities (hereinafter: Investment Services Act), Act C of 2000 on Accounting (hereinafter: Accounting Act) and Ministry of Finance Decree 24/2008 (VIII. 15), as well as the relevant regulations of the BSE. In addition, the Company has effective internal regulations that ensure compliance with the obligation to disclose information.

The aforementioned regulations ensure that all material information pertaining to the Company and having a bearing on the price of the Company's shares is published accurately, in full, and in good time.

The Board of Directors describes its business and strategic goals of the given year at every ordinary General Meeting. The proposal to the General Meeting is published by the Company on the website of the Budapest Stock Exchange in accordance with its rules of disclosure and the provisions of the relevant regulations of the BSE.

The Company, in accordance with the statutory regulations, publishes on the Company's website and in its Annual Report the professional careers of the members of the Board of Directors, the Supervisory Board and the management.

The proposal pertaining to the remuneration of the chairman and members of the Board of Directors and the chairman and members of the Supervisory Board constitute a part of the proposals of the General Meeting.

The Company has detailed risk management regulations that include every type of risk (liquidity, market, country, counterparty, credit, operational, compliance) which are consistent with the statutory regulations pertaining to prudential banking operation. The Annual Report provides information about the Company's risk management practices, the relevant limits and compliance with the limits.

The Company has detailed internal regulations pertaining to insiders and potential insiders that fully comply with the restrictions and prohibitions regulated in detail by the Capital Market Act. In addition, the guidelines pertaining to securities trading by insiders are also available on the website. All transactions involving the Company's shares performed by the members of the Board of Directors and the Supervisory Board are published by the Company in accordance with the rules on disclosure, and the shareholdings in the Company of the exectuive officers of the Company (number of shares) are published in the Company's Annual Report.

The Board of Directors has assessed the effectiveness of information disclosure processes in 2016, and found them to be satisfactory.

1.7. Overview of the exercising of shareholders' rights

Participation in the General Meeting and voting rights

Shareholders may exercise their right of participation and their voting rights at the General Meeting, in person or by proxy.

The letters of proxy must be set forth in a notarised deed or a private document of full probative force. In the event that a shareholder is represented at the General Meeting by its legal representative (e.g. director, managing director, mayor etc.), the authenticated deed issued by the court or court of registration concerning the right of representation, or a certificate testifying to the election of the mayor, must be presented at the venue of the General Meeting.

The letters of proxy must be handed over at the location specified in the invitation to the General Meeting, within the allotted time. The authorisation shall be valid only for a General Meeting or for a specified period not exceeding twelve months. Unless otherwise regulated, the authorisation shall be valid for the continuation of a suspended General Meeting and for re-convened General Meetings by reason of the lack of quorum. If the letter of proxy was issued outside Hungary, it must satisfy, in terms of its form, the statutory provisions pertaining to the authentication or counter-authentication of documents issued outside Hungary. Information on the subject can be obtained from the Hungarian representation offices abroad.

A condition of participation and voting in the General Meeting is that

- o the shareholding as at the time of the shareholder matching procedure is corroborated by the result of the shareholder matching procedure;
- o the holder of the shares has been effectively recorded in the Company's Articles of Association (hereinafter: Articles of Association) by the time of its closure in accordance with point 8.4; and
- o the shareholder's shareholding or voting right does not violate the statutory provisions or the provisions of the Articles of Association, which the Company ascertains through a check following receipt of the result of a shareholder matching procedure from KELER Central Depository Ltd. (hereinafter: KELER Zrt).

The rules on participation in the General Meeting and the exercising of voting rights on the part of GDR holders are contained in the Custody Agreement concluded between The Bank of New York and the Company.

Further details are contained in the Articles of Association published on our website.

1.8. Brief description of the rules related to the conducting of the General Meeting

The Company requests a shareholder-matching procedure for the date of the General Meeting (including any repeated General Meeting), as a corporate event, from the KELER Zrt. The shareholder-matching procedure may take place only in the period between the 7th and 5th trading day at the stock exchange prior to the General Meeting (including any repeated General Meeting). The rules pertaining to the shareholder identification process are set out in the latest effective regulations of KELER Zrt.

The Company, at 18:00 Budapest time on the second working day before the General Meeting (or repeated General Meeting), deletes all the data in the Share Register and at the same time registers the results of the shareholder identification process in the Share Register, and closes it with the results of the shareholder identification. After this any entry related to the shareholder’s holding may only be made, at the earliest, on the working day following the closure of the General Meeting or following the day of the non-quorate General Meeting.

The General Meeting must be announced in the manner specified in respect of announcements made by the Company, at least 30 days before the projected date of the General Meeting, unless otherwise stipulated in the Civil Code and the Credit Institutions Act. The (extraordinary) General Meeting, that is to decide on a capital increase necessary in order to avoid the proceeding referenced in Article 135 (2) of the Credit Institutions Act, can be announced at least 10 days before the projected date of the meeting.

The invitation must include the following:

a) the Company’s official name and registered office;
b) the date and place of the General Meeting;
c) the manner in which the General Meeting is to be held;
d) the agenda of the General Meeting;
e) the provisions contained in section 8.5 of the Articles of Association, with the reminder that shareholders may participate in and vote at the General Meeting only in compliance therewith;
f) information about the place and date of the handing over of the letters of proxy;
g) in the event that there is no quorum, the place and date of the reconvened General Meeting
h) the time of shareholder identification and closure of the Share Register,
i) the fact that in order to exercise shareholder’s rights at the General Meeting the shareholder must be listed in the Share Register at the time of its closure, but subsequent to this the shares may be freely traded without this affecting the ability to exercise shareholder’s rights at the General Meeting,
j) the conditions, stipulated in the Articles of Association, for exercising the shareholder’s right to request information,
k) the conditions, stipulated in the Articles of Association, for exercising the shareholder’s right to supplement the agenda of the General Meeting, and
l) information regarding the time, place and means (including the address of the Company's website) of accessing the motions and draft resolutions on the agenda of the General Meeting.

Questions not listed on the agenda may be discussed by the General Meeting only if all shareholders are present and they give their unequivocal consent thereto.

The General Meeting is regarded as having a quorum if the votes of the attending shareholders represent more than one-third of the total votes embodied by shares entitling the holder to vote.

If a duly convened General Meeting does not have a quorum, then the repeated General Meeting – convened for the time and date and venue specified in the announcement that is published in accordance with section 8.13 of the Articles of Association – shall have a quorum in respect of the agenda items set forth in the invitation irrespectively of the extent of the voting rights represented by those in attendance. If the agenda of the General Meeting includes a proposal relating to the withdrawal of the shares from any regulated market (hereinafter: delisting), then the repeated General Meeting shall have a quorum in respect of such agenda item if shareholders representing more than half of the votes embodied by the shares conferring voting rights are in attendance.

If a General Meeting that has a quorum cannot pass a resolution in respect of all the items on the agenda, it may decide to suspend the meeting and to convene a follow-up General Meeting, while indicating the new time and place. The General Meeting may only be suspended once, and the follow-up General Meeting must be held within 30 days of the suspension.

In respect of the quorum of a suspended and then reconvened General Meeting (follow-up General Meeting), the general rules apply. The follow-up General Meeting may pass decisions only in respect of the announced agenda items of the original General Meeting in respect of which the original General Meeting did not make a decision.

The General Meeting is chaired by the Chairman of the Board of Directors or another person designated by the Board of Directors who

- opens the General Meeting;
- appoints the person responsible for taking minutes;
- determines whether the General Meeting has a quorum;
- gives and revokes the right to speak;
- formulates draft resolutions and puts them to the vote;
- announces the result of the vote on the basis of the results indicated by the vote counters;
- announces the intermission; and
- closes the General Meeting.

Prior to the opening of the General Meeting, shareholders who have voting devices may notify the Chairman of the General Meeting in writing if they would like to speak in relation to any of the agenda items. The comments made by the shareholders may not be on a topic that is different from the designated agenda item. The Chairman of the General Meeting must grant the right to speak to persons who have indicated their desire to speak in accordance with the above.

The Chairman of the General Meeting may determine the order in which the comments on the given agenda item will be heard, may grant any person the right to speak or may retract such right, with the proviso that the right to speak may be retracted from a shareholder who has indicated his/her wish to speak in writing only if the shareholder's comments depart from the given agenda item despite a warning in this regard. The Chairman of the General Meeting may prohibit the recording in the minutes of comments that are made after the right to speak is retracted, and may terminate the availability of the technical conditions (microphone) for making such comments.

The Chairman of the General Meeting may decide to hold the General Meeting in private, and, with the exception of the members of the Board of Directors, the managing directors specified in the Credit Institutions Act, the members of the Supervisory Board, the auditor, shareholders with voting terminals, and the representatives of such shareholders as well as the representatives of the MNB and the BSE, he may exclude anyone from attending the General Meeting.

The General Meeting passes its resolutions, unless the Articles of Association stipulate otherwise, through a simple majority of the votes of the attending shareholders.

Decisions at the General Meeting are made by open vote.

In its first resolution, the General Meeting selects, from the list proposed by the Chairman of the General Meeting, the attending shareholders who will act as the authenticator of the minutes and the vote counters. In the case of an unsuccessful vote the Chairman of the General Meeting must submit a new proposal.

Minutes must be taken of the General Meeting, which must include the following:

- the Company’s official name and registered seat;
- the date and place of the General Meeting and the manner in which it is held;
- data necessary for determining whether the General Meeting has a quorum and changes in the number of persons attending;
- the name of the Chairman of the General Meeting, the person taking the minutes, the authenticator of the minutes and the name of the vote counters;
- the most important events at the General Meeting and the proposals made;
- the draft resolutions, in the case of each resolution the number of shares with respect to which valid votes have been cast, the share represented by these votes in the share capital, the number of votes for and against the proposals and the number of those who abstained;
- objections to a resolution by any shareholder and any member of the Board of Directors or the Supervisory Board if the person objecting requests it himself.

The minutes are signed by the Chairman of the General Meeting and the person taking the minutes and are authenticated by an attending shareholder who has been selected for this purpose.

The Board of Directors must send the Company Court an authenticated copy of the minutes of the General Meeting within 30 days after the General Meeting is adjourned, together with the attendance register and the documents that certify that the General Meeting was properly convened.

Further details are contained in the Articles of Association published on our website.

1.9. Declaration on Remuneration

In compliance with the applicable European Union directive (CRD IV) and the provisions of the Act on Credit Institutions and Financial Enterprises, the Bank’s General Meeting concluding the year 2015, its Board of Directors and Supervisory Board have provided for a review of the Remuneration Policy for the Bank and the Bank Group. In line with the national and EU legislative environment, the process of implementing the Bank Group's Remuneration Policy contains the methodological framework relating to the identification of activities and employees with a material impact on risk, which constitutes the basis for determining the group of persons subject to the Bank Group's Remuneration Policy, and the procedural rules relating to the annual evaluation process.

The purpose of the Bank Group's Remuneration Policy is, remaining within the limits of the Bank Group's risk-bearing capacity, to recognise and provide motivational support for the achievement of Bank and Group-level results by the management and holders of key positions at the Bank, and the managers of subsidiaries in the Bank Group.

The Bank Group's Remuneration Policy applies to the members of the Bank's Board of Directors and Supervisory Board, and – among the staff in an employment relationship with the Bank – the members of the Bank's Management (Chairman & CEO and the deputies thereof), and managers who materially influence the Bank's risk profile and its profit, managers performing special management functions, managers with control functions, all managers whose salaries are in the same pay scale as that of the managers who are subject to the Remuneration Policy due to their function. Among the managers employed by the subsidiaries of the Bank Group that are subject to consolidated supervision, the subsidiaries' chief executive officers, and in the case of certain subsidiaries their level-2 (deputy) managers, and the managers of certain foreign subsidiary banks with special management and decision-making authority determined under national statutory provisions. The resolution on the persons to whom the Bank Group's Remuneration Policy applies is made by the Bank's Supervisory Board.

The members of the Board of Directors and the Supervisory Board receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For the other personnel included in the scope of the Remuneration Policy, the remuneration is composed of fixed and performance-based components. The proportions of fixed and performance-based components of remuneration are determined by the Bank's Supervisory Board based on the function, size and complexity of the unit being managed. The proportion of performance-based remuneration may not exceed 100% of fixed remuneration for any person concerned.

The most important basic principle of the Bank Group's Remuneration Policy is that the extent of performance-based remuneration – subject to a preliminary and retrospective assessment of the risks – depends on the extent to which Bank Group/Bank/Subsidiary-level and individual targets are met.

In the case of managers in an employment relationship with the Bank, the evaluation of performance, besides an assessment of the return on risk-weighted assets (RORAC) indicator for the given activity, takes place on the basis of the criteria used to measure strategic and individual performance (financial indicators and indicators of the quality of work performance). In the case of managers at subsidiaries in the Bank Group the evaluation of performance takes place in a differentiated manner, in keeping with the characteristics of the companies' activities. The target values of the indicators are determined by the Bank's Supervisory Board on the basis of the effective financial plan for the given year.

The performance evaluation-based, variable remuneration takes the form of a cash bonus and – where permitted by national legislation – remuneration in the form of shares or a preferentially-priced share award, in equal proportions. As a general rule, at all the members of the Bank Group, the share-based part of the variable remuneration is provided to the employees concerned by the Bank.

Workers employed at the Bank who come under the personal scope of the Bank Group's Remuneration Policy and who receive performance-based remuneration are entitled, on a voluntary basis, up to the amount of the share-based part of their performance-based remuneration, to acquire a membership share in OTP Bank's Employee Share Ownership

Plan (ESOP) entity. The membership share in the ESOP entity is not fungible, may not be encumbered or pledged as collateral, and shall only guarantee actual settlement of the share award subject to the fulfilment of the conditions prescribed in the remuneration policy (result of performance assessment, retrospective assessment of risks). Membership shares that do not meet the conditions shall revert to the Bank.

In keeping with the Credit Institutions Act, as a general rule, payment of 60% of the variable remuneration is staggered over a period of three years, during which period the deferred amount is determined annually in equal proportions. Determination of eligibility to receive the deferred instalments takes place on the basis of a retrospective assessment of the risks. The assessment of the risks is based both on quantitative criteria used to measure prudent operation, and on qualitative evaluation criteria. Based on the assessment of the risks related to the activities of the employees concerned, the deferred part of the performance-based remuneration may be reduced or withheld completely. A further prerequisite for entitlement to the deferred part is a continuing employment relationship.

The remuneration of the members of the Supervisory Board and the Board of Directors, which is determined in a resolution of the General Meeting, is public, while with respect to the remuneration policy, the Bank complies with its public disclosure obligation in accordance with the prevailing statutory provisions.

1.10. Evaluation of the work of the Board of Directors, the Supervisory Board and the management

In accordance with the expectations of the supervisory authority, the execution capabilities of the Board of Directors, the Supervisory Board and the management were evaluated with respect to the affected managers, in the framework of the 2016 annual performance evaluation. The evaluation was performed along the following dimensions: business thinking, business and operational development, governance, relationship and resource management, integrity and personal drive. Based on the results of the evaluation, no issue has arisen that would necessitate action.
Within the group of managers concerned, during the evaluated period – based on the conflicts of interest policy, code of ethics, or human risk criteria – no conflict of interest or issue relating to the independence of the managers has arisen.

1.11. Description of the diversity policy applied with respect to the undertaking's administrative, management and supervisory bodies

The Bank defines and regulates the requirements relating to executive officers in compliance with the requirements and guidelines under European Union and domestic law that fundamentally determine the operation of credit institutions.
When nominating the members of its management bodies (Board of Directors, Supervisory Board) the Bank, and when appointing the members of the Management, the Board of Directors, gives priority to the possession of professional expertise, advanced interpersonal and management skills, varied academic qualifications, wide-ranging business experience and good standing, but they are also strongly committed to taking effective steps to ensure diversity in connection with the Company's operation, including efforts to steadily improve the rate of participation by women.
In this spirit, the Bank's Nomination Committee constantly monitors the applicable European Union and domestic regulations, with the purpose of taking the necessary steps without delay should clearly expressed expectations be announced.
It should be borne in mind, however, that as a public limited company the election of members of the management bodies is the exclusive prerogative of the General Meeting,

over which the Bank has no substantive influence beyond fully complying with the above criteria.

Pursuant to the Bank's Articles of Association, a Board of Directors with 5-11 members and a Supervisory Board with 5-9 members operate at the Bank. The present Board of Directors has 10 members, none of whom are female, while the Supervisory Board has 6 members, including one female member since 15 April 2016. The Bank's senior management currently consists of 5 persons, none of whom are women.

2.) CG Report on compliance with the Corporate Governance Recommendations

As part of the Corporate Governance (CG) Report, the Company states, by completing the following tables, the extent to which it has implemented the recommendations and guidances specified in the specific sections of the Corporate Governance Recommendations (hereinafter: CGR) of the Budapest Stock Exchange in its own corporate governance.
By looking at the tables, market participants are able to gain a quick insight into the extent to which the corporate governance practices of particular companies comply with certain requirements specified in the CGR, and to quickly compare the practices of various companies.

Level of compliance with the Recommendations

The company specifies whether it has applied the relevant recommendation or not, and if not, it describes briefly the reasons why a particular recommendation has not been implemented.

R 1.1.1 The Board of Directors has ensured that shareholders have access, in a timely manner, to the information required for exercising their rights.
Yes

R 1.1.2 The Company follows the "one share – one vote" principle
No
Each of the Company's ordinary shares ensures one voting right. In keeping with the stipulations of the Company's Articles of Association, voting rights depend specifically on the size of the shareholding.

R 1.2.8 The Company ensures that owners may participate in the General Meeting if they meet the same conditions.
Yes

R 1.2.9 Only those issues may be put on the General Meeting's agenda that are accurately defined and described.
Yes

The draft resolutions comprised the recommendation of the Supervisory Board and included a detailed explanation of the effects that the decision would have if taken.
Yes

R 1.2.10 Shareholders' comments and addenda to the agenda items were published no later than two days before the General Meeting.
Yes

R 1.3.8 Comments made in respect of the agenda items of the General Meeting were available to the shareholders no later than at the time of registration.
Yes

Written comments in respect of the agenda items were published two working days before the General Meeting.
Yes

R 1.3.10 The election and recall of senior officers is made in a separate resolution in respect of each person.
Yes

R 2.1.1 The tasks of the Board of Directors include those specified in point 2.1.1.
Yes

R 2.3.1 The Board of Directors held meetings at pre-specified, regular intervals.
Yes

The Supervisory Board held meetings at pre-specified, regular intervals.
Yes

The rules of procedure of the Board of Directors contain provisions about conducting meetings that cannot be planned in advance and about making decisions through electronic media.
Yes

The rules of procedure of the Supervisory Board contain provisions about conducting meetings that cannot be planned in advance and about making decisions through electronic media.
Yes

R 2.5.1. The Company's Board of Directors / Supervisory Board has a sufficient number of independent members to ensure impartiality.
Yes

R 2.5.4 The Board of Directors / Supervisory Board regularly (in relation to the annual CG report) asked its members who are considered to be independent to confirm that they are independent.
Yes

R 2.5.6 The Company has published on its website its guidelines concerning the independence of the Board of Directors / Supervisory Board and the applied criteria of independence.
Yes

R 2.6.1 Members of the Board of Directors notified the Board of Directors (supervisory board / Audit Committee) if he/she (or a person who is closely related to him/her) had a material personal stake in any transaction of the Company (or any of its subsidiaries).
Yes

R 2.6.2 Transactions concluded between board and management members (and persons related to them) and the Company (or its subsidiary) were conducted in accordance with the regular business practices of the Company but on the basis of stricter rules of transparency than is customary in the course of regular business practices.
Yes

Transactions, specified in 2.6.2, which depart from regular business practices and the conditions thereof were accepted by the Supervisory Board (Audit Committee).
No
The Company prepared procedural rules for approving transactions that depart from usual business practices, and this ensures adequate control.

R 2.6.3 The board member informed the Supervisory Board / Audit Committee (Nomination Committee) if he/she was asked to act as a member on the board or in the management of a company that does not belong to the Group.
Yes

R 2.6.4 The Board of Directors created guidelines pertaining to the flow of information within the Company as well as the management of insider information and supervises compliance therewith.
Yes

The Board of Directors created guidelines pertaining to insider trading of securities and supervises compliance therewith.
Yes

R 2.7.1 The Board of Directors created remuneration guidelines for the remuneration and evaluation of the work of the Board of Directors, the Supervisory Board and the management.
Yes

The Supervisory Board commented on the remuneration guidelines.
Yes

The General Meeting approved the remuneration guidelines and the amendments thereto pertaining to the Board of Directors and the Supervisory Board in a separate agenda item.
Yes

R 2.7.2 The Board of Directors evaluated its own performance in a given business year.
No
The Company has a Nomination Committee, which has assessed the board's work. Also see section 1.10 of the report.

R 2.7.2.1 The Supervisory Board evaluated its own performance in a given business year.
No
The Company has a Nomination Committee, which has assessed the board's work. Also see section 1.10 of the report.

R 2.7.3 The supervision of the performance of the management and the remuneration of the management falls within the competence of the Board of Directors.
Yes

The framework of and changes in benefits that are due to the members of the management and are different from what is customary are approved by the General Meeting in a separate agenda item.
Yes

R 2.7.4 The General Meeting approved the principles of share-based remuneration schemes.
Yes

Prior to the decision by the General Meeting concerning share-based remuneration schemes the shareholders received detailed information (at least as described in point 2.7.4)
Yes

R 2.7.7 The Company has prepared a Declaration on Remuneration and presented it to the General Meeting.
No
In compliance with the applicable European Union directive (CRD IV) and the provisions of the Act on Credit Institutions and Financial Enterprises, OTP Bank's General Meeting concluding the year 2015, its Board of Directors and Supervisory Board have provided for a review of the Remuneration Policy for the Bank and the Bank Group. In line with the national and EU legislative environment, the process of implementing the Bank Group's Remuneration Policy contains the methodological framework relating to the identification of activities and employees with a material impact on risk, which constitutes the basis for determining the group of persons subject to the Bank Group's Remuneration Policy, and the procedural rules relating to the annual evaluation process.

The purpose of the Bank Group's Remuneration Policy is, remaining within the limits of the Bank Group's risk-bearing capacity, to recognise and provide motivational support for the achievement of Bank and Group-level results by the management and holders of key positions at the Bank, and the managers of subsidiaries in the Bank Group.

The Bank Group's Remuneration Policy applies to the members of the Bank's Board of Directors and Supervisory Board, and – among the staff in an employment relationship with the Bank – the members of the Bank's Management (Chairman & CEO and the deputies thereof), and managers who materially influence the Bank's risk profile and its profit, managers who perform special management functions, managers with control functions, all managers whose salaries are in the same pay scale as that of the managers who are subject to the Remuneration Policy due to their function. Among the managers employed by the subsidiaries of the Bank Group that are subject to consolidated supervision, the subsidiaries' chief executive officers, and in the case of certain subsidiaries their level-2 (deputy) managers, and the managers of certain foreign subsidiary banks with special management and decision-making authority determined under national statutory provisions. The resolution on the persons to whom the Bank Group's Remuneration Policy applies is made by the Bank's Supervisory Board.

The members of the Board of Directors and the Supervisory Board receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For the other personnel included in the scope of the Remuneration Policy, the remuneration is composed of fixed and performance-based components. The proportions of fixed and performance-based components of remuneration are determined by the Bank's Supervisory Board based on the function, size and complexity of the unit being managed. The proportion of performance-based remuneration may not exceed 100% of fixed remuneration for any person concerned.

The most important basic principle of the Bank Group's Remuneration Policy is that the extent of performance-based remuneration – subject to a preliminary and retrospective assessment of the risks – depends on the extent to which Bank Group/Bank/Subsidiary-level and individual targets are met.

In the case of managers in an employment relationship with the Bank, the evaluation of performance, besides an assessment of the return on risk-weighted assets (RORAC) indicator for the given activity, takes place on the basis of the criteria used to measure strategic and individual performance (financial indicators and indicators of the quality of work performance). In the case of managers at subsidiaries in the Bank Group the evaluation of performance takes place in a differentiated manner, in keeping with the characteristics of the companies' activities. The target values of the indicators are determined by the Bank's Supervisory Board on the basis of the effective financial plan for the given year.

The performance evaluation-based, variable remuneration takes the form of a cash bonus and – where permitted by national legislation – remuneration in the form of shares or a preferentially-priced share award, in equal proportions. As a general rule, at all the members of the Bank Group, the share-based part of the variable remuneration is provided to the employees concerned by the Bank.

Workers employed at the Bank who come under the personal scope of the Bank Group's Remuneration Policy and who receive performance-based remuneration are entitled, on a voluntary basis, up to the amount of the share-based part of their performance-based remuneration, to acquire a membership share in OTP Bank's ESOP entity. The membership share in the ESOP entity is not fungible, may not be encumbered or pledged as collateral, and shall only guarantee actual settlement of the share award subject to the fulfilment of the conditions prescribed in the remuneration policy (result of performance assessment, retrospective assessment of risks). Membership shares that do not meet the conditions shall revert to the Bank.

In keeping with the Credit Institutions Act, as a general rule, payment of 60% of the variable remuneration is staggered over a period of three years, during which period the deferred amount is determined annually in equal proportions. Determination of eligibility to receive the deferred instalments takes place on the basis of a retrospective assessment of the risks. The assessment of the risks is based both on quantitative criteria used to measure prudent operation, and on qualitative evaluation criteria. Based on the assessment of the risks related to the activities of the employees concerned, the deferred part of the performance-based remuneration may be reduced or withheld completely. A further prerequisite for entitlement to the deferred part is a continuing employment relationship.

The remuneration of the members of the Supervisory Board and the Board of Directors, which is determined in a resolution of the General Meeting, is public, while with respect to the remuneration policy, the Bank complies with its public disclosure obligation in accordance with the prevailing statutory provisions.

The Declaration on Remuneration contains the remuneration of certain members of the Board of Directors, the Supervisory Board, and the management.
No
See the previous point.

R 2.8.1 The Board of Directors or the committee operated by it is responsible for the supervision and direction of the Company's entire risk management operations.
Yes

The Board of Directors verifies the efficiency of risk management procedures at specific intervals.
Yes

The Board of Directors took the necessary steps to identify key risk areas.
Yes

R 2.8.3 The Board of Directors formulated the principles pertaining to the internal control system.
Yes

The internal control system, which has been established by the management, ensures that the risks to which the Company is exposed are managed and that the Company's objectives are attained.
Yes

R 2.8.4 When formulating the internal control system, the Board of Directors took into account the criteria specified in point 2.8.4.
Yes

R 2.8.5 The management is responsible for establishing and maintaining the internal control system.
Yes

R 2.8.6 The company created an independent internal audit function, which is under obligation to report to the Audit Committee / Supervisory Board.
Yes

The internal audit group reported, at least once, to the Audit Committee / Supervisory Board about the operation of risk management, the internal control mechanisms, and the corporate governance functions.
Yes

R 2.8.7 The internal audit activity is performed by internal audit on the basis of a mandate given by the Audit Committee / Supervisory Board.
Yes

Internal audit is organisationally separate from operative management.
Yes

R 2.8.8 The internal audit plan was approved by the Board of Directors (Supervisory Board) upon the recommendation of the Audit Committee.
Yes

R 2.8.9 The Board of Directors prepared a report for shareholders on the operation of internal controls.
Yes

R 2.8.10 The Board of Directors formulated its rules of procedure in respect of receiving and processing reports on the operation of internal controls and preparing its own reports.
Yes

R 2.8.11 The Board of Directors identified the key deficiencies of internal controls and reviewed and re-evaluated the relevant activities.
Yes

R 2.9.2 The Board of Directors, the Supervisory Board and the Audit Committee were notified when the auditor's mandate, by its nature, may have incurred considerable expenditure, may have given rise to a conflict of interest or may have had any other material impact on business operations.
Yes

R 2.9.3 The Board of Directors notified the Supervisory Board if it gave a mandate to an audit company or an external audit expert in respect of an event that has a material impact on the Company's operation.
Yes

The Board of Directors specified in advance, in a resolution, the events that may be considered to have a material impact on the Company's operation.
Yes

R 3.1.6 The company published on its website the tasks delegated to the Audit Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).
No
OTP Bank Plc. has established and operates an Audit Committee, which supports the work of the Supervisory Board, and the Bank has published the names of the members, each with a brief CV. The tasks delegated to the Audit Committee, and the objectives and procedural rules of the Committee, are not in the public domain.

R 3.1.6.1 The company published on its website the tasks delegated to the Nomination Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).
No
OTP Bank Plc. has established and operates an Audit Committee, which supports the work of the Supervisory Board, and the Bank has published the names of the members, each with a brief CV. The tasks delegated to the Audit Committee, the objectives and procedural rules of the Committee are not in the public domain.

R 3.1.6.2 The company published on its website the tasks delegated to the Remuneration Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).
Yes

R 3.2.1 The Audit Committee / Supervisory Board oversaw the effectiveness of risk management, the operation of the internal control system and the internal audit activity.
Yes

R 3.2.3 The Audit Committee / Supervisory Board received accurate and detailed information about the work schedule of the internal auditor and the independent auditor, and received a copy of the report by the auditor on the problems identified during the audit.
Yes

R 3.2.4 The Audit Committee / Supervisory Board asked the new nominee for auditor to submit a disclosure declaration as specified in 3.2.4.
Yes

R 3.3.1 The Company has a Nomination Committee.
Yes

R 3.3.2 The Nomination Committee prepares the way for changes in personnel.
Yes
For managers who are subject to the authority of the Nomination Committee.

The Nomination Committee reviewed the procedures pertaining to the selection and appointment of the members of the management.
Yes

The Nomination Committee evaluated the activities of board members and the members of the management.
Yes

The Nomination Committee examined all proposals concerning the nomination of board members that were proposed by the shareholders or by the Board of Directors.
Yes

R 3.4.1 The Company has a Remuneration Committee.
Yes

R 3.4.2 The Remuneration Committee has submitted a proposal regarding the remuneration system of the boards and the management (amount and structure of remuneration for each person), and oversees this process.
Yes

R 3.4.3 The remuneration of the management has been approved by the Board of Directors based on the proposal of the Remuneration Committee.
Yes

The remuneration of the Board of Directors is approved by the General Meeting upon the recommendation of the Remuneration Committee.
Yes

The Remuneration Committee has also checked the system of share options, cost reimbursements and other contributions.
Yes

R 3.4.4 The Remuneration Committee formulated proposals with regard to the principles of remuneration.
Yes

R 3.4.4.1 The Remuneration Committee formulated proposals with regard to the remuneration of individual persons.
Yes

R 3.4.4.2 The Remuneration Committee reviewed the terms and conditions of contracts that were concluded with the management.
No
A review of the terms of contracts concluded with members of the management does not fall within the remit of the Remuneration Committee.

R 3.4.4.3 The Remuneration Committee checked if the Company has satisfied the obligation of disclosure regarding executive remuneration issues.
Yes

R 3.4.7 The majority of the members of the Remuneration Committee are independent.
Yes

R 3.5.1 The Board of Directors has disclosed its reasons for merging the Remuneration and the Nomination Committee.
No
The Company operates both a Remuneration Committee and a Nomination Committee.

R 3.5.2 The Board of Directors performed the tasks of the Nomination Committee and issued a statement on its reasons for doing so.
No
The Nomination Committee performed its own tasks.

R A 3.5.2.1 The Board of Directors performed the tasks of the Remuneration Committee and issued a statement on its reasons for doing so.
No
The Remuneration Committee performed its own tasks.

R 4.1.1 The Board of Directors, in its disclosure guidelines, has determined the principles and procedures that ensure that all material information that has a significant bearing on the Company and on the price of its shares is published and is accessible accurately, in full and in good time.
Yes

R 4.1.2 In the course of providing information, the Company has ensured that all shareholders and market participants receive equal treatment.
Yes

R 4.1.3 The Company's disclosure guidelines include electronic and internet disclosure procedures.
Yes

The Company's website has been created with due regard to the disclosure guidelines, and with a view to providing appropriate information to investors.
Yes

R 4.1.4 The Board of Directors has assessed the effectiveness of disclosure processes.
Yes

R 4.1.5 The Company publishes its corporate events calendar on its website.
Yes

R 4.1.6 The Company, in its annual report and on its website, has provided information to the public about its strategic goals and about its guidelines related to its core activity, business ethics and its various stakeholders.
Yes

R 4.1.8 The Board of Directors has stated in its annual report the other mandates, together with the type and volume of such mandates, that the entity that audits the Company's annual financial statements has received from the Company and its subsidiaries.
Yes

R 4.1.9 The Company, in its annual report and on its website, has disclosed information pertaining to the professional careers of members of the Board of Directors, the Supervisory Board and the management.
Yes

R 4.1.10 The Company provided information about the internal organisation and operation of the Board of Directors and the Supervisory Board.
No
The Company's Articles of Association are published on the Company's website, and provide information about the operation of the management bodies.
See also the comments under point 2.7.2.

R 4.1.10.1 The Company provided information about the work of the Board of Directors and the Management Committee, and the criteria applied when evaluating the individual members.
Yes

R 4.1.11 The Company has published in its annual report and on its website a Declaration on Remuneration, which describes the remuneration guidelines used and, specifically, the guidelines pertaining to the remuneration of members of the Board of Directors, the Supervisory Board and the management.
No
See the comments under point 2.7.7 above.

R 4.1.12 The Board of Directors has published risk management guidelines which discuss the internal control system, and the risk management principles and rules, and provide an overview of major risks.
Yes

R 4.1.13 In order to provide information to market participants, the Company publishes its report on corporate governance once a year, when the annual report is published.
Yes

R 4.1.14 The Company publishes on its website the guidelines pertaining to securities trading in respect of the Company's shares by persons classified as insiders.
Yes

The Company, in its annual report and on the Company's website, has disclosed information about the stakes held in the Company's securities and in its share-based incentive system by members of the Board of Directors, the Supervisory Board and the management.
Yes

R 4.1.15 The Company has published in the annual report and on the Company's website the relationship of members of the Board of Directors and the management with any third parties that may have an impact on the Company's operation.
Yes

Level of compliance with the guidances

The Company must specify whether it applies the relevant guidance of the CGR or not.
Yes

G 1.1.3 The Company has an organisational unit that deals with investor relations.
Yes

G 1.2.1 The Company has published on its website the summary document relating to the conduct of its General Meeting and to the exercising of shareholder voting rights (including voting by proxy).
Yes

G 1.2.2 The Company's Articles of Association are accessible on the Company's website.
Yes

G 1.2.3 The Company's website contains the information specified in point 1.2.3 (regarding the cut-off date in respect of corporate events).
Yes

G 1.2.4 The Company has published on its website the information and documents regarding the General Meeting as specified in point 1.2.4 (invitation, proposals, draft resolutions, resolutions, minutes).
Yes

G 1.2.5 The Company held its General Meeting by ensuring that as many shareholders can attend as possible.
Yes

G 1.2.6 The Company published the addenda to the agenda items within five days of their receipt, in a manner that is identical to the manner of publishing the original invitation to the General Meeting.
Yes

G 1.2.7 The voting procedure used by the Company ensured that the decision by the owners is determined unequivocally, clearly and quickly.
Yes

G 1.2.11 The Company, upon the shareholders' request, forwarded information pertaining to the General Meeting electronically as well.
Yes

G 1.3.1 The Company's General Meeting accepted the chairman of the General Meeting prior to the actual discussion of the agenda items.
No

G 1.3.2 The Board of Directors and the Supervisory Board were represented at the General Meeting.
Yes

G 1.3.3 The Company's Articles of Association allow the invitation of a third party to the Company's General Meetings upon the initiative of the Chairman of the Board of Directors or the shareholders of the Company, and such third party may participate with advisory right and comment on the relevant agenda item.
Yes

G 1.3.4 The Company did not restrict the right of owners who participate in the General Meeting to ask for information, to comment and to submit a motion and did not set any preconditions in respect of such right.
Yes

G 1.3.5 The Company published on its website within three days its responses to questions that it was unable to answer satisfactorily at the General Meeting. The Company published an explanation in respect of questions that it refused to answer.
Yes

G 1.3.6 The chairman of the General Meeting and the Company ensured that responses to questions asked at the General Meeting did not violate any statutory or stock exchange regulations pertaining to the provision of information and disclosure and ensured that such provisions are observed.
Yes

G 1.3.7 The Company published a press release and/or held a press conference about the decisions of the General Meeting.
Yes

G 1.3.11 The Company's General Meeting makes decisions about amendments to the Articles of Association in separate resolutions.
Yes

G 1.3.12 The Company published the minutes of the General Meeting containing the Company's resolutions, the description of the draft resolutions and all material questions and answers concerning the draft resolutions within 30 days after the General Meeting.
Yes

G 1.4.1 The Company, within 10 working days, paid dividends to shareholders who have provided all necessary information and documents.
Yes

G 1.4.2 The Company published its guidelines concerning solutions for preventing hostile takeovers directed at the Company.
No

G 2.1.2 The rules of procedure of the Board of Directors contain the organisational structure of the Board of Directors, tasks related to the preparation and execution of the meetings and the formulation of resolutions and other issues related to the operation of the Board of Directors.
Yes

G 2.2.1 The Supervisory Board provides a detailed description in its rules of procedure and work plan of the operation and tasks of the board, as well as of the administrative rules and procedures that the Supervisory Board follows.
Yes

G 2.3.2 The board members had access to the proposals of the given meeting at least five days before the given meeting.
Yes

G 2.3.3 The rules of procedure stipulate the regular and occasional participation in the board meetings of non-board members.
Yes

G 2.4.1 The members of the Board of Directors were selected in a transparent manner, and information pertaining to the candidates were disclosed at least five days before the General Meeting.
Yes

G 2.4.2 The composition and headcount of the boards complies with the stipulations of point 2.4.2.
Yes

G 2.4.3 In the orientation program of the Company, newly elected non-executive board members were able to learn about the structure and operation of the Company and their tasks as board members.
Yes

G 2.5.2 The division of the tasks of the chairman and the CEO is stipulated in the key documents of the Company.
Yes

G 2.5.3 The Company provided information about how it ensures that the Board of Directors remains objective in its evaluation of the management activities in the event that the position of Chairman & CEO is combined.
No

G 2.5.5 No member of the Company's Supervisory Board held a position on the Company's Board of Directors or in the management in the three years prior to his/her nomination.
No

G 2.7.5 The remuneration policy of the Board of Directors, the Supervisory Board and the management serves the purposes of the Company and therefore the strategic objectives of shareholders.
Yes

G 2.7.6 Members of the Supervisory Board receive a fixed remuneration no portion of which is tied to the share price.
Yes

G 2.8.2 The Board of Directors elaborated risk management principles and basic rules together with the members of the management who are responsible for planning, operating and supervising risk management processes and for the incorporation thereof into the Company's daily operation.
Yes

G 2.8.10 When evaluating the internal control system, the Board of Directors took into account the criteria specified in point 2.8.10.
Yes

G 2.8.12 The Company's auditor assessed and evaluated the Company's risk management systems and the risk management activities of the management and submitted a relevant report to the Audit Committee / Supervisory Board.
Yes

G 2.9.1 The rules of procedure of the Board of Directors include the procedure to be followed when the services of an external consultant are used.
Yes

G 2.9.1.1 The rules of procedure of the Supervisory Board include the procedure to be followed when the services of an external consultant are used.
Yes

G 2.9.1.2 The rules of procedure of the Audit Committee include the procedure to be followed when the services of an external consultant are used.
Yes

G 2.9.1.3 The rules of procedure of the Nomination Committee include the procedure to be followed when the services of an external consultant are used.
No

G 2.9.1.4 The rules of procedure of the Remuneration Committee include the procedure to be followed when the services of an external consultant are used.
No

G 2.9.4 The Board of Directors may invite the Company's auditor to attend its meetings where the agenda items of the General Meeting are discussed, with advisory right.
Yes

G 2.9.5 The Company's internal audit organisation cooperated with the auditor in order to ensure the effective execution of the audit.
Yes

G 3.1.2 The chairman of the Audit Committee regularly informs the Board of Directors of the individual meetings of the committee, and the committee prepares at least one report each business year for the management body and the Supervisory Board.
No

G 3.1.2.1 The chairman of the Nomination Committee regularly informs the Board of Directors of the individual meetings of the committee, and the committee prepares at least one report each business year for the management body and the Supervisory Board.
Yes

G 3.1.2.2 The chairman of the Remuneration Committee regularly informs the Board of Directors of the individual meetings of the committee, and the committee prepares at least one report each business year for the management body and the Supervisory Board.
Yes

G 3.1.4 The Company's committees consist of members who have appropriate abilities, expertise and experience for carrying out their tasks.
Yes

G 3.1.5 The rules of procedure of the Company's committees contain the stipulations specified in point 3.1.5.
Yes

G 3.2.2 The members of the Audit Committee / Supervisory Committee received comprehensive information on the Company's accounting, financial and operating characteristics.
Yes

G 3.3.3 The Nomination Committee prepared at least one evaluation for the chairman of the Board of Directors about the operation of the Board of Directors and the work and performance of individual members of the Board of Directors.
Yes

G 3.3.4 The majority of the members of the Nomination Committee is independent.
Yes

G 3.3.5 The Nomination Committee's rules of procedure include the stipulations specified in point 3.3.5.
No

G 3.4.5 The Remuneration Committee ensures that a declaration on remuneration is prepared.
No

G 3.4.6 The Remuneration Committee consists only of the non-executive members of the Board of Directors.
Yes

G 4.1.4 The Company's disclosure guidelines include at least the stipulations set out in point 4.1.4.
Yes

In the annual report the Board of Directors informs shareholders of the results of its study concerning the effectiveness of disclosure processes.
Yes

G 4.1.7 The Company prepares its financial statements in accordance with IFRS principles.
Yes

G 4.1.16 The Company prepares and publishes its statements in English as well.
Yes

RESOLUTION PROPOSAL No. 2/2017

The Annual General Meeting approves OTP Bank Plc.'s 2016 Report on Corporate Governance.

EVALUATION OF THE ACTIVITY OF THE EXECUTIVE OFFICERS PERFORMED IN THE PAST BUSINESS YEAR; DECISION ON THE GRANTING OF DISCHARGE OF LIABILITY

Based on Act V of 2013 on the Civil Code, and in accordance with the provisions of the Articles of Association of OTP Bank Plc., the supreme governance body of the company each year puts on the agenda the evaluation of the activity performed by the members of the Board of Directors in the reporting year, and passes a resolution on whether to grant them discharge from liability.

The **Board of Directors** of OTP Bank Plc. is the body, consisting of senior officers, that conducts the executive management of the Bank.

The Supervisory Board of OTP Bank Plc., as part of this proposal, and in connection with the annual financial statements prepared in accordance with the Accounting Act, has made a recommendation to the General Meeting on the evaluation of the work of the members of the Board of Directors in the previous financial year, and on the granting to them of discharge from liability.

In the course of 2016 OTP Bank Plc.'s Supervisory Board, in fulfilment of its duties stipulated in the relevant statutory provisions and the Articles of Association, monitored the activity of the executive management, and continuously received a briefing on the Bank Group's latest financial position and business activity.

The Supervisory Board, based on the documents placed at its disposal and the proposals presented to it, and following the personal participation of the chairman of the Supervisory Board at the meetings of the Board of Directors, hereby makes the following determinations:

- In the past year, the Board of Directors of OTP Bank Plc. met regularly on the basis of its work schedule, the mandatory agenda items prescribed by law, the Articles of Association and the Bank's business policy plan, and made decisions and passed resolutions, and subsequently monitored their implementation.

- The Board of Directors of OTP Bank Plc., as prescribed by the provisions of the Act on Credit Institutions and Financial Enterprises and the laws on accounting, and in accordance therewith, has drafted, and prepared for approval by the General Meeting, the Bank's annual financial statements and consolidated annual financial statements.

During the 2016 General Meeting, the Supervisory Board personally ascertained that

- At the annual ordinary General Meeting of 2016 the Board of Directors presented a report on the Bank's business activity and results achieved in 2015.
- The Board of Directors, in compliance with its statutory obligation, presented its Corporate Governance Report reviewed and approved by the Supervisory Board, together with the financial statements prepared in accordance with the Accounting Act, to the General Meeting.
- After a preliminary review by the Supervisory Board, the Board of Directors presented to the General Meeting its proposal regarding the amendment of the Bank's Articles of Association.

The Supervisory Board has ascertained that

- Pursuant to the Act on the Civil Code, the Board of Directors has arranged for publication of the Bank's consolidated and stand-alone financial statements for the year 2015, and of the material data from the reports of the Board of Directors and Supervisory Board.

- Based on the Act on Credit Institutions and Financial Enterprises and on the Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and the amendment of the relevant EU Regulation, the Board of Directors has fulfilled its disclosure obligation regarding the publication of information intended for public disclosure, as part of which it provided information in relation to its corporate governance system and remuneration policy as well.

The Supervisory Board found that,

- in keeping with the Corporate Governance Recommendations of the Budapest Stock Exchange, the Board of Directors of OTP Bank Plc. held a review of the effectiveness of its public disclosure processes, and found it to be adequate.

The Supervisory Board shares the opinion of the Board of Directors of OTP Bank Plc, according to which, among the corporate governance requirements, particular importance is ascribed to the transparency of the Company's operations, and *the public disclosure practices* followed by the Company have a profound impact on how the Company is perceived. The provision of information that credibly reflects the effectiveness of operations is of strategic importance, as it strengthens the trust of shareholders and other stakeholders in the Company. For shareholders, mortgage-bond investors, as well as other participants in the money and capital markets, regular, reliable and comparable information is indispensable for assessing the Company's operation.

Besides observing the laws and legal regulations relevant to the Company, such as the Act on Credit Institutions and Financial Enterprises, the Civil Code, the Act on the Capital Market, the Act on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities, and Decree 24/2008 (VIII.15) of the Minister of Finance, as well as the provisions of the Budapest Stock Exchange, the Board of Directors, together with the management, ensures that the *procedures related to the disclosure of corporate information* are – as far as possible – *in compliance with the Corporate Governance Recommendations*.

- The Board of Directors, in compliance with the statutory provisions and established practice, prepared, with respect to 2015 as well, a Report presenting the Bank's corporate governance practice.

In its Corporate Governance Report, presented to the General Meeting of 2016, the Board of Directors summarised the corporate governance practice applied in the previous business year, and made a declaration on any deviations from the Corporate Governance Recommendations of the Budapest Stock Exchange.

OTP Bank Plc. treats the maintenance of a sophisticated *corporate governance system*, conforming to Hungarian and international standards, as a key priority. A reliable governance system, accurate financial planning, responsible management and the appropriate control mechanisms are what form the basis for efficient and profitable operation.

OTP Bank Plc. continuously monitors, reviews and develops its corporate governance practices, identifying any deficiencies arising as the result of external and internal changes, and effects those modifications that best serve the fulfilment of our objectives.

Adequate corporate governance practice is an important prerequisite for ensuring that strategic objectives can be realised. Within the statutory frameworks, OTP Bank's corporate governance system has been developed such that simultaneously ensures the confidence and satisfaction of its customers, growth in shareholder value, and socially responsible corporate conduct. The resulting governance structure, optimised to suit our objectives, takes

into account the special characteristics of our operations as well as the statutory, supervisory and stock-market requirements that apply to the Bank, and besides this, it also aims *to comply with the related Budapest Stock Exchange guidelines*.
The activities of OTP Bank Plc. are largely regulated by statutory provisions, and consequently not only certain business activities, but operations as a whole are regulated in detail and monitored by the authorities on a continuous basis.
The individual internal control functions (risk management, compliance, and internal audit) conform to strict standards, and the Bank is capable of attesting to their effectiveness both within the internal corporate governance system, and also to the satisfaction of the external supervisory authorities. All these factors guarantee purposeful, comprehensive and verified risk management procedures, as well as reliable and appropriately supervised data reporting. In the course of its provision of financial and investment services OTP Bank pursues complex and effective corporate governance practices that simultaneously ensure responsible conduct towards clients and shareholders, reliable operation, and long-term profitability.

The Supervisory Board found that OTP Bank Plc.'s operation is in compliance with the applicable laws and supervisory provisions, and with the regulations of the Budapest Stock Exchange.

<u>In addition to the above, in the past business year the Board of Directors of OTP Bank Plc.</u>

Monitored

- the statements contained in the reports of the management,
- the development of the Bank's results, based on the quarterly interim reports and the financial statements prepared in accordance with Hungarian accounting standards and approved by the auditor,
- compliance with the provisions of the Credit Institutions Act,
- the quarter-to-quarter development of the quality of the Bank Group's portfolio,
- new commitments where the transaction value exceeded three billion forints (on which it received a briefing),
- loan placements exceeding HUF 300 million and the positions thereof (on which it received a briefing),
- the latest issues related to the Bank's operation and activity.

Made decisions

- regarding the amendment of its own rules of procedure,
- the capital positions of the individual subsidiaries and companies within its scope of interest, and
- on the purchase and sale of shareholdings, as well as
- in regard to the reviewing of limits, and
- on the setting and modification of customer limits and counterparty limits,
- on the granting of authorisations to sign on behalf of the Company.

Also made a decision

- on the approval of regulations that fundamentally define the Bank's operation, and those referred to its authority under the Credit Institutions Act,
  These included, among others, the Organisational and Operational Regulations, and the regulations on Risk Assumption, Risk Management, Customer Rating, Counterparty Rating, Collateral Valuation, Investment, Asset Rating, and Impairment and Provisioning.

- on the acceptance of OTP Bank Plc.'s CRR and Hpt.-based Disclosure Policy, as well as on the proposal regarding the amendment of OTP Bank Plc.'s Internal Audit Policy, on the Conflict of Interest Regulations, the regulations on the prohibition of the unauthorised disclosure of insider information and market manipulation and on the various obligations related thereto, as well as on OTP Bank Plc.'s Compliance and Security Policy, and on the Bank Group Governance Regulations, as well as on the amendments to the regulations related to risk management not specifically mentioned in the statutory regulations,
- on the OTP Group's Risk Assumption Strategy for 2017-2019,
- on OTP Bank Plc.'s medium-term (2017-2020) IT strategy,
- on the review of its tasks set out in the regulations on the Internal Audit Directorate of OTP Bank Plc. in the interest of complying with the new provisions of the Credit Institutions Act, and on compliance with the requirements relating to the internal auditor and with the requirements in respect of the IT and other technical resources to be placed at the auditor's disposal,
- on the acceptance of the contents of the 2015 report on the review of the functioning of the Remuneration Policy of OTP Bank Plc. and the Bank Group.

Accepted

- the Bank's IFRS standalone Accounting Policy, and acknowledged the regulating documents constituting an annex thereto, as well as
- the exclusive application, from 1 January 2017, of International Financial Reporting Standards.

Discussed the following submissions:

- the financial statements and proposal submissions presented to the annual ordinary General Meeting,
- the Bank's financial statements and auditor's reports for 2015,
- the Corporate Governance Report (in respect of the year 2015),
- the report on the activity of the Remuneration Committee in 2015, as well as on the implementation and annual review of the remuneration policy of OTP Bank Plc. and the Bank Group,
- the remuneration guidelines of OTP Bank Plc., belonging to the decision-marking powers of the General Meeting,
- the report on the acquisition of treasury shares under the conditions specified in the relevant resolution of the General Meeting,
- the Lending Policy of OTP Bank Plc. in 2016,
- the progress made in implementing the collection strategy, and the further steps to be taken in this regard,
- the proposal on the OTP Group's operational risk management activities in 2015,
- every quarter, the bank group-level reports on the completed audits of the auditing units,
- the results of the audits scheduled for the year, at bank group level,
- the situation of OTP Bank Plc. and the foreign subsidiary banks with regard to compliance and security, and
- every quarter, the consolidated and group-member controlling reports, and
- the 2017 business, financial and strategic plan of OTP Bank Plc. and the Bank Group.

Monitored (obtained information on)

- the group implementation of regulations pertaining to the members of the management bodies of OTP Bank Plc. and the Bank Group, as well as compliance with the requirements prescribed for the executive officers and key function holders of OTP Bank Nyrt. and the Bank Group,
- experiences related to the handling of complaints, the consumer protection audits of the MNB, as well as the customer complaints received by the foreign subsidiaries,
- the completion of tasks specified in the action plan drawn up in the wake of the MNB audits, and
- the points set out in the report prepared on the group-level audit.

The Supervisory Board of OTP Bank Plc. judges that in 2016 the Bank's Board of Directors fulfilled its duties prescribed in the relevant statutory provisions and in the Articles of Association of OTP Bank Plc., as presented in the foregoing. In the course of its operation, it conducted its activities with a view to preserving shareholder value and in accordance with the Company's best interests.

The Supervisory Board recommends that, following an assessment of their activity conducted in the past business year, the General Meeting grant the members of the Board of Directors discharge from liability.

RESOLUTION PROPOSAL No. 3/2017

The Annual General Meeting, based on its assessment of the work of the executive management in the 2016 business year, certifies that the executive management gave priority to the interests of the Company when performing its work during the business year.

ELECTION OF THE COMPANY'S AUDIT FIRM, THE DETERMINATION OF THE AUDIT REMUNERATION, AND DETERMINATION OF THE SUBSTANTIVE CONTENT OF THE CONTRACT TO BE CONCLUDED WITH THE AUDITOR

In connection with the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2017 and according to section 152. paragraph (3) (b) of 2013. CCXXXVII Act on Credit Institutions and Financial Enterprises, in the name of the Supervisory Board I suggest the following:

1. Audit Firm: Deloitte Auditing and Consulting Ltd. (000083)
   Budapest, Dózsa György. u. 84/c.
   1068

   Independent Auditor: Gábor Gion
   (Registration number: 005252)

   In case of insuperable hindrance: dr. Attila Hruby
   (Registration number: 007118)

2. The total fee of auditing for the audit of the separate and consolidated annual financial statements for the year 2017, prepared in accordance with International Financial Reporting Standards.

HUF 63,760,000 + VAT

From this:

Audit fee of the separate annual accounts:	HUF 50,700,000 + VAT
Audit fee of the consolidated annual accounts:	HUF 13,060,000 + VAT

RESOLUTION PROPOSAL No. 4/2017

Concerning the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2017, the Annual General Meeting is electing Deloitte Auditing and Consulting Ltd. (000083, H-1068 Budapest, Dózsa György út 84/c) as the Bank's auditor from 1 May 2017 until 30 April 2018.

The Annual General Meeting approves the nomination of Gábor Gion (No. 005252 chartered auditor) as the person responsible for auditing. In case any circumstance should arise which ultimately precludes the activities of Gábor Gion as appointed auditor in this capacity, the Annual General Meeting proposes the appointment of dr. Attila Hruby (No. 007118 chartered auditor) to be the individual in charge of auditing.

The Annual General Meeting establishes the total amount of HUF 63,760,000 + VAT as the Auditor's remuneration for the audit of the separate and consolidated annual financial statements for the year 2017, prepared in accordance with International Financial Reporting Standards. Out of total remuneration, HUF 50,700,000 + VAT shall be paid in consideration of the audit of the separate annual accounts and HUF 13,060,000 + VAT shall be the fee payable for the audit of the consolidated annual accounts.

PROPOSAL ON THE AMENDMENT OF ARTICLE 11/A. SECTION 2 OF THE OTP BANK PLC.'S ARTICLES OF ASSOCIATION

Proposal on the amendment of Article 11/A. Section 2 of the OTP Bank Plc.'s Articles of Association

Summary of the proposal

The amendment related to the section of the Articles of Association (hereinafter: AoA) listed below:

Amendments related to Act CCXXXVII of 2013 on the Credit Institutions and Financial Enterprises (hereinafter referred to as "Act on the Credit Institutions and Financial Enterprises") (AoA [Article 11/A. Section 2])

Presentation of the amendment proposal

The text of the AoA is written in Times New Roman font; the new parts of the text are indicated by underlining, and the ~~deleted parts~~ by cross-through.

Detailed amendment proposal

AMENDMENT RELATED TO ACT CCXXXVII OF 2013 ON THE CREDIT INSTITUTIONS AND FINANCIAL ENTERPRISES
[AOA ARTICLE 11/A. SECTION 2]

[Audit Committee]

„11/A.2. The Audit Committee assists the Supervisory Board with the auditing of the financial reporting system, with the selection of an auditor and cooperation with the auditor, *monitor the effectiveness of the Company's internal quality control and risk management systems and its financial reporting process and submit recommendations or proposals where deemed necessary, monitor the statutory audit of the annual and consolidated annual account, furthermore review and monitor the independence of licensed statutory auditors or the audit firms in accordance with the relevant legislation."*

Reasoning:

The basis of the modification of the AoA is the necessity of the modification of national law related to the requirement of being complied with the European Union law – Regulation (EU) No. 56/2014 of the European Parliament and of the Council – ("audit reform") with the result that the Act on the Credit Institutions and Financial Enterprises, as cogent legal act, also defines detailed rules relating to the operation of the audit committee (beyond the general provisions of the Act V of 2013 on the Civil Code).

The modified provision of the Act on the Credit Institutions and Financial Enterprises entered into force on 04 June 2016 completes the competence of the audit committee operating in public-interest credit institutions with the following tasks:

[Subparagraph 3 of paragraph 157 of the Act on the Credit Institutions and Financial Enterprises – new provisions]
(3) In addition to what is contained in Subsection (1) of Section 3:291 of the Civil Code, the audit committee shall, inter alia:
a) monitor the effectiveness of the public-interest credit institution's internal quality control and risk management systems and its financial reporting process and submit recommendations or proposals where deemed necessary;
b) monitor the statutory audit of the annual and consolidated annual account, taking into account any findings and conclusions by the authority in charge of the public oversight of auditors as provided for in Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors (hereinafter referred to as "Auditors Act") made during the quality assurance review provided for in the Auditors Act;
c) review and monitor the independence of licensed statutory auditors or the audit firms in accordance with the relevant legislation, and in particular the appropriateness of the provision of non-audit services to the audited entity in accordance with Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

RESOLUTION PROPOSAL No. 5/2017

The Annual General Meeting approves the amendment of Article 11/A. Section 2 of the Articles of Association in accordance with the proposal of the Board of Directors, as per the annex to the minutes of the Annual General Meeting.

ELECTION OF THE MEMBER OF THE BOARD OF DIRECTORS

ELECTION OF THE MEMBER OF THE BOARD OF DIRECTORS

MR. GYÖGY ANTAL KOVÁCS

RESOLUTION PROPOSAL No. 6/2017

The Annual General Meeting elects Mr. György Antal Kovács as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2020 business year but not later than 30 April 2021.

ELECTION OF THE MEMBERS OF THE SUPERVISORY BOARD

ELECTION OF THE MEMBERS OF THE SUPERVISORY BOARD

MR. TIBOR TOLNAY

DR. GÁBOR HORVÁTH

MR. ANDRÁS MICHNAI (representative of the Bank's employees)

MRS. ÁGNES RUDAS (representative of the Bank's employees)

MR. DOMINIQUE UZEL

DR. MÁRTON GELLÉRT VÁGI

RESOLUTION PROPOSAL No. 7/1/2017

The Annual General Meeting elects Mr. Tibor Tolnay as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

RESOLUTION PROPOSAL No. 7/2/2017

The Annual General Meeting elects Dr. Gábor Horváth as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

RESOLUTION PROPOSAL No. 7/3/2017

The Annual General Meeting elects Mr. András Michnai as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

RESOLUTION PROPOSAL No. 7/4/2017

The Annual General Meeting elects Mrs. Ágnes Rudas as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

RESOLUTION PROPOSAL No. 7/5/2017

The Annual General Meeting elects Mr. Dominique Uzel as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

RESOLUTION PROPOSAL No. 7/6/2017

The Annual General Meeting elects Dr. Márton Gellért Vági as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

ELECTION OF THE MEMBERS OF THE AUDIT COMMITTEE

ELECTION OF THE MEMBERS OF THE AUDIT COMMITTEE

DR. GÁBOR HORVÁTH

MR. TIBOR TOLNAY

MR. DOMINIQUE UZEL

DR. MÁRTON GELLÉRT VÁGI

RESOLUTION PROPOSAL No. 8/1/2017

The Annual General Meeting elects Dr. Gábor Horváth as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

RESOLUTION PROPOSAL No. 8/2/2017

The Annual General Meeting elects Mr. Tibor Tolnay as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

RESOLUTION PROPOSAL No. 8/3/2017

The Annual General Meeting elects Mr Dominique Uzel as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

RESOLUTION PROPOSAL No. 8/4/2017

The Annual General Meeting elects Dr. Márton Gellért Vági as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

PROPOSAL ON THE REMUNERATION GUIDELINES OF THE OTP BANK PLC.

REMUNERATION GUIDELINES OF OTP BANK PLC.

The Bank Group's Remuneration Policy is an integral part of the corporate governance system, and must be enforced throughout the entire Bank Group. The Bank Group's Remuneration Policy, in keeping with the relevant European Union directive, is consistent with effective and successful risk management, and in accordance with its purpose, it does not encourage the assumption of risks that exceed the risk-assumption limits of the Bank and Bank Group-member subsidiaries, and furthermore it is consistent with the business strategy, objectives, values and long-term interests of the Bank and Bank Group-member subsidiaries, and it promotes the achievement of this.

1. The objective of the Remuneration Policy

The objective of the Bank Group's Remuneration Policy is to acknowledge the performance, within the risk-tolerance capacity of the Bank Group, of the management of OTP Bank and of individual managers occupying key positions, as well as of the heads of the subsidiaries of the Bank Group in contributing to results at the bank and at the group level, and to provide an incentive for performance.

2. Scope of application of the Remuneration Policy

The personal scope of the Bank Group's Remuneration Policy is determined, in accordance with the applicable EU regulations, on the basis of qualitative criteria drawn from the institution's own risk profile, as well as quantitative criteria determined by income level. To ensure fulfilment of the qualitative criteria the Bank applies a comprehensive risk-analysis procedure, in keeping with the group's business and risk strategy, based on which it performs an assessment once a year at consolidated, sub-consolidated and local level for the purpose of identifying employees that exercise a material impact on the risk profile. The quantitative criteria are taken into account in accordance with the prevailing statutory requirements.

Belonging under the scope of the Bank Group Remuneration Policy are those senior officers and regular employees who, based on qualitative and quantitative criteria defined in Commission Delegated Regulation (EU) No 604/2014, exercise a material impact on the Bank Group's risk profile at consolidated level, sub-consolidated level, or local level.

The Bank also supplements the risk criteria defined by Commission Delegated Regulation (EU) No 604/2014 with comprehensive internal risk-analysis methods approved by the Supervisory Board.

The Bank's Supervisory Board decides on the persons that fall under the scope of the Bank Group's Remuneration Policy based on the following criteria:

- In the case of those employees who are identified purely by quantitative criteria, the Bank's Supervisory Board is entitled to consider whether they exercise a material impact on the risk profile through their professional activity, and in the absence of such impact, it may decide to exclude the persons concerned from the scope of application of the remuneration policy, provided it reports such in advance to the National Bank of Hungary, or in possession of permission for such.
- In the case of subsidiaries that are not classed as credit institutions or investment firms and that represent less than 2% of the group's internal capital composition, and as such cannot be regarded as a material business unit, the persons otherwise identified on the basis of quantitative criteria shall not be regarded by the Bank as exercising a material impact on the risk profile.
- Those persons who the risk analysis have not identified, but who through their activity exercise a material impact on the Bank's operation and/or risk profile, may be excluded by the Bank's Supervisory Board from the scope of application of the remuneration policy.

3. The framework for applying the Bank Group's Remuneration Policy to the subsidiaries

All basic decisions under the remuneration policy shall be made by OTP Bank Plc., while the subsidiaries shall be responsible for complying with local statutory regulations and obligations.

- As a general rule **the Bank Group Remuneration Policy** covers the persons at the parent bank and at the rest of the Bank Group that exercise a material impact on the group-level risk profile, as well as persons identified at the subsidiaries that do not belong to the sub-consolidated circle.
- **The sub-consolidated remuneration policies** cover the persons that exercise a material impact on the risk profile at sub-consolidated and local level.
- **The fund management companies may also accept the local-level remuneration policies** in the interest of compliance with the provisions of the Investment Services Act (Bszt.) and of the Alternative Investment Fund Managers' Directive (AIFMD).

4. The ratio of basic remuneration and performance-based remuneration

The **members of the Board of Directors** and the **Supervisory Board** receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For other persons falling under the effect of the remuneration policy, the remuneration consists of basic remuneration and performance-based remuneration. The main components of basic remuneration are the basic salary and ordinary shares issued by OTP Bank. The basic remuneration may not depend on the performance of the beneficiaries, or on the discretionary decision of the employer.

The ratio of basic remuneration to performance-based remuneration is determined by the Bank's Supervisory Board, on the basis of the function, size and complexity of the organisation managed. The proportion of the performance-based remuneration may not exceed 100% of the basic remuneration in the case of any individual concerned.

The ratio of performance-based remuneration to total remuneration, depending on the function performed by the manager concerned, may vary within the bands set in accordance with the following, with the proviso that in the case of managers performing a control function, the share of the performance-based remuneration approaches the lower value of the band:

- In the case of persons exercising a material impact on the Bank's risk profile at consolidated level, the share of the performance-based remuneration is set at between 40 and 50%.
- In the case of persons exercising a material impact on the Bank's risk profile at sub-consolidated level, the share of the performance-based remuneration is set at between 30 and 50%.
- In the case of persons exercising a material impact on the Bank's risk profile at local level, the share of the performance-based remuneration is set at between 30 and 40%.

5. The method of performance assessment linked to performance-based remuneration

In the case of **managers employed by OTP Bank Plc.**, performance is assessed on the basis of criteria that measure performance at the bank-group and at the individual level (financial indices and indices measuring the quality of work).

In the case of the **managers of the Bank Group's subsidiaries**, performance is assessed on a differential basis, in view of the nature of the companies' respective activities.

Bank Group-level performance is, based on the decision of the Supervisory Board, assessed by applying the group-level RORAC indicator or the group-level Economic Value Added (EVA) indicator.[1]

The group-level RORAC indicator measures the return on risk-adjusted capital, while the EVA indicator measures the bank group's nominal value added as the difference between the profit generated by the group and the expected yield on the regulatory capital necessary for this.

[1] This indicator is calculated based on the figures of the Hungarian and foreign companies operating as group members that belonged to the circle of consolidated subsidiaries throughout the entire assessed financial year.

The target value of the bank group-level indicator chosen for evaluating performance is determined by the Bank's Supervisory Board based on the approved financial plan for the given year. The Supervisory Board may modify the target value in response to statutory changes implemented after the determination thereof and/or changes in market circumstances that have a significant objective effect on the Bank Group's profit and/or the achievement of the target values set.

6. Determining entitlement to performance-based remuneration

The decision regarding the maximum amount that may be spent on performance-based remuneration in respect of the assessed year, taking the Bank Group's performance into account, is made by the Supervisory Board within 45 days following the annual General Meeting closing the year in question.

Eligibility for performance-based remuneration, and the extent of the annual award are determined, proportionately with fulfilment of the corporate and individual targets,

- by the Board of Directors on the basis of a proposal by the Remuneration Committee in the case of the Chairman & CEO of OTP Bank Plc.,
- by the manager exercising employer's rights in the case of managers employed by the Bank, with the proviso that in respect of the heads of Risk Management, Internal Audit and Compliance the Remuneration Committee shall have the right of joint decision-making,
- by the body that exercises ownership rights in the case of managers of subsidiaries in the Bank Group,
- by the manager exercising employer's rights in the case of the Bank Group's managers employed at the subsidiaries

with due consideration to any restrictive decision by the Supervisory Board.

7. Principles and rules relating to the payment of performance-based remuneration

7.1. Basic principles

- When assessing the performance of the year evaluated (year T), the amount of performance-based remuneration is determined and broken down to the level of individuals. The amount of performance-based remuneration is determined on the basis of an evaluation of individual performance as well as of the ratio of basic and performance-based remuneration.
- For persons exercising a material impact on the risk profile at consolidated level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus and, depending on whether the beneficiary chooses it, a share award, granted at a discounted price, with the proviso that the proportion of shares within the performance-based remuneration is at least 50%.

- For persons employed at the subsidiaries who exercise a material impact on the risk profile at sub-consolidated level or local level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus plus a cash payment of an amount equivalent to that which the beneficiary would have received had he or she been paid in shares, with the proviso that the method of calculating the nominal value of such award is approved by an independent expert. This latter form of award must account for at least 50% of the performance-based remuneration. If the application of the latter form of award is not possible at a particular foreign subsidiary due to a provision of local law, the subsidiary, if it has its registered office in the area of the European Union, is entitled to substitute this with the provision of some other asset consistent with the stipulations of Commission Delegated Regulation (EU) No 517/2014. In the case of subsidiaries that have their registered office outside the area of the European Union, if a stipulation of local law does not allow the provision of such award, the performance-based remuneration may be paid entirely in cash.
- For persons participating in the share award, the share-based portion of the variable remuneration shall be provided to them by OTP Bank Plc.
- As a general rule, for persons exercising a material impact on the risk profile at consolidated level, 60% of the performance-based remuneration is deferred, while for persons exercising a material impact on the risk profile at sub-consolidated and local level, 40% of such remuneration is deferred.
- The period of the deferment is at least 3 years – and in the case of the Chairman & CEO and the deputy CEOs of OTP Bank Plc., 4 years – during which period the amount of the deferred payment is set annually, in equal proportions.
- Eligibility to receive such deferred instalments is determined through a retrospective assessment of risks. Risks are assessed partly on the basis of criteria for evaluating prudent operation, i.e. capital must remain above the minimum regulatory capital requirement specified by law, and operations should be conducted without having to resort to the deposit insurance fund, and, secondly, the assessment is linked to the activity of the persons concerned. Based on the assessment of risks related to the activity of the persons concerned, the deferred instalment may be reduced or withdrawn in the event of a material breach of the internal rules, with particular regard to the provisions relating to risk management.
- Entitlement to the deferred instalments is linked to the subsequent assessment of risks, and is subject to the person’s still being employed at the company at the time that the deferred instalment is due for payment. Exceptions to the above may only be validly authorised in respect of the executive directors (Chairman & CEO, deputy CEOs) by OTP Bank’s Supervisory Board; in the case of exceptional performance, and in respect of managers employed at the Bank and managers of the subsidiaries, exceptions are permitted based on a decision of the Chairman & CEO of OTP Bank Plc.

7.2 Settlement rules

- Settlement of the due instalments of performance-based remuneration takes place by 30 June in the year following the assessed period, at the latest.
- The number of shares that may be used for the settlement of performance-based remuneration taking the form of shares, broken down to individuals, must be determined as the quotient of the amount of performance-based remuneration taking the form of shares, and the share price determined by the Supervisory Board.
- The share price to be taken into account when determining the number of shares is set by the Supervisory Board on the basis of the average daily quoted price of the ordinary shares issued by OTP Bank, as registered by the Budapest Stock Exchange, on the three business days preceding the date of the Supervisory Board's decision made within the 10 days preceding settlement of the performance-based remuneration.
- Concurrently with this, the specific terms and conditions of the discounted share award are also determined, with the proviso that the share allowance granted at a discounted price may contain a maximum discount of HUF 2,000 at the time of performance assessment, and the profit content per share may be a maximum of HUF 4,000 at the time of vesting the share award.
- The Bank's Board of Directors, in the interest of managing shares acquirable in the framework of the remuneration policy, has decided to establish an ESOP entity. In the course of implementing the remuneration policy, shares or bonds issued by OTP Bank Plc. as founder and that constitute coverage for payment of an award to which the beneficiary is entitled as part of his or her performance-based remuneration, may be handed over to the ESOP entity, or may be purchased, or subscribed to, by the ESOP entity using funds provided to it by the Bank or one of its subsidiaries. Through the handing over of these securities to the ESOP entity, or through the purchase of, or subscription to them by the ESOP entity, the beneficiary concerned shall acquire a member's share in the ESOP entity. The member's share in the ESOP entity is not a negotiable instrument; it may not be encumbered or pledged as collateral, and it only assures payment of the award to the individual if the conditions prescribed in the remuneration policy (result of performance assessment, retrospective assessment of risks) are fulfilled. Any share of a member who does not meet the conditions for the award shall revert to the Bank or to the Bank's subsidiary that employs the individual concerned.
- The detailed terms of performance-based remuneration awards granted through an ESOP entity may – within the constraints of the Remuneration Guidelines – be set by the Supervisory Board, with the proviso that participation of the beneficiaries in the ESOP entity, and thus the settlement of the performance-based remuneration through the ESOP entity, may only take place on the basis of the beneficiaries' voluntary decision.

The Supervisory Board of OTP Bank Plc., with the exception of matters placed under the authority of the General Meeting by law – and subject to an obligation to subsequently inform the owners – is authorised to amend the Bank Group's Remuneration Policy.

RESOLUTION PROPOSAL No. 9/2017

The Annual General Meeting in line with the annex of the minutes of the meeting approves the remuneration principles of OTP Bank Plc. and simultaneously empowers the Supervisory Board of the Company to define the rules of the bank group's remuneration policy in detail in line with the remuneration principles.

The Annual General Meeting approves the settlement of the performance based remuneration of 2016 via the ESOP organization founded by the Company in respect of the affected personal scope, in line with the principles and rules of the remuneration policy of the bank group, as approved by the present Annual General Meeting.

DETERMINATION OF THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS, THE SUPERVISORY BOARD AND THE AUDIT COMMITTEE

The remuneration of the members of OTP Bank's **Board of Directors**, **Supervisory Board** and the **Audit Committee** is **determined by the General Meeting**.

The present remuneration of members of the governing bodies was determined by the General Meeting in its resolution 9/2016. The honorarium of the members of the Board of Directors consists of a fixed remuneration settled monthly in Hungarian forint, and ordinary shares of OTP Bank Plc.. The monthly honorarium of the members of Supervisory Board consists of a fixed-amount remuneration settled in Hungarian forint. The members of Audit Committee do not receive any remuneration.

Fundamental component within the remuneration of the members of the Board of Directors is the share-based compensation, which ensures that the members have a long-term interest in implementing OTP Bank's strategic interest, increasing the share price and harmonising the interests of the governing body and the shareholders.

Considering the increase in the value of honorarium provided in the form of ordinary shares, it is advised to **keep the amount of the monthly honorarium of the Board of Directors' members** as set forth in resolution No 9/2016 of the General Meeting.

Considering the **honorarium of the member of the Supervisory Board** the current regime based on fixed monthly remuneration is proposed to be maintained, however, with regard to the increasing duties and responsibilities, **it is proposed to increase the amount of honorarium**.

The Remuneration Committee proposes the following figures for the honorarium of the members of the Supervisory Board:

	Proposed honorarium
	Monthly, gross (HUF)
Chairman of the Supervisory Board	2,400,000
Deputy chairman of the Supervisory Board	1,900,000
Members of the Supervisory Board	1,700,000

In the case of the **Audit Committee** – given the fact that its members are also members of the Supervisory Board – no **remuneration is proposed.**

RESOLUTION PROPOSAL No. 10/2017

The Annual General Meeting does not modify the honorarium of the members of the Board of Directors as determined in resolution No. 9/2016 of the Annual General Meeting, and sets out the monthly remuneration of the members of the Supervisory Board starting from 12th of April, 2017 as follows:

Chairman of the Supervisory Board	*HUF 2,400,000*
Deputy Chairman of the Supervisory Board	*HUF 1,900,000*
Members of the Supervisory Board	*HUF 1,700,000*

The members of the Audit Committee are not to receive any remuneration.

AUTHORIZATION OF THE BOARD OF DIRECTORS TO ACQUIRE THE COMPANY'S OWN SHARES

AUTHORIZATION OF THE BOARD OF DIRECTORS TO ACQUIRE THE COMPANY'S OWN SHARES

Pursuant to both the Civil Code and section 8.33, subsection 13 of the Company's Articles of Association, the General Meeting has the power to authorise the Board of Directors to acquire treasury shares.

The General Meeting of 2016, in its resolution no. 10/2016, authorised the Board of Directors to acquire treasury shares. This authorisation expires on 15 October 2017; however, the authorisation may be reissued.

This authorisation is provided by the resolution constituting the subject matter of this proposal. The authorisation, in accordance with the statutory requirements, is subject to limitations of time and extent, which are specified in the resolution. Pursuant to the provisions of the Civil Code, the authorisation of the Board of Directors is valid for 18 months, and the number of treasury shares acquirable by the Company may not exceed an extent equivalent to 25 per cent of the share capital.

The purpose of the authorisation is for the Board of Directors to acquire treasury shares in the interests of

(i) supplying the shares necessary for the management incentives system that is in place at the Company,
(ii) creating an opportunity for rapid intervention in the event of share price fluctuation,
(iii) developing and maintaining the Company's services provided to its customers, and
(iv) implementing transactions related to the optimisation of the Company's capital.

The authorisation of the General Meeting is necessary, but not in itself sufficient, prerequisite for the execution of treasury-share purchases. This is because under EU rules[1] relating to the purchase of treasury shares every treasury-share purchase transaction needs to be authorised by the National Bank of Hungary ("MNB"), either for each purchase individually or – if this is legally possible – based on a limit-type authorisation ("Permission of MNB").

The Bank has the necessary Permissions of MNB: (i) in order to ensure the payments as part of the remuneration policy for 2,000,000 pieces stock limit and (iii) for BUX ETF investment units moreover for handling the risks arising from transactions on the BUX Futures for 1,250,000 pieces stock limit. However, our permission to purchase shares for strategic purposes expired on 16 October 2016 and we did not request the extension of it but this is possible at any time.

Based on the authorisation granted by the General Meeting and on the permission of the MNB, the share transactions may be concluded on the regulated market (the stock exchange), or outside of such market (OTC-transaction). To prevent the simultaneous existence of two authorisations, the authorisation set forth in General Meeting resolution no. 10/2016 shall lose its effect upon the passing of the proposed resolution. The Company publishes data relating to treasury shares and to the transactions that involve such shares in accordance with the effective statutory provisions.

[1] Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR), and Commission Delegated Regulation (EU) No 241/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions

RESOLUTION PROPOSAL No. 11/2017

The Annual General Meeting hereby authorizes the Board of Directors to acquire own shares for the purpose of supplying the shares necessary for the management incentives system that is in operation at OTP Bank Plc., creating the opportunity for rapid intervention in the event of share price fluctuations, developing and maintaining the services provided to customers, and executing transactions related to optimization of the Company's capital.

The Board of Directors is authorized to acquire a maximum of as many ordinary shares with a nominal value of HUF 100 that is one hundred forints, as ensures that the portfolio of own shares, in respect of the measure stipulated in the frame-permissions of the Magyar Nemzeti Bank, does not exceed 70,000,000 shares at any moment in time.

Should the acquisition of shares take place in a reciprocal transaction, then the consideration applied in such transaction may be a minimum of the share's nominal value, and a maximum of 150% of the highest price recorded on the Budapest Stock Exchange on the day preceding conclusion of the transaction, or, in the case of a stock-exchange transaction, 120% of the closing price recorded on the Budapest Stock Exchange on the day preceding conclusion of the transaction. The Board of Directors may exercise its rights set forth in this mandate until 12 October 2018. The mandate set forth in Annual General Meeting resolution 10/2016 shall lose its effect upon the passing of this resolution.