

**OTP MORTGAGE BANK LTD.**

*SEPARATE FINANCIAL STATEMENTS IN  
ACCORDANCE WITH INTERNATIONAL  
FINANCIAL REPORTING STANDARDS AS  
ADOPTED BY THE EUROPEAN UNION AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2016*

*Translation of the Hungarian original*

## INDEPENDENT AUDITOR'S REPORT

To the Owner of OTP Jelzálogbank Zrt.

### ***Opinion***

We have audited the separate financial statements of OTP Jelzálogbank Zrt. (the „Bank”) for the year 2016 which comprise the separate statement of financial position as at December 31, 2016 - which shows a total assets of thHUF 982,860 -, and the related separate statement of recognized income, separate statement of other comprehensive income - which shows a net profit for the year of thHUF 22,125 -, separate statement of changes in shareholders' equity and separate statement of cash flows for the year then ended and separate notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the OTP Jelzálogbank Zrt. 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 separate 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 separate 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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
<b>Impairment of the loan receivables</b>	
<p>(See Sections 7 and 23.1 of the Notes to the Separate Financial Statements for the details)</p> <p>The net value of loans to customers in an amount of HUF 962,344 million comprise 97,9% of the separate total assets (gross book value of HUF 971,173 million), the relevant impairment charge recorded in the current year was HUF 992 million. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management in case of the application of portfolio based collective impairment models. The most significant assumptions applied in provisioning calculation are the followings:</p> <ul style="list-style-type: none"> <li>- historic loss data</li> <li>- valuation of collaterals</li> <li>- estimated time to realise collaterals</li> <li>- probability of default.</li> </ul> <p>Based on the significance of the above described circumstances the calculation of impairment of loans was identified as a key audit matter.</p>	<p>The relevant audit procedures performed by us included the followings:</p> <ul style="list-style-type: none"> <li>- evaluating internal controls relating to monitoring of loans and calculating and recording of impairment,</li> <li>- 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.</li> </ul>

***Other information***

Management is responsible for the other information. Other information comprises the annual report, which is expected to be made available to us after the date of our auditors` report, but does not include the separate financial statements and our auditor`s report thereon. Our opinion on the separate financial statements provided in the section of our report entitled "Opinion" does not apply to the other information, so we shall not express any opinion including any type of assurance in this regard.

Our responsibility in connection with our audit of the separate financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the annual report, if we might 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 separate financial statements***

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

In preparing the separate 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 separate financial statements***

Our objectives during the audit are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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 separate 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 9, 2017

*(The original Hungarian version has been signed.)*

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Registration number: 000083

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Statutory registered auditor  
Registration number: 007119

**OTP MORTGAGE BANK LTD.  
SEPARATE FINANCIAL STATEMENTS**

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**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016**  
(in HUF million)

	Note	2016	2015
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	18	42
Placements with other banks	5.	2,580	70,590
Securities available-for-sale	6.	11,728	11,657
Loans, net of allowances for loan losses	7.	962,344	979,893
Investments in subsidiaries, associates and other investments	8.	1,206	-
Property and equipment	9.	5	14
Intangible assets	9.	143	166
Other assets	10.	<u>4,836</u>	<u>27,803</u>
<b>TOTAL ASSETS</b>		<b><u>982,860</u></b>	<b><u>1,090,165</u></b>
Amounts due to OTP Bank and other banks	11.	527,235	271,508
Liabilities from issued securities	12.	372,422	708,261
Other liabilities	13.	4,726	24,169
Subordinated bonds and loans	14.	<u>4,876</u>	<u>4,404</u>
<b>TOTAL LIABILITIES</b>		<b><u>909,259</u></b>	<b><u>1,008,342</u></b>
Share capital	15.	27,000	27,000
Retained earnings and reserves	16.	<u>46,601</u>	<u>54,823</u>
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b><u>73,601</u></b>	<b><u>81,823</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b><u>982,860</u></b>	<b><u>1,090,165</u></b>

Budapest, 9 March 2017



András Becsei  
Chief Executive Officer

**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF RECOGNIZED INCOME FOR THE YEAR ENDED**  
**31 DECEMBER 2016 (in HUF million)**

	Note	2016	2015
<i>Interest Income:</i>			
Loans		45,489	48,601
Placements with other banks		4,545	14,616
Amounts due from banks and balances with the National Bank of Hungary		-	-
Interest subsidy on housing loans financed by mortgage bonds		19,940	23,711
Securities available-for-sale		<u>289</u>	<u>165</u>
<b>Total Interest Income</b>		<b><u>70,263</u></b>	<b><u>87,093</u></b>
<i>Interest Expense:</i>			
Amounts due to OTP Bank and other banks		10,717	19,488
Deposits from customers		-	-
Liabilities from issued securities		25,251	45,504
Subordinated bonds and loans		<u>137</u>	<u>139</u>
<b>Total Interest Expense</b>		<b><u>36,105</u></b>	<b><u>65,131</u></b>
<b>NET INTEREST INCOME</b>		<b>34,158</b>	<b>21,962</b>
Provision for impairment on loan and placement losses	7.	992	1,870
<b>NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES</b>		<b>35,150</b>	<b>20,092</b>
Income from fees and commissions	18.	2,180	1,893
Expenses from fees and commissions	18.	<u>(3,090)</u>	<u>(2,535)</u>
<b>Net fees and commissions</b>		<b><u>(910)</u></b>	<b><u>(642)</u></b>
Foreign exchange gains/(losses), net		72	(1,004)
(Losses)/Gains on securities available-for-sale, net		(184)	-
Other operating (loss)/income, net <i>from this: provision on contingent liabilities due to regulations related to customer loans</i>		(3,164)	13,452
		<u>-</u>	<u>102,717</u>
<b>Net operating (loss) / income</b>		<b><u>(3,276)</u></b>	<b><u>12,448</u></b>
Personnel expenses		474	539
Depreciation and amortization		107	110
Other administrative expenses	19.	<u>7,525</u>	<u>12,643</u>
<b>Other administrative expenses</b>		<b><u>8,106</u></b>	<b><u>13,292</u></b>
<b>PROFIT BEFORE INCOME TAX</b>		<b>22,858</b>	<b>18,606</b>
Income tax	21.	<u>733</u>	<u>(206)</u>
<b>PROFIT FOR THE YEAR</b>		<b><u>22,125</u></b>	<b><u>18,812</u></b>
Earnings per share (in HUF)			
Basic and diluted	22	<u>81,944</u>	<u>69,674</u>



**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31**  
**DECEMBER 2016 (in HUF million)**

	Note	2016	2015
<b>PROFIT FOR THE YEAR</b>		<u>22,125</u>	<u>18,812</u>
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Fair value adjustment of securities available-for-sale	6.	703	(267)
Deferred tax related to items of other comprehensive income		<u>(90)</u>	<u>51</u>
<b>Other comprehensive income, net of income tax</b>		<u>613</u>	<u>(216)</u>
<b>NET COMPREHENSIVE INCOME</b>		<u>22,738</u>	<u>18,596</u>

**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016 (in HUF million)**

	Note	2016	2015
<b>OPERATING ACTIVITIES</b>			
<b>Profit before income tax</b>		<b>22,858</b>	<b>18,606</b>
Depreciation and amortization	9.	107	110
Provision for impairment on loan and placement losses		992	1,870
(Release of provision)/provision for impairment on other assets	10.	(5)	4
Unrealised gains on fair value adjustment of derivative financial instruments		294	2,646
<i>Net changes in assets and liabilities in operating activities:</i>			
Net changes in financial assets through comprehensive income		-	502
Decrease in loans, net of allowances for loan losses	7.	16,557	119,684
Decrease in other assets before provisions for losses	10.	22,972	11,911
(Decrease) in other liabilities	13.	(40,300)	(70,826)
Income tax paid		<u>(1)</u>	<u>(42)</u>
<b>Net cash provided by operating activities</b>		<b><u>23,474</u></b>	<b><u>84,465</u></b>
Operational cash-flows from interest income		70,499	82,114
Operational cash-flows from interest expense		54,919	35,542
<b>INVESTING ACTIVITIES</b>			
Increase in placements with other banks	5.	(2,943,669)	(2,610,627)
Decrease in placements with other banks	5.	3,011,679	2,687,838
Purchase of securities available-for-sale		-	(11,924)
Proceeds from sale of securities available-for-sale	6.	632	-
Increase in investments in subsidiaries		(1,206)	-
Additions to property, equipment and intangible assets		(132)	(90)
Disposal to property, equipment and intangible assets		<u>57</u>	<u>1</u>
<b>Net cash provided by investing activities</b>		<b><u>67,361</u></b>	<b><u>65,198</u></b>
<b>FINANCING ACTIVITIES</b>			
Increase in amounts due to OTP Bank and other banks	11.	(856,394)	(1,535,901)
Decrease in amounts due to OTP Bank and other banks	11.	1,112,121	1,510,500
Cash received from issuance of securities		-	153,410
Cash used for repurchase and redemption of issued securities		(316,098)	(295,914)
Increase in subordinated bonds and loans	14.	611	566
Decrease in subordinated bonds and loans	14.	(139)	(137)
Dividend paid	16.	(30,960)	-
Capital contribution received from OTP Bank Plc. related to regulations of customer loans		<u>-</u>	<u>17,456</u>
<b>Net cash used in financing activities</b>		<b><u>(90,859)</u></b>	<b><u>(150,020)</u></b>

**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012**  
(in HUF million) [continued]

Net (decrease) in cash and cash equivalents	(24)	(357)
Cash and cash equivalents at the beginning of the year	<u>42</u>	<u>399</u>
Cash and cash equivalents at the end of the year	<u>18</u>	<u>42</u>
<i>Analysis of cash and cash equivalents opening and closing balance</i>		
Cash, amounts due from banks and balances with the National Bank of Hungary	<u>42</u>	<u>399</u>
<b>Cash and cash equivalents at the beginning of the year</b>	<u><b>42</b></u>	<u><b>399</b></u>
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	<u>42</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><b>18</b></u>	<u><b>42</b></u>

**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED**  
**31 DECEMBER 2016 (in HUF million)**

	Note	Share Capital	Retained earnings and reserves	Total
<b>Balance as at 1 January 2015</b>		<u>27,000</u>	<u>18,771</u>	<u>45,771</u>
Net profit for the year		-	18,812	18,812
Capital contribution		-	17,456	17,456
Other comprehensive income		-	(216)	(216)
<b>Balance as at 31 December 2015</b>	<u>16</u>	<u>27,000</u>	<u>54,823</u>	<u>81,823</u>
Dividend paid		-	(30,960)	(30,960)
Net profit for the year		-	22,125	22,125
Other comprehensive income		-	613	613
<b>Balance as at 31 December 2016</b>	<u>16</u>	<u>27,000</u>	<u>46,601</u>	<u>73,601</u>

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2016**

**NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS**

**1.1. General information**

OTP Bank Plc. ("OTP Bank") established OTP Mortgage Bank Ltd. ("OTP Mortgage Bank" or the "Bank") as a fully owned subsidiary on 15 May 2001. The State Financial Supervisory Authority issued the operating license on 10 January 2002, and the Bank commenced operations on 1 February 2002.

OTP Bank is the ultimate parent of the OTP Mortgage Bank, and also the ultimate parent of OTP Group.

These separate financial statements authorised for issue on 9 March 2017.

The Bank completed its publication in accordance with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, 575/2013/EU directive (CRR). OTP Mortgage Bank completed its publication with Separate Financial Statements prepared in accordance with IFRS jointly with OTP Bank Plc on the homepage of OTP Bank Plc (<http://www.otpbank.hu/>), on the homepage of the Bank (<http://www.otpjzb.hu>). Separate Financial Statements in accordance with IFRS as adopted by the EU is published on the homepage of the Bank, on the homepage Budapest Stock Exchange (<http://www.bet.hu>), furthermore on the website of the National Bank of Hungary ([www.kozzetetelek.hu](http://www.kozzetetelek.hu)).

The Bank's registered office address is Nádor u. 21, Budapest 1051.

The Bank is a specialized financial institution with its main business being governed by Act XXX of 1997 on Mortgage Lending Institutions and Mortgage Bonds.

The main activity of the Bank is financing of purchase, renovation and development of residential properties. The purchased portfolio consist of subsidised housing loans, mortgage loans denominated in foreign currency and free purpose mortgage loans, in addition granted housing and free purpose mortgage loan portfolio denominated HUF extends continuously too. The Bank provides presently HUF denominated subsidised and not subsidised housing and free purpose mortgage loans, and HUF denominated real estate development loans too.

The Bank employs limited staff at its head office and use approximately 367 branches of OTP Bank engaged in the housing loan business. Under syndication agreement between OTP Bank and OTP Mortgage Bank, OTP Bank provides services for OTP Mortgage Bank concerning the administration of the mortgage loans, for which fees are paid by OTP Mortgage Bank. Credit scoring and lending are performed at the branches of OTP Bank in accordance with the regulations of OTP Mortgage Bank. Loans are approved by OTP Mortgage Bank and OTP Bank acts for and on behalf of OTP Mortgage Bank during the conclusion of a loan agreement. The mortgage right, along with the restraint of transfer and encumbrance on property pledged to secure loans is entered in the property register for the benefit of OTP Mortgage Bank. Pledge of the mortgage bonds is the actual loans registered as normal collateral – collateralised by property inspector – and additional collateral values – prescribed by law – registered in the Bank's collateral register.

As the sole shareholder, OTP Bank provides financial and administrative support to the Bank. Additionally, any short-term liquidity gaps which may arise from the timing difference between the loan disbursements and issuance of mortgage backed securities are generally financed by OTP Bank Details of related party balances and transactions are summarised in Note 26 to these financial statements.

A significant proportion of mortgage loans are extended for periods for more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity (1-10 years). The remaining average maturity of the loan portfolio of the Bank is 10.3 year. The Bank is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

As at 31 December 2015 and 2016 the number and the average number of the employees at the Bank were 31 and 29 respectively.

**1.2. Base of Accounting**

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

OTP Mortgage Bank's functional currency is the Hungarian Forint ("HUF").

The accounting policies followed by the Bank in the preparation of these financial statements conform with International Financial Reporting Standards ("IFRS"). Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to OTP Mortgage Bank's Hungarian statutory accounts (see Note 30), in order to present the financial position and results of operations of OTP Mortgage Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB"), which are referred to as IFRS.

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2016**

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

**1.2. Base of Accounting [continued]**

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

**1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2016**

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (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 has not led to any material changes in the Entity’s accounting policies.

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

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

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

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

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

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2016**

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

**1.2. Base of Accounting [continued]**

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

The Bank 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 analysis of the business models and contractual cash flows on the Bank's significant portfolios have been performed to determine products and financial instruments that will be measured at 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 initially recognized.

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

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

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]**

**1.2. Base of Accounting [continued]**

**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).

Hedge accounting for the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU remains unregulated

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

The Group anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1. Basis of presentation**

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

The presentation of separate financial statements in conformity with IFRS requires management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities (see Note 3) as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.



**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.2. Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the financial statements. Income and expenses arising in foreign currencies are converted at the middle rate of exchange quoted by OTP Bank Plc. on the transaction date. Resulting foreign exchange gains or losses are recorded to the Separate Statement of Recognized Income.

**2.3. Consolidated financial statements**

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

**2.4. Investments in subsidiaries**

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

Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost.

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

**2.5. Securities and other financial assets**

The Bank classifies its financial assets into the following categories: fair value through profit or loss (either held for trading or assets initially classified as fair value through profit or loss), held-to-maturity and available-for-sale. Securities that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as securities held for trading. Investments in financial assets (other than those which meet the definition of loans and receivables) with fixed maturity that the management has the expressed intention and ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale.

The Bank had no securities classified as held for trading or held-to-maturity as at 31 December 2016 and 2015.

**2.5.1. Securities available-for-sale**

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognized in other comprehensive income, unless such available-for-sale security is part of an effective fair value hedge. Such gains and losses will be reported when realised in profit and loss for the applicable period. The provision for impairment is calculated based on discounted cash-flow methodology for debt instruments and calculated based on fair value on equity instruments, using the expected future cash-flow and original effective interest rate if there is objective evidence of impairment based on significant or prolonged decrease on fair value.

Interest received from available for sale securities are recognised as interest income in the Separate Statement of Recognized Income. Such securities consist of bonds issued by the NBH and the Hungarian Government as at 31 December 2016.

Available-for-sale securities are re-measured 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 any unquoted equity instruments are calculated using the EPS ratio.

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.5. Securities and other financial assets [continued]**

**2.5.2. Derivative financial instruments**

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost all of its open derivative transactions collateralised. In 2016 the Bank had no collateralised derivative transactions.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and included in the Separate Statement of Recognized Income for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

The Bank has certain swap and forward transactions, which are qualified as hedging instrument based on the Bank's risk management policy. However these financial instruments are not qualified as hedging instrument based on IAS 39, therefore the Bank qualified these derivative financial instruments as held for trading, and fair value adjustment is recognised directly in the Separate Statement of Recognized Income.

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

***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 contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts can be used by the Bank for risk management purposes. The Bank's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

***Foreign exchange swaps and interest rate swaps***

The Bank 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 consist of a prompt and one or more futures contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.5. Securities and other financial assets [continued]**

**2.5.2. Derivative financial instruments [continued]**

*Cross-currency interest rate swap*

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. Special types of these deals are 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.

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

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

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

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

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

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management policy, do not qualify for hedge accounting under the specific rules of IAS 39 (Recognition and Measurement) and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Separate Statement of Recognized Income.

**2.6. Offsetting**

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be reported in the statement of financial position on a net basis.

The Bank does not offset any financial assets and financial liabilities.

**2.7. 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 recognised in other comprehensive income.

The Bank has not had embedded derivatives in 2016 and in 2015.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2016**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

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

Loans and placements with other banks are presented 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 the Bank transfers the asset and the transfer qualifies for derecognition in accordance with IAS 39. Interest and amortised cost are accounted using effective interest rate method.

When a borrower is unable to meet payments as they fall due or, there is an indication that a borrower may be unable to meet payments as agreed all accrued unpaid interest is impaired.

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

Due to the composition of the loan portfolio, the Bank does not have loans which are individually significant. The impairment is recorded on portfolio basis based on the type of the loans, overdue days, historical probability of default and incurred losses.

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

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

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provisions for impairment on loan and placement losses" in the Separate Statement of Recognized Income. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income.

**2.9. Liabilities from issued securities**

Issued mortgage bonds are measured at amortized cost. The costs related to their issuance is included in the amortized cost of the issued securities and amortized over the term of the securities using effective interest method. Collateral of mortgage bonds are secured by the actual amount of loan receivables – involved by collateral inspector - and as required additional collateral – determined by law – registered in the Bank's collateral register.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.10. Property, equipment and intangible assets**

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

Intangible assets	
Software	33.3%
Property rights	33.3%
Property	6.0%
Office equipment and vehicles	14.5-33.3%

Depreciation and amortization on properties, equipment and intangible assets starts on the day when such assets are placed into service. At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

**2.11. Interest income and interest expense**

Interest income and expenses are recognised in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. The Bank recognises interest income when it assumes that the interest associated with the transaction will flow to the Bank and the amount of the revenue can be reasonably measured. All interest income and expense arising from loans, placements with other banks, securities available-for-sale and amounts due to OTP Bank and other banks, liabilities from issued securities, subordinated bonds and loans are presented under these lines of the financial statements. Any fees received or paid related to the origination of the loan are an integral part of the effective interest rate and revenue is recognized with the effective interest rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**2.12. Fees and Commissions**

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

**2.13. Income tax**

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

**2.14. Government subsidies**

The Bank receives subsidies from the Hungarian government designed to compensate for the difference between the amount of interest charged to the customer, such interest being capped by legislation, and the interest charge on the issued mortgage bonds. Such subsidies are calculated on a monthly basis, are applicable over the life of the loan and are recognized among interest income in the Separate Statement of Recognized Income in the period to which they relate.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2016**

**NOTE 2:       SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.15. Statement of Cash Flows**

For the purposes of reporting cash flows, cash and cash equivalents include cash, amounts due from banks and balances with the NBH. Cash flows from hedging activities are classified in the same category as the item being hedged.

**2.16. Segment reporting**

The Bank's main operation is mortgage lending to retail customers in Hungary, and the related value-appraisal services. Since the Bank has only one main product (mortgage loan) revenues from external customers are reported aggregately. The management believes that the Bank operates in a single business and geographical segment. The segment reporting is disclosed at consolidated level in the OTP Bank's consolidated financial statements. From 2011 the loan financing activity is widened with loan portfolio from OTP Bank Romania. The significant part of the total loan portfolio is from Hungary.

**2.17 Comparative figures**

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2016**

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

**3.1.     Impairment on loans and placements**

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

**3.2.     Valuation of instruments without direct quotations**

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

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

**3.3.     Provisions**

Provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 13)

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

Provision for off-balance sheet items includes provision for litigation and for commitments to extend credit.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 4: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF million)**

	2016	2015
Amounts due from banks and balances with the NBH:		
Within one year		
In HUF	8	40
In foreign currency	<u>10</u>	<u>2</u>
	<b><u>18</u></b>	<b><u>42</u></b>
<b>Total</b>	<b><u>18</u></b>	<b><u>42</u></b>
From this: amounts due from OTP Bank	18	27
Compulsory reserve	10	27
Rate of the compulsory reserve	2%	2%

The main amount of cash due from banks shows the balance of the nostro accounts placed at OTP Bank of HUF 18 million and HUF 42 million as at 31 December 2016 and 2015, respectively. The remaining amounts represent the balances of the Bank's clearing account placed at the NBH.

The Bank fulfilled the compulsory reserve requirement on an average monthly basis.

**NOTE 5: PLACEMENTS WITH OTHER BANKS (in HUF million)**

Within one year	<b>2016</b>	<b>2015</b>
in HUF	2,580	70,570
Total in foreign currency	<u>-</u>	<u>-</u>
	<b><u>2,580</u></b>	<b><u>70,570</u></b>
Accrued interest	-	20
<b>Total</b>	<b><u>2,580</u></b>	<b><u>70,590</u></b>
From this: amounts due from OTP Bank	2,580	70,590
Interest conditions on placements with other banks	<b>2016</b>	<b>2015</b>
in HUF	0.03%	0.10%-1.35%
in foreign currency	0.34%-3.15%	-
Average interest of placements with other banks	<b>2016</b>	<b>2015</b>
in HUF	1.07%	1.73%
in CHF	-	0.71%



**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2016**

**NOTE 6: SECURITIES AVAILABLE-FOR-SALE (in HUF million)**

	2016	2015
Hungarian government bonds	<u>11,390</u>	<u>11,320</u>
	<b><u>11,390</u></b>	<b><u>11,320</u></b>
Accrued interest	338	337
<b>Total</b>	<b><u>11,728</u></b>	<b><u>11,657</u></b>

The whole portfolio was denominated in HUF as at 31 December 2016.

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

	2016	2015
Over one year, fixed interest	11,390	11,320
Interest conditions of securities available for sale	6.5%	6.5%

The valuation of the securities available-for-sale was as follows as at 31 December 2016:

	2016	Fair value
	<b>Cost</b>	
Hungarian government bonds	<u>10,954</u>	<u>11,390</u>
<b>Total</b>	<b><u>10,954</u></b>	<b><u>11,390</u></b>

The valuation of the securities available-for-sale was as follows as at 31 December 2015:

	2015	Fair value
	<b>Cost</b>	
Hungarian government bonds	<u>11,587</u>	<u>11,320</u>
<b>Total</b>	<b><u>11,587</u></b>	<b><u>11,320</u></b>

**NOTE 7: LOANS, NET OF ALLOWANCES FOR LOAN LOSSES (in HUF million)**

	2016	2015
Short-term loans (within one year)		
in HUF	52,702	49,271
in CHF	6	7
in EUR	4	2
in JPY	2	-
in foreign currency total	<u>12</u>	<u>9</u>
	<b><u>52,714</u></b>	<b><u>49,280</u></b>
Long-term loans (over one year)		
in HUF	917,542	950,238
in CHF	38	100
in EUR	296	361
in JPY	<u>553</u>	<u>627</u>
in foreign currency total	<u>887</u>	<u>1,088</u>
	<b><u>918,429</u></b>	<b><u>951,326</u></b>
<b>Loans Gross Total</b>	<b><u>971,143</u></b>	<b><u>1,000,606</u></b>
Provision for impairment	(14,235)	(25,894)
Accrued interest	5,436	5,181
<b>Total</b>	<b><u>962,344</u></b>	<b><u>979,893</u></b>

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**NOTE 7: LOANS, NET OF ALLOWANCES FOR LOAN LOSSES (in HUF million) [continued]**

A significant part of the loans above are mortgage loans for housing or free purposes. The loans have collateral notified in the public property register in favour of OTP Mortgage Bank. Such loans and their collateral are included in the Bank's register and mortgage bonds can be issued up to this registered amount. The remaining parts of the loans are real estate development loans given to individual farmers that work in the agro-industry. Real estate and arable land can be accepted as collateral of these loans.

Interest conditions on loans, net of allowance for loan losses:

	<b>2016</b>	<b>2015</b>
Loans denominated in HUF with the maturity over one year	0.54%-18.15%	3.71%-12.42%
Average interest rate of mortgage loans denominated in foreign currency for housing purposes		
CHF	7.02%	6.71%
EUR	7.54%	7.54%
JPY	4.76%	3.87%
Average interest rate of mortgage loans denominated in foreign currency for free purposes		
CHF	6.99%	7.49%
EUR	7.16%	5.86%
JPY	4.87%	4.78%
Average interest rate of real estate development loans		
HUF	8.02%	9.29%
EUR	6.18%	6.37%

OTP Mortgage Bank Ltd. only provides loans with the original maturity over one year.

An analysis of the loan portfolio by type, before allowances for loan losses, is as follows:

	<b>2016</b>		<b>2015</b>	
Mortgage loans	967,027	99.58%	996,469	99.59%
SME loans	2,383	0.25%	2,469	0.25%
Loans to medium and large corporates	<u>1,733</u>	<u>0.18%</u>	<u>1,668</u>	<u>0.16%</u>
<b>Total</b>	<b><u>971,143</u></b>	<b><u>100.00%</u></b>	<b><u>1,000,606</u></b>	<b><u>100.00%</u></b>

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

	<b>2016</b>	<b>2015</b>
<b>Balance as at 1 January</b>	<b>25,894</b>	<b>27,691</b>
Provision for the year	21,402	32,619
Release of provision	<u>(33,061)</u>	<u>(34,416)</u>
<b>Balance as at 31 December</b>	<b><u>14,235</u></b>	<b><u>25,894</u></b>

The Bank sells non-performing loans without recourse at estimated fair value to an OTP Group member, OTP Faktoring Ltd.

**NOTE 8: INVESTMENTS IN SUBSIDIARIES (in HUF million)**

	<b>2016</b>	<b>2015</b>
Investments in subsidiaries	<u>1,206</u>	—
<b>Total</b>	<b><u>1,206</u></b>	<b><u>—</u></b>

In December 2016 the Bank acquired 100% share in OTP Ingatlanpont Ltd., and then executed capital increase. The Bank's ownership was registered in January 2017 at the Registry Court.

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**NOTE 9: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS**  
(in HUF million)

For the year ended 31 December 2016

<u>Cost</u>	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
<b>Balance as at 1 January 2016</b>	<u>1,450</u>	=	<u>85</u>	=	<u>1,535</u>
Additions	129	-	3	-	132
Disposals	<u>(55)</u>	-	<u>(2)</u>	-	<u>(57)</u>
<b>Balance as at 31 December 2016</b>	<u>1,524</u>	=	<u>86</u>	=	<u>1,610</u>
<b><u>Accumulated Depreciation and Amortization</u></b>					
<b>Balance as at 1 January 2016</b>	<u>1,284</u>	=	<u>71</u>	=	<u>1,355</u>
Charge for the year	97	-	10	-	107
Disposals	-	-	-	-	-
<b>Balance as at 31 December 2016</b>	<u>1,381</u>	=	<u>81</u>	=	<u>1,462</u>
<b><u>Net book value</u></b>					
<b>Balance as at 1 January 2016</b>	<u>166</u>	=	<u>14</u>	=	<u>180</u>
<b>Balance as at 31 December 2016</b>	<u>143</u>	=	<u>5</u>	=	<u>148</u>

For the year ended 31 December 2015

<u>Cost</u>	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
<b>Balance as at 1 January 2015</b>	1,364	-	93	-	1,457
Additions	88	-	1	1	90
Disposals	<u>(2)</u>	-	<u>(9)</u>	<u>(1)</u>	<u>(12)</u>
<b>Balance as at 31 December 2015</b>	<u>1,450</u>	=	<u>85</u>	=	<u>1,535</u>
<b><u>Accumulated Depreciation and Amortization</u></b>					
<b>Balance as at 1 January 2015</b>	1,188	-	68	-	1,256
Charge for the year	99	-	11	-	110
Disposals	<u>(3)</u>	-	<u>(8)</u>	-	<u>(11)</u>
<b>Balance as at 31 December 2015</b>	<u>1,284</u>	=	<u>71</u>	=	<u>1,355</u>
<b><u>Net book value</u></b>					
<b>Balance as at 1 January 2015</b>	<u>176</u>	=	<u>25</u>	=	<u>201</u>
<b>Balance as at 31 December 2015</b>	<u>166</u>	=	<u>14</u>	=	<u>180</u>

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**NOTE 10: OTHER ASSETS (in HUF million)**

	<b>2016</b>	<b>2015</b>
Current income tax receivable	2,789	3,388
Trade receivables	1,105	1,747
Derivatives qualified for hedge accounting <sup>1</sup>	801	21,978
Prepayments and other assets	44	665
Receivables from the Hungarian Government	20	36
Other assets	<u>83</u>	<u>-</u>
	<b><u>4,842</u></b>	<b><u>27,814</u></b>
Provision for other assets	(6)	(11)
<b>Total</b>	<b><u>4,836</u></b>	<b><u>27,803</u></b>

Receivables from the Hungarian Government represent receivables from government subsidies on housing mortgage loans.

**NOTE 11: AMOUNTS DUE TO OTP BANK AND OTHER BANKS (in HUF million)**

	<b>2016</b>	<b>2015</b>
Within one year		
In HUF	513,877	258,085
In EUR	309	370
In JPY	530	607
In CHF	<u>40</u>	<u>90</u>
Total in foreign currency	<u>879</u>	<u>1,067</u>
	<b><u>514,756</u></b>	<b><u>259,152</u></b>
Over one year		
in HUF	<u>11,760</u>	<u>11,759</u>
	<b><u>526,516</u></b>	<b><u>270,911</u></b>
Accrued interest	719	597
<b>Total</b>	<b><u>527,235</u></b>	<b><u>271,508</u></b>
From this: amounts due to OTP Bank	527,235	270,911
Interest conditions on amounts due to OTP Bank and other banks		
	<b>2016</b>	<b>2015</b>
In HUF	0.90%-4.39%	1.24%-4.96%
In foreign currency	(0.05%)-3.15%	0.01%-3.15%

<sup>1</sup> For more details (including types of derivatives) see Note 29.

**OTP MORTGAGE BANK LTD.**  
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**NOTE 12: LIABILITIES FROM ISSUED SECURITIES (in HUF million)**

	<b>2016</b>	<b>2015</b>
Within one year:		
In HUF	-	156,011
In EUR	<u>155,797</u>	<u>156,560</u>
	<u><b>155,797</b></u>	<u><b>312,571</b></u>
Over one year		
In HUF	206,453	207,357
In EUR	-	<u>159,224</u>
	<u><b>206,453</b></u>	<u><b>366,581</b></u>
<b>Subtotal</b>	<b>362,250</b>	<b>679,152</b>
Accrued interest	<u>10,172</u>	<u>29,109</u>
<b>Total</b>	<u><b>372,422</b></u>	<u><b>708,261</b></u>
Issued mortgage bonds during the period (nominal value)	-	153,410
Mortgage bonds became due or repurchased during the period (nominal value)	156,011	269,184
Interest conditions on issued securities		
	<b>2016</b>	<b>2015</b>
In HUF	9.00% - 11.00%	7.50% - 11.00%
In foreign currency	0.34%	0.59% - 1.85%
A reconciliation of the face value and the amortized cost is as follows:		
	<b>2016</b>	<b>2015</b>
Nominal value of the issued securities	354,760	668,381
Unamortized premiums	7,200	8,096
Fair value hedge adjustment	<u>290</u>	<u>2,675</u>
<b>Amortized cost</b>	<u><b>362,250</b></u>	<u><b>679,152</b></u>

Face value and interest of mortgage bonds issued by OTP Mortgage Bank shall not exceed registered normal and additional collaterals (face value and interest). Mortgage Bank keeps record of loans, normal and additional collateral values which are shown separately. Independent property inspector monitors the availability of mortgage bond's collateral values in accordance with regulations, the registration of loans, and its pledges as collaterals as the normal collateral of the mortgage bonds, those property register data and the normal and additional collateral in the coverage register.

Issued securities became due in amount of HUF 151.3 million in February, HUF 4.7 billion in August, EUR 500 million and HUF 5.8 million in June in September. Mortgage bond was not issued in 2016.

Mortgage bonds were issued at Budapest Stock Exchange after the balance sheet date in amount of HUF 122.1 billion with fixed interest and 4 years maturity, in amount of HUF 40 billion with floating interest and 3 years maturity and in amount of HUF 30 billion with floating interest and 5 years maturity.

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**NOTE 12: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]**

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

Name	Date of issue	Maturity	Nominal value in HUF million	Interest condition in % p.a.	Hedged
OJB 2019/I	17/03/2004	18/03/2019	31,517	9.48% fixed	not hedged
OJB 2019/II	31/05/2011	18/03/2019	7,733	9.48% fixed	not hedged
OJB 2020/I	19/11/2004	12/11/2020	5,503	9.00% fixed	not hedged
OJB 2020/II	25/05/2011	12/11/2020	4,497	9.00% fixed	not hedged
OJB 2025/I	31/07/2009	31/07/2025	150,000	11.00% fixed	not hedged
<b>Total issued securities in HUF</b>			<b><u>199,250</u></b>		
Unamortized premium			7,203		
Fair value hedge adjustment			-		
<b>Total issued securities in HUF</b>			<b><u>206,453</u></b>		
Accrued interest			9,973		
<b>Total in HUF</b>			<b><u>216,426</u></b>		

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

Name	Date of issue	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest condition in % p.a.	Hedged
OMB 2017/I	29/01/2015	28/07/2017	EUR	500	155,510	0.34% floating	hedged
<b>Total issued securities in FX</b>					<b><u>155,510</u></b>		
Unamortized discount					(3)		
Fair value hedge adjustment					290		
<b>Total issued securities in FX</b>					<b><u>155,797</u></b>		
Accrued interest					199		
<b>Total in FX</b>					<b><u>155,996</u></b>		
<b>Total</b>					<b><u>372,422</u></b>		

The EUR denominated mortgage bonds are being hedged in fair value hedge relationship. See Note 29 for further details of hedge accounting.

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**NOTE 13: OTHER LIABILITIES (in HUF million)**

	2016	2015
Accrued services	975	742
Deferred tax liabilities	832	10
Accounts payable	664	1,029
Provision for impairment off-balance sheet commitments and contingent liabilities	619	3,176
<i>from this:</i> on contingent liabilities due to regulations related to customer loans	-	2,069
Current income tax payable	605	553
Fair value of derivative financial instruments designated as fair value hedge <sup>1</sup>	-	17,771
Liabilities to customers	-	831
Salaries and social security payable	29	9
Other	<u>1,002</u>	<u>48</u>
<b>Total</b>	<b><u>4,726</u></b>	<b><u>24,169</u></b>

**NOTE 14: SUBORDINATED BONDS AND LOANS (in HUF million)**

	2016	2015
With the maturity over one year denominated in CHF	4,876	4,404

On 30 January 2009, OTP Bank provided CHF 15 million subordinated loan to the Bank with the maturity of 8 years. The loan is due at 30 January 2017. The interest of the loan is 3 month CHF LIBOR + 3.88%.

The CHF denominated subordinated loan is being hedged in fair value relationship. See Note 29 for further details of hedge accounting.

The Bank repaid the subordinated loan at maturity date. Cross-currency foreign exchange swap as hedging instrument related to the subordinated loan was terminated at the same time.

**NOTE 15: SHARE CAPITAL (in HUF million)**

All shares are ordinary shares with a nominal value of HUF 100 thousand and are authorised and fully paid.

	2016	2015
Share capital (in HUF million)	<u>27,000</u>	<u>27,000</u>

**NOTE 16: RETAINED EARNINGS AND RESERVES (in HUF million)**

	2016	2015
<b>Balance as at 1 January</b>	<b>54,823</b>	<b>18,771</b>
Dividend paid	(30,960)	-
Net income after income taxes	22,125	18,812
Capital contributions from OTP Bank Plc. related to regulations of customer loans	-	17,456
Other comprehensive income	<u>613</u>	<u>(216)</u>
<b>Balance as at 31 December</b>	<b><u>46,601</u></b>	<b><u>54,823</u></b>

<sup>1</sup> For more details (including types of derivatives) see Note 29.

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**NOTE 16:      **RETAINED EARNINGS AND RESERVES (in HUF million) [continued]****

The Bank's retained earnings and reserves under IFRS were HUF 46,601 million and HUF 54,823 million as at 31 December 2016 and 2015 respectively. Retained earnings contain the net income after income taxes for the year ended 31 December 2016 HUF 22,125 million, the retained earnings from previous years HUF 24,079 million and reserves of securities available for sale HUF 397 million.

The Bank's reserves under Hungarian Accounting Standards ("HAS") were HUF 38,195 million and HUF 17,691 million as at 31 December 2016 and 2015 respectively. These amounts include general reserve amounting to HUF 2,050 million as at 31 December 2016.

Dividends are recognised in the period in which they are approved by the owners. In 2016 the Bank paid HUF 30,960 million dividend from the profit for the year 2015. Regarding to the net income for the year 2016 dividend is expected to be proposed by the management in amount of HUF 20,623 million.

**NOTE 17:      **INTEREST SUBSIDIES RELATED TO HOUSING LOANS****

During 2016 5 types of interest subsidised loans were among OTP Mortgage Bank's portfolio:

- (i) loans granted before 16 June 2003
- (ii) loans granted between 16 June 2003 and 22 December 2003
- (iii) loans granted between 22 December 2003 and 30 June 2009
- (iv) loans granted after 1 October 2009
- (v) loans granted after 2012

Interest subsidised loans fulfil the following conditions

- granted for purchase, building of new property, or purchase, renovation, enlargement of existing property
- for overdue loans-disbursed before 2012 to ensure smaller financial encumbrance for the debtors
- maximised interest rate
- interest subsidy fixed to the reference rate of the government bonds or to the reference rate of the issued mortgage bonds
- subsidy till the maturity of the loan, but maximum for 20 years, and loans granted after 2012 maximum for 5 years

Loans subsidised from the liability side (mortgage bond) were provided till 30 June 2009. After 1 October 2009 loans can be subsidised only from the asset side.

Relevant elements of the currently available interest subsidised loans:

- the applicants can be residents of Hungary or residents outside Hungary
- purpose of the loan:
  - o purchasing or building of new property
  - o purchasing or modernisation or enlargement of used property
  - o repurchase of properties managed by Nemzeti Eszközkezelő Zrt. ("NET Zrt.")
- in case of building or purchasing of property the building costs or the purchase price without the building plot price shall not exceed the amount of HUF 30 million, in case of purchase of used properties the amount of HUF 20 million, in case of modernisation or enlargement shall not exceed the costs the amount of HUF 15 million
- loan amount shall not exceed in case of new properties the amount of HUF 15 million, and in case of used properties the amount of HUF 10 million.

The interest subsidy is determined in the per cent of government bonds' yields depending on the purpose of the loan, and it can be granted as a maximum for 5 years.

- Families with two or three children can apply maximum HUF 10 million loan for building or purchasing of property, and interest payment subsidized by the State for the first 25 years of the term

Due to the strict conditions the loan demand remains moderate. Loans granted at the end of 2016 about HUF 7,710 million based on the conditions of 2009 and HUF 123,798 million based on conditions of 2012. Net closing amount of the loan with the conditions of 2009 was HUF 4,752 million and for the conditions of 2012 was HUF 109,506 million.



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**NOTE 18: NET LOSS FROM FEES AND COMMISSIONS (in HUF million)**

<b>Income from fees and commissions</b>	<b>2016</b>	<b>2015</b>
Fees and commissions relating to lending	1,876	1,627
Other	<u>304</u>	<u>266</u>
<b>Total</b>	<b><u>2,180</u></b>	<b><u>1,893</u></b>
<b>Expense from fees and commissions</b>	<b>2016</b>	<b>2015</b>
Fees and commissions relating to issued securities	95	139
Fees and commissions relating to lending	<u>2,995</u>	<u>2,396</u>
<b>Total</b>	<b><u>3,090</u></b>	<b><u>2,535</u></b>
<b>Net loss from fees and commissions</b>	<b><u>(910)</u></b>	<b><u>(642)</u></b>

The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance.

**NOTE 19: OTHER ADMINISTRATIVE EXPENSES (in HUF million)**

	<b>2016</b>	<b>2015</b>
Taxes, other than income tax:		
Bank tax	4,007	8,759
Credit institution's contribution	1,806	2,401
<i>from this: credit institution's contribution based on the escrow account loans</i>	-	209
Other taxes	<u>909</u>	<u>666</u>
Total taxes, other than income tax	6,722	11,826
Services	408	400
Professional fees	312	324
Rental fees	48	52
Material type expenses	21	21
Administration expenses	14	19
Advertising	<u>-</u>	<u>1</u>
<b>Total</b>	<b><u>7,525</u></b>	<b><u>12,643</u></b>

Taxes, other than income taxes are Credit institution's contribution that is payable by the Bank on HUF denominated loans having interest subsidy from the Hungarian government, bank tax and other local taxes. The total amount of the bank tax is HUF 4,007 million recognised as an expense thus decreased the corporate tax base.

**NOTE 20: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)**

	<b>2016</b>	<b>2015</b>
Key executives (Managing Director and Deputies)	44	54
<b>Total</b>	<b><u>44</u></b>	<b><u>54</u></b>

The remunerations of key management personnel include only short-term benefits.

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**NOTE 21: INCOME TAX (in HUF million)**

The Bank is presently liable for income tax at a rate of 19% of taxable income.

A reconciliation of the total income tax charge for the years ended 31 December 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
Current tax expense	1	42
Deferred tax expense /(benefit)	<u>732</u>	<u>(248)</u>
<b>Total income tax expense/(benefit)</b>	<b><u>733</u></b>	<b><u>(206)</u></b>

A reconciliation of the deferred tax liability as at 31 December 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
<b>Balance as at 1 January</b>	<b>(10)</b>	<b>(309)</b>
Recognized in other comprehensive income as tax (expense)/benefit	(90)	51
Deferred tax (expense)/benefit	<u>(732)</u>	<u>248</u>
<b>Balance as at 31 December</b>	<b><u>(832)</u></b>	<b><u>(10)</u></b>

A reconciliation of deferred tax assets and liabilities as at 31 December 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
Fair value adjustment of available-for-sale financial assets	-	51
Premium amortization for available-for-sale financial assets	56	-
Below market fair value adjustment in accordance with regulations related to customer loans	568	1,548
IBNR provision	139	-
Provisions	-	415
Refundable tax in accordance with Acts on Customer Loans	<u>-</u>	<u>754</u>
<b>Deferred tax assets</b>	<b><u>763</u></b>	<b><u>2,768</u></b>
Fair value adjustment for available-for-sale financial assets	(39)	-
Fair value adjustment of other derivative financial instrument	(6)	-
Effect of using effective interest rate method	(1,547)	(2,759)
Amortized cost of issued securities	(2)	(14)
Difference in depreciation and amortization	(1)	(5)
<b>Deferred tax liabilities</b>	<b><u>(1,595)</u></b>	<b><u>(2,778)</u></b>
<b>Net deferred tax liabilities</b>	<b><u>(832)</u></b>	<b><u>(10)</u></b>

A reconciliation of the effective tax rate as at 31 December 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
Profit before income tax	22,858	18,606
Income tax at statutory tax rate (19%)	4,343	3,535
<i>Income tax adjustments due to permanent differences are as follows:</i>		
Permanent differences due to local tax	(5,246)	-
Losses related to Acts on Customer Loans	-	(2,313)
Tax refund in accordance with Acts on Customer Loans	755	(755)
Capital contribution	-	393
Effect of changes in the applicable tax rate	881	-
Other permanent differences	<u>-</u>	<u>(1,066)</u>
<b>Income tax</b>	<b><u>733</u></b>	<b><u>(206)</u></b>
Effective tax-rate	3.21%	(1.11%)

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**NOTE 22: EARNINGS PER SHARE**

Earnings per share attributable to ordinary shares are determined by dividing Net profit for the year by the weighted average number of ordinary shares outstanding during the period. The Bank has no preference shares and no options or other rights related to shares.

	<b>2016</b>	<b>2015</b>
Net profit for the year (in HUF million)	22,125	18,812
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	<u>270,000</u>	<u>270,000</u>
<b>EPS (in HUF) basic and diluted</b>	<b><u>81,944</u></b>	<b><u>69,674</u></b>

**NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million)**

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

Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include<sup>1</sup>:

**23.1. Credit risk**

The Bank takes on exposure to credit risk, which is the risk that the counter-party will be unable to pay amounts in full when due. The risk of the mortgage lending activity is controlled and the safety is enhanced by the legal environment, which provides that loans can only be extended against a specific collateral of real property and with certain legal assurances.

In the treasury activity the Bank structures the levels of credit risk it undertakes by placing limits to each counter-party. Actual exposures against limits are monitored daily.

**Analysis by loan types**

An analysis of the gross loan portfolio by loan types and DPD classes is as follows. The table consists of only on-balance sheet items.

**As at 31 December 2016**

Loan type	DPD 0-90	DPD 90-360	DPD 360+	Total carrying amount /allowance
Placements with other banks	2,580	-	-	2,580
Loans to medium and large corporates	1,722	11	-	1,733
Retail loans	948,331	14,470	4,226	967,027
SME loans	2,378	5	-	2,383
<b>Gross loan portfolio total</b>	<b>955,011</b>	<b>14,486</b>	<b>4,226</b>	<b>973,723</b>
<i>Allowance Total</i>	<i>(7,757)</i>	<i>(4,753)</i>	<i>(1,725)</i>	<i>(14,235)</i>
<b>Net loan portfolio total</b>	<b>947,254</b>	<b>9,733</b>	<b>2,501</b>	<b>959,488</b>
 <b>Accrued interest</b>				
Placements with other banks				-
Loans				5,436
<b>Total accrued interest</b>				<b>5,436</b>
 <b>Total placements with other banks</b>				
				<b>2,580</b>
<b>Total loans</b>				<b>976,579</b>
<i>Total allowance</i>				<i>(14,235)</i>
<b>Total</b>				<b>964,924</b>

<sup>1</sup> The management of liquidity risk related to financial instruments are shown in Note 28.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**23.1. Credit risk [continued]**

As at 31 December 2015

Loan type	DPD 0-90	DPD 90-360	DPD 360+	Total carrying amount /allowance
Placements with other banks	70,570	-	-	70,570
Loans to medium and large corporates	1,609	59	-	1,668
Retail loans	955,811	33,032	7,626	996,469
SME loans	2,462	7	-	2,469
<b>Gross loan portfolio total</b>	<b>1,030,452</b>	<b>33,098</b>	<b>7,626</b>	<b>1,071,176</b>
<i>Allowance Total</i>	<i>(10,165)</i>	<i>(12,595)</i>	<i>(3,134)</i>	<i>(25,894)</i>
<b>Net loan portfolio total</b>	<b>1,020,287</b>	<b>20,503</b>	<b>4,492</b>	<b>1,045,282</b>
<b>Accrued interest</b>				
Placements with other banks				20
Loans				5,181
<b>Total accrued interest</b>				<b>5,201</b>
<b>Total placements with other banks</b>				<b>70,590</b>
<b>Total loans</b>				<b>1,005,787</b>
<i>Total allowance</i>				<i>(25,894)</i>
<b>Total</b>				<b>1,050,483</b>

**Classification into risk classes**

**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 three classes were presented (A: 0-90 days past due - DPD, B: 91-360 DPD, C: over 360 days past due).

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

**Not impaired loan portfolio**

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

As at 31 December 2016

Loan type	Not past due	DPD 0-90	DPD 90-360	DPD 360+	Total
Loans to medium and large corporates	1,495	211	-	-	1,706
Placements with other banks	2,580	-	-	-	2,580
Retail loans	825,734	109,857	-	-	935,591
SME loans	<u>1,627</u>	<u>751</u>	<u>-</u>	<u>-</u>	<u>2,378</u>
<b>Total</b>	<b><u>831,436</u></b>	<b><u>110,819</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>942,255</u></b>

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**NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**23.1. Credit risk [continued]**

As at 31 December 2015

Loan type	Not past due	DPD 0-90	DPD 90-360	DPD 360+	Total
Loans to medium and large corporates	1,580	29	26	-	1,635
Placements with other banks	70,570	-	-	-	70,570
Retail loans	835,615	120,108	151	5	955,879
SME loans	<u>2,414</u>	<u>47</u>	<u>-</u>	<u>-</u>	<u>2,461</u>
<b>Total</b>	<b><u>910,179</u></b>	<b><u>120,184</u></b>	<b><u>177</u></b>	<b><u>5</u></b>	<b><u>1,030,545</u></b>

Not impaired loan portfolio decreased related to the prior period, outstanding balance of placements with other banks decreased. Not past due and past due composition changed insignificantly, the Bank had no DPD 90+ not impaired loan as at 31 December 2016.

**Collaterals**

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

Types of collateral	2016	2015
Government guarantees	69,992	84,507
Mortgage	<u>2,229,161</u>	<u>1,992,979</u>
<b>Total</b>	<b><u>2,299,153</u></b>	<b><u>2,077,486</u></b>

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

Types of collateral	2016	2015
Government guarantees	69,680	84,114
Mortgage	<u>861,757</u>	<u>859,689</u>
<b>Total</b>	<b><u>931,437</u></b>	<b><u>943,803</u></b>

**Non-qualified gross loan portfolio by countries**

	2016	2015
Hungary	971,023	1,000,460
Romania	<u>110</u>	<u>146</u>
<b>Total</b>	<b><u>971,143</u></b>	<b><u>1,000,606</u></b>

**Restructured loans**

	2016		2015	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	10,842	2,084	4,128	873
<b>Total</b>	<b>10,842</b>	<b>2,084</b>	<b>4,128</b>	<b>873</b>

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.

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

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**NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**23.1. Credit risk [continued]**

**Available-for-sale securities as at 31 December 2016**

		<b>Baa3</b>		<b>Not rated</b>		<b>Total</b>
Hungarian government bonds	11,390	100.00%	-	0.00%		11,390
<b>Total</b>	<b>11,390</b>	<b>100.00%</b>	<b>-</b>	<b>0.00%</b>		<b>11,390</b>
Accrued interest						<u>338</u>
<b>Total</b>						<b><u>11,728</u></b>

**23.2. Market risk**

Market risks arise from positions taken in securities and other instruments. The Bank takes no significant exposure to market risks. Market risks are generally monitored and controlled by the Asset and Liability Management function.

**23.2.1. Interest rate sensitivity analysis<sup>1</sup>**

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date were outstanding for the whole year. The analysis was prepared by assuming only the 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.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.
- The sensitivity of interest income to changes in BUBOR is analysed.

The simulation was prepared by assuming two scenarios:

1. gradually decreasing HUF basic interest rate to 0.25% (probable scenario)
2. gradually decreasing HUF basic interest rate to 0.0% (alternative scenario)

The net interest income in a one year period after January 1, 2017 would be decreased by HUF 98 million (probable scenario) and HUF 220 million (alternative scenario) as a result of these simulation.

The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period can be summarized as follows (in HUF million):

<b>Description</b>	<b>Effects to the net interest income in one year period</b>	
	<b>2016</b>	<b>2015</b>
HUF (0.1%) parallel shift	56	74
HUF 0.1% parallel shift	(56)	(73)
<b>Total</b>	<b>(56)</b>	<b>(73)</b>

<sup>1</sup> Quantitative data on interest rate risk are shown in Note 27

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**23.2. Market risk [continued]**

**23.2.2. Foreign exchange rate sensitivity analysis<sup>1</sup>**

The foreign exchange sensitivity analysis has been determined based on the net open position, taking into account both balance sheet exposure and off balance sheet exposure. The simulation was made on the assumption, that the price changes happens as a one off event, and neither does it take into consideration possible balance sheet dynamics, nor the potential increase or decrease of risk costs related to foreign exchange denominated assets.

The total net open position of OTP Mortgage Bank Ltd. was an amount of HUF 1 million short on 31 December 2016, which consisted of EUR exposure only. Since OTP Mortgage Bank has completed the conversion of foreign currency consumer mortgage loans into HUF, from its operation does not arise material FX exposures..

Potential losses from the foreign exchange denominated exposure are considerably low compared to surplus capital.

**23.3. Capital management**

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

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

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

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures including the owner of the Bank.

**Capital adequacy**

The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with HAS applying the directives, rulings and indicators defined by the Basel Committee, that has been adopted in Hungary in 2008.

The Bank has entirely complied with the regulatory capital requirements for the year similar to prior years.

The capital adequacy calculations of the Bank for the year 2016 are prepared based on the data of the audited financial statements prepared in accordance with HAS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and the alternative standard method in case of the operational risk. In 2016 the Mortgage Bank's solvency ratio is 11.35%. Regulatory capital is 44,501; the total required regulatory capital is 32,447.

In HUF million	2016	2015
Core capital	44,430	44,525
Supplementary capital	71	941
<b>Regulatory capital</b>	<b>44,501</b>	<b>45,466</b>
Credit risk capital requirement	29,835	29,202
Market risk capital requirement	230	307
Operational risk capital requirement	2,382	2,541
<b>Total required regulatory capital</b>	<b>32,447</b>	<b>32,050</b>
<b>Surplus capital</b>	<b><u>12,054</u></b>	<b><u>13,416</u></b>
<b>Solvency ratio</b>	<b><u>10.97%</u></b>	<b><u>11.35%</u></b>

<sup>1</sup> Quantitative data on foreign exchange rate risk are shown in Note 25

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**23.3. Capital management [continued]**

**Capital adequacy [continued]**

The positive components of the Core capital are the following:

Issued capital, Capital reserve, Tied-up reserve, General reserve, Profit reserve, Profit for the year, General risk reserve

The negative components of the Core capital are the following:

Intangible assets

The positive components of the Supplementary capital are the following:

Subsidiary loan capital, Subordinated loan capital

The negative components of the Supplementary capital are the following:

Part of the subordinated loan capital which shall not be considered

**NOTE 24: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS**  
**(in HUF million)**

**Off balance sheet items**

	2016	2015
Current litigations	1,668	17,470
Loan facilities	14,465	7,893
Contingent liabilities ordered by law related to customer loans	-	2,069
<i>from this: obligation payable to OTP Faktoring Ltd.</i>	-	2,069
Other contingent and future liabilities	-	117
<b>Contingent and future liabilities total</b>	<b><u>16,133</u></b>	<b><u>27,549</u></b>

**NOTE 25: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK**  
**(in HUF million)**

**As at 31 December 2016**

	CHF	EUR	JPY	Total
Assets	64	403	534	1,001
Liabilities	(4,404)	(155,926)	(530)	(160,860)
Off-balance sheet assets and liabilities, net	<u>4,341</u>	<u>155,510</u>	<u>-</u>	<u>159,851</u>
<b>Net position</b>	<b><u>1</u></b>	<b><u>(13)</u></b>	<b><u>4</u></b>	<b><u>(8)</u></b>

**As at 31 December 2015**

	CHF	EUR	JPY	Total
Assets	392	1,060	601	2,053
Liabilities	(4,738)	(314,207)	(607)	(319,552)
Off-balance sheet assets and liabilities, net	<u>4,424</u>	<u>313,120</u>	<u>-</u>	<u>317,544</u>
<b>Net position</b>	<b><u>78</u></b>	<b><u>(27)</u></b>	<b><u>(6)</u></b>	<b><u>45</u></b>

Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.



**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 26: RELATED PARTY TRANSACTIONS (in HUF million)**

**26.1. Outstanding balances/Transactions due from or due to OTP Bank Plc.**

**26.1.1. Outstanding balances in the Separate Statement of Financial Position related to OTP Bank Plc.**

The Bank had the following assets and liabilities due from, or due to the OTP Bank Plc.:

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Cash, amounts due from OTP Bank	18	27
Placements with OTP Bank	2,580	70,590
Accrued receivables	43	16
Fair value hedge derivatives – positive fair value	801	21,978

<b>Liabilities</b>	<b>2016</b>	<b>2015</b>
Amounts due to OTP Bank and other banks	527,235	270,911
Face value of issued mortgage bonds held by OTP Bank	225,948	544,443
Other liabilities due to OTP Bank	950	737
Fair value hedge derivatives – negative fair value	-	17,771

**26.1.2. Transactions in the Separate Statement of Recognized Income related to OTP Bank Plc.**

	<b>2016</b>	<b>2015</b>
Interest income	2,679	1,090
Interest expense	34,391	62,852
Account handling fees paid to OTP Bank	12,629	15,706
Other fees and commissions relating to lending received from OTP Bank	312	135
Other fees and commissions relating to lending paid to OTP Bank	97	3,882
One-off payments fee (0.5%)	-	1
Revenue from the value appraisal activity from OTP Bank	309	127

**26.1.3. Transactions of the Mortgage Bank's loan portfolio related to OTP Bank Plc.**

	<b>2016</b>	<b>2015</b>
Performing loans purchased from OTP Bank	562	1,451
Book value of performing loans purchased from OTP Bank	565	1,453

**26.2. Outstanding balances related to key management personnel**

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 535.4 million as at 31 December 2016. These loans were covered by HUF 1,048.1 million mortgage.

**26.3. Outstanding balances/Transactions related to other related party<sup>1</sup>**

**26.3.1. Transactions related to OTP Building Society Ltd.**

	<b>2016</b>	<b>2015</b>
Face value of issued mortgage bonds held by OTP Building Society Ltd.	44,282	33,041

**26.3.2. Transactions of the Mortgage Bank's loan portfolio related to OTP Faktoring Ltd.**

	<b>2016</b>	<b>2015</b>
Book value of non-performing loans sold to OTP Faktoring Ltd.	13,756	4,444
Selling price of the non-performing loans related to OTP Faktoring Ltd.	12,850	3,557

<sup>1</sup>The Bank has significant transactions with OTP Building Society Ltd., OTP Faktoring Ltd. and Merkantil Bank Ltd. in OTP Group, these transactions are highlighted.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 26: RELATED PARTY TRANSACTIONS (in HUF million) [continued]**

*26.3.3. Transactions related to Merkantil Bank Ltd.*

	<b>2016</b>	<b>2015</b>
Face value of issued mortgage bonds held by Merkantil Bank Ltd.	45,000	55,000

*26.3.4. Further Outstanding balances/Transactions related to other related party*

	<b>2016</b>	<b>2015</b>
Accrued receivables due from other related party	-	21
Other liabilities due to other related party	65	29
Other operating income from other related party	-	13
Revenue from the value appraisal activity from OTP Factoring Ltd. and from other related party	168	142

Compensation of key management personnel is shown in Note 20.

In the normal course of the business the Bank enters into other transactions with the entities within the OTP Group, the amounts and volumes of which are not significant to these financial statements taken as a whole. Only significant transactions were highlighted.

**NOTE 27: INTEREST RATE RISK MANAGEMENT**

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

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

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

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

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**NOTE 27: INTEREST RATE RISK MANAGEMENT [continued]**

31 December 2016	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest-bearing		Total		
	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
<b>ASSETS</b>															
Cash, amounts due from banks and balances with the National Bank of Hungary															
	8	10	-	-	-	-	-	-	-	-	-	-	8	10	18
	8	10	-	-	-	-	-	-	-	-	-	-	8	10	18
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Placements with other banks</b>															
	2,580	-	-	-	-	-	-	-	-	-	-	-	2,580	-	2,580
	2,580	-	-	-	-	-	-	-	-	-	-	-	2,580	-	2,580
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Securities available-for-sale</b>															
	-	-	-	-	-	-	-	-	11,390	-	338	-	11,728	-	11,728
	-	-	-	-	-	-	-	-	11,390	-	-	-	11,390	-	11,390
	-	-	-	-	-	-	-	-	-	-	338	-	338	-	338
<b>Loans, net of allowances for loan losses</b>															
	194,989	140	342,552	228	66,024	497	93,580	-	258,898	-	5,433	3	961,476	868	962,344
	194,989	140	342,552	228	66,024	497	93,580	-	258,898	-	-	-	956,043	865	956,908
	-	-	-	-	-	-	-	-	-	-	5,433	3	5,433	3	5,436
<b>Derivative financial instruments</b>															
	-	160,477	-	-	-	-	-	-	-	-	-	-	-	160,477	160,477
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	160,477	-	-	-	-	-	-	-	-	-	-	-	160,477	160,477

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 27: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

31 December 2016	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest-bearing		Total		
	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
<b>LIABILITIES</b>															
Amounts due to OTP Bank and other banks	79,878	-	324,000	879	110,000	-	-	-	11,759	-	719	-	526,356	879	527,235
<i>fixed interest</i>	9,878	-	4,000	879	110,000	-	-	-	11,759	-	-	-	135,637	879	136,516
<i>variable interest</i>	70,000	-	320,000	-	-	-	-	-	-	-	-	-	390,000	-	390,000
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	719	-	719	-	719
Liabilities from issued securities	-	155,798	-	-	-	-	-	-	206,453	-	9,973	198	216,426	155,996	372,422
<i>fixed interest</i>	-	-	-	-	-	-	-	-	206,453	-	-	-	206,453	-	206,453
<i>variable interest</i>	-	155,798	-	-	-	-	-	-	-	-	-	-	-	155,798	155,798
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	9,973	198	9,973	198	10,171
Derivative financial instruments	159,676	-	-	-	-	-	-	-	-	-	-	-	159,676	-	159,676
<i>fixed interest</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>variable interest</i>	159,676	-	-	-	-	-	-	-	-	-	-	-	159,676	-	159,676
Subordinated bonds and loans	-	4,852	-	-	-	-	-	-	-	-	-	24	-	4,876	4,876
<i>fixed interest</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>variable interest</i>	-	4,852	-	-	-	-	-	-	-	-	-	-	-	4,852	4,852
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	-	24	-	24	24
<b>NET POSITION</b>	<b>(41,977)</b>	<b>(23)</b>	<b>18,552</b>	<b>(651)</b>	<b>(43,976)</b>	<b>497</b>	<b>93,580</b>	<b>-</b>	<b>52,076</b>	<b>-</b>	<b>(4,921)</b>	<b>(219)</b>	<b>73,334</b>	<b>(396)</b>	<b>72,938</b>

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 27: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

31 December 2015	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest-bearing		Total	
	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency
<b>ASSETS</b>														
Cash, amounts due from banks and balances with the National Bank of Hungary	40	2	-	-	-	-	-	-	-	-	-	-	40	2
<i>fixed interest</i>	40	2	-	-	-	-	-	-	-	-	-	-	40	2
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Placements with other banks	70,570	-	-	-	-	-	-	-	-	-	20	-	70,590	-
<i>fixed interest</i>	70,570	-	-	-	-	-	-	-	-	-	-	-	70,570	-
<i>variable interest</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	20	-	-	20	-
Securities available-for-sale	-	-	-	-	-	-	-	-	-	-	337	-	11,657	-
<i>fixed interest</i>	-	-	-	-	-	-	-	-	-	-	-	-	11,320	-
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	337	-	337	-
Loans, net of allowances for loan losses	222,685	175	381,016	251	39,711	628	46,284	-	283,963	-	5,178	3	978,837	1,057
<i>variable interest</i>	222,685	175	381,016	251	39,711	628	46,284	-	283,963	-	-	-	973,659	1,054
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	5,178	3	5,178	3
Derivative financial instruments	-	468,428	-	-	-	-	-	-	-	-	-	-	-	468,428
<i>fixed interest</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>variable interest</i>	-	468,428	-	-	-	-	-	-	-	-	-	-	-	468,428
<b>Total</b>														

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**NOTE 27: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

31 December 2015	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest-bearing		Total		
	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
<b>LIABILITIES</b>															
Amounts due to OTP Bank and other banks	83,085	1,067	186,759	-	-	-	-	-	-	-	597	-	270,441	1,067	271,508
<i>fixed interest</i>	13,085	1,067	-	-	-	-	-	-	-	-	-	-	13,085	1,067	14,152
<i>variable interest</i>	70,000	-	186,759	-	-	-	-	-	-	-	-	-	256,759	-	256,759
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	597	-	597	-	597
<b>Liabilities from issued securities</b>															
<i>fixed interest</i>	-	315,795	151,260	-	4,720	-	389	-	206,988	-	28,415	694	391,772	316,489	708,261
<i>variable interest</i>	-	-	151,260	-	4,720	-	389	-	206,988	-	-	-	363,357	-	363,357
<i>non-interest bearing</i>	-	315,795	-	-	-	-	-	-	-	-	-	-	-	315,795	315,795
<b>Derivative financial instruments</b>															
<i>fixed interest</i>	318,683	145,538	-	-	-	-	-	-	-	-	-	-	318,683	145,538	464,221
<i>variable interest</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Subordinated bonds and loans</b>															
<i>fixed interest</i>	-	4,381	-	-	-	-	-	-	-	-	-	23	-	4,404	4,404
<i>variable interest</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>non-interest bearing</i>	-	4,381	-	-	-	-	-	-	-	-	-	-	-	4,381	4,381
<b>NET POSITION</b>	(108,473)	1,824	42,997	251	34,991	628	45,895	-	88,295	-	(23,477)	(714)	80,228	1,989	82,217

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**NOTE 28: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)**

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

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

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

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

As at 31 December 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, due from banks and balances with the National Bank of Hungary	18	-	-	-	-	18
Placements with other banks	2,580	-	-	-	-	2,580
Securities available for sale	338	-	10,000	-	-	10,338
Loans, net of allowance for possible loan losses	5,882	3,555	57,073	885,992	-	952,502
Property and equipment	-	-	-	-	4	4
Intangible assets	-	-	-	-	143	143
Other assets	4,040	-	-	-	-	4,040
<b>TOTAL ASSETS</b>	<b><u>12,858</u></b>	<b><u>3,555</u></b>	<b><u>67,073</u></b>	<b><u>885,992</u></b>	<b><u>147</u></b>	<b><u>969,625</u></b>
Amounts due to OTP Bank and other banks	14,596	500,879	11,759	-	-	527,234
Liabilities from issued securities	10,172	155,510	49,250	150,000	-	364,932
Other liabilities	3,894	-	-	-	-	3,894
Subordinated bonds and loans	4,876	-	-	-	-	4,876
<b>TOTAL LIABILITIES</b>	<b><u>33,538</u></b>	<b><u>656,389</u></b>	<b><u>61,009</u></b>	<b><u>150,000</u></b>	<b><u>-</u></b>	<b><u>900,936</u></b>
Receivables from derivative financial instruments designated as fair value hedge	137,259	23,059	-	-	-	160,318
Liabilities from derivative financial instruments designated as fair value hedge	(137,259)	(22,564)	-	-	-	(159,823)
<b>Net position of financial instruments designated as fair value hedge</b>	<b><u>-</u></b>	<b><u>495</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>495</u></b>
<b>Net position of derivative financial instruments total</b>	<b><u>-</u></b>	<b><u>495</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>495</u></b>
Commitments to extend credit	275	376	13,814	-	-	14,465
<b>Off-balance sheet commitments</b>	<b><u>275</u></b>	<b><u>376</u></b>	<b><u>13,814</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>14,465</u></b>

**OTP MORTGAGE BANK LTD.**  
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**NOTE 28: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]**

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, due from banks and balances with the National Bank of Hungary	42	-	-	-	-	42
Placements with other banks	70,590	-	-	-	-	70,590
Securities available for sale	337	-	10,000	-	-	10,337
Loans, net of allowance for possible loan losses	11,399	35,613	79,622	847,885	-	974,519
Property and equipment	-	-	-	-	14	14
Intangible assets	-	-	-	-	166	166
Other assets	2,437	-	-	-	-	2,437
<b>TOTAL ASSETS</b>	<b><u>84,805</u></b>	<b><u>35,613</u></b>	<b><u>89,622</u></b>	<b><u>847,885</u></b>	<b><u>180</u></b>	<b><u>1,058,105</u></b>
Amounts due to OTP Bank and other banks	13,682	246,067	11,759	-	-	271,508
Liabilities from issued securities	180,377	161,303	205,810	150,000	-	697,490
Other liabilities	6,389	-	-	-	-	6,389
Subordinated bonds and loans	23	-	4,381	-	-	4,404
<b>TOTAL LIABILITIES</b>	<b><u>200,471</u></b>	<b><u>407,370</u></b>	<b><u>221,950</u></b>	<b><u>150,000</u></b>	<b><u>-</u></b>	<b><u>979,791</u></b>
Receivables from derivative financial instruments designated as fair value hedge	-	299,461	160,901	-	-	460,362
Liabilities from derivative financial instruments designated as fair value hedge	-	(297,813)	(158,247)	-	-	(456,060)
<i>Net position of financial instruments designated as fair value hedge</i>	<u>-</u>	<u>1,648</u>	<u>2,654</u>	<u>-</u>	<u>-</u>	<u>4,302</u>
<b>Net position of derivative financial instruments total</b>	<b><u>-</u></b>	<b><u>1,648</u></b>	<b><u>2,654</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>4,302</u></b>
Commitments to extend credit	225	341	7,327	-	-	7,893
<b>Off-balance sheet commitments</b>	<b><u>225</u></b>	<b><u>341</u></b>	<b><u>7,327</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>7,893</u></b>



**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 29: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)**

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 30 for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

**Fair value of financial assets and liabilities**

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, due from banks and balances with the National Bank of Hungary	18	18	42	42
Placements with other banks	2,580	2,580	70,590	70,590
Securities available-for-sale	11,728	11,728	11,657	11,657
Loans, net of allowance for loan losses <sup>1</sup>	<u>962,344</u>	<u>1,273,098</u>	<u>979,893</u>	<u>1,316,210</u>
<b>FINANCIAL ASSETS TOTAL</b>	<b><u>976,670</u></b>	<b><u>1,287,424</u></b>	<b><u>1,062,182</u></b>	<b><u>1,398,499</u></b>
Amounts due to OTP Bank and other banks	527,235	529,289	271,508	271,508
Liabilities from issued securities	372,422	463,173	708,261	883,869
Derivative financial instruments designated as hedging instruments	-	-	17,771	17,771
Subordinated bonds and loans	<u>4,876</u>	<u>4,876</u>	<u>4,404</u>	<u>4,404</u>
<b>FINANCIAL LIABILITIES TOTAL</b>	<b><u>904,533</u></b>	<b><u>997,338</u></b>	<b><u>1,001,944</u></b>	<b><u>1,177,552</u></b>

<sup>1</sup> The difference between the carrying amount and the fair value derived from the interest subsidies related to housing loans.

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**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 29: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

**Fair value of derivative instruments**

	Fair value		Notional value, net	
	2016	2015	2016	2015
<b>CCIRS designated as fair value hedge</b>				
Positive fair value of CCIRS classified as fair value hedge	801	21,978	395	21,872
Negative fair value of CCIRS classified as fair value hedge	-	(17,771)	-	(17,570)
<b>Derivative financial assets total</b>	<b><u>801</u></b>	<b><u>21,978</u></b>	<b><u>395</u></b>	<b><u>21,872</u></b>
<b>Derivative financial liabilities total</b>	<b><u>-</u></b>	<b><u>(17,771)</u></b>	<b><u>-</u></b>	<b><u>(17,570)</u></b>
<b>Derivative financial instruments total</b>	<b><u>801</u></b>	<b><u>4,207</u></b>	<b><u>395</u></b>	<b><u>4,302</u></b>

**Hedge accounting**

The Bank regularly enters into hedging transactions in order to decrease its financial risks.<sup>1</sup>

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

**As at 31 December 2016**

Type of hedge	Description of the hedging instrument	Fair value of the hedging instrument	Type of the risk being hedged
1) Cash flow hedges	-	-	-
2) Fair value hedges	CCIRS	HUF 801 million	Interest rate, foreign exchange
3) Net investment hedge in foreign operations	-	-	-

**As at 31 December 2015**

Type of hedge	Description of the hedging instrument	Fair value of the hedging instrument	Type of the risk being hedged
1) Cash flow hedges	-	-	-
2) Fair value hedges	CCIRS	HUF 4,207 million	Interest rate, foreign exchange
3) Net investment hedge in foreign operations	-	-	-

<sup>1</sup> In 2016 the Bank had no derivatives held for trading

**OTP MORTGAGE BANK LTD.**  
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**NOTE 29: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

**Fair value hedges - Issued securities**

The cash-flows of the floating rate securities issued by the Bank are exposed to the change in the EUR/HUF foreign exchange rate and the risk of change in the risk-free interest rates of EUR, HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with HUF-EUR CCIRS transactions, where the floating EUR cash-flows were swapped to payments linked to 3 CHF or BUBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

The fair value of the hedging instruments is 290 HUF million and HUF 3,668 million as at 31 December 2016 and 2015 respectively.

**As at 31 December 2016**

Types of hedged item	Types of hedging items	Fair value of the hedged item	Fair value of the hedging instrument	Gain/ loss attributable to the hedged risk	
				hedging instrument	hedged item
Liabilities from issued securities	CCIRS	-	-	(514)	514
Liabilities from issued securities	CCIRS	155,976	290	(1,871)	1,871

**As at 31 December 2015**

Types of hedged item	Types of hedging items	Fair value of the hedged item	Fair value of the hedging instrument	Gain/ loss attributable to the hedged risk	
				hedging instrument	hedged item
Liabilities from issued securities	CCIRS	268,150	(615)	93	(93)
Liabilities from issued securities	CCIRS	187,872	4,283	1,840	(1,840)
Liabilities from issued securities	CCIRS	-	-	(1,267)	1,267

**Fair value hedges – Subordinated loans**

The cash-flows of the variables interest rate of subordinated loan granted to the Bank are exposed to the change in the CHF/HUF foreign exchange rate and the risk of change in the risk-free interest rates of CHF, HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with HUF-CHF CCIRS transaction, where the payments linked to 3 month BUBOR are swapped to payments linked to 3 month CHF LIBOR, resulting a decrease in the interest rate and foreign exchange exposure of subordinated loan.

The fair value of the hedging instruments is 511 HUF million and HUF 539 million as at 31 December 2016 and 2015 respectively.

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**NOTE 29: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

**Fair value hedges – Subordinated loans [continued]**

**As at 31 December 2016**

Types of hedged item	Types of hedging items	Fair value of the hedged item	Fair value of the hedging instrument	Gain/ loss attributable to the hedged risk	
				hedging instrument	hedged item
Subordinated loan	CCIRS	4,342	511	471	(471)

**As at 31 December 2015**

Types of hedged item	Types of hedging items	Fair value of the hedged item	Fair value of the hedging instrument	Gain/ loss attributable to the hedged risk	
				hedging instrument	hedged item
Subordinated loan	CCIRS	4,341	539	20	(20)

**Fair value hierarchy**

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

- 1<sup>st</sup> Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2<sup>nd</sup> Level: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly;
- 3<sup>rd</sup> Level: 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
Securities available for sale	11,390	11,390	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	<u>801</u>	<u>-</u>	<u>801</u>	<u>-</u>
<b>Financial assets measured at fair value total</b>	<b><u>12,191</u></b>	<b><u>11,390</u></b>	<b><u>801</u></b>	<b><u>-</u></b>
Negative fair value of derivative financial instruments designated as fair value hedge	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities measured at fair value total</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

**As at 31 December 2015**

	Total	Level 1	Level 2	Level 3
Securities available for sale	11,320	11,320	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	<u>21,978</u>	<u>-</u>	<u>21,978</u>	<u>-</u>
<b>Financial assets measured at fair value total</b>	<b><u>33,298</u></b>	<b><u>11,320</u></b>	<b><u>21,978</u></b>	<b><u>-</u></b>
Negative fair value of derivative financial instruments designated as fair value hedge	<u>17,771</u>	<u>-</u>	<u>17,771</u>	<u>-</u>
<b>Financial liabilities measured at fair value total</b>	<b><u>17,771</u></b>	<b><u>-</u></b>	<b><u>17,771</u></b>	<b><u>-</u></b>

There were no financial assets and liabilities at fair value in Level 3 respectively in 2016 and 2015.

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**NOTE 30: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HAS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)**

	Retained Earnings and Reserves as at 1 January 2016	Net profit for the year ended 31 December 2016	Direct Movements on Reserves	Retained Earnings and Reserves as at 31 December 2016
<b>Financial Statements in accordance with HAS</b>	<b>17,692</b>	<b>20,504</b>	<b>-</b>	<b>38,196</b>
Fair value adjustment of securities available-for-sale	(267)	(633)	703	(197)
Application of effective interest rate on direct issuance costs of securities	74	(52)	-	22
Effect of using effective interest rate method for loan origination fees and cost	14,519	2,687	-	17,206
IBNR provision	-	(1,545)	-	(1,545)
Fair value adjustment of derivative financial instruments	-	67	-	67
Below market fair value adjustment of customer loans concerned with Curia Law	(8,145)	1,829	-	(6,316)
Dividend payable for 2016	30,960	-	(30,960)	-
Deferred taxation	(10)	(732)	(90)	(832)
<b>Financial Statements in accordance with IFRS</b>	<b><u>54,823</u></b>	<b><u>22,125</u></b>	<b><u>(30,347)</u></b>	<b><u>46,601</u></b>

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

**Acquisition**

See Note 8.

**Relevant transactions related to issued securities**

See Note 12.

**NOTE 32: POST BALANCE SHEET EVENTS**

**Relevant transactions related to issued securities**

See Note 12.

**Relevant transactions related to subordinated loans**

See Note 14.