OTP MORTGAGE BANK LTD.

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

FOR THE YEAR ENDED
31 DECEMBER 2015

CONTENTS

Deloitte.

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

Tel: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.com/hungary

Registered by the Capital Court of Registration
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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of OTP Mortgage Bank Ltd.

Report on the Unconsolidated Financial Statements

We have audited the accompanying unconsolidated financial statements (pages 2 to 46) of OTP Mortgage Bank Ltd. for the year 2015, which unconsolidated financial statements comprise the statement of financial position as at December 31, 2015 and the related statement of recognized and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated 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 unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

Budapest, March 22, 2016

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

OTP MORTGAGE BANK LTD.
UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015
(in HUF million)

	Note	2015	2014
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	42	399
Placements with other banks	*5.*	70,590	147,801
Financial assets at fair value through profit and loss	*6.*	-	502
Securities available-for-sale	*7.*	11,657	-
Loans, net of allowances for loan losses	*8.*	979,893	1,101,447
Property and equipment	*9.*	14	25
Intangible assets	*9.*	166	176
Other assets	*10.*	27,803	39,718
TOTAL ASSETS		**1,090,165**	**1,290,068**
Amounts due to OTP Bank and other banks	*11.*	271,508	296,909
Liabilities from issued securities	*12.*	708,261	833,149
Financial liabilities at fair value through profit or loss	*13.*	-	29
Other liabilities	*14.*	24,169	110,235
Subordinated bonds and loans	*15.*	4,404	3,975
TOTAL LIABILITIES		**1,008,342**	**1,244,297**
Share capital	*16.*	27,000	27,000
Retained earnings and reserves	*17.*	54,823	18,771
TOTAL SHAREHOLDER'S EQUITY		**81,823**	**45,771**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,090,165**	**1,290,068**

Budapest, 22 March 2016

OTP JELZÁLOGBANK Zrt.
otp Jelzálogbank
vezérigazgató

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András Becsei
Chief Executive Officer

OTP MORTGAGE BANK LTD.
UNCONSOLIDATED STATEMENT OF RECOGNIZED INCOME FOR THE YEAR ENDED 31 DECEMBER 2015 (in HUF million)

	Note	2015	2014
Interest Income:			
Loans		48,601	79,958
Placements with other banks		14,616	8,365
Amounts due from banks and balances with the National Bank of Hungary		-	-
Interest subsidy on housing loans financed by mortgage bonds		23,711	28,480
Securities available-for-sale		165	619
Total Interest Income		**87,093**	**117,422**
Interest Expense:			
Amounts due to OTP Bank and other banks		19,488	8,119
Deposits from customers		-	-
Liabilities from issued securities		45,504	60,660
Subordinated bonds and loans		139	151
Total Interest Expense		**65,131**	**68,930**
NET INTEREST INCOME		**21,962**	**48,492**
Provision for impairment on loan and placement losses	*8.*	1,870	8,977
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**20,092**	**39,515**
Income from fees and commissions	*19.*	1,893	1,636
Expenses from fees and commissions	*19.*	(2,535)	(2,294)
Net fees and commissions		**(642)**	**(658)**
Foreign exchange (losses)/gains, net		(1,004)	2,954
Gains on securities, net		-	-
Other operating income		1	(8)
Other operating expenses		13,451	(101,860)
from this: provision on contingent liabilities due to regulations related to customer loans		*102,717*	*(102,379)*
Net operating income		**12,448**	**98,914**
Personnel expenses		539	527
Depreciation and amortization		110	110
Other administrative expenses	*20.*	12,643	16,104
Other administrative expenses		**13,292**	**16,741**
PROFIT/(LOSS) BEFORE INCOME TAX		**18,606**	**(76,798)**
Income tax	*21.*	(206)	1,472
PROFIT/(LOSS) FOR THE YEAR		**18,812**	**(78,270)**
Earnings per share (in HUF)			
Basic and diluted	*22.*	69,674	(289,889)

The accompanying notes to unconsolidated financial statements on pages 7 to 47 form an integral part of these unconsolidated financial statements.

OTP MORTGAGE BANK LTD.
UNCONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015 (in HUF million)

	Note	2015	2014
PROFIT/(LOSS) FOR THE YEAR		**18,812**	**(78,270)**
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of securities available-for-sale	*7.*	(267)	-
Fair value adjustment of derivative financial instruments		-	507
Deferred tax related to items of other comprehensive income		51	(96)
Other comprehensive income, net of income tax		(216)	411
NET COMPREHENSIVE INCOME		**18,596**	**(77,859)**

The accompanying notes to unconsolidated financial statements on pages 7 to 47 form an integral part of these unconsolidated financial statements.

OTP MORTGAGE BANK LTD.
UNCONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015 (in HUF million)

	Note	2015	2014
OPERATING ACTIVITIES			
Profit /(Loss) before income tax		**18,606**	**(76,798)**
Depreciation and amortization	*9.*	110	110
Provision for impairment on loan and placement losses		1,870	8,977
Provision/(release of provision) for impairment on other assets	*10.*	4	(52)
Unrealised gains on fair value adjustment of derivative financial instruments		2,646	2,546
Net changes in assets and liabilities in operating activities:			
Net changes in financial assets through comprehensive income		502	(502)
Decrease in loans, net of allowances for loan losses	*8.*	119,684	33,665
Decrease in other assets before provisions for losses	*10.*	11,911	10,462
(Decrease)/Increase in other liabilities	*14.*	(70,826)	102,731
Income tax paid		(42)	(3,772)
Net cash provided by operating activities		**84,465**	**77,367**
Interest received		82,114	106,983
Interest paid		35,542	33,541
INVESTING ACTIVITIES			
Net decrease/(increase) in placements with other banks	*5.*	77,211	(85,761)
Purchase securities available-for-sale		(11,924)	-
Proceeds from sale of securities available-for-sale	*7.*	-	29,963
Additions to property, equipment and intangible assets		(90)	(307)
Disposal to property, equipment and intangible assets		1	297
Net cash provided by/(used) in investing activities		**65,198**	**(55,808)**
FINANCING ACTIVITIES			
Net (decrease)/increase in amounts due to OTP Bank and other banks	*11.*	(25,401)	62,962
Cash received from issuance of securities		153,410	-
Cash used for repurchase and redemption of issued securities		(295,914)	(136,280)
Net increase in subordinated bonds and loans	*15.*	429	319
Dividend paid	*17.*	-	(5,097)
Capital contribution received from OTP Bank Plc. related to regulations of customer loans		17,456	56,581
Net cash used in financing activities		**(150,020)**	**(21,515)**
Net (decrease)/increase in cash and cash equivalents		**(357)**	**44**
Cash and cash equivalents at the beginning of the year		**399**	**355**
Cash and cash equivalents at the end of the year		**42**	**399**
Analysis of cash and cash equivalents opening and closing balance			
Cash, amounts due from banks and balances with the National Bank of Hungary		399	355
Cash and cash equivalents at the beginning of the year		**399**	**355**
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	42	399
Cash and cash equivalents at the end of the year		**42**	**399**

OTP MORTGAGE BANK LTD.
UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015 (in HUF million)

	Note	Share Capital	Retained earnings and reserves	Total
Balance as at 1 January 2014		**27,000**	**18,771**	**45,771**
Dividend paid		-	(5,097)	(5,097)
Net loss for the year		-	(78,270)	(78,270)
Capital contribution		-	56,581	56,581
Other comprehensive income		-	411	411
Balance as at 31 December 2014		**27,000**	**18,771**	**45,771**
Net profit for the year		-	18,812	18,812
Capital contribution		-	17,456	17,456
Other comprehensive income		-	(216)	(216)
Balance as at 31 December 2015		**27,000**	**54,823**	**81,823**

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 financial statements authorised for issue on 22 March 2016.

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 Unconsolidated 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). Unconsolidated 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 Hungarian National Bank (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 378 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 27 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 2014 and 2015 the number and the average number of the employees at the Bank were 33 and 31.

1.2. Accounting

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

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 31), 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.

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

1.2. 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 2015

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

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

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

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

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Agriculture: Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording** - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording** - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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

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

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

1.2. Accounting [continued]

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

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

These unconsolidated 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 unconsolidated 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.

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 Unconsolidated Statement of Recognized Income.

2.3. 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 2015 and 2014.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.3.1. 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 Unconsolidated Statement of Recognized Income. Such securities consist of bonds issued by the NBH and the Hungarian Government as at 31 December 2015.

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.

2.3.2. 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.

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 Unconsolidated 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 Unconsolidated 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.3.2. Derivative financial instruments [continued]

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 and trading 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.

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.

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Unconsolidated 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 Unconsolidated 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 Unconsolidated Statement of Recognized Income and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Unconsolidated Statement of Recognized Income for the period. The ineffective element of the hedge is charged directly to the Unconsolidated Statement of Recognized Income.

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

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 Unconsolidated Statement of Recognized Income.

2.4. 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. 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 2015and in 2014.

2.6. 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 Unconsolidated Statement of Recognized Income. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.7. 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. Mortgage bonds are issued based on the total amount of property pledged as collateral to the Bank and recorded in the Bank's collateral register.

2.8. 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.

2.9. 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.

2.10. 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 unconsolidated statement of recognised income on an accrual basis based on IAS 18.

2.11. 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. 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 Unconsolidated Statement of Recognized Income in the period to which they relate.

2.13. 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. The unrealized gains and losses from the translation of monetary items to the closing foreign exchange rates and unrealized gains and losses from derivative financial instruments are presented net in the Statement of Cash-Flows for the monetary items which were being revaluated.

2.14. 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.

2.15. Government measures related to customer loan contracts

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

Act on Settlement

Based on these regulations expense in the amount of HUF 85 billion was recognised as amounts charged to clients related to customer loans contracts were assumed unfair. The provision related to the settlement was released during the year of 2015. In relation to the settled customer loans sold to OTP Faktoring Ltd., further provision in the amount of HUF 2,069 million was recognised on subsequent purchase price compensation payable for OTP Faktoring Ltd. The purchase price compensation is expected to be settled during the first half of 2016.

Act on Conversion mortgage backed loans into HUF

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

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:

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

3.1. Impairment on loans and placements

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

3.2. Valuation of instruments without direct quotations

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

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

3.3. Provisions

Provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 17)

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

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

NOTE 4: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF million)

	2015	2014
Amounts due from banks and balances with the NBH:		
Within one year		
In HUF	40	13
In foreign currency	2	386
	42	**399**
Total	**42**	**399**
From this: amounts due from OTP Bank	42	393
Compulsory reserve	27	11
Rate of the compulsory reserve	2%	2%

NOTE 4: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF million) [continued]

The main amount of cash due from banks shows the balance of the nostro accounts placed at OTP Bank of HUF 42 million and HUF 393 million as at 31 December 2015 and 2014, 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	**2015**	**2014**
in HUF	70,570	136,236
in CHF	-	11,495
Total in foreign currency	-	11,495
	70,570	**147,731**
Accrued interest	20	70
Total	**70,590**	**147,801**
From this: amounts due from OTP Bank	70,590	147,801

Interest conditions on placements with other banks	**2015**	**2014**
in HUF	0.10%-1.35%	1.10%-9.00%
in foreign currency	-	0.44%-4.82%

Average interest of placements with other banks	**2015**	**2014**
in HUF	1.73%	2.33%
in EUR	-	1.04%
in CHF	0.71%	0.84%
in JPY	-	1.09%

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

	2015	**2014**
Foreign exchange swaps designated as held for trading	-	502
Total	**-**	**502**

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

	2015	**2014**
Hungarian government bonds	11,320	-
	11,320	**-**
Accrued interest	337	-
Total	**11,657**	**-**

The whole portfolio was denominated in HUF as at 31 December 2015. Financial sources derived from mortgage bonds issued during 2015 were used partially for lending activity, from the remaining amount invested into debt instruments.

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

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

	2015	**2014**
Within five years, fixed interest	11,657	-

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

	2015	
	Cost	**Fair value**
Hungarian government bonds	11,587	11,320
Total	**11,587**	**11,320**

NOTE 8: LOANS, NET OF ALLOWANCES FOR LOAN LOSSES (in HUF million)

	2015	**2014**
Short-term loans (within one year)		
in HUF	49,271	44,021
in CHF	7	1,315
in EUR	2	1
in JPY	-	-
in foreign currency total	9	1,316
	49,280	**45,337**
Long-term loans (over one year)		
in HUF	950,238	605,688
in CHF	100	367,923
in EUR	361	26,230
in JPY	627	77,492
in foreign currency total	1,088	471,645
	951,326	**1,077,333**
Loans Gross Total	**1,000,606**	**1,122,670**
Provision for impairment	(25,894)	(27,691)
Accrued interest	5,181	6,468
Total	**979,893**	**1,101,447**

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.

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

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

	2015	2014
Loans denominated in HUF with the maturity over one year	3.71%-12.42%	4.91%-13.15%
Average interest rate of mortgage loans denominated in foreign currency for housing purposes		
CHF	6.71%	8.76%
EUR	7.54%	8.01%
JPY	3.87%	5.84%
Average interest rate of mortgage loans denominated in foreign currency for free purposes		
CHF	7.49%	10.00%
EUR	5.86%	8.94%
JPY	4.78%	5.72%
Average interest rate of real estate development loans		
HUF	9.29%	9.64%
EUR	6.37%	6.58%

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:

	2015		2014	
Mortgage loans	996,469	99.59%	1,117,582	99.55%
SME loans	2,469	0.25%	3,035	0.27%
Loans to medium and large corporates	1 668	0,16%	2,053	0.18%
Total	**1,000,606**	**100.00%**	**1,122,670**	**100.00%**

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

	2015	2014
Balance as at 1 January	**27,691**	**32,977**
Provision for the year	32,619	34,758
Release of provision	(34,416)	(40,044)
Balance as at 31 December	**25,894**	**27,691**

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

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

For the year ended 31 December 2015

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

For the year ended 31 December 2014

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January 2014	**1,266**	**96**	**102**	**-**	**1,464**
Additions	202	-	1	104	307
Disposals	(104)	(96)	(10)	(104)	(314)
Balance as at 31 December 2014	**1,364**	**-**	**93**	**-**	**1,457**
Accumulated Depreciation and Amortization					
Balance as at 1 January 2014	**1,089**	**8**	**66**	**-**	**1,163**
Charge for the year	99	-	13	-	112
Disposals	-	(8)	(11)	-	(19)
Balance as at 31 December 2014	**1,188**	**-**	**68**	**-**	**1,256**
Net book value					
Balance as at 1 January 2014	**177**	**88**	**36**	**-**	**301**
Balance as at 31 December 2014	**176**	**-**	**25**	**-**	**201**

NOTE 10: OTHER ASSETS (in HUF million)

	2015	2014
Derivatives qualified for hedge accounting[1]	21,978	36,379
Current income tax receivable	3,388	282
Trade receivables	1,747	776
Prepayments and other assets	665	947
Receivables from the Hungarian Government	36	1,341
	27,814	**39,725**
Provision for other assets	(11)	(7)
Total	**27,803**	**39,718**

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)

	2015	2014
Within one year		
In HUF	258,085	223,663
In EUR	370	252
In JPY	607	9,086
In CHF	90	63,800
Total in foreign currency	1,067	73,138
	259,152	**296,801**
Over one year		
in HUF	11,759	-
	270,911	**296,801**
Accrued interest	597	108
Total	**271,508**	**296,909**
From this: amounts due to OTP Bank	270,911	296,801

Interest conditions on amounts due to OTP Bank and other banks

	2015	2014
In HUF	1.24%-4.96%	2.10% - 6.20%
In foreign currency	0.01%-3.15%	0.02% - 4.82%

[1] For more details (including types of derivatives) see Note 30.

NOTE 12: LIABILITIES FROM ISSUED SECURITIES (in HUF million)

	2015	2014
Within one year:		
In HUF	156,011	114,834
In EUR	156,560	160,725
	312,571	**275,559**
Over one year		
In HUF	207,357	364,254
In EUR	159,224	158,055
	366,581	**522,309**
Subtotal	**679,152**	**797,868**
Accrued interest	29,109	35,281
Total	**708,261**	**833,149**

Issued mortgage bonds during the period (nominal value)	153,410	-
Mortgage bonds became due or repurchased during the period (nominal value)	269,184	140,671

Interest conditions on issued securities

	2015	2014
In HUF	7.50% - 11.00%	7.50% - 11.00%
In foreign currency	0.59% - 1.85%	1.99% - 4.08%

A reconciliation of the face value and the amortized cost is as follows:

	2015	2014
Nominal value of the issued securities	668,381	786,615
Unamortized premiums	8,096	9,244
Fair value hedge adjustment	2,675	2,009
Amortized cost	**679,152**	**797,868**

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 9 million in January, EUR 500 million in March, HUF 110 billion in May and HUF 3.2 billion in June. Mortgage bond was issued in amount of EUR 500 million in February.

Mortgage bonds became due in amount of HUF 1.3 billion and HUF 150 billion in February. Mortgage bonds were not issued.in the first two month of 2016.

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

Issued securities denominated in HUF as at 31 December 2015 (in HUF million)

Name	Date of issue	Maturity	Nominal value in HUF million	Interest condition in % p.a.		Hedged
OJB 2016/I	03/02/2006	03/02/2016	1,269	7.50%	fixed	not hedged
OJB 2016/II	31/08/2006	31/08/2016	4,692	10.00%	fixed	not hedged
OJB 2016/III	17/02/2009	17/02/2016	150,000	10.75%	fixed	not hedged
OJB 2016/J	18/04/2006	28/09/2016	50	7.59%	fixed	not hedged
OJB 2019/I	17/03/2004	18/03/2019	31,517	9.48%	fixed	not hedged
OJB 2019/II	25/05/2011	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
Total issued securities in HUF			**355,261**			
Unamortized premium			8,107			
Fair value hedge adjustment			-			
Total issued securities in HUF			**363,368**			
Accrued interest			28,415			
Total in HUF			**391,783**			

Issued securities denominated in foreign currency as at 31 December 2015 (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 2016/I	25/10/2013	25/10/2016	EUR	500	156,560	1.85%	floating	hedged
OMB 2017/I	29/01/2015	28/07/2017	EUR	500	156,560	0.59%	floating	hedged
Total issued securities in FX					**313,120**			
Unamortized discount					(11)			
Fair value hedge adjustment					2,675			
Total issued securities in FX					**315,784**			
Accrued interest					694			
Total in FX					**316,478**			
Total					**708,261**			

The EUR denominated mortgage bonds are being hedged in fair value hedge relationship. See Note 30 for further details of hedge accounting.

NOTE 13: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF million)

	2015	2014
Negative fair value change of derivative financial instruments designated as held-for-trading	-	29
Total	**-**	**29**

NOTE 14: OTHER LIABILITIES (in HUF million)

	2015	2014
Provision for impairment off-balance sheet commitments and contingent liabilities	3,176	102,811
from this: on contingent liabilities due to regulations related to customer loans[1]	*2,069*	*102,379*
Fair value of derivative financial instruments designated as fair value hedge[2]	17,771	3,666
Accounts payable	1,029	924
Liabilities to customers	831	727
Accrued services	742	525
Current income tax payable	553	1,240
Deferred tax liabilities	10	309
Salaries and social security payable	9	6
Other	48	27
Total	**24,169**	**110,235**

NOTE 15: SUBORDINATED BONDS AND LOANS (in HUF million)

	2015	2014
With the maturity over one year denominated in CHF	4,404	3,975

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 30 for further details of hedge accounting.

NOTE 16: SHARE CAPITAL (in HUF million)

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

	2015	2014
Share capital (in HUF million)	27,000	27,000

[1] For more details see Note 2.15.
[2] For more details (including types of derivatives) see Note 30.

NOTE 17: RETAINED EARNINGS AND RESERVES (in HUF million)

	2015	2014
Balance as at 1 January	**18,771**	**45,146**
Dividend paid	-	(5,097)
Net income after income taxes	18,812	(78,270)
Capital contributions from OTP Bank Plc. related to regulations of customer loans	17,456	56,581
Other comprehensive income	(216)	411
Balance as at 31 December	**54,823**	**18,771**

The Bank's retained earnings and reserves under IFRS were HUF 54,823 million and HUF 18,771 million as at 31 December 2015 and 2014 respectively. Retained earnings contain the net income after income taxes for the year ended 31 December 2015 HUF 18,812 million, the retained earnings from previous years HUF 65,448 million. During 2015 tied-up reserve was recognised due to the capital contribution of OTP Bank Plc. related to regulations of customer loans[1].

The Bank's reserves under Hungarian Accounting Standards ("HAS") were HUF 17,691 million and HUF 22,092 million as at 31 December 2015 and 2014 respectively. These amounts include general reserve amounting to HUF 8,314 million as at 31 December 2015.

Dividends are recognised in the period in which they are approved by the owners. In 2015 the Bank did not pay dividend. Regarding to the net income for the year 2015 dividend is expected to be proposed by the management in amount of HUF 30,960 million.

[1] See Note 2.15 for regulations related to customer loans.

NOTE 18: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

During 2015 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.

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.

Certain interest subsidised loans at OTP Mortgage Bank's portfolio are acquired from OTP Bank and the state provides one-off payment for these. As this one-off payment is fully transferred to OTP Bank, it is presented net in these financial statements. The one-off payment was HUF 0.57 million and HUF 0.54 million for the years ended 31 December 2015 and 2014.

Relevant elements of the currently available interest subsidised loans:

- the applicants can be residents of Hungary or residents outside Hungary
- purpose of the loan:
    - purchasing or building of new property
    - purchasing or modernisation or enlargement of used property
    - 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.

Due to the strict conditions the loan demand remains moderate. Loans granted at the end of 2015 about HUF 7,703 million based on the conditions of 2009 and HUF 77,293 million based on conditions of 2012. Net closing amount of the loan with the conditions of 2009 was HUF 5,605 million and for the conditions of 2012 was HUF 70,375 million.

NOTE 19: NET LOSS FROM FEES AND COMMISSIONS (in HUF million)

Income from fees and commissions

	2015	2014
Fees and commissions relating to lending	1,627	1,491
Other	266	145
Total	**1,893**	**1,636**

Expense from fees and commissions

	2015	2014
Fees and commissions relating to issued securities	139	154
Fees and commissions relating to lending	2,396	2,140
Total	**2,535**	**2,294**
Net loss from fees and commissions	**(642)**	**(658)**

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 20: OTHER ADMINISTRATIVE EXPENSES (in HUF million)

	2015	2014
Taxes, other than income tax:		
Bank tax	*8,759*	*8,759*
Credit institution's contribution	*2,401*	5,194
from this: credit institution's contribution based on the escrow account loans	*209*	*2,527*
Other taxes	*666*	*1,314*
Total taxes, other than income tax	11,826	15,267
Services	400	381
Professional fees	324	352
Rental fees	52	55
Material type expenses	21	22
Administration expenses	19	20
Advertising	1	7
Total	**12,643**	**16,104**

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. An amount of HUF 209 million was paid by the Bank as credit institution's contribution in connection with escrow account loans. Based on the approved regulation the whole amount of the exempted receivables were borne by the Government, and the Bank paid 50% credit institution's contribution based on these receivables.
The total amount of the bank tax is HUF 8,759 million recognised as an expense thus decreased the corporate tax base.

NOTE 21: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)

	2015	2014
Key executives (Managing Director and Deputies)	54	40
Total	**54**	**40**

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

NOTE 22: 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 2015 and 2014 is as follows:

	2015	2014
Current tax expense	42	3,772
Deferred tax (benefit)/expense	(248)	(2,300)
Total income tax (benefit)/expense	**(206)**	**1,472**

A reconciliation of the deferred tax liability as at 31 December 2015 and 2014 is as follows:

	2015	2014
Balance as at 1 January	**(309)**	**(2,512)**
Recognized in other comprehensive income as tax expense/(benefit)	51	(97)
Deferred tax benefit	248	2,300
Balance as at 31 December	**(10)**	**(309)**

A reconciliation of deferred tax assets and liabilities as at 31 December 2015 and 2014 is as follows:

	2015	2014
Fair value adjustment of available-for-sale financial assets	51	-
Below market fair value adjustment in accordance with regulations related to customer loans	1,548	-
Provisions	415	-
Refundable tax in accordance with Acts on Customer Loans	754	2,630
Deferred tax assets	**2,768**	**2,630**
Effect of using effective interest rate method	(2,759)	(2,910)
Amortized cost of issued securities	(14)	(21)
Difference in depreciation and amortization	(5)	(5)
Fair value adjustment for available-for-sale financial assets	-	(3)
Deferred tax liabilities	**(2,778)**	**(2,939)**
Net deferred tax liabilities	**(10)**	**(309)**

A reconciliation of the effective tax rate as at 31 December 2015 and 2014 is as follows:

	2015	2014
Profit / (loss) before income tax	18,606	(76,798)
Income tax at statutory tax rate (19%)	3,535	(14,591)
Income tax adjustments due to permanent differences are as follows:		
Losses related to Acts on Customer Loans	(2,313)	16,594
Tax refund in accordance with Acts on Customer Loans	(755)	-
Capital contribution	393	-
Other permanent differences	(1,066)	(531)
Income tax	**(206)**	**1,472**
Effective tax-rate	(1.11%)	(1.92%)

NOTE 23: 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.

	2015	2014
Net profit for the year (in HUF million)	18,812	(78,270)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	270,000	270,000
EPS (in HUF) basic and diluted	**69.674**	**(289.889)**

NOTE 24: 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[1]:

24.1. 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 financial risk classes is as follows. The table consists of only on-balance sheet items.

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**
Gross loan portfolio total	**1,030,452**	**33,098**	**7,626**	**1,071,176**
Allowance Total	***(10,165)***	***(12,595)***	***(3,134)***	***(25,894)***
Net loan portfolio total	**1,020,287**	**20,503**	**4,492**	**1,045,282**
Accrued interest				
Placements with other banks				20
Loans				5,181
Total accrued interest				**5,201**
Total placements with other banks				**70,590**
Total loans				**1,005,787**
Total allowance				***(25,894)***
Total				**1,050,483**

[1] The management of liquidity risk related to financial instruments are shown in Note 29.

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

24.1. Credit risk [continued]

Analysis by loan types [continued]

As at 31 December 2014

Loan type	DPD 0-90	DPD 90-360	DPD 360+	Total carrying amount /allowance
Placements with other banks	147,731	-	-	**147,731**
Loans to medium and large corporates	1,984	37	32	**2,053**
Retail loans	1,057,360	42,210	18,012	**1,117,582**
SME loans	3,013	22	-	**3,035**
Gross loan portfolio total	**1,210,088**	**42,269**	**18,044**	**1,270,401**
Allowance Total	***(8,823)***	***(12,780)***	***(6,087)***	***(27,690)***
Net loan portfolio total	**1,201,265**	**29,489**	**11,957**	**1,242,711**
Accrued interest				
Placements with other banks				70
Loans				6,468
Total accrued interest				**6,538**
Total placements with other banks				**147,801**
Total loans				**1,129,138**
Total allowance				***(27,690)***
Total				**1,249,249**

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 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	2,414	47	-	-	**2,461**
Total	**910,179**	**120,184**	**177**	**5**	**1,030,545**

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

24.1. Credit risk [continued]

As at 31 December 2014

Loan type	Not past due	DPD 0-90	DPD 90-360	DPD 360+	Total
Loans to medium and large corporates	1,789	49	-	-	**1,838**
Placements with other banks	147,731	-	-	-	**147,731**
Retail loans	821,800	51,479	251	153	**873,683**
SME loans	2,852	68	-	-	**2,920**
Total	**974,172**	**51,596**	**251**	**153**	**1,026,172**

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	**2015**	**2014**
Government guarantees	84,507	103,371
Mortgage	1,992,979	2,032,121
Total	**2,077,486**	**2,135,492**

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	**2015**	**2014**
Government guarantees	84,114	102,905
Mortgage	859,689	934,413
Total	**943,803**	**1,037,318**

Non-qualified gross loan portfolio by countries

	2015	**2014**
Hungary	1,000,460	1,026,019
Romania	146	152
Total	**1,000,606**	**1,026,171**

Restructured loans

	2015		**2014**	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	4,128	873	9,126	651
Total	**4,128**	**873**	**9,126**	**651**

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.

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

24.1. Credit risk [continued]

Available-for-sale securities as at 31 December 2015

	Ba1		Not rated		Total
Hungarian government bonds	11,320	100.00%	-	0.00%	11,320
Total	**11,320**	**100.00%**	**-**	**0.00%**	**11,320**
Accrued interest					337
Total					**11,657**

24.2. 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.

24.2.1. Interest rate sensitivity analysis[1]

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 0.85% (probable scenario)
2. gradually decreasing HUF basic interest rate to 0.35% (alternative scenario)

The net interest income in a one year period after January 1, 2016 would be decreased by HUF 152 million (probable scenario) and HUF 304 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):

24.2. Market risk

24.2.1. Interest rate sensitivity analysis[2] [continued]

Description		Effects to the net interest income in one year period	
		2015	2014
HUF	(0.1%) parallel shift	73	(124)
EUR	(0.1%) parallel shift	-	(7)
Total		**73**	**(131)**

[1] Quantitative data on interest rate risk are shown in Note 28
[2] Quantitative data on interest rate risk are shown in Note 28

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

24.2. Market risk [continued]

24.2.2. Foreign exchange rate sensitivity analysis[1]

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 11 million short on 31 December 2015, which consisted of EUR, CHF and JPY exposure. Foreign exchange risks are not material since conversion of the foreign currency denominated mortgage loans to HUF.

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

24.3. Equity sensitivity analysis

The Bank has no equity instruments held in 2015 and 2014, therefore not exposed to equity risk.

24.4. 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 in 2013 similar to prior years.
The capital adequacy calculations of the Bank for the year 2015 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 2015 the Mortgage Bank's solvency ratio is 11.35%. Regulatory capital is 45,466; the total required regulatory capital is 32,050.

In HUF million	**2015**	**2014**
Core capital	44,525	48,917
Supplementary capital	941	1,636
Regulatory capital	**45,466**	**50,553**
Credit risk capital requirement	29,202	36,101
Market risk capital requirement	307	42
Operational risk capital requirement	2,541	3,254
Total required regulatory capital	**32,050**	**39,397**
Surplus capital	**13,416**	**11,156**
Solvency ratio	**11.35%**	**10.27%**

[1] Quantitative data on foreign exchange rate risk are shown in Note 26

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

24.4. 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 25: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF million)

Off balance sheet items

	2015	2014
Current litigations	17,470	16,465
Loan facilities	7,893	5,531
Contingent liabilities ordered by law related to customer loans	2,069	85,807
from this: obligation payable to OTP Faktoring Ltd.	2,069	-
from this: obligation related to application of the bid-ask exchange rate spread	-	*13,978*
from this: obligation related to unilateral amendment of contractual clauses	-	*71,829*
Other contingent and future liabilities	117	4
Contingent and future liabilities total	**27,549**	***107,807***

NOTE 26: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

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	4,424	313,120	-	317,544
Net position	**78**	**(27)**	**(6)**	**45**

As at 31 December 2014

	CHF	EUR	JPY	Total
Assets	352,655	26,237	74,930	453,822
from this: loans concerned in conversion into HUF[1]	*339,660*	*25,066*	*74,121*	*438,847*
Liabilities	(132,267)	(320,453)	(13,027)	(465,747)
from this: provision for loans concerned in conversion into HUF	*(63,381)*	*(1,136)*	*(3,442)*	*(67,959)*
Off-balance sheet assets and liabilities, net	55,104	318,039	915	374,058
Net position	**275,492**	**23,823**	**62,818**	**362,133**

The table above provides an analysis of the Bank's main foreign currency exposures. The remaining foreign currencies are shown within 'Others'. Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

[1] Loans were converted into HUF at foreign exchange rates applied in conversion due to Acts on Customer loans so these do not bear further foreign currency risk or exposure.. See Note 2.15.

NOTE 27: RELATED PARTY TRANSACTIONS (in HUF million)

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

27.1.1. Outstanding balances in the Unconsolidated 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.:

Assets	**2015**	**2014**
Cash, amounts due from OTP Bank	27	393
Placements with OTP Bank	70,590	147,801
Financial assets at fair value through profit and loss	-	502
Accrued receivables	16	11
Fair value hedge derivatives – positive fair value	21,978	36,379

Liabilities	**2015**	**2014**
Amounts due to OTP Bank and other banks	270,911	296,909
Issued mortgage bonds held by OTP Bank	658,260	774,054
Accrued interest payable related to mortgage bonds held by OTP Bank	24,095	30,677
Financial liabilities at fair value through profit or loss	-	29
Other liabilities due to OTP Bank	737	7,262
Fair value hedge derivatives – negative fair value	17,771	3,666

27.1.2. Transactions in the Unconsolidated Statement of Recognized Income related to OTP Bank Plc.

	2015	**2014**
Interest income	1,090	4,975
Interest expense	62,852	63,752
Account handling fees paid to OTP Bank	15,706	3,390
Other fees and commissions relating to lending received from OTP Bank	135	137
Other fees and commissions relating to lending paid to OTP Bank	3,882	2,996
One-off payments fee (0.5%)	1	1
Revenue from the value appraisal activity from OTP Bank	127	138

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

	2015	**2014**
Performing loans purchased from OTP Bank	1,451	1,432
Book value of performing loans purchased from OTP Bank	1,453	1,440

27.2. 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 289.7 million as at 31 December 2015. These loans were covered by HUF 622.1 million mortgage.

27.3. Outstanding balances/Transactions related to other related party[1]

27.3.1. Transactions related to OTP Building Society Ltd.

	2015	**2014**
Issued mortgage bonds held by OTP Building Society Ltd.	5,359	5,392
Accrued interest payable related to mortgage bonds held by OTP Building Society Ltd.	184	185

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

	2015	**2014**
Book value of non-performing loans sold to OTP Faktoring Ltd.	4,444	19,851
Selling price of the non-performing loans related to OTP Faktoring Ltd.	3,557	15,781

[1]The Bank has significant transactions with OTP Building Society Ltd. and OTP Faktoring Ltd. in OTP Group, these transactions are highlighted.

NOTE 27: RELATED PARTY TRANSACTIONS (in HUF million) [continued]

27.3.3. Further Outstanding balances/Transactions related to other related party

	2015	**2014**
Accrued receivables due from other related party	21	-
Other liabilities due to other related party	29	47
Issued mortgage bonds held by OTP Fund Management Ltd.	2,550	2,565
Accrued interest payable related to mortgage bonds held by OTP Fund Management Ltd.	93	93
Other operating income from other related party	13	8
Revenue from the value appraisal activity from OTP Faktoring Ltd. and from other related party	142	63

Compensation of key management personnel is shown in Note 21.

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 28: 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.

NOTE 28: INTEREST RATE RISK MANAGEMENT [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		Total
ASSETS	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	
Cash, amounts due from banks and balances with the National Bank of Hungary	**40**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**40**	**2**	**42**
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest bearing	40	2	-	-	-	-	-	-	-	-	-	-	40	2	42
Placements with other banks	**70,570**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**20**	**-**	**70,590**	**-**	**70,590**
fixed interest	70,570	-	-	-	-	-	-	-	-	-	-	-	70,570	-	70,570
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest bearing	-	-	-	-	-	-	-	-	-	-	20	-	20	-	20
Securities available-for-sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**11,320**	**-**	**337**	**-**	**11,657**	**-**	**11,657**
fixed interest	-	-	-	-	-	-	-	-	11,320	-	-	-	11,320	-	11,320
non-interest bearing	-	-	-	-	-	-	-	-	-	-	337	-	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**	**979,894**
variable interest	222,685	175	381,016	251	39,711	628	46,284	-	283,963	-	-	-	973,659	1,054	974,713
non-interest bearing	-	-	-	-	-	-	-	-	-	-	5,178	3	5,178	3	5,181
Derivative financial instruments	**-**	**468,428**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**468,428**	**468,428**
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	468,428	-	-	-	-	-	-	-	-	-	-	-	468,428	468,428

NOTE 28: 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		Total
LIABILITIES	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	
Amounts due to OTP Bank and other banks	**83,085**	**1,067**	**186,759**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**597**	**-**	**270,441**	**1,067**	**271,508**
fixed interest	13,085	1,067	-	-	-	-	-	-	-	-	-	-	13,085	1,067	14,152
variable interest	70,000	-	186,759	-	-	-	-	-	-	-	-	-	256,759	-	256,759
non-interest bearing	-	-	-	-	-	-	-	-	-	-	597	-	597	-	597
Liabilities from issued securities	**-**	**315,795**	**151,260**	**-**	**4,720**	**-**	**389**	**-**	**206,988**	**-**	**28,415**	**694**	**391,772**	**316,489**	**708,261**
fixed interest	-	-	151,260	-	4,720	-	389	-	206,988	-	-	-	363,357	-	363,357
variable interest	-	315,795	-	-	-	-	-	-	-	-	-	-	-	315,795	315,795
non-interest bearing	-	-	-	-	-	-	-	-	-	-	28,415	694	28,415	694	29,109
Derivative financial instruments	**318,683**	**145,538**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**318,683**	**145,538**	**464,221**
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	318,683	145,538	-	-	-	-	-	-	-	-	-	-	318,683	145,538	464,221
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated bonds and loans	**-**	**4,381**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**23**	**-**	**4,404**	**4,404**
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	4,381	-	-	-	-	-	-	-	-	-	-	-	4,381	4,381
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	23	-	23	23
NET POSITION	**(108,473)**	**1,824**	**42,997**	**251**	**34,991**	**628**	**45,895**	**-**	**88,295**	**-**	**(23,477)**	**(714)**	**80,228**	**1,989**	**82,217**

NOTE 28: **INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

31 December 2014	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		Total
ASSETS	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	**13**	**386**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**386**	**399**
variable interest	13	386	-	-	-	-	-	-	-	-	-	-	13	386	399
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Placements with other banks	**112,480**	**-**	**23,755**	**11,496**	**-**	**-**	**-**	**-**	**-**	**-**	**69**	**1**	**136,304**	**11,497**	**147,801**
fixed interest	112,480	-	23,755	-	-	-	-	-	-	-	-	-	136,235	-	136,235
variable interest	-	-	-	11,496	-	-	-	-	-	-	-	-	-	11,496	11,496
non-interest bearing	-	-	-	-	-	-	-	-	-	-	69	1	69	1	70
Loans, net of allowances for loan losses	**214,693**	**447,164**	**75,004**	**-**	**40,552**	**-**	**30,340**	**-**	**287,227**	**-**	**4,797**	**1,671**	**652,613**	**448,835**	**1,101,448**
variable interest	214,693	447,164	75,004	-	40,552	-	30,340	-	287,227	-	-	-	647,816	447,164	1,094,980
non-interest bearing	-	-	-	-	-	-	-	-	-	-	4,797	1,671	4,797	1,671	6,468
Derivative financial instruments	**5,245**	**546,013**	**-**	**38,020**	**92,605**	**162,206**	**-**	**-**	**-**	**-**	**-**	**-**	**97,850**	**746,239**	**844,089**
fixed interest	5,245	14,355	-	38,020	92,605	162,206	-	-	-	-	-	-	97,850	214,581	312,431
variable interest	-	531,658	-	-	-	-	-	-	-	-	-	-	-	531,658	531,658

NOTE 28: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

31 December 2014	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		Total
LIABILITIES	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	
Amounts due to OTP Bank and other banks	**223,663**	**9,338**	**-**	**63,800**	**-**	**-**	**-**	**-**	**-**	**-**	**26**	**83**	**223,689**	**73,221**	**296,910**
fixed interest	283	9,338	-	63,800	-	-	-	-	-	-	-	-	283	73,138	73,421
variable interest	223,380	-	-	-	-	-	-	-	-	-	-	-	223,380	-	223,380
non-interest bearing	-	-	-	-	-	-	-	-	-	-	26	83	26	83	109
Liabilities from issued securities	**-**	**158,056**	**9**	**160,725**	**114,755**	**-**	**155,925**	**-**	**208,398**	**-**	**34,298**	**983**	**513,385**	**319,764**	**833,149**
fixed interest	-	-	9	-	114,755	-	155,925	-	208,398	-	-	-	479,087	-	479,087
variable interest	-	158,056	-	160,725	-	-	-	-	-	-	-	-	-	318,781	318,781
non-interest bearing	-	-	-	-	-	-	-	-	-	-	34,298	983	34,298	983	35,281
Derivative financial instruments	**44,830**	**275,515**	**37,561**	**-**	**224,329**	**228,668**	**-**	**-**	**-**	**-**	**-**	**-**	**306,720**	**504,183**	**810,903**
fixed interest	14,338	5,248	37,561	-	-	-	-	-	-	-	-	-	51,899	5,248	57,147
variable interest	30,492	270,267	-	-	224,329	228,668	-	-	-	-	-	-	254,821	498,935	753,756
Subordinated bonds and loans	**-**	**3,948**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**26**	**-**	**3,974**	**3,974**
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	3,948	-	-	-	-	-	-	-	-	-	-	-	3,948	3,948
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	26	-	26	26
NET POSITION	**63,938**	**546,706**	**61,189**	**(175,009)**	**(205,927)**	**(66,462)**	**(125,585)**	**-**	**78,829**	**-**	**(29,458)**	**580**	**(157,014)**	**305,815**	**148,801**

NOTE 29: MATURITY ANALYSIS OF 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 2015	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
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
TOTAL LIABILITIES	**200,471**	**407,370**	**221,950**	**150,000**	**979,791**
Receivables from derivative financial instruments designated as fair value hedge	-	125,248	-	-	125,248
Liabilities from derivative financial instruments designated as fair value hedge	-	(142,818)	-	-	(142,818)
Negative fair value of financial instruments designated as fair value hedge	**-**	**(17,570)**	**-**	**-**	**(17,570)**
Negative fair value of derivative financial instruments total	**-**	**(17,570)**	**-**	**-**	**(17,570)**
Commitments to extend credit	225	341	7,327	-	7,893
Off-balance sheet commitments	**225**	**341**	**7,327**	**-**	**7,893**

NOTE 29: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]

As at 31 December 2014	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Amounts due to OTP Bank and other banks	198,141	98,380	-	-	296,521
Liabilities from issued securities	195,947	113,243	352,706	160,000	821,896
Other liabilities	106,261	-	-	-	106,261
Subordinated bonds and loans	26	-	3,948	-	3,974
TOTAL LIABILITIES	**500,375**	**211,623**	**356,654**	**160,000**	**1,228,652**
Receivables from derivative financial instruments classified as held for trading	31,158	-	-	-	31,158
Liabilities from derivative financial instruments classified as held for trading	(31,225)	-	-	-	(31,225)
Net notional value of financial instruments classified as held for trading	**(67)**	**-**	**-**	**-**	**(67)**
Receivables from derivative financial instruments designated as fair value hedge	-	-	125,956	-	125,956
Liabilities from derivative financial instruments designated as fair value hedge	-	-	(125,406)	-	(125,406)
Negative fair value of financial instruments designated as fair value hedge	**-**	**-**	**550**	**-**	**550**
Negative fair value of derivative financial instruments total	**(67)**	**-**	**550**	**-**	**483**
Commitments to extend credit	220	127	5,184	-	5,531
Off-balance sheet commitments	**220**	**127**	**5,184**	**-**	**5,531**

NOTE 30: 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 31 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

	2015		2014	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, due from banks and balances with the National Bank of Hungary	42	42	399	399
Placements with other banks	70,590	70,590	147,801	147,801
Securities available-for-sale	11,657	11,657	-	-
Financial assets at fair value through profit and loss	-	-	502	502
Loans, net of allowance for loan losses[1]	979,893	1,746,674	1,101,447	1,746,674
FINANCIAL ASSETS TOTAL	**1,062,182**	**1,828,963**	**1,250,149**	**1,895,376**
Amounts due to OTP Bank and other banks	271,508	271,508	296,909	296,909
Liabilities from issued securities	708,261	883,869	833,149	883,869
Financial liabilities at fair value through profit and loss	-	-	29	29
Derivative financial instruments designated as hedging instruments	17,771	17,771	3,666	3,666
Subordinated bonds and loans	4,404	4,404	3,975	3,975
FINANCIAL LIABILITIES TOTAL	**1,001,944**	**1,177,552**	**1,137,728**	**1,188,448**

[1] The difference between the carrying amount and the fair value derived from the interest subsidies related to housing loans.

NOTE 30: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value of derivative instruments

	Fair value		Notional value, net	
	2015	2014	2015	2014
Foreign exchange swaps designated as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	-	502	-	527
Negative fair value of foreign exchange swaps classified as held for trading	-	(29)	-	(27)
CCIRS designated as fair value hedge				
Positive fair value of CCIRS classified as fair value hedge	21,978	36,379	21,872	36,037
Negative fair value of CCIRS classified as fair value hedge	(17,771)	(3,666)	(17,570)	550
Derivative financial assets total	**21,978**	**36,881**	**21,872**	**36,564**
Derivative financial liabilities total	**(17,771)**	**(3,695)**	**(17,570)**	**523**
Derivative financial instruments total	**4,207**	**33,186**	**4,302**	**37,087**

Hedge accounting

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

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

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	-	-	-

As at 31 December 2014

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 32,713 million	Interest rate, foreign exchange
3) Net investment hedge in foreign operations	-	-	-

NOTE 30: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Cash-flow hedge - Issued securities

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the EUR/HUF foreign exchange rate. The FX risk arising from this type of securities was hedged by EUR-HUF CCIRS transactions, where the fixed EUR cash-flows were swapped to fixed HUF cash-flows. The critical terms of the issued securities and the swap transactions are matched (maturity, cash-flows). The hedging transactions were terminated as of 15 December 2008. The net gains on the settlement of the swap transaction were reported in the cash-flow hedging reserve in the other comprehensive income. During 2014 HUF 507 million was recognized as income in proportion with the profit or loss impacts of the hedged item to the net income.

Cash-flow hedges	**2015**	**2014**
Amount reclassified from other comprehensive income to profit or loss for the year	-	507

Fair value hedges - Issued securities

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the EUR/CHF, CHF/HUF and JPY/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 EUR-CHF and HUF-JPY CCIRS transactions, where the fixed EUR or HUF cash-flows were swapped to payments linked to 3 CHF or JPY LIBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

The fair value of the hedging instruments is 3,668 HUF million and HUF 32,606 million as at 31 December 2015 and 2014 respectively.

As at 31 December 2015

Types of hedged instrument	**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

As at 31 December 2014

Types of hedged instrument	**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	565,229	3,969	147	(147)
Liabilities from issued securities	CCIRS	30,385	2,300	378	(378)
Liabilities from issued securities	CCIRS	149,269	26,337	(2,372)	2,372

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 539 HUF million and HUF 107 million as at 31 December 2015 and 2014 respectively.

NOTE 30: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value hedges – Subordinated loans [continued]

As at 31 December 2015

Types of hedged instrument	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)

As at 31 December 2014

Types of hedged instrument	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	3,606	107	20	(20)

Fair value hierarchy

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

- 1st Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2nd Level: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly;
- 3rd 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 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	21,978	-	21,978	-
Financial assets measured at fair value total	**33,298**	**11,320**	**21,978**	**-**
Negative fair value of derivative financial instruments designated as fair value hedge	17,771	-	17,771	-
Financial liabilities measured at fair value total	**17,771**	**-**	**17,771**	**-**

As at 31 December 2014

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	502	-	502	-
Positive fair value of derivative financial instruments designated as fair value hedge	36,379	-	36,379	-
Financial assets measured at fair value total	**36,881**	**-**	**36,881**	**-**
Financial liabilities at fair value through profit or loss	29	-	29	-
Negative fair value of derivative financial instruments designated as fair value hedge	3,666	-	3,666	-
Financial liabilities measured at fair value total	**3,695**	**-**	**3,695**	**-**

There were no financial assets and liabilities at fair value in Level 3 respectively in 2015 and 2014.

NOTE 31: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HAS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)

	Retained Earnings and Reserves as at 1 January 2015	Net profit for the year ended 31 December 2015	Direct Movements on Reserves	Retained Earnings and Reserves as at 31 December 2015
Financial Statements in accordance with HAS	**22,093**	**83,140**	**(87,541)**	**17,692**
Fair value adjustment of securities available-for-sale	-	-	(267)	(267)
Application of effective interest rate on direct issuance costs of securities	109	(35)	-	74
Effect of using effective interest rate method for loan origination fees and cost	15,316	(797)	-	14,519
Fair value adjustment of derivative financial instruments	14	(14)	-	-
Provision for adjustment of amortised cost of customers loans concerned with Curia Law	(4,610)	4,610	-	-
Provision for future losses due to derecognition of foreign currency denominated loans	(13,842)	13,842	-	-
Below market fair value adjustment of customer loans concerned with Curia Law	-	(8,145)	-	(8,145)
Effect of capital contribution received from OTP Bank Plc.	-	(74,037)	74,037	-
Dividend payable for 2015	-	-	30,960	30,960
Deferred taxation	(309)	248	51	(10)
Financial Statements in accordance with IFRS	**18,771**	**18,812**	**17,240**	**54,823**

NOTE 32: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2015

Relevant transactions related to issued securities

See Note 12.

Government measures related to customer loan contracts

See Note 2.15.

NOTE 33: POST BALANCE SHEET EVENTS

Relevant transactions related to issued securities

See Note 12.

NOTE 34: THE EFFECT OF THE FINANCIAL SITUATION ON THE BANK

The deepest point of the real estate and financial crisis was left behind, in 2015 significant increase was both in buying and selling of real estates and in the loan applications, but this level is far beyond as it was before the financial crisis. However number of construction of new real estate is very low.

Loan interests decreased continuously due to low inflation and interest environment which contributed to the growth of loan demand. Market volume of mortgage loans was HUF 404.5 billion in 2015 compared to the previous year’s volume which was HUF 276.6 billion.

In this year the government’s and the Bank’s consideration and financial resources concentrated on the debtors with financial difficulties. The most important element of these measurements was the conversion of foreign exchange denominated loans to HUF loans, however deteriorating tendencies occurred later again. In accordance with NBH’s report in the first quarter DPD90+ debtor’s rate decreased from 14.0 % to 10.2 %, but as a result of the deterioration in the following quarters it increased to 12.5 %. Furthermore the rate of free purpose mortgage loans decreased in the first quarter from 30.5 % to 21.8 %, and then it rose to 31.3 % by the end of the year.