OTP BANK PLC.

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

FOR THE YEAR ENDED
31 DECEMBER 2014

CONTENTS

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements (page 4 to 93) of OTP Bank Plc for the year 2014, which separate financial statements comprise the separate statement of financial position as at December 31, 2014 and the related separate statement of recognized income, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of OTP Bank Plc. as at December 31, 2014, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Matters

In the note 2.3 of the separate financial statements which states that the consolidated financial statements of OTP Bank Plc. prepared in accordance with International Financial Reporting Standards have been published separately. The consolidated financial statements of OTP Bank Plc. as of and for the year ended December 31, 2014 were audited by us and our report dated March 17, 2015 expressed an unqualified opinion.

Budapest, March 17, 2015

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Gábor Gion
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OTP BANK PLC.
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014
(in HUF mn)

	Note	2014	2013
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	1,897,778	140,521
Placements with other banks, net of allowance for placement losses	*5.*	712,112	632,899
Financial assets at fair value through profit or loss	*6.*	351,753	396,565
Securities available-for-sale	*7.*	1,215,907	1,997,491
Loans, net of allowance for loan losses	*8.*	1,908,631	2,144,701
Investments in subsidiaries, associates and other investments	*9.*	604,209	669,322
Securities held-to-maturity	*10.*	662,947	525,049
Property and equipment	*11.*	68,114	85,447
Intangible assets	*11.*	36,091	31,554
Other assets	*12.*	97,930	49,486
TOTAL ASSETS		**7,555,472**	**6,673,035**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	*13.*	1,142,491	902,744
Deposits from customers	*14.*	4,235,256	3,677,450
Liabilities from issued securities	*15.*	162,667	170,779
Financial liabilities at fair value through profit or loss	*16.*	375,363	204,517
Other liabilities	*17.*	253,952	242,444
Subordinated bonds and loans	*18.*	294,612	278,241
TOTAL LIABILITIES		**6,464,341**	**5,476,175**
Share capital	*19.*	28,000	28,000
Retained earnings and reserves	*20.*	1,070,204	1,175,591
Treasury shares	*21.*	(7,073)	(6,731)
TOTAL SHAREHOLDERS' EQUITY		**1,091,131**	**1,196,860**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**7,555,472**	**6,673,035**

Budapest, 17 March 2015

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Dr. Sándor Csányi
Chairman and Chief Executive Officer

OTP BANK PLC.
SEPARATE STATEMENT OF RECOGNIZED INCOME FOR THE YEAR ENDED 31 DECEMBER 2014 (in HUF mn)

	Note	2014	2013
Interest Income:			
Loans		162,533	189,073
Placements with other banks, net of allowance for placement losses		128,444	246,968
Securities available-for-sale		72,056	102,376
Securities held-to-maturity		36,518	30,027
Amounts due from banks and balances with National Bank of Hungary		15,556	3,720
Total Interest Income		**415,107**	**572,164**
Interest Expense:			
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		127,809	237,984
Deposits from customers		52,544	96,199
Liabilities from issued securities		4,206	15,241
Subordinated bonds and loans		16,825	16,922
Total Interest Expense		**201,384**	**366,346**
NET INTEREST INCOME		**213,723**	**205,818**
Provision for impairment on loan and placement losses	*5.,8.,22.*	23,213	30,533
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**190,510**	**175,285**
Income from fees and commissions	*23.*	169,041	157,994
Expenses from fees and commissions	*23.*	22,495	24,053
Net profit from fees and commissions		**146,546**	**133,941**
Foreign exchange gains		20,581	5,901
Gains on securities, net		8,752	12,423
Dividend income	*9.*	42,795	47,583
Other operating income	*24.*	3,294	3,672
Net other operating expenses	*24.*	(285,883)	(78,663)
-from this: provision for impairment on investments in subsidiaries	*9.*	*(226,730)*	(52,550)
-from this: provision on contingent liabilities due to regulations related to customer loans	*2.26, 24.*	*(43,795)*	-
Net operating income		**(210,461)**	**(9,084)**
Personnel expenses	*24.*	87,458	85,760
Depreciation and amortization	*24.*	22,177	21,657
Other administrative expenses	*24.*	134,793	138,392
Other administrative expenses		**244,428**	**245,809**
(LOSS) / PROFIT BEFORE INCOME TAX		**(117,833)**	**54,333**
Income tax (benefit) / expense	*25.*	(43,364)	6,442
NET (LOSS) / PROFIT FOR THE YEAR		**(74,469)**	**47,891**
Earnings per share (in HUF)			
Basic	*35.*	(268)	172
Diluted	*35.*	(267)	172

OTP BANK PLC.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014 (in HUF mn)

	2014	2013
NET (LOSS) / PROFIT FOR THE YEAR	**(74,469)**	**47,891**
Fair value adjustment of securities available-for-sale	12,777	1,024
NET COMPREHENSIVE INCOME	**(61,692)**	**48,915**

OTP BANK PLC.
SEPARATE STATEMENT OF CASH-FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014 (in HUF mn)

	Note	2014	2013
OPERATING ACTIVITIES			
(Loss) / profit before income tax		(117,833)	54,333
Depreciation and amortization		22,177	21,657
Provision for impairment on loan and placement losses	*5.,8.,22*	23,213	30,533
Provision for impairment on investments in subsidiaries	*9.*	226,730	52,550
Provision for impairment on other assets	*12.*	2,763	281
Provision on off-balance sheet commitments and contingent liabilities	*17.*	42,683	3,021
Share-based payment	*28.*	4,393	5,704
(Unrealised losses) / gains on fair value adjustment of securities available-for-sale and held for trading		(2,903)	863
Unrealised gains on fair value adjustment of derivative financial instruments		5,401	12,629
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		219,463	(199,419)
Changes in financial liabilities at fair value through profit or loss		(1,990)	408
Net decrease in loans, net of allowance for loan losses		205,341	158,480
Increase in other assets, excluding advances for investments and before provisions for losses		(14,009)	(12,839)
Net increase in deposits from customers		557,789	176,857
(Decrease) / increase in other liabilities		(17,335)	10,694
Net (increase) / decrease in the compulsory reserve established by the National Bank of Hungary		(57,365)	3,477
Dividend income		(42,795)	(47,583)
Income tax paid		(2,864)	(5,370)
Net cash provided by operating activities		**1,052,859**	**266,276**
INVESTING ACTIVITIES			
Net (increase) / decrease in placements with other banks before allowance for placement losses		(79,217)	32,496
Increase in securities available-for-sale		(14,729,107)	(23,239,766)
Decrease in securities available-for-sale		15,525,643	23,193,007
Net increase in investments in subsidiaries		(161,617)	(60,520)
Dividend income		42,795	47,583
Increase in securities held-to-maturity		(154,743)	(151,139)
Decrease in securities held-to-maturity		20,663	2,097
Additions to property, equipment and intangible assets		(18,426)	(47,794)
Disposal to property, equipment and intangible assets		7,185	16,941
Net increase in advances for investments included in other assets		(36)	(11)
Net cash provided by / (used in) investing activities		**453,140**	**(207,106)**

31 DECEMBER 2014 (in HUF mn) [continued]

	Note	2014	2013
FINANCING ACTIVITIES			
Net increase in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		239,747	75,776
Cash received from issuance of securities		56,165	72,186
Cash used for redemption of issued securities		(69,387)	(243,974)
Increase / (decrease) in subordinated bonds and loans		16,371	(25,509)
Payments to ICES holders	*20.*	(4,159)	(4,288)
Net change in Treasury shares		(4,250)	(1,316)
Dividend paid		(40,594)	(33,595)
Net cash provided by / (used in) financing activities		**193,893**	**(160,720)**
Net increase / (decrease) in cash and cash equivalents		**1,699,892**	**(101,550)**
Cash and cash equivalents at the beginning of the year		**62,835**	**164,385**
Cash and cash equivalents at the end of the year[1]		**1,762,727**	**62,835**
Analysis of cash and cash equivalents:			
Cash, amounts due from banks and balances with the National Bank of Hungary		140,521	245,548
Compulsory reserve established by the National Bank of Hungary		(77,686)	(81,163)
Cash and cash equivalents at the beginning of the year		**62,835**	**164,385**
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	1,897,778	140,521
Compulsory reserve established by the National Bank of Hungary	*4.*	(135,051)	(77,686)
Cash and cash equivalents at the end of the year		**1,762,727**	**62,835**

[1] See Note 5 and 6

OTP BANK PLC.
SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (in HUF mn)

	Note	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Total
Balance as at 1 January 2013		28,000	52	10,800	1,202,132	(55,468)	(4,934)	1,180,582
Net profit for the year		-	-	-	47,891	-	-	47,871
Other comprehensive income		-	-	-	1,024	-	-	1,024
Share-based payment	*28.*	-	-	5,704	-	-	-	5,704
Payments to ICES holders		-	-	-	(3,425)	-	-	(3,425)
Sale of treasury shares	*21.*	-	-	-	-	-	17,943	17,943
Loss on sale of treasury shares		-	-	-	481	-	-	481
Acquisition of treasury shares	*21.*	-	-	-	-	-	(19,740)	(19,740)
Dividend for the year 2012		-	-	-	(33,600)	-	-	(33,600)
Balance as at 31 December 2013		28,000	52	16,504	1,214,503	(55,468)	(6,731)	1,196,860
Net loss for the year		-	-	-	(74,469)	-	-	(74,469)
Other comprehensive income		-	-	-	12,777	-	-	12,777
Share-based payment	*28.*	-	-	4,393	-	-	-	4,393
Payments to ICES holders		-	-	-	(3,580)	-	-	(3,580)
Sale of treasury shares	*21.*	-	-	-	-	-	27,180	27,180
Loss on sale of treasury shares		-	-	-	(3,908)	-	-	(3,908)
Acquisition of treasury shares	*21.*	-	-	-	-	-	(27,522)	(27,522)
Dividend for the year 2013		-	-	-	(40,600)	-	-	(40,600)
Balance as at 31 December 2014		28,000	52	20,897	1,104,723	(55,468)	(7,073)	1,091,131

The accompanying notes to separate financial statements on pages 10 to 93 form an integral part of these separate financial statements.

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

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

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

These financial statements were approved by the board of directors and authorised for issue on 17 March 2015.

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

	2014	2013
Domestic and foreign private and institutional investors	97%	97%
Employees	2%	2%
Treasury shares	1%	1%
Total	**100%**	**100%**

The Bank provides a full range of commercial banking services through a nationwide network of 381 branches in Hungary.

Number of the employees of the Bank:

	2014	2013
Number of employees	8,016	8,133
Average number of employees	8,004	8,074

1.2. Accounting

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

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

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial standards. Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with the International Financial Reporting Standards ("IFRS"). Certain adjustments have been made to the Bank's Hungarian separate statutory accounts (see Note 38), in order to present the separate financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").

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

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

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2014

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

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements" – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 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 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 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 1, 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),
- 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),
- IFRIC 21 "Levies" adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

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

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),
- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2017),
- 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 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (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 (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 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- 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 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.
According to the Entity's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements except of the application of IFRS 9 which might have significant impact on the Bank separate financial statements, the Bank will analyse the impact after the adoption of the standard by EU.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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

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

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future separate financial statements.

2.2. Foreign currency translation

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

2.3. Consolidated financial statements

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

2.4. Investments in subsidiaries

Investments in subsidiaries comprise those investments where OTP Bank, through direct and indirect ownership interest, controls the financial and operating policies of the investee.

Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.
Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

OTP Bank calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash-generating units.

OTP Bank in its strategic plan has taken into consideration the cautious recovery of global economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities held-to-maturity

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

2.6. Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognized in profit or loss and are included in the separate statement of recognized income for the period. The Bank mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income since 31 December 2013. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, shares in non-financial commercial companies, shares in investment funds, shares in venture capital funds and shares in financial institutions.

2.6.2. Derivative financial instruments

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost its entire open derivative transactions collateralised. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the separate statement of recognized income for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

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

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

2.8. Offsetting

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

2.9. Embedded derivatives

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

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

2.10. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale securities are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognized in other comprehensive income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realised in profit or loss for the applicable period. Securities available-for-sale consists of Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in investment funds and venture capital funds, corporate bonds and foreign securities.

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

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

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

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

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

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the statement of financial position and the consideration received is recorded in Other liabilities or Amounts due to banks and the Hungarian Government, deposits from the National Bank of Hungary and other banks, or Deposits from customers. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the statement of financial position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement.
In the case of security lending transactions the Bank does not recognize or derecognize the securities because it is believed that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.13. Property, equipment and intangible assets

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

Intangible assets	
Software	15-33.3%
Property rights	16.7%
Property	1-2%
Office equipment and vehicles	9-33.3%

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

If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.
Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

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

2.14. Financial liabilities

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.15. Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the separate statement of recognized income over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.
Payments made under operating leases are charged to the separate statement of recognized income on a straight-line basis over the life of the lease terms. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.16. Treasury shares

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

2.17. Interest income and interest expense

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

2.18. Fees and Commissions

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

2.19. Dividend income

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

2.20. Income tax

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.21. Off-balance sheet commitments and contingent liabilities

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

2.22. Share-based payment and employee benefit

The Bank has applied the requirements of IFRS 2 Share-based Payment.
The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Bank has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in financial statements.

2.23. Separate statement of cash-flows

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

2.24. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.
Based on the above, the segments identified by the Bank are the business and geographical segments.
At separate level, the Management does not separate and makes decisions based on different segments; the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the business and geographical segments.
The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, other subsidiaries, Corporate Centre.

2.25. Comparative figures

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.26. Government measures related to customer loan contracts

Act XXXVIII of 2014 on "Settlement of certain issues concerning the Uniformity Decision of the Supreme Court related to customer loan agreements[1] provided by financial institutions" ("Curia Law") was promulgated on 18 July 2014.
The Hungarian Parliament has adopted on 24 September 2014 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"), based on that financial institutions need to settle up with their clients on account of overpayments arisen from invalidity of the bid-ask exchange rate spread and unilateral amendment of contractual clauses.
Act on Settlement has specified the regulations of Curia Law; obligation of settlement does not apply to credit cards, current account loans and mortgage housing loans supported by State. Furthermore amount due to consumers can be reduced by total amount of allowances.
Act LXXVII of 2014 on "Settlement of certain issues concerning the modification of the currency and interest conditions related to customer loan agreements" was promulgated. The act includes regulations about the conversion of foreign currency consumer mortgage loans into HUF which became legally effective on 1 February 2015 ("Act on Conversion into HUF"). Hereinafter three acts together are called as Acts on Customer Loans.

Based on these regulations OTP Bank recognised the following items in the financial statements as at 31 December 2014:

a) Act on Settlement

OTP Bank's reimbursement obligation related to invalidity of the bid-ask exchange rate spread will be prospectively in amount of HUF 7.4 billion. Related to bid-ask exchange rate spread OTP Bank recognised provision for impairment in the amount of HUF 332 million during the year 2013.
Based on unilateral amendment of contractual clauses being assumed unfair, OTP Bank, based on estimation of the amount of expected obligation related to loans under legal proceeding, recognised provision for impairment in the amount of HUF 36.7 billion. In case of these amounts, provision for impairment on mortgage loans concerned in conversion into HUF was recognised at foreign exchange rates applied in conversion into HUF in financial statements as at 31 December 2014 (CHF: 256.47; EUR: 308.97; JPY: 2.163).
In case of loans not concerned in conversion into HUF – mostly foreign currency customer loans – the provision for impairment was recognized at foreign exchange rates according to NBH as at 31 December 2014 in these financial statements.
OTP Bank is recognising the provision on contingent liabilities related to Act on Settlement among the provision on other liabilities, off-balance sheet commitments and contingent liabilities in the IFRS financial statements.

b) Act on Conversion into HUF

Based on the Act on Conversion into HUF, in case of mortgage loans concerned in conversion into HUF, OTP Bank records the foreign currency loans, provision for impairment, accrued interest and provision at foreign exchange rates applied in conversion into HUF in IFRS financial statements as at 31 December 2014.

The foreign currency loans concerned in conversion into HUF need to be derecognised at the time of conversion into HUF from IFRS financial statements and the HUF loans need to be recognised as new loans. According to IFRS, HUF loans shall be recognised initially at fair value. Based on expected negative fair value of loans, provision for impairment was recognised in the amount of HUF 456 million in the Bank's separate IFRS financial statements.

c) Effect of the Acts on Customer Loans on the Group

Provision on losses expected from bid-ask exchange rate spread and unilateral amendment was recognised up to OTP Bank's separate expected losses in the Bank's financial statements as at 31 December 2014. Provision on expected losses in case of subsidiaries is recognised by subsidiaries in their financial statements.

[1] Uncovered consumer loans and covered retail – mortgage and mortgage backed – loans, excluding SME loans are considered as customer loans.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.26. Government measures related to customer loan contracts [continued]

In the level of the Group provision recognised due to Act on Settlement is the following (in HUF mn):

OTP Bank Plc.	44,127
OTP Mortgage Ltd.	88,537
Merkantil Bank Ltd.	20,066
Merkantil Car Ltd.	2,283
OTP Real Estate Leasing Ltd.	4,963
Total	**159,976**

In order to eliminate the negative effects of the Acts on its subsidiaries' financial position and to secure the continuous capital adequacy, OTP Bank provided capital contribution in amount of HUF 78,304 million in December 2014. At the same amount investment in subsidiaries were increased.

OTP Mortgage Bank Ltd.	56,581
Merkantil Bank Ltd.	16,826
OTP Real Estate Leasing Ltd.	4,897
Total	**78,304**

At the same amount provision for impairment on investment in subsidiaries was recognised.

OTP Group still maintains the point of view that the group members keep completely the effective regulations during its loan activity practice.

d) Introduction of deferred tax relating to acts on customer loans

Prescription 29/ZS § of the Act LXXXI of 1996[1] enables – based on accounting regulations in 44§ of Act on Settlement – to recognise tax difference ("tax receivables") calculated for clients' overpayments relating to customer loan agreements in the form of corporate tax, special tax of business partnerships, local business tax, innovation contribution, special tax of financial institutions, up to the tax declared and paid for the 2008-2014 tax years. Tax receivable shall be deducted from the amount of corporate tax payable for the 2015 and the following tax years.

Furthermore prescription 29/ZS § of the Act LXXXI of 1996 enables to provide non-repayable financial support or grant for subsidiaries, for covering the costs and expenses directly incurred in connection with implementation of the Act on Settlement. This support has been claimed as expense during calculation of corporate tax. OTP Bank proposes to provide financial support for its subsidiaries to cover their losses.

The Bank recognized 30.5 billion HUF deferred tax receivable in the separate financial statements prepared for year 2014 due to the expecting tax receivable based on act on settlement and considering the contribution provided to the subsidiaries.

e) Derivative deals contracted due to the obligations in relation with the act on customer loan agreements

The Bank hedged its theoretically opened position due to the effect of Act on Settlement and Act on Conversion into HUF with spot and derivative deals contracted with NBH. With those subsidiaries which were affected by the Act on Settlement the Bank concluded further derivative deals to have been covered all the opened foreign exchange positions of the subsidiaries, so all the opened foreign exchange position was covered on Group level by EUR/CHF market transactions.

[1] on Corporate Tax and Dividend Tax

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

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

3.1. Impairment on loans and placements

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

3.2. Valuation of instruments without direct quotations

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

3.3. Provisions

Provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 17.)
A provision is recognized by the Bank when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

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

	2014	2013
Cash on hand:		
In HUF	65,059	67,325
In foreign currency	5,579	5,223
	70,638	**72,548**
Amounts due from banks and balances with National Bank of Hungary[1]:		
Within one year:		
In HUF	1,795,868	48,235
In foreign currency	30,640	19,529
	1,826,508	**67,764**
Accrued interest	632	209
Total	**1,897,778**	**140,521**
Compulsory reserve	135,051	77,686
Rate of the compulsory reserve	3%	2%

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

	2014	2013
Within one year:		
In HUF	294,712	224,619
In foreign currency	302,186	336,912
	596,898	**561,531**
Over one year		
In HUF	5,000	40,000
In foreign currency	108,586	29,222
	113,586	**69,222**
Total placements	**710,484**	**630,753**
Accrued interest	1,654	2,168
Provision for impairment on placement losses	(26)	(22)
Total	**712,112**	**632,899**

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

	2014	2013
Balance as at 1 January	**22**	**-**
Provision for the year	4	22
Balance as at 31 December	**26**	**22**

[1] Securities issued by the NBH were changed into two-weeks NBH deposit during the year ended 31 December 2014.

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

Interest conditions of placements with other banks (%):

	2014	2013
Placements with other banks in HUF	3%-6.6%	2.5%-7.49%
Placements with other banks in foreign currency	0.58%-13%	0.26%-11.9%
Average interest of placements with other banks	2.19%	3.26%

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

	2014	2013
Securities held for trading:		
Shares	58,559	73,256
Government bonds	13,777	4,090
Hungarian government interest bearing Treasury Bills	4,175	6,466
Hungarian government discounted Treasury Bills	288	2,159
Mortgage bonds	71	237
Securities issued by credit institutions	67	1,162
Securities issued by the NBH[1]	-	209,347
Other securities	216	26
Subtotal	**77,153**	**296,743**
Accrued interest	434	105
Total	**77,587**	**296,848**
Derivative financial instruments:		
CCIRS and mark-to-market CCIRS[2]	152,540	32,763
Foreign currency swaps	60,833	6,637
Interest rate swaps	43,538	53,728
Other derivative transactions[3]	17,255	6,589
Subtotal	**274,166**	**99,717**
Total	**351,753**	**396,565**

Interest conditions and the remaining maturities of securities held for trading are as follows:

	2014	2013
Within five years:		
variable interest	1,125	357
fixed interest	13,878	222,261
	15,003	**222,618**
Over five years:		
variable interest	6	-
fixed interest	3,566	843
	3,572	**843**
Non-interest bearing securities	58,578	73,282
Total	**77,153**	**296,743**

[1] Securities issued by the NBH were changed into two-weeks NBH deposit during the year ended 31 December 2014.
[2] CCIRS: Cross Currency Interest Rate Swap (See Note 27)
[3] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option

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

	2014	2013
Securities held for trading denominated in HUF	97.65%	99.65%
Securities held for trading denominated in foreign currency	2.35%	0.35%
Securities held for trading total	**100%**	**100%**
Government bonds denominated in HUF	90%	81%
Government bonds denominated in foreign currency	10%	19%
Government securities total	**100%**	**100%**
Interest rates on securities held for trading	1.74%-10%	2.91%-13%
Average interest on securities held for trading	2.48%	3.67%

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

	2014	2013
Mortgage bonds	741,567	789,419
Government bonds	375,040	90,177
Bonds issued by NBH[1]	-	1,021,825
Other securities	64,593	67,264
- *listed securities*	*31,535*	*36,883*
in HUF	-	-
in foreign currency	*31,535*	*36,883*
- *non-listed securities*	*33,058*	*30,381*
in HUF	*27,397*	*26,589*
in foreign currency	*5,661*	*3,792*
Subtotal	**1,181,200**	**1,968,685**
Accrued interest	34,707	28,806
Securities available-for-sale total	**1,215,907**	**1,997,491**

	2014	2013
Securities available-for-sale denominated in HUF	67%	77%
Securities available-for-sale denominated in foreign currency	33%	23%
Securities available-for-sale total	**100%**	**100%**
Interest rates on securities available-for-sale denominated in HUF	3.5%-11%	4.5%-11%
Interest rates on securities available-for-sale denominated in foreign currency	1.99%-5.88%	2.12%-10.5%
Average interest on securities available-for-sale	4.67%	5.36%

[1] Securities issued by the NBH were changed into two-weeks NBH deposit during the year ended 31 December 2014.

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

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

	2014	2013
Within five years:		
variable interest	320,729	358,664
fixed interest[1]	571,816	1,362,990
	892,545	**1,721,654**
Over five years:		
variable interest	4,587	3,730
fixed interest	251,803	213,460
	256,390	**217,190**
Non-interest bearing securities	32,265	29,841
Total	**1,181,200**	**1,968,685**

Certain fixed-rate mortgage bonds and other securities are hedged against interest rate risk. (See Note 37.)

	2014	2013
Net gain / (loss) reclassified from equity to statement of recognized income	2,995	(388)
Fair value of the hedged securities:		
Government bonds	261,608	-
Corporate bonds	24,736	23,648

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

	2014	2013
Short-term loans and promissory notes (within one year)	1,014,363	941,428
Long-term loans and promissory notes (over one year)	972,626	1,343,444
Loans gross total	**1,986,989**	**2,284,872**
Accrued interest	7,039	10,342
Provision for impairment on loan losses[2]	(85,397)	(150,513)
Total	**1,908,631**	**2,144,701**

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

	2014	2013
In HUF	43%	40%
In foreign currency	57%	60%
Total	**100%**	**100%**

[1] Securities issued by the NBH were changed into two-weeks NBH deposit during the year ended 31 December 2014.
[2] The provision was decreased due to Partial Write-off. For details see note 2.11.

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

Interest rates of the loan portfolio are as follows (%):

	2014	2013
Loans denominated in HUF, with a maturity within one year	5.6%-28.8%	6.5%-25.3%
Loans denominated in HUF, with a maturity over one year	2.1%-18.5%	2.8%-24.8%
Loans denominated in foreign currency	1.8%-14%	1.8%-14%
Average interest on loans denominated in HUF	11.72%	13.14%
Average interest on loans denominated in foreign currency	3.91%	4.71%

	2014	2013
Gross loan portfolio on which interest to customers is not being accrued	11.3%	10.80%

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

	2014		2013	
Retail loans	**518,058**	**26%**	**539,340**	**24%**
Retail consumer loans	291,497	15%	309,476	14%
Retail mortgage backed loans[1]	112,358	5%	123,592	5%
SME loans	114,203	6%	106,272	5%
Corporate loans	**1,468,931**	**74%**	**1,745,532**	**76%**
Loans to medium and large corporates	1,420,631	71%	1,537,655	67%
Municipality loans	28,471	2%	105,725	5%
Loans to the State	19,829	1%	102,152	4%
Total	**1,986,989**	**100%**	**2,284,872**	**100%**

Through debt consolidation the central government provided a non-refundable subsidy to municipalities with less than five thousands inhabitants for the total repayment of their outstanding obligations (loans, bonds, bills of exchange) as at 12 December 2012. In case of OTP Bank HUF 28.8 billion total debt of 957 municipalities was repaid (at exchange rates as of 27 December 2012).
Furthermore the debt consolidation of municipalities with more than five thousands inhabitants was completed by end of June 2013, which was carried out from three sources: subsidy provided by the Hungarian Treasury, funds of the Government Debt Management Agency ("GDMA"), long-term loan originated by OTP Bank for the GDMA.
On 28 February 2014 municipality debt in the amount of HUF 101.7 billion was paid off.

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

	2014	2013
Balance as at 1 January	**150,513**	**153,370**
Provision for the year	52,096	83,796
Release of provision	(54,793)	(82,134)
Partial write-off[2]	(62,419)	-
Structural difference relating to provision for previous years	-	(4,519)
Balance as at 31 December	**85,397**	**150,513**

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

	2014	2013
Provision for impairment on placement losses	4	22
Provision for impairment on loan losses	23,209	30,511
Total	**23,213**	**30,533**

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (See Note 29.)

[1] incl. housing loans
[2] See Note 2.11.

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

	2014	2013
Investments in subsidiaries:		
Controlling interest	1,147,839	985,892
Other investments	681	1,011
Subtotal	**1,148,520**	**986,903**
Provision for impairment	(544,311)	(317,581)
Total	**604,209**	**669,322**

Other investments contain certain securities accounted at cost. These instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Significant subsidiaries

Investments in companies in which the Bank has a controlling interest are detailed below. All companies are incorporated in Hungary unless indicated otherwise:

	2014		2013	
	% Held (direct and indirect)	Gross book value	% Held (direct and indirect)	Gross book value
OTP Bank JSC (Ukraine)	100%	279,469	100%	266,513
OTP Mortgage Bank Ltd.	100%	126,839	100%	70,257
OTP banka Srbija a.d. (Serbia)	97.90%	91,153	97.56%	84,727
DSK Bank EAD (Bulgaria)	100%	86,832	100%	86,832
JSC “OTP Bank” (Russia)	97.86%	74,318	97.81%	74,296
OTP banka Hrvatska d.d. (Croatia)	100%	72,940	100%	72,940
OTP Bank Romania S.A. (Romania)	100%	61,081	100%	57,638
OTP Factoring Ltd.	100%	60,192	100%	40,825
Crnogorska komercijalna banka a.d. (Montenegro)	100%	58,484	100%	58,484
LLC Alliance Reserve (Russia)	100%	50,074	100%	50,074
OTP Holding Malta Ltd. (Malta)	100%	32,359	-	-
Balansz Real Estate Institute Fund	100%	18,520	100%	18,370
Merkantil Bank Ltd.	100%	18,426	100%	1,600
Inga Kettő Ltd.	100%	17,892	100%	17,892
OTP Banka Slovensko a.s. (Slovakia)	99.26%	16,706	99.21%	13,649
Bank Center No. 1. Ltd.	100%	16,063	100%	16,063
OTP Life Annuity Ltd.	100%	15,300	100%	15,300
Air-Invest Ltd.	100%	9,698	100%	9,698
OTP Real Estate Ltd.	100%	9,520	100%	4,777
Monicomp Ltd.	100%	9,234	100%	9,234
OTP Real Estate Leasing Ltd.	100%	9,118	100%	3,671
OTP Funds Servicing and Consulting Ltd.	100%	2,469	100%	2,469
OTP Holding Ltd. (Cyprus)	100%	2,000	100%	2,000
OTP Building Society Ltd.	100%	1,950	100%	1,950
OTP Fund Management Ltd.	100%	1,653	100%	1,653
Fordulat Venture Capital Fund	50%	1,555	50%	1,050
OTP Real Estate Investment Fund Management Ltd.	100%	1,352	100%	1,352
CIL Babér Ltd.	100%	1,225	100%	1,225
OTP Financing Netherlands B.V. (the Netherlands)	100%	481	100%	481
OTP Card Factory Ltd.	100%	450	100%	450
Portfolion Ltd.	100%	150	100%	150
HIF Ltd. (United Kingdom)	100%	81	100%	81
OTP Financing Malta Ltd. (Malta)	100%	31	-	-
Other	-	224	-	191
Total		**1,147,839**		**985,892**

NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS (in HUF mn) [continued]

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

	2014	2013
Balance as at 1 January	**317,581**	**265,031**
Provision for the year	226,730	52,550
Balance as at 31 December	**544,311**	**317,581**

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

An analysis of the provision for impairment by significant subsidiaries is as follows:

	2014	2013
OTP Bank JSC (Ukraine)[1]	252,411	125,903
OTP Mortgage Bank Ltd.[2]	99,838	43,257
OTP banka Srbija a.d. (Serbia)	63,233	63,233
OTP Factoring Ltd.	58,781	40,825
Crnogorska komercijalna banka a.d. (Montenegro)	26,714	26,714
Merkantil Bank Ltd.	16,826	-
OTP banka Hrvatska d.d. (Croatia)	9,232	9,232
OTP Real Estate Leasing Ltd.	8,949	3,442
Total	**535,984**	**312,606**

Dividend income from significant subsidiaries and shares held-for-trading is as follows:

	2014	2013
DSK Bank EAD (Bulgaria)	25,054	23,086
OTP Mortgage Bank Ltd.	5,097	10,000
OTP Holding Ltd. (Cyprus)	3,355	4,500
OTP Fund Management Ltd.	3,024	1,477
OTP Building Society Ltd.	2,100	4,000
Other	1,134	2,137
Subtotal	**39,764**	**45,200**
Dividend from shares held-for-trading	3,031	2,383
Total	**42,795**	**47,583**

Significant associates

The main figures of the Bank's indirectly owned associates that are not consolidated using equity-method at cost[3]:

As at 31 December 2014

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

[1] Based on the valuation of the OTP Bank JSC (Ukraine) the total IFRS goodwill was impaired. Ukrainian situation is disclosed in Note 41.
[2] Given subsidy. See details in Note 2.26.
[3] Based on unaudited financial statements.

NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS (in HUF mn) [continued]

Significant associates [continued]

As at 31 December 2013

	KITE Mezőgazdasági Szolgáltató és Kereskedelmi Ltd.	D-ÉG Thermoset Ltd.	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	48,717	5,961	2,130	636	**57,444**
Liabilities	18,774	4,540	83	9	**23,406**
Shareholders' equity	29,943	1,421	2,047	627	**34,038**
Total income	221,461	6,412	1,017	37	**228,927**

In accordance with the resolution adopted by the board of directors in February 2014, capital settlement package of OTP Real Estate Ltd. and its subsidiaries was approved at group level. The purpose of the capital settlement is to meet regulations applying to minimal capital criteria and to guarantee the self-supporting financing structure.

On 28 February 2014 OTP Bank increased the registered capital of OTP banka Srbija a.d. by RSD 2,311,635,480. As a consequence the registered capital of OTP banka Srbija a.d. has increased from RSD 14,389,735,180 to RSD 16,701,370,660. The ownership ratio of OTP Bank is 97.9%.

By setting the purchase price on 24 April 2014, OTP Group accomplished its Croatian acquisition.
On 31 January 2014 OTP banka Hrvatska d.d. ("OBH") signed a purchase agreement with the Croatian Banco Popolare d.d. on acquiring a 98.37% stake in the bank. Following the submission of all the relevant documents the Croatian Central Bank approved the purchase of the majority stake at its meeting on 18 April 2014; as a result OTP Bank got all the necessary approvals for completing the transaction.
As a result of the deal OBH will enhance its presence in Northern Croatia, Zagreb and Slavonia in particular, mainly in the retail segment. The purchase price was HRK 106,977,375. Following the transaction OTP Group can serve 440 thousands customers in the Croatian market, possesses more than 250 ATMs and its network of branches has increased by 33 to 130.

On 30 June 2014 OTP Holding Malta Limited has been registered by the Registrar of Companies. The registered capital of the Company EUR 104.95 million and the direct and indirect ownership ratio of OTP Bank is 100%.

On 30 July 2014 OTP Bank Romania signed an agreement in Bucharest with Banco Comercial Português on the purchase of its 100.0% ownership in its Romanian subsidiary. The purchase price was EUR 39 million. As a result of the acquisition the market share of OTP Bank Romania will rise to 2.1% elevating the bank into the 11th place amongst the Romanian banks.

On 29 October 2014 OTP Financing Malta Company Limited was incorporated in Malta. The company has a share capital of EUR 105,000,000 and is under 100% ownership (direct and indirect) of OTP Bank.

On 28 November 2014 OTP Bank announced that the Slovakian Court of Registration registered a capital increase in the amount of EUR 10,031,209 at OTP Banka Slovensko a.s., the Slovakian subsidiary of OTP Bank. The registered capital of OTP Banka Slovensko a.s. was increased to EUR 88,539,106.84 from EUR 78,507,897.84 and the ownership ratio of OTP Bank represents 99.26%.

On 11 December 2014 OTP Bank became the sole owner of OTP Factoring Ltd. with the buy-out of the stake of OTP Real Estate Ltd.

On 21 January 2015 OTP Bank announces that the Romanian Court of Registration registered a capital increase at OTP Bank Romania SA., the Romanian subsidiary of OTP Bank. Accordingly, the registered capital of OTP Bank Romania was increased to RON 958,252,800 from RON 782,908,800 and the ownership ratio of OTP Bank represents 99.99% currently.

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

	2014	2013
Government bonds	641,645	506,808
Mortgage bonds	4,756	4,770
Hungarian government discounted Treasury bills	346	341
Subtotal	**646,747**	**511,919**
Accrued interest	16,200	13,130
Total	**662,947**	**525,049**

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

	2014	2013
Within five years:		
variable interest	6,677	15,041
fixed interest	352,702	174,611
	359,379	**189,652**
Over five years:		
fixed interest	287,368	322,267
	287,368	**322,267**
Total	**646,747**	**511,919**

The distribution of the held-to-maturity securities by currency (%):

	2014	2013
Securities held-to-maturity denominated in HUF	100%	100%
Securities held-to-maturity total	**100%**	**100%**
Interest rates on securities held-to-maturity	2.5%-9.5%	3.9%-9.5%
Average interest on securities held-to-maturity denominated in HUF	6.3%	7.35%

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

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

For the year ended 31 December 2014

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**137,349**	**69,829**	**73,012**	**16,815**	**297,005**
Additions	25,133	1,562	4,681	5,541	36,917
Disposals	(8,429)	(563)	(7,709)	(20,351)	(37,052)
Balance as at 31 December	**154,053**	**70,828**	**69,984**	**2,005**	**296,870**
Depreciation and Amortization					
Balance as at 1 January	**105,795**	**17,246**	**56,963**	**-**	**180,004**
Charge for the year	14,416	1,846	5,915	-	22,177
Disposals	(2,249)	(160)	(7,107)	-	(9,516)
Balance as at 31 December	**117,962**	**18,932**	**55,771**	**-**	**192,665**
Net book value					
Balance as at 1 January	**31,554**	**52,583**	**16,049**	**16,815**	**117,001**
Balance as at 31 December	**36,091**	**51,896**	**14,213**	**2,005**	**104,205**

For the year ended 31 December 2013

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**124,248**	**67,327**	**74,547**	**10,325**	**276,447**
Additions	23,463	3,059	5,844	15,428	47,794
Disposals	(10,362)	(557)	(7,379)	(8,938)	(27,236)
Balance as at 31 December	**137,349**	**69,829**	**73,012**	**16,815**	**297,005**
Depreciation and Amortization					
Balance as at 1 January	**92,651**	**15,622**	**58,525**	**-**	**166,798**
Charge for the year	14,000	1,776	5,881	-	21,657
Disposals	(856)	(152)	(7,443)	-	(8,451)
Balance as at 31 December	**105,795**	**17,246**	**56,963**	**-**	**180,004**
Net book value					
Balance as at 1 January	**31,597**	**51,705**	**16,022**	**10,325**	**109,649**
Balance as at 31 December	**31,554**	**52,583**	**16,049**	**16,815**	**117,001**

NOTE 12: OTHER ASSETS[1] (in HUF mn)

	2014	2013
Deferred tax assets[2]	33,557	-
Prepayments and accrued income	17,974	14,164
Fair value of derivative financial instruments designated as fair value hedge	14,041	9,734
Receivables from card operations[3]	9,615	-
Receivables from investment services	5,923	4,814
Trade receivables	4,162	4,752
Variation margin	3,970	3,623
Current income tax receivable	2,561	415
Other advances	1,283	1,288
Due from Hungarian Government from interest subsidies	837	1,172
Receivables from OTP Mortgage Bank Ltd.[4]	773	2,969
Advances for securities and investments	634	598
Inventories	632	1,060
Other	6,407	6,564
Subtotal	**102,369**	**51,153**
Accrued interest	-	9
Provision for impairment on other assets[5]	(4,439)	(1,676)
Total	**97,930**	**49,486**

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

	2014	2013
Interest rate swaps designated as fair value hedge	14,032	9,722
Other	9	12
Total	**14,041**	**9,734**

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

	2014	2013
Balance as at 1 January	**1,676**	**1,641**
Charge for the year	3,589	623
Release of provision	(826)	(588)
Balance as at 31 December	**4,439**	**1,676**

[1] Other assets – except income tax receivable and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Income tax receivable will be enforced in the tax return for the year 2014. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.

[2] See Note 25.

[3] Accounting of receivables from card operations recognized due to different timing of cash settlement has changed for the year ended 31 December 2014.

[4] The Bank, under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Ltd.

[5] Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.

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

	2014	2013
Within one year:		
In HUF	321,228	403,166
In foreign currency	685,318	311,788
	1,006,546	**714,954**
Over one year:		
In HUF	92,169	116,313
In foreign currency	42,961	70,114
	135,130	**186,427**
Subtotal	**1,141,676**	**901,381**
Accrued interest	815	1,363
Total[1]	**1,142,491**	**902,744**

Interest rates on amounts due to banks and Hungarian Government, deposits from the NBH and other banks are as follows (%):

	2014	2013
Within one year:		
In HUF	2.21%-5.24%	0.22%-5.31%
In foreign currency	4.18%-7%	0.37%-7.05%
Over one year:		
In HUF	0.08%-3.08%	0.22%-5.24%
In foreign currency	0.1%-4.48%	0.1%-7%
Average interest on amounts due to banks in HUF	1.7%	1.45%
Average interest on amounts due to banks in foreign currency	1.09%	2.59%

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2014	2013
Within one year:		
In HUF	3,600,806	2,985,237
In foreign currency	599,127	660,166
	4,199,933	**3,645,403**
Over one year:		
In HUF	31,419	25,646
	31,419	**25,646**
Subtotal	**4,231,352**	**3,671,049**
Accrued interest	3,904	6,401
Total	**4,235,256**	**3,677,450**

[1] It contains the loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 Standard. See details in Note 41.

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]

Interest rates on deposits from customers are as follows (%):

	2014	2013
Within one year in HUF	0.01%-10.3%	0.01%-10.3%
Over one year in HUF	0.01%-3.1%	0.01%-5%
In foreign currency	0.01%-6.6%	0.01%-6.7%
Average interest on deposits from customers in HUF	1.23%	2.62%
Average interest on deposits from customers in foreign currency	0.9%	1.29%

An analysis of deposits from customers by type, not included accrued interest, is as follows:

	2014		2013	
Retail deposits	**2,242,240**	**53%**	**2,069,291**	**57%**
Household deposits	1,860,109	44%	1,748,210	48%
SME deposits	382,131	9%	321,081	9%
Corporate deposits	**1,989,112**	**47%**	**1,601,758**	**43%**
Deposits to medium and large corporates	1,659,484	39%	1,329,032	36%
Municipality deposits	329,628	8%	272,726	7%
Total	**4,231,352**	**100%**	**3,671,049**	**100%**

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

	2014	2013
Within one year:		
In HUF	24,280	35,322
In foreign currency	39,024	33,034
	63,304	**68,356**
Over one year:		
In HUF	86,781	93,713
In foreign currency	10,061	8,200
	96,842	**101,913**
Subtotal	**160,146**	**170,269**
Accrued interest	2,521	510
Total	**162,667**	**170,779**

Interest rates on liabilities from issued securities are as follows (%):

	2014	2013
Issued securities denominated in HUF	0.1%-7%	0.25%-7%
Issued securities denominated in foreign currency	1.1%-3%	1.7%-4%
Average interest on issued securities denominated in HUF	2.66%	5.07%
Average interest on issued securities denominated in foreign currency	2.24%	3.15%

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

Issued securities denominated in foreign currency as at 31 December 2014 (in HUF mn):

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
1	OTP EUR 1 2015/XX	03/10/2014	17/10/2015	EUR	13.24	4,168	1.25	fixed	
2	OTP EUR 1 2015/XVIII	29/08/2014	12/09/2015	EUR	10.49	3,305	1.25	fixed	
3	OTP EUR 1 2015/XXV	19/12/2014	02/01/2016	EUR	9.43	2,969	1	fixed	
4	OTP EUR 1 2015/XXI	22/10/2014	05/11/2015	EUR	8.44	2,659	1	fixed	
5	OTP EUR 1 2015/I	20/12/2013	10/01/2015	EUR	6.93	2,183	1.65	fixed	
6	OTP EUR 1 2015/XXIII	14/11/2014	28/11/2015	EUR	5.52	1,739	1	fixed	
7	OTP EUR 1 2015/XIX	12/09/2014	26/09/2015	EUR	5.45	1,716	1.25	fixed	
8	OTP EUR 1 2015/XXIV	28/11/2014	12/12/2015	EUR	5.19	1,635	1	fixed	
9	OTP EUR 1 2015/II	17/01/2014	31/01/2015	EUR	4.89	1,541	1.65	fixed	
10	OTP EUR 1 2015/XI	23/05/2014	06/06/2015	EUR	4.59	1,444	1.5	fixed	
11	OTP EUR 1 2015/III	31/01/2014	14/02/2015	EUR	4.40	1,384	1.65	fixed	
12	OTP EUR 1 2015/VIII	11/04/2014	25/04/2015	EUR	4.34	1,368	1.5	fixed	
13	OTP EUR 1 2015/IV	14/02/2014	28/02/2015	EUR	4.07	1,281	1.65	fixed	
14	OTP EUR 1 2015/VI	14/03/2014	28/03/2015	EUR	3.97	1,250	1.5	fixed	
15	OTP EUR 1 2015/X	09/05/2014	23/05/2015	EUR	3.85	1,212	1.5	fixed	
16	OTP EUR 1 2015/XVI	30/07/2014	13/08/2015	EUR	3.80	1,195	1.5	fixed	
17	OTP EUR 1 2015/V	28/02/2014	14/03/2015	EUR	3.41	1,074	1.5	fixed	
18	OTP EUR 1 2015/XVII	08/08/2014	22/08/2015	EUR	3.24	1,020	1.25	fixed	
19	OTP EUR 1 2015/XXII	31/10/2014	14/11/2015	EUR	3.12	984	1	fixed	
20	OTP EUR 1 2015/XII	06/06/2014	20/06/2015	EUR	2.75	867	1.5	fixed	
21	OTP EUR 1 2015/XIV	04/07/2014	18/07/2015	EUR	2.67	839	1.25	fixed	
22	OTP EUR 2 2015/XXI	31/10/2013	31/10/2015	EUR	2.32	732	2.25	fixed	
23	OTP EUR 1 2015/XIII	20/06/2014	04/07/2015	EUR	2.28	719	1.5	fixed	
24	OTP 2015/Fx	21/12/2012	23/12/2015	EUR	2.07	653	indexed	floating	hedged
25	OTP EUR 2 2016/XIX	03/10/2014	03/10/2016	EUR	1.92	605	1.25	fixed	
26	OTP EUR 1 2015/XV	18/07/2014	01/08/2015	EUR	1.78	560	1.25	fixed	
27	OTP EUR 2 2016/XV	30/07/2014	30/07/2016	EUR	1.58	498	1.5	fixed	
28	OTP EUR 2 2015/XXIV	20/12/2013	20/12/2015	EUR	1.55	488	2	fixed	
29	OTP 2016/Cx	22/04/2011	22/04/2016	EUR	1.42	448	indexed	floating	hedged
30	OTP EUR 2 2016/XVII	29/08/2014	29/08/2016	EUR	1.32	417	1.5	fixed	
31	OTP EUR 2 2015/XXIII	29/11/2013	29/11/2015	EUR	1.26	398	2	fixed	
32	OTP EUR 2 2015/XXII	15/11/2013	15/11/2015	EUR	1.16	364	2.25	fixed	
33	OTP_VK_USD_2_2016/1	28/11/2014	28/11/2016	USD	1.40	362	1.1	fixed	
34	OTP 2016/Dx	22/12/2011	29/12/2016	EUR	1.08	341	indexed	floating	hedged
35	OTP EUR 2 2016/XVIII	12/09/2014	12/09/2016	EUR	1.01	319	1.5	fixed	
36	OTP EUR 1 2015/IX	18/04/2014	02/05/2015	EUR	1.00	315	1.5	fixed	
37	OTP EUR 2 2016/III	14/02/2014	14/02/2016	EUR	0.96	303	2	fixed	
38	OTP EUR 2 2016/I	17/01/2014	17/01/2016	EUR	0.90	282	2	fixed	
39	OTP EUR 2 2016/II	31/01/2014	31/01/2016	EUR	0.87	274	2	fixed	
40	OTP 2015/Cx	27/12/2010	29/12/2015	EUR	0.85	267	indexed	floating	hedged
41	OTP EUR 1 2015/VII	21/03/2014	04/04/2015	EUR	0.84	263	1.5	fixed	
42	OTP EUR 2 2015/XVI	16/08/2013	16/08/2015	EUR	0.78	246	2.25	fixed	
43	OTP 2017/Fx	19/06/2012	16/06/2017	EUR	0.78	245	indexed	floating	hedged
44	OTP EUR 2 2016/V	14/03/2014	14/03/2016	EUR	0.74	233	1.8	fixed	
45	OTP EUR 2 2016/VII	11/04/2014	11/04/2016	EUR	0.74	232	1.8	fixed	
46	OTP EUR 2 2015/IX	10/05/2013	10/05/2015	EUR	0.73	230	2.75	fixed	
47	OTP EUR 2 2016/IV	28/02/2014	28/02/2016	EUR	0.69	217	1.9	fixed	
48	OTP EUR 2 2016/IX	09/05/2014	09/05/2016	EUR	0.66	207	1.8	fixed	
49	OTP EUR 2 2015/XVIII	13/09/2013	13/09/2015	EUR	0.64	202	2.25	fixed	
50	OTP EUR 2 2016/XII	20/06/2014	20/06/2016	EUR	0.64	202	1.5	fixed	
51	OTP EUR 2 2016/XI	06/06/2014	06/06/2016	EUR	0.64	201	1.8	fixed	
52	OTP EUR 2 2015/XV	26/07/2013	26/07/2015	EUR	0.63	198	2.25	fixed	
53	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	195	indexed	floating	hedged
54	OTP EUR 2 2016/X	23/05/2014	23/05/2016	EUR	0.60	189	1.8	fixed	
55	OTP EUR 2 2015/XIX	27/09/2013	27/09/2015	EUR	0.51	159	2.25	fixed	
56	OTP EUR 2 2016/XIII	04/07/2014	04/07/2016	EUR	0.46	145	1.5	fixed	
57	OTP EUR 2 2015/XVII	30/08/2013	30/08/2015	EUR	0.42	133	2.25	fixed	
58	OTP EUR 2 2015/XI	07/06/2013	07/06/2015	EUR	0.39	123	2.5	fixed	
59	OTP EUR 2 2016/XVI	08/08/2014	08/08/2016	EUR	0.37	116	1.5	fixed	
60	OTP EUR 2 2015/X	24/05/2013	24/05/2015	EUR	0.36	112	2.5	fixed	
61	OTP EUR 2 2015/VII	05/04/2013	05/04/2015	EUR	0.31	99	2.75	fixed	
62	OTP EUR 2 2016/XIV	18/07/2014	18/07/2016	EUR	0.31	99	1.5	fixed	
	Subtotal					**48,224**			

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

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
63	OTP EUR 2 2015/XX	11/10/2013	11/10/2015	EUR	0.30	94	2.25	fixed	
64	OTP EUR 2 2015/VIII	19/04/2013	19/04/2015	EUR	0.30	94	2.75	fixed	
65	OTP EUR 2 2015/XIII	28/06/2013	28/06/2015	EUR	0.27	86	2.5	fixed	
66	OTP EUR 2 2015/V	01/03/2013	01/03/2015	EUR	0.26	83	2.75	fixed	
67	OTP EUR 2 2015/XII	21/06/2013	21/06/2015	EUR	0.21	66	2.5	fixed	
68	OTP EUR 2 2016/VI	21/03/2014	21/03/2016	EUR	0.21	66	1.8	fixed	
69	OTP EUR 2 2016/VIII	18/04/2014	18/04/2016	EUR	0.20	63	1.8	fixed	
70	OTP EUR 2 2015/VI	22/03/2013	22/03/2015	EUR	0.20	62	2.75	fixed	
71	OTP EUR 2 2015/II	25/01/2013	25/01/2015	EUR	0.17	52	2.75	fixed	
72	OTP EUR 2 2015/I	11/01/2013	11/01/2015	EUR	0.16	51	3	fixed	
73	OTP EUR 2 2015/III	01/02/2013	01/02/2015	EUR	0.16	50	2.75	fixed	
74	OTP EUR 2 2015/IV	15/02/2013	15/02/2015	EUR	0.15	46	2.75	fixed	
75	OTP EUR 2 2015/XIV	12/07/2013	12/07/2015	EUR	0.12	39	2.25	fixed	
	Subtotal					**852**			
	Subtotal issued securities in FX					**49,076**			
	Unamortized premium					(67)			
	Fair value hedge adjustment					76			
	Total					**49,085**			

Term Note Program in the value of HUF 500 billion for the year of 2013/2014

On 9 July 2013 OTP Bank initiated term note program in the value of HUF 500 billion with the intention of issuing registered dematerialized bonds in public. The Authority approved on 30 July 2013 the prospectus of Term Note Program and the disclosure as at 17 July 2013. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange.
54,204 pieces of fixed bonds with nominal value of EUR 100 each in the total nominal amount of EUR 5,420,400 have been introduced to the Budapest Stock Exchange. On 10 September 2014 the NBH approved the disclosure and the prospectus as at 27 August 2014.

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

On 8 July 2014 OTP Bank initiated term note program in the value of HUF 500 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 29 July 2014 the prospectus of Term Note Program and the disclosure as at 25 July 2014. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange.

Certain structured bonds are hedged by interest rate swaps which may transfer to a transferee a fixed interest rate and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate and amount of the structure if any based on a notional amount which is equal to the notional amount of the hedged bond. In certain cases amount of the structure is hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond. The hedge is highly effective if changes in fair value or cash-flows attributable to the hedged risk during the period for which the hedge is designated are within a range of 80-125 per cent.
The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF interest rate swap ("IRS") transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulted a decrease in the interest rate and foreign exchange exposure of issued securities.

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

Issued securities denominated in HUF as at 31 December 2014 (in HUF mn)

	Name	Date of issuance		Maturity	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
1	OTP EK 2015/I	29/07/2013		29/01/2015	5,467	4.25	fixed	
2	OTP TBSZ2015/I	26/02/2010	28/12/2010	30/12/2015	5,438	5.5	fixed	
3	OTP 2015/Ax	25/03/2010		30/03/2015	4,429	indexed	floating	hedged
4	OTP 2019/Dx	22/03/2013		21/03/2019	4,400	indexed	floating	hedged
5	OTP 2017/Ax	01/04/2011		31/03/2017	4,347	indexed	floating	hedged
6	OTP 2017/Bx	17/06/2011		20/06/2017	4,243	indexed	floating	hedged
7	OTP 2020/Ex	18/06/2014		22/06/2020	4,100	indexed	floating	hedged
8	OTP 2018/Bx	22/03/2012		22/03/2018	4,091	indexed	floating	hedged
9	OTP 2015/Bx	28/06/2010		09/07/2015	4,060	indexed	floating	hedged
10	OTP 2016/Ax	11/11/2010		03/11/2016	3,654	indexed	floating	hedged
11	OTP 2018/Cx	18/07/2012		18/07/2018	3,523	indexed	floating	hedged
12	OTP 2020/Fx	10/10/2014		16/10/2020	3,500	indexed	floating	hedged
13	OTP 2017/Ex	21/12/2011		28/12/2017	3,449	indexed	floating	hedged
14	OTP 2019/Ex	28/06/2013		24/06/2019	3,344	indexed	floating	hedged
15	OTP 2020/Gx	15/12/2014		21/12/2020	3,250	indexed	floating	hedged
16	OTP 2017/Cx	19/09/2011		25/09/2017	3,186	indexed	floating	hedged
17	OTP 2018/Ex	28/12/2012		28/12/2018	3,029	indexed	floating	hedged
18	OTP 2018/Dx	29/10/2012		26/10/2018	2,930	indexed	floating	hedged
19	OTP 2016/Bx	16/12/2010		19/12/2016	2,786	indexed	floating	hedged
20	OTP 2020/RF/C	11/11/2010		05/11/2020	2,475	indexed	floating	hedged
21	OTP 2020/RF/A	12/07/2010		20/07/2020	2,370	indexed	floating	hedged
22	OTP 2021/RF/B	20/10/2011		25/10/2021	1,961	indexed	floating	hedged
23	OTP 2021/RF/A	05/07/2011		13/07/2021	1,946	indexed	floating	hedged
24	OTP TBSZ2016/I	14/01/2011	05/08/2011	15/12/2016	1,176	5.5	fixed	
25	OTP 2020/RF/B	12/07/2010		20/07/2020	1,131	indexed	floating	hedged
26	OTP 2022/RF/A	22/03/2012		23/03/2022	1,053	indexed	floating	hedged
27	OTP 2018/Ax	03/01/2012		09/01/2018	702	indexed	floating	hedged
28	OTP 2016/Fx	22/03/2013		24/03/2016	670	indexed	floating	hedged
29	OTP TBSZ2016/II	26/08/2011	29/12/2011	15/12/2016	638	5.5	fixed	
30	OTP DNT HUF 150107 4%	30/06/2014		07/01/2015	615	indexed	floating	
31	OTP 2017/Dx	20/10/2011		19/10/2017	475	indexed	floating	hedged
32	OTP TBSZ 4 2015/I	13/01/2012	22/06/2012	15/12/2015	471	6.5	fixed	
33	OTP 2024/Bx	10/10/2014		16/10/2024	400	indexed	floating	hedged
34	OTP 2023/Ax	22/03/2013		24/03/2023	395	indexed	floating	hedged
35	OTP 2021/RF/C	21/12/2011		30/12/2021	385	indexed	floating	hedged
36	OTP 2015/Dx	22/03/2012		23/03/2015	385	indexed	floating	hedged
37	OTP 2015/Ex	18/07/2012		20/07/2015	376	indexed	floating	hedged
38	OTP 2019/Bx	05/10/2009	05/02/2010	14/10/2019	368	indexed	floating	hedged
39	OTP 2021/Dx	21/12/2011		27/12/2021	365	indexed	floating	hedged
40	OTP 2020/Bx	28/06/2010		09/07/2020	362	indexed	floating	hedged
41	OTP 2022/RF/B	22/03/2012		23/03/2022	351	indexed	floating	hedged
42	OTP 2022/Dx	28/12/2012		27/12/2022	343	indexed	floating	hedged
43	OTP 2020/Ax	25/03/2010		30/03/2020	340	indexed	floating	hedged
44	OTP 2021/Bx	17/06/2011		21/06/2021	332	indexed	floating	hedged
45	OTP 2016/Ex	28/12/2012		27/12/2016	332	indexed	floating	hedged
46	OTP 2022/RF/E	29/10/2012		31/10/2022	331	indexed	floating	hedged
47	OTP 2024/Cx	15/12/2014		20/12/2024	320	indexed	floating	hedged
48	OTP 2019/Cx	14/12/2009		20/12/2019	314	indexed	floating	hedged
49	OTP 2021/Cx	19/09/2011		24/09/2021	300	indexed	floating	hedged
50	OTP 2022/Cx	29/10/2012		28/10/2022	296	indexed	floating	hedged
51	OTP 2021/Ax	01/04/2011		01/04/2021	289	indexed	floating	hedged
52	OTP 2022/Ax	22/03/2012		23/03/2022	280	indexed	floating	hedged
53	OTP 2023/Bx	28/06/2013		26/06/2023	280	indexed	floating	hedged
54	OTP 2024/Ax	18/06/2014		21/06/2024	270	indexed	floating	hedged
55	OTP 2022/Bx	18/07/2012		18/07/2022	265	indexed	floating	hedged
56	OTP 2019/Ax	25/06/2009		01/07/2019	263	indexed	floating	hedged
57	OTP 2021/RF/D	21/12/2011		30/12/2021	256	indexed	floating	hedged
58	OTP 2022/RF/F	28/12/2012		28/12/2022	236	indexed	floating	hedged
59	OTP 2020/Cx	11/11/2010		05/11/2020	234	indexed	floating	hedged
60	OTP TBSZ6 2017/I	13/01/2012	22/06/2012	15/12/2017	233	6.5	fixed	
61	OTP 2023/RF/A	22/03/2013		24/03/2023	231	indexed	floating	hedged
62	OTP 2020/Dx	16/12/2010		18/12/2020	215	indexed	floating	hedged
63	OTP 2015/Hx	28/12/2012		27/12/2015	170	indexed	floating	hedged
64	OTP TBSZ 4 2016/I	18/01/2013	15/02/2013	15/12/2016	157	5	fixed	
65	OTP 2022/RF/D	28/06/2012		28/06/2022	155	indexed	floating	hedged
66	OTP 2022/RF/C	28/06/2012		28/06/2022	124	indexed	floating	hedged
	Subtotal				**98,862**			

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

	Name	Date of issuance		Maturity	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
67	OTP OJK 2016/I	26/08/2011	21/12/2011	26/08/2016	106	6.14	fixed	
68	OTP TBSZ 4 2015/II	21/12/2012		15/12/2015	48	6	fixed	
69	OTP 2021/RF/E	21/12/2011		30/12/2021	34	indexed	floating	hedged
70	OTP OJK 2017/I	27/01/2012	13/07/2012	27/01/2017	22	7	fixed	
71	Other	-	-	-	231			
	Subtotal				**441**			
	Subtotal issued securities in HUF				**99,303**			
	Unamortized premium				(1,620)			
	Fair value hedge adjustment				13,378			
	Total issued securities in HUF				**111,061**			
	Accrued interest				2,521			
	Total issued securities				**162,667**			

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

Negative fair value of financial liabilities at fair value through profit or loss classified as held for trading by deal types:

	2014	2013
CCIRS and mark-to-market CCIRS	236,743	124,556
IRS	63,670	67,854
Foreign currency swaps	60,110	5,744
Other derivative contracts[1]	14,840	6,363
Total	**375,363**	**204,517**

[1] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option

NOTE 17: OTHER LIABILITIES[1] (in HUF mn)

	2014	2013
Financial liabilities from OTP-MOL share swap transaction[2]	56,445	71,548
Provision on other liabilities, off-balance sheet commitments, contingent liabilities	55,596	12,913
Liabilities from investment services	41,853	53,068
Accrued expenses	32,353	30,179
Salaries and social security payable	17,266	18,330
Accounts payable	11,479	8,641
Current income tax payable	7,789	10,431
Short term liabilities due to repurchase agreement transactions	6,980	10,133
Giro clearing accounts	5,671	4,189
HUF denominated liabilities from purchase of customers with cards	4,992	3,500
Fair value of derivative financial instruments designated as fair value hedge (interest rate swap transactions)	3,463	2,639
Suspended liabilities	1,852	2,294
Liabilities connected to loans for collection	909	1,044
Liabilities related to housing loans	216	105
Deferred tax liabilities	-	9,672
Other	7,088	3,758
Total	**253,952**	**242,444**

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

	2014	2013
Provision on contingent liabilities due to regulations related to customer loans[3]	44,127	-
Provision on promissory obligation	3,525	4,040
Provision for losses on other off-balance sheet commitments and contingent liabilities	3,365	2,949
Provision for taxation	1,000	2,000
Provision for litigation	998	554
Provision for retirement pension and severance pay	426	2,500
Provision on other liabilities	2,155	870
Total	**55,596**	**12,913**

[1] Other liabilities – except financial liabilities from OTP-MOL share swap transaction, deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP-MOL share swap transaction is settled in June of each year until the maturity date. The fair value adjustment of swap transaction is HUF 423 million as at 31 December 2014. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity.

[2] On 16 April 2009, OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. On 11 July 2012 the parties amended the final maturity of the share swap agreement for 11 July 2017 until which any party can initiate cash or physical settlement of the transaction. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the loss of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity with the amount of HUF 55.5 billion and a recognition of a corresponding liability. As at 31 December 2014 and 2013 HUF 56,445 and HUF 71,548 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

[3] See Note 2.26.

NOTE 17: OTHER LIABILITIES (in HUF mn) [continued]

Movements in the provision for losses on commitments and contingent liabilities can be summarized as follows:

	2014	2013
Balance as at 1 January	**12,913**	**5,373**
Provision for the year	50,923	13,441
Release of provision	(7,724)	(10,420)
Provision for impairment on promissory obligation	(516)	4,519
Balance as at 31 December	**55,596**	**12,913**

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

	2014	2013
Within one year		
In foreign currency	29,375	-
	29,375	**-**
Over one year:		
In foreign currency	263,843	274,817
	263,843	**274,817**
Subtotal	**293,218**	**274,817**
Accrued interest	1,394	3,424
Total	**294,612**	**278,241**

Interest rates on subordinated bonds and loans are as follows (%):

	2014	2013
Subordinated bonds and loans denominated in foreign currency	0.6%-5.9%	0.8%-5.9%
Average interest on subordinated bonds and loans denominated in foreign currency	5.41%	6.12%

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

Subordinated loans and bonds are detailed as follows as at 31 December 2014:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 31 December 2014
Subordinated bond	EUR 93.45 million	04/03/2005	04/03/2015	100%	three-month EURIBOR + 0.55% quarterly	-
Subordinated bond	EUR 353.1 million	07/11/2006	Perpetual bond	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	-
Subordinated bond (under EMTN[1] program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN[1] program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%

[1] European Medium Term Note Program

NOTE 19: SHARE CAPITAL (in HUF mn)

	2014	2013
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000

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

The reserves of the Bank under Hungarian Accounting Standards ("HAS")[1]:

	2014	2013
Capital reserve	52	52
General reserve	112,217	153,935
Retained earnings	814,399	870,357
Tied-up reserve	8,558	8,287
Total	**935,226**	**1,032,631**

The legal reserves (general reserve and tied-up reserve) are not available for distribution. Dividend was calculated on the bases of the separate annual net profit according to HAS.

These Financial Statements subject to approval by the Board of Directors in the Annual General Meeting in March 2015. In 2014 the Bank paid dividend of HUF 40,600 million from the profit of the year 2013. In 2015 dividend of HUF 40,600 million are expected to be proposed by the Management from the profit of the year 2014, which means 145 HUF payable dividends by share to the shareholders.

On 19 October 2006 the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares ("ICES"). Within the transaction 10 million shares owned by OTP Bank and 4.5 million OTP shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP Bank has discretional right to cancel the payments. The interest payable is non-cumulative.

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

NOTE 21: TREASURY SHARES (in HUF mn)

	2014	2013
Nominal value (ordinary shares)	161	140
Carrying value at acquisition cost	7,073	6,731

The changes in the carrying value of treasury shares are due to repurchase and sale transactions on market authorised by the General Assembly.

[1] The reserves under IFRS are detailed in statement of changes in shareholders' equity.

NOTE 21: TREASURY SHARES (in HUF mn) [continued]

Change in number of shares:

	2014	2013
Number of shares as at 1 January	**1,402,369**	**2,185,337**
Additions	6,474,942	4,247,043
Disposals	(6,272,000)	(5,030,011)
Number of shares as at 31 December	**1,605,311**	**1,402,369**

Change in carrying value:

	2014	2013
Balance as at 1 January	**6,731**	**4,934**
Additions	27,522	19,740
Disposals	(27,180)	(17,943)
Balance as at 31 December	**7,073**	**6,731**

NOTE 22: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF mn)

	2014	2013
Provision for impairment on loan losses		
Provision for the year	52,096	83,796
Release of provision	(54,793)	(82,132)
Provision on loan losses	25,906	28,847
	23,209	**30,511**
Provision for impairment on placement losses		
Provision for the year	4	22
	4	**22**
Provision for impairment on loan and placement losses	**23,213**	**30,533**

NOTE 23: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

	2014	2013
Income from fees and commissions:		
Deposit and account maintenance fees and commissions	74,584	63,801
Fees and commissions related to the issued bank cards	26,795	26,626
Fees and commissions related to security trading	23,046	19,505
Fees related to the cash withdrawal	22,171	25,709
Fees and commissions related to lending	6,462	5,042
Fees and commissions received from OTP Mortgage Bank Ltd.	6,204	8,112
Net fee income related to card insurance services and loan agreements	1,962	1,879
Other	7,817	7,320
Total	**169,041**	**157,994**

	2014	2013
Expenses from fees and commissions:		
Fees and commissions related to issued bank cards	9,331	6,466
Interchange fee	3,439	6,107
Fees and commissions related to lending	3,150	2,897
Cash withdrawal transaction fees	1,186	1,511
Fees and commissions relating to deposits	855	723
Fees and commissions related to security trading	713	557
Insurance fees	491	1,827
Money market transaction fees and commissions	425	561
Postal fees	297	569
Other	2,608	2,835
Total	**22,495**	**24,053**
Net profit from fees and commissions	**146,546**	**133,941**

NOTE 24: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

	2014	2013
Other operating income:		
Income from non-financing services	1,922	1,242
Gains on transactions related to property activities	87	79
Other	1,285	2,351
Total	**3,294**	**3,672**

	2014	2013
Net other operating expenses:		
Provision for impairment on investments in subsidiaries	226,730	52,550
Provision on contingent liabilities due to regulations related to customer loans[1]	43,795	-
Financial support for sport association and organization of public utility	5,643	10,743
Provision for impairment on other assets	2,811	281
Expenses from promissory obligation to OTP Financing Solutions B.V.	948	2,249
Fine imposed by Competition Authority	38	3,922
(Release of provision) / provision for off-balance sheet commitments and contingent liabilities	(1,112)	3,021
Other	7,030	5,897
Total	**285,883**	**78,663**

[1] See Note 2.26.

NOTE 24: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

Other administrative expenses:

	2014	2013
Personnel expenses:		
Wages	59,510	59,036
Taxes related to personnel expenses	19,238	18,645
Other personnel expenses	8,710	8,079
Subtotal	**87,458**	**85,760**
Depreciation and amortization:	**22,177**	**21,657**
Other administrative expenses:		
Taxes, other than income tax[1]	84,637	88,888
Administration expenses, including rental fees	21,524	20,514
Services	18,325	19,205
Advertising	5,566	6,335
Professional fees	4,741	3,450
Subtotal	**134,793**	**138,392**
Total	**244,428**	**245,809**

NOTE 25: INCOME TAX (in HUF mn)

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

A breakdown of the income tax expense is:

	2014	2013
Current tax expense	2,284	7,802
Deferred tax income	(45,548)	(1,360)
Total	**(43,364)**	**6,442**

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

	2014	2013
Balance as at 1 January	**(9,672)**	**(11,655)**
Deferred tax income	45,648	1,360
Tax effect of fair value adjustment of available-for-sale securities recognized in other comprehensive income and ICES	(2,419)	623
Balance as at 31 December	**33,557**	**(9,672)**

[1] Special tax of financial institutions was paid by OTP Bank in the amount of HUF 24 billion for the year 2014 and 2013, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2014 financial transaction duty was paid by the Bank in the amount of HUF 44 billion.

NOTE 25: INCOME TAX (in HUF mn) [continued]

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

	2014	2013
Refundable tax in accordance with Acts on Customer Loans[1]	30,596	-
Provision for impairment on investments	10,705	-
Unused tax allowance[2]	6,794	459
Repurchase agreements and security lending	4,176	4,458
Tax accrual caused by negative taxable income	1,517	1,672
Amounts unenforceable by tax law	182	766
Difference in accounting for finance leases	166	285
Deferred tax assets	**54,136**	**7,640**
Fair value adjustment of held for trading and available-for-sale securities	(11,048)	(7,322)
Effect of redemption of issued securities	(2,681)	(2,934)
Difference in depreciation and amortization	(1,957)	(1,968)
Fair value adjustment of derivative financial instruments	(1,902)	(1,254)
Effect of using effective interest rate method	(1,658)	(1,922)
Valuation of equity instrument (ICES)	(1,333)	(1,912)
Deferred tax liabilities	**(20,579)**	**(17,312)**
Net deferred tax asset / (liability)	**33,557**	**(9,672)**

A reconciliation of the income tax expense is as follows:

	2014	2013
(Loss) / profit before income tax	(117,833)	54,333
Income tax at statutory tax rate (19%)	(22,388)	10,323
Income tax adjustments due to permanent differences are as follows:		
Differences in carrying value of subsidiaries	14,982	3,267
Share-based payment	835	1,084
Amounts unenforceable by tax law	584	(766)
OTP-MOL share swap transaction	(80)	(186)
Revaluation of investments denominated in foreign currency to historical cost	(185)	3,215
Accounting of equity instrument (ICES)	(211)	49
Treasury share transaction	(917)	113
Use of tax allowance in the current year	(2,479)	(9,523)
Deferred use of tax allowance[2]	(6,335)	(459)
Dividend income	(8,115)	(8,984)
Tax refund in accordance with Acts on Customer Loans	(22,189)	-
Amount removed from statutory general provision to retained earnings	-	5,533
Reversal of statutory general provision	-	1,198
Tax accrual caused by negative taxable income	-	(472)
Other	3,134	2,050
Income tax	**(43,364)**	**6,442**
Effective tax rate[3]	36.8%	11.9%

[1] See Note 2.26.

[2] Since 2011 legal regulation has allowed to recognize the financial support for sight-team sport as extraordinary expense and tax allowance in the financial statements in accordance with the HAS. In 2014 the Bank could apply with limits the tax allowance in the HAS financial statements. Deferred tax asset was recorded in the amount of unused tax allowance in IFRS financial statements.

[3] Effective tax rate has changed due to deferred tax receivable recognized in relation to the expecting tax receivable based on act on settlement and considering the contribution provided to the subsidiaries.

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

26.1. Credit risk

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimit covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

26.1.1 Analysis by loan types

Classification into risk classes

Exposures with small amounts (retail and SME sector) are subject to collective valuation method which is a simplified assessment.

Exposures with small amounts are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are classified into five valuation groups which have been formed based on past due days from which there classes were presented (A: 0-90 days past due - DPD, B: 91-360 DPD, C: over 360 days past due).

The Bank intends – where enough large number of items and enough long experiences are available – applying models on statistical bases. The impairment is calculated according to the possibility of listing the loan into default categories examined on the base of objective valuation criteria (delay of payment, change of exchange) and the expected recovery from the collecting. If the loss of the exposure can't be modelled reliably, the impairment is determined by expert keys.

When applying the individual evaluation method, the incurred loss of each item is determined based on the consideration of all of the following criteria:

- the credit rating of the customer or the partner: the financial position, stability and income-generating capacity affected by the financial or investment service and issuer of the security, and any changes thereto;
- compliance with the rules of repayment (delay): delays in the repayment of the loan principal and its interests;
- the country risk relating to the customer (both political and transfer risks) and any changes thereto;
- the value of collaterals, their liquidity and accessibility, and any changes therein;
- the transferability and liquidity of the exposures (the market conditions of supply and demand, the available market prices and participation in the shareholders` equity of the issuer in proportion to the investment);
- the future payment obligation recognized as a loss arising from the exposure.

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

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

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

As at 31 December 2014

Loan type	DPD 0-90	DPD 91-360	DPD 360+	Total carrying amount /allowance
Placements with other banks	710,484	-	-	**710,484**
Total placements with other banks	**710,484**	**-**	**-**	**710,484**
Allowance on placements with other banks	***(26)***	-	-	***(26)***
Consumer loans	281,923	7,888	1,686	**291,497**
Mortgage and housing loans	90,467	6,749	15,142	**112,358**
SME loans	112,970	928	305	**114,203**
Loans to medium and large corporates	1,363,904	12,918	43,809	**1,420,631**
Municipal loans	48,220	28	52	**48,300**
Gross loan portfolio total	**1,897,484**	**28,511**	**60,994**	**1,986,989**
Allowance on loans	***(37,088)***	***(15,613)***	***(32,696)***	***(85,397)***
Net portfolio total	**2,570,854**	**12,898**	**28,298**	**2,612,050**
Accrued interest				
Placements with other banks				1,654
Loans				7,039
Total accrued interest				**8,693**
Total placements with other banks				**712,112**
Total loans				**1,908,631**
Total				**2,620,743**

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

As at 31 December 2013

Loan type	DPD 0-90	DPD 91-360	DPD 360+	Total carrying amount /allowance
Placements with other banks	630,753	-	-	**630,753**
Total placements with other banks	**630,753**	**-**	**-**	**630,753**
Allowance on placements with other banks	***(22)***	-	-	***(22)***
Consumer loans	302,826	5,395	1,255	**309,476**
Mortgage and housing loans	101,622	7,987	13,983	**123,592**
SME loans	104,381	1,439	452	**106,272**
Loans to medium and large corporates	1,466,272	10,490	60,893	**1,537,655**
Municipal loans	206,857	105	915	**207,877**
Gross loan portfolio total	**2,181,958**	**25,416**	**77,498**	**2,284,872**
Allowance on loans	***(83,289)***	***(13,210)***	***(54,014)***	***(150,513)***
Net portfolio total	**2,729,400**	**12,206**	**23,484**	**2,765,090**
Accrued interest				
Placements with other banks				2,168
Loans				10,342
Total accrued interest				**12,510**
Total placements with other banks				**632,899**
Total loans				**2,144,701**
Total				**2,777,600**

The Bank's gross loan portfolio decreased by 7.5% in the year ended 31 December 2014. Analysing the contribution of loan types to the loan portfolio, the share of several business lines hardly changed. The ratio of the $DPD090^{-}$ loans compared to the gross loan portfolio increased slightly from 96.47% to 96.68% as at 31 December 2014, while the ratio of $DPD90^{+}$ loans in gross loan portfolio decreased from 3.53% to 3.32%.
The Bank has a prudent provisioning policy, although the coverage of loans by provision for impairment on $DPD90^{+}$ loans decreased from 65.32% to 53.97% in the year ended 31 December 2014.

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 2014

Loan type	Not past due	DPD 0-90	DPD 91-360	DPD 360+	Total
Placements with other banks	710,458	-	-	-	710,458
Consumer loans	221,734	38,324	109	37	260,204
Mortgage and housing loans	55,858	7,592	2,089	5,423	70,962
SME loans	109,552	706	22	-	110,280
Loans to medium and large corporates	1,151,217	272	47	5	1,151,541
Municipal loans	48,455	263	19	34	48,771
Total	**2,297,274**	**47,157**	**2,286**	**5,499**	**2,352,216**

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

As at 31 December 2013

Loan type	Not past due	DPD 0-90	DPD 91-360	DPD 360+	Total
Placements with other banks	630,731	-	-	-	630,731
Consumer loans	220,113	49,210	60	11	269,394
Mortgage and housing loans	62,298	10,028	2,097	3,783	78,206
SME loans	98,439	847	21	-	99,307
Loans to medium and large corporates	1,202,456	627	5	100	1,203,188
Municipal loans	164,611	-	14	33	164,658
Total	**2,378,648**	**60,712**	**2,197**	**3,927**	**2,445,484**

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 81.58% to 85.16% as at 31 December 2014 compared to 31 December 2013. The loans that are neither past due nor impaired are concentrated in the corporate business line. The ratio of the gross value of the loans past due not impaired compared to the whole portfolio decreased from 2.29% to 2.04%. The loans that are past due but not impaired are concentrated in the retail business line. During collective valuation method the Bank recognizes provision for impairment on loans over a 30 day delay. Those loans which are guaranteed by state and are past due 30 days not impaired due to the state guarantee. The level of corporate loans past due but not impaired is possible because of endorsing collaterals considering during the individual evaluation. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank. Among the past due loans, the share of certain loan types changed insignificantly as at 31 December 2014 compared to 31 December 2013.

Loans individually assessed for provision

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

As at 31 December 2014

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off balance sheet contingent liabilities
Delay of repayment	73,344	61,928	17,941	-	-
Regularity of payment	429	162	394	-	-
Legal proceedings	45,467	37,774	14,099	84	47
Decrease of client classification	88,896	15,971	53,294	12,300	592
Loan characteristics	39,370	1,975	27,341	-	-
Business lines risks	44,219	5,052	8,454	16,004	508
Refinancing of subsidiaries portfolio	-	-	-	120,664	3,525
Cross default	13,250	3,781	5,708	441	51
Other	10,066	2,082	5,228	4,925	183
Corporate total	**315,041**	**128,725**	**132,459**	**154,418**	**4,906**
Delay of repayment	-	-	-	-	-
Regularity of payment	-	-	-	-	-
Legal proceedings	4	4	-	-	-
Decrease of client classification	-	-	-	3	-
Cross default	-	-	-	-	-
Other	96	1	-	381	4
Municipal total	**100**	**5**	**-**	**384**	**4**
Placements with other banks	**-**	**-**	**-**	**-**	**-**
Total	**315,141**	**128,730**	**132,459**	**154,802**	**4,910**

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

As at 31 December 2013

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off-balance sheet contingent liabilities
Delay of repayment	67,281	55,433	18,675	-	-
Regularity of payment	472	196	222	-	-
Legal proceedings	41,367	33,931	12,611	190	94
Decrease of client classification	96,873	19,359	59,442	8,046	290
Loan characteristics	54,200	7,448	19,775	-	-
Business lines risks	48,520	10,176	7,842	8,558	467
Refinancing of subsidiaries portfolio	-	-	-	124,517	4,040
Cross default	4,118	1,337	2,313	1,372	219
Other	11,034	998	11,852	4,660	138
Corporate total	**323,865**	**128,878**	**132,732**	**147,343**	**5,248**
Delay of repayment	70	70	-	-	-
Regularity of payment	1,221	12	-	-	-
Legal proceedings	334	334	-	-	-
Decrease of client classification	2,937	129	7	99	1
Cross default	882	124	-	-	-
Other	14,583	456	298	1,044	10
Municipal total	**20,027**	**1,125**	**305**	**1,143**	**11**
Placements with other banks	**-**	**-**	**-**	**-**	**-**
Total	**343,892**	**130,003**	**133,037**	**148,486**	**5,259**

Regarding corporate business line in the individually rated portfolio the ratio of the carrying value of loans classified due to “cross default” increased significantly as at 31 December 2014 compared to 31 December 2013, while the carrying value of loans classified due to “loan characteristics” decreased by 27.4% as at 31 December 2014.

Refinancing of retail loans at the subsidiaries:
The gross value was HUF 120.6 billion as at 31 December 2014, the actual exposure of non-performing loans is HUF 13.7 billion.

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

Business lines risks:
Transactions are classified by using this category name, if the client works in the branch which had been accused by the financial crisis (vehicle industry, building industry, real estate services, metal processing and financial services).

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

Loan portfolio by countries

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

	2014		2013	
Country	**Gross loan and placement with other banks portfolio**	**Allowance**	**Gross loan and placement with other banks portfolio**	**Allowance**
Hungary	1,837,626	38,764	2,044,718	96,890
Belgium	1	1	11,418	-
Bulgaria	66,575	750	53,455	730
Croatia	33,339	639	24,831	190
Cyprus	47,276	10,443	46,109	10,381
Egypt	-	-	685	480
France	5,237	-	14,741	-
Germany	10,109	4	23,127	5
Luxembourg	-	-	3	2
Montenegro	51,932	20,561	62,773	30,477
the Netherlands	90,122	1	5,510	-
Norway	4,405	-	1,205	-
Poland	1,426	-	1,199	-
Romania	104,882	6,363	221,346	6,156
Russia	100,562	2,611	37,023	2,699
Serbia	9,777	2	23,757	1
Seychelles	4,877	4,855	4,624	2,317
Slovakia	32,768	148	37,854	150
Switzerland	3,065	149	1,946	2
Ukraine	165,150	42	242,449	2
United Kingdom	118,514	26	49,186	14
United States of America	2,376	44	2,971	33
Other	7,454[1]	20	4,695[1]	6
Total	**2,697,473**	**85,423**	**2,915,625**	**150,535**

The non-performing loans connected to the OTP Financing Solutions B.V. (the Netherlands) are related to the refinancing of retail loans at the subsidiaries, the actual exposure of non-performing loans is HUF 13.7 billion as at 31 December 2014, from that HUF 2.9 billion is related to non-performing corporate loans and HUF 10.9 billion to retail ones.

[1] Austria, Czech Republic, Denmark, Italy, Sweden, Turkey and other

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.2 Collaterals

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

Types of collateral		**2014**	**2013**
Mortgages		716,079	701,682
Guarantees and warranties		217,022	203,324
Deposit		59,587	54,609
from this:	*Cash*	*41,966*	*48,076*
	Securities	*16,492*	*5,144*
	Other	*1,129*	*1,389*
Assignment		1,886	3,643
Other		861	815
Total		**995,435**	**964,073**

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

Types of collateral		**2014**	**2013**
Mortgage		326,062	298,493
Guarantees and warranties		132,803	133,005
Deposit		26,179	25,760
from this:	*Cash*	*18,927*	*22,364*
	Securities	*6,529*	*2,455*
	Other	*723*	*941*
Assignment		527	1,400
Other		793	638
Total		**486,364**	**459,296**

The coverage level of loan portfolio to the extent of the exposures increased from 15.75% to 18.03% as at 31 December 2014, as well as coverage to the total collateral value improved from 33.07% to 36.90%.

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.2 Collaterals [continued]

The fair value of collaterals related to past due, but not impaired loans

An analysis of the fair value of collaterals related to past due, but not impaired loans to total collateral value and to the extent of the exposures is as follows:

Types of collateral (total collateral value)	2014	2013
Mortgage and housing loans	22,221	28,717
Loans to medium and large corporates	450	1,163
SME loans	701	773
Municipal loans	-	64
Consumer loans	45	31
Total	**23,417**	**30,748**

Types of collateral (to the extent of the exposures)	2014	2013
Mortgage and housing loans	12,025	12,334
SME loans	553	604
Loans to medium and large corporates	243	544
Municipal loans	-	32
Consumer loans	43	29
Total	**12,864**	**13,543**

The above collaterals are only related to on balance sheet exposures.

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.3 Restructured loans

	2014		2013	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	13,027	1,286	18,895	2,394
Loans to medium and large corporates[1]	88,715	20,761	143,207	56,960
SME loans	2,005	32	4,186	660
Municipality loans	21	-	1,374	21
Total	**103,768**	**22,079**	**167,662**	**60,035**

Restructured portfolio definition

Restructured portfolio for **retail business line** contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- it was restructured in the last 12 months, or
- it was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months.

Hungarian FX mortgage loans in the fixed exchange rate scheme are not included.

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

Restructured portfolio for **corporate / SME / municipal business line** contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- independently from the date of the restructuring the following restructuring tool was applied:
    - cancellation of principal outstanding (cancelled or partially cancelled principal receivables);
- it was restructured in the last 12 months or the loan was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months, and any of the following restructuring tools were applied:
    - cancellation of interest rate (final or temporary reduction of the interest margin, cancellation of due interest), or
    - restructuring of interest payments (postponement of the interest payment, capitalisation of the interest), or
    - restructuring of principal repayment (partial or full postponement of repayment of a given instalment, rescheduling one or more instalments within the original term or with extension of the term simultaneously).

Other modifications of contract not mentioned above are not considered as restructuring (i.e. modifying the collateral structure, modification of the credit purpose).

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

[1] incl.: project and syndicated loans

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

Financial instruments by rating categories[1]

Held-for-trading securities as at 31 December 2014

	A1	A2	A3	Aa3	Aaa	Ba1	Ba3	Baa1	Baa2	Not rated	Total
Shares	138	10	41	12	-	-	-	20	67	58,271[2]	58,559
Government bonds	-	-	-	-	1,044	12,733	-	-	-	-	13,777
Mortgage bonds	-	-	-	-	-	-	-	-	71	-	71
Hungarian government discounted Treasury Bills	-	-	-	-	-	288	-	-	-	-	288
Hungarian government interest bearing Treasury Bills	-	-	-	-	-	4,175	-	-	-	-	4,175
Securities issued by credit institutions	-	-	-	-	-	-	17	-	-	50	67
Other securities	-	-	-	-	-	-	-	-	-	216	216
Total	**138**	**10**	**41**	**12**	**1,044**	**17,196**	**17**	**20**	**138**	**58,537**	**77,153**
Accrued interest											434
Total											**77,587**

Available-for-sale securities as at 31 December 2014

	Ba1	Baa2	Not rated	Total
Mortgage bonds	-	733,659[3]	7,908	741,567
Government bonds	375,040	-	-	375,040
Other securities	-	-	64,593	64,593
Total	**375,040**	**733,659**	**72,501**	**1,181,200**
Accrued interest				34,707
Total				**1,215,907**

[1] Moody's ratings
[2] Corporate shares listed on Budapest Stock Exchange
[3] The whole portfolio was issued by OTP Mortgage Bank Ltd.

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

Held-to-maturity securities as at 31 December 2014

	Ba1	Baa3	Total
Government bonds	641,645	-	641,645
Mortgage bonds	-	4,756	4,756
Hungarian government discounted Treasury bills	346	-	346
Subtotal	**641,991**	**4,756**	**646,747**
Accrued interest			16,200
Total			**662,947**

An analysis of securities (held for trading, available-for-sale and held-to-maturity) in a country breakdown is as follows:

Country	2014	2013
Hungary	1,883,103	2,744,702
Slovakia	7,908	15,077
Austria	7,055	6,408
Luxembourg	5,660	3,792
United States of America	1,235	13
Germany	139	138
Russia	-	7,217
Total	**1,905,100**	**2,777,347**

26.2. Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a Value-at-Risk ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk is detailed in Note 32.)

26.2.1 Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Bank reflects the 99% probability that the daily loss will not exceed the reported VaR.
VaR methodologies are applied to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

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

Historical VaR (99%, one-day) by risk type	Average	
	2014	2013
Foreign exchange	184	229
Interest rate	75	522
Equity instruments	12	14
Diversification	(62)	(176)
Total VaR exposure	**209**	**589**

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.2. Market risk [continued]

While VaR captures the Bank's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Bank to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 26.2.2 below and, for interest rate risk, in Note 26.2.3 below.

26.2.2. Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to an increase and decrease in the HUF exchange rate against EUR, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was short, amounted to EUR 310 million as of 31 December 2014. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries, and so FX risk affects the Bank's other comprehensive income and not its income. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	Effects to the P&L in 3 months period	
Probability	**2014**	**2013**
	In HUF billion	**In HUF billion**
1%	(15.0)	(12.7)
5%	(10.5)	(8.7)
25%	(4.5)	(3.6)
50%	(0.6)	(0.3)
25%	3.2	2.8
5%	8.2	7.0
1%	11.8	9.9

Notes:
(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
(2) The HUF/EUR volatility remained at its long term average, so potential losses or gains have not changed significantly.
(3) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2014.

26.2.3. Interest rate sensitivity analysis

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

- Floating-rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- 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. HUF base rate decreases gradually to 1.5% (probable scenario)
2. HUF base rate decreases gradually to 0.1% (alternative scenario)

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.2. Market risk [continued]

The net interest income in a one year period beginning with 1 January 2015 would be decreased by HUF 438 million (probable scenario) and HUF 2,069 million (alternative scenario) as a result of these simulations. This effect is counterbalanced by capital gains (HUF 899 million for probable scenario, HUF 3,689 million for alternative scenario) on the government bond portfolio held for hedging (economic).

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

	2014		**2013**	
Description	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(138)	374	(195)	240
EUR (0.1%) parallel shift	(134)	-	(161)	-
USD 0.1% parallel shift	(73)	-	(43)	-
Total	**(345)**	**374**	**(399)**	**240**

26.2.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Bank uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.
The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. This scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	**2014**	**2013**
VaR (99%, one day, million HUF)	13	14
Stress test (million HUF)	(43)	(60)

26.2.5. Capital management

Capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.
The capital management of the Bank includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.
The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.
The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.2. Market risk [continued]

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business. The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with HAS applying the current directives, rulings and indicators from 1 January 2014.
The Bank has entirely complied with the regulatory capital requirements in 2014 as well as in 2013.
The capital adequacy calculations of the Bank in accordance with HAS are prepared based on the Basel II for the year ended 31 December 2013 and based on Basel III as at 31 December 2014 due to modification of the regulation. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA) is applied since 31 December 2012.

The calculation of the Capital Adequacy ratio as at 31 December 2014 and 2013 is as follows:

	2014 Basel III		**2013 Basel II**
Tier 1 capital	525,849	Core capital	994,715
Common equity Tier 1 capital (CET1)	*525,849*	Supplementary capital	215,902
Additional Tier 1 capital (AT1)	-	Deductions	(460,870)
Tier 2 capital	146,471	*Deductions due to PIBB[1] investments*	*(413,220)*
		Deductions due to limit breaches	*(47,650)*
Regulatory capital	**672,320**	**Regulatory capital**	**749,747**
Credit risk capital requirement	217,891	Credit risk capital requirement	201,729
Market risk capital requirement	43,188	Market risk capital requirement	32,942
Operational risk capital requirement	22,650	Operational risk capital requirement	25,972
Total requirement regulatory capital	**283,729**	**Total requirement regulatory capital**	**260,643**
Surplus capital	**388,591**	**Surplus capital**	**489,104**
CET 1 ratio	14.83%	Tier 1 ratio	23.01%
Capital adequacy ratio	**18.96%**	**Capital adequacy ratio**	**23%**

Basel II: The positive components of the Core capital are: 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: Treasury shares, Intangible assets.
The positive components of the Supplementary capital are: Subsidiary loan capital, Subordinated loan capital.
Deductions: PIBB investments, limit breaches.

Basel III: Common equity Tier 1 capital (CET1): Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due to investments, adjustments due to temporary disposals
Tier 2 capital: Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals

[1] PIBB: Financial Institutions, Investing Enterprises, Insurance Companies

NOTE 27: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities and commitments

	2014	**2013**
Commitments to extend credit	753,152	650,300
Guarantees arising from banking activities	366,756	420,166
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	*102,133*	*115,328*
Promissory obligation to OTP Financing Solutions B.V.	120,664	124,517
Legal disputes (disputed value)	53,729	49,944
Contingent liabilities ordered by law related to customer loans[1]	44,127	-
Confirmed letters of credit	108	470
Other	33,428	26,995
Total	**1,371,964**	**1,272,392**

Legal disputes

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

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.
Provision due to legal disputes was HUF 998 million and HUF 554 million as at 31 December 2014 and 2013, respectively. (See Note 17.)

Complying with Act CXX of 2001 on the capital market, OTP Bank announces that action for damages initiated by DOO VEKTRA JAKIC in bankruptcy in the amount of EUR 80 million against OTP Bank before the Commercial Court in Bijelo Polje (Montenegro) has been dismissed entirely and the court decided in favour of OTP Bank. The decision of the court is subject to appeal. OTP Bank considers the claim is entirely unfounded as it is confirmed by the court of first instance.

The Competition Council of the Hungarian Competition Authority with its resolution issued on 18 June 2014 established that OTP Bank committed a violation of law; therefore the company was obliged to pay a fine in the amount of HUF 38 million.

Commitments to extend credit, guarantees and letter of credit

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

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

[1] See Note 2.26.

NOTE 27: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Commitments to extend credit, guarantees and letter of credit [continued]

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

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

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount and until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee’s liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank. A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.
If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Contingent liabilities related to OTP Mortgage Bank Ltd.

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank had guaranteed, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. The repurchase guarantee contract of non-performing loans between OTP Mortgage Bank Ltd. and OTP Bank Plc. was modified in 2010. According to the new arrangement the repurchase guarantee was cancelled and OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

Derivatives

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

Foreign currency contracts

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

Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank’s risk management foreign currency contracts were used to hedge the exchange rate fluctuations of loans and deposits denominated in foreign currency.

NOTE 27: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Derivatives [continued]

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

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

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.
The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

Foreign exchange options

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

NOTE 28: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn)

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

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

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

The value of the discounted share-based payment at the performance assessment is determined by Board of Directors based on the average of the three previous trade day's middle rate of OTP Bank's equity shares fixed on the Budapest Stock Exchange.
Discounted share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date is determined by Board of Directors, maximum HUF 4,000.

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with concerning EU-directives –, therefore the Board of Directors made a decision to cancel the share-based payment in referred countries.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies. In case of the jubilee benefits both standards contain regulations.

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

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

Board of Directors determined the parameters for the share-based payment relating to the year 2010-2013 for periods of each year as follows:

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

NOTE 28: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Board of Directors, relating to the year **2010** effective pieces are follows as at 31 December 2014:

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

Effective pieces are follows in exercise periods of each year relating to the year **2011** as at 31 December 2014:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2014	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2012	-	471,240	464,753	3,758	6,487
Share-purchasing period started in 2013	-	1,267,173	1,256,529	4,886	10,644
Share-purchasing period started in 2014	214,805	609,137	394,332	4,491	-
Share-purchasing period starting in 2015	724,886	-	-	-	-

Effective pieces are follows in exercise periods of each year relating to the year **2012** as at 31 December 2014:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2014	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2013	-	450,861	445,671	4,413	5,190
Share-purchasing period started in 2014	720,281	1,156,631	436,350	4,502	-
Share-purchasing period starting in 2015	649,653	-	-	-	-
Share-purchasing period starting in 2016	688,990	-	-	-	-

Effective pieces are follows in exercise periods of each year relating to the year **2013** as at 31 December 2014:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2014	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2014	-	406,044	404,263	4,369	1,781
Share-purchasing period starting in 2015	843,340	-	-	-	-
Share-purchasing period starting in 2016	495,340	-	-	-	-
Share-purchasing period starting in 2017	549,909	-	-	-	-

Effective pieces relating to the periods starting in 2015-2017 settled during valuation of performance of year 2011-2013, can be modified based on risk assessment and personal changes.

In connection with shares as a part of the Bank Group Policy on Payments modified by 7/2013 resolution of Annual General Meeting and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 4,393 million was recognized as expense as at 31 December 2014.

NOTE 29: RELATED PARTY TRANSACTIONS (in HUF mn)

The Bank provides loans to related parties, and collects deposits.

Transactions with related parties (subsidiaries), other than increases in share capital or dividend received, are summarized below:

a) Loans provided to related parties

	2014	2013
OTP Mortgage Bank Ltd.	300,562	237,163
OTP Factoring Ltd.	174,422	165,310
Merkantil Bank Ltd.	159,847	176,993
OTP Holding Ltd./ OTP Financing Cyprus Co. Ltd. (Cyprus)	149,086	215,101
OTP Financing Solutions B.V. (the Netherlands)	120,664	124,478
OTP Financing Netherlands B.V. (the Netherlands)	82,453	100,714
JSC “OTP Bank” (Russia)	68,625	14,735
OTP Real Estate Leasing Ltd.	27,518	25,706
OTP Leasing d.d. (Croatia)	26,591	20,914
Merkantil Lease Ltd.	21,356	16,625
OTP Leasing Ukraine	17,744	15,256
DSK Leasing AD (Bulgaria)	17,319	15,142
OTP Factoring Slovensko a.s. (Slovakia)	10,506	-
Inga Kettő Ltd.	10,281	19,281
OTP Bank JSC (Ukraine)	7,750	12,550
Bank Center Ltd.	6,000	10,000
OTP banka Hrvatska Group (Croatia)	3,716	3,504
D-ÉG Thermoset Ltd.[1]	2,886	2,925
Merkantil Car Ltd.	1,040	8,721
Other	848	7,115
Total	**1,209,214**	**1,192,233**

b) Deposits from related parties

	2014	2013
DSK Bank EAD (Bulgaria)	330,829	127,443
OTP Mortgage Bank Ltd.	148,124	62,335
OTP Banka Slovensko a.s. (Slovakia)	63,001	3,833
OTP Building Society Ltd.	33,312	29,333
OTP Funds Servicing and Consulting Ltd.	26,369	25,094
OTP Bank Romania S.A. (Romania)	24,114	7,840
OTP banka Hrvatska d.d. (Croatia)	19,225	1,793
JSC “OTP Bank” (Russia)	19,126	51,894
Crnogorska komercijalna banka a.d (Montenegro)	15,876	11,894
OTP Factoring Ltd.	13,438	5,598
Merkantil Bank Ltd.	13,018	11,386
OTP Real Estate Leasing Ltd.	5,700	596
OTP banka Srbija a.d. (Serbia)	3,922	626
OTP Life Annuity Ltd.	3,195	-
OTP Holding Ltd./ OTP Financing Cyprus Co. Ltd. (Cyprus)	2,591	105
Bank Center Ltd.	2,506	4,014
Balansz Real Estate Institute Fund	2,436	1,930
OTP Financing Malta Ltd. (Malta)	1,679	-
OTP Financing Netherlands B. V. (the Netherlands)	1,384	1,724
Monicomp Ltd.	1,292	894
Other	2,183	3,421
Total	**733,320**	**351,753**

[1] Associate company

NOTE 29: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

c) Interests received by the Bank[1]

	2014	2013
OTP Holding Ltd./ OTP Financing Cyprus Co. Ltd. (Cyprus)	8,716	9,331
OTP Mortgage Bank Ltd.	5,711	9,916
OTP Financing Solutions B.V. (the Netherlands)	5,627	5,807
Merkantil Bank Ltd.	4,912	5,658
OTP Factoring Ltd.	3,557	4,784
OTP Financing Netherlands B.V. (the Netherlands)	2,141	5,993
JSC “OTP Bank” (Russia)	1,697	2,046
OTP Leasing Ukraine	936	584
Merkantil Lease Ltd.	766	1,132
OTP Leasing d.d. (Croatia)	542	583
OTP Real Estate Leasing Ltd.	426	473
DSK Leasing AD (Bulgaria)	356	507
Bank Center Ltd.	273	110
OTP Factoring Slovensko a.s. (Slovakia)	264	-
OTP Banka Slovensko a.s. (Slovakia)	260	12
OTP banka Hrvatska Group (Croatia)	187	184
D-ÉG Thermoset Ltd.[2]	152	213
Merkantil Car Ltd.	96	332
Inga Kettő Ltd.	91	213
Other	549	528
Total	**37,259**	**48,406**

d) Interests paid by the Bank[1]

	2014	2013
DSK Bank EAD (Bulgaria)	2,811	2,422
OTP Mortgage Bank Ltd.	1,799	1,069
Merkantil Lease Ltd.	1,278	1,669
OTP Funds Servicing and Consulting Ltd.	715	1,368
OTP Banka Slovensko a.s. (Slovakia)	664	126
OTP Building Society Ltd.	559	947
JSC “OTP Bank” (Russia)	460	2,162
Crnogorska komercijalna banka a.d (Montenegro)	284	1,914
OTP Bank Romania S.A. (Romania)	244	608
OTP Factoring Ltd.	139	-
Merkantil Bank Ltd.	111	143
OTP Life Annuity Ltd.	91	-
Bank Center Ltd.	80	117
OTP banka Srbija a.d. (Serbia)	45	88
Balansz Real Estate Institute Fund	32	173
OTP Real Estate Leasing Ltd.	14	101
Other	299	114
Total	**9,625**	**13,021**

[1] Derivatives and interest on securities are not included.
[2] Associate company

NOTE 29: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

e) Commissions received by the Bank

	2014	**2013**
From OTP Fund Management Ltd. in relation to trading activity	10,476	8,302
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	2,973	2,241
From OTP Bank JSC (Ukraine) in relation to lending activity	1,666	630
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	592	263
From OTP Funds Servicing and Consulting Ltd. in relation to banking	419	-
From OTP Fund Management Ltd. in relation to custody activity	67	265
Total	**16,193**	**11,701**

f) Commissions paid by the Bank

	2014	**2013**
OTP Bank Romania S.A. (Romania) related to loan portfolio handling	244	295
Crnogorska komercijalna banka a.d. (Montenegro) related to loan portfolio handling	124	150
Total	**368**	**445**

g) Transactions related to OTP Mortgage Bank Ltd.:

	2014	**2013**
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	5,967	8,179
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	1,440	1,351
The gross book value of the loans sold	1,440	1,350

h) Transactions related to OTP Factoring Ltd.:

	2014	**2013**
The gross book value of the loans sold	24,605	40,828
Provision for loan losses on the loans sold	12,667	21,023
Loans sold to OTP Factoring Ltd. without recourse (including interest)	7,261	13,584
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	4,677	6,221

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

i) Transactions related to OTP Banka Slovensko a.s. (Slovakia)

	2014	**2013**
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	7,872	14,846

j) Transactions related to OTP Factoring Montenegro d.o.o. (Montenegro)

	2014	**2013**
The gross book value of the loans sold	5,913	-
The selling price of the loans sold	2,775	-

k) Transactions related to OTP Financing Malta Ltd. (Malta)

	2014	**2013**
The gross book value of the loans sold	31,293	-
The selling price of the loans sold (including interest and premium)	31,506	-

NOTE 29: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

l) Related party transactions with key management

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

Compensations	**2014**	**2013**
Short-term employee benefits	3,453	4,658
Share-based payment	2,937	3,297
Long-term employee benefits (on the basis of IAS 19)	443	701
Total	**6,833**	**8,656**

	2014	**2013**
Loans provided to companies owned by the Management (in the normal course of business)	11,854	38,538
Commitments to extend credit and bank guarantees	15,545	1,030
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	136	131

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned credit line "A" in the amount of HUF 139.7 and 133.3 million as at 31 December 2014 and 2013.

An analysis of credit limit related to MasterCard Gold is as follows (in HUF mn):

	2014	**2013**
Members of Board of Directors and their close family members	18	18
Members of Supervisory Board	4	4
Chief executive	2	-

The family member of a member of the Board of Directors owned AMEX Blue credit card loan in the amount of HUF 0.6 million as at 31 December 2014.

Chief executives owned AMEX Gold loading card loan in the amount of HUF 3.5 million as at 31 December 2014.

Member of Board of Directors, members of Supervisory Board and chief executives with their close family members owned AMEX Platinum credit card loan in the amount of HUF 23.5 million as at 31 December 2014.

An analysis of payment to chief executives related to their activity in Board of Directors and Supervisory Board is as follows (in HUF mn):

	2014	**2013**
Members of Board of Directors	539	545
Members of Supervisory Board	73	71
Total	**612**	**616**

In the normal course of business, OTP Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these financial statements taken as a whole.

NOTE 30: TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying separate statement of financial position.

	2014	**2013**
Loans managed by the Bank as a trustee	39,618	42,280

NOTE 31: CONCENTRATION OF ASSETS AND LIABILITIES

	2014	**2013**
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH[1]	44%	30%
Securities issued by the OTP Mortgage Bank Ltd.	9.77%	11.68%

There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2014 or 2013.

OTP Bank continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards OTP Bank.
Further to this obligatory reporting to the Authority, OTP Bank pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

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

[1] Securities issued by the NBH were changed into two-weeks NBH deposit during the year ended 31 December 2014.

<u>NOTE 32:</u> MATURITY ANALYSIS LIABILITIES AND LIQUIDITY RISK (in HUF mn)

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

The essential of the liquidity risk management strategy it to identify all relevant systemic and idiosyncratic sources of liquidity risk and to measure the probability and severity of such events. During liquidity risk management the Bank considers the effect of liquidity risk events caused by reasons arising in the bank business line (deposit withdrawal), the national economy (exchange rate shock, yield curve shock) and the global financial system (capital market shock).

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is in all-time record highs. In 2014 there were no material changes in liquidity risk management process.

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

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash-flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash-flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash-flows are exchanged; gross loan commitments.
Such undiscounted cash-flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash-flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

NOTE 32: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF mn) [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	Without maturity	Total
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	950,833	56,734	85,328	61,561	-	1,154,456
Deposits from customers	3,952,755	251,993	17,039	13,208	-	4,234,995
Liabilities from issued securities	22,705	41,355	57,667	29,174	-	150,901
Other liabilities[1]	215,057	102,572	-	-	-	317,629
Subordinated bonds and loans	30,820	-	168,481	-	111,191[2]	310,492
TOTAL LIABILITIES	**5,172,170**	**452,654**	**328,515**	**103,943**	**111,191**	**6,168,473**
Receivables from derivative financial instruments classified as held for trading	2,202,779	968,403	566,209	5,578	-	3,742,969
Liabilities from derivative financial instruments classified as held for trading	(2,334,158)	(1,086,572)	(668,861)	(19,340)	-	(4,108,931)
Net notional value of financial instruments classified as held for trading	***(131,379)***	***(118,169)***	***(102,652)***	***(13,762)***	***-***	***(365,962)***
Receivables from derivative financial instruments designated as fair value hedge	-	202	16,050	3,273	-	19,525
Liabilities from derivative financial instruments designated as fair value hedge	(1)	(710)	(19,518)	(3,898)	-	(24,127)
Net notional value of financial instruments designated as fair value hedge	***(1)***	***(508)***	***(3,468)***	***(625)***	***-***	***(4,602)***
Net notional value of derivative financial instruments total	**(131,380)**	**(118,677)**	**(106,120)**	**(14,387)**	**-**	**(370,564)**
Commitments to extend credit	220,283	434,835	66,152	31,882	-	753,152
Bank guarantees	44,380	76,055	42,793	203,528	-	366,756
Off-balance sheet commitments	**264,663**	**510,890**	**108,945**	**235,410**	**-**	**1,119,908**

[1] Derivative financial instruments designated as fair value hedge are not included.
[2] See Note 18.

NOTE 32: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]

As at 31 December 2013	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	674,084	42,185	146,937	48,804	-	912,010
Deposits from customers	3,427,471	224,959	21,461	10,870	-	3,684,761
Liabilities from issued securities	20,423	48,476	79,890	26,357	-	175,146
Other liabilities[1]	234,546	145	-	-	-	234,691
Subordinated bonds and loans	3,424	-	187,091	-	104,842[2]	295,357
TOTAL LIABILITIES	**4,359,948**	**315,765**	**435,379**	**86,031**	**104,842**	**5,301,965**
Receivables from derivative financial instruments classified as held for trading	1,106,691	418,829	1,078,210	14,337	-	2,618,067
Liabilities from derivative financial instruments classified as held for trading	(1,148,354)	(452,579)	(1,200,157)	(31,459)	-	(2,832,549)
Net notional value of financial instruments classified as held for trading	***(41,663)***	***(33,750)***	***(121,947)***	***(17,122)***	***-***	***(214,482)***
Receivables from derivative financial instruments designated as fair value hedge	1	19	2,680	3,942	-	6,642
Liabilities from derivative financial instruments designated as fair value hedge	(1)	(24)	(3,355)	(2,579)	-	(5,959)
Net notional value of financial instruments designated as fair value hedge	***-***	***(5)***	***(675)***	***1,363***	***-***	***683***
Net notional value of derivative financial instruments total	**(41,663)**	**(33,755)**	**(122,622)**	**(15,759)**	**-**	**(213,799)**
Commitments to extend credit	72,976	410,673	115,809	50,842	-	650,300
Bank guarantees	26,657	56,408	134,827	202,274	-	420,166
Off-balance sheet commitments	**99,633**	**467,081**	**250,636**	**253,116**	**-**	**1,070,466**

[1] Derivative financial instruments designated as fair value hedge are not included.
[2] See Note 18.

NOTE 33: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 31 December 2014

	USD	EUR	CHF	Others	Total
Assets[1]	279,394	1,105,039	476,074	99,485	1,959,992
from this: loans concerned in conversion into HUF[2]	-	*820*	*46,338*	*49*	*47,207*
Liabilities	(191,873)	(1,186,305)	(92,377)	(69,823)	(1,540,378)
from this: provision for loans concerned in conversion into HUF[2]	-	*(118)*	*(6,833)*	*(401)*	*(7,352)*
Off-balance sheet assets and liabilities, net	(40,738)	(56,494)	(277,512)	(13,483)	(388,227)
Net position	**46,783**	**(137,760)**	**106,185**	**16,179**	**31,387**

As at 31 December 2013

	USD	EUR	CHF	Others	Total
Assets[1]	293,385	1,219,825	527,580	76,540	2,117,330
Liabilities	(279,143)	(1,043,770)	(117,690)	(36,259)	(1,476,862)
Off-balance sheet assets and liabilities, net	49,057	(391,718)	(409,898)	(38,855)	(791,414)
Net position	**63,299**	**(215,663)**	**(8)**	**1,426**	**(150,946)**

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

NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn)

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

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

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

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

[1] The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

[2] Loans were converted into HUF at foreign exchange rates applied in conversion due to Acts on Customer loans so these do not bear further foreign currency risk or exposure. Loans denominated in JPY are included by others. See Note 2.26.

NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 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		
ASSETS	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	**1,795,868**	**30,640**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**65,691**	**5,579**	**1,861,559**	**36,219**	**1,897,778**
fixed interest	1,795,868	30,640	-	-	-	-	-	-	-	-	-	-	1,795,868	30,640	**1,826,508**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	65,691	5,579	65,691	5,579	**71,270**
Placements with other banks	**244,689**	**155,569**	**5,023**	**241,423**	**50,000**	**13,754**	**-**	**-**	**-**	**-**	**1,293**	**361**	**301,005**	**411,107**	**712,112**
fixed interest	9,504	41,481	23	89,459	50,000	798	-	-	-	-	-	-	59,527	131,738	**191,265**
variable interest	235,185	114,088	5,000	151,964	-	12,956	-	-	-	-	-	-	240,185	279,008	**519,193**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,293	361	1,293	361	**1,654**
Securities held for trading	**251**	**-**	**1,362**	**66**	**3,894**	**124**	**94**	**64**	**11,488**	**1,232**	**58,671**	**341**	**75,760**	**1,827**	**77,587**
fixed interest	165	-	1,241	66	3,080	16	94	64	11,488	1,232	-	-	16,068	1,378	**17,446**
variable interest	86	-	121	-	814	108	-	-	-	-	-	-	1,021	108	**1,129**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	58,671	341	58,671	341	**59,012**
Securities available-for-sale	**-**	**153,169**	**-**	**171,458**	**64,475**	**21,475**	**162,483**	**9,493**	**539,770**	**26,612**	**56,956**	**10,016**	**823,684**	**392,223**	**1,215,907**
fixed interest	-	-	-	3,897	64,475	21,475	162,483	9,493	539,770	26,612	-	-	766,728	61,477	**828,205**
variable interest	-	153,169	-	167,561	-	-	-	-	-	-	-	-	-	320,730	**320,730**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	56,956	10,016	56,956	10,016	**66,972**
Loans, net of allowance for loan losses	**562,470**	**389,547**	**157,059**	**617,098**	**28,882**	**40,575**	**23,298**	**5,650**	**63,678**	**13,335**	**4,085**	**2,954**	**839,472**	**1,069,159**	**1,908,631**
fixed interest	1,752	396	4,287	1,408	25,805	32,701	23,298	5,650	63,678	13,335	-	-	118,820	53,490	**172,310**
variable interest	560,718	389,151	152,772	615,690	3,077	7,874	-	-	-	-	-	-	716,567	1,012,715	**1,729,282**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,085	2,954	4,085	2,954	**7,039**
Securities held-to-maturity	**-**	**-**	**63,374**	**-**	**346**	**-**	**36,271**	**-**	**546,756**	**-**	**16,200**	**-**	**662,947**	**-**	**662,947**
fixed interest	-	-	56,697	-	346	-	36,271	-	546,756	-	-	-	640,070	-	**640,070**
variable interest	-	-	6,677	-	-	-	-	-	-	-	-	-	6,677	-	**6,677**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	16,200	-	16,200	-	**16,200**
Derivative financial instruments	**892,417**	**1,380,421**	**899,135**	**2,425,913**	**136,282**	**812,239**	**8,578**	**19,996**	**31,973**	**41,671**	**-**	**1,300**	**1,968,385**	**4,681,540**	**6,649,925**
fixed interest	514,405	1,148,879	147,078	1,009,941	85,034	809,065	8,578	19,996	31,973	41,671	-	-	787,068	3,029,552	**3,816,620**
variable interest	378,012	231,542	752,057	1,415,972	51,248	3,174	-	-	-	-	-	-	1,181,317	1,650,688	**2,832,005**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	1,300	-	1,300	**1,300**

NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 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		
LIABILITIES	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**Total**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**488,536**	**465,214**	**26,437**	**15,430**	**37,198**	**5,875**	**5,109**	**3,646**	**88,368**	**5,863**	**429**	**386**	**646,077**	**496,414**	**1,142,491**
fixed interest	488,536	301,144	24,964	12,386	9,371	5,834	5,109	3,646	88,368	5,863	-	-	616,348	328,873	**945,221**
variable interest	-	164,070	1,473	3,044	27,827	41	-	-	-	-	-	-	29,300	167,155	**196,455**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	429	386	429	386	**815**
Deposits from customers	**2,026,492**	**216,669**	**318,340**	**122,814**	**146,518**	**98,188**	**4,056**	**-**	**1,136,819**	**161,456**	**3,473**	**431**	**3,635,698**	**599,558**	**4,235,256**
fixed interest	1,564,995	210,633	307,855	122,220	146,518	98,188	4,056	-	5,607	-	-	-	2,029,031	431,041	**2,460,072**
variable interest	461,497	6,036	10,485	594	-	-	-	-	1,131,212	161,456	-	-	1,603,194	168,086	**1,771,280**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,473	431	3,473	431	**3,904**
Liabilities from issued securities	**6,082**	**3,827**	**5,544**	**5,230**	**11,397**	**31,069**	**13,862**	**8,520**	**74,176**	**439**	**174**	**2,347**	**111,235**	**51,432**	**162,667**
fixed interest	6,082	3,827	5,544	5,230	11,397	30,707	13,862	8,520	74,176	439	-	-	111,061	48,723	**159,784**
variable interest	-	-	-	-	-	362	-	-	-	-	-	-	-	362	**362**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	174	2,347	174	2,347	**2,521**
Derivative financial instruments	**618,118**	**1,696,937**	**675,674**	**2,636,782**	**286,480**	**732,283**	**6,698**	**19,847**	**23,515**	**41,313**	**26**	**2,871**	**1,610,511**	**5,130,033**	**6,740,544**
fixed interest	617,938	1,043,376	152,869	1,023,806	283,456	701,466	6,698	19,847	23,515	41,313	-	-	1,084,476	2,829,808	**3,914,284**
variable interest	180	653,561	522,805	1,612,976	3,024	30,817	-	-	-	-	-	-	526,009	2,297,354	**2,823,363**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	26	2,871	26	2,871	**2,897**
Subordinated bonds and loans	**-**	**-**	**-**	**29,375**	**-**	**-**	**-**	**-**	**-**	**263,843**	**-**	**1,394**	**-**	**294,612**	**294,612**
fixed interest	-	-	-	-	-	-	-	-	-	263,843	-	-	-	263,843	**263,843**
variable interest	-	-	-	29,375	-	-	-	-	-	-	-	-	-	29,375	**29,375**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	1,394	-	1,394	**1,394**
NET POSITION	**356,467**	**(273,301)**	**99,958**	**646,327**	**(197,714)**	**20,752**	**200,999**	**3,190**	**(129,213)**	**(390,064)**	**198,794**	**13,122**	**529,291**	**20,026**	**549,317**

NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2013	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		
ASSETS	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**Total**
Cash, amounts due from banks and balances with the National Bank of Hungary	**48,235**	**19,529**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**67,534**	**5,223**	**115,769**	**24,752**	**140,521**
fixed interest	48,235	19,529	-	-	-	-	-	-	-	-	-	-	48,235	19,529	**67,764**
variable interest	-	-	-	-	-	-	-	-	-	-	67,534	5,223	67,534	5,223	**72,757**
Placements with other banks	**222,029**	**182,597**	**6,910**	**150,096**	**680**	**32,646**	**35,000**	**773**	**-**	**-**	**1,532**	**636**	**266,151**	**366,748**	**632,899**
fixed interest	36,049	182,597	1,910	1,960	680	32,646	35,000	773	-	-	-	-	73,639	217,976	**291,615**
variable interest	185,980	-	5,000	148,136	-	-	-	-	-	-	-	-	190,980	148,136	**339,116**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,532	636	1,532	636	**2,168**
Securities held for trading	**211,318**	**81**	**2,344**	**-**	**4,658**	**436**	**638**	**34**	**3,607**	**345**	**73,215**	**172**	**295,780**	**1,068**	**296,848**
fixed interest	211,318	81	2,344	-	4,513	225	638	34	3,607	345	-	-	222,420	685	**223,105**
variable interest	-	-	-	-	145	211	-	-	-	-	-	-	145	211	**356**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	73,215	172	73,215	172	**73,387**
Securities available-for-sale	**1,021,825**	**150,238**	**-**	**217,824**	**-**	**21,994**	**80,925**	**30,711**	**382,525**	**32,802**	**48,852**	**9,795**	**1,534,127**	**463,364**	**1,997,491**
fixed interest	1,021,825	9,397	-	-	-	21,994	80,925	30,711	382,525	32,802	-	-	1,485,275	94,904	**1,580,179**
variable interest	-	140,841	-	217,824	-	-	-	-	-	-	-	-	-	358,665	**358,665**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	48,852	9,795	48,852	9,795	**58,647**
Loans, net of allowance for loan losses	**670,550**	**423,095**	**169,397**	**671,680**	**13,680**	**103,065**	**8,303**	**30,396**	**32,702**	**11,491**	**4,879**	**5,463**	**899,511**	**1,245,190**	**2,144,701**
fixed interest	430	69	1,268	14,943	6,907	11,196	8,303	30,396	32,702	8,748	-	-	49,610	65,352	**114,962**
variable interest	670,120	423,026	168,129	656,737	6,773	91,869	-	-	-	2,743	-	-	845,022	1,174,375	**2,019,397**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,879	5,463	4,879	5,463	**10,342**
Securities held-to-maturity	**-**	**-**	**10,014**	**-**	**5,368**	**-**	**57,681**	**-**	**438,856**	**-**	**13,130**	**-**	**525,049**	**-**	**525,049**
fixed interest	-	-	-	-	341	-	57,681	-	438,856	-	-	-	496,878	-	**496,878**
variable interest	-	-	10,014	-	5,027	-	-	-	-	-	-	-	15,041	-	**15,041**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	13,130	-	13,130	-	**13,130**
Derivative financial instruments	**612,614**	**1,368,827**	**600,760**	**1,124,073**	**74,466**	**105,302**	**12,228**	**28,316**	**30,284**	**22,587**	**-**	**660**	**1,330,352**	**2,649,765**	**3,980,117**
fixed interest	259,204	791,521	30,759	190,769	50,842	102,317	12,149	28,316	30,284	22,587	-	-	383,238	1,135,510	**1,518,748**
variable interest	353,410	577,306	570,001	933,304	23,624	2,985	79	-	-	-	-	-	947,114	1,513,595	**2,460,709**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	660	-	660	**660**

NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2013	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		
LIABILITIES	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**Total**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**376,793**	**308,524**	**10,417**	**59,271**	**69,975**	**3,028**	**798**	**5,669**	**61,496**	**5,410**	**618**	**745**	**520,097**	**382,647**	**902,744**
fixed interest	365,718	260,785	6,658	23,225	1,041	2,969	798	5,669	61,496	5,410	-	-	435,711	298,058	**733,769**
variable interest	11,075	47,739	3,759	36,046	68,934	59	-	-	-	-	-	-	83,768	83,844	**167,612**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	618	745	618	745	**1,363**
Deposits from customers	**1,499,986**	**293,191**	**463,072**	**180,222**	**156,755**	**53,170**	**4,284**	**-**	**886,786**	**133,583**	**5,406**	**995**	**3,016,289**	**661,161**	**3,677,450**
fixed interest	1,129,330	288,725	440,204	180,222	156,755	53,170	4,284	-	2,667	-	-	-	1,733,240	522,117	**2,255,357**
variable interest	370,656	4,466	22,868	-	-	-	-	-	884,119	133,583	-	-	1,277,643	138,049	**1,415,692**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	5,406	995	5,406	995	**6,401**
Liabilities from issued securities	**6,674**	**1,872**	**4,245**	**4,407**	**20,739**	**26,663**	**18,079**	**7,046**	**79,298**	**1,246**	**495**	**15**	**129,530**	**41,249**	**170,779**
fixed interest	6,436	1,872	4,245	4,407	20,739	26,663	18,079	7,046	79,298	1,246	-	-	128,797	41,234	**170,031**
variable interest	238	-	-	-	-	-	-	-	-	-	-	-	238	-	**238**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	495	15	495	15	**510**
Derivative financial instruments	**423,640**	**1,575,964**	**64,868**	**1,635,778**	**44,510**	**132,077**	**126,788**	**28,595**	**22,221**	**22,757**	**-**	**624**	**682,027**	**3,395,795**	**4,077,822**
fixed interest	423,111	629,717	63,836	155,154	40,519	109,502	126,788	28,595	22,221	22,757	-	-	676,475	945,725	**1,622,200**
variable interest	529	946,247	1,032	1,480,624	3,991	22,575	-	-	-	-	-	-	5,552	2,449,446	**2,454,998**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	624	-	624	**624**
Subordinated bonds and loans	**-**	**-**	**-**	**27,746**	**-**	**-**	**-**	**-**	**-**	**247,071**	**-**	**3,424**	**-**	**278,241**	**278,241**
fixed interest	-	-	-	-	-	-	-	-	-	247,071	-	-	-	247,071	**247,071**
variable interest	-	-	-	27,746	-	-	-	-	-	-	-	-	-	27,746	**27,746**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	3,424	-	3,424	**3,424**
NET POSITION	**479,478**	**(35,184)**	**246,823**	**256,249**	**(193,127)**	**48,505**	**44,826**	**48,920**	**(161,827)**	**(342,842)**	**202,623**	**16,146**	**618,796**	**(8,206)**	**610,590**

NOTE 35: EARNINGS PER SHARE

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

	2014	2013
Net (loss) / profit for the year attributable to ordinary shareholders (in HUF mn)	(74,469)	47,891
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	278,355,195	278,235,026
Basic Earnings per share (in HUF)	**(268)**	**172**
Separate net (loss) / profit for the year attributable to ordinary shareholders (in HUF mn)	(74,469)	47,891
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	278,643,335	278,468,896
Diluted Earnings per share (in HUF)	**(267)**	**172**

	2014	2013
	number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(1,644,815)	(1,764,984)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**278,355,195**	**278,235,026**
Dilutive effect of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares[1]	288,140	233,870
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**278,643,335**	**278,468,896**

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

[1] In 2014 and 2013 dilutive effect is in connection with the Remuneration Policy.

NOTE 36: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2014	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	15,556	-	-	-
Placements with other banks, net of allowance for placement losses	14,689	-	(4)	-
Securities held for trading	-	4,283	-	-
Securities available-for-sale	72,056	4,947	-	51,404
Loans, net of allowance for loan losses	153,501	9,280	2,696	-
Securities held-to-maturity	36,518	-	-	-
Derivative financial instruments	3,636	(67)	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(14,779)	-	-	-
Deposits from customers	(46,423)	108,737	-	-
Liabilities from issued securities	(4,206)	-	-	-
Subordinated bonds and loans	(16,825)	-	-	-
Total	**213,723**	**127,180**	**2,692**	**51,404**

As at 31 December 2013	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	3,720	-	-	-
Placements with other banks, net of allowance for placement losses	20,583	-	(22)	-
Securities held for trading	-	313	-	-
Securities available-for-sale	102,376	9,769	-	38,199
Loans, net of allowance for loan losses	181,341	10,258	(1,533)	-
Securities held-to-maturity	30,027	(87)	-	-
Derivative financial instruments	4,664	(1,099)	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(17,388)	-	-	-
Deposits from customers	(87,342)	101,329	-	-
Liabilities from issued securities	(15,241)	-	-	-
Subordinated bonds and loans	(16,922)	-	-	-
Total	**205,818**	**120,483**	**(1,555)**	**38,199**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 37.e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

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

Classes of assets and liabilities not measured at fair value in the statement of financial position, income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, fair value of other classes not measured at fair value of the statement of financial position measured at discounted cash-flow method. Fair value of loans, net of allowance for loan losses measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.
Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

a) Fair value of financial assets and liabilities

	2014		2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Bank of Hungary	1,897,778	1,897,778	140,521	140,521
Placements with other banks, net of allowance for placement losses	712,112	746,469	632,899	640,404
Financial assets at fair value through profit or loss	351,753	351,753	396,565	396,565
Held for trading securities	*77,587*	*77,587*	*296,848*	*296,848*
Derivative financial instruments classified as held for trading	*274,166*	*274,166*	*99,717*	*99,717*
Securities available-for-sale	1,215,907	1,215,907	1,997,491	1,997,491
Loans, net of allowance for loan losses[1]	1,908,631	2,277,701	2,144,701	2,466,835
Securities held-to-maturity	662,947	721,436	525,049	533,609
Derivative financial instruments designated as hedging instruments	14,041	14,041	9,734	9,734
FINANCIAL ASSETS TOTAL	**6,763,169**	**7,225,085**	**5,846,960**	**6,185,159**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	1,142,491	1,128,655	902,744	883,999
Deposits from customers	4,235,256	4,242,841	3,677,450	3,681,927
Liabilities from issued securities	162,667	171,909	170,779	187,925
Derivative financial instruments designated as hedging instruments	3,463	3,463	2,639	2,639
Financial liabilities at fair value through profit or loss	375,363	375,363	204,517	204,517
Financial liabilities from OTP-MOL transaction	56,445	56,445	71,548	71,548
Subordinated bonds and loans	294,612	292,746	278,241	258,684
FINANCIAL LIABILITIES TOTAL	**6,270,297**	**6,271,422**	**5,307,918**	**5,291,239**

[1] Fair value of loans increased in the year ended 31 December 2014 due to decrease of short-term and long-term interests.

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Fair value of derivative instruments

	Fair value		Notional value, net	
	2014	**2013**	**2014**	**2013**
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	43,538	53,728	46,128	59,680
Negative fair value of interest rate swaps classified as held for trading	(63,670)	(67,854)	(66,510)	(74,699)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	60,833	6,637	57,280	6,876
Negative fair value of foreign exchange swaps classified as held for trading	(60,110)	(5,744)	(55,697)	(5,917)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated in fair value hedge	14,032	9,722	8,539	4,491
Negative fair value of interest rate swaps designated in fair value hedge	(3,463)	(2,639)	(4,602)	682
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	152,540	30,914	144,886	33,067
Negative fair value of CCIRS classified as held for trading	(227,167)	(121,786)	(222,373)	(117,113)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	-	1,849	-	1,466
Negative fair value of mark-to-market CCIRS classified as held for trading	(9,576)	(2,770)	(9,856)	(3,339)
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	17,255	6,589	14,088	2,849
Negative fair value of other derivative contracts classified as held for trading	(14,840)	(6,363)	(11,526)	(13,575)
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated in fair value hedge	9	12	4	(37)
Negative fair value of other derivative contracts designated in fair value hedge	-	-	-	-
Derivative financial assets total	**288,207**	**109,451**	**270,925**	**108,392**
Derivative financial liabilities total	**(378,826)**	**(207,156)**	**(370,564)**	**(213,961)**
Derivative financial instruments total	**(90,619)**	**(97,705)**	**(99,639)**	**(105,569)**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) *Hedge accounting*

OTP 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. Net investment hedge in foreign operations is not applicable in separate financial statements.

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

As at 31 December 2014

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Cash-flow hedges	-	-	-
2) Fair value hedges	IRS/ Index option	HUF 10,578 million	Interest rate

As at 31 December 2013

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Cash-flow hedges	-	-	-
2) Fair value hedges	IRS/ Index option	HUF 7,095 million	Interest rate

d) *Fair value hedges*

1. Deposits from customers

The interest payment cash-flows of some structured deposits of OTP Bank denominated in HUF and EUR are exposed to the change of equity prices, equity indices or the change of HUF/EUR exchange rate. In order to hedge the interest rate risk of the interest payments OTP Bank entered into interest rate swap transactions, where the risk of the cash-flow's from the structured deposits were swapped to payments linked to 3 month BUBOR or EURIBOR, resulting in a decrease in the fair value exposure of the deposits from customers.

	2014	2013
Fair value of the hedging instruments	107	101

2. Securities available-for-sale

OTP Bank holds fixed interest rate securities denominated in foreign currencies and fixed interest rate government bonds denominated in HUF within the available-for-sale portfolio. These fixed interest rate securities and bonds are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order to hedge the interest rate risk of the cash-flows OTP Bank entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 12 month EURIBOR and the risk from the cash-flows of the bonds are swapped to payments linked to 6 month BUBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

	2014	2013
Fair value of the hedging instruments	(2,570)	(879)

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

3. Loans to customers

OTP Bank has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows OTP Bank entered into pay-fixed, receive-floater interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 month EURIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.

	2014	**2013**
Fair value of the hedging instruments	(417)	(518)

4. Issued securities

The cash-flows of the fixed rate securities issued by OTP Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS and index option transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulted a decrease in the interest rate and foreign exchange exposure of issued securities.
Certain structured bonds are hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond.

	2014	**2013**
Fair value of the hedging IRS instruments	13,449	8,379
Fair value of the hedging index option instruments	9	12

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) *Fair value hedges [continued]*

As at 31 December 2014

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

As at 31 December 2013

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 23,629 million	HUF (879) million	HUF (388) million	HUF 388 million
Loans to customers	IRS	HUF 12,866 million	HUF (518) million	HUF (540) million	HUF 540 million
Deposits from customers	IRS	HUF 5,224 million	HUF 101 million	HUF (197) million	HUF 197 million
Liabilities from issued securities	IRS	HUF 94,344 million	HUF 8,379 million	HUF (6,640) million	HUF 6,640 million
Liabilities from issued securities	Index option	HUF 644 million	HUF 12 million	HUF (8) million	HUF 8 million

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

e) Fair value classes

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December 2014	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	351,319	73,090	278,229	-
from this: securities held for trading	*77,153*	*72,634*	*4,519*	-
from this: positive fair value of derivative financial instruments classified as held for trading	*274,166*	*456*	*273,710*	-
Securities available-for-sale	1,181,200	342,629	838,571	-
Positive fair value of derivative financial instruments designated as fair value hedge	14,041	-	14,041	-
Financial assets measured at fair value total	**1,546,560**	**415,719**	**1,130,841**	**-**
Negative fair value of derivative financial instruments classified as held for trading	375,363	478	374,885	-
Negative fair value of derivative financial instruments designated as fair value hedge	3,463	-	3,463	-
Financial liabilities measured at fair value total	**378,826**	**478**	**378,348**	**-**

As at 31 December 2013	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	396,460	289,558	106,902	-
from this: securities held for trading	*296,743*	*289,497*	*7,246*	-
from this: positive fair value of derivative financial instruments classified as held for trading	*99,717*	*61*	*99,656*	-
Securities available-for-sale	1,968,685	1,051,818	916,867	-
Positive fair value of derivative financial instruments designated as fair value hedge	9,734	-	9,734	-
Financial assets measured at fair value total	**2,374,879**	**1,341,376**	**1,033,503**	**-**
Negative fair value of derivative financial instruments classified as held for trading	204,517	9	204,508	-
Negative fair value of derivative financial instruments designated as fair value hedge	2,639	-	2,639	-
Financial liabilities measured at fair value total	**207,156**	**9**	**207,147**	**-**

NOTE 38: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HAS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF mn)

	Retained Earnings and Reserves 1 January 2014	Net loss for the year ended 31 December 2014	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves as at 31 December 2014
Financial Statements in accordance with HAS	**1,101,998**	**(41,718)**	**(40,600)**	**(78,854)**	**940,826**
Premium and discount amortization of financial instruments measured at amortised cost	3,640	23	-	(866)	2,797
Effect of redemption of issued securities	15,442	(1,331)	-	-	14,111
Differences in carrying value of subsidiaries	34,115	(78,854)	-	78,854	34,115
Difference in accounting for finance leases	(1,499)	626	-	-	(873)
Effects of using effective interest rate method	6,475	(541)	-	-	5,934
Fair value adjustment of held for trading and available-for-sale financial assets	38,532	2,968	-	16,641	58,141
Fair value adjustment of derivative financial instruments	6,599	3,412	-	-	10,011
Reversal of statutory goodwill	40,596	-	-	-	40,596
Revaluation of investments denominated in foreign currency to historical cost	(33,647)	976	-	-	(32,671)
Difference in accounting of security lending	(23,460)	1,479	-	-	(21,981)
Treasury share transaction	-	3,908	-	(3,908)	-
Share-based payment	-	(4,393)	-	4,393	-
Payments to ICES holders	10,061	1,112	-	(4,159)	7,014
OTP-MOL share swap transaction	(54,489)	422	-	-	(54,067)
Provision for exchange of customer loans to HUF	-	(7,906)	-	-	(7,906)
Deferred taxation	(9,672)	45,648	-	(2,419)	33,557
Dividend paid by Monicomp in advance	300	(300)	-	-	-
Dividend paid for 2013	40,600	-	(40,600)	-	-
Dividend payable in 2014	-	-	40,600	-	40,600
Financial Statements in accordance with IFRS	**1,175,591**	**(74,469)**	**(40,600)**	**9,682**	**1,070,204**

NOTE 39: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2014

1) Government measures related to customer loan contracts

See details in Note 2.26.

2) Capital settlement package of OTP Real Estate Ltd. and its subsidiaries

See details in Note 9.

3) Capital increase at OTP banka Srbija

See details in Note 9.

4) Acquisition in Croatia

See details in Note 9.

5) Incorporation of OTP Holding Malta Limited

See details in Note 9.

6) Purchase of Banco Comercial Português

See details in Note 9.

7) Incorporation of OTP Financing Malta Company Limited

See details in Note 9.

8) Capital increase at OTP Banka Slovensko

See details in Note 9.

9) Change in ownership structure of OTP Factoring

See details in Note 9.

10) Term Note Program

See details in Note 15.

11) Judgment of the Competition Council of the Hungarian Competition Authority

See details in Note 27.

12) Legal dispute in Montenegro

See details in Note 27.

NOTE 40: POST BALANCE SHEET EVENTS

1) Capital increase at OTP Bank Romania

See details in Note 9.

NOTE 40: POST BALANCE SHEET EVENTS [continued]

2) Act on Fair banking

Act LXXVIII of 2014 known as Act on Fair banking was promulgated that modified the Act CLXII of 2009 on Consumer Credit. The Act on Fair banking is aimed at making the variation in interest of customer loan contracts transparent and traceable. Regulations of the act are effective from 1 February 2015.
The Act includes new regulations for modification of loan contracts, rules for uncharged cancellation by clients, special directions for foreign currency loans and rules of change for new contract conditions. The Act prescribes in relation with unilateral amendment of contractual clauses that interest, spread, cost and fee can be solely modified disadvantageously. Disadvantageous amendment for clients is not allowed in other conditions.

3) The impact of CHF strengthening started in January 2015 on OTP Bank

On 15 January 2015 the Swiss National Bank announced the abandonment of the CHF's exchange rate floor set at 1.2 against the euro. After the decision, the CHF sharply and substantially strengthened against the EUR and other foreign currencies in the CEE region: the CHF appreciated against the EUR from 1.2 CHF/EUR to under the parity and then it went up to 1.08 until 19 February. According to NBH's data the CHF strengthened by 20% against the HUF on the day of the announcement, the devaluation moderated to 7% until 19 February.
In Hungary, according to the Act on Conversion into HUF, the CHF mortgage loans are to be converted to HUF loans at 256.47 CHF/HUF exchange rate. The conversion became legally effective on 1 February 2015. (A customer may initiate on opt-out if meeting the criteria set by the law.) Starting from 1 January 2015 the monthly instalments of the FX mortgage loans must be calculated with the fixed rates set in the law on conversion, thus clients under the scope of the conversion law did not experience any negative effect of the CHF strengthening.
OTP Bank fully hedged the open EUR/HUF positions derived from the conversion of FX mortgage loans to HUF on the FX tenders of the NBH, while the open EUR/CHF and EUR/JPY positions were hedged on the market until the end of 2014.
Within the Hungarian household loan portfolio at the end of 2014 the net volume of CHF consumer loans at OTP Core stood at HUF 12 billion equivalent, and the net volume of CHF car financing loans at Merkantil Bank Ltd. reached HUF 82 billion equivalent. The car financing loans are not subject to the conversion law. However, the monthly instalments' increase due to the CHF strengthening may be mitigated (to a different extent at individual clients) by the reduction in the nominal interest rate according to Curia Law and Act on Settlement, and the compensation may lower the loan principal.
In Romania the subsidiary of OTP Bank had HUF 134 billion equivalent net CHF mortgage loan volumes at the end of 2014. OTP Bank Romania S.A. was the first one to react to the step of the Swiss National Bank abolishing the peg to the euro: on 16 January 2015 the Romanian subsidiary announced that in order to mitigate the negative impact of CHF appreciation on monthly instalments the interest margin will be reduced by 1.5 ppts for 3 months for those customers who had variable-rate CHF mortgage loans (in accordance with effective conditions and depending on the antecedents of the loans). Clients can apply for this scheme until 27 February 2015 in the branches. By 12 February the take-up ratio reached 40% of performing CHF mortgage loan volumes.
The Croatian subsidiary held HUF 22 billion equivalent net CHF mortgage loan volumes on its balance sheet at the end of 2014. On 19 January 2015 the Croatian Government announced that the CHF/HRK rate will be fixed at 6.39 for 12 months. The measure took effect on 26 January.

NOTE 41: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn)

In 2014, economic developments in Hungary were shaped by sluggish external demand, supportive international money market environment, and intensifying domestic demand. The Eurozone's economy picked up speed in the second half of the year, and a number of Eurozone periphery countries came out of recession. Money market background was supportive – even though the Fed started phasing out its Quantitative Easing, the Bank of Japan and the European Central Bank introduced further monetary easing. The dollar's firming, the plunging commodity prices and the Russian conflict adversely affected emerging markets, but this had little effect on the less commodity-oriented Central and Eastern European region.

Hungary's economy grew by 3.5% in 2014, stronger than the 1.5% expansion in 2013. Last year broke the trend of the preceding years, when the main driving force of growth was net exports. Instead, an increase in investments became the key driver in 2014, while net exports' contribution to growth became negative for the first time after a long while. In addition to investments, consumption also picked up: the consumption expenditure of households rose about 1.5% in 2014, following the stagnation in 2013.

NOTE 41: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn) [continued]

As a combined effect of the election year and the end of the seven-year EU budget, public investments surged at an extraordinary pace, but gross fixed capital formation also started to increase in the private sector. The key drivers in the latter were mostly car manufacturing, and the related capacity increasing projects in the supplier network.

Picking up from the stagnation in 2013, the households' consumption expenditure could go up in 2014. But its rise lagged behind that of real income, allowing retail savings to expand faster. The improvement on the labour market was pronounced mostly in the first half-year, the increase in employment came to a halt by the end of the year. The low interest rate environment and the higher real incomes led to a turnaround in private investments too, helping housing-related lending and housing investments start to rise.

Following a record low of 1.7% in 2013, inflation fell further: consumer prices dropped by 0.2% in 2014. In addition to the government's measures, the favourable development in agricultural product prices, and oil prices' plunge in the last four months of the year all contributed to the lower inflation rate.

A steady fall in inflation justified the continuation of the rate cut cycle in the first half of the year, which ended with a 20-basis-point cut in July, at 2.1%. In the supportive international backdrop (abundance of liquidity), government bond yields fell further.

OTP Bank's operation in Ukraine

In 2014 both the retail and corporate lending activity of the Ukrainian banking group became muted. In the consumer lending segment more stringent lending standards were introduced already in the first quarter of 2014. Cash loan disbursement was suspended from 9 April 2014. However, it was resumed in the second half of August, but since then newly sold cash loan volumes significantly lagged behind those in the base period (in the fourth quarter the volume of new disbursements reached only 14% that a year ago). From the second quarter of 2014 the cross-sale of credit cards declined to practically zero. As for the retail lending the Bank has remained active only in the point of sale (POS) loan segment. As a consequence of stricter lending conditions new POS loan origination melted down by more than 40% year-over-year in 2014. Regarding corporate lending the activity is focused rather on using existing credit limits.

Customer deposit volumes showed a 9% year-over-year increase (adjusted for the FX-effect). After the 7% FX-adjusted quarter-over-quarter decline in the first quarter, the second quarter saw a 7% increase followed by a 4% expansion in the third quarter and a 5% growth in the fourth quarter of 2014. The net loan to deposit ratio came down to 137% at the end of 2014, which marks multi-year low.

The decline of USD deposits did not cause liquidity problems, because this coincided with the decline of FX loan volumes. Latter was attributable not only to the loan repayments, but to the elevated provisioning, too, which required the Bank to purchase USD from its UAH liquidity reserves. Both the USD liquidity generated through these transactions and the FX liquidity coming from repayments of performing FX loans was used by the Ukrainian banking group (including the Bank, the Leasing and Factoring company) to repay mother company financing, which declined by altogether USD 445 million in 2014 (without subordinated debt). In January 2015 an additional USD 30 million intragroup funding was paid back by the OTP Bank JSC (Ukraine).

The UAH liquidity is managed in Ukraine and OTP Bank JSC (Ukraine) has to prepare for any UAH liquidity needs. The excess UAH liquidity is invested typically in assets maturing within 1 month, mainly central bank instruments, collateralized money market instruments (FX swap, repo). The excess liquidity can be invested in uncollateralized instruments only in small amount, with strict counterparty risk limits and a maturity of 1-7 days. In 2014 the maturing Ukrainian government bonds were not rolled over, at the beginning of 2015 the amount of Ukrainian government bonds kept on the balance sheet reached only UAH 26 million. The UAH liquidity has to safely cover at all times the UAH money market and capital market redemptions within 3 months as well as the potential UAH deposit shocks.

UAH 800 million equivalent subordinated debt was converted into equity booked in the fourth quarter of 2014. Compared to December 2013 the shareholders' equity of the Ukrainian banking group in HUF terms dropped as a result of weakening UAH against HUF, whereas losses realized in 2014 had a negative impact on equity, too. The Ukrainian shareholders' equity includes that of 3 entities: the Bank, the Leasing and Factoring companies. The standalone capital adequacy ratio of the Bank under local regulation stood at 10.4% at the end of 2014, thus it exceeded the regulatory minimum. This capital adequacy ratio under local regulation did not incorporate the impact of the capital conversion booked in the fourth quarter of 2014. Leasing and Factoring companies are exempt from banks' capital adequacy rules. The Ukrainian Factoring company received HUF 19 billion equivalent capital increase in September 2014 (through converting debt into equity).

In 2015 the equity of the Factoring Company is expected to be raised by converting mother company financing into equity.

NOTE 41: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn) [continued]

OTP Bank's operation in Ukraine [continued]

In the second quarter of 2014 OTP Bank decided to close down its business in the Crimea, 8 branches were closed there. In Donetsk and Luhansk counties where special circumstances prevail the Bank closed altogether 15 branches, thus the number of banking outlets declined to 2 at the end of 2014. Significant additional risk cost was created both in Crimea and the Eastern Ukrainian region (Donetsk and Luhansk), as a result the provision coverage of total gross loans reached 100% in Crimea and went up to 99.4% in case of gross loan exposures toward Donetsk and Luhansk regions.
The Ukrainian market and operating environment was volatile, especially in the time period between the end of 2014 and the writing of the report: after the conflict intensified again the parties reached a cease-fire accord and the IMF assistance programme is likely to be expanded, but despite all of these the UAH weakened further against the dollar. This points to further losses in Ukraine in 2015 both in case of the Bank and the Factoring company. By the end of 2014 the large majority of exposures toward Crimea, Donetsk and Luhansk counties were covered by provisions. If the territorial conflict did not escalate, and if the operating environment changed in the positive direction in Donetsk and Luhansk counties paving the way for banks to operate normally, that could create the possibility to release part of the provision already created there. The key focus areas are the optimisation of the operation and the gradual reduction of OTP Bank's exposures. The funds expected to be granted to the country by supranational institutions as well as the related requirements to implement structural changes in the economy might stabilize the economic situation and the exchange rate of the UAH.

OTP Bank's operation in Russia

Since the second half of 2013 the Bank has put particular emphasis on the improvement of consumer loan products' profitability, in line with the fine-tuning of the risk profile of these portfolios and the efficiency of collection activities. Both the stricter underwriting rules applied by the Bank, the measures introduced by the supervisory authorities, the economic slowdown and the cyclical setback of the consumer loan market eventually resulted in moderated loan dynamics in 2014. As a reaction to the deterioration of the operating environment in the fourth quarter of 2014 (significant weakening of the rouble, 900 bps base rate hike in total) the Bank halted or limited new loan disbursement and made certain pricing steps. Since October no new credit cards have been sent out and the Bank cut back part of the card limits in December. Due to the market turbulences, since the middle of December cash loan disbursement has been suspended.
The total FX-adjusted deposit base dropped by 10% in the first quarter of 2014 quarter-over-quarter, than it remained stable in the second quarter and grew already both in the third and fourth quarter, thus the yearly FX-adjusted decrease was 4% altogether. In the fourth quarter the Bank managed to increase its deposit base (+3% quarter-over-quarter, FX-adjusted) despite the unfavourable market environment – deposit rates were increased in line with market trends at the end of December in order to reverse the deposit outflows.
In the course of 2014 the deposit base of JSC "OTP Bank" (Russia) increased nominally by 7% in RUB terms due to the devaluation of RUB. Due to the fact that the liquidity demand of maturing capital market instruments and the funding need of higher loan volumes increased, the net funding provided by the Mother Company to the Russian Bank grew to USD 320 million by the end of 2014 from USD -204 million in 2013 (which practically meant that OTP Russia was net lender to the Group in 2013). It is important to note that the mother company funding provided at the end of 2014 contained a significant safety buffer due to the long Russian holiday period and the uncertainties stemming from the market turbulences. This is proved well by the fact that the net mother company funding dropped to USD 9 million at the end of January 2015.
In 2015 JSC "OTP Bank" (Russia) will have RUB 300 million capital market redemptions (this is the total outstanding amount of issued bonds), so from a liquidity perspective the emphasis will be put on keeping the loan and deposit volume developments in balance. Given that JSC "OTP Bank" (Russia)'s deposit base remained stable despite the liquidity shock the Russian banking system suffered, the liquidity risks are deemed to be moderate in 2015, too.
The Bank paid back issued bonds in the amount of RUB 13.3 billion in 2014, out of which RUB 1.1 billion matured in the fourth quarter of 2014. In the fourth quarter the Russian subsidiary received RUB 3 billion subordinated loan with 10 years maturity from the Mother Company, whereas in 2014 JSC "OTP Bank" (Russia) repaid altogether RUB 1.2 billion equivalent subordinated debt to the Mother Company. The Bank's capital adequacy ratio stood at 12.1% at the end of 2014.
In 2015 the DPD0-90 loan portfolio is expected to decline, which, together with a stable deposit base might result in improving liquidity position, but lower revenues. Due to the increased funding cost net interest income might decrease in 2015. The operating environment is not expected to improve materially, thus with respect to elevated risk costs no material turnaround is expected in 2015. The Russian operation is expected to remain loss-making in 2015.

NOTE 41: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn) [continued]

Funding for Growth Scheme

On 11 September 2013 the National Bank of Hungary decided on extending the Funding for Growth Scheme with a second phase which is to be open from 1 October 2013 till 31 December 2015. The total amount of refinancing available for banks in the second phase was originally set at HUF 500 billion; in September 2014 the total amount of available funding was lifted to HUF 1,000 billion. The limit can be increased to a maximum of HUF 2,000 billion by the Monetary Council. Similarly to the first phase, the central bank refinancing carries zero interest rate, a maximum 10-year tenor and can be lend over to SMEs by applying a maximum interest margin of 2.5%. The goal of the first pillar is to originate new loans, whereas the second pillar is for refinancing HUF or foreign currency denominated liabilities of SMEs. The share of loan contracts concluded under the second pillar must not surpass 10% of the total amount of contracts concluded under the two pillars. The maximum available amount of loans for SMEs is limited at HUF 10 billion in each pillar.

Under the second phase of the Programme OTP Group already contracted in the amount of more than HUF 117 billion until the end of 2014, moreover loan applications in the pipeline exceeded HUF 38 billion.