OTP BANK PLC.

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

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

OTP BANK PLC.
CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

OTP BANK PLC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 JUNE 2015
(in HUF mn)

	Note	30 June 2015	31 December 2014	30 June 2014
Cash, amounts due from banks and balances with the National Banks	*4.*	1,998,651	2,307,632	515,206
Placements with other banks, net of allowance for placement losses	*5.*	237,271	281,006	291,707
Financial assets at fair value through profit or loss	*6.*	289,035	289,275	298,059
Securities available-for-sale	*7.*	948,611	839,152	1,586,797
Loans, net of allowance for loan losses	*8.*	5,668,254	5,864,241	6,202,893
Associates and other investments	*9.*	26,182	23,381	23,964
Securities held-to-maturity	*10.*	908,820	709,369	740,243
Property and equipment	*11.*	200,841	206,440	230,318
Intangible assets	*11.*	165,611	158,721	170,112
Other assets	*12.*	317,803	291,835	295,542
TOTAL ASSETS		**10,761,079**	**10,971,052**	**10,354,841**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	*13.*	727,905	708,274	610,515
Deposits from customers	*14.*	7,657,532	7,673,478	7,046,610
Liabilities from issued securities	*15.*	260,007	267,084	384,925
Financial liabilities at fair value through profit or loss	*16.*	204,988	183,994	90,345
Other liabilities	*17.*	394,067	592,088	632,011
Subordinated bonds and loans	*18.*	257,915	281,968	288,002
TOTAL LIABILITIES		**9,502,414**	**9,706,886**	**9,052,408**
Share capital	*19.*	28,000	28,000	28,000
Retained earnings and reserves		1,284,628	1,288,757	1,325,963
Treasury shares	*21.*	(57,280)	(55,940)	(56,404)
Non-controlling interest	*22.*	3,317	3,349	4,874
TOTAL SHAREHOLDERS' EQUITY		**1,258,665**	**1,264,166**	**1,302,433**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,761,079**	**10,971,052**	**10,354,841**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF RECOGNIZED INCOME (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015
(in HUF mn)

	Note	Six month period ended 30 June 2015	Six month period ended 30 June 2014	Year ended 31 December 2014
Interest Income:				
Loans		303,963	362,270	708,873
Placements with other banks		78,466	59,979	94,941
Securities available-for-sale		13,425	27,309	41,969
Securities held-to-maturity		21,458	19,027	39,934
Amounts due from banks and balances with the National Banks		18,204	1,734	16,498
Other		3,717	3,153	7,015
Total Interest Income		**439,233**	**473,472**	**909,230**
Interest Expense:				
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		81,437	62,904	100,615
Deposits from customers		61,463	69,152	138,179
Liabilities from issued securities		3,135	9,115	13,826
Subordinated bonds and loans		6,635	7,074	13,883
Other		3,675	3,300	6,630
Total Interest Expense		**156,345**	**151,545**	**273,133**
NET INTEREST INCOME		**282,888**	**321,927**	**636,097**
Provision for impairment on loan and placement losses	*5.,8.,2*	178,295	220,084	446,830
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**104,593**	**101,843**	**189,267**
Income from fees and commissions	*24.*	125,055	128,715	265,392
Expense from fees and commissions	*24.*	20,745	23,306	49,736
Net profit from fees and commissions		**104,310**	**105,409**	**215,656**
Foreign exchange gains, net		78,383	87,673	156,918
Gains on securities, net		4,596	5,703	6,911
Dividend income		3,274	3,739	4,824
Provision on securities available-for-sale and held-to-maturity		(14)	(36)	(297)
Other operating income	*25.*	10,060	11,304	14,379
Other operating expense	*25.*	(22,362)	(231,827)	(232,609)
- from this: release of provision/ (provision) on contingent liabilities due to regulations related to customer loans	*25.*	138,352	(216,563)	(194,798)
Net operating gain / (loss)		**73,937**	**(123,444)**	**(49,874)**
Personnel expenses	*25.*	93,753	103,710	206,335
Depreciation and amortization	*11.*	20,765	43,040	65,947
Other administrative expenses	*25.*	129,799	135,024	236,410
Other administrative expenses		**244,317**	**281,774**	**508,692**
PROFIT / (LOSS) BEFORE INCOME TAX		**38,523**	**(197,966)**	**(153,643)**
Income tax	*26.*	1,618	50,683	51,385
NET PROFIT / (LOSS) FOR THE YEAR		**40,141**	**(147,283)**	**(102,258)**
From this, attributable to:				
Non-controlling interest		**(323)**	**(160)**	**(273)**
Owners of the company		**40,464**	**(147,123)**	**(101,985)**
Consolidated earnings per share (in HUF)				
Basic	*38.*	**152**	**(551)**	**(382)**
Diluted	*38.*	**151**	**(551)**	**(382)**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015
(in HUF mn)

	Six month period ended 30 June 2015	Six month period ended 30 June 2014	Year ended 31 December 2014
NET PROFIT / (LOSS) FOR THE YEAR	**40,141**	**(147,283)**	**(102,258)**
Fair value adjustment of securities available-for-sale	(5,495)	7,163	13,019
Derivative financial instruments designated as Cash-flow hedge	-	263	507
Net investment hedge in foreign operations	(85)	(3,375)	(4,489)
Foreign currency translation difference	4,909	(20,394)	(108,057)
Change of actuarial losses related to employee benefits	-	-	(6)
NET COMPREHENSIVE INCOME	**39,470**	**(163,626)**	**(201,284)**
From this, attributable to:			
Non-controlling interest	(32)	(15)	(1,418)
Owners of the company	39,502	(163,611)	(199,866)

The accompanying notes to consolidated financial statements on pages 8 to 98 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015
(in HUF mn)

OPERATING ACTIVITIES	**Note**	**Six month period ended 30 June 2015**	**Six month period ended 30 June 2014**	**Year ended 31 December 2014**
Profit / (Loss) before income tax		**38,523**	**(197,966)**	**(153,643)**
Goodwill impairment	*11.*	-	22,225	22,225
Depreciation and amortization	*11.*	20,765	20,815	43,722
Provision for impairment on securities	*7.,10.*	14	36	297
Provision for impairment on loan and placement losses	*5.,8., 23.*	178,295	220,084	446,830
Provision / (Release of provision) for impairment on investments	*9.*	914	(30)	1,244
Provision for impairment on other assets	*12.*	3,376	2,625	5,066
Provision / (Release of provision) on assets subject to operating leases	*12.*	4	(114)	1,048
Provision on investment properties		-	-	3,612
(Release of provision) / Provision for impairment on off-balance sheet commitments and contingent liabilities	*17.*	(168,797)	217,000	195,310
Share-based payment	*2.,29.*	1,905	2,059	4,393
Change of actuarial losses related to employee benefits		-	-	(6)
Unrealized losses on fair value change of securities held for trading		(6,204)	(323)	(2,907)
Unrealized (losses) / gains on fair value change of derivative financial instruments		(3,592)	4,770	(33,140)
Net changes in assets and liabilities in operating activities				
Changes in financial assets at fair value through profit or loss		(17,162)	121,098	250,821
Net decrease / (increase) in loans, net of allowance for loan losses		2,894	(183,336)	(48,611)
(Increase) / Decrease in other assets before provisions for impairment		(28,198)	4,223	20,557
Decrease / (Increase) in assets subject to operating lease before provisions for impairment		259	(20,713)	(24,442)
Increase in investment properties before provision for impairment		(6,416)	(24,817)	(27,034)
Net (decrease) / increase in deposits from customers		(15,946)	180,004	806,872
Increase / (Decrease) in other liabilities		50,728	(4,150)	(26,908)
Net increase in compulsory reserves at the National Banks		(66,601)	(40,332)	(41,130)
Dividend income		(3,274)	(3,739)	(4,824)
Income tax paid		(8,508)	(5,022)	(20,571)
Net Cash (Used in) / Provided by Operating Activities		**(27,021)**	**314,397**	**1,418,781**
INVESTING ACTIVITIES				
Net decrease / (increase) in placement with other banks before allowance for placements losses		43,739	(18,240)	(7,537)
Increase in securities available-for-sale		(448,356)	(13,144,052)	(15,402,966)
Decrease in securities available-for-sale		328,621	13,207,705	16,213,064
Net decrease / (increase) in investments in subsidiaries		423	(380)	2,490
Net (increase) / decrease in investments in associates		(4,138)	283	(3,278)
Dividend income		3,274	3,739	4,824
Increase in securities held-to-maturity		(628,720)	(152,197)	(156,594)
Decrease in securities held-to-maturity		432,738	(7,995)	31,094
Additions to property, equipment and intangible assets		(27,967)	(5,263)	11,526
Disposals of property, equipment and intangible assets		5,738	16,846	12,455
Net increase in advances for investments included in other assets		(21)	(20)	(27)
Net Cash (Used in) / Provided by Investing Activities		**(294,669)**	**(99,574)**	**705,051**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015
(in HUF mn)
[continued]

FINANCING ACTIVITIES	Note	Six month period ended 30 June 2015	Six month period ended 30 June 2014	Year ended 31 December 2014
Net increase / (decrease) in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		19,631	(173,697)	(75,938)
Cash received from issuance of securities		22,891	23,601	56,165
Cash used for redemption of issued securities		(29,968)	(83,894)	(234,299)
(Decrease) / Increase in subordinated bonds and loans		(24,053)	20,840	14,806
(Decrease) / Increase in non-controlling interest		(32)	107	(1,418)
Foreign currency translation		4,625	(20,517)	(106,925)
Payments to ICES holders	*20.*	(902)	(948)	(4,002)
Net increase in Treasury shares		15,348	17,472	27,180
Net decrease in Treasury shares		(20,885)	(21,438)	(31,430)
Dividend paid		(40,547)	(40,600)	(40,594)
Net Cash Used in Financing Activities		**(53,892)**	**(279,074)**	**(396,455)**
Net (decrease) / increase in cash and cash equivalents		**(375,582)**	**(64,251)**	**1,727,377**
Cash and cash equivalents at the beginning of the period		**2,003,324**	**275,947**	**275,947**
Cash and cash equivalents at the end of the period		**1,627,742**	**211,696**	**2,003,324**

Analysis of cash and cash equivalents

Cash, amounts due from banks and balances with the National Banks		2,310,313	539,125	539,125
Net cash outflow due to acquisition		(2,681)	-	-
Compulsory reserve established by the National Banks		(304,308)	(263,178)	(263,178)
Cash and cash equivalents at the beginning of the period		**2,003,324**	**275,947**	**275,947**
Cash, amounts due from banks and balances with the National Banks	*4.*	1,993,997	517,887	2,310,313
Net cash outflow due to acquisition	*31.*	4,654	(2,681)	(2,681)
Compulsory reserve established by the National Banks	*4.*	(370,909)	(303,510)	(304,308)
Cash and cash equivalents at the end of the period		**1,627,742**	**211,696**	**2,003,324**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015
(in HUF mn)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Put option reserve	Treasury shares	Non-controlling interest	Total
Balance as at 1 January 2014		**28,000**	**52**	**16,504**	**1,571,076**	**(55,468)**	**(55,599)**	**4,767**	**1,509,332**
Net profit for the year		-	-	-	(147,123)	-	-	(160)	(147,283)
Other Comprehensive Income		-	-	-	(16,488)	-	-	145	(16,343)
Share-based payment	*29.*	-	-	2,058	-	-	-	-	2,058
Dividend for the year 2013		-	-	-	(40,600)	-	-	-	(40,600)
Sale of Treasury shares	*21.*	-	-	-	-	-	17,472	-	17,472
Treasury shares									
– loss on sale		-	-	-	(3,160)	-	-	-	(3,160)
– acquisition	*21.*	-	-	-	-	-	(18,277)	-	(18,277)
Payments to ICES holders	*20.*	-	-	-	(888)	-	-	-	(888)
Increase from business combinations		-	-	-	-	-	-	122	122
Balance as at 30 June 2014		**28,000**	**52**	**18,562**	**1,362,817**	**(55,468)**	**(56,404)**	**4,874**	**1,302,433**
Balance as at 1 January 2015		**28,000**	**52**	**20,897**	**1,323,276**	**(55,468)**	**(55,940)**	**3,349**	**1,264,166**
Net profit for the year		-	-	-	40,464	-	-	(323)	40,141
Other Comprehensive Income		-	-	-	(962)	-	-	291	(671)
Share-based payment	*29.*	-	-	1,905	-	-	-	-	1,905
Dividend for the year 2014		-	-	-	(40,600)	-	-	-	(40,600)
Sale of Treasury shares	*21.*	-	-	-	-	-	15,348	-	15,348
Treasury shares									
– loss on sale		-	-	-	(4,197)	-	-	-	(4,197)
– acquisition	*21.*	-	-	-	-	-	(16,688)	-	(16,688)
Payments to ICES holders	*20.*	-	-	-	(739)	-	-	-	(739)
Balance as at 30 June 2015		**28,000**	**52**	**22,802**	**1,317,242**	**(55,468)**	**(57,280)**	**3,317**	**1,258,665**

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

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

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

	30 June 2015	31 December 2014
Domestic and foreign private and institutional investors	97%	97%
Employees	2%	2%
Treasury shares	1%	1%
Total	**100%**	**100%**

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide network of 1,377 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

The number of employees at the Group:

	30 June 2015	31 December 2014
The number of employees at the Group	38,132	35,919
The average number of employees at the Group	38,181	35,796

1.2. Base of Accounting

The Entities of the Group maintain their accounting records and prepare its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary and in case of foreign subsidiaries in accordance with the local commercial, banking and fiscal regulations.

The Group's presentation currency is the Hungarian Forint ("HUF").

Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with International Financial Reporting Standards ("IFRS").

Certain adjustments have been made to the entities' statutory accounts in order to present the Consolidated Financial Position and Statement of Recognized and Comprehensive Income of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").

The Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the 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 Group does not apply portfolio hedge accounting under IAS 39, there would be no impact on these Consolidated Financial Statements, had it been approved by the EU before the preparation of these financial statement.

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

1.2. Base of Accounting [continued]

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2015

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

- Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 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),
- IFRIC 21 "Levies" adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

The adoption of these amendments to the existing standards has not led to any changes in the Group'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 authorization 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 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).

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),

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

1.2. Base of Accounting [continued]

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

- 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).

The hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.
According to the Group's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.
The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the Consolidated Financial Statements of the Group except of the application of IFRS 9 which might have significant impact on the Group Consolidated Financial Statements, the Group 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 Consolidated Financial Statements are summarized below:

2.1. Basis of Presentation

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see note 2.7. below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in Other Comprehensive Income and reclassified from equity to profit or loss on repayment of the monetary items.

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

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

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

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

2.3. Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank exercises control. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 32. However, certain subsidiaries in which the Bank holds a significant interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.13.).
As the ultimate parent, the Bank is preparing consolidated financial statement of the Group.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.4. Accounting for acquisitions

Business combinations are accounted for using purchase method of accounting. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.
The acquisition date is the date on which the acquirer effectively obtains control over the acquiree. Before this date, it should be presented as Advance for investments within Other assets.
Goodwill, which represents the residual cost of the acquisition after obtaining the control over the acquiree in the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements.

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Recognized Income.
Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.
The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.
The Group, in its strategic plan, has taken into consideration the effects of the present global economic situation, the cautious recovery of economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

Negative goodwill (gain from bargain purchase), when the interest of the acquirer in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statement of Recognized Income as other income.

2.5. Securities held-to-maturity

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

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Recognized Income for the period. Such securities consist of corporate shares, Hungarian and foreign government bonds, discounted treasury bills and other securities.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Financial assets at fair value through profit or loss [continued]

2.6.2. Derivative financial instruments

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

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

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

Foreign currency contracts

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

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

Foreign exchange swaps and interest rate swaps

The Group enters into foreign exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consists of a prompt and one or more forward contracts.

Interest rate swaps oblige two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.
The interest rate swaps are used by the Group for risk management and trading purposes.

Cross-currency interest rate swaps

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Financial assets at fair value through profit or loss [continued]

2.6.2. Derivative financial instruments [continued]

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

Foreign exchange options

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

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

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

Changes in fair value of derivatives that are designated and qualify as cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in equity are transferred to the Consolidated Statement of Recognized Income and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the Consolidated Statement of Recognized Income for the period. The ineffective element of the hedge is charged directly to the Consolidated Statement of Recognized Income.
The Group terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

2.8. Offsetting

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.9. Embedded derivatives

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

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

2.10. Securities available-for-sale

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

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

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

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

Allowance for loan and placement losses with other banks represent Management assessment for potential losses in relation to these activities.
The allowances for loan and placement losses are maintained to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.
If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into net operating income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

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

The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IAS 39. If the Group has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence. A loan will be written off if it has overdued or was terminated by the Group.
The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. In these cases there is no reasonable expectation from the clients to complete contractual cash flows therefore the Group does not accrue interest income in case of write-off.
Loan receivables legally demanded from clients are equal to the former gross amount of the loan before the write-off.

2.12. Sale and repurchase agreements, security lending

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

2.13. Associates and other investments

Companies where the Bank has the ability to exercise significant influence are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is not material to the Consolidated Financial Statements as a whole.

Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a significant interest are recorded according to IAS 39, when appropriate.
Gains and losses on the sale of investments are determined on the basis of the specific identification of the cost of each investment.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.14. Property and equipment, Intangible assets

Property and equipment and Intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over the useful lives.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Intangible assets	
Software	3.33-50%
Property rights	1-50%
Property	1-50%
Office equipment and vehicles	2.5-50%

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

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

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

2.15. Financial liabilities

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

2.16. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor

Amounts due from lessees under finance leases are recorded as other receivables at the amount of the net investment in the lease of the Group. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the net investment outstanding of the Group in respect of the leases. Direct costs such as commissions are included in the initial measurement of the finance lease receivables.
Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. Leases [continued]

The Group as a lessee

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The principal element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Consolidated Statement of Recognized Income over the period of the leases to produce a constant rate of charge on the balance of principal payments outstanding.

Payments made under operating leases are charged to the Consolidated Statement of Recognized and Comprehensive Income on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.17. Investment properties

Investment properties of the Group are land, buildings, part of buildings which held (as the owner or as the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of services or for administrative purposes or sale in the ordinary course of business. The Group measures the investment properties at amortized cost and according to the opinion of the Management there isn't significant difference between the fair value and the carrying value of the these properties.

2.18. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Financial Position at cost as a deduction from Consolidated Shareholders' Equity.
Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity. Derecognition of treasury shares is based on the FIFO method.

2.19. Interest income and interest expense

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

2.20. Fees and Commissions

Fees and commissions are recognized using the effective interest method referring to provisions of IAS 39, when they relate and have to be included in amortized cost model. Certain fees and commissions that are not involved in the amortized cost model are recognized in the Consolidated Statement of Recognized Income on an accrual basis based on IAS 18.

2.21. Dividend income

The Group recognizes dividend income in the Consolidated Financial Statements when its right to receive payment is established.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.22. Income tax

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realized or the liability is settled.

Deferred tax assets are recognized by the Group for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

2.23. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group enters into off-balance sheet commitments such as guarantees, letters of credit, commitments to extend credit and transactions with financial instruments. The provision for impairment on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb future cash outflows which are probable and relate to present obligations.

Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Group recognizes provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.24. Share-based payment and employee benefit

The Bank has applied the requirements of IFRS 2 Share-based Payment.

The Bank issues equity-settled share-based payment to certain employees. Equity-settled share-based payment is measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Share-based payment is recorded in Consolidated Statement of Recognized Income as Personnel expenses.

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Group has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in the Consolidated Financial Statements.

2.25. Consolidated Statement of Cash-flows

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

2.26. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Based on the above, the segments identified by the Group are the business and geographical segments.

The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.27. Comparative figures

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

2.28. Government measures related to customer loan contracts

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

a) Act on Settlement

Based on these regulations expense in the amount of HUF 135.9 billion was recognised as amounts charged to clients related to consumer loans contracts were assumed unfair. Provision for impairment recognised as at 31 December 2014 was released in the amount of HUF 138.4 billion during the six month period ended 30 June 2015.
In accordance with the Act on Settlement, the amounts related to customer loans denominated in HUF – in case of significant part of loans falling within the scope of the Act – have been settled in the middle of August 2015. Due to the settlement the Group recognized expenses and parallel relating provision for impairment was released in August.

b) Act on Conversion into HUF

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

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

The presentation of financial statements in conformity with IFRS requires the Management of the Group to make judgement about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial 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 ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

3.1. Impairment on loans and placements

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

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

3.2. Valuation of instruments without direct quotations

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

3.3. Provisions

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

A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
Provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities, for commitments to extend credit, provision for warranties arising from banking activities and provision for confirmed letter of credit.

3.4. Impairment on goodwill

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

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

	30 June 2015	31 December 2014
Cash on hand		
In HUF	74,832	66,332
In foreign currency	124,354	143,668
	199,186	**210,000**

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

Amounts due from banks and balances with the National Banks

	30 June 2015	31 December 2014
Within one year:		
In HUF	1,488,945	1,798,959
In foreign currency	309,814	298,035
	1,798,759	**2,096,994**
Over one year:		
In HUF	-	-
In foreign currency	-	-
	-	**-**
Accrued interest	706	638
	1,799,465	**2,097,632**
Total	**1,998,651**	**2,307,632**
Compulsory reserve set by the National Banks	**370,909**	**304,308**

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

	30 June 2015	31 December 2014
Within one year		
In HUF	20,467	12,522
In foreign currency	215,181	266,384
	235,648	**278,906**
Over one year		
In HUF	-	-
In foreign currency	1,659	2,032
	1,659	**2,032**
Accrued interest	14	115
Provision for impairment on placement losses	(50)	(47)
Total	**237,271**	**281,006**

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

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

	30 June 2015	31 December 2014
Balance as at 1 January	**47**	**31**
Provision for the year	3	874
Release of provision for the year	-	(854)
Foreign currency translation difference	-	(4)
Closing balance	**50**	**47**

Interest conditions of placements with other banks:

	30 June 2015	31 December 2014
In HUF	0.1% - 6.42%	0.4% - 6.6%
In foreign currency	0.01% - 26.0%	0.01% - 14.9%

	30 June 2015	31 December 2014
Average interest rates on placements with other banks	0.88%	1.22%

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

	30 June 2015	31 December 2014
Securities held for trading		
Shares	73,743	59,231
Government bonds	33,194	22,942
Discounted Treasury bills	3,491	3,414
Other securities	3,094	4,439
Other non-interest bearing securities	3,837	3,989
	117,359	**94,015**
Accrued interest	647	625
Total	**118,006**	**94,640**

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

Positive fair value of derivative financial instruments classified held for trading

	30 June 2015	31 December 2014
CCIRS and mark-to-market CCIRS[1] classified as held for trading	83,995	85,010
Foreign exchange swaps classified as held for trading	34,831	48,636
Interest rate swaps classified as held for trading	34,700	43,401
Foreign exchange forward contracts classified as held for trading	137	6,237
Option contracts classified as held for trading	-	7,128
Other derivative transactions classified as held for trading	17,366	4,223
	171,029	**194,635**
Total	**289,035**	**289,275**

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

	30 June 2015	31 December 2014
Denominated in HUF (%)	20.7%	81.7%
Denominated in foreign currency (%)	79.3%	18.3%
Total	**100.0%**	**100.0%**

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

	30 June 2015	31 December 2014
Denominated in HUF (%)	46.0%	54.0%
Denominated in foreign currency (%)	54.0%	46.0%
Total	**100.0%**	**100.0%**

	30 June 2015	31 December 2014
Interest rates on securities held for trading	1.5% - 7.75%	1.5% - 11.0%
Average interest rates on securities held for trading	1.62%	2.06%

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

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

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

	30 June 2015	31 December 2014
Within five years		
With variable interest	1,422	1,125
With fixed interest	20,331	23,466
	21,753	**24,591**
Over five years		
With variable interest	267	6
With fixed interest	17,759	6,198
	18,026	**6,204**
Non-interest bearing securities	77,580	63,220
Total	**117,359**	**94,015**

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

	30 June 2015	31 December 2014
Securities available-for-sale		
Government bonds	811,611	680,323
Corporate bonds	54,306	37,457
From this:		
Listed securities:		
In HUF	-	-
In foreign currency	*29,370*	*11,598*
	29,370	*11,598*
Non-listed securities:		
In HUF	*23,822*	*3,261*
In foreign currency	*1,114*	*22,598*
	24,936	*25,859*
Discounted Treasury bills	21,990	42,168
Other securities	11,200	21,138
Other non-interest bearing securities	41,770	43,646
From this:		
Listed securities:		
In HUF	*1,318*	-
In foreign currency	*7,301*	*7,114*
	8,619	*7,114*
Non-listed securities:		
In HUF	*23,980*	*28,346*
In foreign currency	*9,171*	*8,186*
	33,151	*36,532*
	940,877	**824,732**

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

	30 June 2015	31 December 2014
Accrued interest	8,979	15,694
Provision for impairment on securities available-for-sale	(1,245)	(1,274)
Total	**948,611**	**839,152**

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

	30 June 2015	31 December 2014
Denominated in HUF (%)	68.1%	84.6%
Denominated in foreign currency (%)	31.9%	15.4%
Total	**100.0%**	**100.0%**

An analysis of government bonds by currency (%):

	30 June 2015	31 December 2014
Denominated in HUF (%)	72.9%	81.2%
Denominated in foreign currency (%)	27.1%	18.8%
Total	**100.0%**	**100.0%**

	30 June 2015	31 December 2014
Interest rates on securities available-for-sale denominated in HUF	1.5% - 7.5%	1.7% - 8.0%
Interest rates on securities available-for-sale denominated in foreign currency	0.1% - 28.0%	0.3% - 28.0%

	30 June 2015	31 December 2014
Average interest rates on securities available-for-sale denominated in HUF	2.88%	3.07%
Average interest rates on securities available-for-sale denominated in foreign currency	4.23%	5.85%

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

	30 June 2015	31 December 2014
Within five years		
With variable interest	2,070	2,701
With fixed interest	714,048	616,404
	716,118	**619,105**
Over five years		
With variable interest	20,550	117
With fixed interest	162,439	161,864
	182,989	**161,981**
Non-interest bearing securities	41,770	43,646
Total	**940,877**	**824,732**

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

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

	30 June 2015	31 December 2014
Balance as at 1 January	**1,274**	**966**
Provision for the year	16	297
Release of provision	-	-
Use of provision	(1)	-
Foreign currency translation difference	(44)	11
Closing balance	**1,245**	**1,274**

Certain securities are hedged against interest rate risk. See Note 40.

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

	30 June 2015	31 December 2014
Short-term loans and promissory notes (within one year)	2,127,981	2,245,818
Long-term loans and promissory notes (over one year)	4,581,728	4,690,266
	6,709,709	**6,936,084**
Accrued interest	63,414	57,242
Provision for impairment on loan losses	(1,104,869)	(1,129,085)
Total	**5,668,254**	**5,864,241**

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

	30 June 2015	31 December 2014
In HUF	34%	29%
In foreign currency	66%	71%
Total	**100%**	**100%**

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

Interest rates of the loan portfolio are as follows:

	30 June 2015	31 December 2014
Short-term loans denominated in HUF	0.01% - 40.7%	0.04% - 42.0%
Long-term loans denominated in HUF	0.01% - 40.7%	0.04% - 42.0%
Short-term loans denominated in foreign currency	0.01% - 66.9%	0.01% - 64.9%
Long-term loans denominated in foreign currency	0.01% - 64.9%	0.01% - 66.9%

	30 June 2015	31 December 2014
Average interest rates on loans denominated in HUF	4.59%	4.68%
Average interest rates on loans denominated in foreign currency	16.23%	16.23%

	30 June 2015	31 December 2014
Gross loan portfolio on which interest to customers is not being accrued	17.8%	17.9%

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

	30 June 2015	31 December 2014
Balance as at 1 January	**1,129,085**	**1,235,634**
Provision for the year	332,839	708,743
Release of provision	(166,445)	(319,393)
Use of provision	(140,044)	(85,494)
Partial write-off[1]	(23,806)	(237,593)
Increase due to acquisition	-	772
Foreign currency translation difference	(26,760)	(173,584)
Closing balance	**1,104,869**	**1,129,085**

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

	30 June 2015	31 December 2014
(Release of provision) / Provision for impairment on placement losses	(4)	10
Provision for impairment on loan losses	178,299	446,820
Total	**178,295**	**446,830**

[1] See details in Note 2.11.

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

	30 June 2015	31 December 2014
Investments		
Investments in associates (non-listed)	18,507	17,768
Other investments (non-listed) at cost[1]	11,450	8,917
	29,957	**26,685**
Provision for impairment on investments	(3,775)	(3,304)
Total	**26,182**	**23,381**

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

	30 June 2015	31 December 2014
Balance as at 1 January	**3,304**	**4,231**
Provision for the year	914	1,244
Use of provision	(134)	(245)
Change due to merge	(306)	(1,927)
Foreign currency translation difference	(3)	1
Closing balance	**3,775**	**3,304**

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

	30 June 2015	31 December 2014
Government bonds	893,200	692,410
Mortgage bonds	523	522
Discounted Treasury bills	466	519
Corporate bonds	6	7
	894,195	**693,458**
Accrued interest	15,437	16,725
Provision for impairment on securities held-to-maturity	(812)	(814)
Total	**908,820**	**709,369**

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

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

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

	30 June 2015	31 December 2014
Within five years		
With variable interest	5,741	7,438
With fixed interest	394,650	375,972
	400,391	**383,410**
Over five years		
With variable interest	-	-
With fixed interest	493,804	310,048
	493,804	**310,048**
Total	**894,195**	**693,458**

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

	30 June 2015	31 December 2014
Denominated in HUF (%)	90.5%	92.7%
Denominated in foreign currency (%)	9.5%	7.3%
Total	**100.0%**	**100%**

In most cases, interest on variable rate bonds 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.

	30 June 2015	31 December 2014
Interest rates of securities held-to-maturity with variable interest	0.1% - 3.0%	0.02% - 2.5%
Interest rates of securities held-to-maturity with fixed interest	0.1% - 27.0%	0.9% - 12.0%

	30 June 2015	31 December 2014
Average interest rates on securities held-to-maturity	5.45%	6.34%

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

	30 June 2015	31 December 2014
Balance as at 1 January	**814**	**775**
Provision for the year	15	-
Release of provision	(17)	-
Foreign currency translation difference	-	39
Closing balance	**812**	**814**

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

For the six month period ended 30 June 2015

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**345,855**	**196,923**	**161,855**	**11,983**	**716,616**
Additions	14,479	3,227	5,705	6,740	30,151
Acquisition	1,966	2,935	3,281	-	8,182
Foreign currency translation differences	6,179	1,053	981	21	8,234
Disposals	(33,260)	(1,832)	(6,373)	(12,141)	(53,606)
Balance as at 30 June	**335,219**	**202,306**	**165,449**	**6,603**	**709,577**

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**187,134**	**46,745**	**117,576**	**-**	**351,455**
Charge for the year (without goodwill impairment)	10,980	2,754	7,031	-	20,765
Foreign currency translation differences	1,936	2,078	2,618	-	6,632
Disposals	(30,442)	(840)	(4,445)	-	(35,727)
Balance as at 30 June	**169,608**	**50,737**	**122,780**	**-**	**343,125**
Net book value					
Balance as at 1 January	**158,721**	**150,178**	**44,279**	**11,983**	**365,161**
Balance as at 30 June	**165,611**	**151,569**	**42,669**	**6,603**	**366,452**

An analysis of the changes in the goodwill for the six month period ended 30 June 2015 is as follows:

Cost	Goodwill
Balance as at 1 January	**101,062**
Additions	419
Foreign currency translation difference	5,845
Impairment for the current period	-
Balance as at 30 June	**107,326**
Net book value	
Balance as at 1 January	**101,062**
Balance as at 30 June	**107,326**

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

For the six month period ended 30 June 2015 [continued]

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

List of units	**HUF mn**
JSC "OTP Bank" (Russia)	47,630
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,289
OTP Bank Romania S.A.	6,260
Monicomp Ltd.	5,732
OTP Banka Slovensko a.s.	520
Other[1]	354
Total	**107,326**

The Bank prepared goodwill impairment tests of the subsidiaries based on two different net present value calculation methods that shows the same result; however they represent different economical logics. On one hand is the discount cash-flow method (DCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future. Applying the EVA method was more practically than DCF method because it gives a more realistic picture about how the explicit period and the residual value can contribute to the value of the company.

As at 30 June 2015 the Bank prepared impairment test in the case of two companies "OTP Bank" JSC (Russia) and JSC OTP Bank (Ukraine) where it applied a cash-flow model with an explicit period between 2015-2019, which was included the annual financial strategic plans for year 2015 accepted by the Management Committee of the subsidiaries and on the base of these plans the prepared medium-term (2016-2019) forecasts. When the Bank prepared the calculations for the period 2016-2019, considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these and the expected changes of the mentioned factors.

Present value calculation with the DCF method
The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor it was considered the base rates of the national banks in the actual macro forecasts as risk free rates and the Group calculated risk premiums by modifying the country risk premiums that are published on damodaran.com with the annual average CDS of the different countries spread as at 30 June 2015.
The values of the subsidiaries in the DCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

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

Summary of the impairment test for the six month period ended 30 June 2015
Based on the valuations of the subsidiaries no goodwill impairment was needed on Group level as at 30 June 2015, while as at 31 December 2014 the total IFRS goodwill in the amount of HUF 22,225 million, recorded for OTP Bank JSC (Ukraine) as at the balance sheet date, was impaired.

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

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

For the year ended 31 December 2014

Cost	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January	**374,911**	**222,634**	**188,906**	**26,341**	**812,792**
Additions	41,354	7,292	14,785	18,246	81,677
Acquisition	252	1,472	430	2	2,156
Foreign currency translation differences	(20,986)	(3,887)	(5,142)	165	(29,850)
Disposals	(49,075)	(2,398)	(16,275)	(32,777)	(100,525)
Transfer[1]	(628)	(28,190)	(20,939)	-	(49,757)
Change in consolidation scope	27	-	90	6	123
Balance as at 31 December	**345,855**	**196,923**	**161,855**	**11,983**	**716,616**

Depreciation and Amortization	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January	**181,190**	**49,799**	**126,559**	**-**	**357,548**
Charge for the year (without goodwill impairment)	22,614	5,346	15,762	-	43,722
Goodwill impairment	22,225	-	-	-	22,225
Foreign currency translation differences	3,207	(1,311)	(4,219)	-	(2,323)
Disposals	(41,945)	(180)	(13,168)	-	(55,293)
Transfer[1]	(179)	(6,909)	(7,403)	-	(14,491)
Change in consolidation scope	22	-	45	-	67
Balance as at 31 December	**187,134**	**46,745**	**117,576**	**-**	**351,455**
Net book value					
Balance as at 1 January	**193,721**	**172,835**	**62,347**	**26,341**	**455,244**
Balance as at 31 December	**158,721**	**150,178**	**44,279**	**11,983**	**365,161**

An analysis of the changes in the goodwill for the year ended 31 December 2014 is as follows:

Cost	**Goodwill**
Balance as at 1 January	**145,564**
Additions	-
Foreign currency translation difference	(22,277)
Impairment for the current period	(22,225)
Balance as at 31 December	**101,062**

Net book value	
Balance as at 1 January	**145,564**
Balance as at 31 December	**101,062**

[1] Assets subject to operating lease and investment properties are differentiated according to their purposes for use so they had been transferred from tangible and intangible assets to other assets (see Note 12.).

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

For the year ended 31 December 2014 [continued]

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

List of units	**HUF mn**
JSC "OTP Bank" (Russia)	41,806
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,280
OTP Bank Romania S.A.	6,257
Monicomp Ltd.	5,732
OTP Banka Slovensko a.s.	93
Other[1]	353
Total	**101,062**

Summary of the impairment test for the year ended 31 December 2014
Based on the valuations of the subsidiaries, the total IFRS goodwill, recorded for OTP Bank JSC (Ukraine) as at the balance sheet date, was impaired, which meant HUF 22,225 million consolidated IFRS goodwill impairment as at 31 December 2014.

NOTE 12: OTHER ASSETS[2] (in HUF mn)

	30 June 2015	**31 December 2014**
Deferred tax receivables[3]	71,663	61,009
Inventories	49,235	43,936
Investment properties	37,756	31,322
Prepayments and accrued income	30,985	24,513
Assets subject to operating lease	24,419	24,668
Fair value of derivative financial instrument designated as fair value hedge	14,772	30,454
Variation margin	12,550	3,996
Receivables from card operations	11,997	9,615
Current income tax receivable	11,508	8,843
Trade receivables	11,317	12,121
Other advances	6,854	5,695
Receivables from investment services	6,720	3,960
Receivable from the National Asset Management	4,511	9,718
Other receivables from Hungarian Government	2,904	2,233
Loans sold under deferred payment scheme	2,313	2,299
Receivables due from pension funds and investment funds	1,473	3,874
Receivables from leasing activities	1,371	1,086
Advances for securities and investments	712	691
Other	50,645	44,704
Subtotal	**353,705**	**324,737**
Provision for impairment on other assets[4]	(35,902)	(32,902)
Total	**317,803**	**291,835**

[1] Other category includes: OTP Real Estate Leasing Ltd., Nimo 2002 Ltd., POK DSK-Rodina a.d.
[2] 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 2015. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.
[3] See Note 26.
[4] Provision for impairment on other assets mainly consists of provision for impairment on investment properties and trade receivables.

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

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

	30 June 2015	31 December 2014
Interest rate swaps designated as fair value hedge	14,705	14,032
CCIRS and mark-to-market CCIRS designated as fair value hedge	-	13,940
Foreign exchange swaps designated as fair value hedge	-	2,437
Other transactions designated as fair value hedge	67	45
Total	**14,772**	**30,454**

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

	30 June 2015	31 December 2014
Balance as at 1 January	**32,902**	**23,247**
Provision for the year	3,380	9,726
Use of provision	(309)	(2,573)
Provision due to transfer[1]	-	2,353
Foreign currency translation difference	(71)	149
Closing balance	**35,902**	**32,902**

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

	30 June 2015	31 December 2014
Within one year		
In HUF	302,574	148,264
In foreign currency	142,478	302,971
	445,052	**451,235**
Over one year		
In HUF	171,001	150,012
In foreign currency	110,950	106,137
	281,951	**256,149**
Accrued interest	902	890
Total[2]	**727,905**	**708,274**

[1] Provisions on assets subject to operating lease and investment properties which were transferred from tangible and intangible assets to the other assets (see Note 11.).
[2] It contains loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 standard. See more details in Note 44.

NOTE 13: AMOUNTS DUE TO BANKS, THE HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn) [continued]

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

	30 June 2015	31 December 2014
Within one year		
In HUF	0.5% - 3.0%	1.2% - 5.2%
In foreign currency	0.05% - 10.25%	0.05% - 18.8%
Over one year		
In HUF	0.1% - 4.2%	0.1% - 5.2 %
In foreign currency	0.1% - 18.0%	0.1% - 18.0%

	30 June 2015	31 December 2014
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	1.59%	1.83%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency	1.61%	1.59%

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 June 2015	31 December 2014
Within one year		
In HUF	3,290,405	3,716,886
In foreign currency	3,925,557	3,667,694
	7,215,962	**7,384,580**
Over one year		
In HUF	274,196	101,733
In foreign currency	135,697	158,624
	409,893	**260,357**
Accrued interest	31,677	28,541
Total	**7,657,532**	**7,673,478**

Interest rates on deposits from customers are as follows:

	30 June 2015	31 December 2014
Within one year		
In HUF	0.01% - 8.0%	0.01% - 10.3%
In foreign currency	0.01% - 30.0%	0.01% - 29.0%
Over one year		
In HUF	0.01% - 3.0%	0.01% - 3.1%
In foreign currency	0.01% - 20.0%	0.01% - 26.0%

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

	30 June 2015	31 December 2014
Average interest rates on deposits from customers denominated in HUF	0.61%	0.80%
Average interest rates on deposits from customers denominated in foreign currency	4.99%	5.52%

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

	30 June 2015		31 December 2014	
Retail deposits	5,076,603	67%	4,566,737	60%
Corporate deposits	2,156,265	28%	2,693,704	35%
Municipality deposits	392,987	5%	384,496	5%
Total	**7,625,855**	**100%**	**7,644,937**	**100%**

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

	30 June 2015	31 December 2014
With original maturity		
Within one year		
In HUF	16,010	28,812
In foreign currency	61,415	53,225
	77,425	**82,037**
Over one year		
In HUF	161,498	162,582
In foreign currency	9,798	13,051
	171,296	**175,633**
Accrued interest	11,286	9,414
Total	**260,007**	**267,084**

Interest rates on liabilities from issued securities are as follows:

	30 June 2015	31 December 2014
Issued securities denominated in HUF	0.01% - 10.0%	0.10% - 10.0%
Issued securities denominated in foreign currency	0.14% - 19.6%	0.23% - 10.5%

	30 June 2015	31 December 2014
Average interest rates on issued securities denominated in HUF	2.70%	3.33%
Average interest rates on issued securities denominated in foreign currency	2.00%	5.04%

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

Issued securities denominated in HUF as at 30 June 2015 (in HUF mn)

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP TBSZ 2015/I	26/02/2010-28/12/2010	30/12/2015	5,376	5.5	fixed	
2	OTP TBSZ 2016/I	14/01/2011-05/08/2011	15/12/2016	1,167	5.5	fixed	
3	OTP TBSZ 2016/II	26/08/2011-29/12/2011	15/12/2016	633	5.5	fixed	
4	OTP TBSZ 4 2015/I	13/01/2012-22/06/2012	15/12/2015	469	6.5	fixed	
5	OTP TBSZ 4 2015/II	21/12/2012	15/12/2015	46	6	fixed	
6	OTP TBSZ 4 2016/I	18/01/2013-15/02/2013	15/12/2016	157	5	fixed	
7	OTP TBSZ 6 2017/I	13/01/2012-22/06/2012	15/12/2017	233	6.5	fixed	
8	OTP 2015/Bx	28/06/2010	09/07/2015	4,000	indexed	floating	hedged
9	OTP 2015/Ex	18/07/2012	20/07/2015	315	indexed	floating	hedged
10	OTP 2015/Hx	28/12/2012	27/12/2015	152	indexed	floating	hedged
11	OTP 2016/Ax	11/11/2010	03/11/2016	3,585	indexed	floating	hedged
12	OTP 2016/Bx	16/12/2010	19/12/2016	2,691	indexed	floating	hedged
13	OTP 2016/Ex	28/12/2012	27/12/2016	315	indexed	floating	hedged
14	OTP 2016/Fx	22/03/2013	24/03/2016	670	indexed	floating	hedged
15	OTP 2017/Ax	01/04/2011	31/03/2017	4,150	indexed	floating	hedged
16	OTP 2017/Bx	17/06/2011	20/06/2017	4,046	indexed	floating	hedged
17	OTP 2017/Cx	19/09/2011	25/09/2017	3,084	indexed	floating	hedged
18	OTP 2017/Dx	20/10/2011	19/10/2017	445	indexed	floating	hedged
19	OTP 2017/Ex	21/12/2011	28/12/2017	3,308	indexed	floating	hedged
20	OTP 2018/Ax	03/01/2012	09/01/2018	611	indexed	floating	hedged
21	OTP 2018/Bx	22/03/2012	22/03/2018	3,935	indexed	floating	hedged
22	OTP 2018/Cx	18/07/2012	18/07/2018	3,436	indexed	floating	hedged
23	OTP 2018/Dx	29/10/2012	26/10/2018	2,850	indexed	floating	hedged
24	OTP 2018/Ex	28/12/2012	28/12/2018	2,874	indexed	floating	hedged
25	OTP 2019/Ax	25/06/2009	01/07/2019	264	indexed	floating	hedged
26	OTP 2019/Bx	05/10/2009-05/02/2010	14/10/2019	355	indexed	floating	hedged
27	OTP 2019/Cx	14/12/2009	20/12/2019	294	indexed	floating	hedged
28	OTP 2019/Dx	22/03/2013	21/03/2019	4,185	indexed	floating	hedged
29	OTP 2019/Ex	28/06/2013	24/06/2019	3,269	indexed	floating	hedged
30	OTP 2020/Ax	25/03/2010	30/03/2020	328	indexed	floating	hedged
31	OTP 2020/Bx	28/06/2010	09/07/2020	347	indexed	floating	hedged
32	OTP 2020/Cx	11/11/2010	05/11/2020	206	indexed	floating	hedged
33	OTP 2020/Dx	16/12/2010	18/12/2020	215	indexed	floating	hedged
34	OTP 2020/Ex	18/06/2014	22/06/2020	3,975	indexed	floating	hedged
35	OTP 2020/Fx	10/10/2014	16/10/2020	3,481	indexed	floating	hedged
36	OTP 2020/Gx	15/12/2014	21/12/2020	2,951	indexed	floating	hedged
37	OTP 2021/Ax	01/04/2011	01/04/2021	289	indexed	floating	hedged
38	OTP 2021/Bx	17/06/2011	21/06/2021	332	indexed	floating	hedged
39	OTP 2021/Cx	19/09/2011	24/09/2021	300	indexed	floating	hedged
40	OTP 2021/Dx	21/12/2011	27/12/2021	365	indexed	floating	hedged
41	OTP 2022/Ax	22/03/2012	23/03/2022	264	indexed	floating	hedged
42	OTP 2022/Bx	18/07/2012	18/07/2022	240	indexed	floating	hedged
43	OTP 2022/Cx	29/10/2012	28/10/2022	283	indexed	floating	hedged
44	OTP 2022/Dx	28/12/2012	27/12/2022	328	indexed	floating	hedged
45	OTP 2023/Ax	22/03/2013	24/03/2023	395	indexed	floating	hedged
46	OTP 2023/Bx	28/06/2013	26/06/2023	280	indexed	floating	hedged
47	OTP 2024/Ax	18/06/2014	21/06/2024	270	indexed	floating	hedged
48	OTP 2024/Bx	10/10/2014	16/10/2024	400	indexed	floating	hedged
49	OTP 2024/Cx	15/12/2014	20/12/2024	320	indexed	floating	hedged
50	OTP 2020/RF/A	12/07/2010	20/07/2020	2,559	indexed	floating	hedged
51	OTP 2020/RF/B	12/07/2010	20/07/2020	1,208	indexed	floating	hedged
52	OTP 2020/RF/C	11/11/2010	05/11/2020	2,712	indexed	floating	hedged
53	OTP 2021/RF/A	05/07/2011	13/07/2021	2,226	indexed	floating	hedged
54	OTP 2021/RF/B	20/10/2011	25/10/2021	2,233	indexed	floating	hedged
55	OTP 2021/RF/C	21/12/2011	30/12/2021	442	indexed	floating	hedged
56	OTP 2021/RF/D	21/12/2011	30/12/2021	294	indexed	floating	hedged
57	OTP 2021/RF/E	21/12/2011	30/12/2021	44	indexed	floating	hedged
58	OTP 2022/RF/A	22/03/2012	23/03/2022	1,234	indexed	floating	hedged
59	OTP 2022/RF/B	22/03/2012	23/03/2022	405	indexed	floating	hedged
	Subtotal			**85,841**			

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

Issued securities denominated in HUF as at 30 June 2015 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
60	OTP 2022/RF/C	28/06/2012	28/06/2022	135	indexed	floating	hedged
61	OTP 2022/RF/D	28/06/2012	28/06/2022	172	indexed	floating	hedged
62	OTP 2022/RF/E	29/10/2012	31/10/2022	412	indexed	floating	hedged
63	OTP 2022/RF/F	28/12/2012	28/12/2022	309	indexed	floating	hedged
64	OTP 2023/RF/A	22/03/2013	24/03/2023	333	indexed	floating	hedged
65	OTP OJK 2016/I	26/08/2011-21/12/2011	26/08/2016	72	6.14	fixed	
66	OTP OJK 2017/I	27/01/2012-13/07/2012	27/01/2017	17	7	fixed	
67	OJB 2016/I	03/02/2006	03/02/2016	1,253	7.5	fixed	
68	OJB 2016/II	31/08/2006	31/08/2016	4,677	10	fixed	
69	OJB 2016/J	18/04/2006	28/09/2016	83	7.59	fixed	
70	OJB 2019/I	17/03/2004	18/03/2019	31,517	9.48	fixed	
71	OJB 2019/II	25/05/2011	18/03/2019	1,079	9.48	fixed	
72	OJB 2020/I	19/11/2004	12/11/2020	5,503	9	fixed	
73	OJB 2020/II	25/05/2011	12/11/2020	1,486	9	fixed	
74	Other[1]			34,114			
	Subtotal			**81,162**			
	Subtotal issued securities in HUF			**167,003**			
	Unamortized premium			(3,136)			
	Fair value adjustment			13,641			
	Total issued securities in HUF			**177,508**			

Issued securities denominated in foreign currency as at 30 June 2015 (in HUF mn)

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	Nominal value (HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP EUR I 2015/XIII	20/06/2014	04/07/2015	EUR	2.24	705	1.5	fixed	
2	OTP EUR 1 2015/XIV	04/07/2014	18/07/2015	EUR	2.61	822	1.25	fixed	
3	OTP EUR 1 2015/XV	18/07/2014	01/08/2015	EUR	1.75	551	1.25	fixed	
4	OTP EUR 1 2015/XVI	30/07/2014	13/08/2015	EUR	3.67	1,157	1.5	fixed	
5	OTP EUR 1 2015/XVII	08/08/2014	22/08/2015	EUR	3.20	1,008	1.25	fixed	
6	OTP EUR 1 2015/XVIII	29/08/2014	12/09/2015	EUR	10.40	3,276	1.25	fixed	
7	OTP EUR 1 2015/XIX	12/09/2014	26/09/2015	EUR	5.24	1,651	1.25	fixed	
8	OTP EUR 1 2015/XX	03/10/2014	17/10/2015	EUR	13.04	4,107	1.25	fixed	
9	OTP EUR 1 2015/XXI	22/10/2014	05/11/2015	EUR	8.24	2,595	1	fixed	
10	OTP EUR 1 2015/XXII	31/10/2014	14/11/2015	EUR	3.12	982	1	fixed	
11	OTP EUR 1 2015/XXIII	14/11/2014	28/11/2015	EUR	5.44	1,713	1	fixed	
12	OTP EUR 1 2015/XXIV	28/11/2014	12/12/2015	EUR	5.01	1,580	1	fixed	
13	OTP EUR 1 2015/XXV	19/12/2014	02/01/2016	EUR	9.36	2,947	1	fixed	
14	OTP EUR 1 2015/XXVI	09/01/2015	23/01/2016	EUR	4.34	1,366	1.14	fixed	
15	OTP EUR 2 2015/XIV	12/07/2013	12/07/2015	EUR	0.12	39	2.25	fixed	
16	OTP EUR 2 2015/XV	26/07/2013	26/07/2015	EUR	0.63	199	2.25	fixed	
17	OTP EUR 2 2015/XVI	16/08/2013	16/08/2015	EUR	0.68	213	2.25	fixed	
18	OTP EUR 2 2015/XVII	30/08/2013	30/08/2015	EUR	0.42	133	2.25	fixed	
19	OTP EUR 2 2015/XVIII	13/09/2013	13/09/2015	EUR	0.57	178	2.25	fixed	
20	OTP EUR 2 2015/XIX	27/09/2013	27/09/2015	EUR	0.51	159	2.25	fixed	
21	OTP EUR 2 2015/XX	11/10/2013	11/10/2015	EUR	0.30	94	2.25	fixed	
22	OTP EUR 2 2015/XXI	31/10/2013	31/10/2015	EUR	2.31	728	2.25	fixed	
23	OTP EUR 2 2015/XXII	15/11/2013	15/11/2015	EUR	1.16	364	2.25	fixed	
24	OTP EUR 2 2015/XXIII	29/11/2013	29/11/2015	EUR	1.21	382	2	fixed	
25	OTP EUR 2 2015/XXIV	20/12/2013	20/12/2015	EUR	1.55	488	2	fixed	
	Subtotal					**27,437**			

[1] From the total amount HUF 33,883 million is mobil deposits of Merkantil Bank.

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

Issued securities denominated in foreign currency as at 30 June 2015 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Type of FX	Nominal value		Interest conditions (in % p.a.)		Hedged
					(FX mn)	(HUF mn)			
26	OTP EUR 1 2016/I	30/01/2015	13/02/2016	EUR	10.18	3,208	1.14	fixed	
27	OTP EUR 1 2016/II	20/02/2015	06/03/2016	EUR	8.38	2,641	1.04	fixed	
28	OTP EUR 1 2016/III	20/03/2015	03/04/2016	EUR	13.07	4,118	0.94	fixed	
29	OTP EUR 1 2016/IV	10/04/2015	24/04/2016	EUR	7.22	2,275	0.94	fixed	
30	OTP EUR 1 2016/V	24/04/2015	08/05/2016	EUR	3.61	1,137	0.94	fixed	
31	OTP EUR 1 2016/VI	29/05/2015	12/06/2016	EUR	10.30	3,244	0.83	fixed	
32	OTP EUR 1 2016/VII	30/06/2015	14/07/2016	EUR	10.24	3,226	0.83	fixed	
33	OTP EUR 2 2016/I	17/01/2014	17/01/2016	EUR	0.90	282	2	fixed	
34	OTP EUR 2 2016/II	31/01/2014	31/01/2016	EUR	0.83	261	2	fixed	
35	OTP EUR 2 2016/III	14/02/2014	14/02/2016	EUR	0.95	298	2	fixed	
36	OTP EUR 2 2016/IV	28/02/2014	28/02/2016	EUR	0.65	206	1.9	fixed	
37	OTP EUR 2 2016/V	14/03/2014	14/03/2016	EUR	0.72	228	1.8	fixed	
38	OTP EUR 2 2016/VI	21/03/2014	21/03/2016	EUR	0.21	66	1.8	fixed	
39	OTP EUR 2 2016/VII	11/04/2014	11/04/2016	EUR	0.72	225	1.8	fixed	
40	OTP EUR 2 2016/VIII	18/04/2014	18/04/2016	EUR	0.20	63	1.8	fixed	
41	OTP EUR 2 2016/IX	09/05/2014	09/05/2016	EUR	0.61	193	1.8	fixed	
42	OTP EUR 2 2016/X	23/05/2014	23/05/2016	EUR	0.60	189	1.8	fixed	
43	OTP EUR 2 2016/XI	06/06/2014	06/06/2016	EUR	0.64	201	1.8	fixed	
44	OTP EUR 2 2016/XII	20/06/2014	20/06/2016	EUR	0.64	201	1.5	fixed	
45	OTP EUR 2 2016/XIII	04/07/2014	04/07/2016	EUR	0.46	146	1.5	fixed	
46	OTP EUR 2 2016/XIV	18/07/2014	18/07/2016	EUR	0.31	99	1.5	fixed	
47	OTP EUR 2 2016/XV	30/07/2014	30/07/2016	EUR	1.58	497	1.5	fixed	
48	OTP EUR 2 2016/XVI	08/08/2014	08/08/2016	EUR	0.37	116	1.5	fixed	
49	OTP EUR 2 2016/XVII	29/08/2014	29/08/2016	EUR	1.32	414	1.5	fixed	
50	OTP EUR 2 2016/XVIII	12/09/2014	12/09/2016	EUR	0.99	311	1.5	fixed	
51	OTP EUR 2 2016/XIX	03/10/2014	03/10/2016	EUR	1.92	605	1.25	fixed	
52	OTP 2015/Cx	27/12/2010	29/12/2015	EUR	0.85	267	indexe	floating	hedged
53	OTP 2015/Fx	21/12/2012	23/12/2015	EUR	2.07	653	indexe	floating	hedged
54	OTP 2016/Cx	22/04/2011	22/04/2016	EUR	1.42	449	indexe	floating	hedged
55	OTP 2016/Dx	22/12/2011	29/12/2016	EUR	1.08	341	indexe	floating	hedged
56	OTP 2017/Fx	19/06/2012	16/06/2017	EUR	0.78	245	indexe	floating	hedged
57	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	195	indexe	floating	hedged
58	OTP_VK_USD_1_2016/1	24/04/2015-02/06/2015	24/04/2016	USD	1.78	504	0.85	floating	hedged
59	OTP_VK_USD_2_2016/1	28/11/2014	28/11/2016	USD	6.82	1,928	1.1	floating	hedged
60	OTP_VK_USD_2_2017/1	10/04/2015	10/04/2017	USD	0.33	94	1	floating	hedged
61	Mortgage bonds OTP VII	21/12/2005	21/12/2015	EUR	22.47	7,080	0.14	floating	
62	Mortgage bonds OTP XXV	28/09/2012	28/09/2016	EUR	7.96	2,509	4.0	fixed	
63	Other[1]					5,295			
	Subtotal					**44,010**			
	Subtotal issued securities in FX					**71,447**			
	Unamortized premium					(322)			
	Fair value adjustment					88			
	Total issued securities in FX					**71,213**			
	Accrued interest					11,286			
	Total issued securities					**260,007**			

[1] Other category includes promissory notes issued by OTP Banka Slovensko a.s. in the amount of HUF 1,373 million and by JSC "OTP Bank" (Russia) in the amount of HUF 3,922 million.

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

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

On 8 July 2014 the 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 without any obligations.

Term Note Program in the value of HUF 200 billion for the year of 2015/2016

On 30 June 2015 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 14 August 2015 the prospectus of Term Note Program and the disclosure as at 12 August 2015. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange without any obligations.

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

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

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

	30 June 2015	31 December 2014
CCIRS and mark-to-market CCIRS classified as held for trading	145,219	53,724
Interest rate swaps classified as held for trading	34,349	63,691
Foreign exchange swaps classified as held for trading	12,626	51,537
Option contracts classified as held for trading	5,639	6,215
Foreign exchange forward contracts classified as held for trading	5,267	5,582
Forward security agreements classified as held for trading	1,111	478
Forward rate agreements classified as held for trading (FRA)	33	61
Other transactions classified as held for trading	744	2,706
Total	**204,988**	**183,994**

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

	30 June 2015	31 December 2014
Financial liabilities from OTP-MOL share swap transaction[2]	70,721	56,445
Provision for impairment on off-balance sheet commitments and contingent liabilities	49,562	217,351
Current income tax payable	37,759	14,707
Accrued expenses	36,301	33,015
Liabilities connected to Cafeteria benefits	33,767	22,700
Salaries and social security payable	32,688	25,583
Accounts payable	23,498	22,373
Liabilities from investment services	19,428	41,264
Clearing, settlement and pending accounts	15,161	7,284
Giro clearing accounts	13,952	13,119
Liabilities from repo transactions	13,764	6,980
Fair value of derivative financial instruments designated as fair value hedge	7,011	85,679
Liabilities from card transactions	5,964	4,992
Advances received from customers	3,479	3,266
Deferred tax liabilities	3,396	9,855
Liabilities connected to loans for collection	921	909
Liabilities connected to leasing activities	907	1,080
Loans from government	712	738
Dividend payable	190	140
Liabilities related to housing loans	101	244
Other	24,516	24,130
Subtotal	**393,798**	**591,854**
Accrued interest	269	234
Total	**394,067**	**592,088**

[1] Other liabilities – except financial liabilities from OTP-MOL share swap transaction, deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP-MOL share swap transaction is settled in June of each year until the maturity date. The fair value adjustment of the swap transaction was HUF 430 million as at 30 June 2015. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity. Besides the total other liabilities mentioned above which are expected to be recovered or settled more than twelve months after the reporting period it should be mentioned accrued contractual liabilities, compulsory pension reserve, guarantee deposits in relation with leasing activities, loans from government and liabilities from preferential dividend shares.

[2] On 16 April 2009 OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. On 11 July 2012 the parties amended the final maturity of the share swap agreement for 11 July 2017 until which any party can initiate cash or physical settlement of the transaction. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the loss of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity with the amount of HUF 55.5 billion and a recognition of a corresponding liability. As at 30 June 2015 HUF 70,721 million and as at 31 December 2014 HUF 56,445 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.

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

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

	30 June 2015	31 December 2014
Provision on contingent liabilities due to regulations related to customer loans[1]	21,625	196,574
Provision for litigation	6,194	7,454
Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending	5,312	3,566
Provision for expected pension commitments	1,491	3,430
Provision for other liabilities	14,940	6,327
Total	**49,562**	**217,351**

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

	30 June 2015	31 December 2014
Balance as at 1 January	**217,351**	**22,180**
Provision for the year	(168,797)	195,310
Use of provision	(1,803)	(1,031)
Change due to acquisition	3,204	1,756
Foreign currency translation differences	(393)	(864)
Closing balance	**49,562**	**217,351**

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

	30 June 2015	31 December 2014
Interest rate swaps designated as fair value hedge	6,638	3,463
CCIRS and mark-to-market CCIRS designated as fair value hedge	-	79,940
Foreign exchange swaps designated as fair value hedge	-	2,276
Other transactions designated as fair value hedge	373	-
Total	**7,011**	**85,679**

[1] See details in Note 2.28.

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

	30 June 2015	31 December 2014
Within one year:		
In HUF	-	-
In foreign currency	18,386	16,779
	18,386	**16,779**
Over one year:		
In HUF	-	-
In foreign currency	234,725	264,018
	234,725	**264,018**
Accrued interest	4,804	1,171
Total	**257,915**	**281,968**

Interest rates on subordinated bonds and loans are as follows:

	30 June 2015	31 December 2014
Denominated in foreign currency	1.8% - 5.9%	0.6% - 8.25%

	30 June 2015	31 December 2014
Average interest rates on subordinated bonds and loans	5.12%	4.82%

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

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as at 30 June 2015
Subordinated bond	EUR 247.7 million	07/11/2006	Perpetual, but callable after 10 years	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	-
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%
Subordinated loan	USD 65 million	21/04/2008	13/10/2015	100%	Variable, six-month LIBOR + 1.4%	1.8%

[1] European Medium Term Note Program

NOTE 19: SHARE CAPITAL (in HUF mn)

	30 June 2015	31 December 2014
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) are as follows (the reserves under IFRS are detailed in consolidated statement of changes in equity):

	30 June 2015	31 December 2014
Capital reserve	52	52
General reserve	121,055	112,217
Retained earnings	818,600	814,399
Tied-up reserve	9,898	8,558
Total	**949,605**	**935,226**

The legal reserves (general reserve and tied-up reserve) are not available for distribution. The dividend has been determined on the basis of the net profit for the year determined in the separate financial statements in accordance with the HAS.

Capital reserve is the amount that the entity receives from the owners above the share capital without obligation to repay it. According to HAS general reserve can be established of profit after tax and in case of loss after tax general reserve shall be used up to amount of loss or general reserve. Retained earnings are cumulated sum of net profit or loss from previous years. Tied-up reserve contains cost of treasury shares and book value of experimental development reclassified from retained earnings in accordance with regulations of HAS.

In 2015 the Bank paid dividend of HUF 40,600 million from the profit of the year 2014, which meant 145 HUF payable dividend by share to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 482,353 million and HUF 686,000 million) and reserves (HUF 802,275 million and HUF 602,757 million) as at 30 June 2015 and 31 December 2014 respectively. The reserves include mainly net profit for the year attributable to the owners of the company, the fair value adjustment of securities available-for-sale, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous year at the subsidiaries, changes due to consolidation and exchange differences.

In the Consolidated Financial Statement the Group recognizes the non-monetary items on historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented among the shareholders' equity as difference of translation. The accumulated amounts of exchange differences were HUF 116,681 million and HUF 121,306 million as at 30 June 2015 and 31 December 2014 respectively.

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

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

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

NOTE 21: TREASURY SHARES (in HUF mn)

	30 June 2015	31 December 2014
Nominal value (Ordinary shares)	1,804	1,818
Carrying value at acquisition cost	57,280	55,940

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

Change in number of shares:

	30 June 2015	31 December 2014
Number of shares as at 1 January	**18,175,347**	**17,972,405**
Additions	3,127,234	6,474,942
Disposals	(3,260,488)	(6,272,000)
Closing number of shares	**18,042,093**	**18,175,347**

Change in carrying value:

	30 June 2015	31 December 2014
Balance as at 1 January	**55,940**	**55,599**
Additions	16,688	27,522
Disposals	(15,348)	(27,181)
Closing balance	**57,280**	**55,940**

NOTE 22: NON-CONTROLLING INTEREST (in HUF mn)

	30 June 2015	31 December 2014
Balance as at 1 January	**3,349**	**4,767**
Changes due to ownership structure	(11)	(177)
Non-controlling interest included in net profit for the year	(323)	(273)
Foreign currency translation difference	302	(968)
Closing balance	**3,317**	**3,349**

NOTE 23: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF mn)

	30 June 2015	31 December 2014
Provision for impairment on loan losses		
Provision for the year	332,839	708,743
Release of provision	(166,445)	(319,393)
Provision for impairment on loan losses	11,905	57,470
	178,299	**446,820**
(Release of provision) / Provision for impairment on placement losses		
Provision for the year	3	874
Release of provision	-	(854)
Release of provision for impairment on placement losses	(7)	(10)
	(4)	**10**
Provision for impairment on loan and placement losses	**178,295**	**446,830**

NOTE 24: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions	30 June 2015	30 June 2014
Deposit and account maintenance fees and commissions	53,260	53,689
Fees and commissions related to the issued bank cards	20,021	22,561
Fees related to cash withdrawal	13,503	14,478
Fees and commissions related to fund management	9,002	8,439
Fees and commissions related to lending	8,847	11,038
Fees and commissions related to security trading	7,449	6,172
Other	12,973	12,338
Total	**125,055**	**128,715**

NOTE 24: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

Expense from fees and commissions	30 June 2015	30 June 2014
Fees and commissions related to issued bank cards	5,457	4,458
Fees and commissions paid on loans	3,437	5,838
Interchange fees	3,042	3,563
Fees and commissions related to deposits	1,242	1,196
Money market transaction fees and commissions	994	553
Cash withdrawal transaction fees	873	1,093
Fees and commissions related to collection of loans	790	1,647
Fees and commissions related to security trading	747	659
Postal fees	546	236
Insurance fees	145	695
Other	3,472	3,368
Total	**20,745**	**23,306**
Net profit from fees and commissions	**104,310**	**105,409**

NOTE 25: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income	30 June 2015	30 June 2014
Gains on real estate transactions	1,128	792
Other income from non-financial activities	8,932	10,512
Total	**10,060**	**11,304**

Other operating expenses	30 June 2015	30 June 2014
Expenses from regulations related to customer loans[1]	135,878	-
Provision for impairment on other assets	3,464	2,625
Provision / (Release of provision) for impairment on investments[2]	914	(30)
Provision / (Release of provision) for assets subject to operating lease	4	(114)
(Release of provision) / Provision for off-balance sheet commitments and contingent liabilities	(30,445)	437
(Release of provision) / Provision on contingent liabilities due to regulations related to customer loans[1]	(138,352)	216,563
Other expense from non-financial activities	39,092	9,363
Other operating costs	11,807	2,983
Total	**22,362**	**231,827**

[1] See details in Note 2.28.

[2] See details in Note 9.

NOTE 25: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

Other administrative expenses	**30 June 2015**	**30 June 2014**
Personnel expenses		
Wages	68,241	75,670
Taxes related to personnel expenses	18,944	21,310
Other personnel expenses	6,568	6,730
Subtotal	**93,753**	**103,710**
Depreciation and amortization[1]	**20,765**	**43,040**
Other administrative expenses		
Taxes, other than income tax [2]	71,722	76,769
Administration expenses, including rental fees	23,602	25,656
Services	20,643	19,691
Professional fees	9,756	8,334
Advertising	4,076	4,574
Subtotal	**129,799**	**135,024**
Total	**244,317**	**281,774**

NOTE 26: INCOME TAX (in HUF mn)

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

Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria, 12.5% in Cyprus, 15% in Serbia, 16% in Romania, 18% in Ukraine, 19% in Hungary, 20% in Croatia, Russia and the United Kingdom, 22% in Slovakia and 25% in the Netherlands.

The breakdown of the income tax expense is:

	30 June 2015	**31 December 2014**
Current tax expense	7,903	16,520
Deferred tax benefit	(9,521)	(67,905)
Total	**(1,618)**	**(51,385)**

[1] See details in Note 11.

[2] Special tax of financial institutions was paid by the Group in the amount of HUF 35.4 billion for the first half year of 2015 and HUF 37 billion for the year 2014 respectively, recognized as an expense thus decreased the corporate tax base. In the six month period ended 30 June 2015 financial transaction duty was paid by the Bank in the amount of HUF 22 billion.

NOTE 26: INCOME TAXES (in HUF mn) [continued]

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

	30 June 2015	31 December 2014
Balance as at 1 January	**51,154**	**(12,273)**
Deferred tax benefit	9,521	67,905
Due to purchase of subsidiaries	5,104	-
Deferred tax related to items recognized directly in equity and in Other Comprehensive Income	2,580	(1,418)
Foreign currency translation difference	(92)	(3,060)
Closing balance	**68,267**	**51,154**

A breakdown of the deferred tax assets are as follows:

	30 June 2015	31 December 2014
Refundable tax in accordance with Acts on Customer Loans[1]	28,439	33,226
Tax loss carry forward	17,655	15,207
Unused tax allowance[2]	10,374	6,794
Provision for impairment on investments (Goodwill)	9,367	10,705
Fair value adjustment of securities held for trading and securities available-for-sale	8,678	8,704
Repurchase agreement and security lending	4,112	4,176
Premium and discount amortization on bonds	2,358	177
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	274	593
Difference in accounting for leases	163	177
Difference in depreciation and amortization	101	73
Fair value adjustment of derivative financial instruments	5	8
Other	34,735	16,373
Deferred tax asset	**116,261**	**96,213**

[1] See details in Note 2.28.
[2] From year 2011 legal regulation allowed to recognize the financial support provided to sight-team sport as extraordinary expense and corporate tax allowance in the financial statements prepared on the base of HAS. The Bank could apply this tax allowance with limits in the financial statements prepared according to the HAS in 2014. Deferred tax asset was recorded in the amount of unused tax allowance in IFRS financial statements.

NOTE 26: INCOME TAXES (in HUF mn) [continued]

A breakdown of the deferred tax liabilities are as follows:

	30 June 2015	31 December 2014
Fair value adjustment of securities held for trading and securities available-for-sale	(13,315)	(16,193)
Fair value adjustment of derivative financial instruments	(8,061)	(5,031)
Difference in depreciation and amortization	(5,209)	(5,051)
Adjustment from effective interest rate method	(2,340)	(2,380)
Net effect of treasury share transactions	(2,335)	(2,681)
Temporary differences arising on consolidation	(1,793)	(1,817)
Accounting of equity instrument (ICES)	(1,171)	(1,333)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(203)	(110)
Difference in accounting for leases	(101)	(3,992)
Premium and discount amortization on bonds	(19)	(23)
Other	(13,447)	(6,448)
Deferred tax liabilities	**(47,994)**	**(45,059)**
Net deferred tax asset	**68,267**	**51,154**

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

	30 June 2015	31 December 2014
Profit / (Loss) before income tax	38,523	(153,643)
Income tax expense / (income) at statutory tax rates	19,806	(26,793)

Income tax adjustments due to permanent differences are as follows:

	30 June 2015	31 December 2014
Tax adjustment in accordance with Acts on Customer Loans	1,090	(28,306)
Share-based payment	362	835
Differences in carrying value of subsidiaries	11	14,982
Treasury share transactions	-	(917)
Difference of accounting of equity instrument (ICES)	(29)	(211)
OTP-MOL share swap transaction	(82)	(80)
Revaluation of investments denominated in foreign currency to historical cost	(465)	(185)
Deferred use of tax allowance[1]	(3,579)	(6,335)
Use of tax allowance in the current year	(3,757)	(2,479)
Other	(14,975)	(1,896)
Income tax	**(1,618)**	**(51,385)**
Effective tax rate[2]	**-**	**33.44%**

[1] From year 2011 legal regulation allowed to recognize the financial support provided to sight-team sport as extraordinary expense and corporate tax allowance in the financial statements prepared on the base of HAS. The Bank could apply this tax allowance with limits in the financial statements prepared according to the HAS in 2014 . Deferred tax asset was recorded in the amount of unused tax allowance in IFRS financial statements.

[2] Effective tax rate has changed due to deferred tax receivable recognized in relation with the expecting tax receivable based on Act on Settlement and considering the contribution provided to the subsidiaries.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

27.1. Credit risk

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

27.1.1. Analysis by loan types and by DPD categories

Classification into DPD categories

The Group presents the non-performing loan portfolio according delay of payment above 90 days past due. When determining the impairment beside the delay of payment other information available for the Group is also taking into consideration. The foreseeable risks and expected losses are considered, when the Group during determining the result of the current year, calculates and accounts impairment and credits provisions. The impairments and provisions are accounted notwithstanding whether the result recognized in the current year is gain or loss. The Group when calculates the impairment of the loans applies the requirement of IFRS and the principles defined in the impairment policy of the Group.

Exposures with small amounts are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are classified into five valuation groups which have been formed based on past due days from which there classes were presented (A: 0-90 days past due - DPD, B: 91-360 DPD, C: above 360 days past due). The three new groups do not match one by one to the earlier used risk classes, the composition of the classes has changed due to the different criteria.
The Group intends – where 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.

Impairment on **claims above the limit** are under **individual assessment** method. Depending on the incurred loss of each item is determined based on the consideration of all of the following criteria:

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

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types and by DPD categories [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 30 June 2015

Loan type	**Up to 90 days**	**91-360 days**	**Above 360 days**	**Total carrying amount / allowance**
Mortgage loans	1,992,134	71,315	379,812	**2,443,261**
Loans to medium and large corporates	1,507,390	36,251	265,552	**1,809,193**
Consumer loans	1,337,074	122,798	160,679	**1,620,551**
Loans to micro and small enterprises	353,080	14,020	136,117	**503,217**
Car-finance loans	179,829	4,701	40,888	**225,418**
Municipal loans	101,510	338	75	**101,923**
Gross portfolio	**5,471,017**	**249,423**	**983,123**	**6,703,563**
Placement with other banks	237,286	-	21	**237,307**
Bill of exchange	6,146	-	-	**6,146**
Total gross portfolio	**5,714,449**	**249,423**	**983,144**	**6,947,016**
Allowance for loans	(185,186)	(169,344)	(750,339)	**(1,104,869)**
Allowance for placements	(29)	-	(21)	**(50)**
Total allowance	**(185,215)**	**(169,344)**	**(750,360)**	**(1,104,919)**
Total net portfolio	**5,529,234**	**80,079**	**232,784**	**5,842,097**
Accrued interest				
for loans				63,414
for placements				14
Total accrued interest				**63,428**
Total net loans				**5,668,254**
Total net placements				**237,271**
Total net exposures				**5,905,525**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types and by DPD categories [continued]

As at 31 December 2014

Loan type	Up to 90 days	91-360 days	Above 360 days	Total carrying amount / allowance
Mortgage loans	2,014,737	95,472	480,123	**2,590,332**
Loans to medium and large corporates	1,565,654	49,286	242,997	**1,857,937**
Consumer loans	1,389,289	115,644	155,581	**1,660,514**
Loans to micro and small enterprises	329,030	15,931	129,515	**474,476**
Car-finance loans	175,980	17,755	36,584	**230,319**
Municipal loans	117,988	262	63	**118,313**
Gross portfolio	**5,592,678**	**294,350**	**1,044,863**	**6,931,891**
Placement with other banks	280,917	12	9	**280,938**
Bill of exchange	4,193	-	-	**4,193**
Total gross portfolio	**5,877,788**	**294,362**	**1,044,872**	**7,217,022**
Allowance for loans	(169,562)	(180,880)	(778,643)	**(1,129,085)**
Allowance for placements	(26)	(12)	(9)	**(47)**
Total allowance	**(169,588)**	**(180,892)**	**(778,652)**	**(1,129,132)**
Total net portfolio	**5,708,200**	**113,470**	**266,220**	**6,087,890**
Accrued interest				
for loans				57,242
for placements				115
Total accrued interest				**57,357**
Total net loans				**5,864,242**
Total net placements				**281,006**
Total net exposures				**6,145,248**

The Group’s loan portfolio decreased by 3.7% in the first half year of 2015. Analysing the contribution of loan types to the loan portfolio, the share of the mortgage loan types slightly decreased, the consumer and loans to micro and small enterprises slightly increased, while the other types of loans remained almost the same as at 30 June 2015 comparing with the previous year. The qualification of the loan portfolio started to improve from the previous year, and now for the end of the first half of 2015 the ratio of the more than 90 days past due to the above 360 days past due loans compared to the gross loan portfolio decreased from 18.6% to 17.7%. Among the qualified loan portfolio, the loans classified to the risk class of “more than 90 until 360 days past due” narrowed at the fastest level.

The Group has a prudent provisioning policy, the indicator which describes the coverage of loans by provision for impairment on loans classified as “Above 360 days”, was 76.3% and 74.5% as at 30 June 2015 and 31 December 2014 respectively.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types and by DPD categories [continued]

Not impaired loan portfolio

The loan portfolio analysis of the gross values of the loans that are not impaired, not past due and past due is as follows:

As at 30 June 2015

Loan type	Not past due	Up to 90 days	91-360 days	Above 360 days	Total
Mortgage loans	1,004,237	132,717	6,391	5,022	1,148,367
Loans to medium and large corporates	817,413	14,855	517	1,275	834,060
Consumer loans	356,448	73,572	111	233	430,364
Placement with other banks	237,286	-	-	-	237,286
Loans to micro and small enterprises	188,763	8,051	462	975	198,251
Municipal loans	78,415	-	30	39	78,484
Car-finance loans	77,306	11,824	1	4	89,135
Total	**2,759,868**	**241,019**	**7,512**	**7,548**	**3,015,947**

As at 31 December 2014

Loan type	Not past due	Up to 90 days	91-360 days	Above 360 days	Total
Mortgage loans	1,254,458	150,032	6,170	7,526	1,418,186
Loans to medium and large corporates	839,949	13,341	886	1,566	855,742
Consumer loans	374,485	57,522	207	166	432,380
Placement with other banks	280,891	-	-	-	280,891
Loans to micro and small enterprises	182,352	8,557	1,305	1,403	193,617
Municipal loans	97,866	263	19	34	98,182
Car-finance loans	52,772	20,917	128	3	73,820
Total	**3,082,773**	**250,632**	**8,715**	**10,698**	**3,352,818**

Loans not past due or past due, but not impaired cover only balance sheet items.
The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio slightly decreased from 42.72% to 39.73% as at 30 June 2015 comparing to the end of the previous year. The ratio of the mortgage loans and placements with other banks compared to the portfolio of loans neither past due nor impaired decreased slightly in the first half year of 2015, while the ratio of the loans to medium and large corporates increased mostly.

The loans that are past due but not impaired are concentrated mainly in the mortgage loan type while in the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Group. The ratio of the mortgage and car-finance loans compared to the portfolio of loans past due but not impaired decreased and the ratio of the consumer loans increased slightly in the first half year of 2015.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types and by DPD categories [continued]

Loans individually assessed for provision

The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.
An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 30 June 2015 and 31 December 2014 is as follows:

As at 30 June 2015

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	234,502	139,481	127,798	199	37
Legal proceedings	199,736	159,282	66,095	107	52
Decrease of client classification	161,094	56,052	95,031	2,280	4,189
Country risk	42,993	10,959	14,243	-	-
Loan characteristics	35,234	2,579	24,570	-	-
Cross default	33,265	7,010	12,344	925	53
Business lines risks	14,511	4,170	7,209	5,438	171
Restructuring	1,990	1,052	1,030	2	-
Regularity of payment	80	21	155	-	-
Other	11,673	3,680	8,498	3,939	75
Corporate total	**735,078**	**384,286**	**356,973**	**12,890**	**4,577**
Delay of payment	5,368	51	953	-	-
Decrease of client classification	150	1	-	68	1
Legal proceedings	4	4	-	-	-
Other	976	10	-	748	7
Municipal total	**6,498**	**66**	**953**	**816**	**8**
Placements with other banks	**-**	**-**	**-**	**-**	**-**
Total	**741,576**	**384,352**	**357,926**	**13,706**	**4,585**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types and by DPD categories [continued]

Loans individually assessed for provision [continued]

As at 31 December 2014

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	300,591	192,597	148,144	850	121
Legal proceedings	78,037	54,745	48,845	84	47
Decrease of client classification	182,472	49,221	137,716	11,041	3,835
Country risk	33,145	7,935	13,752	-	-
Loan characteristics	39,370	1,975	27,341	-	-
Cross default	28,229	4,498	12,188	590	51
Business lines risks	16,125	3,670	8,454	12,639	390
Restructuring	1,954	1,014	1,054	-	-
Regularity of payment	48,373	37,290	12,790	-	-
Other	10,061	2,030	10,402	4,721	161
Corporate total	**738,357**	**354,975**	**420,686**	**29,925**	**4,605**
Delay of payment	8,895	468	4,927	-	-
Decrease of client classification	234	122	-	3	-
Legal proceedings	592	235	1,267	-	-
Other	96	1	-	381	4
Municipal total	**9,817**	**826**	**6,194**	**384**	**4**
Placements with other banks	**-**	**-**	**-**	**-**	**-**
Total	**748,174**	**355,801**	**426,880**	**30,309**	**4,609**

By 30 June 2015 the volume of the individually rated portfolio decreased by 0.4% in the corporate loan type. Among the rating factors of the corporate loan type, the decrease is mostly based on the regularity of payment and delay of payment, while increase is based on the legal proceedings and country risk as at 30 June 2015. The decrease was 33.8% in the municipal loan portfolio comparing with the end of the previous year, where the decrease is mostly based on the decreasing number of legal proceedings as well as the decrease of the delay of payment and on the improving client classification. Increase was not experienced at all according to none of the above listed factors.

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

Business lines risks:
Transactions are classified by using this category name, if the client works in a business line which was most exposed to the financial crisis (vehicle industry, building industry, real estate services, metal processing, financial services).

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types and by DPD categories [continued]

Loan portfolio by countries

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

	30 June 2015		31 December 2014	
Country	**Carrying amount of gross loan and placement with other banks portfolio**	**Allowance**	**Carrying amount of gross loan and placement with other banks portfolio**	**Allowance**
Hungary	2,577,670	258,616	2,888,007	357,121
Bulgaria	1,227,577	165,431	1,220,609	160,427
Romania	628,142	80,074	484,602	69,475
Russia	578,731	122,503	588,601	101,079
Ukraine	534,577	289,675	578,876	254,910
Croatia	503,772	43,812	510,344	39,442
Slovakia	374,100	24,307	370,649	22,920
Montenegro	172,280	69,992	186,890	71,542
Serbia	127,093	31,916	112,822	33,037
United Kingdom	81,425	2,171	123,716	2,075
Cyprus	46,569	10,272	47,333	10,476
Germany	24,663	89	22,440	91
Austria	11,326	3	9,981	5
France	9,918	15	5,284	1
United States of America	8,660	37	24,387	51
Poland	7,398	4	1,454	-
Switzerland	6,601	118	8,267	149
Czech Republic	5,256	8	6,829	13
Seychelles	4,887	4,844	4,877	4,855
The Netherlands	2,598	77	1,067	21
Norway	1,863	-	4,649	25
Bosnia and Herzegovina	870	693	954	685
Italy	862	4	4,598	3
Turkey	648	2	1,812	8
Denmark	619	-	1,660	-
Sweden	378	7	263	8
Belgium	249	10	86	6
Ireland	212	64	193	69
Kazakhstan	169	31	171	30
Japan	156	-	157	-
Canada	143	-	38	-
Australia	128	-	55	-
Spain	111	4	57	1
Egypt	87	7	685	480
Latvia	60	35	58	32
Island	41	29	41	29
Luxembourg	13	-	-	-
Other[1]	1.018	69	1,271	751
Total[2]	**6,940,870**	**1,104,919**	**7,212,829**	**1,129,132**

[1] Other category in the half year of 2015 includes e.g.: Malta, United Arab Emirates, Greece, Hong Kong, Moldova, Macedonia, Armenia, Israel, Brazil, Vietnam, Finland, Slovenia, Morocco, Kyrgyzstan and Georgia.
[2] Without the amount of bill of exchange.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types and by DPD categories [continued]

Loan portfolio by countries [continued]

The loan portfolio decreased mostly in Hungary, and increased in the Netherlands, Romania and Serbia but there were no significant changes in the other countries of Group members'. Their stock of provision increased mostly in the Netherlands, Russia, Romania and Ukraine, decreased mostly in Hungary due to the slightly decreased loan portfolio but there were no significant movements in none of the other countries.

In some countries the stock of provision increased due to local regulations on the base of which it is compulsory to account fix rate of provision on the non-qualified portfolio.

27.1.2. Collaterals

The values of collaterals held by the Group by types are as follows (**total collaterals**). The collaterals cover loans as well as off-balance sheet exposures.

Types of collaterals	30 June 2015	31 December 2014
Mortgages	5,752,721	5,323,528
Assignments (revenue or other receivables)	402,382	407,051
Guarantees of state or organizations owned by state	263,954	277,260
Guarantees and warranties	108,893	114,034
Cash deposits	72,339	74,435
Securities	28,750	34,508
Other	828,559	793,137
Total	**7,457,598**	**7,023,953**

The values of collaterals held by the Group by types are as follows (**to the extent of the exposures**). The collaterals cover loans as well as off-balance sheet exposures.

Types of collaterals	30 June 2015	31 December 2014
Mortgages	2,033,787	2,737,324
Assignments (revenue or other receivables)	326,490	330,466
Guarantees of state or organizations owned by state	192,412	207,379
Guarantees and warranties	80,301	86,475
Cash deposits	46,163	42,956
Securities	12,430	16,723
Other	452,007	455,811
Total	**3,143,590**	**3,877,134**

The coverage level of the loan portfolio (total collaterals) increased by 7.6%, as well as the coverage level to the extent of the exposures decreased by 7.5% as at 30 June 2015.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.3. Restructured loans

	30 June 2015		31 December 2014	
	Gross portfolio	**Allowance**	**Gross portfolio**	**Allowance**
Loans to medium and large corporates[1]	165,098	35,017	197,382	43,685
Retail loans	64,575	8,361	76,124	6,636
Loans to micro and small enterprises	12,274	1,459	14,046	2,018
Municipal loans	47	2	71	3
Total	**241,994**	**44,839**	**287,623**	**52,342**

Restructured portfolio definition

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

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

Hungarian FX mortgage loans in the fixed exchange rate scheme are not included.
In case of loans that have been restructured more than once the last restructuring is considered.

Restructured portfolio for **medium and large corporates / micro and small enterprises / municipal business line** contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

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

Other modifications of contract not mentioned above are not considered as restructuring (i.e. modifying the collateral structure, modification of the credit purpose).
In case of loans that have been restructured more than once the last restructuring is considered.

[1] They include project and syndicated loans.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.4. Financial instruments by rating categories[1]

Securities held for trading as at 30 June 2015

	Aaa	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba3	Not rated	Total
Shares	711	67	76	26	46	21	-	-	16	-	72,780	**73,743**
Government bonds	-	-	-	-	-	-	8,142	4,038	20,143	871	-	**33,194**
Discounted Treasury bills	-	-	-	-	-	-	2,518	-	973	-	-	**3,491**
Other securities	-	-	-	-	-	-	-	-	2,832	-	262	**3,094**
Other non-interest bearing securities	-	-	-	-	-	1,719	-	-	-	-	2,118	**3,837**
Total	**711**	**67**	**76**	**26**	**46**	**1,740**	**10,660**	**4,038**	**23,964**	**871**	**75,160**	**117,359**
Accrued interest												647
Total												**118,006**

Securities available-for-sale as at 30 June 2015

	Aaa	A1	Baa1	Baa2	Baa3	Ba1	Ba2	B1	Ca	C	Not rated	Total
Government bonds	30,309	-	-	60,641	14,078	703,200	-	-	852	18	2,513	**811,611**
Corporate bonds	311	-	-	-	-	100	4,728	10	-	-	49,157	**54,306**
Discounted Treasury bills	-	-	1,494	-	-	20,496	-	-	-	-	-	**21,990**
Other securities	-	-	-	-	-	-	10,862	-	-	-	338	**11,200**
Other non-interest bearing securities	42	572	349	-	-	-	-	-	-	-	40,807	**41,770**
Total	**30,662**	**572**	**1,843**	**60,641**	**14,078**	**723,796**	**15,590**	**10**	**852**	**18**	**92,815**	**940,877**
Accrued interest												8,979
Total												**949,856**

[1] Moody's ratings

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.4. Financial instruments by rating categories[1] [continued]

Securities held-to-maturity as at 30 June 2015

	Aaa	A2	Baa1	Baa2	Baa3	Ba1	Ca	Not rated	Total
Government bonds	14,518	22,666	9,646	1,155	4,916	807,972	31,638	689	**893,200**
Mortgage bonds	-	523	-	-	-	-	-	-	**523**
Discounted Treasury bills	-		-	-	-	349	-	117	**466**
Corporate bonds	-	-	-	-	-	-	-	6	**6**
Total	**14,518**	**23,189**	**9,646**	**1,155**	**4,916**	**808,321**	**31,638**	**812**	**894,195**
Accrued interest									15,437
Total									**909,632**

[1] Moody's ratings

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' 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 35.)

27.2.1. Market Risk sensitivity analysis

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

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

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

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

Historical VaR (99%, one-day) by risk type	Average	
	30 June 2015	30 June 2014
Foreign exchange	562	577
Interest rate	484	333
Equity instruments	3	10
Diversification	(238)	(299)
Total VaR exposure	**811**	**621**

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 27.2.2., for interest rate risk in Note 27.2.3., and for equity price sensitivity analysis in Note 27.2.4. below.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2. Market risk [continued]

27.2.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was short, amounted to EUR 310 million (for hedging the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) and was long, amounted to 314 million USD (for hedging the FX exposure of the following Ukrainian subsidiaries: OTP Bank JSC (Ukraine), LLC OTP Leasing and OTP Factoring Ukraine LLC) as at 30 June 2015. High portion of strategic positions is considered as effective hedge of future profit inflows of investment of foreign subsidiaries, and so FX risk affects the Group's other comprehensive income and not its earnings.

A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the Consolidated Statement of Recognized Income in 3 months period	
	30 June 2015	**30 June 2014**
	In HUF billion	In HUF billion
1%	(9.9)	(11.6)
5%	(6.9)	(8.1)
25%	(2.8)	(3.5)
50%	0.5	(0.6)
25%	3.8	2.3
5%	9.0	6.2
1%	13.2	8.9

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 during the first half year of 2015 was higher than the average of the previous period but didn't reach at its long term average, so the probability of losses or gains has not changed significantly.
(3) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2015.

27.2.3. Interest rate sensitivity analysis

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

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

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2 Market risk [continued]

27.2.3. Interest rate sensitivity analysis [continued]

The simulations were prepared by assuming two scenarios:
(1) HUF base rate and BUBOR decreases gradually to 1.0% (probable scenario)
(2) HUF base rate and BUBOR decreases gradually to 0.5% (alternative scenario)

The net interest income in a one year period after 30 June 2015 would be decreased by HUF 1,332 million (probable scenario) and HUF 3,180 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,352 million (probable scenario) and HUF 2,284 million (alternative scenario) decrease in the Net interest income in a one year period after 30 June 2014.
This effect is counterbalanced by capital gains (HUF 426 million for probable scenario, HUF 1,667 million for alternative scenario) as at 30 June 2015 and (HUF 1,321 million for probable scenario, HUF 2,297 million for alternative scenario) as at 30 June 2014 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 (in HUF million):

	30 June 2015		30 June 2014	
Description	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of AFS government bonds)**	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of AFS government bonds)**
HUF (0.1%) parallel shift	(463)	295	(462)	345
EUR (0.1%) parallel shift	(485)	-	(65)	-
USD (0.1%) parallel shift	(54)	-	(42)	-
Total	**(1,002)**	**295**	**(569)**	**345**

27.2.4. Equity price sensitivity analysis

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

Description	**30 June 2015**	**30 June 2014**
VaR (99%, one day, HUF million)	3	10
Stress test (HUF million)	(41)	(53)

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2. Market risk [continued]

27.2.5. Capital management

Capital management

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

Capital adequacy

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

The Group has entirely complied with the regulatory capital requirements in the first half year of 2015 as well as in 2014.

The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the advanced method (AMA) in case of the operational risk.

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 16.4%, the Regulatory capital was HUF 1,128,886 million and the Total regulatory capital requirement was HUF 549,401 million as at 30 June 2015. The same ratios calculated as at 31 December 2014 were the following: 17.5%, HUF 1,201,874 million and HUF 548,755 million.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2 Market risk [continued]

27.2.5. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	30 June 2015	31 December 2014
Core capital (Tier 1) = Common Equity Tier 1 (CET 1)	***916,484***	***969,935***
Issued capital	28,000	28,000
Reserves	1,232,765	1,280,396
Fair value corrections	22,882	25,389
Other capital components	(106,602)	(113,047)
Non-controlling interests	813	736
Treasury shares	(57,280)	(55,940)
Goodwill and other intangible assets	(167,297)	(158,681)
Other adjustments	(36,797)	(36,918)
Additional Tier 1 (AT1)	-	-
Supplementary capital (Tier 2)	***212,402***	***231,939***
Subordinated bonds and loans	116,129	133,217
Other issued capital components	95,118	96,019
Components recognized in T2 capital issued by subsidiaries	1,155	2,703
Regulatory capital[1]	**1,128,886**	**1,201,874**
Credit risk capital requirement	446,021	450,073
Market risk capital requirement	29,384	26,848
Operational risk capital requirement	73,996	71,834
Total requirement regulatory capital	**549,401**	**548,755**
Surplus capital	**579,485**	**653,119**
CET 1 ratio	13.3%	14.1%
Tier 1 ratio	13.3%	14.1%
Capital adequacy ratio	**16.4%**	**17.5%**

Basel III

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

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

[1] The regulatory capital doesn't contain the payable dividend from the result of 2014 in accordance with ITS 680/2014/EU.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2 Market risk [continued]

27.2.5. Capital management [continued]

Capital adequacy [continued]

The compliance of the capital adequacy ratios of the foreign subsidiary banks prescribed by the local regulator, is as follows:

Subsidiary bank	Country	30 June 2015	31 December 2014
JSC "OTP Bank" (Russia)	Russia	13.3%	12.1%
OTP Bank JSC (Ukraine)	Ukraine	9.1%	10.4%
DSK Bank EAD	Bulgaria	18.1%	18.0%
OTP Bank Romania S.A.	Romania	13.0%	12.6%
OTP banka Srbija a.d.	Serbia	30.3%	30.8%
OTP banka Hrvatska d.d.	Croatia	16.9%	16.5%
OTP Banka Slovensko a. s.	Slovakia	13.1%	13.7%
Crnogorska komercijalna banka a.d.	Montenegro	15.6%	15.7%

In case of OTP Bank JSC (Ukraine) based on a new NBU regulation, effective from 1 March 2015, the non-fulfilment of the minimum 10% CAR ("capital adequacy ratio") is not sanctioned (but some restrictions connected to capital/equity movement are coming into effect), but CAR has to be higher than 5%. The regulation is valid till 1 January 2019. However local banks have to submit action plans which is verified by NBU regularly in order to reach gradually the 10% minimum level of CAR by 2019.
The ratios of the other foreign subsidiaries exceed the requirements of the local regulations in every cases.

NOTE 28: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

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

Contingent liabilities

	30 June 2015	31 December 2014
Commitments to extend credit	1,036,068	999,732
Guarantees arising from banking activities	357,425	368,670
Legal disputes (disputed value)	71,739	71,808
Contingent liabilities ordered by law related to customer loans[1]	24,601	157,693
Confirmed letters of credit	18,233	25,581
Other	251,322	208,915
Total	**1,759,388**	**1,832,399**

Legal disputes

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

[1] See details in Note 2.28.

NOTE 28: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Legal disputes [continued]

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 6,194 million and HUF 7,454 million as at 30 June 2015 and 2014, respectively. (See Note 17.)

Commitments to extend credit, guarantees and letters of credit

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

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

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

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

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee’s liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group.

A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Derivatives

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

NOTE 29: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (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. The Bank ensures the share-based payment part for the management personnel of the Group members.
The value of the discounted share-based payment at the performance assessment is determined by the Supervisory Board[1] based on the average of the three previous trade day's middle rate of the Bank's equity shares fixed on the Budapest Stock Exchange.
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 the Supervisory Board, 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 a decision was made to cancel the share-based payment in the 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.

The parameters for the share-based payment relating to the year 2010-2014 were determined by Board of Directors, and relating to years from 2015 by the Supervisory Board for periods of each year as follows:

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	Exercise price per share	Maximum earnings per share
	for the year 2010		**for the year 2011**		**for the year 2012**		**for the year 2013**		**for the year 2014**	
2011	3,946	2,500	-	-	-	-	-	-	-	-
2012	3,946	3,000	1,370	3,000	-	-	-	-	-	-
2013	4,446	3,500	1,870	3,000	2,886	3,000	-	-	-	-
2014	4,946	3,500	1,870	4,000	2,886	3,000	2,522	2,500	-	-
2015	-	-	1,870	4,000	2,886	3,000	2,522	3,000	3,930	2,500
2016	-	-	-	-	2,886	3,500	2,522	3,500	3,930	3,000
2017	-	-	-	-	-	-	2,522	3,500	3,930	3,000
2018	-	-	-	-	-	-	-	-	3,930	3,000

Based on parameters accepted by Board of Directors relating to the year **2010** effective pieces are follows as at 30 June 2015:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2015	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	320,619	497,451	176,832	5,778	-

[1] Until the end of 2014 Board of Directors

NOTE 29: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Effective pieces are follows in exercise periods of each year relating to the year **2011** as at 30 June 2015:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2015	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	32,400	609,137	576,737	4,757	-
Share purchasing period started in 2015	375,977	608,118	232,141	5,403	-

Effective pieces are follows in exercise periods of each year relating to the year **2012** as at 30 June 2015:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2015	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	43,877	1,156,631	1,112,754	4,952	-
Share purchasing period started in 2015	368,747	555,845	187,098	5,403	-
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 30 June 2015:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2015	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2014	-	406,044	404,263	4,369	1,781
Share purchasing period started in 2015	226,024	804,469	578,445	5,409	-
Share purchasing period starting in 2016	495,340	-	-	-	-
Share purchasing period starting in 2017	549,909	-	-	-	-

Effective pieces are follows in exercise periods of each year relating to the year **2014** as at 30 June 2015:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2015	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2015	162,115	176,459	14,344	5,474	-
Share purchasing period starting in 2016	366,669	-	-	-	-
Share purchasing period starting in 2017	214,392	-	-	-	-
Share purchasing period starting in 2018	237,013	-	-	-	-

Effective pieces relating to the periods starting in 2016-2018 settled during valuation of performance of year 2012-2014, 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 1,906 million was recognized as expense as at 30 June 2015.

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn)

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

Compensations	**30 June 2015**	**31 December 2014**
Short-term employee benefits	3,480	8,373
Share-based payment	1,138	2,937
Other long-term employee benefits	294	739
Termination benefits	21	135
Total	**4,933**	**12,184**

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

	30 June 2015	31 December 2014
Loans provided to companies owned by the Management (normal course of business)	18,750	13,357
Commitments to extend credit and guarantees	15,767	15,690
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions)	283	334

	30 June 2015	31 December 2014
Loans provided to unconsolidated subsidiaries	1,561	1,304

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 177.2 million and HUF 164.3 million as at 30 June 2015 and as at 31 December 2014.

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

	30 June 2015	31 December 2014
Members of Board of Directors and their close family members	24	24
Members of Supervisory Board	2	4
Chief executives	2	2

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

	30 June 2015	31 December 2014
Members of Board of Directors and their close family members	36	38
Members of Supervisory Board	-	-

One member of Board of Directors and its family member owned AMEX Blue credit card loan in the amount of HUF 0.6 million as at 30 June 2015 and 31 December 2014, respectively.

Chief executives owned AMEX Gold credit card loan in the amount of HUF 3.5 million as at 30 June 2015 and 31 December 2014, respectively.

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned AMEX Platinum credit card loan in the amount of HUF 48.8 and 23.5 million , respectively as at 30 June 2015 and 31 December 2014.

Members of Board of Directors, members of Supervisory Board and chief executives owned other kinds of credit card loan, which are not listed above in the amount of HUF 23 and 18.2 million as at 30 June 2015 and 31 December 2014, respectively.

An analysis of payment to chief executives of the Bank related to their activity in Board of Directors and Supervisory Board is as follows:

	30 June 2015	31 December 2014
Members of Board of Directors	590	539
Members of Supervisory Board	36	73
Total	**626**	**612**

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

NOTE 31: ACQUISITION (in HUF mn)

a) Purchase and consolidation of subsidiaries

On 31 January 2014 OTP banka Hrvatska d.d. signed a purchase agreement with the Croatian Banco Popolare d.d. on acquiring a 98.37% stake in the bank. The transaction was closed by setting the purchase price on 24 April 2014. The acquisition contributes to a more optimal economies of scale of the Bank in Croatia. On 30 July 2014 OTP Bank Romania S.A. agreed on purchasing 100% stake of Banca Millennium S.A. for EUR 39 million. The transaction was completed on 8 January 2015 and through the financial settlement OTP Bank Romania S.A. acquired 100% ownership in Banca Millennium S.A.

The fair value of the assets and liabilities acquired, and the related negative goodwill (gain from bargain purchase) is as follows:

	Banca Millennium S.A.	Banco Popolare Croatia d.d.
Cash, amounts due from banks and balances with the National Banks	(16,933)	(1,719)
Placements with other banks, net of allowance for placement losses	(7,376)	(26,797)
Financial assets at fair value through profit or loss	(25)	-
Securities available-for-sale	(14,757)	(4,555)
Loans, net of allowance for loan losses	(117,893)	(52,566)
Associates and other investments	(2)	-
Securities held-to-maturity	(5,272)	-
Property and equipment	(2,205)	(2,320)
Intangible assets	(80)	(248)
Other assets	(4,999)	(188)
Amounts due to banks, the Hungarian Government, deposits from the National Banks	52,928	4,067
Deposits from customers	98,370	72,565
Liabilities from issued securities	-	-
Financial liabilities at fair value through profit or loss	-	-
Other liabilities	4,120	2,798
Subordinated bonds and loans	-	-
Net assets	**(14,124)**	**(8,963)**
Non-controlling interest	-	-
Negative goodwill	1,845	4,563
Cash consideration	**(12,279)**	**(4,400)**

b) Analysis of net outflow of cash in respect of purchase of subsidiaries

	30 June 2015	31 December 2014
Cash consideration	(12,279)	(4,400)
Cash acquired	16,933	1,719
Net cash outflow	**4,654**	**(2,681)**

NOTE 32: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

Investments in companies in which the Bank has a significant interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

Significant subsidiaries

Name	Ownership (Direct and Indirect) 30 June 2015	Ownership (Direct and Indirect) 31 December 2014	Activity
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC “OTP Bank” (Russia)	97.86%	97.86%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	97.91%	97.90%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.26%	99.26%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	flat finance and reconstruction
OTP Fund Management Ltd.	100.00%	100.00%	fund management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)/ OTP Financing Cyprus	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

Significant associates[1]

Most significant indicators of associates which are accounted or not accounted for using the equity method is as follows:

As at 30 June 2015

	KITE Mezőgazdasági Szolgáltató és Kereskedelmi Ltd.	*D-ÉG Thermoset Ltd.*	*Company for Cash Services Ltd.*	*Suzuki Pénzügyi Szolgáltató Ltd.*	*Total*
Total assets	128,274	5,678	2,360	585	**136,897**
Total liabilities	93,634	4,624	263	1	**98,522**
Shareholders’ equity	34,640	1,054	2,097	584	**38,375**
Total revenues	134,315	2,923	579	8	**137,825**

[1] Based on unaudited financial statements.

NOTE 32: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]

Significant associates[1] [continued]

As at 31 December 2014

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

NOTE 33: TRUST ACTIVITIES (in HUF mn)

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

	30 June 2015	**31 December 2014**
The amount of loans managed by the Group as a trustee	38,032	39,706

NOTE 34: CONCENTRATION OF ASSETS AND LIABILITIES

	30 June 2015	**31 December 2014**
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH[2]	27.6%	27.9%

There were no other significant concentrations of the assets or liabilities of the Group as at 30 June 2015 or as at 31 December 2014.

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

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

[1] Based on unaudited financial statements.
[2] Securities issued by the NBH were changed into two-weeks NBH deposit during the year ended 31 December 2014.

NOTE 35: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF mn)

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is in all-time record highs. In the first half year of 2015 there were no material changes in liquidity risk management process.

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

The following tables provide an analysis of 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.

NOTE 35: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]

As at 30 June 2015	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, the Hungarian Government, deposits from the National Banks and other banks	405,505	8,691	187,311	145,143	-	746,650
Deposits from customers	6,163,297	1,109,563	398,407	19,521	-	7,690,788
Liabilities from issued securities	47,340	58,721	91,824	67,478	-	265,363
Other liabilities[1]	281,330	36,608	46,198	3,749	-	367,885
Subordinated bonds and loans	5,002	18,873	130,317	-	122,336[2]	276,528
TOTAL LIABILITIES	**6,902,474**	**1,232,456**	**854,057**	**235,891**	**122,336**	**9,347,214**
Receivables from derivative financial instruments classified as held for trading	(749,811)	(742,882)	(265,915)	(19,208)	-	(1,777,816)
Liabilities from derivative financial instruments classified as held for trading	703,427	637,848	229,223	6,230	-	1,576,728
Net notional value of financial instruments classified as held for trading	**(46,384)**	**(105,034)**	**(36,692)**	**(12,978)**	**-**	**(201,088)**
Receivables from derivative financial instruments designated as fair value hedge	(27,890)	(868)	(25,390)	(486)	-	(54,634)
Liabilities from derivative financial instruments designated as fair value hedge	27,535	260	15,698	597	-	44,090
Net notional value of financial instruments designated as fair value hedge	**(355)**	**(608)**	**(9,692)**	**111**	**-**	**(10,544)**
Net notional value of derivative financial instruments total	**(46,739)**	**(105,642)**	**(46,384)**	**(12,867)**	**-**	**(211,632)**
Commitments to extend credit	317,034	595,219	105,942	17,873	-	1,036,068
Bank guarantees	73,827	122,660	55,690	105,248	-	357,425
Off-balance sheet commitments	**390,861**	**717,879**	**161,632**	**123,121**	**-**	**1,393,493**

[1] Without derivative financial instruments designated as fair value hedge.
[2] See Note 18.

NOTE 35: 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, the Hungarian Government, deposits from the National Banks and other banks	413,402	42,767	98,259	166,929	-	721,357
Deposits from customers	6,219,811	1,223,544	251,098	19,366	-	7,713,819
Liabilities from issued securities	35,666	52,087	130,622	23,422	-	241,797
Other liabilities[1]	417,716	151,980	4,718	2,444	-	576,858
Subordinated bonds and loans	30,593	17,897	140,051	-	111,191[2]	299,732
TOTAL LIABILITIES	**7,117,188**	**1,488,275**	**624,748**	**212,161**	**111,191**	**9,553,563**
Receivables from derivative financial instruments classified as held for trading	1,480,795	339,420	47,408	19,340	-	1,886,963
Liabilities from derivative financial instruments classified as held for trading	(1,393,686)	(304,425)	(9,408)	(5,578)	-	(1,713,097)
Net notional value of financial instruments classified as held for trading	**87,109**	**34,995**	**38,000**	**13,762**	**-**	**173,866**
Receivables from derivative financial instruments designated as fair value hedge	203,857	552,775	338,138	3,898	-	1,098,668
Liabilities from derivative financial instruments designated as fair value hedge	(199,337)	(500,996)	(308,413)	(3,273)	-	(1,012,019)
Net notional value of financial instruments designated as fair value hedge	**4,520**	**51,779**	**29,725**	**625**	**-**	**86,649**
Net notional value of derivative financial instruments total	**91,629**	**86,774**	**67,725**	**14,387**	**-**	**260,515**
Commitments to extend credit	414,398	411,093	115,034	59,207	-	999,732
Bank guarantees	61,818	82,014	64,519	160,319	-	368,670
Off-balance sheet commitments	**476,216**	**493,107**	**179,553**	**219,526**	**-**	**1,368,402**

[1] Without derivative financial instruments designated as fair value hedge.
[2] See Note 18.

NOTE 36: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 30 June 2015

	USD	EUR	CHF	Others	Total
Assets	990,881	2,127,575	658,350	2,110,020	5,886,826
Liabilities	(1,003,926)	(2,430,367)	(649,473)	(2,036,145)	(6,119,911)
Off-balance sheet assets and liabilities, net	305,686	153,092	(214,795)	140,100	384,083
Net position	**292,641**	**(149,700)**	**(205,918)**	**213,975**	**150,998**

As at 31 December 2014

	USD	EUR	CHF	Others	Total
Assets	434,794	1,887,373	817,241	2,278,135	5,417,543
from this: loans concerned in conversion into HUF[1]	-	27,842	402,150	74,704	504,696
Liabilities	(428,962)	(1,887,894)	(139,131)	(2,263,759)	(4,719,746)
from this: provision for loans concerned in conversion into HUF[1]	-	(1,531)	(73,854)	(3,870)	(79,255)
Off-balance sheet assets and liabilities, net	(9,117)	(40,166)	(277,512)	55,425	(271,370)
Net position	**(3,285)**	**(40,687)**	**400,598**	**69,801**	**426,427**

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within ‘Others’. ‘Others’ category contains mainly foreign currencies in RON, RSD, HRK, UAH, RUB and BGN. Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Banks and own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the “VaR” limit on the foreign exchange exposure of the Group.

NOTE 37: INTEREST RATE RISK MANAGEMENT (in HUF mn)

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

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

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

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

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

NOTE 37: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 30 June 2015

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearin		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	**1,489,865**	**83,864**	**116**	**351**	**-**	**226**	**-**	**-**	**-**	**16**	**74,684**	**349,529**	**1,564,665**	**433,986**	**1,998,651**
fixed rate	*1,489,103*	*45,280*	*-*	*262*	*-*	*226*	*-*	*-*	*-*	*16*	*-*	*-*	*1,489,103*	*45,784*	*1,534,887*
variable rate	*762*	*38,584*	*116*	*89*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*878*	*38,673*	*39,551*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*74,684*	*349,529*	*74,684*	*349,529*	*424,213*
Placements with other banks, net of allowance for placements losses	**20,489**	**162,584**	**1**	**14,674**	**10**	**3,483**	**-**	**1,642**	**-**	**1,658**	**6**	**32,724**	**20,506**	**216,765**	**237,271**
fixed rate	*3,419*	*44,771*	*1*	*68*	*10*	*3,483*	*-*	*1,577*	*-*	*701*	*-*	*-*	*3,430*	*50,600*	*54,030*
variable rate	*17,070*	*117,813*	*-*	*14,606*	*-*	*-*	*-*	*65*	*-*	*957*	*-*	*-*	*17,070*	*133,441*	*150,511*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*6*	*32,724*	*6*	*32,724*	*32,730*
Securities held for trading	**2,263**	**--**	**398**	**2,518**	**3,802**	**564**	**104**	**1,802**	**13,706**	**15,685**	**73,168**	**3,996**	**93,441**	**24,565**	**118,006**
fixed rate	*1,040*	*-*	*188*	*2,518*	*2,603*	*447*	*104*	*1,802*	*13,706*	*15,685*	*-*	*-*	*17,641*	*20,452*	*38,093*
variable rate	*1,223*	*-*	*210*	*-*	*1,199*	*117*	*-*	*-*	*-*	*-*	*-*	*-*	*2,632*	*117*	*2,749*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*73,168*	*3,996*	*73,168*	*3,996*	*77,164*
Securities available-for-sale	**7**	**36,681**	**20,550**	**20,715**	**4,162**	**52,963**	**14,171**	**54,020**	**610,237**	**84,575**	**31,870**	**18,660**	**680,997**	**267,614**	**948,611**
fixed rate	*7*	*30,335*	*--*	*7,270*	*4,162*	*52,963*	*14,171*	*54,020*	*610,237*	*84,575*	*-*	*-*	*628,577*	*229,163*	*857,740*
variable rate	*-*	*6,346*	*20,550*	*13,445*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*20,550*	*19,791*	*40,341*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*31,870*	*18,660*	*31,870*	*18,660*	*50,530*
Loans, net of allowance for loan losses	**795,715**	**2,157,775**	**513,856**	**351,274**	**150,173**	**312,849**	**94,646**	**168,344**	**396,004**	**373,297**	**98,899**	**255,422**	**2,049,293**	**3,618,961**	**5,668,254**
fixed rate	*15,892*	*378,577*	*9,202*	*28,297*	*31,993*	*140,642*	*48,058*	*119,770*	*104,164*	*183,901*	*-*	*-*	*209,309*	*851,187*	*1,060,496*
variable rate	*779,823*	*1,779,198*	*504,654*	*322,977*	*118,180*	*172,207*	*46,588*	*48,574*	*291,840*	*189,396*	*-*	*-*	*1,741,085*	*2,512,352*	*4,253,437*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*98,899*	*255,422*	*98,899*	*255,422*	*354,321*
Securities held-to-maturity	**-**	**37,850**	**5,358**	**523**	**13,863**	**7,610**	**49,694**	**1,396**	**741,218**	**38,164**	**12,597**	**547**	**822,730**	**86,090**	**908,820**
fixed rate	*-*	*37,669*	*349*	*-*	*13,863*	*2,667*	*49,694*	*1,396*	*741,218*	*38,164*	*-*	*-*	*805,124*	*79,896*	*885,020*
variable rate	*-*	*181*	*5,009*	*523*	*-*	*4,943*	*-*	*-*	*-*	*-*	*-*	*-*	*5,009*	*5,647*	*10,656*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*12,597*	*547*	*12,597*	*547*	*13,144*
Derivative financial instruments	**762,237**	**1,196,110**	**555,006**	**1,492,951**	**76,523**	**257,542**	**156,904**	**81,193**	**25,846**	**44,422**	**2**	**4,741**	**1,576,518**	**3,076,959**	**4,653,477**
fixed rate	*204,584*	*964,827*	*122,946*	*461,397*	*75,928*	*257,500*	*156,821*	*81,193*	*25,846*	*44,422*	*-*	*-*	*586,125*	*1,809,339*	*2,395,464*
variable rate	*557,653*	*231,283*	*432,060*	*1,031,554*	*595*	*42*	*83*	*-*	*-*	*-*	*-*	*-*	*990,391*	*1,262,879*	*2,253,270*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*2*	*4,741*	*2*	*4,741*	*4,743*

NOTE 37: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 30 June 2015

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearin		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**89,606**	**383,185**	**8,073**	**27,173**	**2,227**	**23,083**	**111,190**	**4,926**	**63,984**	**5,819**	**1,140**	**7,499**	**276,220**	**451,685**	**727,905**
fixed rate	*89,197*	*288,331*	*7,844*	*3,774*	*2,227*	*14,046*	*111,190*	*4,925*	*63,984*	*5,819*	-	-	*274,442*	*316,895*	*591,337*
variable rate	*409*	*94,854*	*229*	*23,399*	-	*9,037*	-	*1*	-	-	-	-	*638*	*127,291*	*127,929*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*1,140*	*7,499*	*1,140*	*7,499*	*8,639*
Deposits from customers	**1,757,806**	**2,314,593**	**238,257**	**530,492**	**112,970**	**699,283**	**4,834**	**82,358**	**1,450,528**	**306,292**	**6,092**	**154,027**	**3,570,487**	**4,087,045**	**7,657,532**
fixed rate	*1,307,688*	*1,255,789*	*238,243*	*529,539*	*112,970*	*699,265*	*4,834*	*82,358*	*248,995*	*91,825*	-	-	*1,912,730*	*2,658,776*	*4,571,506*
variable rate	*450,118*	*1,058,804*	*14*	*953*	-	*18*	-	-	*1,201,533*	*214,467*	-	-	*1,651,665*	*1,274,242*	*2,925,907*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*6,092*	*154,027*	*6,092*	*154,027*	*160,119*
Liabilities from issued securities	**3,184**	**5,628**	**2,213**	**15,835**	**3,115**	**43,111**	**21,296**	**8,621**	**145,519**	**282**	**5,924**	**5,279**	**181,251**	**78,756**	**260,007**
fixed rate	*3,184*	*3,445*	*2,213*	*8,755*	*3,115*	*40,154*	*21,296*	*8,621*	*145,519*	*282*	-	-	*175,327*	*61,257*	*236,584*
variable rate	-	*2,183*	-	*7,080*	-	*2,957*	-	-	-	-	-	-	-	*12,220*	*12,220*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*5,924*	*5,279*	*5,924*	*5,279*	*11,203*
Derivative financial instruments	**462,769**	**1,485,548**	**752,996**	**1,317,359**	**67,196**	**270,912**	**7,035**	**247,902**	**18,915**	**51,973**	**-**	**2,669**	**1,308,911**	**3,376,363**	**4,685,274**
fixed rate	*457,161*	*713,388*	*230,788*	*354,314*	*67,005*	*270,880*	*6,952*	*247,902*	*18,915*	*51,973*	-	-	*780,821*	*1,638,457*	*2,419,278*
variable rate	*5,608*	*772,160*	*522,208*	*963,045*	*191*	*32*	*83*	-	-	-	-	-	*528,090*	*1,735,237*	*2,263,327*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	*2,669*	-	*2,669*	*2,669*
Subordinated bonds and loans	**-**	**-**	**-**	**11**	**-**	**18,386**	**-**	**152,565**	**-**	**82,045**	**-**	**4,908**	**-**	**257,915**	**257,915**
fixed rate	-	-	-	-	-	-	-	*152,565*	-	*82,045*	-	-	-	*234,610*	*234,610*
variable rate	-	-	-	*11*	-	*18,386*	-	-	-	-	-	-	-	*18,397*	*18,397*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	*4,908*	-	*4,908*	*4,908*
Net position	**757,211**	**(514,090)**	**93,746**	**(7,864)**	**63,025**	**(419,538)**	**171,164**	**(187,975)**	**108,065**	**111,406**	**278,070**	**491,237**	**1,471,281**	**(526,824)**	**944,457**

NOTE 37: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2014

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearin		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	**1,798,973**	**69,581**	**105**	**105**	**-**	**16**	**-**	**-**	**-**	**-**	**66,822**	**372,030**	**1,865,900**	**441,732**	**2,307,632**
fixed rate	*1,796,928*	*30,478*	*-*	*16*	*-*	*16*	*-*	*-*	*-*	*-*	*-*	*-*	*1,796,928*	*30,510*	*1,827,438*
variable rate	*2,045*	*39,103*	*105*	*89*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*2,150*	*39,192*	*41,342*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*66,822*	*372,030*	*66,822*	*372,030*	*438,852*
Placements with other banks, net of allowance for placements losses	**12,497**	**149,304**	**23**	**78,015**	**-**	**15,303**	**-**	**1,079**	**-**	**994**	**70**	**23,721**	**12,590**	**268,416**	**281,006**
fixed rate	*808*	*68,411*	*23*	*6,729*	*-*	*1,924*	*-*	*1,079*	*-*	*4*	*-*	*-*	*831*	*78,147*	*78,978*
variable rate	*11,689*	*80,893*	*-*	*71,286*	*-*	*13,379*	*-*	*-*	*-*	*990*	*-*	*-*	*11,689*	*166,548*	*178,237*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*70*	*23,721*	*70*	*23,721*	*23,791*
Securities held for trading	**752**	**28**	**1,381**	**2,922**	**3,866**	**3,251**	**87**	**407**	**11,431**	**7,171**	**59,710**	**3,634**	**77,227**	**17,413**	**94,640**
fixed rate	*179*	*28*	*1,252*	*2,922*	*3,052*	*3,143*	*87*	*407*	*11,431*	*7,171*	*-*	*-*	*16,001*	*13,671*	*29,672*
variable rate	*573*	*-*	*129*	*-*	*814*	*108*	*-*	*-*	*-*	*-*	*-*	*-*	*1,516*	*108*	*1,624*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*59,710*	*3,634*	*59,710*	*3,634*	*63,344*
Securities available-for-sale	**2,427**	**14,087**	**18,832**	**36,295**	**25,771**	**48,118**	**9,377**	**42,792**	**503,653**	**77,539**	**39,896**	**20,365**	**599,956**	**239,196**	**839,152**
fixed rate	*2,427*	*11,732*	*18,832*	*36,295*	*25,771*	*47,656*	*9,377*	*42,792*	*503,653*	*77,539*	*-*	*-*	*560,060*	*216,014*	*776,074*
variable rate	*-*	*2,355*	*-*	*-*	*-*	*462*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*2,817*	*2,817*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*39,896*	*20,365*	*39,896*	*20,365*	*60,261*
Loans, net of allowance for loan losses	**774,424**	**2,567,850**	**236,522**	**367,622**	**83,801**	**354,337**	**89,224**	**207,272**	**399,251**	**433,738**	**38,733**	**311,467**	**1,621,955**	**4,242,286**	**5,864,241**
fixed rate	*6,848*	*283,372*	*5,392*	*79,611*	*23,311*	*252,269*	*35,647*	*164,949*	*88,045*	*353,642*	*-*	*-*	*159,243*	*1,133,843*	*1,293,086*
variable rate	*767,576*	*2,284,478*	*231,130*	*288,011*	*60,490*	*102,068*	*53,577*	*42,323*	*311,206*	*80,096*	*-*	*-*	*1,423,979*	*2,796,976*	*4,220,955*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*38,733*	*311,467*	*38,733*	*311,467*	*350,200*
Securities held-to-maturity	**-**	**10,860**	**63,374**	**5,076**	**1,527**	**1,481**	**36,902**	**2,541**	**542,000**	**30,974**	**14,036**	**598**	**657,839**	**51,530**	**709,369**
fixed rate	*-*	*10,648*	*56,697*	*4,553*	*1,527*	*1,454*	*36,902*	*2,541*	*542,000*	*30,974*	*-*	*-*	*637,126*	*50,170*	*687,296*
variable rate	*-*	*212*	*6,677*	*523*	*-*	*27*	*-*	*-*	*-*	*-*	*-*	*-*	*6,677*	*762*	*7,439*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*14,036*	*598*	*14,036*	*598*	*14,634*
Derivative financial instruments	**889,464**	**1,377,086**	**873,489**	**2,361,421**	**136,282**	**812,239**	**8,578**	**19,996**	**31,973**	**41,671**	**-**	**34,609**	**1,939,786**	**4,647,022**	**6,586,808**
fixed rate	*511,452*	*1,154,470*	*121,432*	*819,747*	*85,034*	*809,065*	*8,578*	*19,996*	*31,973*	*41,671*	*-*	*-*	*758,469*	*2,844,949*	*3,603,418*
variable rate	*378,012*	*222,616*	*752,057*	*1,541,674*	*51,248*	*3,174*	*-*	*-*	*-*	*-*	*-*	*-*	*1,181,317*	*1,767,464*	*2,948,781*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*34,609*	*-*	*34,609*	*34,609*

NOTE 37: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2014

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearin		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**48,545**	**379,132**	**2,698**	**43,788**	**35,659**	**14,911**	**5,144**	**4,051**	**146,454**	**5,863**	**220**	**21,809**	**238,720**	**469,554**	**708,274**
fixed rate	*48,545*	*241,159*	*1,209*	*17,169*	*9,371*	*13,890*	*5,144*	*4,051*	*146,454*	*5,863*	-	-	*210,723*	*282,132*	*492,855*
variable rate	-	*137,973*	*1,489*	*26,619*	*26,288*	*1,021*	-	-	-	-	-	-	*27,777*	*165,613*	*193,390*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*220*	*21,809*	*220*	*21,809*	*22,029*
Deposits from customers	**1,976,745**	**2,380,597**	**449,672**	**367,013**	**178,753**	**604,481**	**37,652**	**68,263**	**1,172,388**	**264,464**	**9,572**	**163,878**	**3,824,782**	**3,848,696**	**7,673,478**
fixed rate	*1,557,114*	*980,269*	*441,702*	*349,788*	*178,753*	*588,534*	*37,652*	*54,368*	*41,176*	*26,410*	-	-	*2,256,397*	*1,999,369*	*4,255,766*
variable rate	*419,631*	*1,400,328*	*7,970*	*17,225*	-	*15,947*	-	*13,895*	*1,131,212*	*238,054*	-	-	*1,558,813*	*1,685,449*	*3,244,262*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*9,572*	*163,878*	*9,572*	*163,878*	*173,450*
Liabilities from issued securities	**6,142**	**5,995**	**5,683**	**15,831**	**12,544**	**32,782**	**21,526**	**11,148**	**144,393**	**506**	**8,022**	**2,512**	**198,310**	**68,774**	**267,084**
fixed rate	*6,142*	*5,384*	*5,683*	*7,365*	*12,544*	*32,420*	*21,526*	*11,148*	*144,393*	*506*	-	-	*190,288*	*56,823*	*247,111*
variable rate	-	*611*	-	*8,466*	-	*362*	-	-	-	-	-	-	-	*9,439*	*9,439*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*8,022*	*2,512*	*8,022*	*2,512*	*10,534*
Derivative financial instruments	**794,288**	**1,514,836**	**982,978**	**2,318,214**	**193,875**	**732,283**	**6,698**	**19,847**	**23,515**	**41,313**	**26**	**3,635**	**2,001,380**	**4,630,128**	**6,631,508**
fixed rate	*628,184*	*1,033,097*	*172,690*	*1,013,732*	*190,851*	*701,466*	*6,698*	*19,847*	*23,515*	*41,313*	-	-	*1,021,938*	*2,809,455*	*3,831,393*
variable rate	*166,104*	*481,739*	*810,288*	*1,304,482*	*3,024*	*30,817*	-	-	-	-	-	-	*979,416*	*1,817,038*	*2,796,454*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*26*	*3,635*	*26*	*3,635*	*3,661*
Subordinated bonds and loans	-	-	-	**29,375**	-	**16,779**	-	-	-	**234,642**	-	**1,172**	-	**281,968**	**281,968**
fixed rate	-	-	-	-	-	-	-	-	-	*234,642*	-	-	-	*234,642*	*234,642*
variable rate	-	-	-	*29,375*	-	*16,779*	-	-	-	-	-	-	-	*46,154*	*46,154*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	*1,172*	-	*1,172*	*1,172*
Net position	**652,817**	**(91,764)**	**(247,305)**	**77,235**	**(169,584)**	**(166,491)**	**73,148**	**170,778**	**1,558**	**45,299**	**201,427**	**573,418**	**512,061**	**608,475**	**1,120,536**

NOTE 38: CONSOLIDATED EARNINGS PER SHARE (in HUF mn)

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

	30 June 2015	31 December 2014
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	40,464	(101,985)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	266,991,817	267,035,159
Basic Earnings per share (in HUF)	**152**	**(382)**
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	40,464	(101,985)
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	267,287,042	267,323,299
Diluted Earnings per share (in HUF)	**151**	**(382)**

	30 June 2015	31 December 2014
	Number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	13,008,193	12,964,851
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**266,991,817**	**267,035,159**
Dilutive effects of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares[1]	295,225	288,140
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**267,287,042**	**267,323,299**

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 year presented.

[1] Both in 2015 and 2014 the dilutive effect is in connection with the Remuneration Policy.

NOTE 39: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 30 June 2015

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	18,204	-	-	-
Placements with other banks, net of allowance for placements losses	1,234	-	4	-
Securities held for trading	-	1,095	-	-
Securities available-for-sale	13,425	3,115	(16)	(6,784)
Loans, net of allowance for loan losses	303,159	5,411	(178,299)	-
Securities held-to-maturity	21,458	-	2	-
Other assets	1,481	-	-	-
Derivative financial instruments	571	1	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(5,526)	-	-	-
Deposits from customers	(61,348)	76,170	-	-
Liabilities from issued securities	(3,135)	-	-	-
Subordinated bonds and loans	(6,635)	-	-	-
Total	**282,888**	**85,792**	**(178,309)**	**(6,784)**

As at 31 December 2014

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	16,498	-	-	-
Placements with other banks, net of allowance for placements losses	3,683	-	(10)	-
Securities held for trading	-	4,275	-	-
Securities available-for-sale	41,969	4,299	(297)	16,073
Loans, net of allowance for loan losses	700,265	9,007	(446,820)	-
Securities held-to-maturity	39,934	-	-	-
Other assets	2,549	-	-	-
Derivative financial instruments	6,529	(162)	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(12,541)	-	-	-
Deposits from customers	(135,080)	161,242	-	-
Liabilities from issued securities	(13,826)	-	-	-
Subordinated bonds and loans	(13,883)	-	-	-
Total	**636,097**	**178,661**	**(447,127)**	**16,073**

NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 40. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.
To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortized cost, the Group used the discounted cash-flow analyses (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Banks represent amounts available immediately thus the fair value equals to the cost.
The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

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

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

a) Fair value of financial assets and liabilities

	30 June 2015		31 December 2014	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Banks	1,998,651	1,998,984	2,307,632	2,307,632
Placements with other banks, net of allowance for placements losses	237,271	259,660	281,006	280,999
Financial assets at fair value through profit or loss	289,035	289,035	289,275	289,275
Securities held for trading	*118,006*	*118,006*	*94,640*	*94,640*
Fair value of derivative financial instruments classified as held for trading	*171,029*	*171,029*	*194,635*	*194,635*
Securities available-for-sale	948,611	948,611	839,152	839,152
Loans, net of allowance for loan losses	5,668,254	6,403,447	5,864,241	6,506,922
Securities held-to-maturity	908,820	961,160	709,369	704,875
Fair value of derivative financial instruments designated as fair value hedge	14,772	14,772	30,454	30,454
Financial assets total	**10,065,414**	**10,875,669**	**10,321,129**	**10,959,309**

NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

a) Fair value of financial assets and liabilities [continued]

	30 June 2015		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	727,905	727,307	708,274	708,284
Deposits from customers	7,657,532	7,606,174	7,673,478	7,672,819
Liabilities from issued securities	260,007	341,642	267,084	317,834
Fair value of derivative financial instruments designated as fair value hedge	7,011	7,011	85,679	85,679
Fair value of derivative financial instruments classified as held for trading	204,988	204,988	183,994	183,994
Subordinated bonds and loans	257,915	269,464	281,968	281,968
Financial liabilities total	**9,115,358**	**9,156,586**	**9,200,477**	**9,250,578**

b) Fair value of derivative instruments

	Fair value		Notional value, net	
	30 June 2015	31 December 2014	30 June 2015	31 December 2014
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	34,700	43,401	37,264	45,929
Negative fair value of interest rate swaps classified as held for trading	(34,349)	(63,691)	(37,014)	(67,678)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	34,831	48,636	32,073	42,458
Negative fair value of foreign exchange swaps classified as held for trading	(12,626)	(51,537)	(12,128)	(48,154)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated as fair value hedge	14,705	14,032	6,934	8,539
Negative fair value of interest rate swaps designated as fair value hedge	(6,638)	(3,463)	(10,172)	(4,602)
Foreign exchange swaps designated as fair value hedge				
Positive fair value of foreign exchange swaps designated as fair value hedge	-	2,437	-	2,276
Negative fair value of foreign exchange swaps designated as fair value hedge	-	(2,276)	-	(2,066)
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	83,995	85,010	82,782	83,611
Negative fair value of CCIRS classified as held for trading	(139,254)	(53,724)	(140,099)	(51,012)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	-	-	-	-
Negative fair value of mark-to-market CCIRS classified as held for trading	(5,965)	-	(6,116)	-

NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Fair value of derivative instruments [continued]

	Fair value		Notional value, net	
	30 June 2015	31 December 2014	30 June 2015	31 December 2014
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated as fair value hedge	-	13,940	-	14,095
Negative fair value of CCIRS designated as fair value hedge	-	(70,364)	-	(70,124)
Mark-to-market CCIRS designated as fair value hedge				
Positive fair value of mark-to-market CCIRS designated as fair value hedge	-	-	-	-
Negative fair value of mark-to-market CCIRS designated as fair value hedge	-	(9,576)	-	(9,856)
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated as fair value hedge	67	45	62	39
Negative fair value of other derivative contracts designated as fair value hedge	(373)	-	(18)	-
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	17,503	17,588	11,966	14,592
Negative fair value of other derivative contracts classified as held for trading	(12,794)	(15,042)	(7,071)	(11,844)
Derivative financial assets total	**185,801**	**225,089**	**171,081**	**211,539**
Derivative financial liabilities total	**(211,999)**	**(269,673)**	**(212,618)**	**(265,336)**
Derivative financial instruments total	**(26,198)**	**(44,584)**	**(41,537)**	**(53,797)**

c) Hedge accounting

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

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

As at 30 June 2015

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 8,083 million	Interest rate
3) Net investment hedge in foreign operations[1]	CCIRS and issued securities	HUF (47) million	Foreign exchange

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
3) Net investment hedge in foreign operations[1]	CCIRS and issued securities	HUF (5,575) million	Foreign exchange

[1] The objective of these hedge relationships is to mitigate the risk of changes in value of net investments in foreign subsidiaries (namely: OTP Banka Slovensko a.s., DSK Bank EAD, Crnogorska komercijalna banka a.d., OTP banka Hrvatska d.d.) due to change in foreign exchange rates.

NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges

1. Deposits from customers

The interest payment cash-flows of some structured deposits of the Group denominated in HUF and EUR are exposed to the change of equity prices, equity indices or the change of EUR/HUF exchange rate. In order to hedge the interest rate risk of the interest payments the Group 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.

	30 June 2015	31 December 2014
Fair value of the hedging instruments	116	107

2. Securities available-for-sale

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

	30 June 2015	31 December 2014
Fair value of the hedging instruments	(5,539)	(2,570)

3. Loans to customers

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

	30 June 2015	31 December 2014
Fair value of the hedging instruments	(228)	(417)

4. Issued securities

The cash-flows of the fixed rate securities issued by the Group are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS and index option transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.
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.

	30 June 2015	31 December 2014
Fair value of the hedging IRS instruments	13,719	13,449
Fair value of the hedging index option instruments	15	9

NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

As at 30 June 2015

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/ Losses	
				on the hedged items	on hedging instruments
Securities available-for-sale	IRS	HUF 752,843 million	HUF (5,539) million	HUF 2,969 million	HUF (2,969) million
Loans to customers	IRS	HUF 8,449 million	HUF (228) million	HUF (189) million	HUF 189 million
Deposits from customers	IRS	HUF 1,602 million	HUF 116 million	HUF (9) million	HUF 9 million
Liabilities from issued securities	IRS	HUF 77,205 million	HUF 13,719 million	HUF (270) million	HUF 270 million
Liabilities from issued securities	Index option	HUF 659 million	HUF 15 million	HUF (6) million	HUF 6 million

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	
				on the hedged items	on 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

NOTE 40: 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 30 June 2015

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	288,388	109,232	179,156	-
from this: securities held for trading	117,359	108,114	9,245	-
from this: positive fair value of derivative financial instruments classified as held for trading	171,029	1,118	169,911	-
Securities available-for-sale	939,632	784,893	150,686	4,053
Positive fair value of derivative financial instruments designated as fair value hedge	14,772	-	14,772	-
Financial assets measured at fair value total	**1,242,792**	**894,125**	**344,614**	**4,053**
Negative fair value of derivative financial instruments classified as held for trading	204,988	-	(74,146)	279,134
Negative fair value of derivative financial instruments designated as fair value hedge	7,011	-	7,011	-
Financial liabilities measured at fair value total	**211,999**	**-**	**(67,135)**	**279,134**

As at 31 December 2014

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	288,650	90,053	198,597	-
from this: securities held for trading	94,015	89,496	4,519	-
from this: positive fair value of derivative financial instruments classified as held for trading	194,635	557	194,078	-
Securities available-for-sale	823,458	721,957	97,154	4,347
Positive fair value of derivative financial instruments designated as fair value hedge	30,454	-	30,454	-
Financial assets measured at fair value total	**1,142,562**	**812,010**	**326,205**	**4,347**
Negative fair value of derivative financial instruments classified as held for trading	183,994	1,220	182,774	-
Negative fair value of derivative financial instruments designated as fair value hedge	85,679	-	85,679	-
Financial liabilities measured at fair value total	**269,673**	**1,220**	**268,453**	**-**

There were no transfers from and to Level 3 among the financial instruments in the first half year of 2015 and year 2014.

NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

e) Fair value classes [continued]

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 securities available-for-sale which are recorded at fair value:

Movement on securities available-for-sale in Level 3	Opening balance	Increase / (Decrease)	Closing balance
OTP Factoring Ltd.	2,103	16	**2,119**
OTP Factoring Ukarine LLC	1,175	(252)	**923**
DSK Bank EAD	967	(60)	**907**
OTP banka Srbija a.d.	102	(77)	**25**
LLC AMC OTP Capital	-	79	**79**
Total	**4,347**	**(294)**	**4,053**

NOTE 41: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn)

The Group distinguishes business and geographical segments. The report on the base of the business and geographical segments is reported bellow.

The reportable segments of the Group on the base of IFRS 8 are the following:
OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries and Corporate Center.
OTP Core is an economic unit for measuring the result of core business activity of the Group in Hungary. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in the Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financial Point Ltd., and companies providing intragroup financing.
Corporate Centre: it is separated from OTP Core consolidated financial statements, this is a virtual entity responsible for rendering debt and capital market related to services to the subsidiaries across the Group, mainly in the form of capital and credit financing.

The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., OTP Factoring Montenegro d.o.o. and OTP Factoring Slovensko s.r.o. are included into the foreign banks segment.
The activities of the other subsidiaries are out of the leasing and fund management activity, like: OTP Real Estate Ltd., OTP Life Annuity Ltd, OTP Funds Servicing and Consulting Ltd., Monicomp Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

The reportable business and geographical segments of the Group are those components where:

- separated incomes and expenses, assets and liabilities can be identified and assignable to the segments,
- transactions between the different segments were eliminated,
- the main decisive board of the Group regularly controls the operating results,
- separated financial information is available.

Goodwill / investment impairment and their tax saving effect:

In this first half year of 2015 no goodwill impairment was recognized at all, while at the end of 2014 HUF 22,225 million was the effect of goodwill impairment after tax for OTP Bank JSC (Ukraine).
The tax saving effect was HUF (17,210) million in relation with goodwill and investment impairment of OTP Bank JSC (Ukraine) in the year ended as at 31 December 2014.

Information regarding the Group's reportable segments is presented below:

NOTE 41: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 30 June 2015

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**40,141**		**40,141**																
Adjustments (total)		**(28,795)**	**(28,795)**																
Dividends and net cash transfers (after income tax)		74	74																
Goodwill /investment impairment (after income tax)		2,701	2,701																
Bank tax on financial institutions (after income tax)		(28,928)	(28,928)																
Effect of Banco Popolare Croatia d.d. and Banca Millennium S.A. acquisition (after income tax)		1,550	1,550																
Actual and one-off effect in result due to changes in law related to customer loan agreements in Hungary (after income tax)		3,474	3,474																
Risk cost created toward Crimean exposures in this last year until 30 June 2015 (after income tax)		98	98																
Risk cost created toward exposues to Donetsk and Luhansk from the third quarter of 2014 until the first half year of 2015 (after income tax)		(2,225)	(2,225)																
Revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes (after income tax)		(5,539)	(5,539)																
Consolidated adjusted net profit for the year	**40,141**	**28,795**	**68,936**	**59,210**	**6,328**	**(15,646)**	**(9,597)**	**27,762**	**1,126**	**132**	**1,320**	**695**	**536**	**3,685**	**1,087**	**1,709**	**889**	**(1,276)**	**989**
Profit before income tax	**38,523**	**43,634**	**82,157**	**75,749**	**1,933**	**(19,384)**	**(11,928)**	**30,885**	**1,126**	**132**	**(359)**	**925**	**536**	**4,924**	**1,520**	**2,219**	**1,185**	**(1,514)**	**1,065**
Adjusted operating profit	**216,818**	**(27,058)**	**189,760**	**83,263**	**99,370**	**31,776**	**16,728**	**36,639**	**4,517**	**456**	**4,318**	**3,191**	**1,745**	**8,045**	**3,879**	**3,004**	**1,162**	**(1,514)**	**596**
Adjusted total income	461,135	(80,549)	380,586	178,829	186,279	60,197	24,549	55,635	14,861	3,973	13,173	8,663	5,228	23,121	8,103	3,952	11,066	(1,251)	(6,392)
Adjusted net interest income	282,888	(182)	282,706	126,666	147,252	52,624	15,446	44,219	10,857	3,206	9,972	7,178	3,750	11,853	9,509	29	2,315	(1,251)	(1,814)
Adjusted net profit from fees and commissions	104,310	(23,119)	81,191	46,963	31,091	7,864	3,577	11,308	1,950	856	2,468	1,694	1,374	3,140	(1,120)	3,895	365	0	(3)
Adjusted other net non-interest income	73,937	(57,248)	16,689	5,200	7,936	(291)	5,526	108	2,054	(89)	733	(209)	104	8,128	(286)	28	8,386	0	(4,575)
Adjusted other administrative expenses	(244,317)	53,491	(190,826)	(95,566)	(86,909)	(28,421)	(7,821)	(18,996)	(10,344)	(3,517)	(8,855)	(5,472)	(3,483)	(15,076)	(4,224)	(948)	(9,904)	(263)	6,988
Total risk costs	**(178,295)**	**68,508**	**(109,787)**	**(9,698)**	**(97,437)**	**(51,160)**	**(28,656)**	**(5,754)**	**(3,391)**	**(324)**	**(4,677)**	**(2,266)**	**(1,209)**	**(3,121)**	**(2,359)**	**(785)**	**23**	**0**	**469**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(178,295)	71,937	(106,358)	(7,752)	(96,097)	(50,698)	(28,826)	(5,570)	(3,416)	(390)	(3,627)	(2,296)	(1,274)	(2,491)	(2,337)	0	(154)	0	(18)
Other provision (adjustment)	0	(3,429)	(3,429)	(1,946)	(1,340)	(462)	170	(184)	25	66	(1,050)	30	65	(630)	(22)	(785)	177	0	487
Total other adjustments (one-off items)[1]	**0**	**2,184**	**2,184**	**2,184**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Income tax	**1,618**	**(14,839)**	**(13,221)**	**(16,539)**	**4,395**	**3,738**	**2,331**	**(3,123)**	**0**	**0**	**1,679**	**(230)**	**0**	**(1,239)**	**(433)**	**(510)**	**(296)**	**238**	**(76)**
Total Assets	**10,761,079**	**0**	**10,761,079**	**6,736,125**	**4,681,755**	**639,945**	**361,503**	**1,608,339**	**650,350**	**107,205**	**648,793**	**472,307**	**193,313**	**644,985**	**363,286**	**13,459**	**268,240**	**1,371,305**	**(2,673,091)**
Total Liabilities	**9,502,414**	**0**	**9,502,414**	**5,568,152**	**4,163,577**	**529,842**	**386,968**	**1,381,255**	**600,119**	**76,621**	**576,166**	**442,102**	**170,504**	**517,896**	**341,552**	**4,767**	**171,577**	**757,443**	**(1,504,654)**

( ) used at: provisions, impairment and expenses

[1] One-off items consist of: revaluation result of FX swap at OTP Core in the amount of HUF (679) million and the result of the treasury share swap agreement in the amount of HUF 2,863 million.

NOTE 41: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 31 December 2014

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Recognized Income - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**(102,258)**		**(102,258)**																
Adjustments (total)		**(220,273)**	**(220,273)**																
Dividends and net cash transfers (after income tax)		191	191																
Goodwill /investment impairment (after income tax)		(5,015)	(5,015)																
Bank tax on financial institutions (after income tax)		(30,193)	(30,193)																
Effect of Banco Popolare acquisition (after income tax)		4,131	4,131																
Impact of the expected refund obligation stemming from the invalidity of using FX margin in Hungary (after income tax)		(26,923)	(26,923)																
Potential refund obligation stemming from the presumed unfairness of unilateral amendments to loan contracts in Hungary (after income tax)		(128,985)	(128,985)																
Risk cost created toward Crimean exposures in 2014 (after income tax)		(7,943)	(7,943)																
Risk cost created toward exposues to Donetsk and Luhansk in 2014 (after income tax)		(25,536)	(25,536)																
Consolidated adjusted net profit for the year	**(102,258)**	**220,272**	**118,014**	**137,418**	**(17,196)**	**(14,541)**	**(43,166)**	**39,170**	**765**	**49**	**103**	**33**	**391**	**(1,172)**	**(1,588)**	**5,529**	**(5,113)**	**(1,210)**	**174**
Profit before income tax	**(153,643)**	**295,983**	**142,340**	**161,097**	**(19,237)**	**(17,678)**	**(47,322)**	**43,587**	**765**	**45**	**627**	**367**	**372**	**793**	**(1,508)**	**6,753**	**(4,452)**	**(1,433)**	**1,120**
Adjusted operating profit	**293,187**	**121,346**	**414,533**	**181,952**	**219,065**	**101,028**	**27,269**	**62,392**	**9,807**	**1,358**	**7,527**	**5,895**	**3,789**	**13,404**	**5,970**	**6,704**	**730**	**(1,433)**	**1,545**
Adjusted total income	801,879	24,180	826,059	375,668	419,716	179,392	52,078	102,238	23,410	8,555	25,426	17,099	11,518	43,483	14,073	9,041	20,369	(1,175)	(11,633)
Adjusted net interest income	636,097	73	636,170	266,329	349,904	158,972	45,327	79,116	19,388	6,612	17,923	14,207	8,359	21,675	17,405	81	4,189	(1,175)	(563)
Adjusted net profit from fees and commissions	215,656	(46,076)	169,580	94,244	67,306	21,378	10,306	20,262	2,429	1,851	5,203	3,000	2,877	7,934	(2,611)	9,895	650	0	96
Adjusted other net non-interest income	(49,874)	70,183	20,309	15,095	2,506	(958)	(3,555)	2,860	1,593	92	2,300	(108)	282	13,874	(721)	(935)	15,530	0	(11,166)
Adjusted other administrative expenses	(508,692)	97,166	(411,526)	(193,716)	(200,651)	(78,364)	(24,809)	(39,846)	(13,603)	(7,197)	(17,899)	(11,204)	(7,729)	(30,079)	(8,103)	(2,337)	(19,639)	(258)	13,178
Total risk costs	**(446,830)**	**172,081**	**(274,749)**	**(23,411)**	**(238,302)**	**(118,706)**	**(74,591)**	**(18,805)**	**(9,042)**	**(1,313)**	**(6,900)**	**(5,528)**	**(3,417)**	**(12,611)**	**(7,478)**	**49**	**(5,182)**	**0**	**(425)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(446,830)	183,318	(263,512)	(22,088)	(231,272)	(117,623)	(71,947)	(17,526)	(8,881)	(1,202)	(5,747)	(5,277)	(3,069)	(9,682)	(8,312)	1	(1,371)	0	(470)
Other provision (adjustment)	0	(11,237)	(11,237)	(1,323)	(7,030)	(1,083)	(2,644)	(1,279)	(161)	(111)	(1,153)	(251)	(348)	(2,929)	834	48	(3,811)	0	45
Total other adjustments (one-off items)[1]	**0**	**2,556**	**2,556**	**2,556**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Income tax	**51,385**	**(75,711)**	**(24,326)**	**(23,679)**	**2,041**	**3,137**	**4,156**	**(4,417)**	**0**	**4**	**(524)**	**(334)**	**19**	**(1,965)**	**(80)**	**(1,224)**	**(661)**	**223**	**(946)**
Total Assets	**10,971,052**	**0**	**10,971,052**	**7,251,833**	**4,678,642**	**750,747**	**423,363**	**1,603,812**	**476,352**	**109,509**	**654,793**	**464,296**	**195,770**	**370,127**	**362,858**	**513**	**6,756**	**1,668,257**	**(2,997,807)**
Total Liabilities	**9,706,886**	**0**	**9,706,886**	**5,932,448**	**4,122,494**	**638,968**	**417,903**	**1,355,819**	**441,371**	**79,312**	**583,637**	**432,554**	**172,930**	**345,423**	**339,162**	**69**	**6,192**	**830,085**	**(1,523,564)**

( ) used at: provisions, impairment and expenses

[1] One-off items consist of: revaluation result of FX swap at OTP Core in the amount of HUF (824) million; result of the treasury share swap agreement in the amount of HUF 3,380 million.

NOTE 42: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2015

1) Settlement of customer loan contracts

See details in Note 2.28.

2) Purchase of Findomestic Banca a.d.

According to the announcement published 12 June 2015, OTP banka Srbija a.d. signed an agreement with the Italian specialist bank Findomestic Banca S.p.A regarding the purchase of 100% of the shares of Findomestic Banka a.d. in Serbia. As a result of the transaction the market share of OTP banka Srbija a.d. increased from 1.4% to 1.9% which helps reaching the optimal market size. The transaction and the consolidation has not been completed until 30 June 2015.

3) Term Note Program

See details in Note 15.

NOTE 43: POST BALANCE SHEET EVENTS

Settlement of customer loan contracts denominated in HUF

See details in Note 2.28

NOTE 44: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn)

In the first half of 2015, **Hungary's** economy was shaped by intensifying external demand, the positive terms-of-trade shock caused by the plunging oil price, the bond purchase programme launched in Europe and the fading out of the one-off items that had fuelled growth in 2014. The Eurozone's growth was surprisingly robust in the first quarter, largely owing to the falling oil prices and the weakening euro; this was followed by a very slight pause in the core member states in the second quarter (simultaneously with the general pick-up in periphery countries, for the first time after a long while). Growth was modest as these factors faded away while fears surrounding Greece's future intensified, while the European Central Bank's long-awaited quantitative easing programme, launched in March, could only partly counterbalance these effects.

Hungary's economy grew by 3.1% in the first half of 2015 (according to the preliminary data for the second quarter), after the 3.6% increase in 2014. Hungary's gross domestic product increased by 2.7% on a yearly basis and by 0.5% on a quarterly basis in the second quarter – these are eight-quarter and nine-quarter lows respectively. The deceleration of growth and the rate of slowing match the previous expectations of the Bank, but its structure is somewhat different: investment activity slowed more intensively while net export's contribution to growth was stronger than the Bank had assumed. With the 2014 investment boom is coming to an end, households' consumption becomes the engine of growth; it can rise by more than 3% this year.

As a combined effect of the election year and the ending seven-year EU budget cycle, public investments grew extremely fast in 2014, and based on first-quarter data the public sector further boosted activity. Meanwhile the private sector's investments started to contract again. A strong divergence is seen in constructions: while production that satisfies mostly public demands did not decrease below its 2014 peak, the sector's orders stock fell by almost 50% since last summer.

Following the stagnation in 2013 and the 1.7% increase in 2014, household consumption expenditure may be up 3.5% in 2015, as suggested by the retail sales of durable goods, data on domestic tourism, and new car registrations. The growth rate caught up with the rate of increase in real incomes; therefore a substantial acceleration from this level seems unlikely. There was only modest improvement on the labour market this year. The persistently low interest rates (in line with the NBH's plans) and the robust increase in real incomes led to a turnaround in households' investments, thus housing-related lending and housing investments also picked up. On the real property market, the number of transactions with existing homes increased in the first half of this year but the orders stock of new homes or occupancy permits do not point to an imminent recovery.

NOTE 44: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

Following the 0.2% level in 2014, inflation can inch up modestly (to 0.2%) this year and is likely to remain below the NBH's target in 2016. Energy prices, the lower-than-expected growth in food prices, and the low level of imported inflation are likely to tame inflation, while inflation in demand-driven product groups is accelerating this year.

The very low inflation and public debt financing, which increasingly leans on domestic sectors, help the NBH to uphold the current loose monetary conditions. Furthermore, the European Central Bank's liquidity expansion also played a role in long-term government bond yields' oscillating near all-time lows (after hitting rock bottom in the first quarter).

In the second half of 2014, **Russia** sank into recession owing to the falling oil prices and international sanctions. Its economy contracted by 2.2% on yearly basis in the first quarter, and by 4.6% in the second quarter. Even though the price of oil grew to 67.5 USD/barrel by early May 2015, the mid-July agreement on lifting the sanctions against Iran had a new impetus to the fall of oil prices, and the market turbulence seen at the end of August sent them below 50 USD/barrel. The ruble's firming pushed the USD/RUB near 50 by May, down from 58 at the end of 2014, but – in sync with the sliding oil prices – the ruble's depreciation trend re-started. By the last days of August, the USD/RUB rose to 70. The accelerating contraction in the manufacturing industry in the second quarter suggests that the improved competitiveness owing to the weaker ruble has not taken place yet in the industrial sector. As a result of the ruble's depreciation at the end of last year, inflation climbed higher in the first half of 2015 and real wages fell sharply. As the monthly pace of inflation has returned to normal since April and nominal wages gathered speed, retail sales shrank at a slower pace in the second quarter. Step by step, the Central Bank of Russia lowered the base rate from 17% to 11% by the end of July. The CBR points out that its monetary policy is now stronger influenced by the need to moderate recession than by inflation. Despite the low oil prices, Russia's balance of payments position remains stable; its current account surplus is more than enough to pay its foreign debts and for the decreasing capital withdrawal, thus the CBR's foreign reserves shrank by only USD 28 billion since the end of 2014; currently they stand at USD 358 billion.

In Russia the funding costs increased immediately following the base rate hike by the Russian central bank in December 2014, this manifested in narrowing net interest margin in the first half of 2015. The Bank's reaction to the deteriorating market environment was to limit the disbursements of certain loan products, these limits have been gradually lifted in the course of the first 6 months of 2015, nevertheless, newly disbursed volumes showed a substantial setback on a yearly basis. Performing (DPD0-90) loan volumes dropped by 19% comparing with the first half of the previous year, FX-adjusted. Amid unfavourable economic environment the deterioration of the loan portfolio accelerated both in the first and second quarter of 2015.

Ukraine's economy stayed in recession owing to the conflict in the Eastern regions and the country's structural problems. In the first quarter of 2015 its GDP shrank by 17.2% on a yearly basis, a high-frequency data suggest that the slump will continue in the second quarter. Industrial production and retail sales fell 21.5% and 21.7% respectively since the same period of the previous year. The IMF's country report on Ukraine, published in August, revised its 2015 economic forecast from -5.5% to -9%. The hryvnia (UAH) suffered massive losses versus the USD in the first quarter of 2015. It depreciated by more than 170% between December 2014 and February 2015, then it settled near 21-23 UAH/UAD in March. Because of the hryvnia's depreciation and the administrative price hikes, inflation soared from 24.9% in December 2014 to above 60% by April (on yearly basis), but inflation started to slow since the UAH's stabilization. In response to the drastic depreciation and the rapidly growing inflation, the National Bank of Ukraine lifted the base rate from 14% to 30% in two steps. The UAH's weakness raised public debt by almost 18 percentage points to 78.2% of GDP in the first quarter. Negotiations to restructure the country's USD 19 billion public debt stalled in March as parties could not find common ground. Ukraine wanted to achieve 40% haircut, while private creditors preferred extending bonds' maturity and a reduction in coupon payments. But the disagreement between parties' positions has meaningfully narrowed by August and it seems that a deal may be struck in the near future, with debt write-off, maturity extension as well as lower coupon payments.

NOTE 44: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

In the Ukraine the risk costs grew by 38% on yearly basis in local currency terms in the first half of 2015. The material increase in the first quarter of 2015 risk costs was related to the drastic depreciation of UAH against USD which required higher provision coverage due to the FX loans' revaluation because of LTV effect (loan to value effect). As opposed to this, in the second quarter the UAH strengthened and since the new problem loan formation remained moderate, risk costs in the second quarter dropped to 1/10 of the amount recorded in the first quarter. For the rest of the year, however, the management expects higher risk costs in Ukraine compared to the 2015 second quarter levels.

Under the scope of the Bank's own restructuring programme the volume of FX mortgage loans converted into UAH at market FX rate got close to UAH 1.2 billion by the end of June 2015. Under the scheme the Bank offers either certain debt forgiveness and/or an interest rate concession at the beginning of the maturity.

The **Russian and Ukrainian operation's** performance in HUF terms was to a great extent influenced by the significant weakening of the Russian ruble and Ukrainian hryvnia against the Hungarian forint: the first-half-year average exchange rate of the ruble and hryvnia depreciated by 25% and 40% on yearly basis, respectively. The closing rate of the ruble and hryvnia weakened by 24% and 30% on yearly basis, respectively.

Funding for Growth Scheme

In Hungary under the second phase of the Funding for Growth Scheme, available from early October 2013 the Group already contracted in the amount of more than HUF 180 billion by the end of June (together with the first phase total disbursements reached HUF 270 billion), moreover loan applications in the pipeline exceeded HUF 30 billion. According to the NBH by the end of July 2015 the total contracted amount in the second phase reached HUF 826 billion.

On 16 March 2015 the NBH announced the launch of Funding for Growth Scheme Plus accordingly NBH will improve access to credit for small and medium sized enterprises that have not been able to participate in the Funding for Growth Scheme so far. By the end of July the Group disbursed HUF 1.3 billion and applications with HUF 5 billion are in the pipeline.