OTP Bank
Annual Report
2014

Financial Statements

Deloitte.

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Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries for the year 2014, which consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2014 - which shows total assets of 10,971,052 million HUF, - and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net loss for the year of 102,258 million HUF -, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 74 to 163 of this Annual Report.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other matters

We issued our auditors' report dated March 17, 2015, on the consolidated financial statements submitted for the General Meeting. The effects of subsequent events were examined until that date. The consolidated financial statements and the dividend were approved by the General Meeting on April 17, 2015. Our procedures regarding the subsequent events occured after March 17, 2015 were limited to the General Meeting's decision on the dividend. The consolidated financial statements do not reflect and we have not examined the effects of subsequent events that occurred in the period between March 17, 2015 and April 30, 2015.

Other Reporting Obligation: Report on the Consolidated Business Report

We have examined the accompanying consolidated business report of OTP Bank Plc. for the year 2014.

Management is responsible for the preparation of this consolidated business report in accordance with the Hungarian Accounting Act.

Our responsibility is to assess whether the accounting information in the consolidated business report is consistent with that contained in the consolidated financial statements prepared for the same business year. Our work with respect to the consolidated business report was limited to assessing the consistence of the consolidated business report with the consolidated financial statements, and did not include a review of any information other than that drawn from the audited accounting records of the Bank.

In our opinion, the consolidated business report of OTP Bank Plc. for the year 2014 corresponds to the figures included in the consolidated financial statements of OTP Bank Plc. for the year 2014.

Budapest, April 30, 2015

Tamás Horváth	dr. Attila Hruby
Deloitte Auditing and Consulting Ltd. 1068 Budapest, Dózsa György út 84/C. 000083	registered statutory auditor 007118

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Statement of financial position

(consolidated, based on IFRS, as at 31 December 2014, in HUF million)

	Note	2014	2013
Cash, amounts due from banks and balances with the National Banks	4.	2,307,632	539,125
Placements with other banks, net of allowance for placement losses	5.	281,006	273,479
Financial assets at fair value through profit or loss	6.	289,275	415,605
Securities available-for-sale	7.	839,152	1,637,255
Loans, net of allowance for loan losses	8.	5,864,241	6,245,210
Associates and other investments	9.	23,381	23,837
Securities held-to-maturity	10.	709,369	580,051
Property and equipment	11.	206,440	261,523
Intangible assets	11.	158,721	193,721
Other assets	12.	291,835	211,241
TOTAL ASSETS		**10,971,052**	**10,381,047**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	13.	708,274	784,212
Deposits from customers	14.	7,673,478	6,866,606
Liabilities from issued securities	15.	267,084	445,218
Financial liabilities at fair value through profit or loss	16.	183,994	87,164
Other liabilities	17.	592,088	421,353
Subordinated bonds and loans	18.	281,968	267,162
TOTAL LIABILITIES		**9,706,886**	**8,871,715**
Share capital	19.	28,000	28,000
Retained earnings and reserves		1,288,757	1,532,164
Treasury shares	21.	(55,940)	(55,599)
Non-controlling interest	22.	3,349	4,767
TOTAL SHAREHOLDERS' EQUITY		**1,264,166**	**1,509,332**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,971,052**	**10,381,047**

Budapest, 17 March 2015

The accompanying notes to consolidated financial statements on pages 78 to 163 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

Statement of recognized income

(consolidated, based on IFRS, for the year ended 31 December 2014, in HUF million)

	Note	2014	2013
Interest Income			
Loans		708,873	771,542
Placements with other banks		94,941	207,951
Securities available-for-sale		41,969	71,743
Securities held-to-maturity		39,934	33,002
Amounts due from banks and balances with the National Banks		16,498	4,207
Securities held for trading		–	924
Other		7,015	–
Total Interest Income		909,230	1,089,369
Interest Expense			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		100,615	189,539
Deposits from customers		138,179	197,236
Liabilities from issued securities		13,826	34,896
Subordinated bonds and loans		13,883	11,412
Other		6,630	2,558
Total Interest Expense		273,133	435,641
NET INTEREST INCOME		**636,097**	**653,728**
Provision for impairment on loan and placement losses	5., 8., 23.	446,830	262,569
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**189,267**	**391,159**
Income from fees and commissions	24.	265,392	257,135
Expense from fees and commissions	24.	49,736	55,378
Net profit from fees and commissions		**215,656**	**201,757**
Foreign exchange gains, net		156,918	18,279
Gains on securities, net		6,911	11,546
Dividend income		4,824	2,474
(Provision)/Release of provision on securities available-for-sale and held-to-maturity		(297)	11
Other operating income	25.	14,379	26,392
Other operating expense	25.	(232,609)	(39,795)
from this: provision on contingent liabilities due to regulations related to customer loans	25.	(194,798)	–
Net operating (loss)/gain		**(49,874)**	**18,907**
Personnel expenses		206,335	204,277
Depreciation and amortization	11.	65,947	78,017
Other administrative expenses		236,410	244,477
Other administrative expenses	**25.**	**508,692**	**526,771**
(LOSS)/PROFIT BEFORE INCOME TAX		**(153,643)**	**85,052**
Income tax	26.	51,385	(20,944)
NET (LOSS)/PROFIT FOR THE YEAR		**(102,258)**	**64,108**
From this, attributable to:			
Non-controlling interest		**(273)**	**(91)**
Owners of the company		**(101,985)**	**64,199**
Consolidated earnings per share (in HUF)			
Basic	**38.**	**(382)**	**241**
Diluted	**38.**	**(382)**	**240**

Statement of comprehensive income

(consolidated, based on IFRS, for the year ended 31 December 2014, in HUF million)

	2014	2013
NET (LOSS)/PROFIT FOR THE YEAR	**(102,258)**	**64,108**
Fair value adjustment of securities available-for-sale	13,019	(1,721)
Derivative financial instruments designated as Cash-flow hedge	507	531
Net investment hedge in foreign operations	(4,489)	(1,357)
Foreign currency translation difference	(108,057)	(33,159)
Change of actuarial losses related to employee benefits	(6)	(39)
NET COMPREHENSIVE INCOME	**(201,284)**	**28,363**
From this, attributable to:		
Non-controlling interest	(1,418)	(1,016)
Owners of the company	(199,866)	29,379

The accompanying notes to consolidated financial statements on pages 78 to 163 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

Statement of cash-flows

(consolidated, based on IFRS, for the year ended 31 December 2014, in HUF million)

OPERATING ACTIVITIES	Note	2014	2013
(Loss)/Profit before income tax		**(153,643)**	**85,052**
Goodwill impairment	11.	22,225	30,819
Depreciation and amortization	11.	43,722	47,198
Provision/(Release of provision) for impairment on securities	7., 10.	297	(11)
Provision for impairment on loan and placement losses	5., 8.	446,830	262,569
Provision for impairment on investments	9.	1,244	1,370
Provision for impairment on other assets	12.	5,066	4,313
Provision on assets subject to operating leases		1,048	–
Provision on investment properties		3,612	–
Provision for impairment on off-balance sheet commitments and contingent liabilities	17.	195,310	3,990
Share-based payment	2., 29.	4,393	5,704
Change of actuarial losses related to employee benefits		(6)	(39)
Unrealized (losses)/gains on fair value change of securities held for trading		(2,907)	859
Unrealized (losses)/gains on fair value change of derivative financial instruments		(33,140)	4,921
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		250,821	(219,517)
Net increase in loans, net of allowance for loan losses		(48,611)	(113,672)
Increase in other assets before provisions for impairment		20,557	(67,833)
Increase in assets subject to operating lease before provisions for impairment		(24,442)	–
Increase in investment properties before provision for impairment		(27,034)	–
Net increase in deposits from customers		806,872	315,898
Decrease in other liabilities		(26,908)	(1,785)
Net (increase)/decrease in compulsory reserves at the National Banks		(41,130)	7,414
Dividend income		(4,824)	(2,474)
Income tax paid		(20,571)	(21,739)
Net Cash Provided by Operating Activities		**1,418,781**	**343,037**
INVESTING ACTIVITIES			
Net (increase)/decrease in placement with other banks before allowance for placements losses		(7,537)	83,761
Increase in securities available-for-sale		(15,402,966)	(24,460,762)
Decrease in securities available-for-sale		16,213,064	24,233,421
Net decrease/(increase) in investments in subsidiaries		2,490	(2,711)
Net increase in investments in associates		(3,278)	(14,560)
Buy-out of non-controlling interests		–	(1,124)
Dividend income		4,824	2,474
Increase in securities held-to-maturity		(156,594)	(161,411)
Decrease in securities held-to-maturity		31,094	10,673
Additions to property, equipment and intangible assets		11,526	(59,286)
Disposals of property, equipment and intangible assets		12,455	15,190
Net increase in advances for investments included in other assets		(27)	(29)
Net Cash Provided by/(Used in) Investing Activities		**705,051**	**(354,364)**
FINANCING ACTIVITIES			
Net (decrease)/increase in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(75,938)	249,888
Cash received from issuance of securities		56,165	72,186
Cash used for redemption of issued securities		(234,299)	(270,091)
Increase/(Decrease) in subordinated bonds and loans		14,806	(24,333)
Decrease in non-controlling interest		(1,418)	(1,016)
Foreign currency translation		(106,925)	(32,270)
Payments to ICES holders*		(4,003)	(4,111)
Net change in Treasury shares		(4,249)	(1,316)
Dividend paid		(40,594)	(33,592)
Net Cash Used in Financing Activities		**(396,455)**	**(44,655)**
Net increase/(decrease) in cash and cash equivalents		**1,727,377**	**(55,982)**
Cash and cash equivalents at the beginning of the period		**275,947**	**331,929**
Cash and cash equivalents at the end of the period		**2,003,324**	**275,947**
Analysis of cash and cash equivalents			
Cash, amounts due from banks and balances with the National Banks		539,125	602,521
Compulsory reserve established by the National Banks		(263,178)	(270,592)
Cash and cash equivalents at the beginning of the period		**275,947**	**331,929**
Cash, amounts due from banks and balances with the National Banks	4.	2,310,476	539,125
Net cash outflow due to acquisition	31.	(2,844)	–
Compulsory reserve established by the National Banks	4.	(304,308)	(263,178)
Cash and cash equivalents at the end of the period		**2,003,324**	**275,947**

The accompanying notes to consolidated financial statements on pages 78 to 163 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

*See more details in Note 20.

Statement of changes in shareholders' equity

(consolidated, based on IFRS, for the year ended 31 December 2014, in HUF million)

	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 2013		**28,000**	**52**	**10,800**	**1,579,188**	**(55,468)**	**(53,802)**	**5,783**	**1,514,553**
Net profit for the year		–	–	–	64,199	–	–	(91)	64,108
Other Comprehensive Income		–	–	–	(34,820)	–	–	(925)	(35,745)
Share-based payment	29.	–	–	5,704	–	–	–	–	5,704
Dividend for the year 2012		–	–	–	(33,600)	–	–	–	(33,600)
Sale of Treasury shares	21.	–	–	–	–	–	17,943	–	17,943
Treasury shares									
– gain on sale		–	–	–	481	–	–	–	481
– acquisition	21.	–	–	–	–	–	(19,740)	–	(19,740)
Payments to ICES holders	20.	–	–	–	(3,248)	–	–	–	(3,248)
Buy-out of non-controlling interests		–	–	–	(1,124)	–	–	–	(1,124)
Balance as at 31 December 2013		**28,000**	**52**	**16,504**	**1,571,076**	**(55,468)**	**(55,599)**	**4,767**	**1,509,332**
Net profit for the year		–	–	–	(101,985)	–	–	(273)	(102,258)
Other Comprehensive Income		–	–	–	(97,881)	–	–	(1,145)	(99,026)
Share-based payment	29.	–	–	4,393	–	–	–	–	4,393
Dividend for the year 2013		–	–	–	(40,600)	–	–	–	(40,600)
Sale of Treasury shares	21.	–	–	–	–	–	27,180	–	27,180
Treasury shares									
– loss on sale		–	–	–	(3,908)	–	–	–	(3,908)
– acquisition	21.	–	–	–	–	–	(27,522)	–	(27,522)
Payments to ICES holders	20.	–	–	–	(3,425)	–	–	–	(3,425)
Balance as at 31 December 2014		**28,000**	**52**	**20,897**	**1,323,277**	**(55,468)**	**(55,941)**	**3,349**	**1,264,166**

The accompanying notes to consolidated financial statements on pages 78 to 163 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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 Nádor Street, Budapest 1051.

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

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 17 March 2015.

	2014	2013
The structure of the Share capital by shareholders:		
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 1,434 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

	2014	2013
The number of employees at the Group:		
The number of employees at the Group	35,919	38,203
The average number of employees at the Group	35,796	37,487

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.

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

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

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

The adoption of these amendments to the existing standards has not led to any changes in the 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 various standards "Improvements to IFRSs (cycle 2011–2013)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- IFRIC 21 "Levies" adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards "Improvements to IFRSs (cycle 2012–2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 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 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.

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 31. However, certain subsidiaries in which the Bank holds a significant interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.13). As the ultimate parent, the Bank is preparing consolidated financial statement of the Group.

2.4 Accounting for acquisitions

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

If the Group loses control of a subsidiary, derecognizes the assets (including any

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

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

2.5 Securities held-to-maturity

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

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

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

2.6.2 Derivative financial instruments

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

Derivative financial instruments are accounted for on a trade date basis and are initially

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

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

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.

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.

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.

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.

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.

2.22 Income tax

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

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

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

2.23 Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group enters into off-balance sheet commitments such as guarantees, letters of credit, commitments to extend credit and transactions with financial instruments. The provision for impairment on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb future cash outflows which are probable and relate to present obligations. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

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

2.24 Share-based payment and employee benefit

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

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

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

2.25 Consolidated Statement of Cash-flows

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

2.26 Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.
Based on the above, the segments identified by the Group are the business and geographical segments.
The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

2.27 Comparative figures

There were no changes in prior period data due to either prior period error or change in accounting policies. In some notes certain amounts in the Consolidated Financial Statements for the year ended 31 December 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

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

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

a) Act on Settlement

The Group's reimbursement obligation related to invalidity of the bid-ask exchange rate spread will be prospectively in amount of HUF 32.4 billion. Related to bid-ask exchange rate spread the Group recognised provision for impairment in the amount of HUF 1,776 million during the year 2013.
Based on unilateral amendment of contractual clauses being assumed unfair, the Group, based on estimation of the amount of expected obligation related to loans under legal proceeding, recognised provision for impairment in the amount of HUF 127.6 billion.
In case of these amounts, provision for impairment on mortgage loans concerned in conversion into HUF was recognised at foreign exchange rates applied in conversion into HUF in financial statements as at 31 December 2014 (CHF: 256.47; EUR: 308.97; JPY: 2.163).
In case of loans not concerned in conversion into HUF – mostly foreign currency customer loans – the provision for impairment was recognized at foreign exchange rates according to NBH as at 31 December 2014 in these financial statements.
The Group is recognising the provision on contingent liabilities related to Act on Settlement among the other off-balance sheet commitments and contingent liabilities in the IFRS Consolidated Statements.

b) Act on Conversion into HUF

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

The foreign currency loans concerned in conversion into HUF and the relating fees need to be derecognised at the time of conversion into HUF from IFRS financial statements and the HUF loans need to be recognised as newly granted loans. According to IFRS, HUF loans shall be recognised initially at fair value and for the new loans below-market interest test should be prepared. Based on expected negative fair value of loans, and due to the conversion into HUF of foreign currency loans, provision for impairment was recognised for covering the expected loss of the hedging positions broken up in the amount of

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

HUF 36,598 million in the Group's Consolidated IFRS Financial Statements.

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

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

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

	Bid-ask exchange rate spread	Unilateral amendment of interests	Unilateral amendment of fees	Total
OTP Bank Plc.	7,377	34,926	1,824	44,127
OTP Mortgage Bank Ltd.	13,978	74,493	66	88,537
Merkantil Bank Ltd.	9,480	5,622	4,964	20,066
Merkantil Car Ltd.	1,107	537	639	2,283
OTP Real Estate Leasing Ltd.	462	4,501	–	4,963
Subtotal	**32,404**	**120,079**	**7,493**	**159,976**
Provision for impairment on foreign currency customer loans concerned in conversion into HUF				36,598
Total				**196,574**

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

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

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

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

d) **Introduction of deferred tax relating to Acts on Customer Loans**

Prescription 29/ZS § of the Act LXXXI of 1996[2] enables – based on accounting regulations in 44 § of Act on Settlement – to recognise tax difference ("tax receivables") calculated for clients' overpayments relating to customer loan agreements in the form of corporate tax, special tax of business partnerships, local business tax, innovation contribution, special tax of financial institutions, up to the tax declared and paid for the 2008–2014 tax years. Tax receivable shall be deducted from the amount of corporate tax payable for the 2015 and the following tax years.

Furthermore prescription 29/ZS § of the Act LXXXI of 1996 enables to provide non-repayable financial support or grant for subsidiaries, for covering the costs and

[2] On Corporate Tax and Dividend Tax.

expenses directly incurred in connection with implementation of the Act on Settlement. This support has been claimed as expense during calculation of corporate tax.
OTP Bank proposes to provide financial support for its subsidiaries to cover their losses.

The Bank recognized 33.2 billion HUF deferred tax receivable in the separate financial statements prepared for year 2014 due to the expecting tax receivable based on Act on Settlement and considering the contribution provided to the subsidiaries.

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

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

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.

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)

	2014	2013
Cash on hand		
In HUF	66,332	68,063
In foreign currency	143,668	120,069
	210,000	**188,132**
Amounts due from banks and balances with the National Banks		
Within one year:		
In HUF*	1,798,959	51,807
In foreign currency	298,035	298,528
	2,096,994	**350,335**
Over one year:		
In HUF	–	–
In foreign currency	–	435
	–	**435**
Accrued interest	638	223
	2,097,632	**350,993**
Total	**2,307,632**	**539,125**
Compulsory reserve set by the National Banks	**304,308**	**263,178**

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

	2014	2013
Within one year:		
In HUF	12,522	32,424
In foreign currency	266,384	235,898
	278,906	**268,322**
Over one year:		
In HUF	–	–
In foreign currency	2,032	4,911
	2,032	**4,911**
Accrued interest	115	277
Provision for impairment on placement losses	(47)	(31)
Total	**281,006**	**273,479**

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

	2014	2013
Balance as at 1 January	**31**	**1,111**
Provision for the year	874	28
Release of provision for the year	(854)	(367)
Use of provision	–	(712)
Foreign currency translation difference	(4)	(29)
Closing balance	**47**	**31**

Interest conditions of placements with other banks:

	2014	2013
In HUF	0.4%–6.6%	0.1%–9.0%
In foreign currency	0.01%–14.9%	0.01%–11.9%
Average interest rates on placements with other banks	**1.22%**	**1.48%**

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

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

Securities held for trading:

	2014	2013
Shares	59,231	73,703
Government bonds	22,942	34,817
Discounted Treasury bills	3,414	2,159
Securities issued by the NBH*	–	209,347
Other securities	4,439	14,615
Other non-interest bearing securities	3,989	5,912
	94,015	**340,553**
Accrued interest	625	987
Total	**94,640**	**341,540**

Positive fair value of derivative financial instruments classified held for trading:

	2014	2013
CCIRS and mark-to-market CCIRS** classified as held for trading	85,010	8,444
Foreign exchange swaps classified as held for trading	48,636	5,357
Interest rate swaps classified as held for trading	43,401	53,667
Option contracts classified as held for trading	7,128	–
Foreign exchange forward contracts classified as held for trading	6,237	104
Other derivative transactions classified as held for trading	4,223	6,493
	194,635	**74,065**
Total	**289,275**	**415,605**

An analysis of securities held for trading portfolio by currency:

	2014	2013
Denominated in HUF	81.7%	86.9%
Denominated in foreign currency	18.3%	13.1%
Total	**100.0%**	**100.0%**

An analysis of government bond portfolio by currency:

	2014	2013
Denominated in HUF	54.0%	9.5%
Denominated in foreign currency	46.0%	90.5%
Total	**100.0%**	**100.0%**
Interest rates on securities held for trading	1.5%–11.0%	2.9%–13.0%
Average interest rates on securities held for trading	**2.06%**	**1.46%**

* Securities issued by the NBH were changed into two-weeks NBH deposit during the year ended 31 December 2014.
** CCIRS: Cross Currency Interest Rate Swaps (see Note 28.).

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

	2014	2013
Within five years:		
With variable interest	1,125	7,245
With fixed interest	23,466	249,085
	24,591	**256,330**
Over five years:		
With variable interest	6	663
With fixed interest	6,198	3,945
	6,204	**4,608**
Non-interest bearing securities	63,220	79,615
Total	**94,015**	**340,553**

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

	2014	2013
Government bonds	680,323	318,263
Discounted Treasury bills	42,168	38,088
Corporate bonds	37,457	71,148
From this:		
Listed securities:		
In HUF	–	–
In foreign currency	11,598	67,930
	11,598	67,930
Non-listed securities:		
In HUF	3,261	3,218
In foreign currency	22,598	–
	25,859	3,218
Bonds issued by NBH*	–	1,151,208
Other securities	21,138	8,562
Other non-interest bearing securities	43,646	41,702
From this:		
Listed securities:		
In HUF	–	–
In foreign currency	7,114	6,521
	7,114	6,521
Non-listed securities:		
In HUF	28,346	27,013
In foreign currency	8,186	8,168
	36,532	35,181
	824,732	**1,628,971**
Accrued interest	15,694	9,250
Provision for impairment on securities available-for-sale	(1,274)	(966)
Total	**839,152**	**1,637,255**

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

An analysis of securities available-for sale by currency:

	2014	2013
Denominated in HUF	84.6%	82.6%
Denominated in foreign currency	15.4%	17.4%
Total	**100.0%**	**100.0%**

An analysis of government bonds by currency:

	2014	2013
Denominated in HUF	81.2%	47.1%
Denominated in foreign currency	18.8%	52.9%
Total	**100.0%**	**100.0%**

	2014	2013
Interest rates on securities available-for-sale denominated in HUF	1.7%–8.0%	2.9%–8.0%
Interest rates on securities available-for-sale denominated in foreign currency	0.3%–28.0%	0.3%–22.0%
Average interest rates on securities available-for-sale denominated in HUF	3.07%	4.10%
Average interest rates on securities available-for-sale denominated in foreign currency	5.85%	9.12%

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

	2014	2013
Within five years:		
With variable interest	2,701	4,258
With fixed interest	616,404	1,500,316
	619,105	1,504,574
Over five years:		
With variable interest	117	3,730
With fixed interest	161,864	78,965
	161,981	82,695
Non-interest bearing securities	43,646	41,702
Total	**824,732**	**1,628,971**

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

	2014	2013
Balance as at 1 January	**966**	**1,226**
Provision for the year	297	1
Release of provision	–	(1)
Use of provision	–	(265)
Foreign currency translation difference	11	5
Closing balance	**1,274**	**966**

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

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

	2014	2013
Short-term loans and promissory notes (within one year)	2,245,818	2,537,167
Long-term loans and promissory notes (over one year)	4,690,266	4,875,633
	6,936,084	**7,412,800**
Accrued interest	57,242	68,044
Provision for impairment on loan losses	(1,129,085)	(1,235,634)
Total	**5,864,241**	**6,245,210**

An analysis of the loan portfolio by currency:

	2014	2013
In HUF	29%	27%
In foreign currency	71%	73%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2014	2013
Short-term loans denominated in HUF	0.04%–42.0%	0.3%–40.4%
Long-term loans denominated in HUF	0.04%–42.0%	0.3%–40.4%
Short-term loans denominated in foreign currency	0.01%–64.9%	0.01%–66%
Long-term loans denominated in foreign currency	0.01%–66.9%	0.01%–64.9%
Average interest rates on loans denominated in HUF	4.68%	4.94%
Average interest rates on loans denominated in foreign currency	16.23%	16.54%
Gross loan portfolio on which interest to customers is not being accrued	17.9%	18.4%

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

	2014	2013
Balance as at 1 January	**1,235,634**	**1,154,176**
Provision for the year	708,743	514,614
Release of provision	(319,393)	(328,859)
Partial write-off*	(237,593)	–
Increase due to acquisition	772	–
Use of provision	(85,494)	(79,996)
Foreign currency translation difference	(173,584)	(24,301)
Closing balance	**1,129,085**	**1,235,634**

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

	2014	2013
Provision for impairment (Release of provision) on placement losses	10	(374)
Provision for impairment on loan losses	446,820	262,943
Total	**446,830**	**262,569**

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

	2014	2013
Investments		
Investments in associates (non-listed)	17,768	15,583
Other investments (non-listed) at cost**	8,917	12,485
	26,685	**28,068**
Provision for impairment on investments	(3,304)	(4,231)
Total	**23,381**	**23,837**

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

	2014	2013
Balance as at 1 January	**4,231**	**2,968**
Provision for the year	1,244	1,370
Change due to merge	(1,927)	–
Use of provision	(245)	(132)
Foreign currency translation difference	1	25
Closing balance	**3,304**	**4,231**

* See details in Note 2.11.

** 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)

	2014	2013
Government bonds	692,410	564,522
Mortgage bonds	522	493
Discounted Treasury bills	519	457
Corporate bonds	7	1,070
	693,458	**566,542**
Accrued interest	16,725	14,284
Provision for impairment on securities held-to-maturity	(814)	(775)
Total	**709,369**	**580,051**

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

	2014	2013
Within five years:		
With variable interest	7,438	16,457
With fixed interest	375,972	212,112
	383,410	228,569
Over five years:		
With variable interest	–	–
With fixed interest	310,048	337,973
	310,048	337,973
Total	**693,458**	**566,542**

An analysis of securities held-to-maturity by currency:

	2014	2013
Denominated in HUF	92.7%	89.8%
Denominated in foreign currency	7.3%	10.2%
Total	**100%**	**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.

	2014	2013
Interest rates of securities held-to-maturity with variable interest	0.02%–2.5%	0.02%–4.25%
Interest rates of securities held-to-maturity with fixed interest	0.9%–12.0%	2.6%–10.9%
Average interest rates on securities held-to-maturity	6.34%	6.71%

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

	2014	2013
Balance as at 1 January	**775**	**770**
Provision for the year	–	21
Release of provision	–	(32)
Foreign currency translation difference	39	16
Closing balance	**814**	**775**

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

For the year ended 31 December 2014:

	Intangible assets and goodwill	Property	Office equipmen and vehicles	Construction in progress	Total
Cost					
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*	(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					
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*	(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 six month period ended 31 December 2014 is as follows:

	Goodwill
Cost	
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**

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

List of units	HUF million
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**	353
Total	**101,062**

The Bank prepared the IFRS 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)

* 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 more details in Note 12.).

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

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.

The Bank applied a cash-flow model with an explicit period between 2015–2017, except in the case of "OTP Bank" JSC (Russia) and JSC OTP Bank (Ukraine) where the explicit period was 2015–2019, where for 2015 the actual, accepted annual financial plans are included and the actual financial strategic plans (2016–2017) were used as forecasts for the period between 2018 and 2019.

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 CDS of the different countries spread as at 31 December 2014.

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 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.

For the year ended 31 December 2013:

	Intangible assets and goodwill	Property	Office equipmen and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	**363,524**	**214,736**	**187,618**	**18,928**	**784,806**
Additions	32,622	11,394	22,509	29,217	95,742
Foreign currency translation differences	(7,438)	(901)	(893)	97	(9,135)
Disposals	(13,939)	(2,605)	(20,562)	(22,755)	(59,861)
Change in consolidation scope	142	10	234	854	1,240
Balance as at 31 December	**374,911**	**222,634**	**188,906**	**26,341**	**812,792**
Depreciation and Amortization					
Balance as at 1 January	**125,775**	**44,867**	**125,022**	**–**	**295,664**
Charge for the year (without goodwill impairment)	22,192	5,644	19,362	–	47,198
Goodwill impairment	30,819	–	–	–	30,819
Foreign currency translation differences	6,164	173	(776)	–	5,561
Disposals	(3,818)	(963)	(17,135)	–	(21,916)
Change in consolidation scope	58	78	86	–	222
Balance as at 31 December	**181,190**	**49,799**	**126,559**	**–**	**357,548**
Net book value					
Balance as at 1 January	**237,749**	**169,869**	**62,596**	**18,928**	**489,142**
Balance as at 31 December	**193,721**	**172,835**	**62,347**	**26,341**	**455,244**

An analysis of the changes in the goodwill for the year ended 31 December 2013 is as follows:

	Goodwill
Cost	
Balance as at 1 January	**189,619**
Additions	–
Foreign currency translation difference	(13,236)
Impairment for the current period	(30,819)
Balance as at 31 December	**145,564**
Net book value	
Balance as at 1 January	**189,619**
Balance as at 31 December	**145,564**

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

List of units	HUF million
JSC "OTP Bank" (Russia)	61,534
DSK Bank EAD	28,541
OTP Bank JSC (Ukraine)	26,179
OTP banka Hrvatska d.d.	17,236
OTP Bank Romania S.A.	5,900
Monicomp Ltd.	5,732
OTP Banka Slovensko a.s.	88
Other*	354
Total	**145,564**

Summary of the impairment test for the year ended 31 December 2013

Based on the valuations of the subsidiaries HUF 30,819 million consolidated IFRS goodwill impairment was recorded for OTP Bank JSC (Ukraine).

NOTE 12: OTHER ASSETS** (in HUF mn)

	2014	2013
Deferred tax receivables	61,009	5,286
Investment properties***	31,322	–
Assets subject to operating lease***	24,668	–
Inventories	43,936	63,136
Fair value of derivative financial instrument designated as fair value hedge	30,454	26,803
Prepayments and accrued income	24,513	19,305
Trade receivables	12,121	14,581
Receivable from the National Asset Management	9,718	12,295
Receivables from card operations****	9,615	–
Current income tax receivable	8,843	6,938
Other advances	5,695	8,426
Variation margin	3,996	3,623
Receivables from investment services	3,960	3,155
Receivables due from pension funds and investment funds	3,874	2,115
Loans sold under deferred payment scheme	2,299	–
Other receivables from Hungarian Government	2,233	5,042
Receivables from leasing activities	1,086	976
Advances for securities and investments	691	664
Other	44,704	62,143
Subtotal	**324,737**	**234,488**
Provision for impairment on other assets*****	(32,902)	(23,247)
Total	**291,835**	**211,241**

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

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

*** 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 more details in Note 11.).

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

***** Provision for impairment on other assets mainly consists of provision for impairment on investment properties and inventories.

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

	2014	2013
Interest rate swaps designated as fair value hedge	14,032	9,733
CCIRS and mark-to-market CCIRS designated as fair value hedge	13,940	15,472
Foreign exchange swaps designated as fair value hedge	2,437	1,520
Forward security agreements designated as fair value hedge	–	44
Other transactions designated as fair value hedge	45	34
Total	**30,454**	**26,803**

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

	2014	2013
Balance as at 1 January	**23,247**	**21,265**
Provision for the year	9,726	4,313
Provision due to transfer*	2,353	–
Use of provision	(2,573)	(2,422)
Foreign currency translation difference	149	91
Closing balance	**32,902**	**23,247**

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

	2014	2013
Within one year:		
In HUF	148,264	352,641
In foreign currency	302,971	162,714
	451,235	**515,355**
Over one year:		
In HUF	150,012	139,958
In foreign currency	106,137	127,436
	256,149	**267,394**
Accrued interest	890	1,463
Total**	**708,274**	**784,212**

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

	2014	2013
Within one year:		
In HUF	1.2%–5.2%	0.2%–5.8%
In foreign currency	0.05%–18.8%	0.02%–8.9%
Over one year:		
In HUF	0.1%–5.2%	0.2%–5.2%
In foreign currency	0.1%–18.0%	0.1%–18.0%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	1.72%	2.13%

* Provisions on assets subject to operating lease and investment properties which were transferred from tangible and intangible assets to the other assets (see more details in Note 11 and Note 25.).

** 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 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2014	2013
Within one year:		
In HUF	3,716,886	3,045,371
In foreign currency	3,667,694	3,518,242
	7,384,580	**6,563,613**
Over one year:		
In HUF	101,733	140,582
In foreign currency	158,624	124,008
	260,357	**264,590**
Accrued interest	28,541	38,403
Total	**7,673,478**	**6,866,606**

Interest rates on deposits from customers are as follows:

	2014	2013
Within one year:		
In HUF	0.01%–10.3%	0.01%–10.3%
In foreign currency	0.01%–29.0%	0.01%–27.0%
Over one year:		
In HUF	0.01%–3.1%	0.01%–5.0%
In foreign currency	0.01%–26.0%	0.01%–28.5%
Average interest rates on deposits from customers denominated in HUF	0.80%	1.62%
Average interest rates on deposits from customers denominated in foreign currency	5.52%	6.98%

An analysis of deposits from customers by type, is as follows*:

	2014		2013	
Retail deposits	4,566,737	60%	4,269,711	62%
Corporate deposits	2,693,704	35%	2,235,522	33%
Municipality deposits	384,496	5%	322,970	5%
Total	**7,644,937**	**100%**	**6,828,203**	**100%**

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

	2014	2013
With original maturity		
Within one year:		
In HUF	28,812	50,795
In foreign currency	53,225	163,580
	82,037	**214,375**
Over one year:		
In HUF	162,582	175,889
In foreign currency	13,051	43,806
	175,633	**219,695**
Accrued interest	9,414	11,148
Total	**267,084**	**445,218**

Interest rates on liabilities from issued securities are as follows:

	2014	2013
Issued securities denominated in HUF	0.10%–10.0%	0.25%–10.0%
Issued securities denominated in foreign currency	0.23%–10.5%	0.44%–4.0%
Average interest rates on issued securities	4.01%	6.61%

* Without accrued interest liability.

Issued securities denominated in HUF as at 31 December 2014:

	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	5,438	5.5	fixed	
2.	OTP TBSZ 2016/I	14/01/2011–05/08/2011	15/12/2016	1,176	5.5	fixed	
3.	OTP TBSZ 2016/II	26/08/2011–29/12/2011	15/12/2016	638	5.5	fixed	
4.	OTP TBSZ 4 2015/I	13/01/2012–22/06/2012	15/12/2015	471	6.5	fixed	
5.	OTP TBSZ 4 2015/II	21/12/2012	15/12/2015	48	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/Ax	25/03/2010	30/03/2015	4,429	indexed	floating	hedged
9.	OTP 2015/Bx	28/06/2010	09/07/2015	4,060	indexed	floating	hedged
10.	OTP 2015/Dx	22/03/2012	23/03/2015	385	indexed	floating	hedged
11.	OTP 2015/Ex	18/07/2012	20/07/2015	376	indexed	floating	hedged
12.	OTP 2015/Hx	28/12/2012	27/12/2015	170	indexed	floating	hedged
13.	OTP 2016/Ax	11/11/2010	03/11/2016	3,654	indexed	floating	hedged
14.	OTP 2016/Bx	16/12/2010	19/12/2016	2,786	indexed	floating	hedged
15.	OTP 2016/Ex	28/12/2012	27/12/2016	332	indexed	floating	hedged
16.	OTP 2016/Fx	22/03/2013	24/03/2016	670	indexed	floating	hedged
17.	OTP 2017/Ax	01/04/2011	31/03/2017	4,347	indexed	floating	hedged
18.	OTP 2017/Bx	17/06/2011	20/06/2017	4,243	indexed	floating	hedged
19.	OTP 2017/Cx	19/09/2011	25/09/2017	3,186	indexed	floating	hedged
20.	OTP 2017/Dx	20/10/2011	19/10/2017	475	indexed	floating	hedged
21.	OTP 2017/Ex	21/12/2011	28/12/2017	3,449	indexed	floating	hedged
22.	OTP 2018/Ax	03/01/2012	09/01/2018	702	indexed	floating	hedged
23.	OTP 2018/Bx	22/03/2012	22/03/2018	4,091	indexed	floating	hedged
24.	OTP 2018/Cx	18/07/2012	18/07/2018	3,523	indexed	floating	hedged
25.	OTP 2018/Dx	29/10/2012	26/10/2018	2,930	indexed	floating	hedged
26.	OTP 2018/Ex	28/12/2012	28/12/2018	3,029	indexed	floating	hedged
27.	OTP 2019/Ax	25/06/2009	01/07/2019	263	indexed	floating	hedged
28.	OTP 2019/Bx	05/10/2009–05/02/2010	14/10/2019	368	indexed	floating	hedged
29.	OTP 2019/Cx	14/12/2009	20/12/2019	314	indexed	floating	hedged
30.	OTP 2019/Dx	22/03/2013	21/03/2019	4,400	indexed	floating	hedged
31.	OTP 2019/Ex	28/06/2013	24/06/2019	3,344	indexed	floating	hedged
32.	OTP 2020/Ax	25/03/2010	30/03/2020	340	indexed	floating	hedged
33.	OTP 2020/Bx	28/06/2010	09/07/2020	362	indexed	floating	hedged
34.	OTP 2020/Cx	11/11/2010	05/11/2020	234	indexed	floating	hedged
35.	OTP 2020/Dx	16/12/2010	18/12/2020	215	indexed	floating	hedged
36.	OTP 2020/Ex	18/06/2014	22/06/2020	4,100	indexed	floating	hedged
37.	OTP 2020/Fx	10/10/2014	16/10/2020	3,500	indexed	floating	hedged
38.	OTP 2020/Gx	15/12/2014	21/12/2020	3,250	indexed	floating	hedged
39.	OTP 2021/Ax	01/04/2011	01/04/2021	289	indexed	floating	hedged
40.	OTP 2021/Bx	17/06/2011	21/06/2021	332	indexed	floating	hedged
41.	OTP 2021/Cx	19/09/2011	24/09/2021	300	indexed	floating	hedged
42.	OTP 2021/Dx	21/12/2011	27/12/2021	365	indexed	floating	hedged
43.	OTP 2022/Ax	22/03/2012	23/03/2022	280	indexed	floating	hedged
44.	OTP 2022/Bx	18/07/2012	18/07/2022	265	indexed	floating	hedged
45.	OTP 2022/Cx	29/10/2012	28/10/2022	296	indexed	floating	hedged
46.	OTP 2022/Dx	28/12/2012	27/12/2022	343	indexed	floating	hedged
47.	OTP 2023/Ax	22/03/2013	24/03/2023	395	indexed	floating	hedged
48.	OTP 2023/Bx	28/06/2013	26/06/2023	280	indexed	floating	hedged
49.	OTP 2024/Ax	18/06/2014	21/06/2024	270	indexed	floating	hedged
50.	OTP 2024/Bx	10/10/2014	16/10/2024	400	indexed	floating	hedged
51.	OTP 2024/Cx	15/12/2014	20/12/2024	320	indexed	floating	hedged
52.	OTP 2020/RF/A	12/07/2010	20/07/2020	2,370	indexed	floating	hedged
53.	OTP 2020/RF/B	12/07/2010	20/07/2020	1,131	indexed	floating	hedged
54.	OTP 2020/RF/C	11/11/2010	05/11/2020	2,475	indexed	floating	hedged
55.	OTP 2021/RF/A	05/07/2011	13/07/2021	1,946	indexed	floating	hedged
56.	OTP 2021/RF/B	20/10/2011	25/10/2021	1,961	indexed	floating	hedged
57.	OTP 2021/RF/C	21/12/2011	30/12/2021	385	indexed	floating	hedged
58.	OTP 2021/RF/D	21/12/2011	30/12/2021	256	indexed	floating	hedged
59.	OTP 2021/RF/E	21/12/2011	30/12/2021	34	indexed	floating	hedged
60.	OTP 2022/RF/A	22/03/2012	23/03/2022	1,053	indexed	floating	hedged
61.	OTP 2022/RF/B	22/03/2012	23/03/2022	351	indexed	floating	hedged
62.	OTP 2022/RF/C	28/06/2012	28/06/2022	124	indexed	floating	hedged
63.	OTP 2022/RF/D	28/06/2012	28/06/2022	155	indexed	floating	hedged
64.	OTP 2022/RF/E	29/10/2012	31/10/2022	331	indexed	floating	hedged

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
65.	OTP 2022/RF/F	28/12/2012	28/12/2022	236	indexed	floating	hedged
66.	OTP 2023/RF/A	22/03/2013	24/03/2023	231	indexed	floating	hedged
67.	OTP DNT HUF 150107 4%	30/06/2014	07/01/2015	615	indexed	floating	hedged
68.	OTP EK 2015/I	29/07/2013	29/01/2015	5,467	4.25	fixed	
69.	OTP OJK 2016/I	26/08/2011–21/12/2011	26/08/2016	106	6.14	fixed	
70.	OTP OJK 2017/I	27/01/2012–13/07/2012	27/01/2017	22	7	fixed	
71.	OJB 2015/I	10/06/2005	10/06/2015	3,218	7.7	fixed	
72.	OJB 2015/J	28/01/2005	28/01/2015	7	8.69	fixed	
73.	OJB 2016/I	03/02/2006	03/02/2016	1,249	7.5	fixed	
74.	OJB 2016/II	31/08/2006	31/08/2016	4,685	10	fixed	
75.	OJB 2016/J	18/04/2006	28/09/2016	114	7.59	fixed	
76.	OJB 2019/I	17/03/2004	18/03/2019	31,517	9.48	fixed	
77.	OJB 2019/II	25/05/2011	18/03/2019	1,079	9.48	fixed	
78.	OJB 2020/I	19/11/2004	12/11/2020	5,503	9	fixed	
79.	OJB 2020/II	25/05/2011	12/11/2020	1,486	9	fixed	
80.	Other*			33,976			
	Subtotal issued securities in HUF			**181,906**			
	Unamortized premium			(3,889)			
	Fair value adjustment			13,377			
	Total issued securities in HUF			**191,394**			

* From the total amount HUF 33,745 million is mobil deposits of Merkantil Bank.

Issued securities denominated in foreign currency as at 31 December 2014:

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	Nominal value (HUF mn)	Interest conditions (in % p.a.)		Hedged
1.	OTP EUR 1 2015/I	20/12/2013	10/01/2015	EUR	6.93	2,183	1.65	fixed	
2.	OTP EUR 1 2015/II	17/01/2014	31/01/2015	EUR	4.89	1,541	1.65	fixed	
3.	OTP EUR 1 2015/III	31/01/2014	14/02/2015	EUR	4.40	1,384	1.65	fixed	
4.	OTP EUR 1 2015/IV	14/02/2014	28/02/2015	EUR	4.07	1,281	1.65	fixed	
5.	OTP EUR 1 2015/V	28/02/2014	14/03/2015	EUR	3.41	1,074	1.5	fixed	
6.	OTP EUR 1 2015/VI	14/03/2014	28/03/2015	EUR	3.97	1,250	1.5	fixed	
7.	OTP EUR 1 2015/VII	21/03/2014	04/04/2015	EUR	0.84	263	1.5	fixed	
8.	OTP EUR 1 2015/VIII	11/04/2014	25/04/2015	EUR	4.34	1,368	1.5	fixed	
9.	OTP EUR 1 2015/IX	18/04/2014	02/05/2015	EUR	1.00	315	1.5	fixed	
10.	OTP EUR 1 2015/X	09/05/2014	23/05/2015	EUR	3.85	1,212	1.5	fixed	
11.	OTP EUR 1 2015/XI	23/05/2014	06/06/2015	EUR	4.59	1,444	1.5	fixed	
12.	OTP EUR 1 2015/XII	06/06/2014	20/06/2015	EUR	2.75	867	1.5	fixed	
13.	OTP EUR 1 2015/XIII	20/06/2014	04/07/2015	EUR	2.28	719	1.5	fixed	
14.	OTP EUR 1 2015/XIV	04/07/2014	18/07/2015	EUR	2.67	839	1.25	fixed	
15.	OTP EUR 1 2015/XV	18/07/2014	01/08/2015	EUR	1.78	560	1.25	fixed	
16.	OTP EUR 1 2015/XVI	30/07/2014	13/08/2015	EUR	3.80	1,195	1.5	fixed	
17.	OTP EUR 1 2015/XVII	08/08/2014	22/08/2015	EUR	3.24	1,020	1.25	fixed	
18.	OTP EUR 1 2015/XVIII	29/08/2014	12/09/2015	EUR	10.49	3,305	1.25	fixed	
19.	OTP EUR 1 2015/XIX	12/09/2014	26/09/2015	EUR	5.45	1,716	1.25	fixed	
20.	OTP EUR 1 2015/XX	03/10/2014	17/10/2015	EUR	13.24	4,168	1.25	fixed	
21.	OTP EUR 1 2015/XXI	22/10/2014	05/11/2015	EUR	8.44	2,659	1	fixed	
22.	OTP EUR 1 2015/XXII	31/10/2014	14/11/2015	EUR	3.12	984	1	fixed	
23.	OTP EUR 1 2015/XXIII	14/11/2014	28/11/2015	EUR	5.52	1,739	1	fixed	
24.	OTP EUR 1 2015/XXIV	28/11/2014	12/12/2015	EUR	5.19	1,635	1	fixed	
25.	OTP EUR 1 2015/XXV	19/12/2014	02/01/2016	EUR	9.43	2,969	1	fixed	
26.	OTP EUR 2 2015/I	11/01/2013	11/01/2015	EUR	0.16	51	3	fixed	
27.	OTP EUR 2 2015/II	25/01/2013	25/01/2015	EUR	0.17	52	2.75	fixed	
28.	OTP EUR 2 2015/III	01/02/2013	01/02/2015	EUR	0.16	50	2.75	fixed	
29.	OTP EUR 2 2015/IV	15/02/2013	15/02/2015	EUR	0.15	46	2.75	fixed	
30.	OTP EUR 2 2015/V	01/03/2013	01/03/2015	EUR	0.26	83	2.75	fixed	
31.	OTP EUR 2 2015/VI	22/03/2013	22/03/2015	EUR	0.20	62	2.75	fixed	
32.	OTP EUR 2 2015/VII	05/04/2013	05/04/2015	EUR	0.31	99	2.75	fixed	
33.	OTP EUR 2 2015/VIII	19/04/2013	19/04/2015	EUR	0.30	94	2.75	fixed	
34.	OTP EUR 2 2015/IX	10/05/2013	10/05/2015	EUR	0.73	230	2.75	fixed	
35.	OTP EUR 2 2015/X	24/05/2013	24/05/2015	EUR	0.36	112	2.5	fixed	
36.	OTP EUR 2 2015/XI	07/06/2013	07/06/2015	EUR	0.39	123	2.5	fixed	
37.	OTP EUR 2 2015/XII	21/06/2013	21/06/2015	EUR	0.21	66	2.5	fixed	
38.	OTP EUR 2 2015/XIII	28/06/2013	28/06/2015	EUR	0.27	86	2.5	fixed	
39.	OTP EUR 2 2015/XIV	12/07/2013	12/07/2015	EUR	0.12	39	2.25	fixed	
40.	OTP EUR 2 2015/XV	26/07/2013	26/07/2015	EUR	0.63	198	2.25	fixed	
41.	OTP EUR 2 2015/XVI	16/08/2013	16/08/2015	EUR	0.78	246	2.25	fixed	
42.	OTP EUR 2 2015/XVII	30/08/2013	30/08/2015	EUR	0.42	133	2.25	fixed	
43.	OTP EUR 2 2015/XVIII	13/09/2013	13/09/2015	EUR	0.64	202	2.25	fixed	
44.	OTP EUR 2 2015/XIX	27/09/2013	27/09/2015	EUR	0.51	159	2.25	fixed	
45.	OTP EUR 2 2015/XX	11/10/2013	11/10/2015	EUR	0.30	94	2.25	fixed	
46.	OTP EUR 2 2015/XXI	31/10/2013	31/10/2015	EUR	2.32	732	2.25	fixed	
47.	OTP EUR 2 2015/XXII	15/11/2013	15/11/2015	EUR	1.16	364	2.25	fixed	
48.	OTP EUR 2 2015/XXIII	29/11/2013	29/11/2015	EUR	1.26	398	2	fixed	
49.	OTP EUR 2 2015/XXIV	20/12/2013	20/12/2015	EUR	1.55	488	2	fixed	
50.	OTP EUR 2 2016/I	17/01/2014	17/01/2016	EUR	0.90	282	2	fixed	
51.	OTP EUR 2 2016/II	31/01/2014	31/01/2016	EUR	0.87	274	2	fixed	
52.	OTP EUR 2 2016/III	14/02/2014	14/02/2016	EUR	0.96	303	2	fixed	
53.	OTP EUR 2 2016/IV	28/02/2014	28/02/2016	EUR	0.69	217	1.9	fixed	
54.	OTP EUR 2 2016/V	14/03/2014	14/03/2016	EUR	0.74	233	1.8	fixed	
55.	OTP EUR 2 2016/VI	21/03/2014	21/03/2016	EUR	0.21	66	1.8	fixed	
56.	OTP EUR 2 2016/VII	11/04/2014	11/04/2016	EUR	0.74	232	1.8	fixed	
57.	OTP EUR 2 2016/VIII	18/04/2014	18/04/2016	EUR	0.20	63	1.8	fixed	
58.	OTP EUR 2 2016/IX	09/05/2014	09/05/2016	EUR	0.66	207	1.8	fixed	
59.	OTP EUR 2 2016/X	23/05/2014	23/05/2016	EUR	0.60	189	1.8	fixed	
60.	OTP EUR 2 2016/XI	06/06/2014	06/06/2016	EUR	0.64	201	1.8	fixed	
61.	OTP EUR 2 2016/XII	20/06/2014	20/06/2016	EUR	0.64	202	1.5	fixed	
62.	OTP EUR 2 2016/XIII	04/07/2014	04/07/2016	EUR	0.46	145	1.5	fixed	
63.	OTP EUR 2 2016/XIV	18/07/2014	18/07/2016	EUR	0.31	99	1.5	fixed	
64.	OTP EUR 2 2016/XV	30/07/2014	30/07/2016	EUR	1.58	498	1.5	fixed	
65.	OTP EUR 2 2016/XVI	08/08/2014	08/08/2016	EUR	0.37	116	1.5	fixed	
66.	OTP EUR 2 2016/XVII	29/08/2014	29/08/2016	EUR	1.32	417	1.5	fixed	
67.	OTP EUR 2 2016/XVIII	12/09/2014	12/09/2016	EUR	1.01	319	1.5	fixed	

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	(HUF mn)	Interest conditions (in % p.a.)		Hedged
68.	OTP EUR 2 2016/XIX	03/10/2014	03/10/2016	EUR	1.92	605	1.25	fixed	
69.	OTP 2015/Cx	27/12/2010	29/12/2015	EUR	0.85	267	indexed	floating	hedged
70.	OTP 2015/Fx	21/12/2012	23/12/2015	EUR	2.07	653	indexed	floating	hedged
71.	OTP 2016/Cx	22/04/2011	22/04/2016	EUR	1.42	448	indexed	floating	hedged
72.	OTP 2016/Dx	22/12/2011	29/12/2016	EUR	1.08	341	indexed	floating	hedged
73.	OTP 2017/Fx	19/06/2012	16/06/2017	EUR	0.78	245	indexed	floating	hedged
74.	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	195	indexed	floating	hedged
75.	OTP_VK_USD_2_2016/1	28/11/2014	28/11/2016	USD	1.40	362	1.1	fixed	
76.	OMB2015_I	30/08/2012	06/03/2015	EUR	5	1,575	4.1	floating	hedged
77.	Mortgage bonds OTP VII	21/12/2005	21/12/2015	EUR	22.47	7,076	0.23	floating	
78.	Mortgage bonds OTP XXV	28/09/2012	28/09/2016	EUR	7.96	2,507	4.0	fixed	
79.	OTPRU 15/03	06/03/2012	03/03/2015	RUB	299.71	1,334	10.5	fixed	
80.	Other*					4,493			
	Subtotal issued securities in FX					**66,061**			
	Unamortized premium					139			
	Fair value adjustment					76			
	Total issued securities in FX					**66,276**			
	Accrued interest					**9,414**			
	Total issued securities					**267,084**			

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

On 9 July 2013 the Bank initiated term note program in the value of HUF 500 billion with the intention of issuing registered dematerialized bonds in public. The Authority approved on 30 July 2013 the prospectus of Term Note Program and the disclosure as at 17 July 2013. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange.

54,204 pieces of fixed bonds with nominal value of EUR 100 each in the total nominal amount of EUR 5,420,400 have been introduced to the Budapest Stock Exchange. On 10 September 2014 the NBH approved the disclosure and the prospectus as at 27 August 2014.

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

On 8 July 2014 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.

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.

* Other category includes promissory notes issued by OTP Banka Slovensko a.s. in the amount of HUF 1,133 million and by JSC "OTP Bank" (Russia) in the amount of HUF 3,360 million.

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:

	2014	2013
Interest rate swaps classified as held for trading	63,691	67,881
CCIRS and mark-to-market CCIRS classified as held for trading	53,724	7,521
Foreign exchange swaps classified as held for trading	51,537	5,316
Option contracts classified as held for trading	6,215	3,047
Foreign exchange forward contracts classified as held for trading	5,582	1,989
Forward security agreements classified as held for trading	478	394
Forward rate agreements classified as held for trading (FRA)	61	369
Other transactions classified as held for trading	2,706	647
Total	**183,994**	**87,164**

NOTE 17: OTHER LIABILITIES* (in HUF mn)

	2014	2013
Provision for impairment on off-balance sheet commitments and contingent liabilities	217,351	22,180
Fair value of derivative financial instruments designated as fair value hedge	85,679	74,695
Financial liabilities from OTP–MOL share swap transaction**	56,445	71,548
Liabilities from investment services	41,264	53,068
Accrued expenses	33,015	32,701
Salaries and social security payable	25,583	26,111
Liabilities connected to Cafeteria benefits	22,700	21,475
Accounts payable	22,373	18,231
Current income tax payable	14,707	21,786
Giro clearing accounts	13,119	7,964
Deferred tax liabilities	9,855	17,559
Clearing, settlement and pending accounts	7,284	8,135
Advances received from customers	3,266	2,546
Liabilities connected to leasing activities	1,080	1,235
Liabilities connected to loans for collection	909	1,044
Loans from government	738	774
Liabilities related to housing loans	244	105
Dividend payable	140	133
Other	36,102	39,892
Subtotal	**591,854**	**421,182**
Accrued interest	234	171
Total	**592,088**	**421,353**

* 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 of amount being settled in 2014 is HUF 423 million as at 31 December 2014. 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.

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

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

	2014	2013
Provision on contingent liabilities due to regulations related to customer loans*	196,574	–
Provision for litigation	7,454	3,267
Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending	3,566	10,189
Provision for expected pension commitments	3,430	1,253
Provision for other liabilities	6,327	7,471
Total	**217,351**	**22,180**

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

	2014	2013
Balance as at 1 January	**22,180**	**19,727**
Provision for the year	195,310	3,990
Change due to acquisition	1,756	–
Use of provision	(1,031)	(1,498)
Foreign currency translation differences	(864)	(39)
Closing balance	**217,351**	**22,180**

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

	2014	2013
CCIRS and mark-to-market CCIRS designated as fair value hedge	79,940	71,512
Interest rate swaps designated as fair value hedge	3,463	2,639
Foreign exchange swaps designated as fair value hedge	2,276	499
Forward security agreements designated as fair value hedge	–	45
Total	**85,679**	**74,695**

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

	2014	2013
Within one year:		
In HUF	–	–
In foreign currency	16,779	72
	16,779	**72**
Over one year:		
In HUF	–	–
In foreign currency	264,018	263,884
	264,018	**263,884**
Accrued interest	1,171	3,206
Total	**281,968**	**267,162**

Interest rates on subordinated bonds and loans are as follows:

	2014	2013
Denominated in foreign currency	0.6%–8.25%	0.8%–8.25%
Average interest rates on subordinated bonds and loans	5.10%	4.13%

* See details in Note 2.28.

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 31 December 2014
Subordinated bond	EUR 93.45 million	04/03/2005	04/03/2015	100%	Three-month EURIBOR + 0.55% quarterly	–
Subordinated bond	EUR 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* program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN* 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%	1.72%
Subordinated bond	RUB 4.2 million	30/04/2004	21/06/2015	100%	Variable monthly, based on the Russian National Bank's interest rate	8.25%

NOTE 19: SHARE CAPITAL (in HUF mn)

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

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

The reserves of the Bank under Hungarian Accounting Standards ("HAS") are as follows (the reserves under IFRS are detailed in consolidated statement of changes in equity):

	2014	2013
Capital reserve	52	52
General reserve	153,935	153,935
Retained earnings	814,399	870,357
Tied-up reserve	8,558	8,287
Total	**976,944**	**1,032,631**

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

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 686,000 million and HUF 664,856 million) and reserves (HUF 602,757 million and HUF 867,308 million) as at 31 December 2014 and 2013

* European Medium Term Note Program.

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 121,306 million and HUF 14,381 million as at 31 December 2014 and 2013 respectively.

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

NOTE 21: TREASURY SHARES ((in HUF mn)

	2014	2013
Nominal value (Ordinary shares)	1,818	1,797
Carrying value at acquisition cost	55,940	55,599

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:	2014	2013
Number of shares as at 1 January	**17,972,405**	**18,755,373**
Additions	6,474,942	4,247,043
Disposals	(6,272,000)	(5,030,011)
Closing number of shares	**18,175,347**	**17,972,405**

Change in carrying value:	2014	2013
Balance as at 1 January	**55,599**	**53,802**
Additions	27,522	19,740
Disposals	(27,181)	(17,943)
Closing balance	**55,940**	**55,599**

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

	2014	2013
Balance as at 1 January	**4,767**	**5,783**
Changes due to ownership structure	(177)	(423)
Non-controlling interest included in net profit for the year	(273)	(91)
Foreign currency translation difference	(968)	(502)
Closing balance	**3,349**	**4,767**

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

	2014	2013
Provision for impairment on loan losses		
Provision for the year	708,743	514,614
Release of provision	(319,393)	(328,859)
Provision for impairment on loan losses	57,470	77,188
	446,820	**262,943**
Provision for impairment/(Release of provision) on placement losses		
Provision for the year	874	28
Release of provision	(854)	(367)
Release of provision for impairment on placement losses	(10)	(35)
	10	**(374)**
Provision for impairment on loan and placement losses	**446,830**	**262,569**

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

Income from fees and commissions:

	2014	2013
Deposit and account maintenance fees and commissions	109,765	98,726
Fees and commissions related to the issued bank cards	45,997	50,757
Fees related to cash withdrawal	29,477	32,757
Fees and commissions related to lending	21,495	21,336
Fees and commissions related to fund management	20,215	15,168
Fees and commissions related to security trading	12,643	10,961
Other	25,800	27,430
Total	**265,392**	**257,135**

Expense from fees and commissions:

	2014	2013
Fees and commissions paid on loans	12,489	14,023
Fees and commissions related to issued bank cards	11,907	8,780
Interchange fees	7,351	10,356
Fees and commissions related to collection of loans	2,856	5,601
Fees and commissions related to deposits	2,579	2,428
Cash withdrawal transaction fees	2,158	2,970
Fees and commissions related to security trading	1,610	1,152
Postal fees	836	836
Money market transaction fees and commissions	794	1,074
Insurance fees	532	1,860
Other	6,624	6,298
Total	**49,736**	**55,378**
Net profit from fees and commissions	**215,656**	**201,757**

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

Other operating income	2014	2013
Gains on real estate transactions	734	1,552
Other income from non-financial activities	13,645	24,840
Total	**14,379**	**26,392**

Other operating expenses	2014	2013
Provision on contingent liabilities due to regulations related to customer loans*	194,798	–
Provision for impairment on other assets	5,066	4,313
Provision for assets subject to operating lease**	1,048	–
Provision for investment properties**	3,612	–
Provision for impairment on investments***	1,244	1,370
Provision for off-balance sheet commitments and contingent liabilities	512	3,990
Other expense from non-financial activities	19,975	19,366
Other operating costs	6,354	10,756
Total	**232,609**	**39,795**

Other administrative expenses	2014	2013
Personnel expenses		
Wages	151,467	150,462
Taxes related to personnel expenses	41,319	40,677
Other personnel expenses	13,549	13,138
Subtotal	**206,335**	**204,277**
Depreciation and amortization******	**65,947**	**78,017**

Other administrative expenses	2014	2013
Taxes, other than income tax*****	116,148	121,002
Administration expenses, including rental fees	51,119	50,775
Services	40,515	44,831
Professional fees	16,892	14,490
Advertising	11,736	13,379
Subtotal	**236,410**	**244,477**
Total	**508,692**	**526,771**

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:

	2014	2013
Current tax expense	16,520	24,542
Deferred tax benefit	(67,905)	(3,598)
Total	**(51,385)**	**20,944**

* See details in Note 2.28.
** Provisions on assets subject to operating lease and investment properties which were transferred from tangible and intangible assets to the other assets (see more details in Note 12.).
*** See details in Note 9.
**** See details in Note 11.
***** Special tax of financial institutions was paid by the Group in the amount of HUF 37 billion and HUF 36.9 billion for the year 2014 and 2013 respectively, recognized as an expense thus decreased the corporate tax base. In the year period ended 31 December 2014 financial transaction duty was paid by the Bank in the amount of HUF 44 billion.

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

	2014	2013
Balance as at 1 January	**(12,273)**	**(17,295)**
Deferred tax benefit	67,905	3,598
Deferred tax related to items recognized directly in equity and in Other Comprehensive Income	(1,418)	1,173
Foreign currency translation difference	(3,060)	251
Closing balance	**51,154**	**(12,273)**

A breakdown of the deferred tax assets and liabilities are as follows:

	2014	2013
Refundable tax in accordance with Acts on Customer Loans*	33,226	–
Tax loss carry forward	15,207	3,114
Provision for impairment on investments (Goodwill)	10,705	–
Fair value adjustment of securities held for trading and securities available-for-sale	8,704	6,626
Repurchase agreement and security lending	4,176	4,458
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	593	313
Premium and discount amortization on bonds	177	–
Difference in accounting for leases	177	306
Difference in depreciation and amortization	73	–
Fair value adjustment of derivative financial instruments	8	8
Adjustment from effective interest rate method	–	5,572
Other	23,167	6,176
Deferred tax asset	**96,213**	**26,573**
Fair value adjustment of securities held for trading and securities available-for-sale	(16,193)	(10,255)
Difference in depreciation and amortization	(5,051)	(8,835)
Fair value adjustment of derivative financial instruments	(5,031)	(1,987)
Difference in accounting for leases	(3,992)	(66)
Net effect of treasury share transactions	(2,681)	(2,934)
Adjustment from effective interest rate method	(2,380)	(2,063)
Temporary differences arising on consolidation	(1,817)	(1,741)
Accounting of equity instrument (ICES)	(1,333)	(1,912)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(110)	–
Premium and discount amortization on bonds	(23)	(215)
Other	(6,448)	(8,838)
Deferred tax liabilities	**(45,059)**	**(38,846)**
Net deferred tax asset/(liability)	**51,154**	**(12,273)**

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

	2014	2013
(Loss)/Profit before income tax	(153,643)	85,052
Income tax (income)/expense at statutory tax rates	(26,793)	22,603

* See details in Note 2.28.

Income tax adjustments due to permanent differences are as follows:

	2014	2013
Differences in carrying value of subsidiaries	14,982	3,267
Share-based payment	835	1,084
Reversal of statutory general provision	–	1,198
Amount removed from statutory general provision to retained earnings	–	5,533
OTP–MOL share swap transaction	(80)	(186)
Revaluation of investments denominated in foreign currency to historical cost	(185)	3,243
Difference of accounting of equity instrument (ICES)	(211)	49
Treasury share transactions	(917)	113
Use of tax allowance in the current year	(2,479)	(9,523)
Deferred use of tax allowance*	(6,335)	(459)
Tax refund in accordance with Acts on Customer Loans	(28,306)	–
Other	(1,896)	(5,978)
Income tax (income)/expense	**(51,385)**	**20,944**
Effective tax rate**	**33.44%**	**24.62%**

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 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 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

* From year 2011 legal regulation has 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 couldn't apply this tax allowance in the financial statements prepared according to the HAS in 2012, since the tax base for year 2012 was negative. In IFRS financial statements this amount was settled as deferred tax.

** 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.

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: over 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.

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

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

As at 31 December 2014:

Loan type	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
Corporate loans	1,565,654	49,286	242,997	1,857,937
Consumer loans	1,389,289	115,644	155,581	1,660,514
SME loans	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**

As at 31 December 2013:

Loan type	Up to 90 days	91–360 days	Above 360 days	Total carrying amount/allowance
Mortgage loans	2,061,992	97,883	463,222	2,623,097
Corporate loans	1,566,018	49,897	288,784	1,904,699
Consumer loans	1,550,838	108,550	256,894	1,916,282
SME loans	306,767	11,967	133,497	452,231
Car-finance loans	188,221	13,286	38,594	240,101
Municipal loans	271,379	106	965	272,450
Gross portfolio	**5,945,215**	**281,689**	**1,181,956**	**7,408,860**
Placement with other banks	273,224	–	9	273,233
Bill of exchange	3,940	–	–	3,940
Total gross portfolio	**6,222,379**	**281,689**	**1,181,965**	**7,686,033**
Allowance for loans	(198,928)	(156,362)	(880,344)	(1,235,634)
Allowance for placements	(23)	–	(8)	(31)
Total allowance	**(198,951)**	**(156,362)**	**(880,352)**	**(1,235,665)**
Total net portfolio	**6,023,428**	**125,327**	**301,613**	**6,450,368**
Accrued interest				
for loans				68,044
for placements				277
Total accrued interest				**68,321**
Total net loans				6,245,210
Total net placements				273,479
Total net exposures				**6,518,689**

The Group's loan portfolio decreased by 6.1% in year 2014. Analysing the contribution of loan types to the loan portfolio, the share of the mortgage loan types slightly increased, the consumer and municipal loan type slightly decreased, while the other types of loans remained almost the same as at 31 December 2014 comparing with the previous year. As a consequence of the economic situation, the qualification of the loan portfolio deteriorated in the previous year, but for the end of 2014 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 19% to 18.6%. Among the qualified loan portfolio, the loans classified to the risk class of "more than 90 until 360 days past due" expanded 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 the same 74.5% as at 31 December 2014 and 31 December 2013 respectively.

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 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
Corporate loans	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
SME loans	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**

As at 31 December 2013:

Loan type	Not past due	Up to 90 days	91–360 days	Above 360 days	Total
Mortgage loans	1,227,900	174,115	6,044	6,134	1,414,193
Corporate loans	822,027	18,792	406	1,205	842,430
Consumer loans	402,625	62,689	494	201	466,009
Placement with other banks	246,744	20	–	–	246,764
SME loans	191,023	10,848	1,328	2,130	205,329
Municipal loans	210,005	–	14	33	210,052
Car-finance loans	34,343	25,179	236	1	59,759
Total	**3,134,667**	**291,643**	**8,522**	**9,704**	**3,444,536**

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 increased from 40.85% to 42.72% as at 31 December 2014 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 increased slightly during year 2014, while the ratio of the municipal loans decreased mostly.

The loans that are past due but not impaired are concentrated mainly in the mortgage loan type. 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.

Loans individually assessed for provision

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

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 31 December 2014 and 31 December 2013 is as follows:

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
Decrease of client classification	182,472	49,221	137,716	11,041	3,835
Legal proceedings	78,037	54,745	48,845	84	47
Regularity of payment	48,373	37,290	12,790	–	–
Loan characteristics	39,370	1,975	27,341	–	–
Country risk	33,145	7,935	13,752	–	–
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	–	–
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	–	–
Legal proceedings	592	235	1,267	–	–
Decrease of client classification	234	122	–	3	–
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**

As at 31 December 2013:

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	246,409	152,413	187,509	54	1
Decrease of client classification	158,892	39,529	119,532	7,510	4,369
Legal proceedings	179,831	132,950	67,360	190	94
Regularity of payment	472	196	222	–	–
Loan characteristics	54,200	7,448	19,775	–	–
Country risk	3,425	1,224	2,687	–	–
Cross default	12,906	5,695	4,592	1,396	219
Business lines risks	12,062	3,130	4,645	5,399	143
Restructuring	1,716	243	561	–	–
Other	22,159	7,399	16,714	6,000	379
Corporate total	**692,072**	**350,227**	**423,597**	**20,549**	**5,205**
Delay of payment	1,695	517	4,053	–	–
Legal proceedings	856	460	996	–	–
Decrease of client classification	3,170	164	–	99	1
Restructuring	4,746	47	3,667	–	–
Regularity of payment	1,221	12	–	–	–
Cross default	882	124	–	–	–
Other	14,583	456	–	1,044	10
Municipal total	**27,153**	**1,780**	**8,716**	**1,143**	**11**
Placements with other banks	**–**	**–**	**–**	**–**	**–**
Total	**719,225**	**352,007**	**432,313**	**21,692**	**5,216**

By 31 December 2014 the volume of the individually rated portfolio increased by 6.7% in the corporate loan type. Among the rating factors of the corporate loan type, the decrease is mostly based on the legal proceedings and loan characteristics, while increase is based on the regularity of payment and country risk. The decrease is more significant in the municipal loan portfolio, where the decrease is mostly based on the improving regularity of payment, restructuring, and on the improving client classification. The increase is based only on the delay of payment.

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

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

Loan portfolio by countries

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

	2014		2013	
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	2,888,007	357,121	3,216,051	436,238
Bulgaria	1,220,609	160,427	1,183,984	202,410
Russia	588,601	101,079	859,917	163,704
Ukraine	578,876	254,910	673,677	183,574
Croatia	510,344	39,442	417,850	30,892
Romania	484,602	69,475	474,080	63,308
Slovakia	370,649	22,920	335,866	22,824
Montenegro	186,890	71,542	200,175	80,312
United Kingdom	123,716	2,075	54,179	1,867
Serbia	112,822	33,037	108,274	36,998
Cyprus	47,333	10,476	50,082	10,412
Germany	22,440	91	28,289	81
United States of America	24,387	51	11,611	33
Austria	9,981	5	8,655	4
Switzerland	8,267	149	6,480	2
Czech Republic	6,829	13	6,299	–
France	5,284	1	14,772	–
Seychelles	4,877	4,855	4,624	2,317
Norway	4,649	25	1,404	2
Italy	4,598	3	180	1
Turkey	1,812	8	1,228	–
Denmark	1,660	–	1,062	–
Poland	1,454	–	3,417	–
The Netherlands	1,067	21	4,828	4
Sweden	263	8	1,759	8
Ireland	193	69	209	66
Kazakhstan	171	30	191	25
Japan	157	–	126	–
Belgium	86	6	11,506	1
Latvia	58	32	44	28
Spain	57	1	28	–
Australia	55	–	107	–
Island	41	29	39	27
Canada	38	–	128	–
Egypt	685	480	685	480
Luxembourg	–	–	3	2
Other*	1,271	751	284	45
Total**	**7,212,829**	**1,129,132**	**7,682,093**	**1,235,665**

* Other category in the year of 2014 includes e.g.: Bosnia and Herzegovina, Greece, Hong Kong, Vietnam, Moldova, Macedonia, United Arab Emirates, Brazil, Israel, Slovenia, India, South Korea, Finland, Morocco, Armenia and Kyrgyzstan.
** Without the amount of bill of exchange.

The loan portfolio decreased mostly in Russia, Ukraine and Hungary, and increased in the Croatia and Slovakia but there were no significant changes in the other countries of Group members'. Their stock of provision increased mostly in Ukraine, Croatia and Romania, decreased in Russia, Bulgaria and 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	2014	2013
Mortgages	5,323,528	5,899,371
Assignments (revenue or other receivables)	407,051	380,540
Guarantees of state or organizations owned by state	277,260	273,258
Guarantees and warranties	114,034	109,589
Cash deposits	74,435	83,890
Securities	34,508	56,813
Other	793,137	842,311
Total	**7,023,953**	**7,645,772**

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	2014	2013
Mortgages	2,737,324	3,064,157
Assignments (revenue or other receivables)	330,466	320,435
Guarantees of state or organizations owned by state	207,379	220,281
Guarantees and warranties	86,475	91,271
Cash deposits	42,956	50,080
Securities	16,723	12,054
Other	455,811	524,689
Total	**3,877,134**	**4,282,967**

The coverage level of the loan portfolio (total collaterals) decreased by 0.7%, as well as the coverage level to the extent of the exposures decreased by 1.05% as at 31 December 2014.

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

An analysis of the fair value of collaterals related to past due, but not impaired loans, total collaterals and to the extent of the exposures as at 31 December 2014 and 31 December 2013 is as follows:

Fair value of the collaterals (total collaterals)	2014	2013
Mortgage loans	268,137	310,271
Corporate loans	47,563	53,944
SME loans	46,095	51,357
Car-finance loans	17,640	20,507
Consumer loans	4,020	3,367
Municipal loans	88	64
Placements with other banks	–	–
Total	**383,543**	**439,510**

Fair value of the collaterals (to the extent of the exposures)	2014	2013
Mortgage loans	151,743	173,702
Corporate loans	14,788	18,728
SME loans	10,822	13,747
Car-finance loans	13,012	16,115
Consumer loans	1,320	760
Municipal loans	253	32
Placements with other banks	–	–
Total	**191,938**	**223,084**

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

27.1.3 Restructured loans

	2014		2013	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Corporate loans	197,382	43,685	266,418	80,658
Retail loans	76,124	6,636	95,370	9,094
SME loans	14,046	2,018	16,381	1,954
Municipal loans	71	3	1,386	28
Total	**287,623**	**52,342**	**379,555**	**91,734**

Restructured portfolio definition:

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

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

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

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

- independently from the date of the restructuring the following restructuring tool was applied:
  - cancellation of principal outstanding (cancelled or partially cancelled principal receivables);
- it was restructured in the last 12 months or the loan was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months,

and any of the following restructuring tools were applied:

- cancellation of interest rate (final or temporary reduction of the interest margin, cancellation of due interest), or
- restructuring of interest payments (postponement of the interest payment, 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.

27.1.4 Financial instruments by rating categories*

Securities held for trading as at 31 December 2014:

	Aaa	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba3	Not rated	Total
Shares	633	12	138	10	41	21	67	–	–	–	58,309 **	59,231
Government bonds	1,044	–	–	–	–	–	4,072	5,093	12,733	–	–	22,942
Discounted Treasury bills	–	–	–	–	–	–	3,127	–	287	–	–	3,414
Other securities	–	–	–	–	–	–	–	–	4,175	–	264	4,439
Other non-interest bearing securities	–	–	–	–	–	–	–	1,672	–	18	2,299	3,989
Total	**1,677**	**12**	**138**	**10**	**41**	**21**	**7,266**	**6,765**	**17,195**	**18**	**60,872**	**94,015**
Accrued interest												625
Total												**94,640**

Securities available-for-sale as at 31 December 2014:

	Aaa	A1	Baa2	Baa3	Ba1	Ba3	B1	Caa1	Caa3	C	Not rated	Total
Government bonds	–	–	40,092	210,045	418,796	–	–	–	1,078	117	10,195	680,323
Discounted Treasury bills	–	–	–	9,873	32,295	–	–	–	–	–	–	42,168
Corporate bonds	322	–	79	–	5,542	2,412	10	526	–	–	28,566	37,457
Other securities	–	–	–	–	20,826	–	–	–	–	–	312	21,138
Other non-interest bearing securities	48	22	–	483	–	–	–	–	–	–	43,093	43,646
Total	**370**	**22**	**40,171**	**220,401**	**477,459**	**2,412**	**10**	**526**	**1,078**	**117**	**82,166**	**824,732**
Accrued interest												15,694
Total												**840,426**

Securities held-to-maturity as at 31 December 2014:

	Aaa	A1	A2	Baa2	Baa3	Ba1	Caa3	Not rated	Total
Government bonds	4,497	–	22,681	1,184	11,065	641,644	10,648	691	692,410
Mortgage bonds	–	522	–	–	–	–	–	–	522
Discounted Treasury bills	–	–	–	–	–	346	–	173	519
Corporate bonds	–	–	–	–	–	–	–	7	7
Total	**4,497**	**522**	**22,681**	**1,184**	**11,065**	**641,990**	**10,648**	**871**	**693,458**
Accrued interest									16,725
Total									**710,183**

* Moody's ratings.
** These contain mostly corporate shares listed on Budapest Stock Exchange.

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 FX Var rose due to significant increase of USD/RUB volatility.

The VaR of the trading portfolio can be summarized as follows:

Historical VaR (99%, one-day) by risk type	Average in HUF million	
	2014	2013
Foreign exchange	1,263	241
Interest rate	391	488
Equity instruments	12	14
Diversification	(278)	(181)
Total VaR exposure	**1,388**	**562**

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.

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, 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 and was long amounted to1.9 million CHF as at 31 December 2014. 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	
	2014 (in HUF billion)	2013 (in HUF billion)
1%	(15.2)	(12.7)
5%	(10.6)	(8.7)
25%	(4.6)	(3.6)
50%	(0.8)	(0.3)
25%	2.9	2.8
5%	7.9	7.0
1%	11.7	9.9

Notes:
(1) The short-term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
(2) The HUF/EUR volatility remained at its long-term average, so 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 2014.

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 were 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.

The simulations were prepared by assuming two scenarios:
(1) HUF base rate decreases gradually to 1.5% (probable scenario)
(2) HUF base rate decreases gradually to 0.1% (alternative scenario)

The net interest income in a one year period after 31 December 2014 would be decreased by HUF 1,030 million (probable scenario) and HUF 4,098 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 2,208 million (probable scenario) and HUF 3,432 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2013.
This effect is counterbalanced by capital gains (HUF 899 million for probable scenario, HUF 3,689 million for alternative scenario) as at 31 December 2014 and (HUF 1,344 million for probable scenario, HUF 1,978 million for alternative scenario) as at 31 December 2013 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:

	2014		2013	
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	(361)	374	(410)	240
EUR (0.1%) parallel shift	(503)	–	(451)	–
USD (0.1%) parallel shift	(50)	–	(3)	–
Total	**(914)**	**374**	**(864)**	**240**

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

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 2014 as well as in 2013.

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.

The capital adequacy calculations of the Group were prepared in accordance with Basel II at the end of 2013, while due to the modifications of the regulations it was calculated on the base of Basel III as at 31 December 2014.

The Capital adequacy ratio of the Group (Basel III) was 17.5%, the Regulatory capital was HUF 1,201,874 million and the Total regulatory capital requirement was HUF 548,755 million as at 31 December 2014. The same ratios calculated as at 31 December 2013 according to Basel II were the following: 19.9%, HUF 1,440,962 million and HUF 579,408 million.

Calculation on IFRS basis	2014 Basel III		2013 Basel II
Core capital (Tier1) = Common Equity Tier1 (CET1)	969,935	Core capital (Tier1)	1,264,286
		Positive components	1,513,448
Issued capital	28,000	Issued capital	28,000
Reserves	1,280,396	Reserves	1,385,423
Other capital components	(113,047)	Other issued capital components	100,025
Fair value corrections	25,389	Negative components	(249,162)
Non-controlling interests	736		
Treasury shares	(55,940)	Treasury shares	(55,599)
Goodwill and other intangible assets	(158,681)	Goodwill and other intangible assets	(193,563)
Other adjustments	(36,918)		
Additional Tier1 (AT1)	–		
Supplementary capital (Tier2)	231,939	Supplementary capital (Tier2)	177,043
Subordinated bonds and loans	133,217	Subordinated bonds and loans	164,393
Other issued capital components	96,019	Fair value corrections	12,650
Components recognized in T2 capital issued by subsidiaries	2,703		
		Deductions	(367)
Regulatory capital*	**1,201,874**	**Regulatory capital**	**1,440,962**
Credit risk capital requirement	450,073	Credit risk capital requirement	461,765
Market risk capital requirement	26,848	Market risk capital requirement	37,295
Operational risk capital requirement	71,834	Operational risk capital requirement	80,348
Total requirement regulatory capital	**548,755**	**Total requirement regulatory capital**	**579,408**
Surplus capital	**653,119**	**Surplus capital**	**861,554**
CET1 ratio	14.1%	CET1 ratio	–
Tier1 ratio	14.1%	Tier1 ratio	17.5%
Capital adequacy ratio	**17.5%**	**Capital adequacy ratio**	**19.9%**

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

Basel II

The positive components of the Core capital are the following: Issued capital, Other reserve, Profit reserve, Changes in the equity of subsidiaries, Changes due to consolidation, Profit for the year, Other issued capital components.
The negative components of the Core capital are the following: Treasury shares, Goodwill and other Intangible assets, Dividends.
The components of the Supplementary capital are the following: Supplementary loan capital, Subordinated loan capital, Revaluation reserves, Fair value adjustments, Share based payments, Cash-flow hedges, Net investment hedge in foreign operations (in Supplementary Capital), Other issued capital.
The components of the Deductions: deductions due to investments.

Basel III

The components of the Common Equity Tier1 capital (CET1) 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 (Tier2): Subordinated loan capital, Supplementary loan capital, Other issued capital components, Components recognized in T2 capital issued by subsidiaries.

The capital adequacy of the foreign subsidiary banks prescribed by the local regulator, and the compliance with these prescriptions is as follows:

Subsidiary bank	Country	2014	2013
JSC "OTP Bank" (Russia)	Russia	12.1%	14.0%
OTP Bank JSC (Ukraine)	Ukraine	10.4%	20.6%
DSK Bank EAD	Bulgaria	18.0%	16.4%
OTP Bank Romania S.A.	Romania	12.7%	12.7%
OTP banka Srbija a.d.	Serbia	31.5%	37.8%
OTP banka Hrvatska d.d.	Croatia	15.0%	16.7%
OTP Banka Slovensko a. s.	Slovakia	13.5%	10.6%
Crnogorska komercijalna banka a.d.	Montenegro	15.8%	14.4%

The ratios of the 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:

	2014	2013
Commitments to extend credit	999,732	1,266,185
Guarantees arising from banking activities	368,670	312,994
Contingent liabilities ordered by law related to customer loans*	157,693	–
from this: obligation related to application of the bid-ask exchange rate spread	31,297	–
from this: obligation related to unilateral amendment of contractual clauses	126,396	–
Legal disputes (disputed value)	71,808	66,988
Confirmed letters of credit	25,581	25,919
Other	208,915	138,422
Total	**1,832,399**	**1,810,508**

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.

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 7,454 million and HUF 3,267 million as at 31 December 2014 and 2013, respectively (see Note 17.).

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

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

Commitments to extend credit, guarantees and 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,

* See details in Note 2.28.

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.

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.

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.

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 9/2011 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 Board of Directors 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 Board of Directors, maximum HUF 4,000.

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 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	2014	2013
Short-term employee benefits	8,373	9,534
Share-based payment	2,937	3,297
Other long-term employee benefits	739	965
Termination benefits	135	89
Total	**12,184**	**13,885**
Commitments to extend credit and guarantees	15,690	1,221
Loans provided to companies owned by the Management (normal course of business)	13,357	38,828
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions)	334	559
Loans provided to unconsolidated subsidiaries	1,304	1,124

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 164.3 million and HUF 175.4 million as at 31 December 2014 and as at 31 December 2013.

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

	2014	2013
Members of Board of Directors and their close family members	24	26
Members of Supervisory Board	4	4
Chief executives	2	–

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

	2014	2013
Members of Board of Directors and their close family members	38	51
Members of Supervisory Board	–	3

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 2014 and 31 December 2013, respectively.

Chief executives owned AMEX Gold credit card loan in the amount of HUF 3.5 million as at 2014 and 31 December 2013, 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 23.5 and 10.5 million, respectively as at 31 December 2014 and 31 December 2013.

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 18.2 and 35.4 million as at 2014 and 31 December 2013, 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:

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

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 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.

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

	2014
Cash, amounts due from banks and balances with the National Banks	1,719
Placements with other banks, net of allowance for placement losses	26,797
Financial assets at fair value through profit or loss	–
Securities available-for-sale	4,555
Loans, net of allowance for loan losses	52,566
Associates and other investments	–
Securities held-to-maturity	–
Property and equipment	2,320
Intangible assets	248
Other assets	188
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	(4,067)
Deposits from customers	(72,565)
Liabilities from issued securities	–
Financial liabilities at fair value through profit or loss	–
Other liabilities	(2,798)
Subordinated bonds and loans	–
Net assets	**8,963**
Non-controlling interest	–
Negative goodwill	(4,400)
Cash consideration	**4,563**

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

	2014
Cash consideration	(4,563)
Cash acquired	1,719
Net cash outflow	**(2,844)**

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) 2014	2013	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%	97.81%	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)	97.90%	97.56%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.26%	99.21%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	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*

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

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**

As at 31 December 2013:

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

* Based on unaudited financial statements.

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.

	2014	2013
The amount of loans managed by the Group as a trustee	39,706	42,345

NOTE 34: CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2014	2013
Receivables from, or securities issued by the Hungarian Government or the NBH*	27.9%	21.0%

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

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.

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.

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

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 2014 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.

As at 31 December 2014:

	Within 3 months	Within one year and over 3 months	Within 5 year 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*	417,716	151,980	4,718	2,444	–	576,858
Subordinated bonds and loans	30,593	17,897	140,051	–	111,191**	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**

As at 31 December 2013:

	Within 3 months	Within one year and over 3 months	Within 5 year 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	467,393	60,220	197,362	84,786	–	809,761
Deposits from customers	5,515,729	1,110,320	264,421	23,144	–	6,913,614
Liabilities from issued securities	65,351	211,232	111,567	65,940	–	454,090
Other liabilities*	329,973	15,572	12,223	1,222	–	358,990
Subordinated bonds and loans	3,211	4,311	178,764	–	104,842**	291,128
TOTAL LIABILITIES	**6,381,657**	**1,401,655**	**764,337**	**175,092**	**104,842**	**8,827,583**
Receivables from derivative financial instruments classified as held for trading	741,284	103,784	56,205	14,920	–	916,193
Liabilities from derivative financial instruments classified as held for trading	(772,367)	(114,122)	(94,783)	(32,048)	–	(1,013,320)
Net notional value of financial instruments classified as held for trading	**(31,083)**	**(10,338)**	**(38,578)**	**(17,128)**	**–**	**(97,127)**
Receivables from derivative financial instruments designated as fair value hedge	250,813	249,030	688,987	3,942	–	1,192,772
Liabilities from derivative financial instruments designated as fair value hedge	(261,502)	(264,224)	(735,838)	(2,579)	–	(1,264,143)
Net notional value of financial instruments designated as fair value hedge	**(10,689)**	**(15,194)**	**(46,851)**	**1,363**	**–**	**(71,371)**
Net notional value of derivative financial instruments total	**(41,772)**	**(25,532)**	**(85,429)**	**(15,765)**	**–**	**(168,498)**
Commitments to extend credit	652,949	379,707	158,340	69,161	6,028	1,266,185
Bank guarantees	53,902	78,177	154,536	25,876	503	312,994
Off-balance sheet commitments	**706,851**	**457,884**	**312,876**	**95,037**	**6,531**	**1,579,179**

* Without derivative financial instruments designated as fair value hedge.
** See Note 18.

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

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*	–	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*	–	(1,531)	(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**	**1,124,224**

As at 31 December 2013	USD	EUR	CHF	Others	Total
Assets	490,095	1,523,379	934,116	2,620,053	5,567,643
Liabilities	(423,536)	(1,477,154)	(209,899)	(2,312,443)	(4,423,032)
Off-balance sheet assets and liabilities, net	44,933	(2,758)	(743,924)	(109,072)	(810,821)
Net position	**111,492**	**43,467**	**(19,707)**	**198,538**	**333,790**

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, 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 'Value-at-Risk' ("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.

* Loans were converted into HUF at foreign exchange rates applied in conversion due to Acts on Customer loans, so these do not bear further foreign currency risk or exposure. Loans denominated in JPY are included by others. See Note 2.28.

As at 31 December 2014:

	Within 1 month		Over 1 month and within 3 months		Over 3 moths and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		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

As at 31 December 2014:

	Within 1 month		Over 1 month and within 3 months		Over 3 moths and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		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**

As at 31 December 2013:

	Within 1 month		Over 1 month and within 3 months		Over 3 moths and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		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	**51,834**	**51,999**	**208**	**143**	**–**	**54**	**–**	**84**	**–**	**–**	**68,122**	**366,681**	**120,164**	**418,961**	**539,125**
fixed rate	49,234	15,062	14	9	–	54	–	84	–	–	–	–	49,248	15,209	64,457
variable rate	2,600	36,937	194	134	–	–	–	–	–	–	–	–	2,794	37,071	39,865
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	68,122	366,681	68,122	366,681	434,803
Placements with other banks, net of allowance for placements losses	**32,423**	**189,021**	**–**	**27,182**	**–**	**919**	**–**	**–**	**–**	**4,804**	**1,033**	**18,097**	**33,456**	**240,023**	**273,479**
fixed rate	32,423	168,781	–	7,059	–	919	–	–	–	4,677	–	–	32,423	181,436	213,859
variable rate	–	20,240	–	20,123	–	–	–	–	–	127	–	–	–	40,490	40,490
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,033	18,097	1,033	18,097	19,130
Securities held for trading	**211,318**	**81**	**2,515**	**2,104**	**4,629**	**6,019**	**604**	**2,019**	**3,562**	**28,279**	**73,201**	**7,209**	**295,829**	**45,711**	**341,540**
fixed rate	211,318	81	2,327	2,104	4,484	5,808	604	2,019	3,562	28,279	–	–	222,295	38,291	260,586
variable rate	–	–	188	–	145	211	–	–	–	–	–	–	333	211	544
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	73,201	7,209	73,201	7,209	80,410
Securities available-for-sale	**1,152,169**	**38,649**	**10,449**	**36,614**	**26,967**	**52,259**	**37,793**	**48,589**	**87,696**	**96,282**	**30,794**	**18,994**	**1,345,868**	**291,387**	**1,637,255**
fixed rate	1,152,169	36,443	10,449	35,109	26,967	52,259	37,793	48,066	87,696	96,282	–	–	1,315,074	268,159	1,583,233
variable rate	–	2,206	–	1,505	–	–	–	523	–	–	–	–	–	4,234	4,234
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	30,794	18,994	30,794	18,994	49,788
Loans, net of allowance for loan losses	**927,001**	**2,354,717**	**267,460**	**884,164**	**58,677**	**401,809**	**38,844**	**193,812**	**305,968**	**496,783**	**53,295**	**262,680**	**1,651,245**	**4,593,965**	**6,245,210**
fixed rate	2,349	336,096	8,559	136,371	13,891	350,547	4,400	191,254	31,227	461,702	–	–	60,426	1,475,970	1,536,396
variable rate	924,652	2,018,621	258,901	747,793	44,786	51,262	34,444	2,558	274,741	35,081	–	–	1,537,524	2,855,315	4,392,839
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	53,295	262,680	53,295	262,680	315,975
Securities held-to-maturity	**–**	**1,653**	**10,682**	**2,692**	**5,368**	**25,977**	**57,681**	**1,301**	**434,086**	**26,693**	**12,782**	**1,136**	**520,599**	**59,452**	**580,051**
fixed rate	–	1,429	–	2,199	341	25,946	57,681	1,301	434,086	26,693	–	–	492,108	57,568	549,676
variable rate	–	224	10,682	493	5,027	31	–	–	–	–	–	–	15,709	748	16,457
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	12,782	1,136	12,782	1,136	13,918
Derivative financial instruments	**577,139**	**1,217,265**	**473,140**	**1,004,215**	**75,883**	**100,740**	**12,228**	**28,152**	**30,284**	**21,430**	**–**	**666**	**1,168,674**	**2,372,468**	**3,541,142**
fixed rate	255,095	787,732	30,759	189,203	52,259	97,755	12,149	28,152	30,284	21,430	–	–	380,546	1,124,272	1,504,818
variable rate	322,044	429,533	442,381	815,012	23,624	2,985	79	–	–	–	–	–	788,128	1,247,530	2,035,658
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	666	–	666	666

As at 31 December 2013:

	Within 1 month		Over 1 month and within 3 months		Over 3 moths and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		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	**328,326**	**169,044**	**10,336**	**60,570**	**67,457**	**11,223**	**798**	**10,264**	**85,647**	**26,184**	**12,323**	**2,040**	**504,887**	**279,325**	**784,212**
fixed rate	315,291	135,680	6,548	1,839	1,041	9,822	798	10,171	85,647	25,541	–	–	409,325	183,053	592,378
variable rate	13,035	33,364	3,788	58,731	66,416	1,401	–	93	–	643	–	–	83,239	94,232	177,471
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	12,323	2,040	12,323	2,040	14,363
Deposits from customers	**1,485,295**	**1,972,383**	**483,898**	**472,617**	**208,557**	**727,571**	**106,210**	**85,970**	**900,609**	**239,337**	**9,022**	**175,137**	**3,193,591**	**3,673,015**	**6,866,606**
fixed rate	1,119,266	917,332	463,338	463,968	208,450	595,679	106,210	73,423	16,490	29,523	–	–	1,913,754	2,079,925	3,993,679
variable rate	366,029	1,055,051	20,560	8,649	107	131,892	–	12,547	884,119	209,814	–	–	1,270,815	1,417,953	2,688,768
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	9,022	175,137	9,022	175,137	184,159
Liabilities from issued securities	**6,767**	**3,510**	**17,874**	**33,748**	**21,372**	**126,792**	**26,578**	**39,431**	**153,519**	**3,610**	**8,556**	**3,461**	**234,666**	**210,552**	**445,218**
fixed rate	6,436	3,510	17,729	21,524	20,713	126,792	25,040	39,431	121,923	3,610	–	–	191,841	194,867	386,708
variable rate	331	–	145	12,224	659	–	1,538	–	31,596	–	–	–	34,269	12,224	46,493
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8,556	3,461	8,556	3,461	12,017
Derivative financial instruments	**434,554**	**1,368,756**	**64,868**	**1,459,170**	**44,510**	**129,093**	**28,699**	**28,541**	**22,221**	**21,096**	**–**	**624**	**594,852**	**3,007,280**	**3,602,132**
fixed rate	434,025	593,255	63,836	155,299	40,519	106,518	28,699	28,541	22,221	21,096	–	–	589,300	904,709	1,494,009
variable rate	529	775,501	1,032	1,303,871	3,991	22,575	–	–	–	–	–	–	5,552	2,101,947	2,107,499
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	-	624	–	624	624
Subordinated bonds and loans	**–**	**100**	**–**	**27,746**	**–**	**15,117**	**–**	**–**	**–**	**221,041**	**–**	**3,158**	**–**	**267,162**	**267,162**
fixed rate	–	–	–	–	–	–	–	–	–	221,041	–	–	–	221,041	221,041
variable rate	–	100	–	27,746	–	15,117	–	–	–	–	–	–	–	42,963	42,963
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	3,158	–	3,158	3,158
Net position	**696,942**	**339,592**	**187,478**	**(96,737)**	**(170,372)**	**(422,019)**	**(15,135)**	**109,751**	**(300,400)**	**163,003**	**209,326**	**491,043**	**607,839**	**584,633**	**1,192,472**

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.

	2014	2013
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	(101,985)	64,199
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	267,035,159	266,914,990
Basic Earnings per share (in HUF)	**(382)**	**241**
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	(101,985)	64,199
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	267,323,299	267,148,860
Diluted Earnings per share (in HUF)	**(382)**	**240**
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	12,964,851	13,085,020
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**267,035,159**	**266,914,990**
Dilutive effects of options issued in accordance with the Remuneration Policy/Management Option Program and convertible into ordinary shares*	288,140	233,870
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**267,323,299**	**267,148,860**

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.

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

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**

* The dilutive effect is in connection with the Remuneration Policy.

As at 31 December 2013:

	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	4,207	–	–	–
Placements with other banks, net of allowance for placements losses	5,151	–	374	–
Securities held for trading	924	313	–	–
Securities available-for-sale	71,743	7,936	–	(2,125)
Loans, net of allowance for loan losses	765,042	7,312	(262,943)	–
Securities held-to-maturity	33,002	(87)	11	–
Derivative financial instruments	25,307	(1,569)	–	–
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(13,826)	–	–	–
Deposits from customers	(191,514)	157,707	–	–
Liabilities from issued securities	(34,896)	–	–	–
Subordinated bonds and loans	(11,412)	–	–	–
Total	**653,728**	**171,612**	**(262,558)**	**(2,125)**

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

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Banks	2,307,632	2,307,632	539,125	539,125
Placements with other banks, net of allowance for placements losses	281,006	280,999	273,479	280,984
Financial assets at fair value through profit or loss	289,275	289,275	415,605	415,605
Securities held for trading	94,640	94,640	341,540	341,540
Fair value of derivative financial instruments classified as held for trading	194,635	194,635	74,065	74,065
Securities available-for-sale	839,152	839,152	1,637,255	1,637,255
Loans, net of allowance for loan losses	5,864,241	6,506,922	6,245,210	6,635,614
Securities held-to-maturity	709,369	704,875	580,051	588,899
Fair value of derivative financial instruments designated as fair value hedge	30,454	30,454	26,803	26,803
Financial assets total	**10,321,129**	**10,959,309**	**9,717,528**	**10,124,285**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	708,274	708,284	784,212	765,467
Deposits from customers	7,673,478	7,672,819	6,866,606	6,874,230
Liabilities from issued securities	267,084	317,834	445,218	461,956
Fair value of derivative financial instruments designated as fair value hedge	85,679	85,679	74,695	74,695
Fair value of derivative financial instruments classified as held for trading	183,994	183,994	87,164	87,164
Subordinated bonds and loans	281,968	281,968	267,162	247,605
Financial liabilities total	**9,200,477**	**9,250,578**	**8,525,057**	**8,511,117**

b) Fair value of derivative instruments

	Fair value		Notional value, net	
	2014	2013	2014	2013
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	43,401	53,667	45,929	59,566
Negative fair value of interest rate swaps classified as held for trading	(63,691)	(67,881)	(67,678)	(74,603)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	48,636	5,357	42,458	5,512
Negative fair value of foreign exchange swaps classified as held for trading	(51,537)	(5,316)	(48,154)	(5,876)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated as fair value hedge	14,032	9,733	8,539	5,836
Negative fair value of interest rate swaps designated as fair value hedge	(3,463)	(2,639)	(4,602)	682
Foreign exchange swaps designated as fair value hedge				
Positive fair value of foreign exchange swaps designated as fair value hedge	2,437	1,520	2,276	2,097
Negative fair value of foreign exchange swaps designated as fair value hedge	(2,276)	(499)	(2,066)	(587)
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	85,010	8,133	83,611	8,883
Negative fair value of CCIRS classified as held for trading	(53,724)	(7,521)	(51,012)	(9,126)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	–	311	–	171
Negative fair value of mark-to-market CCIRS classified as held for trading	–	–	–	–
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated as fair value hedge	13,940	13,934	14,095	13,826
Negative fair value of CCIRS designated as fair value hedge	(70,364)	(68,742)	(70,124)	(70,004)
Mark-to-market CCIRS designated as fair value hedge				
Positive fair value of mark-to-market CCIRS designated as fair value hedge	–	1,538	–	1,295
Negative fair value of mark-to-market CCIRS designated as fair value hedge	(9,576)	(2,770)	(9,856)	(3,339)
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated as fair value hedge	45	78	39	2,617
Negative fair value of other derivative contracts designated as fair value hedge	–	(45)	–	(547)
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	17,588	6,597	14,592	2,845
Negative fair value of other derivative contracts classified as held for trading	(15,042)	(6,446)	(11,844)	(15,041)
Derivative financial assets total	**225,089**	**100,868**	**211,539**	**102,648**
Derivative financial liabilities total	**(269,673)**	**(161,859)**	**(265,336)**	**(178,441)**
Derivative financial instruments total	**(44,584)**	**(60,991)**	**(53,797)**	**(75,793)**

c) Hedge accounting

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

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

As at 31 December 2014:

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash-flow hedges	–	–	–
Fair value hedges	IRS/Index option	HUF 10,578 million	Interest rate
Net investment hedge in foreign operations*	CCIRS and issued securities	HUF (5,575) million	Foreign exchange

As at 31 December 2013:

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash-flow hedges	–	–	–
Fair value hedges	IRS/Index option	HUF 7,095 million	Interest rate
Net investment hedge in foreign operations*	CCIRS and issued securities	HUF (1,743) million	Foreign exchange

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.

	2014	2013
Fair value of the hedging instruments	107	101

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.

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

* 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.

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.

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

4. Issued securities

The cash-flows of the fixed rate securities issued by the Group are exposed to the change in the EUR/HUF foreign exchange rate and the risk of change in the risk-free interest rates of EUR 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.

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

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	Gains/Losses 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

As at 31 December 2013:

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

e) Fair value classes

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December 2014	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	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**	**–**

As at 31 December 2013	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	414,618	321,194	93,424	–
from this: securities held for trading	340,553	321,133	19,420	–
from this: positive fair value of derivative financial instruments classified as held for trading	74,065	61	74,004	–
Securities available-for-sale	1,628,005	1,474,724	153,254	27
Positive fair value of derivative financial instruments designated as fair value hedge	26,803	7	26,796	–
Financial assets measured at fair value total	**2,069,426**	**1,795,925**	**273,474**	**27**
Negative fair value of derivative financial instruments classified as held for trading	87,164	18	87,146	–
Negative fair value of derivative financial instruments designated as fair value hedge	74,695	–	74,695	–
Financial liabilities measured at fair value total	**161,859**	**18**	**161,841**	**–**

There were no transfers from and to Level 3 among the financial instruments in year 2014 and 2013.

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	Closing balance
OTP Factoring Ltd.	–	2,103	2,103
OTP Factoring Ukarine LLC	–	1,175	1,175
DSK Bank EAD	–	967	967
OTP banka Srbija a.d.	27	75	102
Total	**27**	**4,320**	**4,347**

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 Financing Netherlands Ltd., OTP Holding Ltd., OTP Financing Cyprus and OTP Financing Solutions B.V. 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:

HUF 22,225 million goodwill impairment was recognized as at 31 December 2014 for OTP Bank JSC (Ukraine), while at the end of 2013 HUF 30,819 million was the effect of goodwill impairment after-tax for the same company.

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. The total saving effect was HUF (5,015) million in the year 2014 while the same effect at the same company was recognized in the amount of HUF (29,440) in year 2013.

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

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)
	a	b	1=a+b 1=2+3+12+16+17	2	3=4+…+11	4	5	6
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
Profit before income tax	**(153,643)**	**295,983**	**142,340**	**161,097**	**(19,237)**	**(17,678)**	**(47,322)**	**43,587**
Adjusted operating profit	293,187	121,346	414,533	181,952	219,065	101,028	27,269	62,392
Adjusted total income	801,879	24,180	826,059	375,668	419,716	179,392	52,078	102,238
Adjusted net interest income	636,097	73	636,170	266,329	349,904	158,972	45,327	79,116
Adjusted net profit from fees and commissions	215,656	(46,076)	169,580	94,244	67,306	21,378	10,306	20,262
Adjusted other net non-interest income	(49,874)	70,183	20,309	15,095	2,506	(958)	(3,555)	2,860
Adjusted other administrative expenses	(508,692)	97,166	(411,526)	(193,716)	(200,651)	(78,364)	(24,809)	(39,846)
Total risk costs	(446,830)	172,081	(274,749)	(23,411)	(238,302)	(118,706)	(74,591)	(18,805)
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)
Other provision (adjustment)	0	(11,237)	(11,237)	(1,323)	(7,030)	(1,083)	(2,644)	(1,279)
Total other adjustments (one-off items)*	**0**	**2,556**	**2,556**	**2,556**	**0**	**0**	**0**	**0**
Income tax	51,385	(75,711)	(24,326)	(23,679)	2,041	3,137	4,156	(4,417)
Total Assets	**10,971,052**	**0**	**10,971,052**	**7,251,833**	**4,678,642**	**750,747**	**423,363**	**1,603,812**
Total Liabilities	9,706,886	0	9,706,886	5,932,448	4,122,494	638,968	417,903	1,355,819

( ) used at: provisions, impairment and expenses.

* 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.

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**
7	8	9	10	11	12=13+14+15	13	14	15	16	17
765	**49**	**103**	**33**	**391**	**(1,172)**	**(1,588)**	**5,529**	**(5,113)**	**(1,210)**	**174**
765	**45**	**627**	**367**	**372**	**793**	**(1,508)**	**6,753**	**(4,452)**	**(1,433)**	**1,120**
9,807	**1,358**	**7,527**	**5,895**	**3,789**	**13,404**	**5,970**	**6,704**	**730**	**(1,433)**	**1,545**
23,410	8,555	25,426	17,099	11,518	43,483	14,073	9,041	20,369	(1,175)	(11,633)
19,388	6,612	17,923	14,207	8,359	21,675	17,405	81	4,189	(1,175)	(563)
2,429	1,851	5,203	3,000	2,877	7,934	(2,611)	9,895	650	0	96
1,593	92	2,300	(108)	282	13,874	(721)	(935)	15,530	0	(11,166)
(13,603)	(7,197)	(17,899)	(11,204)	(7,729)	(30,079)	(8,103)	(2,337)	(19,639)	(258)	13,178
(9,042)	**(1,313)**	**(6,900)**	**(5,528)**	**(3,417)**	**(12,611)**	**(7,478)**	**49**	**(5,182)**	**0**	**(425)**
(8,881)	(1,202)	(5,747)	(5,277)	(3,069)	(9,682)	(8,312)	1	(1,371)	0	(470)
(161)	(111)	(1,153)	(251)	(348)	(2,929)	834	48	(3,811)	0	45
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	**4**	**(524)**	**(334)**	**19**	**(1,965)**	**(80)**	**(1,224)**	**(661)**	**223**	**(946)**
476,352	**109,509**	**654,793**	**464,296**	**195,770**	**370,127**	**362,858**	**513**	**6,756**	**1,668,257**	**(2,997,807)**
441,371	**79,312**	**583,637**	**432,554**	**172,930**	**345,423**	**339,162**	**69**	**6,192**	**830,085**	**(1,523,564)**

As at 31 December 2013:

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)
	a	b	1=a+b 1=2+3+12+16+17	2	3=4+...+11	4	5	6
Net profit for the year	64,108		64,108					
Adjustments (total)		(81,775)	(81,775)					
Dividends and net cash transfers (after income tax)		(406)	(406)					
Goodwill/investment impairment (after income tax)		(29,440)	(29,440)					
Bank tax on financial institutions (after income tax)		(43,219)	(43,219)					
Fine imposed by the Hungarian Competition Authority (after income tax)		(3,177)	(3,177)					
Corporate tax impact of the transfer of general risk reserves to retained earnings		(5,533)	(5,533)					
Consolidated adjusted net profit for the year	64,108	81,773	145,882	114,879	26,066	2,356	6,715	30,222
Profit before income tax	85,052	99,841	184,894	143,836	36,051	3,409	11,162	33,758
Adjusted operating profit	347,621	100,088	447,710	194,390	242,667	124,223	40,285	55,089
Adjusted total income	874,392	(9,482)	864,910	384,587	449,345	207,493	72,811	92,965
Adjusted net interest income	653,728	(602)	653,126	273,276	365,043	184,041	53,385	72,908
Adjusted net profit from fees and commissions	201,757	(34,821)	166,936	91,507	71,612	21,990	17,020	18,208
Adjusted other net non-interest income	18,907	25,941	44,848	19,804	12,690	1,462	2,406	1,849
Adjusted other administrative expenses	(526,771)	109,570	(417,201)	(190,197)	(206,678)	(83,270)	(32,526)	(37,876)
Total risk costs	(262,569)	(9,890)	(272,459)	(54,093)	(206,616)	(120,814)	(29,123)	(21,331)
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(262,569)	28	(262,541)	(48,899)	(204,318)	(121,310)	(27,431)	(20,723)
Other provision (adjustment)	0	(9,918)	(9,918)	(5,194)	(2,298)	496	(1,692)	(608)
Total other adjustments (one-off items)*	0	9,643	9,643	3,539	0	0	0	0
Income tax	(20,944)	(18,068)	(39,012)	(28,957)	(9,985)	(1,053)	(4,447)	(3,536)
Total Assets	10,381,047	0	10,381,047	6,454,938	4,597,110	940,320	617,730	1,343,595
Total Liabilities	8,871,715	0	8,871,715	5,210,465	3,921,006	762,414	504,495	1,122,843

( ) used at: provisions, impairment and expenses.

* One-off items consist of: revaluation result of FX swap at OTP Core in the amount of HUF 715 million; gain on the repurchase of own upper and lower Tier2 capital in the amount of HUF 6,104 million; result of the treasury share swap agreement in the amount of HUF 2,824 million.

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**
7	8	9	10	11	12=13+14+15	13	14	15	16	17
(4,143)	**(13,246)**	**2,209**	**1,152**	**801**	**1,038**	**2,286**	**3,681**	**(4,929)**	**2,398**	**1,501**
(4,143)	**(13,235)**	**2,796**	**1,503**	**801**	**2,005**	**2,357**	**4,284**	**(4,636)**	**2,832**	**170**
7,147	**409**	**7,909**	**4,099**	**3,506**	**12,688**	**6,566**	**4,226**	**1,896**	**(3,272)**	**1,237**
20,375	7,580	22,696	14,909	10,516	46,423	17,447	6,692	22,284	(3,105)	(12,340)
14,254	4,553	16,010	12,088	7,804	20,042	15,490	66	4,486	(3,105)	(2,130)
2,269	1,671	4,878	3,101	2,475	3,876	(2,555)	6,690	(259)	0	(59)
3,852	1,356	1,808	(280)	237	22,505	4,512	(64)	18,057	0	(10,151)
(13,228)	(7,171)	(14,787)	(10,810)	(7,010)	(33,735)	(10,881)	(2,466)	(20,388)	(167)	13,576
(11,290)	**(13,644)**	**(5,113)**	**(2,596)**	**(2,705)**	**(10,683)**	**(4,209)**	**58**	**(6,532)**	**0**	**(1,067)**
(11,109)	(13,002)	(5,142)	(2,594)	(3,007)	(7,544)	(4,413)	0	(3,131)	0	(1,780)
(181)	(642)	29	(2)	302	(3,139)	204	58	(3,401)	0	713
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**6,104**	**0**
0	**(11)**	**(587)**	**(351)**	**0**	**(967)**	**(71)**	**(603)**	**(293)**	**(434)**	**1,331**
449,789	**86,136**	**538,112**	**425,219**	**196,209**	**552,425**	**325,716**	**9,742**	**216,967**	**1,561,552**	**(2,784,978)**
420,689	**62,086**	**475,231**	**398,191**	**175,057**	**444,291**	**294,859**	**2,315**	**147,117**	**865,010**	**(1,569,057)**

NOTE 42: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2014

1) Government measures related to customer loan contracts

See details in Note 2.28.

2) Acquisition in Croatia

By setting the purchase price on 24 April 2014, the Group accomplished its Croatian acquisition. 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. Following the submission of all the relevant documents the Croatian Central Bank approved the purchase of the majority stake. OTP banka Hrvatska accomplished the merge with Banco Popolare in December, 2014. The Group gained whole control over the company and will be fully consolidated from January, 2015. As a result of the deal OTP banka Hrvatska d.d. will enhance its presence in Northern Croatia, Zagreb and Slavonia in particular, mainly in the retail segment.

3) Purchase of Banco Comercial Português

On 30 July 2014 OTP Bank Romania S.A. signed an agreement in Bucharest with Banco Comercial Português on the purchase of its 100% ownership in its Romanian subsidiary. The purchase price was EUR 39 million. As a result of the acquisition the market share of OTP Bank Romania S.A. will rise to 2.1% elevating the bank into the 11th place amongst the Romanian banks.

4) Incorporation of OTP Financing Malta Company Ltd.

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

5) Incorporation of OTP Holding Malta Ltd.

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

6) Term Note Program

See details in Note 15.

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

See details in Note 28.

8) Legal dispute in Montenegro

See details in Note 28.

NOTE 43: POST BALANCE SHEET EVENTS

1) Act on Fair banking

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

2) The impact of CHF strengthening started in January 2015 on the Group

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

NOTE 44: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS

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

Hungary's economy grew by 3.5% in 2014, stronger than the 1.5% expansion in 2013. Last year broke the trend of the preceding years, when the main driving force of growth was net exports. Instead, an increase in investments became the key driver in 2014, while net exports' contribution to growth became negative for the first time after a long while. In addition to investments, consumption also picked up: the consumption expenditure of households rose about 1.5% in 2014, following the stagnation in 2013.
As a combined effect of the election year and the end of the seven-year EU budget, public investments surged at an extraordinary pace, but gross fixed capital formation also started to increase in the private sector. The key drivers in the latter were mostly car manufacturing, and the related capacity increasing projects in the supplier network.
Picking up from the stagnation in 2013, the households' consumption expenditure could go up in 2014. But its rise lagged behind that of real income, allowing retail savings to expand faster. The improvement on the labour market was pronounced mostly in the first half-year, the increase in employment came to a halt by the end of the year. The low interest rate environment and the higher real incomes led to a turnaround in private investments too, helping housing-related lending and housing investments start to rise.
Following a record low of 1.7% in 2013, inflation fell further: consumer prices dropped by 0.2% in 2014. In addition to the government's measures, the favourable development in agricultural product prices, and oil prices' plunge in the last four months of the year all contributed to the lower inflation rate.
A steady fall in inflation justified the continuation of the rate cut cycle in the first half of the year, which ended with a 20-basis-point cut in July, at 2.1%. In the supportive international backdrop (abundance of liquidity), government bond yields fell further.

Funding for Growth Scheme

On 11 September 2013 the National Bank of Hungary decided on extending the Funding for Growth Scheme with a second phase which is to be open from 1 October 2013 till 31 December 2015. The total amount of refinancing available for banks in the second phase was originally set at HUF 500 billion, in September 2014 the total amount of available funding was lifted to HUF 1,000 billion. The limit can be increased to a maximum of HUF 2,000 billion by the Monetary Council. Similarly to the first phase, the central bank refinancing carries zero interest rate, a maximum 10-year tenor and can be lend over to SMEs by applying a maximum interest margin of 2.5%.
The goal of the first pillar is to originate new loans, whereas the second pillar is for refinancing forint or foreign currency denominated liabilities of SMEs. The share of loan contracts concluded under the second pillar must not surpass 10% of the total amount of contracts concluded under the two pillars. The maximum available amount of loans for SMEs is limited at HUF 10 billion in each pillar. Under the second phase of the Programme the Group already contracted in the amount of more than HUF 117 billion until the end of

2014, moreover loan applications in the pipeline exceeded HUF 38 billion.

The macroeconomic outlook of Russia and Ukraine significantly deteriorated last year. The sanctions imposed because of the escalating Russia-Ukraine conflict, coupled with the dramatic fall in crude oil prices have significantly slowed down Russia's GDP growth, to 0.5%. The rouble's weakening pushed the USD/RUB to 58 by December, up from 37 in September. Although the 76% y-o-y depreciation offsets the lower oil price's effect on budgetary and export revenues (in rouble terms), it projects considerable recession through multiple factors. First, in an attempt to fend off market turbulence, the Central Bank of Russia raised its benchmark rate by 10.5 percentage points, to 17% which, together with the higher instalment burden of companies' foreign currency loans, holds back investment activity. The Russian economy's foreign currency exposure is clearly low and the country can exploit its competitiveness advantages in the medium term, but the weaker currency comes at a price: y-o-y inflation reached 11.4% in December. This will lead to a rare decrease in real wages, damaging consumption. Russia's balance of payments position remained stable, but the USD 131 billion net capital outflow in 2014 is a red flag.
The central bank's reserves stood at USD 389 billion at the end of December, about four times the reserve requirement.
In Ukraine, the revolution at the beginning of 2014 ousted President Viktor Yanukovych.
In response, Russia de facto separated the Crimean peninsula from Ukraine and provided support to separatists in Eastern Ukraine, which lead to warfare in the Donetsk and Luhansk regions. Because of capital flight and despite the IMF loan, Ukraine's currency, the hryvnia depreciated by 92% over the year. Ukraine's central bank lifted its base rate by 7.5 percentage points to 14% in 2014. Industrial production and GDP may have contracted by 10.7% and 7.5% y-o-y, respectively.
By December, inflation grew to 24.9% y-o-y, partly because of the hike in the retail price of natural gas in April. Public debt ratio doubled between the end of 2013 and 2014 (to 66%).
In February 2015 the expansion and extension of the IMF programme was announced.
Originally the credit facility amounted to USD 27 billion, of which USD 17 billion was provided by the IMF. According to the IMF the credit line will be widened to USD 40 billion.
In the meantime the Ukrainian government downgraded its GDP growth forecast for 2015: the economy is estimated to contract by 5.5% against the previous forecast of 4.3%.

The Bank's operation in Russia

Since the second half of 2013 the Bank has put particular emphasis on the improvement of consumer loan products' profitability, in line with the fine-tuning of the risk profile of these portfolios and the efficiency of collection activities. Both the stricter underwriting rules applied by the Bank, the measures introduced by the supervisory authorities, the economic slowdown and the cyclical setback of the consumer loan market eventually resulted in moderated loan dynamics in 2014. As a reaction to the deterioration of the operating environment in the fourth quarter of 2014 (significant weakening of the rouble, 900 bps base rate hike in total) the Bank halted or limited new loan disbursement and made certain pricing steps. Since October no new credit cards have been sent out and the Bank cut back part of the card limits in December. Due to the market turbulences, since the middle of December cash loan disbursement has been suspended.
The total FX-adjusted deposit base dropped by 10% in the first quarter of 2014 quarter-over-quarter, than it remained stable in the second quarter and grew already both in the third and fourth quarter, thus the yearly FX-adjusted decrease was 4% altogether. In the fourth quarter the Bank managed to increase its deposit base (+3% quarter-over-quarter, FX-adjusted) despite the unfavourable market environment –deposit rates were increased in line with market trends at the end of December in order to reverse the deposit outflows.

In the course of 2014 the deposit base of JSC "OTP Bank" (Russia) increased nominally by 7% in RUB terms due to the devaluation of RUB. Due to the fact that the liquidity demand of maturing capital market instruments and the funding need of higher loan volumes increased, the net funding provided by the Partner Company to the Russian bank grew to USD 320 million by the end of 2014 from USD –204 million in 2013 (which practically meant that JSC "OTP Bank" (Russia) was net lender to the Group in 2013).
It is important to note that the partner company funding provided at the end of 2014 contained a significant safety buffer due to the long Russian holiday period and the uncertainties stemming from the market turbulences.
This is proved well by the fact that the net partner company funding dropped to USD 9 million at the end of January 2015.
In 2015 JSC "OTP Bank" (Russia) will have RUB 300 million capital market redemptions (this is the total outstanding amount of issued bonds), so from a liquidity perspective the emphasis will be put on keeping the loan and deposit volume developments in balance.
Given that the deposit of JSC "OTP Bank" (Russia) deposit base remained stable despite the liquidity shock the Russian banking system suffered, the liquidity risks are deemed to be moderate in 2015, too.

The Bank paid back issued bonds in the amount of RUB 13.3 billion in 2014, out of which RUB 1.1 billion matured in the fourth quarter of 2014. In the fourth quarter the Russian subsidiary received RUB 3 billion subordinated loan with 10 years maturity from the Partner Company, whereas in 2014 JSC "OTP Bank" (Russia) repaid altogether RUB 1.2 billion equivalent subordinated debt to the parent company. The capital adequacy ratio of JSC "OTP Bank" (Russia) stood at 12.1% at the end of 2014.

In 2015 the DPD0–90 loan portfolio is expected to decline, which, together with a stable deposit base might result in improving liquidity position, but lower revenues. Due to the increased funding cost net interest income might decrease in 2015. The operating environment is not expected to improve materially, thus with respect to elevated risk costs no material turnaround is expected in 2015. The Russian operation is expected to remain loss-making in 2015.

The Bank's operation in Ukraine

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

Customer deposit volumes showed a 9% year-over-year increase (adjusted for the FX-effect). After the 7% FX-adjusted quarter-over-quarter decline in the first quarter, the second quarter saw a 7% increase followed by a 4% expansion in the third quarter and a 5% growth in the fourth quarter of 2014. The net loan to deposit ratio came down to 137% at the end of 2014, which marks multi-year low.
The decline of USD deposits did not cause liquidity problems, because this coincided with the decline of FX loan volumes. Latter was attributable not only to the loan repayments, but to the elevated provisioning, too, which required the Bank to purchase USD from its UAH liquidity reserves. Both the USD liquidity generated through these transactions and the FX liquidity coming from repayments of performing FX

loans was used by the Ukrainian banking group (including the bank, the Leasing and Factoring company) to repay partner company financing, which declined by altogether USD 445 million in 2014 (without subordinated debt). In January 2015 an additional USD 30 million intragroup funding was paid back by OTP Bank JSC (Ukraine).

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

The shareholders' equity of the Ukrainian banking group under IFRS consists of the impact of the conversion of UAH 800 million equivalent subordinated debt into equity booked in the fourth quarter of 2014.
The decision about the capital increase was signed on 12 December 2014, which meant issue of additional 64,563 pieces of ordinary shares. Compared to December 2013 the shareholders' equity of the Ukrainian banking group in HUF terms dropped as a result of weakening UAH against HUF, whereas losses realized in 2014 had a negative impact on equity, too. The Ukrainian shareholders' equity includes that of 3 entities: the Bank, the Leasing and Factoring companies. The standalone capital adequacy ratio of the Bank under local regulation stood at 10.4% at the end of 2014, thus it exceeded the regulatory minimum.
This capital adequacy ratio under local regulation did not incorporate the impact of the capital conversion booked in the fourth quarter of 2014. Leasing and Factoring companies are exempt from banks' capital adequacy rules.
The Ukrainian Factoring company that received HUF 19 billion equivalent capital increase in September 2014 (through converting debt into equity). In 2015 the equity of the Factoring Company is expected to be raised by converting partner company financing into equity.

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

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Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITORS' REPORT

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

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of OTP Bank Plc. for the year 2014, which separate financial statements comprise the separate statement of financial position as at December 31, 2014 and the related separate statement of recognized income, separate statements of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 166-245 of this Annual Report.

Management's Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

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

Other Matters

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

We issued our auditors' report dated March 17, 2015, on the separate financial statements submitted for the General Meeting. The effects of subsequent events were examined until that date. The dividend was approved by the General Meeting on April 17, 2015. Our procedures regarding the subsequent events occured after March 17, 2015, were limited to the General Meeting's decision on the dividend. The separate financial statements do not reflect and we have not examined the effects of subsequent events that occurred in the period between March 17, 2015 and April 30, 2015.

Budapest, April 30, 2015

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Tamás Horváth
Deloitte Auditing and Consulting Ltd.
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000083

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Statement of financial position

(separate, based on IFRS, as at 31 December 2014, in HUF million)

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

Budapest, 17 March 2015

The accompanying notes to separate financial statements on pages 170 to 245 form an integral part of these separate financial statements.

Statement of recognized income

(separate, based on IFRS, for the year ended 31 December 2014, in HUF million)

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

Statement of comprehensive income

(separate, based on IFRS, for the year ended 31 December 2014, in HUF million)

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

The accompanying notes to separate financial statements on pages 170 to 245 form an integral part of these separate financial statements.

Statement of cash-flows

(separate, based on IFRS, for the year ended 31 December 2014, in HUF million)

OPERATING ACTIVITIES	Note	2014	2013
(Loss)/profit before income tax		**(117,833)**	**54,333**
Depreciation and amortization		22,177	21,657
Provision for impairment on loan and placement losses	5., 8., 22.	23,213	30,533
Provision for impairment on investments in subsidiaries	9.	226,730	52,550
Provision for impairment on other assets	12.	2,763	281
Provision on off-balance sheet commitments and contingent liabilities	17.	42,683	3,021
Share-based payment	28.	4,393	5,704
(Unrealised losses)/gains on fair value adjustment of securities available-for-sale and held for trading		(2,903)	863
Unrealised gains on fair value adjustment of derivative financial instruments		5,401	12,629
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		219,463	(199,419)
Changes in financial liabilities at fair value through profit or loss		(1,990)	408
Net decrease in loans, net of allowance for loan losses		205,341	158,480
Increase in other assets, excluding advances for investments and before provisions for losses		(14,009)	(12,839)
Net increase in deposits from customers		557,789	176,857
(Decrease)/increase in other liabilities		(17,335)	10,694
Net (increase)/decrease in the compulsory reserve established by the National Bank of Hungary		(57,365)	3,477
Dividend income		(42,795)	(47,583)
Income tax paid		(2,864)	(5,370)
Net cash provided by operating activities		**1,052,859**	**266,276**
INVESTING ACTIVITIES			
Net (increase)/decrease in placements with other banks before allowance for placement losses		(79,217)	32,496
Increase in securities available-for-sale		(14,729,107)	(23,239,766)
Decrease in securities available-for-sale		15,525,643	23,193,007
Net increase in investments in subsidiaries		(161,617)	(60,520)
Dividend income		42,795	47,583
Increase in securities held-to-maturity		(154,743)	(151,139)
Decrease in securities held-to-maturity		20,663	2,097
Additions to property, equipment and intangible assets		(18,426)	(47,794)
Disposal to property, equipment and intangible assets		7,185	16,941
Net increase in advances for investments included in other assets		(36)	(11)
Net cash provided by/(used in) investing activities		**453,140**	**(207,106)**
FINANCING ACTIVITIES			
Net increase in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		239,747	75,776
Cash received from issuance of securities		56,165	72,186
Cash used for redemption of issued securities		(69,387)	(243,974)
Increase/(decrease) in subordinated bonds and loans		16,371	(25,509)
Payments to ICES holders	20.	(4,159)	(4,288)
Net change in Treasury shares		(4,250)	(1,316)
Dividend paid		(40,594)	(33,595)
Net cash provided by/(used in) financing activities		**193,893**	**(160,720)**
Net increase/(decrease) in cash and cash equivalents		**1,699,892**	**(101,550)**
Cash and cash equivalents at the beginning of the year		**62,835**	**164,385**
Cash and cash equivalents at the end of the year*		**1,762,727**	**62,835**
Analysis of cash and cash equivalents			
Cash, amounts due from banks and balances with the National Bank of Hungary		140,521	245,548
Compulsory reserve established by the National Bank of Hungary		(77,686)	(81,163)
Cash and cash equivalents at the beginning of the year		**62,835**	**164,385**
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	1,897,778	140,521
Compulsory reserve established by the National Bank of Hungary	4.	(135,051)	(77,686)
Cash and cash equivalents at the end of the year		**1,762,727**	**62,835**

The accompanying notes to separate financial statements on pages 170 to 245 form an integral part of these separate financial statements.

* See Note 4 and 5.

Statement of changes in shareholders' equity

(separate, based on IFRS, for the year ended 31 December 2014, in HUF million)

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

The accompanying notes to separate financial statements on pages 170 to 245 form an integral part of these separate financial statements.

NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1 General information

OTP Bank Plc. (the "Bank" or "OTP Bank") was established on 31 December 1990, when the previously State-owned company was transformed into a limited liability company.

The Bank's registered office address is 16 Nádor Street, Budapest 1051.

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

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

	2014	2013
The structure of the Share capital by shareholders:		
Domestic and foreign private and institutional investors	97%	97%
Employees	2%	2%
Treasury shares	1%	1%
Total	**100%**	**100%**

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

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

1.2 Accounting

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

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

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

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

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

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

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

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

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

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

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

- Amendments to various standards "Improvements to IFRSs (cycle 2010–2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards "Improvements to IFRSs (cycle 2011–2013)" resulting from the annual improvement

project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- IFRIC 21 "Levies" adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards "Improvements to IFRSs (cycle 2012–2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of presentation

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

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

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

2.2 Foreign currency translation

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

2.3 Consolidated financial statements

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

2.4 Investments in subsidiaries

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

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

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

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

2.5 Securities held-to-maturity

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

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognized in profit or loss and are included in the separate statement of recognized income for the period. The Bank mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income since 31 December 2013.

Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, shares in non-financial commercial companies, shares in investment funds, shares in venture capital funds and shares in financial institutions.

2.6.2 Derivative financial instruments

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

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

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

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of recognized income along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the separate statement of recognized income. The conditions of hedge accounting applied by the Bank are the following: formally designed as hedge, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.
Changes in fair value of derivatives that are designated and qualify as cash-flow hedges and that prove to be highly effective in relation to hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in equity are transferred to the separate statement of recognized income and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period.
The ineffective element of the hedge is charged directly to the separate statement of recognized income.
The Bank terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation.

2.8 Offsetting

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

2.9 Embedded derivatives

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

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

2.10 Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale securities are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognized in other comprehensive income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge.

Such gains and losses will be reported when realised in profit or loss for the applicable period. Securities available-for-sale consists of Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in investment funds and venture capital funds, corporate bonds and foreign securities.

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

Available-for-sale securities are remeasured at fair value based on quoted prices or values derived from cash-flow models.

In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of the future cash-flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

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

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

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

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

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

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

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date.

The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

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

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

2.12 Sale and repurchase agreements, security lending

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

2.13 Property, equipment and intangible assets

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

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

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

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

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

2.14 Financial liabilities

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

2.15 Leases

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

2.16 Treasury shares

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

2.17 Interest income and interest expense

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

2.18 Fees and Commissions

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

2.19 Dividend income

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

2.20 Income tax

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

2.21 Off-balance sheet commitments and contingent liabilities

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

2.22 Share-based payment and employee benefit

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

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

2.23 Separate statement of cash-flows

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

2.24 Segment reporting

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

2.25 Comparative figures

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

2.26 Government measures related to customer loan contracts

Act XXXVIII of 2014 on "Settlement of certain issues concerning the Uniformity Decision of the Supreme Court related to customer loan agreements[1] provided by financial institutions" ("Curia Law") was promulgated on 18 July 2014. The Hungarian Parliament has adopted on 24 September 2014 the Act XL of 2014 on "Rules of the settlement and certain other issues put in Act XXXVIII of 2014 on Settlement of certain issues concerning the Uniformity Decision of the Supreme Court related to customer loan agreements provided by financial institutions" ("Act on Settlement"), based on that financial institutions need to settle up with their clients on account of overpayments arisen from invalidity of the bid-ask exchange rate spread and unilateral amendment of contractual clauses. Act on Settlement has specified the regulations of Curia Law; obligation of settlement does not

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

apply to credit cards, current account loans and mortgage housing loans supported by State. Furthermore amount due to consumers can be reduced by total amount of allowances.
Act LXXVII of 2014 on "Settlement of certain issues concerning the modification of the currency and interest conditions related to customer loan agreements" was promulgated. The act includes regulations about the conversion of foreign currency consumer mortgage loans into HUF which became legally effective on 1 February 2015 ("Act on Conversion into HUF"). Hereinafter three acts together are called as Acts on Customer Loans.

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

a) Act on Settlement

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

b) Act on Conversion into HUF

Based on the Act on Conversion into HUF, in case of mortgage loans concerned in conversion into HUF, OTP Bank records the foreign currency loans, provision for impairment, accrued interest and provision at foreign exchange rates applied in conversion into HUF in IFRS financial statements as at 31 December 2014.
The foreign currency loans concerned in conversion into HUF need to be derecognised at the time of conversion into HUF from IFRS financial statements and the HUF loans need to be recognised as new loans. According to IFRS, HUF loans shall be recognised initially at fair value. Based on expected negative fair value of loans, provision for impairment was recognised in the amount of HUF 456 million in the Bank's separate IFRS financial statements.

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

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

In the level of the Group provision recognised due to Act on Settlement is the following:

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

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

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

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

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

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

Prescription 29/ZS § of the Act LXXXI of 1996[2] enables – based on accounting regulations in 44 § of Act on Settlement – to recognise tax difference ("tax receivables") calculated for clients' overpayments relating to customer loan agreements in the form of corporate tax, special tax of business partnerships, local business tax, innovation contribution, special tax of financial institutions, up to the tax declared and paid for the 2008–2014 tax years. Tax receivable shall be deducted from the amount of corporate tax payable for the 2015 and the following tax years.

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

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

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

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

[2] On Corporate Tax and Dividend Tax.

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

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

3.1 Impairment on loans and placements

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

3.2 Valuation of instruments without direct quotations

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

3.3 Provisions

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

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

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

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

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

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

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

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

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

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

Interest conditions of placements with other banks:

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

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

Securities held for trading:

	2014	2013
Shares	58,559	73,256
Government bonds	13,777	4,090
Hungarian government interest bearing Treasury Bills	4,175	6,466
Hungarian government discounted Treasury Bills	288	2,159
Mortgage bonds	71	237
Securities issued by credit institutions	67	1,162
Securities issued by the NBH*	–	209,347
Other securities	216	26
Subtotal	**77,153**	**296,743**
Accrued interest	434	105
Total	**77,587**	**296,848**

Derivative financial instruments:

	2014	2013
CCIRS and mark-to-market CCIRS**	152,540	32,763
Foreign currency swaps	60,833	6,637
Interest rate swaps	43,538	53,728
Other derivative transactions***	17,255	6,589
Subtotal	**274,166**	**99,717**
Total	**351,753**	**396,565**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

An analysis of the loan portfolio by currency:

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

Interest rates of the loan portfolio are as follows:

	2014	2013
Loans denominated in HUF, with a maturity within one year	5.6%–28.8%	6.5%–25.3%
Loans denominated in HUF, with a maturity over one year	2.1%–18.5%	2.8%–24.8%
Loans denominated in foreign currency	1.8%–14%	1.8%–14%
Average interest on loans denominated in HUF	11.72%	13.14%
Average interest on loans denominated in foreign currency	3.91%	4.71%
Gross loan portfolio on which interest to customers is not being accrued	11.3%	10.80%

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

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

Through debt consolidation the central government provided a non-refundable subsidy to municipalities with less than five thousands inhabitants for the total repayment of their outstanding obligations (loans, bonds, bills of exchange) as at 12 December 2012. In case of OTP Bank HUF 28.8 billion total debt of 957 municipalities was repaid (at exchange rates as of 27 December 2012).

Furthermore the debt consolidation of municipalities with more than five thousands in habitants was completed by end of June 2013, which was carried out from three sources: subsidy provided by the Hungarian Treasury, funds of the Government Debt Management Agency ("GDMA"), long-term loan originated by OTP Bank for the GDMA.
On 28 February 2014 municipality debt in the amount of HUF 101.7 billion was paid off.

* The provision was decreased due to Partial Write-off. For details see Note 2.11.
** Incl. housing loans.

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

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

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

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

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

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

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

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

* See Note 2.11.

Significant subsidiaries

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

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

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

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

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

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

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

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

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

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

Significant associates

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

As at 31 December 2014:

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

As at 31 December 2013:

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

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

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

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

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

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

On 30 July 2014 OTP Bank Romania signed an agreement in Bucharest with Banco Comercial Português on the purchase of its 100% ownership in its Romanian subsidiary. The purchase price was EUR 39 million.
As a result of the acquisition the market share of OTP Bank Romania will rise to 2.1% elevating the bank into the 11th place amongst the Romanian banks.

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

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

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

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

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

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

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

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

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

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

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

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

For the year ended 31 December 2014:

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

For the year ended 31 December 2013:

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

NOTE 12: OTHER ASSETS* (in HUF mn)

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

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

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

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

** See Note 25.

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

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

***** Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.

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

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

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

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

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

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

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

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

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

Interest rates on deposits from customers are as follows:

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

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

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

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

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

Interest rates on liabilities from issued securities are as follows:

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

Issued securities denominated in foreign currency as at 31 December 2014:

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

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

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

On 9 July 2013 OTP Bank initiated term note program in the value of HUF 500 billion with the intention of issuing registered dematerialized bonds in public. The Authority approved on 30 July 2013 the prospectus of Term Note Program and the disclosure as at 17 July 2013. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange.

54,204 pieces of fixed bonds with nominal value of EUR 100 each in the total nominal amount of EUR 5,420,400 have been introduced to the Budapest Stock Exchange. On 10 September 2014 the NBH approved the disclosure and the prospectus as at 27 August 2014.

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

On 8 July 2014 OTP Bank initiated term note program in the value of HUF 500 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 29 July 2014 the prospectus of Term Note Program and the disclosure as at 25 July 2014. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange.

Certain structured bonds are hedged by interest rate swaps which may transfer to a transferee a fixed interest rate and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate and amount of the structure if any based on a notional amount which is equal to the notional amount of the hedged bond. In certain cases amount of the structure is hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond. The hedge is highly effective if changes in fair value or cash-flows attributable to the hedged risk during the period for which the hedge is designated are within a range of 80–125 per cent.

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF interest rate swap ("IRS") transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulted a decrease in the interest rate and foreign exchange exposure of issued securities.

Issued securities denominated in HUF as at 31 December 2014:

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

	Name	Date of issuance		Maturity	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
63.	OTP 2015/Hx	28/12/2012		27/12/2015	170	indexed	floating	hedged
64.	OTP TBSZ 4 2016/I	18/01/2013	15/02/2013	15/12/2016	157	5	fixed	
65.	OTP 2022/RF/D	28/06/2012		28/06/2022	155	indexed	floating	hedged
66.	OTP 2022/RF/C	28/06/2012		28/06/2022	124	indexed	floating	hedged
67.	OTP OJK 2016/I	26/08/2011	21/12/2011	26/08/2016	106	6.14	fixed	
68.	OTP TBSZ 4 2015/II	21/12/2012		15/12/2015	48	6	fixed	
69.	OTP 2021/RF/E	21/12/2011		30/12/2021	34	indexed	floating	hedged
70.	OTP OJK 2017/I	27/01/2012	13/07/2012	27/01/2017	22	7	fixed	
71.	Other	–	–	–	231			
	Subtotal issued securities in HUF				**99,303**			
	Unamortized premium				(1,620)			
	Fair value hedge adjustment				13,378			
	Total issued securities in HUF				**111,061**			
	Accrued interest				2,521			
	Total issued securities				**162,667**			

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

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

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

* Incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option.

NOTE 17: OTHER LIABILITIES* (in HUF mn)

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

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

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

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

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

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

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

*** See Note 2.26.

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

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

Interest rates on subordinated bonds and loans are as follows:

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

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

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

NOTE 19: SHARE CAPITAL (in HUF mn)

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

* European Medium Term Note Program.

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

The reserves of the Bank under Hungarian Accounting Standards ("HAS")*:

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

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

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

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

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

* The reserves under IFRS are detailed in statement of changes in shareholders' equity.

NOTE 21: TREASURY SHARES (in HUF mn)

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

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

Change in number of shares:

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

Change in carrying value:

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

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

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

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

Income from fees and commissions:

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

Expenses from fees and commissions:

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

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

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

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

Other administrative expenses	2014	2013
Personnel expenses		
Wages	59,510	59,036
Taxes related to personnel expenses	19,238	18,645
Other personnel expenses	8,710	8,079
Subtotal	**87,458**	**85,760**
Depreciation and amortization	**22,177**	**21,657**

Other administrative expenses	2014	2013
Taxes, other than income tax**	84,637	88,888
Administration expenses, including rental fees	21,524	20,514
Services	18,325	19,205
Advertising	5,566	6,335
Professional fees	4,741	3,450
Subtotal	**134,793**	**138,392**
Total	**244,428**	**245,809**

* See Note 2.26.

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

NOTE 25: INCOME TAX (in HUF mn)

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

A breakdown of the income tax expense is:

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

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

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

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

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

A reconciliation of the income tax expense is as follows:

	2014	2013
(Loss)/profit before income tax	(117,833)	54,333
Income tax at statutory tax rate (19%)	(22,388)	10,323

* See Note 2.26.

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

Income tax adjustments due to permanent differences are as follows:

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

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

26.1 Credit risk

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

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

26.1.1 Analysis by loan types

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

Exposures with small amounts are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are classified into five valuation groups which have been formed based on past due days from which there

* Since 2011 legal regulation has allowed to recognize the financial support for sight-team sport as extraordinary expense and tax allowance in the financial statements in accordance with the HAS. In 2014 the Bank could apply with limits the tax allowance in the HAS financial statements. Deferred tax asset was recorded in the amount of unused tax allowance in IFRS financial statements.
** Effective tax rate has changed due to deferred tax receivable recognized in relation to the expecting tax receivable based on act on settlement and considering the contribution provided to the subsidiaries.

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

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

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

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

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

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

As at 31 December 2014:

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

As at 31 December 2013:

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

The Bank's gross loan portfolio decreased by 7.5% in the year ended 31 December 2014. Analysing the contribution of loan types to the loan portfolio, the share of several business lines hardly changed.

The ratio of the DPD090– loans compared to the gross loan portfolio increased slightly from 96.47% to 96.68% as at 31 December 2014, while the ratio of DPD90+ loans in gross loan portfolio decreased from 3.53% to 3.32%.

The Bank has a prudent provisioning policy, although the coverage of loans by provision for impairment on DPD90+ loans decreased from 65.32% to 53.97% in the year ended 31 December 2014.

Not impaired loan portfolio

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

As at 31 December 2014:

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

As at 31 December 2013:

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

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

Loans individually assessed for provision

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

As at 31 December 2014:

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

As at 31 December 2013:

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

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

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

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

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

Loan portfolio by countries

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

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

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

26.1.2 Collaterals

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

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

* Austria, Czech Republic, Denmark, Italy, Sweden, Turkey and other.

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

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

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

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

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

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

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

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

26.1.3 Restructured loans

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

* Incl.: project and syndicated loans.

Restructured portfolio definition

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

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

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

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

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

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

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

Financial instruments by rating categories*

Held-for-trading securities as at 31 December 2014:

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

* Moody's ratings.
** Corporate shares listed on Budapest Stock Exchange.

Available-for-sale securities as at 31 December 2014:

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

Held-to-maturity securities as at 31 December 2014:

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

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

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

26.2 Market risk

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

26.2.1 Market risk sensitivity analysis

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

* The whole portfolio was issued by OTP Mortgage Bank Ltd.

The VaR of the trading portfolio can be summarized as follows:

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

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

26.2.2 Foreign currency sensitivity analysis

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

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

Notes:

(1) The short-term loss on the strategic open position is compensated by the long-term ex change rate gain on the foreign operations.

(2) The HUF/EUR volatility remained at its long-term average, so potential losses or gains have not changed significantly.

(3) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2014.

26.2.3 Interest rate sensitivity analysis

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

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

The simulation was prepared by assuming two scenarios:

1. HUF base rate decreases gradually to 1.5% (probable scenario)
2. HUF base rate decreases gradually to 0.1% (alternative scenario)

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

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

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

26.2.4 Equity price sensitivity analysis

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

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

26.2.5 Capital management

Capital management

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

Capital adequacy

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

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

	2014 Basel III		2013 Basel II
Tier1 capital	525,849	Core capital	994,715
Common equity Tier1 capital (CET1)	525,849	Supplementary capital	215,902
Additional Tier1 capital (AT1)	–	Deductions	(460,870)
Tier2 capital	146,471	Deductions due to PIBB* investments	(413,220)
		Deductions due to limit breaches	(47,650)
Regulatory capital	**672,320**	**Regulatory capital**	**749,747**
Credit risk capital requirement	217,891	Credit risk capital requirement	201,729
Market risk capital requirement	43,188	Market risk capital requirement	32,942
Operational risk capital requirement	22,650	Operational risk capital requirement	25,972
Total requirement regulatory capital	**283,729**	**Total requirement regulatory capital**	**260,643**
Surplus capital	**388,591**	**Surplus capital**	**489,104**
CET1 ratio	14.83%	Tier1 ratio	23.01%
Capital adequacy ratio	**18.96%**	**Capital adequacy ratio**	**23%**

Basel II

The positive components of the Core capital are: Issued capital, Capital reserve, Tied-up reserve, General reserve, Profit reserve, Profit for the year, General risk reserve.
The negative components of the Core capital are: Treasury shares, Intangible assets.
The positive components of the Supplementary capital are: Subsidiary loan capital, Subordinated loan capital.
Deductions: PIBB investments, limit breaches.

Basel III

Common equity Tier1 capital (CET1): Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due to investments, adjustments due to temporary disposals
Tier2 capital: Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals.

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

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

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

* PIBB: Financial Institutions, Investing Enterprises, Insurance Companies.
** See Note 2.26.

Legal disputes

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

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

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

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

Commitments to extend credit, guarantees and letter of credit

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

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

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

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

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount and until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank. A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is

some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.
If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Contingent liabilities related to OTP Mortgage Bank Ltd.

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

Derivatives

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

Foreign currency contracts

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

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

Foreign exchange swaps and interest rate swaps

The Bank enters into foreign-exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consist of a prompt and one or more forward contracts.
Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

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

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

Foreign exchange options

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 29: RELATED PARTY TRANSACTIONS (in HUF mn)

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

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

a) Loans provided to related parties

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

* Associate company.

b) Deposits from related parties

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

c) Interests received by the Bank*

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

* Derivatives and interest on securities are not included.
** Associate company.

d) Interests paid by the Bank*

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

e) Commissions received by the Bank

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

f) Commissions paid by the Bank

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

g) Transactions related to OTP Mortgage Bank Ltd.

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

* Derivatives and interest on securities are not included.

h) Transactions related to OTP Factoring Ltd.

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

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

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

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

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

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

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

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

l) Related party transactions with key management

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

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

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

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

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

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

The family member of a member of the Board of Directors owned AMEX Blue credit card loan in the amount of HUF 0.6 million as at 31 December 2014.
Chief executives owned AMEX Gold loading card loan in the amount of HUF 3.5 million as at 31 December 2014.
Member of Board of Directors, members of Supervisory Board and chief executives with their close family members owned AMEX Platinum credit card loan in the amount of HUF 23.5 million as at 31 December 2014.

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

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

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

NOTE 30: TRUST ACTIVITIES (in HUF mn)

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

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

NOTE 31: CONCENTRATION OF ASSETS AND LIABILITIES

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

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

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

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

these partners in order to secure the stability of the level of deposits.

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

NOTE 32: MATURITY ANALYSIS LIABILITIES AND LIQUIDITY RISK (in HUF mn)

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

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

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

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

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

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

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

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

As at 31 December 2014:

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

As at 31 December 2013:

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

* Derivative financial instruments designated as fair value hedge are not included.
** See Note 18.

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

As at 31 December 2014	USD	EUR	CHF	Others	Total
Assets*	279,394	1,105,039	476,074	99,485	1,959,992
from this: loans concerned in conversion into HUF**	–	820	46,338	49	47,207
Liabilities	(191,873)	(1,186,305)	(92,377)	(69,823)	(1,540,378)
from this: provision for loans concerned in conversion into HUF**	–	(118)	(6,833)	(401)	(7,352)
Off-balance sheet assets and liabilities, net	(40,738)	(56,494)	(277,512)	(13,483)	(388,227)
Net position	**46,783**	**(137,760)**	**106,185**	**16,179**	**31,387**

As at 31 December 2013	USD	EUR	CHF	Others	Total
Assets*	293,385	1,219,825	527,580	76,540	2,117,330
Liabilities	(279,143)	(1,043,770)	(117,690)	(36,259)	(1,476,862)
Off-balance sheet assets and liabilities, net	49,057	(391,718)	(409,898)	(38,855)	(791,414)
Net position	**63,299**	**(215,663)**	**(8)**	**1,426**	**(150,946)**

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

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

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

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

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

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

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

** Loans were converted into HUF at foreign exchange rates applied in conversion due to Acts on Customer loans so these do not bear further foreign currency risk or exposure. Loans denominated in JPY are included by others. See Note 26.2.

As at 31 December 2014:

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

As at 31 December 2014:

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

As at 31 December 2013:

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

As at 31 December 2013:

	Within 1 month		Over 1 month and within 3 months		Over 3 moths and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**376,793**	**308,524**	**10,417**	**59,271**	**69,975**	**3,028**	**798**	**5,669**	**61,496**	**5,410**	**618**	**745**	**520,097**	**382,647**	**902,744**
fixed interest	365,718	260,785	6,658	23,225	1,041	2,969	798	5,669	61,496	5,410	–	–	435,711	298,058	733,769
variable interest	11,075	47,739	3,759	36,046	68,934	59	–	–	–	–	–	–	83,768	83,844	167,612
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	618	745	618	745	1,363
Deposits from customers	**1,499,986**	**293,191**	**463,072**	**180,222**	**156,755**	**53,170**	**4,284**	**–**	**886,786**	**133,583**	**5,406**	**995**	**3,016,289**	**661,161**	**3,677,450**
fixed interest	1,129,330	288,725	440,204	180,222	156,755	53,170	4,284	–	2,667	–	–	–	1,733,240	522,117	2,255,357
variable interest	370,656	4,466	22,868	–	–	–	–	–	884,119	133,583	–	–	1,277,643	138,049	1,415,692
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	5,406	995	5,406	995	6,401
Liabilities from issued securities	**6,674**	**1,872**	**4,245**	**4,407**	**20,739**	**26,663**	**18,079**	**7,046**	**79,298**	**1,246**	**495**	**15**	**129,530**	**41,249**	**170,779**
fixed interest	6,436	1,872	4,245	4,407	20,739	26,663	18,079	7,046	79,298	1,246	–	–	128,797	41,234	170,031
variable interest	238	–	–	–	–	–	–	–	–	–	–	–	238	–	238
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	495	15	495	15	510
Derivative financial instruments	**423,640**	**1,575,964**	**64,868**	**1,635,778**	**44,510**	**132,077**	**126,788**	**28,595**	**22,221**	**22,757**	**–**	**624**	**682,027**	**3,395,795**	**4,077,822**
fixed interest	423,111	629,717	63,836	155,154	40,519	109,502	126,788	28,595	22,221	22,757	–	–	676,475	945,725	1,622,200
variable interest	529	946,247	1,032	1,480,624	3,991	22,575	–	–	–	–	–	–	5,552	2,449,446	2,454,998
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	624	–	624	624
Subordinated bonds and loans	**–**	**–**	**–**	**27,746**	**–**	**–**	**–**	**–**	**–**	**247,071**	**–**	**3,424**	**–**	**278,241**	**278,241**
fixed interest	–	–	–	–	–	–	–	–	–	247,071	–	–	–	247,071	247,071
variable interest	–	–	–	27,746	–	–	–	–	–	–	–	–	–	27,746	27,746
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	3,424	–	3,424	3,424
NET POSITION	**479,478**	**(35,184)**	**246,823**	**256,249**	**(193,127)**	**48,505**	**44,826**	**48,920**	**(161,827)**	**(342,842)**	**202,623**	**16,146**	**618,796**	**(8,206)**	**610,590**

NOTE 35: EARNINGS PER SHARE

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

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

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

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

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

As at 31 December 2014:

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

* In 2014 and 2013 dilutive effect is in connection with the Remuneration Policy.

As at 31 December 2013:

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

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

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

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

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

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

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

Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

a) Fair value of financial assets and liabilities

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

b) Fair value of derivative instruments

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

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

c) Hedge accounting

OTP Bank regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading. Net investment hedge in foreign operations is not applicable in separate financial statements.

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

As at 31 December 2014:

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

As at 31 December 2013:

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

d) Fair value hedges

1. Deposits from customers

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

	2014	2013
Fair value of the hedging instruments	107	101

2. Securities available-for-sale

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

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

3. Loans to customers

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

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

4. Issued securities

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

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

As at 31 December 2014:

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

As at 31 December 2013:

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

e) Fair value classes

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December 2014:

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

As at 31 December 2013:

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

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

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

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

1) Government measures related to customer loan contracts

See details in Note 2.26.

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

See details in Note 9.

3) Capital increase at OTP banka Srbija

See details in Note 9.

4) Acquisition in Croatia

See details in Note 9.

5) Incorporation of OTP Holding Malta Limited

See details in Note 9.

6) Purchase of Banco Comercial Português

See details in Note 9.

7) Incorporation of OTP Financing Malta Company Limited

See details in Note 9.

8) Capital increase at OTP Banka Slovensko

See details in Note 9.

9) Change in ownership structure of OTP Factoring

See details in Note 9.

10) Term Note Program

See details in Note 15.

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

See details in Note 27.

12) Legal dispute in Montenegro

See details in Note 27.

NOTE 40: POST BALANCE SHEET EVENTS

1) Capital increase at OTP Bank Romania

See details in Note 9.

2) Act on Fair banking

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

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

On 15 January 2015 the Swiss National Bank announced the abandonment of the CHF's exchange rate floor set at 1.2 against the euro. After the decision, the CHF sharply and substantially strengthened against the EUR and other foreign currencies in the CEE region: the CHF appreciated against the EUR from 1.2 CHF/EUR to under the parity and then it went up to 1.08 until 19 February. According to NBH's data the CHF strengthened by 20% against the HUF on the day of the announcement, the devaluation moderated to 7% until 19 February.
In Hungary, according to the Act on Conversion into HUF, the CHF mortgage loans are to be converted to HUF loans at 256.47 CHF/HUF exchange rate. The conversion became legally effective on 1 February 2015. (A customer may initiate on opt-out if meeting the criteria set by the law.) Starting from 1 January 2015 the monthly instalments of the FX mortgage loans must be calculated with the fixed rates set in the law on conversion, thus clients under the scope of the conversion law did not experience any negative effect of the CHF strengthening.
OTP Bank fully hedged the open EUR/HUF positions derived from the conversion of FX mortgage loans to HUF on the FX tenders of the NBH, while the open EUR/CHF and EUR/JPY positions were hedged on the market until the end of 2014.
Within the Hungarian household loan portfolio at the end of 2014 the net volume of CHF consumer loans at OTP Core stood at HUF 12 billion equivalent, and the net volume of CHF car financing loans at Merkantil Bank Ltd. reached HUF 82 billion equivalent. The car financing loans are not subject to the conversion law. However, the monthly instalments' increase due to the CHF strengthening may be mitigated (to a different extent at individual clients) by the reduction in the nominal interest rate according to Curia Law and Act on Settlement, and the compensation may lower the loan principal.
In Romania the subsidiary of OTP Bank had HUF 134 billion equivalent net CHF mortgage loan volumes at the end of 2014. OTP Bank Romania S.A. was the first one to react to the step of the Swiss National Bank abolishing the

peg to the euro: on 16 January 2015 the Romanian subsidiary announced that in order to mitigate the negative impact of CHF appreciation on monthly instalments the interest margin will be reduced by 1.5 ppts for 3 months for those customers who had variable-rate CHF mortgage loans (in accordance with effective conditions and depending on the antecedents of the loans). Clients can apply for this scheme until 27 February 2015 in the branches. By 12 February the take-up ratio reached 40% of performing CHF mortgage loan volumes.
The Croatian subsidiary held HUF 22 billion equivalent net CHF mortgage loan volumes on its balance sheet at the end of 2014.
On 19 January 2015 the Croatian Government announced that the CHF/HRK rate will be fixed at 6.39 for 12 months. The measure took effect on 26 January.

NOTE 41: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS

In 2014, economic developments in Hungary were shaped by sluggish external demand, supportive international money market environment, and intensifying domestic demand. The Eurozone's economy picked up speed in the second half of the year, and a number of Eurozone periphery countries came out of recession. Money market background was supportive – even though the Fed started phasing out its Quantitative Easing, the Bank of Japan and the European Central Bank introduced further monetary easing. The dollar's firming, the plunging commodity prices and the Russian conflict adversely affected emerging markets, but this had little effect on the less commodity-oriented Central and Eastern European region.
Hungary's economy grew by 3.5% in 2014, stronger than the 1.5% expansion in 2013. Last year broke the trend of the preceding years, when the main driving force of growth was net exports. Instead, an increase in investments became the key driver in 2014, while net exports' contribution to growth became negative for the first time after a long while. In addition to investments, consumption also picked up: the consumption expenditure of households rose about 1.5% in 2014, following the stagnation in 2013.

As a combined effect of the election year and the end of the seven-year EU budget, public investments surged at an extraordinary pace, but gross fixed capital formation also started to increase in the private sector. The key drivers in the latter were mostly car manufacturing, and the related capacity increasing projects in the supplier network.
Picking up from the stagnation in 2013, the households' consumption expenditure could go up in 2014. But its rise lagged behind that of real income, allowing retail savings to expand faster. The improvement on the labour market was pronounced mostly in the first half-year, the increase in employment came to a halt by the end of the year. The low interest rate environment and the higher real incomes led to a turnaround in private investments too, helping housing-related lending and housing investments start to rise.
Following a record low of 1.7% in 2013, inflation fell further: consumer prices dropped by 0.2% in 2014. In addition to the government's measures, the favourable development in agricultural product prices, and oil prices' plunge in the last four months of the year all contributed to the lower inflation rate.
A steady fall in inflation justified the continuation of the rate cut cycle in the first half of the year, which ended with a 20-basis-point cut in July, at 2.1%. In the supportive international backdrop (abundance of liquidity), government bond yields fell further.

OTP Bank's operation in Ukraine

In 2014 both the retail and corporate lending activity of the Ukrainian banking group became muted. In the consumer lending segment more stringent lending standards were introduced already in the first quarter of 2014.

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

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

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

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

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

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

In the second quarter of 2014 OTP Bank decided to close down its business in the Crimea, 8 branches were closed there. In Donetsk and

Luhansk counties where special circumstances prevail the Bank closed altogether 15 branches, thus the number of banking outlets declined to 2 at the end of 2014. Significant additional risk cost was created both in Crimea and the Eastern Ukrainian region (Donetsk and Luhansk), as a result the provision coverage of total gross loans reached 100% in Crimea and went up to 99.4% in case of gross loan exposures toward Donetsk and Luhansk regions.

The Ukrainian market and operating environment was volatile, especially in the time period between the end of 2014 and the writing of the report: after the conflict intensified again the parties reached a cease-fire accord and the IMF assistance programme is likely to be expanded, but despite all of these the UAH weakened further against the dollar. This points to further losses in Ukraine in 2015 both in case of the Bank and the Factoring company. By the end of 2014 the large majority of exposures toward Crimea, Donetsk and Luhansk counties were covered by provisions. If the territorial conflict did not escalate, and if the operating environment changed in the positive direction in Donetsk and Luhansk counties paving the way for banks to operate normally, that could create the possibility to release part of the provision already created there. The key focus areas are the optimisation of the operation and the gradual reduction of OTP Bank's exposures.

The funds expected to be granted to the country by supranational institutions as well as the related requirements to implement structural changes in the economy might stabilize the economic situation and the exchange rate of the UAH.

OTP Bank's operation in Russia

Since the second half of 2013 the Bank has put particular emphasis on the improvement of consumer loan products' profitability, in line with the fine-tuning of the risk profile of these portfolios and the efficiency of collection activities. Both the stricter underwriting rules applied by the Bank, the measures introduced by the supervisory authorities, the economic slowdown and the cyclical setback of the consumer loan market eventually resulted in moderated loan dynamics in 2014. As a reaction to the deterioration of the operating environment in the fourth quarter of 2014 (significant weakening of the rouble, 900 bps base rate hike in total) the Bank halted or limited new loan disbursement and made certain pricing steps. Since October no new credit cards have been sent out and the Bank cut back part of the card limits in December. Due to the market turbulences, since the middle of December cash loan disbursement has been suspended.

The total FX-adjusted deposit base dropped by 10% in the first quarter of 2014 quarter-over-quarter, than it remained stable in the second quarter and grew already both in the third and fourth quarter, thus the yearly FX-adjusted decrease was 4% altogether. In the fourth quarter the Bank managed to increase its deposit base (+3% quarter-over-quarter, FX-adjusted) despite the unfavourable market environment – deposit rates were increased in line with market trends at the end of December in order to reverse the deposit outflows.

In the course of 2014 the deposit base of JSC "OTP Bank" (Russia) increased nominally by 7% in RUB terms due to the devaluation of RUB. Due to the fact that the liquidity demand of maturing capital market instruments and the funding need of higher loan volumes increased, the net funding provided by the Mother Company to the Russian Bank grew to USD 320 million by the end of 2014 from USD –204 million in 2013 (which practically meant that OTP Russia was net lender to the Group in 2013). It is important to note that the mother company funding provided at the end of 2014 contained a significant safety buffer due to the long Russian holiday period and the uncertainties stemming from the market turbulences. This is proved well by the fact that the net mother company funding dropped to USD 9 million at the end of January 2015.

In 2015 JSC "OTP Bank" (Russia) will have RUB 300 million capital market redemptions (this is the total outstanding amount of issued bonds), so from a liquidity perspective the emphasis will be put on keeping the loan and deposit volume developments in balance. Given that JSC "OTP Bank" (Russia)'s deposit base remained stable despite the liquidity shock the Russian banking system suffered, the liquidity risks are deemed to be moderate in 2015, too.

The Bank paid back issued bonds in the amount of RUB 13.3 billion in 2014, out of which RUB 1.1 billion matured in the fourth quarter of 2014. In the fourth quarter the Russian subsidiary received RUB 3 billion subordinated loan with 10 years maturity from the Mother Company, whereas in 2014 JSC "OTP Bank" (Russia) repaid altogether RUB 1.2 billion equivalent subordinated debt to the Mother Company. The Bank's capital adequacy ratio stood at 12.1% at the end of 2014.

In 2015 the DPD0–90 loan portfolio is expected to decline, which, together with a stable deposit base might result in improving liquidity position, but lower revenues. Due to the increased funding cost net interest income might decrease in 2015. The operating environment is not expected to improve materially, thus with respect to elevated risk costs no material turnaround is expected in 2015.

The Russian operation is expected to remain loss-making in 2015.

Funding for Growth Scheme

On 11 September 2013 the National Bank of Hungary decided on extending the Funding for Growth Scheme with a second phase which is to be open from 1 October 2013 till 31 December 2015. The total amount of refinancing available for banks in the second phase was originally set at HUF 500 billion; in September 2014 the total amount of available funding was lifted to HUF 1,000 billion.

The limit can be increased to a maximum of HUF 2,000 billion by the Monetary Council. Similarly to the first phase, the central bank refinancing carries zero interest rate, a maximum 10-year tenor and can be lend over to SMEs by applying a maximum interest margin of 2.5%. The goal of the first pillar is to originate new loans, whereas the second pillar is for refinancing HUF or foreign currency denominated liabilities of SMEs. The share of loan contracts concluded under the second pillar must not surpass 10% of the total amount of contracts concluded under the two pillars.

The maximum available amount of loans for SMEs is limited at HUF 10 billion in each pillar.

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