



OTP BANK PLC.

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

***FOR THE YEAR ENDED
31 DECEMBER 2014***

OTP BANK PLC.
CONSOLIDATED FINANCIAL STATEMENTS

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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.

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 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, March 17, 2015


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Gábor Gion

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


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dr. Attila Hruby

registered statutory auditor
007118

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

	Note	2014	2013
Cash, amounts due from banks and balances with the National 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.	<u>291,835</u>	<u>211,241</u>
TOTAL ASSETS		<u>10,971,052</u>	<u>10,381,047</u>
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.	<u>281,968</u>	<u>267,162</u>
TOTAL LIABILITIES		<u>9,706,886</u>	<u>8,871,715</u>
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.	<u>3,349</u>	<u>4,767</u>
TOTAL SHAREHOLDERS' EQUITY		<u>1,264,166</u>	<u>1,509,332</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>10,971,052</u>	<u>10,381,047</u>

Budapest, 17 March 2015

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Dr. Sándor Csányi
Chairman and Chief Executive Officer

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

	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		<u>7,015</u>	-
Total Interest Income		<u>909,230</u>	<u>1,089,369</u>
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		<u>6,630</u>	<u>2,558</u>
Total Interest Expense		<u>273,133</u>	<u>435,641</u>
NET INTEREST INCOME		<u>636,097</u>	<u>653,728</u>
Provision for impairment on loan and placement losses	5.,8.,2	446,830	262,569
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		<u>189,267</u>	<u>391,159</u>
Income from fees and commissions	24.	265,392	257,135
Expense from fees and commissions	24.	<u>49,736</u>	<u>55,378</u>
Net profit from fees and commissions		<u>215,656</u>	<u>201,757</u>
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.	<u>(194,798)</u>	-
Net operating (loss) / gain		<u>(49,874)</u>	<u>18,907</u>
Personnel expenses		206,335	204,277
Depreciation and amortization	11.	65,947	78,017
Other administrative expenses		<u>236,410</u>	<u>244,477</u>
Other administrative expenses	25.	<u>508,692</u>	<u>526,771</u>
(LOSS) / PROFIT BEFORE INCOME TAX		<u>(153,643)</u>	<u>85,052</u>
Income tax	26.	<u>51,385</u>	(20,944)
NET (LOSS) / PROFIT FOR THE YEAR		<u>(102,258)</u>	<u>64,108</u>
From this, attributable to:			
Non-controlling interest		<u>(273)</u>	<u>(91)</u>
Owners of the company		<u>(101,985)</u>	<u>64,199</u>
Consolidated earnings per share (in HUF)			
Basic	38.	<u>(382)</u>	<u>241</u>
Diluted	38.	<u>(382)</u>	<u>240</u>

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

	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	<u>(6)</u>	<u>(39)</u>
NET COMPREHENSIVE INCOME	<u>(201,284)</u>	<u>28,363</u>
From this, attributable to:		
Non-controlling interest	<u>(1,418)</u>	<u>(1,016)</u>
Owners of the company	<u>(199,866)</u>	<u>29,379</u>

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

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
<i>Net changes in assets and liabilities in operating activities</i>			
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		<u>(20,571)</u>	<u>(21,739)</u>
Net Cash Provided by Operating Activities		<u>1,418,781</u>	<u>343,037</u>
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		<u>(27)</u>	<u>(29)</u>
Net Cash Provided by / (Used in) Investing Activities		<u>705,051</u>	<u>(354,364)</u>

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

FINANCING ACTIVITIES	Note	2014	2013
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 ¹		(4,003)	(4,111)
Net change in Treasury shares		(4,249)	(1,316)
Dividend paid		<u>(40,594)</u>	<u>(33,592)</u>
Net Cash Used in Financing Activities		<u>(396,455)</u>	<u>(44,655)</u>
Net increase / (decrease) in cash and cash equivalents		<u>1,727,377</u>	<u>(55,982)</u>
Cash and cash equivalents at the beginning of the period		<u>275,947</u>	<u>331,929</u>
Cash and cash equivalents at the end of the period		<u>2,003,324</u>	<u>275,947</u>
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		<u>(263,178)</u>	<u>(270,592)</u>
Cash and cash equivalents at the beginning of the period		<u>275,947</u>	<u>331,929</u>
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.	<u>(304,308)</u>	<u>(263,178)</u>
Cash and cash equivalents at the end of the period		<u>2,003,324</u>	<u>275,947</u>

¹ See more details in Note 20.

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

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Put option reserve	Treasury shares	Non-controlling interest	Total
Balance as at 1 January 2013		<u>28,000</u>	<u>52</u>	<u>10,800</u>	<u>1,579,188</u>	<u>(55,468)</u>	<u>(53,802)</u>	<u>5,783</u>	<u>1,514,553</u>
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		<u>28,000</u>	<u>52</u>	<u>16,504</u>	<u>1,571,076</u>	<u>(55,468)</u>	<u>(55,599)</u>	<u>4,767</u>	<u>1,509,332</u>
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		<u>28,000</u>	<u>52</u>	<u>20,897</u>	<u>1,323,277</u>	<u>(55,468)</u>	<u>(55,941)</u>	<u>3,349</u>	<u>1,264,166</u>

OTP BANK PLC.
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, Nador Street, Budapest 1051.

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

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

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

	2014	2013
Domestic and foreign private and institutional investors	97%	97%
Employees	2%	2%
Treasury shares	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

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.

The number of employees at the Group:

	2014	2013
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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

1.2. Base of Accounting [continued]

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

1.2. Base of Accounting [continued]

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

- 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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.1. Basis of Presentation [continued]

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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. The Group adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as the Group has almost all of its open derivative transactions collateralised.

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

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

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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.9. Embedded derivatives

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

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

2.10. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities available-for-sale are measured at subsequent reporting dates at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Recognized Income for the applicable period.

Such securities consist of Hungarian and foreign government bonds, corporate bonds, discounted Treasury bills and other securities. Other securities include shares in investment funds, shares in non-financing companies and venture capital fund bonds.

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

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

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

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

Loans and placements with other banks are accounted at amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. Interest and amortised cost are accounted using effective interest rate method.

When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest is impaired.

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

Allowance for loan and placement losses with other banks represent Management assessment for potential losses in relation to these activities.

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.14. Property and equipment, Intangible assets

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

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

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

Depreciation and amortization on Property and equipment and Intangible assets commence on the day such assets are placed into service.

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

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

The Group may conclude contracts for purchasing property, equipment and intangible assets, where the purchase price is settled in foreign currency. By entering into such agreements, firm commitment in foreign currency due on a specified future date arises at the Group.

Reducing the foreign currency risk caused by firm commitment, forward foreign currency contracts may be concluded to ensure the amount payable in foreign currency on a specified future date on one hand and to eliminate the foreign currency risk arising until settlement date of the contract on the other hand.

In the case of effective hedge the realised profit or loss of hedging instrument is stated as the part of the cost of the hedged asset as it has arisen until recognising the asset and it is tightly connecting to the purchasing.

2.15. Financial liabilities

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

2.16. Leases

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

The Group as a lessor

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

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. Leases [continued]

The Group as a lessee

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

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

2.17. Investment properties

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

2.18. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Financial Position at cost as a deduction from Consolidated Shareholders' Equity.

Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity. Derecognition of treasury shares is based on the FIFO method.

2.19. Interest income and interest expense

Interest income and expenses are recognized in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The Group recognizes interest income when assumes that the interest associated with the transaction will flow to the Group and the amount of the revenue can reasonably be measured. All interest income and expense recognized are arising from loans, placements with other banks, securities held for trading, securities available-for-sale, securities held-to-maturity and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statements.

2.20. Fees and Commissions

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

2.21. Dividend income

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.22. Income tax

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

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

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

2.23. Off-balance sheet commitments and contingent liabilities

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

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

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

2.24. Share-based payment and employee benefit

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

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

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

2.25. Consolidated Statement of Cash-flows

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

2.26. Segment reporting

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.27. Comparative figures

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

2.28. Government measures related to customer loan contracts

Act XXXVIII of 2014 on “Settlement of certain issues concerning the Uniformity Decision of the Supreme Court related to customer loan agreements¹ 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 HUF 36,598 million in the Group’s Consolidated IFRS Financial Statements.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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	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.	<u>462</u>	<u>4,501</u>	-	<u>4,963</u>
Subtotal	32,404	120,079	7,493	159,976
Provision for impairment on foreign currency customer loans concerned in conversion into HUF				<u>36,598</u>
Total				<u>196,574</u>

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.

OTP Mortgage Bank Ltd.	56,581
Merkantil Bank Ltd.	16,826
OTP Real Estate Leasing Ltd.	<u>4,897</u>
Total	<u>78,304</u>

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 1996¹ 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 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.

¹ on Corporate Tax and Dividend Tax

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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.)

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

3.3. Provisions [continued]

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

**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	<u>266,384</u>	<u>235,898</u>
	<u>278,906</u>	<u>268,322</u>
Over one year		
In HUF	-	-
In foreign currency	<u>2,032</u>	<u>4,911</u>
	<u>2,032</u>	<u>4,911</u>
Accrued interest	<u>115</u>	<u>277</u>
Provision for impairment on placement losses	<u>(47)</u>	<u>(31)</u>
Total	<u>281,006</u>	<u>273,479</u>

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	<u>(4)</u>	<u>(29)</u>
Closing balance	<u>47</u>	<u>31</u>

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%

	2014	2013
Average interest rates on placements with other banks	1.22%	1.48%

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

	2014	2013
Securities held for trading		
Shares	59,231	73,703
Government bonds	22,942	34,817
Discounted Treasury bills	3,414	2,159
Securities issued by the NBH ¹	-	209,347
Other securities	4,439	14,615
Other non-interest bearing securities	<u>3,989</u>	<u>5,912</u>
	<u>94,015</u>	<u>340,553</u>
Accrued interest	<u>625</u>	<u>987</u>
Total	<u>94,640</u>	<u>341,540</u>

Positive fair value of derivative financial instruments classified held for trading

	2014	2013
CCIRS and mark-to-market CCIRS ² 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	<u>4,223</u>	<u>6,493</u>
	<u>194,635</u>	<u>74,065</u>
Total	<u>289,275</u>	<u>415,605</u>

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

	2014	2013
Denominated in HUF (%)	81.7%	86.9%
Denominated in foreign currency (%)	<u>18.3%</u>	<u>13.1%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

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

	2014	2013
Denominated in HUF (%)	54.0%	9.5%
Denominated in foreign currency (%)	<u>46.0%</u>	<u>90.5%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

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

² CCIRS: Cross Currency Interest Rate Swaps (See Note 28.)

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS
(in HUF mn) [continued]

	2014	2013
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%

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	<u>23,466</u>	<u>249,085</u>
	<u>24,591</u>	<u>256,330</u>
Over five years		
With variable interest	6	663
With fixed interest	<u>6,198</u>	<u>3,945</u>
	<u>6,204</u>	<u>4,608</u>
Non-interest bearing securities	<u>63,220</u>	<u>79,615</u>
Total	<u>94,015</u>	<u>340,553</u>

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

	2014	2013
Securities available-for-sale		
Government bonds	680,323	318,263
Discounted Treasury bills	42,168	38,088
Corporate bonds	37,457	71,148
<i>From this:</i>		
<i>Listed securities:</i>		
<i>In HUF</i>	-	-
<i>In foreign currency</i>	<u>11,598</u>	<u>67,930</u>
	<u>11,598</u>	<u>67,930</u>
<i>Non-listed securities:</i>		
<i>In HUF</i>	3,261	3,218
<i>In foreign currency</i>	<u>22,598</u>	-
	<u>25,859</u>	<u>3,218</u>
Bonds issued by NBH ¹	-	<u>1,151,208</u>
Subtotal	<u>759,948</u>	<u>1,578,707</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

	2014	2013
Other securities	21,138	8,562
Other non-interest bearing securities	43,646	41,702
<i>From this:</i>		
<i>Listed securities:</i>		
<i>In HUF</i>	-	-
<i>In foreign currency</i>	<u>7,114</u>	<u>6,521</u>
	<u>7,114</u>	<u>6,521</u>
<i>Non-listed securities:</i>		
<i>In HUF</i>	28,346	27,013
<i>In foreign currency</i>	<u>8,186</u>	<u>8,168</u>
	<u>36,532</u>	<u>35,181</u>
	<u>824,732</u>	<u>1,628,971</u>
Accrued interest	<u>15,694</u>	<u>9,250</u>
Provision for impairment on securities available-for-sale	<u>(1,274)</u>	<u>(966)</u>
Total	<u>839,152</u>	<u>1,637,255</u>
An analysis of securities available-for sale by currency (%):		
	2014	2013
Denominated in HUF (%)	84.6%	82.6%
Denominated in foreign currency (%)	<u>15.4%</u>	<u>17.4%</u>
Total	<u>100.0%</u>	<u>100.0%</u>
An analysis of government bonds by currency (%):		
	2014	2013
Denominated in HUF (%)	81.2%	47.1%
Denominated in foreign currency (%)	<u>18.8%</u>	<u>52.9%</u>
Total	<u>100.0%</u>	<u>100.0%</u>
	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%
	2014	2013
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%

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

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

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	<u>11</u>	<u>5</u>
Closing balance	<u>1,274</u>	<u>966</u>

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)	<u>4,690,266</u>	<u>4,875,633</u>
	<u>6,936,084</u>	<u>7,412,800</u>
Accrued interest	<u>57,242</u>	<u>68,044</u>
Provision for impairment on loan losses	<u>(1,129,085)</u>	<u>(1,235,634)</u>
Total	<u>5,864,241</u>	<u>6,245,210</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

	2014	2013
In HUF	29%	27%
In foreign currency	<u>71%</u>	<u>73%</u>
Total	<u>100%</u>	<u>100%</u>

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%

	2014	2013
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%

	2014	2013
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 ¹	(237,593)	-
Increase due to acquisition	772	-
Use of provision	(85,494)	(79,996)
Foreign currency translation difference	<u>(173,584)</u>	<u>(24,301)</u>
Closing balance	<u>1,129,085</u>	<u>1,235,634</u>

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	<u>446,820</u>	<u>262,943</u>
Total	<u>446,830</u>	<u>262,569</u>

¹ See details in Note 2.11.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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 ¹	<u>8,917</u>	<u>12,485</u>
	<u>26,685</u>	<u>28,068</u>
Provision for impairment on investments	<u>(3,304)</u>	<u>(4,231)</u>
Total	<u>23,381</u>	<u>23,837</u>

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	<u>1</u>	<u>25</u>
Closing balance	<u>3,304</u>	<u>4,231</u>

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	<u>7</u>	<u>1,070</u>
	<u>693,458</u>	<u>566,542</u>
Accrued interest	<u>16,725</u>	<u>14,284</u>
Provision for impairment on securities held-to-maturity	<u>(814)</u>	<u>(775)</u>
Total	<u>709,369</u>	<u>580,051</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

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

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

	2014	2013
Denominated in HUF (%)	92.7%	89.8%
Denominated in foreign currency (%)	<u>7.3%</u>	<u>10.2%</u>
Total	<u>100%</u>	<u>100%</u>

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%
	2014	2013
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	<u>39</u>	<u>16</u>
Closing balance	<u>814</u>	<u>775</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the year ended 31 December 2014

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

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	181,190	49,799	126,559	-	357,548
Charge for the year (without goodwill impairment)	22,614	5,346	15,762	-	43,722
Goodwill impairment	22,225	-	-	-	22,225
Foreign currency translation differences	3,207	(1,311)	(4,219)	-	(2,323)
Disposals	(41,945)	(180)	(13,168)	-	(55,293)
Transfer ¹	(179)	(6,909)	(7,403)	-	(14,491)
Change in consolidation scope	22	=	45	=	67
Balance as at 31 December	<u>187,134</u>	<u>46,745</u>	<u>117,576</u>	<u>=</u>	<u>351,455</u>

Net book value					
Balance as at 1 January	<u>193,721</u>	<u>172,835</u>	<u>62,347</u>	<u>26,341</u>	<u>455,244</u>
Balance as at 31 December	<u>158,721</u>	<u>150,178</u>	<u>44,279</u>	<u>11,983</u>	<u>365,161</u>

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

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

Net book value	
Balance as at 1 January	<u>145,564</u>
Balance as at 31 December	<u>101,062</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

For the year ended 31 December 2014 [continued]

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

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

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) 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.

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2013

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
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	<u>142</u>	<u>10</u>	<u>234</u>	<u>854</u>	<u>1,240</u>
Balance as at 31 December	<u>374,911</u>	<u>222,634</u>	<u>188,906</u>	<u>26,341</u>	<u>812,792</u>
Depreciation and Amortization					
	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
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	<u>58</u>	<u>78</u>	<u>86</u>	<u>-</u>	<u>222</u>
Balance as at 31 December	<u>181,190</u>	<u>49,799</u>	<u>126,559</u>	<u>-</u>	<u>357,548</u>
Net book value					
Balance as at 1 January	<u>237,749</u>	<u>169,869</u>	<u>62,596</u>	<u>18,928</u>	<u>489,142</u>
Balance as at 31 December	<u>193,721</u>	<u>172,835</u>	<u>62,347</u>	<u>26,341</u>	<u>455,244</u>

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

Cost	Goodwill
Balance as at 1 January	189,619
Additions	-
Foreign currency translation difference	(13,236)
Impairment for the current period	<u>(30,819)</u>
Balance as at 31 December	<u>145,564</u>

Net book value

Balance as at 1 January	<u>189,619</u>
Balance as at 31 December	<u>145,564</u>

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

List of units	HUF mn
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 ¹	354
Total	<u>145,564</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2013 [continued]

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 ASSETS¹ (in HUF mn)

	2014	2013
Deferred tax receivables	61,009	5,286
Investment properties ²	31,322	-
Assets subject to operating lease ²	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 ³	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	<u>44,704</u>	<u>62,143</u>
Subtotal	<u>324,737</u>	<u>234,488</u>
Provision for impairment on other assets ⁴	<u>(32,902)</u>	<u>(23,247)</u>
Total	<u>291,835</u>	<u>211,241</u>

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

² 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.).

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

⁴ Provision for impairment on other assets mainly consists of provision for impairment on investment properties and inventories.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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	<u>45</u>	<u>34</u>
Total	<u>30,454</u>	<u>26,803</u>

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 ¹	2,353	-
Use of provision	(2,573)	(2,422)
Foreign currency translation difference	<u>149</u>	<u>91</u>
Closing balance	<u>32,902</u>	<u>23,247</u>

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	<u>302,971</u>	<u>162,714</u>
	<u>451,235</u>	<u>515,355</u>
Over one year		
In HUF	150,012	139,958
In foreign currency	<u>106,137</u>	<u>127,436</u>
	<u>256,149</u>	<u>267,394</u>
Accrued interest	<u>890</u>	<u>1,463</u>
Total²	<u>708,274</u>	<u>784,212</u>

¹ 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.).

² It contains loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 standard. See more details in Note 44.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

	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%
	2014	2013
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	1.72%	2.13%

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

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

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%

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

	2014	2013
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 follows¹:

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

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	<u>53,225</u>	<u>163,580</u>
	<u>82,037</u>	<u>214,375</u>
Over one year		
In HUF	162,582	175,889
In foreign currency	<u>13,051</u>	<u>43,806</u>
	<u>175,633</u>	<u>219,695</u>
Accrued interest	<u>9,414</u>	<u>11,148</u>
Total	<u>267,084</u>	<u>445,218</u>

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%
	2014	2013
Average interest rates on issued securities	4.01%	6.61%

¹ Without accrued interest liability.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

	Name	Date of 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
	Subtotal			79,823			

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		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
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	OTPEK 2015/I	29/07/2013	29/01/2015	5,467	4.25	fixed	
69	OTPOJK 2016/I	26/08/2011-21/12/2011	26/08/2016	106	6.14	fixed	
70	OTPOJK 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 ¹			<u>33,976</u>			
	Subtotal			<u>102,083</u>			
	Subtotal issued securities in HUF			<u>181,906</u>			
	Unamortized premium			(3,889)			
	Fair value adjustment			<u>13,377</u>			
	Total issued securities in HUF			<u>191,394</u>			

¹ From the total amount HUF 33,745 million is mobil deposits of Merkantil Bank.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

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

	Name	Date of issue	Maturity	Type of FX	Nominal value		Interest conditions (in % p.a.)	Hedged
					(FX mn)	(HUF mn)		
1	OTP EUR 1 2015/I	20/12/2013	10/01/2015	EUR	6.93	2,183	1.65	fixed
2	OTP EUR I 2015/II	17/01/2014	31/01/2015	EUR	4.89	1,541	1.65	fixed
3	OTP EUR I 2015/III	31/01/2014	14/02/2015	EUR	4.40	1,384	1.65	fixed
4	OTP EUR I 2015/IV	14/02/2014	28/02/2015	EUR	4.07	1,281	1.65	fixed
5	OTP EUR I 2015/V	28/02/2014	14/03/2015	EUR	3.41	1,074	1.5	fixed
6	OTP EUR I 2015/VI	14/03/2014	28/03/2015	EUR	3.97	1,250	1.5	fixed
7	OTP EUR I 2015/VII	21/03/2014	04/04/2015	EUR	0.84	263	1.5	fixed
8	OTP EUR I 2015/VIII	11/04/2014	25/04/2015	EUR	4.34	1,368	1.5	fixed
9	OTP EUR I 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 I 2015/XI	23/05/2014	06/06/2015	EUR	4.59	1,444	1.5	fixed
12	OTP EUR I 2015/XII	06/06/2014	20/06/2015	EUR	2.75	867	1.5	fixed
13	OTP EUR I 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
	Subtotal					43,272		

OTP BANK PLC.
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NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in foreign currency as at 31 December 2014 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Type of FX	Nominal value		Interest conditions (in % p.a.)		Hedged
					(FX mn)	(HUF mn)			
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	
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 ¹					4,493			
	Subtotal					22,789			
	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.

¹ 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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

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

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

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

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

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

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

	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	<u>2,706</u>	<u>647</u>
Total	<u>183,994</u>	<u>87,164</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 17: OTHER LIABILITIES¹ (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 ²	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	<u>36,102</u>	<u>39,892</u>
Subtotal	<u>591,854</u>	<u>421,182</u>
Accrued interest	<u>234</u>	<u>171</u>
Total	<u>592,088</u>	<u>421,353</u>

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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 ¹	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	<u>6,327</u>	<u>7,471</u>
Total	<u>217,351</u>	<u>22,180</u>

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	<u>(864)</u>	<u>(39)</u>
Closing balance	<u>217,351</u>	<u>22,180</u>

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	<u>85,679</u>	<u>74,695</u>

¹ See details in Note 2.28.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

Interest rates on subordinated bonds and loans are as follows:

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as at 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 ¹ program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN ¹ program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated loan	USD 65 million	21/04/2008	13/10/2015	100%	Variable, six-month LIBOR + 1.4%	1.72%
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%

¹ European Medium Term Note Program

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 19: SHARE CAPITAL (in HUF mn)

	2014	2013
Authorized, issued and fully paid:		
Ordinary shares	<u>28,000</u>	<u>28,000</u>

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	<u>8,558</u>	<u>8,287</u>
Total	<u>976,944</u>	<u>1,032,631</u>

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 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 discretionary 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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 21: TREASURY SHARES (in HUF mn)

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

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	<u>(6,272,000)</u>	<u>(5,030,011)</u>
Closing number of shares	<u>18,175,347</u>	<u>17,972,405</u>

Change in carrying value:

	2014	2013
Balance as at 1 January	55,599	53,802
Additions	27,522	19,740
Disposals	<u>(27,181)</u>	<u>(17,943)</u>
Closing balance	<u>55,940</u>	<u>55,599</u>

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	<u>(968)</u>	<u>(502)</u>
Closing balance	<u>3,349</u>	<u>4,767</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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	<u>57,470</u>	<u>77,188</u>
	<u>446,820</u>	<u>262,943</u>
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	<u>(10)</u>	<u>(35)</u>
	<u>10</u>	<u>(374)</u>
Provision for impairment on loan and placement losses	<u>446,830</u>	<u>262,569</u>

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

	2014	2013
Income from fees and commissions		
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	<u>25,800</u>	<u>27,430</u>
Total	<u>265,392</u>	<u>257,135</u>
Expense from fees and commissions		
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	<u>6,624</u>	<u>6,298</u>
Total	<u>49,736</u>	<u>55,378</u>
Net profit from fees and commissions	<u>215,656</u>	<u>201,757</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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	<u>13,645</u>	<u>24,840</u>
Total	<u>14,379</u>	<u>26,392</u>
Other operating expenses	2014	2013
Provision on contingent liabilities due to regulations related to customer loans ¹	194,798	-
Provision for impairment on other assets	5,066	4,313
Provision for assets subject to operating lease ²	1,048	-
Provision for investment properties ²	3,612	-
Provision for impairment on investments ³	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	<u>6,354</u>	<u>10,756</u>
Total	<u>232,609</u>	<u>39,795</u>
Other administrative expenses	2014	2013
Personnel expenses		
Wages	151,467	150,462
Taxes related to personnel expenses	41,319	40,677
Other personnel expenses	<u>13,549</u>	<u>13,138</u>
Subtotal	<u>206,335</u>	<u>204,277</u>
Depreciation and amortization⁴	<u>65,947</u>	<u>78,017</u>
Other administrative expenses		
Taxes, other than income tax ⁵	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	<u>11,736</u>	<u>13,379</u>
Subtotal	<u>236,410</u>	<u>244,477</u>
Total	<u>508,692</u>	<u>526,771</u>

¹ See details in Note 2.28.

² 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.).

³ See details in Note 9.

⁴ See details in Note 11.

⁵ 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.

OTP BANK PLC.
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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	<u>(67,905)</u>	<u>(3,598)</u>
Total	<u>(51,385)</u>	<u>20,944</u>

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	<u>(3,060)</u>	<u>251</u>
Closing balance	<u>51,154</u>	<u>(12,273)</u>

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

	2014	2013
Refundable tax in accordance with Acts on Customer Loans ¹	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	<u>23,167</u>	<u>6,176</u>
Deferred tax asset	<u>96,213</u>	<u>26,573</u>

¹ See details in Note 2.28.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

	2014	2013
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	<u>(6,448)</u>	<u>(8,838)</u>
Deferred tax liabilities	<u>(45,059)</u>	<u>(38,846)</u>
Net deferred tax asset / (liability)	<u>51,154</u>	<u>(12,273)</u>

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

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 ¹	(6,335)	(459)
Tax refund in accordance with Acts on Customer Loans	(28,306)	-
Other	<u>(1,896)</u>	<u>(5,978)</u>
Income tax (income) / expense	<u>(51,385)</u>	<u>20,944</u>
Effective tax rate²	<u>33.44%</u>	<u>24.62%</u>

¹ 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.

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 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;

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

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

- the 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	<u>117,988</u>	<u>262</u>	<u>63</u>	<u>118,313</u>
Gross portfolio	<u>5,592,678</u>	<u>294,350</u>	<u>1,044,863</u>	<u>6,931,891</u>
Placement with other banks	280,917	12	9	280,938
Bill of exchange	<u>4,193</u>	-	-	<u>4,193</u>
Total gross portfolio	<u>5,877,788</u>	<u>294,362</u>	<u>1,044,872</u>	<u>7,217,022</u>
Allowance for loans	(169,562)	(180,880)	(778,643)	(1,129,085)
Allowance for placements	<u>(26)</u>	<u>(12)</u>	<u>(9)</u>	<u>(47)</u>
Total allowance	<u>(169,588)</u>	<u>(180,892)</u>	<u>(778,652)</u>	<u>(1,129,132)</u>
Total net portfolio	<u>5,708,200</u>	<u>113,470</u>	<u>266,220</u>	<u>6,087,890</u>
Accrued interest				
for loans				57,242
for placements				<u>115</u>
Total accrued interest				<u>57,357</u>
Total net loans				<u>5,864,242</u>
Total net placements				<u>281,006</u>
Total net exposures				<u>6,145,248</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

27.1. Credit risk [continued]

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

As at 31 December 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	<u>271,379</u>	<u>106</u>	<u>965</u>	<u>272,450</u>
Gross portfolio	<u>5,945,215</u>	<u>281,689</u>	<u>1,181,956</u>	<u>7,408,860</u>
Placement with other banks	273,224	-	9	273,233
Bill of exchange	3,940	=	=	3,940
Total gross portfolio	<u>6,222,379</u>	<u>281,689</u>	<u>1,181,965</u>	<u>7,686,033</u>
Allowance for loans	(198,928)	(156,362)	(880,344)	(1,235,634)
Allowance for placements	(23)	=	(8)	(31)
Total allowance	<u>(198,951)</u>	<u>(156,362)</u>	<u>(880,352)</u>	<u>(1,235,665)</u>
Total net portfolio	<u>6,023,428</u>	<u>125,327</u>	<u>301,613</u>	<u>6,450,368</u>
Accrued interest				
for loans				68,044
for placements				<u>277</u>
Total accrued interest				<u>68,321</u>
Total net loans				<u>6,245,210</u>
Total net placements				<u>273,479</u>
Total net exposures				<u>6,518,689</u>

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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

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

Not impaired loan portfolio

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

As at 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	<u>52,772</u>	<u>20,917</u>	<u>128</u>	<u>3</u>	<u>73,820</u>
Total	<u>3,082,773</u>	<u>250,632</u>	<u>8,715</u>	<u>10,698</u>	<u>3,352,818</u>

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	<u>34,343</u>	<u>25,179</u>	<u>236</u>	<u>1</u>	<u>59,759</u>
Total	<u>3,134,667</u>	<u>291,643</u>	<u>8,522</u>	<u>9,704</u>	<u>3,444,536</u>

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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

27.1. Credit risk [continued]

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

Loans individually assessed for provision

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

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 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	<u>10,061</u>	<u>2,030</u>	<u>10,402</u>	<u>4,721</u>	<u>161</u>
Corporate total	<u>738,357</u>	<u>354,975</u>	<u>420,686</u>	<u>29,925</u>	<u>4,605</u>
Delay of payment	8,895	468	4,927	-	-
Legal proceedings	592	235	1,267	-	-
Decrease of client classification	234	122	-	3	-
Other	<u>96</u>	<u>1</u>	<u>-</u>	<u>381</u>	<u>4</u>
Municipal total	<u>9,817</u>	<u>826</u>	<u>6,194</u>	<u>384</u>	<u>4</u>
Placements with other banks	=	=	=	=	=
Total	<u>748,174</u>	<u>355,801</u>	<u>426,880</u>	<u>30,309</u>	<u>4,609</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

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

Loans individually assessed for provision [continued]

As at 31 December 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	<u>22,159</u>	<u>7,399</u>	<u>16,714</u>	<u>6,000</u>	<u>379</u>
Corporate total	<u>692,072</u>	<u>350,227</u>	<u>423,597</u>	<u>20,549</u>	<u>5,205</u>
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	<u>14,583</u>	<u>456</u>	<u>-</u>	<u>1,044</u>	<u>10</u>
Municipal total	<u>27,153</u>	<u>1,780</u>	<u>8,716</u>	<u>1,143</u>	<u>11</u>
Placements with other banks	:	:	:	:	:
Total	<u>719,225</u>	<u>352,007</u>	<u>432,313</u>	<u>21,692</u>	<u>5,216</u>

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).

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

27.1. Credit risk [continued]

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

Loan portfolio by countries

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

Country	2014		2013	
	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	1,271	751	284	45
Total²	7,212,829	1,129,132	7,682,093	1,235,665

¹ 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.

² Without the amount of bill of exchange.

OTP BANK PLC.
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

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

Loan portfolio by countries [continued]

The loan portfolio decreased mostly in 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	<u>793,137</u>	<u>842,311</u>
Total	<u>7,023,953</u>	<u>7,645,772</u>

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	<u>455,811</u>	<u>524,689</u>
Total	<u>3,877,134</u>	<u>4,282,967</u>

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.

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

27.1. Credit risk [continued]

27.1.2. Collaterals [continued]

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

An analysis of the fair value of collaterals related to past due, but not impaired loans, 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	<u>383,543</u>	<u>439,510</u>
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	<u>191,938</u>	<u>223,084</u>

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

OTP BANK PLC.
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

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	<u>71</u>	<u>3</u>	<u>1,386</u>	<u>28</u>
Total	<u>287,623</u>	<u>52,342</u>	<u>379,555</u>	<u>91,734</u>

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.4. Financial instruments by rating categories¹

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 ²	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	<u>1,677</u>	<u>12</u>	<u>138</u>	<u>10</u>	<u>41</u>	<u>21</u>	<u>7,266</u>	<u>6,765</u>	<u>17,195</u>	<u>18</u>	<u>60,872</u>	<u>94,015</u>
Accrued interest												625
Total												<u>94,640</u>

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	<u>370</u>	<u>22</u>	<u>40,171</u>	<u>220,401</u>	<u>477,459</u>	<u>2,412</u>	<u>10</u>	<u>526</u>	<u>1,078</u>	<u>117</u>	<u>82,166</u>	<u>824,732</u>
Accrued interest												15,694
Total												<u>840,426</u>

¹ Moody's ratings

² These contain mostly corporate shares listed on Budapest Stock Exchange.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

27.1. Credit risk [continued]

27.1.4. Financial instruments by rating categories¹ [continued]

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	<u>4,497</u>	<u>522</u>	<u>22,681</u>	<u>1,184</u>	<u>11,065</u>	<u>641,990</u>	<u>10,648</u>	<u>871</u>	<u>693,458</u>
Accrued interest									<u>16,725</u>
Total									<u>710,183</u>

¹ Moody's ratings

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk is detailed in Note 35.)

27.2.1. Market Risk sensitivity analysis

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

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

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure. The FX Var rose due to significant increase of USD/RUB volatility.

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

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

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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

27.2. Market risk [continued]

27.2.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR, 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 to 1.9 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	2013
	In HUF billion	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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2 Market risk [continued]

27.2.3. Interest rate sensitivity analysis [continued]

The simulations were prepared by assuming two scenarios:

- (1) HUF base rate 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 (in HUF million):

Description	2014		2013	
	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)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2. Market risk [continued]

27.2.5. Capital management

Capital management

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

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

The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.

The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

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

The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

The Group has entirely complied with the regulatory capital requirements in 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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

27.2 Market risk [continued]

27.2.5. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	2014		2013
	Basel III		Basel II
Core capital (Tier 1) =		Core capital (Tier 1)	
Common Equity Tier 1 (CET 1)	969,935	<i>Positive components</i>	1,264,286
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	<i>Negative components</i>	(249,162)
Non-controlling interests	736	Treasury shares	(55,599)
Treasury shares	(55,940)	Goodwill and	
Goodwill and		other intangible assets	(193,563)
other intangible assets	(158,681)		
Other adjustments	(36,918)		
Additional Tier 1 (AT1)	-		
Supplementary capital (Tier 2)	231,939	Supplementary capital (Tier 2)	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 capital¹	<u>1,201,874</u>	Regulatory capital	<u>1,440,962</u>
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	<u>548,755</u>	Total requirement regulatory capital	<u>579,408</u>
Surplus capital	<u>653,119</u>	Surplus capital	<u>861,554</u>
CET 1 ratio	14.1%	CET 1 ratio	-
Tier 1 ratio	14.1%	Tier 1 ratio	17.5%
Capital adequacy ratio	<u>17.5%</u>	Capital adequacy ratio	<u>19.9%</u>

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

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

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

OTP BANK PLC.
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NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2 Market risk [continued]

27.2.5. Capital management [continued]

Capital adequacy [continued]

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 ¹	157,693	-
<i>from this: obligation related to application of the bid-ask exchange rate spread</i>	31,297	-
<i>from this: obligation related to unilateral amendment of contractual clauses</i>	126,396	-
Legal disputes (disputed value)	71,808	66,988
Confirmed letters of credit	25,581	25,919
Other	<u>208,915</u>	<u>138,422</u>
Total	<u>1,832,399</u>	<u>1,810,508</u>

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.)

¹ See details in Note 2.28.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

Legal disputes [continued]

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, 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.

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

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these 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.

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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	-	-	-

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

Effective pieces are follows in exercise periods of each year relating to the year **2011** as at 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 30 June 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	<u>135</u>	<u>89</u>
Total	<u>12,184</u>	<u>13,885</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

	2014	2013
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
	2014	2013
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	<u>73</u>	<u>71</u>
Total	<u>612</u>	<u>616</u>

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.

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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	(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	<u>8,963</u>
Non-controlling interest	-
Negative goodwill	<u>(4,400)</u>
Cash consideration	<u>4,563</u>

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

	2014
Cash consideration	(4,563)
Cash acquired	<u>1,719</u>
Net cash outflow	<u>(2,844)</u>

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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

<u>Name</u>	<u>Ownership (Direct and Indirect)</u>		<u>Activity</u>
	2014	2013	
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 associates¹

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

As at 31 December 2014

	<i>KITE Mezőgazdasági Szolgáltató és Kereskedelmi Ltd.</i>	<i>D-ÉG Thermoset Ltd.</i>	<i>Company for Cash Services Ltd.</i>	<i>Suzuki Pénzügyi Szolgáltató Ltd.</i>	<i>Total</i>
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

¹ Based on unaudited financial statements.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 32: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]

Significant associates¹ [continued]

As at 31 December 2013

	<i>KITE Mezőgazdasági Szolgáltató és Kereskedelmi Ltd.</i>	<i>D-ÉG Thermoset Ltd.</i>	<i>Company for Cash Services Ltd.</i>	<i>Suzuki Pénzügyi Szolgáltató Ltd.</i>	<i>Total</i>
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

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

	2014	2013
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH ²	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.

¹ Based on unaudited financial statements.

² Securities issued by the NBH were changed into two-weeks NBH deposit during the year ended 31 December 2014.

OTP BANK PLC.
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NOTE 35: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF mn)

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is in all-time record highs. In 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.

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

As at 31 December 2014	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	413,402	42,767	98,259	166,929	-	721,357
Deposits from customers	6,219,811	1,223,544	251,098	19,366	-	7,713,819
Liabilities from issued securities	35,666	52,087	130,622	23,422	-	241,797
Other liabilities ¹	417,716	151,980	4,718	2,444	-	576,858
Subordinated bonds and loans	<u>30,593</u>	<u>17,897</u>	<u>140,051</u>	-	<u>111,191</u> ²	<u>299,732</u>
TOTAL LIABILITIES	<u>7,117,188</u>	<u>1,488,275</u>	<u>624,748</u>	<u>212,161</u>	<u>111,191</u>	<u>9,553,563</u>
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	<u>(1,393,686)</u>	<u>(304,425)</u>	<u>(9,408)</u>	<u>(5,578)</u>	-	<u>(1,713,097)</u>
Net notional value of financial instruments classified as held for trading	<u>87,109</u>	<u>34,995</u>	<u>38,000</u>	<u>13,762</u>	:-	<u>173,866</u>
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	<u>(199,337)</u>	<u>(500,996)</u>	<u>(308,413)</u>	<u>(3,273)</u>	-	<u>(1,012,019)</u>
Net notional value of financial instruments designated as fair value hedge	<u>4,520</u>	<u>51,779</u>	<u>29,725</u>	<u>625</u>	:-	<u>86,649</u>
Net notional value of derivative financial instruments total	<u>91,629</u>	<u>86,774</u>	<u>67,725</u>	<u>14,387</u>	:-	<u>260,515</u>
Commitments to extend credit	414,398	411,093	115,034	59,207	-	999,732
Bank guarantees	<u>61,818</u>	<u>82,014</u>	<u>64,519</u>	<u>160,319</u>	-	<u>368,670</u>
Off-balance sheet commitments	<u>476,216</u>	<u>493,107</u>	<u>179,553</u>	<u>219,526</u>	:-	<u>1,368,402</u>

¹ Without derivative financial instruments designated as fair value hedge.

² See Note 18.

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

As at 31 December 2013	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Amounts due to banks, 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 ¹	329,973	15,572	12,223	1,222	-	358,990
Subordinated bonds and loans	<u>3,211</u>	<u>4,311</u>	<u>178,764</u>	-	<u>104,842²</u>	<u>291,128</u>
TOTAL LIABILITIES	<u>6,381,657</u>	<u>1,401,655</u>	<u>764,337</u>	<u>175,092</u>	<u>104,842</u>	<u>8,827,583</u>
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	<u>(772,367)</u>	<u>(114,122)</u>	<u>(94,783)</u>	<u>(32,048)</u>	-	<u>(1,013,320)</u>
Net notional value of financial instruments classified as held for trading	<u>(31,083)</u>	<u>(10,338)</u>	<u>(38,578)</u>	<u>(17,128)</u>	:-	<u>(97,127)</u>
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	<u>(261,502)</u>	<u>(264,224)</u>	<u>(735,838)</u>	<u>(2,579)</u>	-	<u>(1,264,143)</u>
Net notional value of financial instruments designated as fair value hedge	<u>(10,689)</u>	<u>(15,194)</u>	<u>(46,851)</u>	<u>1,363</u>	:-	<u>(71,371)</u>
Net notional value of derivative financial instruments total	<u>(41,772)</u>	<u>(25,532)</u>	<u>(85,429)</u>	<u>(15,765)</u>	:-	<u>(168,498)</u>
Commitments to extend credit	652,949	379,707	158,340	69,161	6,028	1,266,185
Bank guarantees	<u>53,902</u>	<u>78,177</u>	<u>154,536</u>	<u>25,876</u>	<u>503</u>	<u>312,994</u>
Off-balance sheet commitments	<u>706,851</u>	<u>457,884</u>	<u>312,876</u>	<u>95,037</u>	<u>6,531</u>	<u>1,579,179</u>

¹ Without derivative financial instruments designated as fair value hedge.

² See Note 18.

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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
<i>from this: loans concerned in conversion into HUF¹</i>	-	27,842	402,150	74,704	504,696
Liabilities	(428,962)	(1,887,894)	(139,131)	(2,263,759)	(4,719,746)
<i>from this: provision for loans concerned in conversion into HUF¹</i>	-	(1,531)	(73,854)	(3,870)	(79,255)
Off-balance sheet assets and liabilities, net	<u>(9,117)</u>	<u>(40,166)</u>	<u>(277,512)</u>	<u>55,425</u>	<u>(271,370)</u>
Net position	<u>(3,285)</u>	<u>(40,687)</u>	<u>400,598</u>	<u>69,801</u>	<u>1,124,224</u>

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	<u>44,933</u>	<u>(2,758)</u>	<u>(743,924)</u>	<u>(109,072)</u>	<u>(810,821)</u>
Net position	<u>111,492</u>	<u>43,467</u>	<u>(19,707)</u>	<u>198,538</u>	<u>333,790</u>

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.

¹ Loans were converted into HUF at foreign exchange rates applied in conversion due to Acts on Customer loans, so these do not bear further foreign currency risk or exposure. Loans denominated in JPY are included by others. See Note 2.28.

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

As at 31 December 2014

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		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
<i>fixed rate</i>	1,796,928	30,478	-	16	-	16	-	-	-	-	-	-	1,796,928	30,510	1,827,438
<i>variable rate</i>	2,045	39,103	105	89	-	-	-	-	-	-	-	-	2,150	39,192	41,342
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	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
<i>fixed rate</i>	808	68,411	23	6,729	-	1,924	-	1,079	-	4	-	-	831	78,147	78,978
<i>variable rate</i>	11,689	80,893	-	71,286	-	13,379	-	-	-	990	-	-	11,689	166,548	178,237
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	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
<i>fixed rate</i>	179	28	1,252	2,922	3,052	3,143	87	407	11,431	7,171	-	-	16,001	13,671	29,672
<i>variable rate</i>	573	-	129	-	814	108	-	-	-	-	-	-	1,516	108	1,624
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	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	20,365	39,896	599,956	239,196	839,152
<i>fixed rate</i>	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
<i>variable rate</i>	-	2,355	-	-	-	462	-	-	-	-	-	-	-	2,817	2,817
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	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
<i>fixed rate</i>	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
<i>variable rate</i>	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
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	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
<i>fixed rate</i>	-	10,648	56,697	4,553	1,527	1,454	36,902	2,541	542,000	30,974	-	-	637,126	50,170	687,296
<i>variable rate</i>	-	212	6,677	523	-	27	-	-	-	-	-	-	-	762	7,439
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	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	85,78	19,996	31,973	41,671	-	34,609	1,939,786	4,647,022	6,586,808
<i>fixed rate</i>	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
<i>variable rate</i>	378,012	222,616	752,057	1,541,674	51,248	3,174	-	-	-	-	-	-	1,181,317	1,767,464	2,948,781
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	34,609	-	34,609	-	34,609

OTP BANK PLC.
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NOTE 37: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2014

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		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
<i>fixed rate</i>	48,545	241,159	1,209	17,169	9,371	13,890	5,144	4,051	146,454	5,863	-	-	210,723	282,132
<i>variable rate</i>	-	137,973	1,489	26,619	26,288	1,021	-	-	-	-	-	-	27,777	165,613
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	220	21,809	220	21,809
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
<i>fixed rate</i>	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
<i>variable rate</i>	419,631	1,400,328	7,970	17,225	-	15,947	-	13,895	1,131,212	238,054	-	-	1,558,813	1,685,449
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	9,572	163,878	9,572	163,878
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
<i>fixed rate</i>	6,142	5,384	5,683	7,365	12,544	32,420	21,526	11,148	144,393	506	-	-	190,288	56,823
<i>variable rate</i>	-	611	-	8,466	-	362	-	-	-	-	-	-	-	9,439
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	8,022	2,512	8,022	2,512
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
<i>fixed rate</i>	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
<i>variable rate</i>	166,104	481,739	810,288	1,304,482	3,024	30,817	-	-	-	-	-	-	979,416	1,817,038
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	26	3,635	26	3,635
Subordinated bonds and loans	-	-	-	29,375	-	16,779	-	-	-	234,642	-	1,172	-	281,968
<i>fixed rate</i>	-	-	-	-	-	-	-	-	-	234,642	-	-	-	234,642
<i>variable rate</i>	-	-	-	29,375	-	16,779	-	-	-	-	-	-	-	46,154
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	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

OTP BANK PLC.
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NOTE 37: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2013

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		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
<i>fixed rate</i>														
<i>variable rate</i>	49,234	15,062	14	9	-	54	-	84	-	-	-	-	49,248	15,209
<i>non-interest-bearing</i>	2,600	36,937	194	134	-	-	-	-	-	-	-	-	2,794	37,071
Placements with other banks, net of allowance for placements losses	32,423	168,781	-	27,182	-	919	-	-	-	4,804	1,033	18,097	33,456	240,023
<i>fixed rate</i>														
<i>variable rate</i>	32,423	168,781	-	7,059	-	919	-	-	-	4,677	-	-	32,423	181,436
<i>non-interest-bearing</i>	-	20,240	-	20,123	-	-	-	-	-	127	-	-	-	40,490
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
<i>fixed rate</i>														
<i>variable rate</i>	211,318	81	2,327	2,104	4,484	5,808	604	2,019	3,562	28,279	-	-	222,295	38,291
<i>non-interest-bearing</i>	-	-	188	-	145	211	-	-	-	-	-	-	333	211
Securities available-for-sale	1,152,169	36,443	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
<i>fixed rate</i>														
<i>variable rate</i>	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
<i>non-interest-bearing</i>	-	2,206	-	1,505	-	-	-	523	-	-	-	-	-	4,234
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
<i>fixed rate</i>														
<i>variable rate</i>	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
<i>non-interest-bearing</i>	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
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
<i>fixed rate</i>														
<i>variable rate</i>	-	1,429	-	2,199	341	25,946	57,681	1,301	434,086	26,693	-	-	492,108	57,568
<i>non-interest-bearing</i>	-	224	10,682	493	5,027	31	-	-	-	-	-	-	15,709	748
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
<i>fixed rate</i>														
<i>variable rate</i>	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
<i>non-interest-bearing</i>	322,044	429,533	442,381	815,012	23,624	2,985	79	-	-	-	-	-	788,128	1,247,530
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	666	-	666

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

As at 31 December 2013

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		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
<i>fixed rate</i>	315,291	135,680	6,548	1,839	1,041	9,822	798	10,171	85,647	25,541	-	-	409,325	183,053
<i>variable rate</i>	13,035	33,364	3,788	58,731	66,416	1,401	-	93	-	643	-	-	83,239	94,232
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	12,323	2,040	12,323	2,040
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
<i>fixed rate</i>	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
<i>variable rate</i>	366,029	1,055,051	20,560	8,649	107	131,892	-	12,547	884,119	209,814	-	-	1,270,815	1,417,953
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	9,022	175,137	9,022	175,137
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
<i>fixed rate</i>	6,436	3,510	17,729	21,524	20,713	126,792	25,040	39,431	121,923	3,610	-	-	191,841	194,867
<i>variable rate</i>	331	-	145	12,224	659	-	1,538	-	31,596	-	-	-	34,269	12,224
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	8,556	3,461	8,556	3,461
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
<i>fixed rate</i>	434,025	593,255	63,836	155,299	40,519	106,518	28,699	28,541	22,221	21,096	-	-	589,300	904,709
<i>variable rate</i>	529	775,501	1,032	1,303,871	3,991	22,575	-	-	-	-	-	-	5,552	2,101,947
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	624	-	624
Subordinated bonds and loans	-	100	-	27,746	-	15,117	-	-	-	22,041	-	3,158	-	267,162
<i>fixed rate</i>	-	-	-	-	-	-	-	-	-	22,041	-	-	-	221,041
<i>variable rate</i>	-	100	-	27,746	-	15,117	-	-	-	-	-	-	-	42,963
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	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

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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)	<u>(382)</u>	<u>241</u>
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)	<u>(382)</u>	<u>240</u>

	2014	2013
	Number of shares	
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	<u>267,035,159</u>	<u>266,914,990</u>
Dilutive effects of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares ¹	288,140	233,870
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	<u>267,323,299</u>	<u>267,148,860</u>

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

¹ The dilutive effect is in connection with the Remuneration Policy.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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	<u>636,097</u>	<u>178,661</u>	<u>(447,127)</u>	<u>16,073</u>

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	<u>653,728</u>	<u>171,612</u>	<u>(262,558)</u>	<u>(2,125)</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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
<i>Securities held for trading</i>	94,640	94,640	341,540	341,540
<i>Fair value of derivative financial instruments classified as held for trading</i>	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	<u>30,454</u>	<u>30,454</u>	<u>26,803</u>	<u>26,803</u>
Financial assets total	<u>10,321,129</u>	<u>10,959,309</u>	<u>9,717,528</u>	<u>10,124,285</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
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	<u>9,200,477</u>	<u>9,250,578</u>	<u>8,525,057</u>	<u>8,511,117</u>

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	-	-	-	-

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

b) Fair value of derivative instruments [continued]

	Fair value		Notional value, net	
	2014	2013	2014	2013
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	<u>(15,042)</u>	<u>(6,446)</u>	<u>(11,844)</u>	<u>(15,041)</u>
Derivative financial assets total	<u>225,089</u>	<u>100,868</u>	<u>211,539</u>	<u>102,648</u>
Derivative financial liabilities total	<u>(269,673)</u>	<u>(161,859)</u>	<u>(265,336)</u>	<u>(178,441)</u>
Derivative financial instruments total	<u>(44,584)</u>	<u>(60,991)</u>	<u>(53,797)</u>	<u>(75,793)</u>

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
1) Cash-flow hedges	-	-	-
2) Fair value hedges	IRS /Index option	HUF 10,578 million	Interest rate
3) Net investment hedge in foreign operations ¹	CCIRS and issued securities	HUF (5,575) million	Foreign exchange

As at 31 December 2013

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

d) Fair value hedges

1. Deposits from customers

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

	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)

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	9	12

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 40: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

As at 31 December 2014

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

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	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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

e) Fair value classes

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

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

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

As at 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	-
<i>from this: securities held for trading</i>	94,015	89,496	4,519	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	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	<u>30,454</u>	-	<u>30,454</u>	-
Financial assets measured at fair value total	<u>1,142,562</u>	<u>812,010</u>	<u>326,205</u>	<u>4,347</u>
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	<u>85,679</u>	-	<u>85,679</u>	-
Financial liabilities measured at fair value total	<u>269,673</u>	<u>1,220</u>	<u>268,453</u>	<u>=</u>

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	-
<i>from this: securities held for trading</i>	340,553	321,133	19,420	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	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	<u>26,803</u>	7	<u>26,796</u>	-
Financial assets measured at fair value total	<u>2,069,426</u>	<u>1,795,925</u>	<u>273,474</u>	<u>27</u>
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	<u>74,695</u>	-	<u>74,695</u>	-
Financial liabilities measured at fair value total	<u>161,859</u>	<u>18</u>	<u>161,841</u>	<u>=</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

e) Fair value classes [continued]

Movements in Level 3 financial instruments measured at fair value

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

Movement on securities available-for-sale in Level 3	Opening balance	Increase	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.	<u>27</u>	<u>75</u>	<u>102</u>
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 below.

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.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

As at 31 December 2014

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

() used at: provisions, impairment and expenses

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

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

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	Adjustments 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)	OTAO OTP Bank (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a-b	2	3=4+...+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	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	(4,143)	(13,246)	2,209	1,152	801	1,038	2,286	3,681	(4,929)	2,398	1,501
Profit before income tax	85,052	99,841	184,894	143,836	36,051	3,409	11,162	33,758	(4,143)	(13,235)	2,796	1,503	801	2,005	2,357	4,284	(4,636)	2,832	170
Adjusted operating profit	347,621	100,088	447,710	194,390	242,667	124,223	40,285	55,089	7,147	409	7,909	4,099	3,506	12,688	6,566	4,226	1,896	(3,272)	1,237
Adjusted total income	874,392	(9,482)	864,910	384,587	449,345	207,493	72,811	92,965	20,375	7,580	22,696	14,909	10,516	46,423	17,447	6,692	22,284	(3,105)	(12,340)
Adjusted net interest income	653,728	(602)	653,126	273,276	365,043	184,041	53,385	72,908	14,254	4,553	16,010	12,088	7,804	20,042	15,490	66	4,486	(3,105)	(2,130)
Adjusted net profit from fees and commissions	201,757	(34,821)	166,936	91,507	71,612	21,990	17,020	18,208	2,269	1,671	4,878	3,101	2,475	3,876	(2,555)	6,690	(259)	0	(59)
Adjusted other net non-interest income	18,907	25,941	44,848	19,804	12,690	1,462	2,406	1,849	3,852	1,356	1,808	(280)	237	22,505	4,512	(64)	18,057	0	(10,151)
Adjusted other administrative expenses	(526,771)	109,570	(417,201)	(190,197)	(206,678)	(83,270)	(32,526)	(37,876)	(13,228)	(7,171)	(14,787)	(10,810)	(7,010)	(33,735)	(10,881)	(2,466)	(20,388)	(167)	13,576
Total risk costs	(262,569)	(9,890)	(272,459)	(54,093)	(206,616)	(120,814)	(29,123)	(21,331)	(11,290)	(13,644)	(5,113)	(2,596)	(2,705)	(10,683)	(4,209)	58	(6,532)	0	(1,067)
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)	(11,109)	(13,002)	(5,142)	(2,594)	(3,007)	(7,544)	(4,413)	0	(3,131)	0	(1,780)
Other provision (adjustment)	0	(9,918)	(9,918)	(5,194)	(2,298)	496	(1,692)	(608)	(181)	(642)	29	(2)	302	(3,139)	204	58	(3,401)	0	713
Total other adjustments (one-off items)¹	0	9,643	9,643	3,539	0	0	0	0	0	0	0	0	0	0	0	0	0	6,104	0
Income tax	(20,944)	(18,068)	(39,012)	(28,957)	(9,985)	(1,053)	(4,447)	(3,536)	0	(11)	(587)	(351)	0	(967)	(71)	(603)	(293)	(434)	1,331
Total Assets	10,381,047	0	10,381,047	6,454,938	4,597,110	940,320	617,730	1,343,595	449,789	86,136	538,112	425,219	196,209	552,425	325,716	9,742	216,967	1,561,552	(2,784,978)
Total Liabilities	8,871,715	0	8,871,715	5,210,465	3,921,006	762,414	504,495	1,122,843	420,689	62,086	475,231	398,191	175,057	444,291	294,859	2,315	147,117	865,010	(1,569,057)

() used at: provisions, impairment and expenses

¹ One-off items consist of: revaluation result of FX swap at OTP Core in the amount of HUF 715 million; gain on the repurchase of own upper and lower Tier 2 capital in the amount of HUF 6,104 million; result of the treasury share swap agreement in the amount of HUF 2,824 million.

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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 100.0% ownership in its Romanian subsidiary. The purchase price was EUR 39 million. As a result of the acquisition the market share of OTP Bank Romania 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.

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NOTE 43: POST BALANCE SHEET EVENTS [continued]

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 an 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 HUF mn)

In 2014, economic developments in Hungary were shaped by sluggish external demand, supportive international money market environment, and intensifying domestic demand. The Eurozone's economy picked up speed in the second half of the year, and a number of Eurozone periphery countries came out of recession. Money market background was supportive – even though the Fed started phasing out its Quantitative Easing, the Bank of Japan and the European Central Bank introduced further monetary 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.

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

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% year-on-year 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: year-on-year 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 Yanukovich. 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% year on year, respectively. By December, inflation grew to 24.9% year on year, 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%.

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

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.

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

The Bank's operation in Ukraine [continued]

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.