OTP Bank Annual Report 2014

Management's Analysis

Management's analysis of the 2014 results of the OTP Group

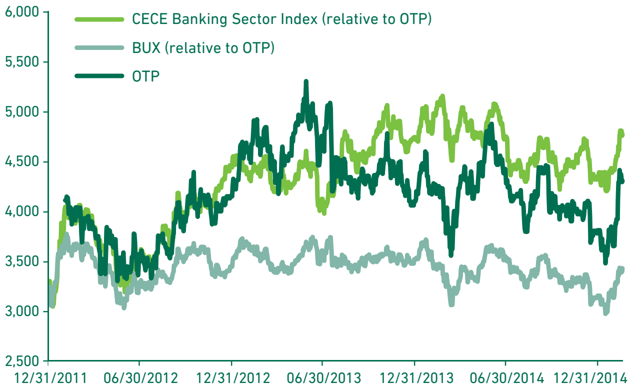
CONSOLIDATED FINANCIAL HIGHLIGHTS AND SHARE DATA[1]

Main components of the Statement of recognised income	2013 HUF million	2014 HUF million	Change %
Consolidated after-tax profit	**64,108**	**(102,258)**	**(260)**
Adjustments (total)	**(81,775)**	**(220,272)**	**169**
Consolidated adjusted after-tax profit without the effect of adjustments	**145,882**	**118,014**	**(19)**
Pre-tax profit	184,894	142,341	(23)
Operating profit	447,710	414,534	(7)
Total income	864,910	826,061	(4)
Net interest income	653,126	636,172	(3)
Net fees and commissions	166,936	169,579	2
Other net non-interest income	44,848	20,310	(55)
Operating expenses	(417,201)	(411,527)	(1)
Total risk costs	(272,459)	(274,749)	1
One off items	9,643	2,556	(73)
Corporate taxes	(39,012)	(24,327)	(38)
Main components of balance sheet closing balances	**2013**	**2014**	**%**
Total assets	10,381,047	10,971,052	6
Total customer loans (net, FX-adjusted)	**6,253,268**	**5,864,240**	**(6)**
Total customer loans (gross, FX-adjusted)	**7,499,573**	**6,993,325**	**(7)**
Allowances for possible loan losses (FX-adjusted)	(1,246,305)	(1,129,085)	(9)
Total customer deposits (FX-adjusted)	**6,910,068**	**7,673,479**	**11**
Issued securities	445,218	267,084	(40)
Subordinated loans	267,162	281,968	6
Total shareholders' equity	1,509,332	1,264,166	(16)
Indicators based on one-off adjusted earnings	**2013**	**2014**	**ppts**
ROE (from adjusted net earnings)	9.6%	8.5%	(1.1)
ROA (from adjusted net earnings)	1.4%	1.1%	(0.3)
Operating profit margin	4.37%	3.88%	(0.49)
Total income margin	8.44%	7.74%	(0.70)
Net interest margin	6.37%	5.96%	(0.41)
Cost-to-asset ratio	4.07%	3.85%	(0.22)
Cost/income ratio	48.2%	49.8%	1.6
Risk cost to average gross loans	3.51%	3.68%	0.17
Total risk cost-to-asset ratio	2.66%	2.57%	(0.09)
Effective tax rate	21.1%	17.1%	(4.0)
Net loan/(deposit+retail bond) ratio (FX-adjusted)	89%	75%	(14)
Capital adequacy ratio[2] (consolidated, IFRS) – Basel3	19.7%	17.5%	(2.2)
Tier1 ratio[2] – Basel3	17.4%	14.1%	(3.2)
Common Equity Tier1 ('CET1') ratio[2] – Basel3	16.0%	14.1%	(1.9)
Share Data	**2013**	**2014**	**%**
EPS diluted (HUF) (from unadjusted net earnings)	240	(382)	(259)
EPS diluted (HUF) (from adjusted net earnings)	546	441	(19)
Closing price (HUF)	4,100	3,811	(7)
Highest closing price (HUF)	5,302	4,875	(8)
Lowest closing price (HUF)	4,059	3,555	(12)
Market Capitalization (EUR billion)	3.9	3.4	(13)
Book Value Per Share (HUF)	5,390	4,515	(16)
Tangible Book Value Per Share (HUF)	4,699	3,948	(16)
Price/Book Value	0.8	0.8	0
Price/Tangible Book Value	0.9	1.0	11
P/E (trailing, from accounting net earnings)	17.9	(10.4)	(158)
P/E (trailing, from adjusted net earnings)	7.9	9.0	15
Average daily turnover (EUR million)	18	14	(22)
Average daily turnover (million share)	1.1	1.1	0

[1] Structural adjustments made on consolidated IFRS profit and loss statement together with the calculation methodology of adjusted indicators are detailed in the Supplementary data section of the Report.

[2] The dividend amount accrued in 2014 under Hungarian Accounting Standards was not deducted from the capital when calculating the IFRS consolidated capital adequacy ratios, because the dividend is not to be deducted from the net earnings if the net result is negative.

Share price performance (indexed)



MOODY'S RATINGS	
OTP Bank	
Foreign currency long-term deposits	Ba2
Financial strength	D
OTP Mortgage Bank	
Covered mortgage bond	Baa2
OTP Bank Russia	
Foreign currency long-term deposits	Ba3
Financial strength	E+
OTP Bank Ukraine	
Foreign currency long-term deposits	Ca
STANDARD & POOR'S RATING	
OTP Bank and OTP Mortgage Bank	
Long-term credit rating	BB
FITCH'S RATING	
OTP Bank Russia	
Long-term credit rating	BB

MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2014 RESULTS OF OTP GROUP

Diverging trends have remained in place and even strengthened throughout 2014 across the Group: while the overall macroeconomic and operating environment improved in Central and Eastern Europe, Ukraine and Russia faced worsening outlook and suffered deteriorating performance.

From the banking business perspective probably the two most important factors in Hungary were the positively shaping macroeconomic environment on one hand and the regulatory changes and rulings related to consumer (especially FX mortgage) contracts on the other. Despite the latter induced massive one-off losses for the sector, in the longer term it would indisputably create a healthier and safer operating environment.

After the modest economic growth in 2013, the GDP continued to expand in 2014 well beyond original expectations. According to preliminary data, the Hungarian GDP grew by 3.5% in 2014. Unemployment rate dropped to 7.1% (–2 ppts y-o-y) and the employment exceeded its pre-crisis levels. The key engine behind the robust growth was still the export (+8%); however alongside the expanding industrial production (+7.6%) household consumption grew notably, too. The annual inflation was negative (–0.2%) and the base rate stood at 2.1% since 23th of July following 90 bps all-in cuts in 2014.

Preliminary statistics suggested that the budget deficit was below 3% already for the third consecutive year (2014: 2.5%) and the public debt to GDP ratio was 77.3% at the end of 2014. It is also encouraging that in light of those positive trends several international organizations (OECD, EBRD) as well as investment houses upgraded their 2015 growth forecasts. The official 2015 budget set the following key targets: 2.5% GDP growth, 2.4% budget deficit coupled with public debt to GDP ratio at 75.4%, 1.3% CPI, unchanged NBH base rate and HUF/EUR at 310.1 year-end level.

The Funding for Growth Scheme of NBH has continued, following a total disbursement of HUF 701 billion under the first phase, so far HUF 472 billion was disbursed under the second one towards local SMEs, whereas contracted amounts reached HUF 585 billion. Since the amount of available sources under the new 7-year EU budget will increase substantially in line with the targets of the Scheme, NBH extended the draw-down deadline in October 2014 until to end of 2015, simultaneously raised the potentially available funding up to HUF 1,000 billion.

On 18 February the National Bank of Hungary announced the launch of Funding for Growth Scheme+ (FGS+) to be started from 16 March 2015 accordingly NBH will improve access to credit for small and medium sized enterprises that have not been able to participate in FGS so far. Under the scheme the central bank takes over 50% of credit losses from the credit institutions.

Regarding regulatory changes, with the approval of four legislative acts, in legal terms the long-running uncertainty around FX mortgages in particular and consumer contracts in broader sense has come to end. In July and September the Hungarian Parliament passed a legislation which declared the use of FX conversion margins as void and ruled unfair the unilateral amendments to consumer contracts, consequently made banks accountable and obliged them to settle with clients. Those two acts were followed by an act on the conversion of FX mortgages into Hungarian forint and another one on Fair Banking. While those acts put a material one-off burden on banks and will negatively impact their future earnings, finally a major risk factor was eliminated which not only generated constant tensions, but also set back the healthier and more predictable operation of the whole banking sector.

The central bank also played an active role in the settlement of the FX problem: it provided the necessary foreign currency need for the commercial banks to close their open position at the official rate prevailing on 7 November (308.97 HUF/EUR). OTP Bank fully hedged the open HUF/EUR positions on the FX tenders of the National Bank of Hungary, while the open EUR/CHF and EUR/JPY positions were hedged on the market until the end of 2014. Consequently the Swiss National Bank's decision on abandoning the EUR/CHF peg on 15 January 2015 and, as a result the drastic exchange rate moves had no negative impact either on OTP Bank and other Hungarian banks, or their FX mortgage clients: from 1 January 2015 monthly instalments were already calculated using the fixed FX rates.

With respect to other Group members' national economies, Slovakia, Bulgaria and Romania, as well as Montenegro can be characterized by improving macro and ongoing structural transformation, whereas Serbia made particular stabilizing efforts within the framework of an IMF-package.

There were two definite laggards, however, namely Russia and Ukraine. Their share within the consolidated performing (DPD0–90) loan book represents 8.7% and 5.5% respectively. The macroeconomic performance of those countries was well beyond the original expectations with further escalating military conflicts in Ukraine especially during the last fall. The rouble and the hryvnia were the worst performing emerging market currencies in 2014 depreciating against USD by 92% and 77% y-o-y respectively. The currency reserves of Ukraine dropped to the danger zone and the central bank practically introduced currency control. The yearly inflation was around 20% and according to quarterly statistics the y-o-y GDP contraction could be around 6.7%. In Russia consumer prices increased by more than 10%, melting oil prices put the budgetary revenues under pressure; by the end of 2014 the economy slipped into recession. In order to safeguard the value of the rouble, the Central Bank of Russia hiked the base rate to 17% on 15 December. On 26 January S&P downgraded the Russian sovereign into "BB+", thus for the first time in the last 10 years the country sank into non-investment grade. On February 20 Moody's made a similar step, also downgrading Russia into non-investment grade ("Ba1").

During 2014 and at the beginning of 2015 there have been several legislative changes across the Group having an impact on Group members' operation and profitability.

Regulatory changes related to consumer contracts, as well as future operating environment of banks in Hungary:

1. On 4 July 2014 the Parliament approved the **Act No. XXXVIII of 2014** on the **"Settlement of certain questions related to the Curia's uniformity decision on loans to customers provided by financial institutions".** The Act declared the use of FX conversion margin as void and declared a disputable presumption on the unfairness of unilateral contract amendments. Furthermore, on 24 September the Parliament also approved an Act No. XL of 2014 on the **"Settlement rules and other provision related to the Act No. XXXVIII of 2014".** The Act stipulates that in the case of FX margin and unilateral amendments to the consumer contracts the use of funds without legal cause is to be treated in each moment as principal (pre)payments, i.e. the outstanding debt obligation should be amortized.
2. On 25 November the **Act No. LXXVII of 2014** has been passed on the **"Conversion of FX mortgage loans"** which set the legal technics, terms and conditions of the procedure. The major stipulations were as follows:
   a) The applicable conversion rates are 256.47 HUF/CHF, 308.97 HUF/EUR and 2.163 HUF/JPY. The total claim should be converted in HUF.
   b) Newly converted HUF mortgage loans can be only reference rate based using 3M BUBOR as reference rate. The due date of the conversion is 1 February 2015.
   c) New interest spread: the spread level should be minimum 1% and maximum 4.5% for housing loans and 6.5% for home equity loans. In case the original contract included handling fee set in percentage term, it should be deducted from the above mentioned maximum spread levels. The new nominal interest rate, however cannot exceed the original FX mortgage loan interest rate at origination or the one being effective on 19 July 2014 (of them the lower), unless the new interest rate calculated on the basis of provisions of the law exceeds the minimum interest rate defined by the above rules.
   d) A customer may initiate on opt-out if meeting the stringent requirements set by the law.
   e) Clients may terminate the new contract within 60 days following the amendment of the contract in case they can prepay/refinance the full amount.
   f) For clients participating in the FX fixing scheme the newly calculated monthly instalment cannot be higher for the rest of the maturity of the scheme than the last monthly instalment paid. The remaining maturity of the loan should be set in a way that after the scheme expired instalments wouldn't exceed the previous monthly burden by more than 15%.
3. Parallel with the "Conversion" Law on 25 November the Parliament approved the **Act No. LXXVIII of 2014** on **"Fair Banking".** The major aim of the Act is to make the pricing of customer (retail) loans transparent. Accordingly, in future only two types of pricing will be applicable: either reference-rate based or fix (with certain repricing periods). Overdraft loans and credit card loans are exempt from that limitation. Also, state subsidized mortgage loan pricing was regulated by a separate act. (On 29 January a Government decree [4/2015] was approved; it did not result in any change for the pricing of newly disbursed subsidized loans.)
   Bulk of the "Fair Banking" Act came into effect from 1 February 2015. The major stipulations were as follows:
   a) a multi-level notification obligation towards customers (such as revealing the potential risk factors of the loan, denunciation conditions, enforcement of collaterals, etc.);
   b) the bank's right to unilaterally amend the contract should be explicitly set;
   c) setting the maximum APR-levels previously in place, which, according to the basic principle cannot exceed the actual base rate +24%, except for credit card and current account loans where the applicable maximum is base rate +39%;

d) interest rate of the loan can be unilaterally modified during the tenor as follows:
   - For loans with a tenor under 3 years banks should apply either fix rate for the whole maturity or reference-rate based pricing with interest spread being fixed. During the maturity neither the fix interest rate, nor the spread can be modified.
   - For loans with a tenor over 3 years banks should apply either a variable rate being fixed for the repricing period of at least 3 years, or a reference-rate based pricing where the spread is fixed for the whole maturity or at least for 3 years.
   - During the whole maturity of the loan banks may amend maximum 5 times the interest rates or spreads at the end of the repricing periods.
   - As for the interest/spread amendments their scale cannot exceed the so called interest rate/spread alteration indicator calculated by the central bank.
   - In line with the law previous contractual terms had to be modified by 15 February 2015.

4. For the above listed Acts and decrees the following **time-table** is to be abided by:
   a) Starting from 1 January 2015 the monthly instalments of the original FX loans are to be calculated with the fixed conversion rates set in the Conversion Law.
   b) On 1 February all the relevant FX mortgage loans de jure had to be converted into HUF. Those loans were still booked as FX-loans in the balance sheet of the bank by end-2014, however their valuation was already based on the set conversion rates.
   c) Between 1–31 March clients participating in the preferential FX mortgage prepayment scheme (invented in 2011) may turn to their bank and ask for (presumed) settlement.
   d) Between 1 March – 30 April all FX clients should receive a detailed notifications from their banks on the settlement (including the newly set monthly instalment and the modified principal), as well as the notification on the amended provisions of their contract according to the law. Thus the previous FX mortgage clients will learn the relevant information on their outstanding HUF mortgage loan contractual terms following the conversion. For those preferring to opt-out (meeting the stipulated conditions) have 30 days to announce that to their banks. Only those clients can do so where the regular monthly income in the relevant foreign currency exceeds the monthly instalment; or the client is eligible to borrow in FX according to the NBH regulation in place (monthly income should exceed the minimum wage 15 times) or the loan is going the expire not later than 31 December 2020.
   e) The new disbursement amount will be due for the first time in May (i.e. the first month following the notification).
   f) Between 1 August – 1 September the HUF-based customer loan clients will also receive notifications on the settlement of their original loans.

5. From 1 January 2015 **NBH introduced new lending rules** in order to put more stringent limits for the indebtedness of individual clients. Accordingly
   a) in future a Payment-To-Income (PTI) indicator should be applied and banks have to calculate the total eligible disbursement amount based on the legal net monthly income of the customer in a way that:
      - having a monthly income less than HUF 400,000, for HUF loans the maximum PTI cannot exceed 50%, for EUR loans 25% and all other currencies 10%, respectively;
      - having a monthly income of more than HUF 400,000, the above thresholds are 60, 30 and 15%, respectively;
   b) the applicable Loan-To-Value (LTV) ratio sets limit for the maximum loan amount. For HUF loans in case of mortgages the maximum LTV can't be higher than 80%, whereas for car loans it can't exceed 75%. With regard to FX loans, for EUR-denominated ones the relevant thresholds are 50% (previously 60%) and 45% (previously 60%), for all other

currencies a 35 and 30% threshold should be applied.

6. On 9 February 2015 the **Hungarian Government and EBRD signed a Memorandum of Understanding** which stipulated that the banking sector is one of the pillars of a long-term sustainable economic development. It also stressed that the Government intends to strengthen its relationship with the local banking sector. The major undertakings of the agreement are as follows:
   - the new base for calculating the banking tax will be banks' balance sheets as of the end of 2014, with the percentage applied being reduced to 0.31% from 2016 and to 0.21% from the beginning of 2017. This would result in an almost HUF 60 billion reduction of the banking tax in 2016. From 2019 the level of the banking tax will be further adjusted to the prevailing European Union norms. The Hungarian government will take the necessary steps for submitting the appropriate legislation by June 2015;
   - the conversion of FX mortgages into Hungarian forints would be completed in such a way as to avoid imposing further costs on the banking sector related to exchange rate risks;
   - the reduction of the banking sector's non-performing loan portfolio would be designed to reflect international best practices, in particular with respect to the transparent and market-based operation of these programmes. Further restrictions on foreclosures and evictions will be avoided and purchasing the properties of troubled retail borrowers will be expanded, while the eligibility criteria are to be relaxed;
   - new regulations on private bankruptcy and retroactive termination rights of the banks' clients will not be enacted without due consultation with and support of the Hungarian Banking Association;
   - the Hungarian government doesn't intend to take direct or indirect majority ownership stakes in systemically important local banks, except in case of a threat to the stability of the overall banking system, and is committed to transferring all direct and indirect majority equity stakes it currently holds in local banks to the private sector within the next three years;
   - the Hungarian government is to refrain from implementing new laws or measures that may have a negative impact on the profitability of the banking sector, except when Hungarian government is obliged to implement due to its membership of the European Union;
   - the Hungarian government is ensuring fair competition between, and equal treatment of, all financial institutions active on the market in Hungary.

Legislative acts or other regulatory changes related to FX mortgages having an impact of other Group members

In Romania **OTP Bank Romania** was the first one to react to the step of the Swiss National Bank abolishing the CHF/EUR peg and on 16 January 2015 it announced that in order to mitigate the negative impact on monthly instalment for 3 months it will reduce by 1.5 ppts the interest rate of 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 by 27 February at any branch. By 12 February the take-up ratio reached 40% of performing CHF mortgage loan volumes. The potential impact of the lower net interest income for 3 months is about HUF 200 million. By the end of 2014 OTP Bank Romania had HUF 134 billion equivalent net CHF mortgage loans on its balance sheet.

In **Croatia,** on 19 January 2015 the Government announced that it will fix the HKR/CHF rate at 6.39 for servicing CHF debt obligations. The decree is effective from 26 January. Given that such unilateral step raises certain constitutional concerns, the banking sector has started working on its version that could ease the temporary difficulties of clients and considers rather the individual social aspects. The potential negative impact of fixing is about HUF 470 million for 12 months. By the end of 2014 OTP Bank Croatia had HUF 22 billion equivalent CHF mortgages on its balance sheet.

Consolidated earnings: HUF 118 billion adjusted after-tax profit, declining operating income and net interest margin, moderating portfolio deteriorating from 2H, improving DPD90+ ratio and provision coverage

OTP Group posted HUF 118 billion adjusted profit in 2014 which underpins a y-o-y 19% decline against the base period. The decline is reasoned by lower total income (–7%), as well as by higher risk costs (+1%).

The annual total income without one-offs comprised HUF 826.1 billion and moderated by 4% y-o-y, within that the decline of net interest income was 3%. As for individual group members the net interest income somewhat moderated at OTP Core, dropped in Russia and Ukraine, however increased at DSK Bulgaria and at all smaller group members. Lower net interest income at the Russian and Ukrainian subsidiaries are reasoned by the FX translation effect: in rouble terms the Russian net interest income dropped only by 1%, whereas in hryvnia terms the Ukrainian net interest income advanced by 16%. The net fee and commission improved by 2% y-o-y.

The annual other net non-interest income melted down by more than 50% y-o-y; especially the quarterly drop in 4Q was material (HUF –13.6 billion) compared to the third quarter of 2014. The main reasons were as follows: at OTP Core the other net non-interest income line went down by HUF 3.7 billion q-o-q, explained mainly by revaluation losses due to regulatory changes related to FX mortgage loans (HUF –1.8 billion in 4Q); also, due to the transformation of NBH bonds into deposits the related revenues were reclassified from gain on securities into interest revenues line, this explains HUF 0.6 billion q-o-q decline of the other net non-interest income line. Moreover, treasury margins eroded (HUF –0.6 billion) and income realized on sale of fixed assets was lower in 4Q by HUF 0.3 billion.

At OTP Ukraine the other income was by HUF 4.8 billion lower q-o-q, which was primarily due to the shift of revenue items previously booked on other income line into interest income (HUF –1.8 billion), also in Eastern Ukraine cash and other assets were written off (HUF –1.1 billion); thirdly, impairment of assets played a role, too (HUF –0.8 billion).

At the Serbian subsidiary other income dropped due to reclassification into interest revenues (in the amount of HUF 1.1 billion). In Croatia the HUF 0.7 billion setback of other net non-interest revenues is partly attributable to shift of certain items previously booked within other revenues to interest income. At the Hungarian Property Management Company fee income was reclassified to net fee and commission income from other income line (in the amount of HUF 1.6 billion).

Operating expenses remained under control and declined modestly (–1% y-o-y).

Within consolidated adjusted earnings there has been a material geographical re-allocation of profits: due to massive losses at the Ukrainian and Russian subsidiaries the overall profit contribution of foreign subsidiaries was negative (in HUF billion 2014: 20.8 billion, 2013: 25). OTP Core posted HUF 137 billion profit (+20% y-o-y), the improvement to a great extent was due to lower risk costs.

DSK has a stellar performance in 2014 realizing HUF 39 billion profit (+30%). Also, all smaller subsidiaries posted positive bottom line results. Their total profit of HUF 1.3 billion compares very favourably to the loss of HUF 13.1 billion suffered in 2013. Unfortunately, the Russian subsidiary became loss maker for the first time since the acquisition (HUF –14.5 billion), whereas the Ukrainian subsidiary posted HUF 43 billion adjusted loss (i.e. without the losses in the Crimea and Donetsk and Lugansk regions which were showed amongst one-off items on consolidated level). The total negative result in Ukraine was almost HUF 77 billion. The accounting loss for the last 12 months was

HUF 102.3 billion versus a profit of HUF 64.1 billion in the base period.

The material y-o-y change was related mainly to the adjustment items. Those items comprised four major categories, namely:

- the estimate on the expected one-off negative impact of the regulatory changes related to consumer contracts in Hungary reached HUF 155.9 billion (after-tax).
- adjustments related to the Ukrainian operation:
  - in 2Q all the goodwill under IFRS was written down. Furthermore, in 4Q the total goodwill under Hungarian Accounting Standards and also, part of the investment has been written down. Due to the related tax shield effect the total negative after-tax profit impact of those steps represented altogether HUF –5 billion; of which in 2Q there was a HUF 11.6 billion negative impact, but HUF 6.6 billion positive one in 4Q. The reason for positive tax-shield effect of HUF 6.6 billion was as follows: the entire Ukrainian goodwill under Hungarian Accounting Standards held in OTP Bank's standalone balance sheet has been written off in 4Q under HAS, and an impairment was booked in relation to the Ukrainian investment under HAS. Though under IFRS neither the goodwill write-off and investment impairment charges had direct effect neither on the consolidated balance sheet nor on the P&L, there was a related positive tax shield of altogether HUF 6.6 billion that added to the Group's IFRS accounting profit;
  - by the end of December the provision coverage on the total Crimean gross loan exposure reached 100%, which had a negative after-tax profit impact of HUF 7.9 billion in 2014;
  - in 4Q the Bank raised the provision coverage of the gross loan exposures to Donetsk and Luhansk up to 99.4%, which had a negative after-tax profit impact of HUF 18.7 billion in 4Q and HUF 25.5 billion in total in 2014. The key reason for doing so was that the normal economic activity has been practically stopped due to the armed conflict and the special circumstances. The bank closed down 15 branches out of 17 in the region, thus 2 branches remained in these regions at the end of 2014.
- the special banking tax imposed on the Hungarian and Slovakian banks with a negative after-tax profit impact of HUF 30.2 billion;
- the items related to the acquisition of Banco Popolare Croatia had an overall HUF 4.1 billion positive after-tax profit impact.

As a result, in 2014 the total volume of adjustments amounted to HUF 220.3 billion versus HUF 82 billion in the base period.

The FX-adjusted consolidated loan portfolio decline continued (–7% y-o-y). Since there have been significant write offs during 2014, the change in the performing DPD0–90 loan volumes would draw a better picture on real trends. Accordingly, the performing (DPD0–90) book eroded by 6% y-o-y. Regarding the FX-adjusted DPD0–90 volume changes, the most significant erosion was booked at OTP Core (–12%) and Ukraine (–24%). The Hungarian developments, however were distorted by a massive reduction of municipality exposure (HUF –167 billion y-o-y) as a result of the debt consolidation by the State. The consolidated retail portfolio eroded by 3% with mortgages dropping by 7%. The consumer book and the small and micro enterprise portfolio however grew (+2% and 4% respectively). The large corporate book dropped by 3% y-o-y. As for individual performance, the Serbian and Croatian subsidiaries managed to increase their FX-adjusted loan volumes the fastest (+14% and 15% respectively); the remarkable y-o-y increase in Croatia was related mainly to the acquisition of Banco Popolare Croatia. The previously dynamically expanding Russian consumer book grew only moderately by 3% y-o-y, there was a substantial increase in Romania (+7%), Serbia (+10%), Croatia (+39%, again, supported by the acquisition) and Slovakia (+69%). The mortgage portfolio eroded at all banks, but at the Croatian subsidiary (+6%). As for the corporate exposure, the Bulgarian and Serbian subsidiaries posted remarkable increase (+17 and 25% respectively). At OTP Core the micro and SME book grew by 7% y-o-y supported also by the Lending for Growth Programme of the NBH. The FX-adjusted deposit volumes advanced dynamically (+11% y-o-y). The biggest growth was achieved in Serbia (+47% y-o-y), but given their absolute size both the increase at OTP Core and DSK Bank was remarkable (+13% and 14% respectively). It was positive, that deposits in the Ukraine grew by 9% y-o-y. In Russia volumes moderated by 4% in 2014 (adjusted for FX-effect).

The consolidated net loan to (deposit+retail bonds) ratio dropped to 75% (–14 ppts y-o-y). The volume of issued securities eroded by 40% y-o-y mainly due to redemptions at OTP Core and OTP Bank Russia. The y-o-y 6% volume growth of subordinated bonds and loans reflects FX rate movements; no redemption or buy-back took place in 2014. On the asset side there has been a major shift in 3Q as a response to the NBH step transforming the 2 week bonds into deposits, thus encouraging the local commercial banks to convert their excess liquidity into government bonds. As a result, the volume of available for sale (AFS) securities halved y-o-y, whereas Cash and amount due from banks line increased four times. By end-2014 the gross liquid reserves of the Group were close to EUR 7 billion equivalent.

The ratio of loans with more than 90 days of delay (DPD90+) declined by 0.4 ppt y-o-y to 19.3%, mainly due to sales and write offs. Starting from September 2014 the Group actively used the partial write-off method. It can be used when the Bank has no reasonable expectation of recovery of the credit claim. However, the partial write off is applicable only for the part of claim above the maximum recoverable amount. The method has been discussed with the auditor and consensus was reached.

Within the framework of partial write offs on a consolidated level HUF 238 billion non-performing exposure was written off, mainly in case of OTP Core (HUF 66 billion), Russia (HUF 56 billion), Ukraine (HUF 27 billion) and DSK Bank (HUF 67 billion). As for product segments, in case of Hungary and Ukraine mainly corporate exposures were involved, while in Bulgaria and Russia retail portfolios. Without using this method the year-end DPD90+ ratio would have been 22%.

DPD90+ loan volumes adjusted for FX rate changes and the effect of loan sales and write-offs increased y-o-y and reached record level (in HUF billion 2013: 190, 2014: 254), though the massive y-o-y increase was almost exclusively related to Russia and Ukraine (in HUF billion, in Russia 2013: 89, 2014: 110, Ukraine 2013: 24, 2014: 61). While the DPD90+ formation accelerated in those countries, for the rest of the Group the stabilizing or declining trend manifested.

Consolidated risk costs somewhat increased y-o-y (+1%) and reached HUF 275 billion.

The provision coverage ratio of DPD90+ loans stood at 84.3%, remaining flat y-o-y, however at individual levels the provision coverage edged up significantly in Ukraine (+17.7 ppts), Russia (+10.9 ppts) and at DSK Bank (+3.5 ppts).

OTP Core: adjusted after-tax profit improved by 20% y-o-y, lower net interest margin and FX-adjusted loan book, further moderating portfolio deterioration and substantially lower risk costs

The adjusted after-tax profit of **OTP Core** (basic activity in Hungary) in 2014 reached HUF 137.4 billion underpinning a 20% y-o-y improvement. The key driver behind higher profit was the y-o-y substantially lower risk costs (–57%), while the operating income adjusted for one-offs declined by 6%. Total income moderated by 2%, whereas operating expenses grew by the same magnitude. The yearly net interest margin (3.92%) eroded by 39 bps y-o-y mainly due to a meaningful increase of total assets in 2H; the net interest income declined by 3.

It was positive that after 1Q the FX-adjusted DPD90+ volume formation kept on demonstrating a trend-like moderation: (FX-adjusted increase without sale or write offs, in HUF billion: 1Q 2014: 33, 2Q: 8, 3Q: 6, 4Q: 1). This trend was obviously supported by the relatively stable HUF during the whole year and the intensifying use of the FX mortgage fixing scheme. With risk costs declining significantly the coverage of the DPD90+ portfolio dropped (76.5%, –8.8 ppts y-o-y). The DPD90+ ratio (17.5%) practically remained flat.

The FX-adjusted performing (DPD0–90) loan portfolio declined both y-o-y. The gross mortgage book sank by 7%, whereas consumer loans eroded by 9% y-o-y. The massive corporate portfolio decline was due to the municipality book erosion as a result of the debt consolidation by the State. By the end of 2014 municipality loans comprised only HUF 51 billion, of which 28 billion was an exposure towards the Hungarian State. Positive though that partly being supported by the Funding for Growth Scheme the corporate loan portfolio of OTP Bank disbursed toward Hungarian entities grew further (+4% y-o-y[3] adjusted for the effect of partial write-offs executed at OTP), whereas the banking sector's exposure without OTP Bank dropped by 3%. As a result, OTP' market share further improved and reached 13%[4] (+0.6 ppt y-o-y).

While the new loan origination across the sector remained fairly subdued OTP managed to demonstrate stable market positions: out of total mortgage disbursement it reached 28.3% in 2014 and within that, 30.4% in 4Q 2014.

The FX-adjusted deposit book with retail bonds expanded dynamically, by 12% y-o-y. Despite the popularity of alternative saving forms (government securities and mutual funds), retail deposits increased by 7% y-o-y. Corporate volumes grew even faster and soared by 21% y-o-y. As a result, the net loan to deposit ratio dropped to levels haven't experienced for years (53%, –14 ppts y-o-y, FX-adjusted).

Merkantil Group posted HUF 1.5 billion adjusted loss in 2014 versus HUF 2 billion profit in the base period. The weaker performance was the result of a y-o-y declining operating income (–7%) and significantly higher risk costs (+71% y-o-y). The DPD90+ ratio was 13.4%, due to sales and write offs it dropped by 1.1 ppts y-o-y, whereas the coverage stood at 89.5% (–2.5 ppts y-o-y). The FX-adjusted gross loan volumes shrank by 1% y-o-y, but new car loan origination soared by 61% y-o-y.

In 2014 **OTP Fund Management's** posted HUF 6.1 billion after-tax profit without banking tax underpinning a y-o-y 71% improvement. The stellar performance was related to the substantial increase of total assets under management (+20% y-o-y) reaching HUF 1,659 billion. Mutual funds and other products enjoyed growing popularity compared to traditional saving forms. As a result, net fee income surged by 45%.

Foreign subsidiaries' performance: stellar performance in Bulgaria, significantly improving Romanian and Serbian operations with Croatia, Slovakia and Montenegro remaining profitable, massive losses in Ukraine and Russia

The **Bulgarian subsidiary** posted HUF 39.2 billion after-tax results in 2014, 30% more than in the base period and significantly outperforming the so far best results in 2008 (HUF 31 billion). The excellent performance was only partially the result of moderating risk costs (–12%). The key driver was the y-o-y stronger operating profit (+13%). Core revenues showed a very good picture with net interest income growing by 9% and fees and commissions expanding by 11%. The net interest margin remained stable (5.37%, –16 bps y-o-y). Despite lower risk costs the coverage of the DPD90+ volumes improved substantially (91.5%, +3.5 ppts).

The FX-adjusted DPD0–90 portfolio increased by 2% y-o-y , within that the retail portfolio moderated by 2%, however the corporate book demonstrated a substantial, y-o-y 18% growth. Due to the excellent performance and strong name recognition of the bank its FX-adjusted

[3] The calculation is based on the supervisory balance sheet of the National Bank of Hungary: estimated FX-adjusted change of the portfolio of "Loans to enterprises – Non-financial and other financial enterprises".

[4] Based on the balance sheet data provision to the Hungarian National Bank (MNB), calculated from the aggregated financials for the „Loans to non-financial companies, other-financials companies and non-profit organisations supporting households" line of OTP Bank, OTP Mortgage Bank, OTP Building Society and Merkantil Bank.

deposits advanced by 14% enabling DSK to implement efficient deposit pricing measures. The net loan to deposit ratio dropped by 11 ppts y-o-y and reached 78%.

The **Russian subsidiary** suffered its first loss-making year since the acquisition in 2006. On a yearly base the total loss amounted to HUF 14.5 billion versus a profit of HUF 2.4 billion in 2013.

The decline in the annual operating profit (–6% in RUB terms) reflects the deteriorating operating environment, though increasing risk costs (+12% in RUB) were also taking their toll. Total income in RUB felt short of the base year by 1% with net interest income declining by 1% and net fees and commissions growing by 11%. The operating income was also hit by y-o-y 8% higher operating expenses (in RUB terms). While the annual NIM remained stable (18.8%), in 4Q it eroded by more than 200 bps and stood at 17.23%. FX-adjusted DPD90+ volumes (without write-offs and/sales) kept growing and increased to HUF 110 billion versus HUF 89 billion in 2013. However, due to non-performing loan write-offs/sales executed mainly in 4Q the DPD90+ ratio dropped significantly, from 18.1% to 14.7% y-o-y. Since the sold portfolio elements were 100% provisioned, those transactions produced RUB 360 million positive results. The DPD90+ coverage improved y-o-y and reached 117.5% by the end of 2014. It was positive that the risk cost rate of POS loans moderated close to 10% by the end of 4Q, however the overall risk cost rate of the total loan portfolio grew further (to 16.8%, +2.3 ppts y-o-y) reflecting the deteriorating quality of cash loan and credit card portfolios.

The lending activity in general became cautious and selective: starting from October the bank stopped sending out credit cards and in December it scaled back existing limits. From mid-December cash loan origination was temporary suspended, whereas in case of POS only the best buckets were served. As a result, the bank's market share in POS eroded by 0.5 ppt to18.5%.The FX-adjusted DPD0–90 loan portfolio grew by 1% y-o-y. Despite the accelerating weakening of the RUB in 4Q and deposit withdrawals during the year the FX-adjusted deposit portfolio dropped only by 4% y-o-y. During the last quarter OTP Bank provided RUB 3 billion subordinated loan facility.

The performance of the **Ukrainian subsidiary** worsened massively in 2014 as a result of the deteriorating macroeconomic conditions and a substantial hryvnia weakening. The whole year loss represents HUF 76.6 billion, of that the after-tax impact of additional risk cost made for the Crimean and East Ukrainian (Donetsk and Luhansk) exposures represented HUF 7.9 billion and HUF 25.5 billion respectively. The operating profit dropped by 11% y-o-y in UAH terms, annual risk costs soared three and a half times. Total income (in UAH terms) moderated by 3% y-o-y, whereas operating expenses grew by 6%. The FX-adjusted formation of DPD90+ volumes accelerated (without sales and write offs in HUF billion: 2013: 24, 2014: 61). Despite write offs the DPD90+ ratio jumped by 11.5 ppts y-o-y to 46.1%. Especially the consumer and mortgage book deterioration was fast; in case of the latter the DPD90+ ratio exceeded 70% by end-December. As a result of the massive provisioning the coverage ratio of DPD90+ loans advanced by 17.7 ppts y-o-y and reached 97.2%. The FX-adjusted DPD0–90 loan volumes contracted by 24% y-o-y, the performing retail book suffered a meaningful 32% set back, whereas the corporate book eroded by 17%. Lending activity in general remained moderate and conservative. It is positive that deposits have been steadily growing, the portfolio advanced by 9% y-o-y (FX-adjusted) supported by a substantial inflow of corporate deposits (+38%), whereas retail deposits shrank by 4%. As a result, the net loan to deposit ratio dropped to 137% reflecting a significant adjustment. Parallel, the net group funding declined substantially.

The **Romanian subsidiary** posted a profitable year. Against a loss of HUF 4.1 billion in 2013 the bank realized HUF 0.8 billion in 2014. On a yearly base risk costs dropped by 20%. The key driver of the good performance however was the dynamically improving operating income (+37% y-o-y). Within core revenues net interest income advanced by 36% y-o-y, net fee and commission income improved by 7%. Due to stringent cost control operating expenses increased only modestly (+3% y-o-y). The FX-adjusted loan portfolio eroded by 2% y-o-y, while deposits advanced less robustly (+3%) compared to previous years. Still, the net loan to deposit ratio dropped by another 9 ppts to 165%. Within the loan book mainly cash loans and corporate loans advanced y-o-y (+29% and 10% respectively). Despite lower risk costs the DPD90+ coverage improved by 4.5 ppts to 80.4%. Neither the income statement, nor the balance sheet yet incorporated volumes and performance of the acquired Banca Millennium S.A.

The **Croatian subsidiary** remained profitable in 2014 and posted HUF 104 million. The profit falls short of the 2013 results. While the total income advanced by 12% y-o-y, risk costs grew by 35% and operating expenses by 21% respectively, mainly due to the acquisition of Banco Popolare Croatia. The operating income eroded by 5% compared to the base period, the effective tax burden materially increased. The DPD90+ ratio grew by 0.8 ppt y-o-y (13.3%) and its coverage improved (62.2%). As a result of the acquisition the FX-adjusted DPD0–90 loan book advanced by 15%, within that the retail portfolio jumped by 21% and deposits grew by 15%.

The **Slovakian subsidiary** managed to remain profitable and posted a modest HUF 32 million net earning versus HUF 1.2 billion in 2013. Despite the operating income improved by 44%, risk costs more than doubled. Core revenues performed nicely with net interest income growing by 15% and fees and commissions by 18% respectively. The improving operating environment was supportive for lending activity, the FX-adjusted loan book increased by 3%, while deposits grew by 6% y-o-y. Consumer lending remained in the focus of activity, volumes soared by 69% y-o-y. The DPD90+ ratio shrank by 1.2 ppts to 10.3% y-o-y; its coverage was 59.6%.

After a massive loss of HUF 13.2 billion in 2013 the **Serbian subsidiary** returned to profit and after 2008 it posted a positive net result again (HUF 50 million). The turnaround is reasoned by a significant improvement in operating income (more than three times), within that total income advanced by double digit. Operating expenses remained flat y-o-y. Risk costs were only portion of 2013 volumes. The FX-adjusted DPD0–90 loan portfolio grew by 14%, while deposits soared by 47%. Due to a technical reclassification net interest margin improved by 2.4 ppts y-o-y (6.76%). The DPD90+ ratio dropped to 43.8% (–5.1 ppts y-o-y), its coverage was 76.1%.

After 2013 the **Montenegrin subsidiary** remained profitable and posted HUF 406 million after-tax results in 2014. While the operating income improved by 8%, it was coupled with a 26% increase in risk costs. The FX-adjusted loan and deposit portfolio both declined –9% and –8% respectively). The DPD90+ ratio only modestly grew (39.7%), its coverage remained stable (81.2%).

Consolidated and stand-alone capital adequacy ratio (in accordance with BASEL 3)

By the end of 2014 the Basel3 consolidated Common Equity Tier1 ratio under IFRS was 14.1%. The dividend amount accrued in 2014 under Hungarian Accounting Standards was not deducted from the capital when calculating the IFRS consolidated capital adequacy ratios, because the dividend is not to be deducted from the net earnings if the net result is negative. OTP Bank's stand-alone Common Equity Tier1 ratio stood at 14.8% in 4Q 2014.

Pursuant to the statement made by the National Bank of Hungary as a supervisory authority on 21 May 2014, both the "Upper Tier2" perpetual bond and the convertible (ICES) bonds are treated as Tier2 capital elements.

Credit rating, shareholder structure

As for the credit ratings of OTP Bank and its subsidiaries, the following changes occurred in 2014: on 5 February Moody's downgraded OTP Ukraine's rating to 'Caa3' following a similar move on the sovereign, and further downgraded to 'Ca' on 9 April. Also, on 12 March Moody's upgraded the rating of covered bonds issued by OTP Mortgage Bank from 'Baa3' to 'Baa2'.

The rating for the long-term currency deposits at OTP Bank and OTP Mortgage Bank remained unchanged ('Ba2') with negative outlook. On 31 March Moody's withdrew its 'Ba1' rating on OTP Bank's foreign currency bonds as the bank decided not to renew its EMTN Programme given the comfortable liquidity situation.
On 20 June Standard & Poor's improved OTP Bank and OTP Mortgage Bank's outlook from negative to stable; their rating of 'BB' remained unchanged. The FX deposit of OTP Bank Russia was downgraded in October by Moody's from 'Ba2' to 'Ba3', whereas Fitch kept its rating unchanged (BB).
Regarding the ownership structure of the bank, by 31 December 2014 the following investors had more than 5% influence (beneficial ownership) in the Company: the Rahimkulov family (9.01%), MOL (the Hungarian Oil and Gas Company, 8.69%), the Groupama Group (8.40%), the Lazard Group (5.16%) and the Hungarian National Asset Management Inc. (5.10%).

KEY POST BALANCE SHEET EVENTS

Hungary

- On 9 February 2015 the Hungarian government and the EBRD sealed an agreement about Hungarian banking system. For details see the Managements's analysis.
- On February 18 the National Bank of Hungary announced that FGS+ (Funding for Growth Scheme) to be launched on 16 March 2015, the NBH will improve access to credit for small and medium sized enterprises that have not been able to participate in FGS so far. By this the NBH encourages the banks to provide long-term funding at a fixed interest rate (at maximum 2.5%), to customers with medium credit-worthiness constituting the majority of the SME credit market.
  The Monetary Council assigned an additional HUF 500 billion to the new FGS+ scheme, in which the NBH takes over 50% of credit losses from the credit institutions, but only for a term not exceeding 5 years and up to 2.5% of the entire loan portfolio held by the individual credit institutions under this scheme.

Russia

- On 9 January 2015 Fitch downgraded Russia's long-term foreign and local currency Issuer Default Ratings to 'BBB–' from 'BBB' with negative outlook.
- On 16 January Moody's downgraded Russia's government bond rating to 'Baa3' from 'Baa2'. The rating was placed on review for further downgrade.
- On 26 January S&P lowered the long-term foreign and local currency sovereign credit ratings of Russia to 'BB+' and 'BBB–', respectively. The outlook is negative.
- On 30 January Russia's central bank decreased the key policy rate from 17% to 15%.
- On 12 February in Minsk peace negotiations between Russian President Vladimir Putin, Ukrainian President Petro Poroshenko, French President Francois Hollande and German Chancellor Angela Merkel resulted in a new ceasefire deal for Eastern Ukraine.
- On 20 February Moody's downgraded Russia's foreign currency credit rating to non-investment grade (Ba1).

Ukraine

- On 5 February 2015 Ukraine's central bank raised the key rate to 19.5% from 14%.
- On 12 February the International Monetary Fund announced that Ukraine will receive USD 17.5 billion bailout under a four-year program. The total size of the financial package will reach USD 40 billion.
- On 13 February Fitch downgraded Ukraine's long-term foreign currency Issuer Default Rating to 'CC' from 'CCC' and the local currency IDR remained 'CCC'.

Romania

- On 8 January 2015 OTP Bank Romania acquired 100% stake in Banca Millennium with the settlement of purchase price.
- On 16 January OTP Bank Romania announced that the bank reduces the interest rate margin by 1.5 ppts for its clients with variable interest rate CHF mortgage loan for 3 months. For details see the Managements's analysis.
- On 21 January the Romanian Court of Registration registered a capital increase at OTP Bank Romania. The registered capital of OTP Bank Romania was increased to RON 958.3 million from RON 782.9 million and the ownership ratio of OTP Bank Plc. represents 99.99%.

Croatia

- On 19 January 2015 Croatian prime minister announced the fixing of Swiss franc at a rate 6.39 CHF/HRK for 12 months. For details see the Managements's analysis.
- On 6 February Fitch affirmed Croatia's long-term foreign and local currency Issuer Default Ratings (IDR) at 'BB' and 'BB+', respectively. The outlook is stable.

Slovakia

- On 30 January 2015 S&P affirmed the long-term rating of Slovakia at 'A' level with positive outlook.

Serbia

- On 15 January 2015 National Bank of Serbia cut mandatory FX reserve ratios by 1 ppt in order to boost lending.
- On 16 January S&P affirmed Serbia's long-term foreign and local currency sovereign credit ratings at 'BB–' with negative outlook.
- On 3 February the Serbian parliament adopted the set of laws to strengthen bank control. The law amendments, inter alia, allows the creation of "special purpose bank" to take over non-performing assets, while the bank's quarterly contribution to deposit insurance fund is doubled.

CONSOLIDATED NET PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)[5]

	2013 HUF million	2014 HUF million	Change %/ppts
Consolidated after-tax profit	**64,108**	**(102,258)**	**(260)**
Adjustments (total)	**(81,775)**	**(220,272)**	**169**
Dividend and total net cash transfers (consolidated)	(406)	191	(147)
Goodwill/investment impairment charges (after-tax)	(29,440)	(5,015)	(83)
Special tax on financial institutions and one-timer payment compensating the underperformance of the financial transaction tax (after corporate income tax)	(43,219)	(30,193)	(30)
Fine imposed by the Hungarian Competition Authority (after-tax)	(3,177)	0	(100)
Corporate tax impact of the transfer of general risk reserves to retained earnings	(5,533)	0	(100)
Effect of Banco Popolare Croatia acquisition (after-tax)	0	4,131	n/a
Expected one-off impact of regulatory changes related to consumer contracts in Hungary (after-tax)	0	(155,907)	n/a
Risk cost created toward Crimean exposures from 2Q 2014 (after-tax)	0	(7,943)	n/a
Risk cost created toward exposures to Donetsk and Luhansk from 3Q 2014 (after-tax)	0	(25,536)	n/a
Consolidated adjusted after-tax profit without the effect of adjustments	**145,882**	**118,014**	**(19)**
Banks total without one-off items[1]	143,346	119,013	(17)
OTP CORE (Hungary)[2]	114,879	137,418	20
Corporate Centre (after-tax)[3]	2,398	(1,210)	(150)
OTP Bank Russia[4]	2,356	(14,541)	(717)
CJSC OTP Bank (Ukraine)[5]	6,716	(43,166)	(743)
DSK Bank (Bulgaria)[6]	30,223	39,170	30
OBR adj. (Romania)[7]	(4,143)	765	(118)
OTP banka Srbija (Serbia)[8]	(13,246)	50	(100)
OBH (Croatia)[9]	2,210	104	(95)
OBS (Slovakia)[10]	1,153	32	(97)
CKB (Montenegro)[11]	801	391	(51)
Leasing	2,286	(1,587)	(169)
Merkantil Bank + Car, adj. (Hungary)[12]	1,951	(1,518)	(178)
Foreign leasing companies (Croatia, Bulgaria, Romania)[13]	334	(69)	(121)
Asset Management	3,680	5,530	50
OTP Asset Management (Hungary)	3,596	6,139	71
Foreign Asset Management Companies (Ukraine, Romania, Bulgaria)[14]	84	(609)	(828)
Other Hungarian Subsidiaries	(3,442)	(2,220)	(36)
Other Foreign Subsidiaries (Slovakia, United Kingdom, Montenegro, Romania, Serbia, Belize)[15]	(1,487)	(2,894)	95
Eliminations	1,499	172	(89)
Total after-tax profit of HUNGARIAN subsidiaries[16]	120,882	138,780	15
Total after-tax profit of FOREIGN subsidiaries[17]	25,001	(20,766)	(183)
Share of foreign profit contribution %	**17**	**(18)**	**(36)**

[5] Belonging footnotes are in the Supplementary data section of the Report.

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME OF THE OTP GROUP[6]

Main components of P&L account	2013 HUF million	2014 HUF million	Change %
Consolidated after-tax profit	**64,108**	**(102,258)**	**(260)**
Adjustments (total)	**(81,775)**	**(220,272)**	**169**
Dividends and net cash transfers (after-tax)	(406)	191	(147)
Goodwill/investment impairment charges (after-tax)	(29,440)	(5,015)	(83)
Special tax on financial institutions and one-timer payment compensating the underperformance of the financial transaction tax (after corporate income tax)	(43,219)	(30,193)	(30)
Fine imposed by the Hungarian Competition Authority (after-tax)	(3,177)	0	(100)
Corporate tax impact of the transfer of general risk reserves to retained earnings	(5,533)	0	(100)
Effect of Banco Popolare Croatia acquisition (after-tax)	0	4,131	n/a
Expected one-off impact of regulatory changes related to consumer contracts in Hungary (after-tax)	0	(155,907)	n/a
Risk cost created toward Crimean exposures from 2Q 2014 (after-tax)	0	(7,943)	n/a
Risk cost created toward exposures to Donetsk and Luhansk from 3Q 2014 (after-tax)	0	(25,536)	n/a
Consolidated adjusted after-tax profit without the effect of adjustments	**145,882**	**118,014**	**(19)**
Before tax profit	**184,894**	**142,341**	**(23)**
Operating profit	**447,710**	**414,534**	**(7)**
Total income	**864,910**	**826,061**	**(4)**
Net interest income	**653,126**	**636,172**	**(3)**
Net fees and commissions	**166,936**	**169,579**	**2**
Other net non-interest income	**44,848**	**20,310**	**(55)**
Foreign exchange result, net	18,183	11,287	(38)
Gain/loss on securities, net	11,037	6,489	(41)
Net other non-interest result	15,627	2,534	(84)
Operating expenses	**(417,201)**	**(411,527)**	**(1)**
Personnel expenses	(204,277)	(206,335)	1
Depreciation	(47,199)	(43,721)	(7)
Other expenses	(165,725)	(161,471)	(3)
Total risk costs	**(272,459)**	**(274,749)**	**1**
Provision for loan losses	(262,541)	(263,511)	0
Other provision	(9,918)	(11,238)	13
Total one-off items	**9,643**	**2,556**	**(73)**
Revaluation result of FX swaps at OTP Core	715	(824)	(215)
Gain on the repurchase of own Upper and Lower Tier2 Capital	6,104	0	(100)
Result of the treasury share swap at OTP Core	2,824	3,380	20
Corporate taxes	**(39,012)**	**(24,327)**	**(38)**
Performance Indicators	**2013**	**2014**	**ppts**
ROE (adjusted)	9.6%	8.5%	(1.1)
ROA (adjusted)	1.4%	1.1%	(0.3)
Operating profit margin	4.37%	3.88%	(0.49)
Total income margin	8.44%	7.74%	(0.70)
Net interest margin	6.37%	5.96%	(0.41)
Net fee and commission margin	1.63%	1.59%	(0.04)
Net other non-interest income margin	0.44%	0.19%	(0.25)
Cost-to-asset ratio	4.07%	3.85%	(0.22)
Cost/income ratio	48.2%	49.8%	1.6
Risk cost for loan losses-to-average gross loans	3.51%	3.68%	0.16
Risk cost for loan losses-to-average FX-adjusted gross loans	3.50%	3.67%	0.17
Total risk cost-to-asset ratio	2.66%	2.57%	(0.09)
Effective tax rate	21.1%	17.1%	(4.0)
Non-interest income/total income	24%	23%	(1)
EPS base (HUF) (from unadjusted net earnings)	241	(382)	(259)
EPS diluted (HUF) (from unadjusted net earnings)	240	(382)	(259)
EPS base (HUF) (from adjusted net earnings)	547	442	(19)
EPS diluted (HUF) (from adjusted net earnings)	546	441	(19)
Comprehensive Income Statement	**2013**	**2014**	**%**
Consolidated after-tax profit	64,108	(102,258)	(260)
Fair value adjustment of securities available-for-sale (recognised directly through equity)	(1,721)	13,019	(856)
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	531	507	(5)
Fair value adjustment of strategic open FX position hedging net investment in foreign operations	(1,357)	(4,489)	231
Foreign currency translation difference	(33,159)	(108,057)	226
Change of actuarial losses (IAS 19)	(39)	(6)	(85)
Net comprehensive income	**28,363**	**(201,284)**	**(810)**
o/w Net comprehensive income attributable to equity holders	29,379	(199,866)	(780)
Net comprehensive income attributable to non-controlling interest	(1,016)	(1,418)	40

[6] Adjustments on the consolidated Statement of recognized income are summarised in the Supplementary data section of this report.

Average exchange rate of the HUF	2013 HUF	2014 HUF	Change %
HUF/EUR	297	309	4
HUF/CHF	241	254	5
HUF/USD	224	233	4
HUF/100JPY	230	220	(4)

ASSET-LIABILITY MANAGEMENT

Similar to previous periods OTP Group maintained a strong and safe liquidity position...

The primary objective of OTP Group in terms of asset-liability management has not changed, that is to ensure that the Group's liquidity is maintained at a safe level.

Refinancing sources of the European Central Bank are still available for OTP, thus the refinancing risk of maturing FX mortgage bonds is low. As a result of the high level of liquidity reserves, the Group could safely function without considerable fund raising, only refinancing loan of Funding for Growth Scheme was used in the amount of HUF 39 billion (HUF 131.5 billion was the total used amount as at end 2014).

With total maturities of EUR 431 million in 2014 that lowered the liquidity reserves, total liquidity reserves of OTP Bank remained steadily and substantially above the safety level. As of 31 December 2014, the gross liquidity buffer was above EUR 6.9 billion equivalent, which is significantly higher than the maturing debt within one year (at EUR 206 million equivalent) and the reserves required to protect against possible liquidity shocks. Due to governmental FX lending measures and FX loan conversion FX liquidity need of the Group has considerably declined. The FX positions stemming from regulatory changes are managed on Group level. The Bank fully hedged the open EUR/HUF positions on the FX tenders of the National Bank of Hungary, while the open EUR/CHF and EUR/JPY positions were hedged on the market until the end of 2014. Thus the turbulent market environment in January 2015 had no effect on P&L or liquidity. The Bank had to refinance only EUR 300 million long-term FX-swaps to maintain its FX liquidity reserves at safe levels (by 31 December 2014 at EUR 1.96 billion).

The volume of issued securities decreased by 40% y-o-y. On yearly basis Hungarian retail bond volumes shrank by HUF 10 billion. In the last 12 months Hungarian mortgage bonds matured in the amount of about HUF 77 billion, out of which the largest maturity of almost EUR 200 million took place in the fourth quarter of 2014. In 2014 the Russian bank repaid bonds in the amount of RUB 13.3 billion (about HUF 77 billion calculated with end-2013 exchange rate); out of which RUB 1.1 billion matured in the fourth quarter.

The volume of subordinated debt increased by HUF 15 billion y-o-y, mainly reasoned by the HUF weakening. Unlike in 2013, there were no repurchase transactions made with regards to subordinated bonds in 2014.

… and kept its interest rate risk exposures low.

Interest-rate risk exposure of OTP Group is determined primarily by the positions of OTP Bank Plc. and OTP Mortgage Bank Ltd. Due to the forint liabilities on OTP Bank's balance sheet, which respond to yield changes only to a moderate extent, the Bank has an interest rate risk exposure resulting from its business operations. The Bank considers the reduction and closing of this exposure as a strategic matter. Consequently it has been reducing its interest rate risk exposure through the purchase of fixed-rate government securities in order to offset the negative impact of declining yields on net interest income.

The settlement and the conversion of FX loans to HUF decreased the interest rate risk exposure in HUF, however because of other counterbalancing effects the interest rate risk position in the second half of 2014 didn't change significantly.

The Bank maintains a closed interest rate position in euro and Swiss franc, consequently the recent yield volatility has not caused significant changes in the FX interest income.

Market Risk Exposure of OTP Group

At 31 December 2014 the consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure represented HUF 45.2 billion in total, primarily due to the capital requirement of the FX risk exposure at HUF 29.3 billion.

OTP Group is an active participant of the international FX and derivative market. Open FX positions of group members are restricted to individual and global net open position limits (overnight and intraday), and to stop-loss limits. The open positions of the group members outside Hungary except for the Bulgarian DSK Bank – the EUR/BGN exposure of DSK under the current exchange rate regime does not represent real risk – were negligible measured against either the balance sheet total or the regulatory capital. Therefore the group level FX exposure was concentrated at OTP Bank. Thus the main part of the FX exposure booked at OTP Bank – in line with the previous years' practice – was the strategic open FX position kept to hedge the currency risk of the expected FX-denominated net earnings (EUR 310 million for 2 years) of the main foreign subsidiaries.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE OTP GROUP

Main components of balance sheet closing balances	2013 HUF million	2014 HUF million	Change %
TOTAL ASSETS	**10,381,047**	**10,971,052**	**6**
Cash and amount due from banks	539,125	2,307,632	328
Placements with other banks	273,479	281,006	3
Financial assets at fair value	415,605	289,275	(30)
Securities available-for-sale	1,637,255	839,152	(49)
Net customer loans	6,245,210	5,864,241	(6)
Net customer loans (FX-adjusted)	**6,253,268**	**5,864,241**	**(6)**
Gross customer loans	7,480,844	6,993,326	(7)
Gross customer loans (FX-adjusted)	**7,499,573**	**6,993,326**	**(7)**
o/w Retail loans	4,919,986	4,725,322	(4)
Retail mortgage loans (incl. home equity)	2,763,612	2,590,332	(6)
Retail consumer loans	1,682,346	1,660,514	(1)
SME loans	474,028	474,476	0
Corporate loans	2,253,525	1,976,249	(12)
Loans to medium and large corporates	1,971,028	1,857,936	(6)
Municipal loans*	282,498	118,313	(58)
Car financing loans	254,077	230,320	(9)
Bills and accrued interest receivables related to loans	71,984	61,435	(15)
Allowances for loan losses	(1,235,634)	(1,129,085)	(9)
Allowances for loan losses (FX-adjusted)	(1,246,305)	(1,129,085)	(9)
Equity investments	23,837	23,381	(2)
Securities held-to-maturity	580,051	709,369	22
Premises, equipment and intangible assets, net	455,244	365,161	(20)
o/w Goodwill, net	145,564	101,063	(31)
Premises, equipment and other intangible assets, net	309,680	264,098	(15)
Other assets	211,241	291,835	38
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**10,381,047**	**10,971,052**	**6**
Liabilities to credit institutions and governments	784,212	708,274	(10)
Customer deposits	6,866,606	7,673,478	12
Customer deposits (FX-adjusted)	**6,910,068**	**7,673,478**	**11**
o/w Retail deposits	4,811,537	5,220,779	9
Household deposits	4,165,128	4,455,334	7
SME deposits	646,410	765,445	18
Corporate deposits	2,060,127	2,424,159	18
Deposits to medium and large corporates	1,703,106	2,024,466	19
Municipal deposits	357,021	399,693	12
Accrued interest payable related to customer deposits	38,403	28,540	(26)
Issued securities	445,218	267,084	(40)
o/w Retail bonds	70,447	60,815	(14)
Issued securities without retail bonds	374,771	206,269	(45)
Other liabilities	508,517	776,082	53
Subordinated bonds and loans	267,162	281,968	6
Total shareholders' equity	**1,509,332**	**1,264,166**	**(16)**
Indicators	**2013**	**2014**	**ppts**
Loan/deposit ratio (FX-adjusted)	108%	91%	(17)
Net loan/(deposit + retail bond) ratio (FX-adjusted)	89%	75%	(14)
90+ days past due loan volume	1,463,645	1,339,213	(9)
90+ days past due loans/gross customer loans	19.8%	19.3%	(0.5)
Total provisions/90+ days past due loans	84.4%	84.3%	(0.1)

* As of 31 December 2014 on consolidated level out of HUF 118 billion exposure to municipalities the exposure to the Hungarian State amounted to HUF 28 billion.

Consolidated capital adequacy – Basel3	2013	2014	%/ppts
Capital adequacy ratio** (consolidated, IFRS)	19.7%	17.5%	(2.2)
Tier1 ratio**	17.4%	14.1%	(3.2)
Common Equity Tier1 ('CET1') capital ratio**	16.0%	14.1%	(1.9)
Regulatory capital** (consolidated)	1,440,962	1,201,874	(17)
o/w Tier1 Capital**	1,270,402	969,935	(24)
o/w Common Equity Tier1 capital**	1,170,378	969,935	(17)
Additional Tier1 Capital	100,025	0	(100)
Tier2 Capital	170,927	231,939	36
o/w Hybrid Tier2	0	96,019	n/a
Deductions from the regulatory capital	(367)	n/a	n/a
Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk)	7,313,275	6,859,439	(6)
o/w RWA (Credit risk)	5,842,732	5,625,902	(4)
RWA (Market & Operational risk)	1,470,543	1,233,537	(16)

Closing exchange rate of the HUF	2013	2014	Change
	HUF	HUF	%
HUF/EUR	297	315	6
HUF/CHF	242	262	8
HUF/USD	216	259	20
HUF/100JPY	205	217	6

** The dividend amount accrued in 2014 under Hungarian Accounting Standards was not deducted from the capital when calculating the IFRS consolidated capital adequacy ratios, because the dividend is not to be deducted from the net earnings if the net result is negative.

OTP Core Statement of recognized income:

Main components of the Statement of recognised income	2013 HUF million	2014 HUF million	Change %
After tax profit without the effect of adjustments	114,879	137,418	20
Corporate income tax	(28,957)	(23,679)	(18)
Pre-tax profit	143,836	161,097	12
Operating profit	194,390	181,952	(6)
Total income	384,587	375,668	(2)
Net interest income	273,276	266,329	(3)
Net fees and commissions	91,507	94,244	3
Other net non-interest income	19,804	15,095	(24)
Operating expenses	(190,197)	(193,716)	2
Total risk costs	(54,094)	(23,411)	(57)
Provisions for possible loan losses	(48,899)	(22,088)	(55)
Other provisions	(5,194)	(1,323)	(75)
Total one-off items	3,539	2,556	(72)
Revaluation result of FX swaps	715	(824)	115
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	0
Revaluation result of the treasury share swap agreement	2,824	3,380	20
Revenues by Business Lines	**2013**	**2014**	**%**
RETAIL			
Total income	293,090	281,268	(4)
Net interest income	214,063	197,473	(8)
Net fees and commissions	75,599	80,598	7
Other net non-interest income	3,429	3,197	(7)
CORPORATE			
Total income	43,702	47,240	8
Net interest income	27,930	32,039	15
Net fees and commissions	14,770	14,267	(3)
Other net non-interest income	1,002	934	(7)
Treasury ALM			
Total income	44,426	45,357	2
Net interest income	31,283	36,817	18
Net fees and commissions	769	(621)	(181)
Other net non-interest income	12,374	9,161	(26)
Performance Indicators	**2013**	**2014**	**ppts**
ROE	9.4%	11.3%	1.9
ROA	1.8%	2.0%	0.2
Operating profit margin (operating profit/avg. total assets)	3.1%	2.7%	(0.4)
Total income margin	6.06%	5.53%	(0.53)
Net interest margin	4.31%	3.92%	(0.39)
Net fee and commission margin	1.44%	1.39%	(0.05)
Net other non-interest income margin	0.31%	0.22%	(0.09)
Operating costs to total assets ratio	3.0%	2.9%	(0.1)
Cost/income ratio	49.5%	51.6%	2.1
Cost of risk/average gross loans	1.56%	0.76%	(0.80)
Cost of risk/average gross loans (FX-adjusted)	1.51%	0.75%	(0.76)
Effective tax rate	20.1%	14.7%	(5.4)

- 2014 adjusted profit improved by 20%y-o-y and reached HUF 137.4 billion
- The operating income declined by 6%: annual NIM (3.9%) moderated by 39 bps while the net interest income decreased by 3%, operating expenses slightly increased (+2% y-o-y)
- The deterioration of the loan book further decelerated and risk costs were significantly lower
- The y-o-y decline of the FX-adjusted gross loan portfolio was mainly due to lower municipality volumes (as a result of the consolidation by the state and prepayments) and further eroding mortgage book
- Supported also by the Funding for Growth Programme the exposure to micro and small enterprises grew y-o-y
- The overall deposit book increased significantly in the second half of the year

P&L developments

The expected one-off impact of regulatory changes related to consumer contracts was eliminated from OTP Core's P&L. The estimated impact was shown among the adjustment items on consolidated level.

Without the effect of adjustment items[7] **OTP Core** posted a net profit of HUF 137.4 billion in 2014, underpinning a 20% y-o-y increase.

The substantial y-o-y increase of annual before tax profit (+12%) to a great extent was due to lower risk costs (–57% y-o-y). Such positive development was partially moderated by lower operating profit (–6% y-o-y).

Within the total income, the twelve months net interest income dropped by 3% y-o-y.

The shrinking of the interest bearing portfolio continued in 2014, while the net interest margin eroded. In the second half of the year total assets surged having a negative effect on the net interest margin, whereas the net interest income in each period in 2014 remained stable. Furthermore, the declining yield environment y-o-y took its toll through lower deposit margins (the annual average of the base rate came down by 2 ppts y-o-y). The annual negative impact of the FX protection scheme was HUF 2.8 billion on net interest revenues for 2014 (in 2013 such item caused a HUF 2.2 billion decline in net interest income).

Net fees and commissions for the year advanced by 3% y-o-y. The drop of other non-interest income was mainly reasoned by the following items: the revaluation result booked on Other provisions line due to regulatory changes related to FX mortgage loans in Hungary was moved to the Foreign exchange result line (HUF –1.8 billion in the fourth quarter); this effect was offset by the positive hedging swap result within the net interest income. Furthermore a HUF 0.6 billion decline in the last quarter of the year was related to the central bank's decision shifting commercial banks' the 2-week bond facility into deposits effective from August. Moreover, treasury margins eroded (HUF –0.6 billion) and income realized on sale of fixed assets was lower in the fourth quarter (HUF –0.3 billion). As for the y-o-y decline in other net non-interest income a base effect played a role, too: in 2014 the realised gain on the available-for-sale government bond portfolio was much lower (HUF 4.3 billion) than a year ago (HUF 8.3 billion).

Annual operating expenses grew moderately (+2% y-o-y). Compared to 2013 personnel expenses advanced by 2% y-o-y, other operating expenses increased by 1%, partly due to higher contribution paid into the National Deposit Insurance Fund and also to fees paid into the recently established Resolution Fund (the annual deposit insurance fund fee represented HUF 1.8 billion in 2013 and 2.7 billion in 2014, respectively. The Resolution Fund contribution was HUF 0.6 billion in 2014).

Risk costs dropped by 57% y-o-y and the annual risk cost rate decreased from 1.56% to 0.76%. In the first quarter of the year

[7] Special tax on financial institutions and one-timer payment compensating the underperformance of the financial transaction tax, dividends and net cash transfers, goodwill impairment charges, expected one-off impact of regulatory changes related to consumer contracts, the fine imposed by the Hungarian Competition Authority and the tax impact of the transfer of general risk reserves to retained earnings.

a project financing loan (with a principal of HUF 35 billion) reached 90 days of delinquency, otherwise the FX-adjusted DPD90+ quarterly volume growth adjusted by sales and write-offs remained fairly contained in 2014. In the second half of 2014 HUF 104.6 billion portfolio with high coverage was written-off (mainly corporate loans), of which HUF 66 billion through partial write-offs. As a result the total volume of DPD90+ volumes further dropped and reached 8.5% lower level than at the end of previous year (2013: HUF 527.6 billion, 2014: HUF 482.8 billion). The DPD90+ ratio changed to 17.5% (+0.1 ppt y-o-y). Mainly as a result of the write-offs the provision coverage ratio of DPD90+ loans dropped by 8.8 ppts y-o-y to 76.5%. The deterioration of the consumer loan portfolio has been showing a moderating trend since the beginning of 2013.

Main components of OTP Core's Statement of financial position:

Main components of balance sheet (closing balances)	2013 HUF million	2014 HUF million	Change %
Total Assets	6,454,938	7,127,611	10
Net customer loans	2,584,717	2,384,193	(8)
Net customer loans (FX-adjusted)	**2,662,905**	**2,384,193**	**(10)**
Gross customer loans	3,034,469	2,753,425	(9)
Gross customer loans (FX-adjusted)	**3,134,508**	**2,753,425**	**(12)**
Retail loans	2,076,517	1,937,445	(7)
Retail mortgage loans (incl. home equity)	1,533,940	1,428,303	(7)
Retail consumer loans	418,981	380,316	(9)
SME loans	123,596	128,826	4
Corporate loans	1,057,991	815,980	(23)
Loans to medium and large corporates	840,904	765,098	(9)
Municipal loans*	217,087	50,882	(77)
Provisions	(449,752)	(369,232)	(18)
Provisions (FX-adjusted)	**(471,603)**	**(369,232)**	**(22)**
Deposits from customers + retail bonds	3,903,396	4,459,304	14
Deposits from customers + retail bonds (FX-adjusted)	**3,967,790**	**4,459,304**	**12**
Retail deposits + retail bonds	2,375,203	2,536,687	7
Household deposits + retail bonds	2,031,756	2,125,282	5
o/w: Retail bonds	70,447	60,815	(14)
SME deposits	343,447	411,405	20
Corporate deposits	1,592,587	1,922,617	21
Deposits to medium and large corporates	1,288,770	1,577,237	22
Municipal deposits	303,817	345,380	14
Liabilities to credit institutions	591,856	503,468	(15)
Issued securities without retail bonds	276,916	196,902	(29)
Total shareholders' equity	1,244,473	1,195,162	(4)
Loan Quality	**2013**	**2014**	**%/ppts**
90+ days past due loan volume (in HUF million)	527,591	482,770	(8.5)
90+ days past due loans/gross customer loans	17.4%	17.5%	0.1
Total provisions/90+ days past due loans	85.2%	76.5%	(8.7)
Market Share	**2013**	**2014**	**ppts**
Loans	19.0%	18.6%	(0.4)
Deposits	23.7%	26.1%	2.4
Total Assets	26.9%	27.9%	1.0
Performance Indicators	**2013**	**2014**	**ppts**
Gross loans to deposits	79%	63%	(17)
Net loans to (deposits + retail bonds)	66%	53%	(13)
Net loans to (deposits + retail bonds) (FX-adjusted)	67%	53%	(14)
Leverage (Total Assets/Shareholder's Equity)	19.3%	16.8%	(2.5)
Leverage (Total Assets/Shareholder's Equity)	5.2x	6.0x	
Capital adequacy ratio (OTP Bank, non-consolidated, Basel3, HAS)	23.0%	19.0%	(4)
Common Equity Tier1 ratio (OTP Bank, non-consolidated, Basel3, HAS)	23.0%	14.8%	(8.2)

*As of 31 December 2014 out of HUF 51 billion exposure to municipalities the exposure to the Hungarian State amounted to HUF 28 billion.

Balance sheet trends

In 2014 the FX-adjusted performing (DPD0–90) loan portfolio shrank by 12% y-o-y mainly as a result of the significant drop in the corporate loan volumes (–20% y-o-y), which includes the municipality portfolio, too. This was primarily due to the 77% y-o-y drop of municipality loans (both the gross and performing book declined by the same magnitude). The reason behind such a material decline was that on 28 February the Hungarian Government took over all the remaining debt obligations of the Hungarian municipalities. The last phase of the consolidation involved HUF 102 billion municipality portfolio, of which HUF 64 billion was pre-paid and HUF 38 billion was refinanced from a loan extended by OTP Bank for the Debt Management Agency. Thus the local government consolidation had a negative impact of HUF 64 billion on OTP Core's loan volumes in the first quarter of 2014. Furthermore, from the outstanding municipality volume the Debt Management Agency prepaid HUF 60 billion in the third quarter and another 18 billion in fourth quarter of the year. As a result the closing balance showed HUF 51 billion at the end of December, of which HUF 28 billion was the obligation of the Hungarian State.

It was encouraging that partly as a result of the Funding for Growth Programme initiated by the National Bank (and without the effect of partial write offs at the bank) OTP Bank's exposure to local corporate clients[8] increased further (+4% y-o-y). During the same period of time the portfolio of Hungarian financial institutions excluding OTP dropped by 3% y-o-y. Consequently, the market share[9] of OTP Group in loans to Hungarian companies further increased and reached 13%. (+0.6 ppt y-o-y).

In the first phase of the Funding for Growth Programme OTP Group managed to conclude contracts with a principal value of HUF 91 billion, out of that amount HUF 71 billion was originated under the first pillar, i.e. new placements represented 62%. The second phase of the Programme is available for clients from early October 2013 until end of 2015. The initial size of funding was set at HUF 500 billion, later increased to HUF 1,000 billion (and can be broadened with another HUF 1,000 billion), however the funding is not allocated to banks, but banks can withdraw funding in line with approved client applications. Under the second phase of the Programme OTP Group already contracted in the amount of more than HUF 117 billion by the end of December, moreover loan applications in the pipeline exceeded HUF 38 billion.

The erosion of the mortgage book continued. Positive though, that mortgage loan applications and originations showed a significant increase mainly due to the positive impact of the State subsidized housing loan lending (applications in HUF billion: 2013: 79.8, 2014: 112.9, +41% y-o-y; disbursed amounts: 2013: 53.9, 2014: 73.9, +37% y-o-y). At OTP applications for subsidized housing loans in 2014 with the amount of HUF 41.6 billion represented 46% of total housing loan applications and 37% of total mortgage loan applications. OTP's market share in mortgage loan origination remained strong (2014: 28.3%). In the fourth quarter OTP's market share exceeded 30% again (and in December it surpassed 34%).

OTP Bank maintained a strong market share in the personal loan market segment, while its share in new origination shows a declining trend (2013: 52%, 2014: 42%). The outstanding portfolio also declined during the year (–9% y-o-y, FX-adjusted) partly as a result of the lower volume of current account loans due to the earlier payment of December salaries at the end of the year.

Deposits (and retail bonds) increased sharply y-o-y (adjusted for the FX-effect) supported by strong corporate inflows. The medium and large corporate deposit volumes grew by 22% y-o-y as a result of significant inflows from OTP Fund Management and other fund management companies in the third quarter of 2014.

The y-o-y municipality deposit growth was supported by the debt consolidation by the state which exerted a positive impact on the financial position of local governments. On a yearly base retail deposits grew by 7% y-o-y.

[8] The calculation is based on the supervisory balance sheet of the Hungarian National Bank: estimated FX-adjusted change of the portfolio of "Loans to enterprises – Non-financial and other financial enterprises". Adjusted for the impact of partial write off in 2014 at OTP Core.

[9] Based on the balance sheet data provision to the Hungarian National Bank (MNB), calculated from the aggregated financials for the "Loans to non-financial companies, other-financials companies and non-profit organisations supporting households" line of OTP Bank, OTP Mortgage Bank, OTP Building Society and Merkantil Bank.

OTP FUND MANAGEMENT (HUNGARY)

Changes in assets under management and financial performance of OTP Fund Management:

Main components of P&L account	2013 HUF million	2014 HUF million	Change %
After tax profit w/o dividends, net cash transfer and banking tax*	3,596	6,139	71
Income tax	(603)	(1,193)	98
Profit before income tax	4,200	7,332	75
Operating profit	4,140	7,288	76
Total income	6,314	9,145	45
Net interest income	0	0	0
Net fees and commissions	6,393	9,261	45
Other net non-interest income	(78)	(116)	48
Operating expenses	(2,174)	(1,857)	(15)
Other provisions	59	44	(27)
Main components of balance sheet closing balances	**2013**	**2014**	**%**
Total assets	9,014	12,187	35
Total shareholders' equity	6,808	9,395	38
Asset under management	**2013 HUF billion**	**2014 HUF billion**	**Change %**
Assets under management, total (w/o duplicates)	**1,384**	**1,659**	**20**
Retail investment funds (closing, w/o duplicates)	993	1,201	21
Volume of managed assets (closing, w/o duplicates)	391	458	17
Volume of investment funds (with duplicates)	**1,085**	**1,317**	**21**
money market	429	416	(3)
bond	318	476	50
mixed	17	20	18
security	83	97	17
guaranteed	105	111	6
other	133	197	48

In 2014 **OTP Fund Management** posted a y-o-y 71% higher, HUF 6.1 billion after-tax profit, excluding the special banking tax on financial institutions. The y-o-y 76% improvement of operating income was induced by favourable dynamics in net fee income (+45% y-o-y) in line with the expanding volume of assets under management (+20% y-o-y) and the increasing success fee due to the good performance. Operating expenses dropped by 15% in comparison with the base period.

As a consequence of declining deposit rates due to the monetary easing in the last two years the interest towards investment funds remained strong. The assets under management on the market significantly increased on yearly base. Within the total portfolio fixed income, mixed and derivative funds enjoyed the strongest capital inflow.

The volume of investment funds under management of OTP Fund Management increased by HUF 232 billion y-o-y. The definite winners of capital inflow were Optima, Supra and Premium Money Market Funds. The asset growth at the Company exceeded the market growth rate, as a result the market share (without duplication) increased y-o-y by 0.6 ppt to 27.5%.

* According to section 4/D of Act No. LIX of 2014 amended in November 2014, instead of special tax on financial institutions levied on asset management companies from 2015 a special tax will be introduced to be paid by investment funds with a tax rate of 0.05% p.a. based on the investment funds' assets.

MERKANTIL GROUP (HUNGARY)

Performance of Merkantil Bank and Car:

Main components of P&L account	2013 HUF million	2014 HUF million	Change %
After tax profit without the effect of adjustments	1,951	(1,518)	(178)
Income tax	(58)	0	(100)
Profit before income tax	2,009	(1,518)	(176)
Operating profit	6,341	5,900	(7)
Total income	12,478	11,972	(4)
Net interest income	14,553	15,490	6
Net fees and commissions	(2,971)	(3,002)	1
Other net non-interest income	895	(516)	(158)
Operating expenses	(6,136)	(6,072)	(1)
Total provisions	(4,332)	(7,418)	71
Provision for possible loan losses	(4,755)	(7,430)	56
Other provision	423	12	(97)
Main components of balance sheet closing balances	**2013**	**2014**	**%**
Total assets	282,780	313,033	11
Gross customer loans	257,485	264,313	3
Gross customer loans (FX-adjusted)	267,727	264,313	(1)
Retail loans	6,534	17,291	165
Corporate loans	62,486	64,161	3
Car financing loans	198,707	182,861	(8)
Allowances for possible loan losses	(34,403)	(31,770)	(8)
Allowances for possible loan losses (FX-adjusted)	(34,871)	(31,770)	(9)
Deposits from customers	5,945	8,188	38
Deposits from customer (FX-adjusted)	5,945	8,188	38
Retail deposits	2,234	2,766	24
Corporate deposits	3,711	5,422	46
Liabilities to credit institutions	210,004	220,321	5
Issued securities	35,141	33,888	(4)
Subordinated debt	1,411	0	(100)
Total shareholders' equity	27,486	19,729	(28)
Loan Quality	**2013**	**2014**	**%/ppts**
90+ days past due loan volume (in HUF million)	37,405	35,496	(5)
90+ days past due loans/gross customer loans	14.5%	13.4%	(1.1)
Cost of risk/average gross loans	1.81%	2.85%	1.04
Cost of risk/average (FX-adjusted) gross loans	1.73%	2.79%	1.06
Total provisions/90+ days past due loans	92.0%	89.5%	(2.5)
Performance Indicators	**2013**	**2014**	**ppts**
ROA	0.7%	(0.5%)	(1.3)
ROE	7.3%	(6.4%)	(13.7)
Total income margin	4.75%	4.02%	(0.73)
Net interest margin	5.54%	5.20%	(0.34)
Cost/income ratio	49.2%	50.7%	1.5

Merkantil Bank and Car posted HUF 1.5 billion aggregated negative after-tax result in 2014 against HUF 2 billion profit in the base period. The presented results exclude the special tax on financial institutions and the expected one-off impact of regulatory changes related to consumer contracts (these items are shown on consolidated level, among adjustments).
The 2014 operating result decreased by 7% compared to the base period, mainly because of a drop in other income. The core revenues of the Bank indicate an improvement, the net interest income increased by 6% y-o-y.
The annual net interest margin moderated to 5.2% (–34 bps y-o-y). The other non-interest income line was affected by negative result realized on securities.
The ratio of DPD90+ loans changed to 13.4% (–1.1 ppts y-o-y). In the second quarter 2014 non-performing loans were sold in the amount of HUF 10 billion, while HUF 0.4 billion loans were written off in the last quarter. The elevated risk costs were partly related to HUF 0.7 billion one-off provision on portfolio in the first quarter. The provision coverage ratio was 89.5%.
The erosion of FX-adjusted car financing loan book stopped by the end of the year, however car loans decreased by 8% y-o-y. In 2014 new car financing loan disbursements kept on growing (+61% y-o-y).

IFRS reports of the main subsidiaries

DSK GROUP (BULGARIA)

Performance of DSK Group:

Main components of P&L account	2013 HUF million	2014 HUF million	Change %
After tax profit w/o dividends and net cash transfer	30,223	39,170	30
Income tax	(3,536)	(4,417)	25
Profit before income tax	33,760	43,587	29
Operating profit	55,090	62,392	13
Total income	92,966	102,238	10
Net interest income	72,908	79,116	9
Net fees and commissions	18,208	20,262	11
Other net non-interest income	1,849	2,860	55
Operating expenses	(37,876)	(39,846)	5
Total provisions	(21,330)	(18,805)	(12)
Provision for possible loan losses	(20,723)	(17,526)	(15)
Other provision	(608)	(1,279)	111
Main components of balance sheet closing balances	**2013**	**2014**	**%**
Total assets	1,343,595	1,603,812	19
Gross customer loans	1,138,014	1,158,516	2
Gross customer loans (FX-adjusted)	1,207,114	1,158,516	(4)
Retail loans	953,808	872,084	(9)
Corporate loans	253,306	286,433	13
Allowances for possible loan losses	(201,300)	(159,015)	(21)
Allowances for possible loan losses (FX-adjusted)	(213,653)	(159,015)	(26)
Deposits from customers	1,054,713	1,285,044	22
Deposits from customer (FX-adjusted)	1,123,382	1,285,044	14
Retail deposits	987,005	1,127,641	14
Corporate deposits	136,376	157,403	15
Liabilities to credit institutions	44,351	47,284	7
Subordinated debt	0	0	0
Total shareholders' equity	220,752	247,993	12
Loan Quality	**2013**	**2014**	**%/ppts**
90+ days past due loan volume (in HUF million)	228,539	173,716	(24)
90+ days past due loans/gross customer loans	20.1%	15.0%	(5.1)
Cost of risk/average gross loans	1.82%	1.53%	(0.29)
Cost of risk/average (FX-adjusted) gross loans	1.70%	1.48%	(0.21)
Total provisions/90+ days past due loans	88.1%	91.5%	3.4
Performance Indicators	**2013**	**2014**	**ppts**
ROA	2.3%	2.7%	0.4
ROE	14.1%	16.7%	2.6
Total income margin	7.05%	6.94%	(0.11)
Net interest margin	5.53%	5.37%	(0.16)
Cost/income ratio	40.7%	39.0%	(1.7)
Net loans to deposits (FX-adjusted)	88%	78%	(10)
FX rates	**2013 HUF**	**2014 HUF**	**Change %**
HUF/BGN (closing)	151.8	161.0	6
HUF/BGN (average)	151.8	157.8	4

- 2014 net profit improved by 30% y-o-y supported by favourable income dynamics and moderating risk costs
- Asset quality trends remained favourable. The significant drop of the DPD90+ ratio was explained mostly by partial write-offs in the fourth quarter; the coverage ratio further increased
- DPD0–90 loan volumes grew by 2% y-o-y (adjusted for FX-effect). Corporate loans increased on the back of the business development project targeting corporate clients
- Despite continuing deposit rate cuts volumes increased substantially y-o-y

In 2014 **DSK Group** posted an after-tax profit of HUF 39.2 billion representing a 30% improvement over the base period.

The operating profit improved by 13% mainly as a result of excellent core banking revenues. The net interest income advanced by 9% y-o-y (+4% in local currency terms), mainly due to lower interest expenses. The prepayment of a subordinated loan with original maturity date of 2016 to OTP Bank in October 2013 played a role in the reduction of funding costs, too. The annual net interest margin eroded slightly by 17 bps to 5.36% mainly due to the lower margin content realized from the liquidity inflow experienced in second half of 2014 (consequently, total assets went up, too).

The net fee and commission income advanced by 11% y-o-y; the growth was driven mainly by higher deposit-related fees. The increase of other net non-interest income was partly driven by the reclassification of interest income realized on the trading book from interest revenues into the other income line.

Operating expenses grew by 5% y-o-y in HUF terms, whereas costs went up by only 1% in leva terms.

Asset quality developments can be characterized as favourable: in each quarters of 2014 the FX-adjusted change of DPD90+ loan volumes indicated moderate portfolio quality deterioration (quarterly FX-adjusted change of DPD90+ loan volumes adjusted for sales and write-offs in HUF billion: 1Q 2014: 2, 2Q: 2, 3Q: 1, 4Q: –2). The ratio of loans with more than 90 days of delay dropped materially y-o-y (by 5.1 ppts to 15%) driven mostly by write-off of non-performing household loans.

The annual risk cost declined by 12% implying a risk cost rate of 1.48%. The provision coverage of DPD90+ loans improved by 3.5 ppts y-o-y exceeding 91.5% by end-2014.

The overall loan demand remained weak. The y-o-y FX-adjusted loan volume changes were related to a great extent to write-offs executed primarily in the fourth quarter of 2014. Performing (DPD0–90) loan volumes showed a 2% growth both in yearly comparison. In 2014 new retail loan disbursement declined by 11%. The FX-adjusted DPD0–90 mortgage loan portfolio declined by 6% y-o-y; increased prepayments played a role, too (pursuant to a new legislation prepayment fees were abolished from July 2014).

The performing consumer loan portfolio remained stable y-o-y.

From mid-2013 DSK launched a business development project targeting SME and corporate clients with the aim of improving efficiency and potentially market share both in lending and deposit collection. Accordingly, in order to galvanize SME and corporate lending, in the first quarter of 2014 5 new financial outlets were opened and another 13 units during the second quarter. Consequently, from the second quarter of 2014 new corporate loan volumes started to accelerate gradually (in the fourth quarter they practically doubled y-o-y). DPD0–90 corporate loan volumes grew by 18% y-o-y. Simultaneously, the Bank could gain market share in this segment: it went up from 5.8% to 6.7% in the last 12 months.

The FX-adjusted deposit base – despite persistently lower interest rates versus market rates – grew by 7% y-o-y. Consequently, the net loan to deposit ratio at DSK dropped to multi-year low level (78%) demonstrating an excellent liquidity position at the bank.

The capital adequacy ratio of DSK Bank stood at 18% at the end of December 2014 (+1.7 ppts y-o-y). In the second quarter DSK Bank paid around HUF 25 billion equivalent dividend to the mother company.

OTP BANK RUSSIA

Performance of OTP Bank Russia:

Main components of P&L account	2013 HUF million	2014 HUF million	Change %
After tax profit w/o dividends and net cash transfer	2,356	(14,541)	(717)
Income tax	(1,053)	3,137	(398)
Profit before income tax	3,409	(17,678)	(619)
Operating profit	124,223	101,028	(19)
Total income	207,493	179,392	(14)
Net interest income	184,041	158,972	(14)
Net fees and commissions	21,990	21,378	(3)
Other net non-interest income	1,462	(958)	(166)
Operating expenses	(83,270)	(78,364)	(6)
Total provisions	(120,814)	(118,706)	(2)
Provision for possible loan losses	(121,310)	(117,623)	(3)
Other provision	496	(1,083)	(318)
Main components of balance sheet closing balances	**2013**	**2014**	**%**
Total assets	940,320	750,747	(20)
Gross customer loans	833,223	568,709	(32)
Gross customer loans (FX-adjusted)	586,202	568,709	(3)
Retail loans	550,151	532,543	(3)
Corporate loans	33,099	34,169	3
Car financing loans	2,952	1,997	(32)
Gross DPD0–90 customer loans (FX-adjusted)	481,233	484,930	1
Retail loans	447,594	451,555	1
Allowances for possible loan losses	(160,989)	(98,436)	(39)
Allowances for possible loan losses (FX-adjusted)	(110,825)	(98,436)	(11)
Deposits from customers	554,645	402,729	(27)
Deposits from customer (FX-adjusted)	417,772	402,729	(4)
Retail deposits	324,275	314,977	(3)
Corporate deposits	93,497	87,752	(6)
Liabilities to credit institutions	56,343	107,492	91
Issued securities	101,969	4,600	(95)
Subordinated debt	15,728	23,884	52
Total shareholders' equity	177,906	111,779	(37)
Loan Quality	**2013**	**2014**	**%/ppts**
90+ days past due loan volume (in HUF million)	150,982	83,779	(45)
90+ days past due loans/gross customer loans	18.1%	14.7%	(3.4)
Cost of risk/average gross loans	14.47%	16.78%	2.31
Cost of risk/average (FX-adjusted) gross loans	21.47%	20.37%	(1.10)
Total provisions/90+ days past due loans	106.6%	117.5%	10.9
Performance Indicators	**2013**	**2014**	**ppts**
ROA	0.2%	(1.7%)	(1.9)
ROE	1.3%	(10.0%)	(11.3)
Total income margin	21.09%	21.22%	0.13
Net interest margin	18.70%	18.80%	0.10
Cost/income ratio	40.1%	43.7%	3.6
Net loans to deposits (FX-adjusted)	114%	117%	3
FX rates	**2013 HUF**	**2014 HUF**	**Change %**
HUF/RUB (closing)	6.6	4.5	(32)
HUF/RUB (average)	7.0	6.1	(13)

- HUF 14.5 billion loss in 2014 due to y-o-y lower operating profit and still high risk costs
- Further portfolio deterioration, DPD90+ ratio shrank to 14.7% after portfolio cleaning, DPD90+ coverage further improved (117%)
- Operating costs grew by 8% in RUB terms with increasing cost/income ratio: 2014: 43.7%, +3.6 ppts y-o-y

The HUF denominated financial figures of OTP Bank Russia are distorted by the HUF/RUB moves: in 2014 the closing rate showed y-o-y 32% devaluation of RUB against HUF; whereas the average yearly rate depreciated by 13% y-o-y. Therefore local currency P&L and balance sheet dynamics can be materially different from those in HUF terms.

After tax loss of **OTP Bank Russia** for 2014 amounted to HUF 14.5 billion reasoned by moderate loan disbursements and higher risk cost needed due to worsening portfolio quality under the deteriorating operating environment. The negative result also contain the operating costs related to the set-up of a new online bank (Touch Bank), which amounted to HUF 2.2 billion in 2014. The new entity operates separately from the Bank via online channels and targets affluent customer segments. The operational launch is expected in spring 2015. In 2014 operating profit dropped by 19% y-o-y, given the 14% drop of total income and 6% decline of operating expenses. The core trends are better represented in RUB terms, due to the significant RUB devaluation against HUF: 2014 operating profit declined by 6% compared to 2013, as a result of a 1% decrease in total income and 8% increase of operating expenses. The major component of total income is net interest income, which also declined by 1% y-o-y in rouble terms. The DPD0–90 portfolio grew by 1% y-o-y (FX-adjusted), whereas loan margins slightly decreased; on the liability side deposit margins increased. Total income dynamics were positively influenced by the y-o-y 11% growth of net F&C income in RUB terms, mainly related to the lower expenses paid to POS agents. Other net non-interest income was negative, about – HUF 1 billion in 2014, which was mainly caused by losses on securities portfolio and FX-revaluation – related mostly to the capital market volatility and RUB devaluation during the year. 2014 operating expenses increased by 8% y-o-y in RUB terms, mainly due to the almost 8% average CPI in the last twelve months; moreover costs related to the set-up of Touch Bank also appeared on this line. Consequently, the cost-to-income ratio worsened by 3.6 ppts to 43.7% y-o-y in 2014. The branch network consisted of 198 branches at the end 2014, and the number of employees decreased to 5,952 in 2014. The number of active points of sales increased by 4.6% y-o-y, so the overall network consisted of about 33.8 thousand sales points

Due to the unfavourable economic environment deterioration of the loan portfolio continued, however the pace of deterioration slightly slowed down in the fourth quarter. FX-adjusted DPD90+ volume growth excluding the impact of sold/written-off non-performing loans totalled to HUF 110 billion after the HUF 89 billion registered in 2013. In the course of 2014 the volume of sold and written-off loans more than doubled on annual basis, and amounted to RUB 22.6 billion (HUF 104 billion). The profit on loan sale in the amount of RUB 8.3 billion was about RUB 360 million, which improved the risk cost figures. Due to the portfolio cleaning DPD90+ ratio improved to 14.7%. Coverage of DPD90+ loans improved by 10.9 ppts to 117.5% y-o-y, while in the same period risk cost on average FX-adjusted gross loans decreased by 1.1 ppts to 20.4%.

The Bank's reaction to the deteriorating market environment (significant rouble devaluation, base rate hike in the total of 900 bps in the fourth quarter) was to selectively limit the disbursements of different products and make changes in the pricing policy. So the decline of FX-adjusted DPD0–90 POS loans portfolio was 0.4% y-o-y. As a result of the general setback on the market and with the bank focusing on product profitability, POS disbursements were lower by 3.7% on yearly basis. The bank kept its number two position in the league table. With regards to credit card business, the FX-adjusted DPD0–90 portfolio increased in 2014 (+2.1% y-o-y), although since October no new credit cards have been sent out and the Bank cut back part of the card limits in December. The bank was the seventh largest player in this segment at the end of 2014, end of 2013 alike. Due to the market turbulences, since the middle of December cash loan disbursement has been suspended, nevertheless, the FX-adjusted DPD0–90 cash loan portfolio increased by 10% y-o-y.

The corporate loan portfolio slightly increased in 2014 with regards to the FX-adjusted DPD0–90 loans (+2% y-o-y).

As a favourable development, after the decline in the first half of the year, deposits grew both in the third and fourth quarter, thus the yearly FX-adjusted decline was 4% altogether. In the last quarter the Bank managed to increase its deposit base 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.
FX-adjusted net loan-to-deposit ratio stood at 117% (+3 ppts y-o-y).
The Bank paid back issued bonds in the amount of RUB 13.3 billion in 2014. Because of this and other bill of exchange repayments, volume of issued securities in RUB terms decreased by 95% in 2014. At the same time, in order to fulfil the higher funding need at the end of the year – on top of the deposit collection – the bank utilised intragroup funding lines, which have already been repaid in January 2015. In the fourth quarter of 2014 the Russian subsidiary received RUB 3 billion subordinated loan with 10 years maturity from the mother company, so its capital adequacy ratio stood at 12.1% at the end of 2014.

OTP BANK UKRAINE

Performance of OTP Bank Ukraine:

Main components of P&L account	2013 HUF million	2014 HUF million	Change %
After tax profit without the effect of adjustments	6,716	(43,166)	(743)
Income tax	(4,447)	4,156	(193)
Profit before income tax	11,163	(47,322)	(524)
Operating profit	40,285	27,269	(32)
Total income	72,811	52,078	(28)
Net interest income	53,385	45,327	(15)
Net fees and commissions	17,020	10,306	(39)
Other net non-interest income	2,406	(3,555)	(248)
Operating expenses	(32,526)	(24,809)	(24)
Total provisions	(29,122)	(74,591)	156
Provision for possible loan losses	(27,431)	(71,947)	162
Other provision	(1,692)	(2,644)	56
Main components of balance sheet closing balances	**2013**	**2014**	**%**
Total assets	617,730	422,286	(32)
Gross customer loans	666,425	568,214	(15)
Gross customer loans (FX-adjusted)	657,007	568,214	(14)
Retail loans	310,827	300,456	(3)
Corporate loans	305,480	234,785	(23)
Car financing loans	40,699	32,973	(19)
Gross DPD0–90 customer loans (FX-adjusted)	404,563	306,027	(24)
Retail loans	141,858	95,895	(32)
Corporate loans	238,028	196,577	(17)
Car financing loans	24,677	13,555	(45)
Allowances for possible loan losses	(183,559)	(254,881)	39
Allowances for possible loan losses (FX-adjusted)	(197,106)	(254,881)	29
Deposits from customers	240,843	228,803	(5)
Deposits from customer (FX-adjusted)	209,502	228,803	9
Retail deposits	143,434	137,545	(4)
Corporate deposits	66,068	91,258	38
Liabilities to credit institutions	208,352	143,171	(31)
Subordinated debt	41,071	37,735	(8)
Total shareholders' equity	113,236	4,383	(96)
Loan Quality	**2013**	**2014**	**%/ppts**
90+ days past due loan volume (in HUF million)	230,744	262,187	14
90+ days past due loans/gross customer loans	34.6%	46.1%	11.5
Cost of risk/average gross loans	4.06%	11.65%	7.59
Cost of risk/average (FX-adjusted) gross loans	4.07%	11.74%	7.67
Total provisions/90+ days past due loans	79.6%	97.2%	17.6
Performance Indicators	**2013**	**2014**	**ppts**
ROA	1.1%	(8.3%)	(9.4)
ROE	6.0%	(73.4%)	(79.4)
Total income margin	11.45%	10.01%	(1.44)
Net interest margin	8.40%	8.72%	0.32
Cost/income ratio	44.7%	47.6%	2.9
Net loans to deposits (FX-adjusted)	220%	137%	(83)
FX rates	**2013 HUF**	**2014 HUF**	**Change %**
HUF/UAH (closing)	26.2	16.4	(37)
HUF/UAH (average)	27.4	19.9	(27)

- The HUF 43 billion loss realized in 2014 was due to higher risk costs driven by UAH depreciation and accelerating portfolio quality deterioration
- The Bank closed its operation in Crimea in the second quarter; in Donetsk and Luhansk counties the provision coverage of total gross loans reached 99.4%
- In the rest of the country lending activity remained weak: cash lending suspended in April but resumed in the third quarter can be still characterized as muted; POS loan disbursement lags behind that in the base period
- Deposits kept expanding, as a result the net loan/deposit ratio declined further. The intra-group funding provided to the Ukrainian operation declined in 2014

The financial performance and indicators of OTP Bank Ukraine in HUF terms were significantly distorted by the HUF/UAH exchange rate moves: in the fourth quarter of 2014 the closing rate of UAH showed a 37% y-o-y depreciation against HUF, whereas the average annual FX rate weakened by 27% y-o-y. Therefore local currency P&L and balance sheet dynamics can be materially different from those in HUF terms.

In the second quarter OTP Bank decided to close down its business in the Crimea.

Methodological note: as one-off elements not related to the normal course of business activity, the risk costs created in relation to the Crimean exposures from the second quarter of 2014 in the amount of HUF 9 billion, as well as risk costs made for exposures to the Donetsk and Luhansk counties from the third quarter of 2014 in the amount of HUF 28.9 billion were eliminated from the Ukrainian P&L and were shown amongst the adjustment items on consolidated level. Balance sheet items were not adjusted.

In the course of 2014 the operation and performance of **OTP Bank Ukraine** was affected in several ways by the developments of internal and foreign affairs and the deterioration of the operating environment.

In the second quarter the Bank closed its operation in the Crimea, 8 branches were closed. As a result of the risk cost set aside from the second quarter of 2014 the provision coverage reached 100% of the gross loan exposure to Crimea.

In Donetsk and Luhansk counties as a result of risk costs set aside from third quarter the provision coverage of the total gross loan portfolio reached 99.4%. The remaining net loan exposure to these counties (including accrued interest) amounted to HUF 3 billion equivalent at the end of 2014. In the fourth quarter of 2014 the Bank closed down 15 branches in these regions, thus the number of banking outlets declined to 2 at the end of 2014 (in Ukraine altogether 24 branches were shut down in 2014). In these regions currently there is no corporate or retail lending activity.

As for the consumer lending in the rest of the country, stricter lending conditions were already introduced in the first quarter.

From 9 April cash loan disbursement was suspended. However it was resumed in the second half of August, newly disbursed volumes in the fourth quarter remained weak and comprised only 14% of those a year ago. As a result, DPD0–90 cash loan volumes melted down by 38% y-o-y. From the second quarter of 2014 the cross-sale of credit cards declined to practically zero, therefore DPD0–90 volumes contracted by 9% y-o-y. As a consequence of stricter lending conditions new POS loan origination melted down by more than 40% y-o-y in 2014. DPD0–90 POS loan volumes went down by 31% y-o-y. The mortgage book further declined. Regarding corporate lending the activity is focused rather on using existing credit limits. As a result, the FX-adjusted total DPD0–90 loan portfolio contracted by 24% y-o-y.

Total deposits grew by 9% y-o-y (adjusted for the FX-effect). After an 8% decline of deposit volumes in first and second quarter they already grew by the same magnitude and in the third and fourth quarter by another 5% q-o-q, respectively. In the second half of the year the expansion was driven by strong corporate deposit inflows. Local currency retail deposits are the major source of UAH consumer lending and the offered deposit rates moved up in the course of 2014 alongside the overall deposit pricing. The net loan-to-deposit ratio dropped to 137%, which marks multi-year low.

The intragroup funding (without subordinated debt) provided to the Ukrainian banking group declined by altogether USD 445 million in 2014 and reached HUF 140 billion equivalent at the end of 2014.

The bank posted a pre-tax adjusted loss of HUF 47.3 billion in 2014. The after-tax loss reaching HUF 43.2 billion was partially mitigated by the deferred tax asset.

The annual operating profit in HUF terms dropped by 32% y-o-y, but the underlying business performance is better described by the 11% decline in local currency terms.

Within total income the net interest income advanced by 16% in UAH terms as a result of higher loan volumes in UAH terms on one hand and slightly better net interest margin in UAH terms on the other.

The annual net fee and commission income dropped by 17% in UAH terms as a result of lower fees related to deposits and cash settlement, but also due to lower fee income since the second quarter reasoned by the decline in newly disbursed consumer loans sold with payment protection policies. The significant setback of other non-interest revenues can be attributable to the negative result realized on this line in the fourth quarter of 2014, which is explained mainly by the write-off of cash and other assets in Eastern-Ukraine (amounting to HUF 1.1 billion), and the leasing revenues being reclassified into interest revenues (this item explains HUF 1.8 billion decline in other income line). Additionally, impairment of assets played a role in the quarterly decline in the fourth quarter, too (HUF –0.8 billion).

Operating expenses went up by 6% y-o-y in UAH terms.

The annual risk costs jumped to three and a half times in UAH terms, partly due to the UAH depreciation against USD which requires higher provision coverage on FX loans. Furthermore, the worsening sovereign credit rating also called for higher risk costs.

The new DPD90+ formation reflected a remarkable deterioration from the second quarter of 2014 versus a fairly moderate DPD90+ volume growth in the first quarter (FX-adjusted DPD90+ volume growth excluding the impact of loan sales and write-offs in HUF billion in 1Q 2014: 3, 2Q: 18, 3Q:14, 4Q: 26).

The DPD90+ ratio increased to 46.1%; the quarterly development was influenced by write-offs, too. The provision coverage ratio went up further and reached 97.2% marking 17.7 ppts yearly increase.

The shareholders' equity of the Ukrainian banking group under IFRS reached HUF 4.4 billion at the end of 2014, which already consists of the impact of the conversion of UAH 800 million equivalent subordinated debt into equity booked in the last quarter of 2014. Compared to December 2013 the shareholders' equity of the Ukrainian banking group in HUF terms dropped as a result of weakening UAH against HUF, whereas losses realized in 2014 had a negative impact on equity, too. The Ukrainian shareholders' equity includes that of 3 entities: the Bank, the Leasing and Factoring companies.

The standalone equity of the Bank under IFRS reached HUF 28.4 billion. 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. The equity of the Leasing company was HUF –2.7 billion on 31 December 2014. Leasing and Factoring companies are exempt from banks' capital adequacy rules.

The Ukrainian Factoring company received HUF 19 billion equivalent capital increase in September 2014, but had a negative equity of HUF 21.3 billion at the end of December 2014.

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

OTP BANK ROMANIA

Performance of OTP Bank Romania:

Main components of P&L account	2013 HUF million	2014 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(4,143)	765	(118)
Income tax	0	0	0
Profit before income tax	(4,143)	765	(118)
Operating profit	7,147	9,806	37
Total income	20,375	23,409	15
Net interest income	14,254	19,388	36
Net fees and commissions	2,269	2,429	7
Other net non-interest income	3,852	1,592	(59)
Operating expenses	(13,228)	(13,603)	3
Total provisions	(11,290)	(9,041)	(20)
Provision for possible loan losses	(11,109)	(8,881)	(20)
Other provision	(181)	(160)	(11)
Main components of balance sheet closing balances	**2013**	**2014**	**%**
Total assets	449,789	476,352	6
Gross customer loans	407,380	428,995	5
Gross customer loans (FX-adjusted)	435,558	428,995	(2)
Retail loans	337,008	320,845	(5)
Corporate loans	98,550	108,150	10
Allowances for possible loan losses	(55,094)	(61,538)	12
Allowances for possible loan losses (FX-adjusted)	(59,037)	(61,538)	4
Deposits from customers	200,514	222,126	11
Deposits from customer (FX-adjusted)	216,073	222,126	3
Retail deposits	152,871	181,011	18
Corporate deposits	63,202	41,115	(35)
Liabilities to credit institutions	206,315	209,315	1
Total shareholders' equity	29,100	34,980	20
Loan Quality	**2013**	**2014**	**%/ppts**
90+ days past due loan volume (in HUF million)	72,595	76,564	5
90+ days past due loans/gross customer loans	17.8%	17.8%	0.0
Cost of risk/average gross loans (%)	2.78%	2.12%	(0.66)
Cost of risk/average (FX-adjusted) gross loans	2.58%	2.05%	(0.53)
Total provisions/90+ days past due loans	75.9%	80.4%	4.5
Performance Indicators	**2013**	**2014**	**ppts**
ROA	(0.9%)	0.2%	1.1
ROE	(13.4%)	2.4%	15.8
Total income margin	4.47%	5.06%	0.59
Net interest margin	3.13%	4.19%	1.06
Cost/income ratio	64.9%	58.1%	(6.8)
Net loans to deposits (FX-adjusted)	174%	165%	(9)
FX rates	**2013 HUF**	**2014 HUF**	**Change %**
HUF/RON (closing)	66.3	70.2	6
HUF/RON (average)	67.2	69.5	3

In 2014 OTP Bank Romania realized HUF 0.8 billion profit versus a loss of HUF 4.1 billion in the base period, which demonstrates a significant turnaround.

The full-year operating profit grew by 37%. The biggest contributor to total revenues, the net interest income improved due to the continued shift toward high APR consumer loans, therefore consumer loans' share within the total assets has been steadily growing. Furthermore, the Bank made successful steps to curb interest expenses. The 7% y-o-y growth of net fee and commission income was due to the strengthening business activity. The setback in other net non-interest income was mainly due to the volatile FX result.

Operating expenses increased by 3% in HUF terms, whereas in RON terms they were practically stable.

The portfolio quality demonstrates favourable developments: the increase of DPD90+ loan volumes (adjusted for FX rate changes and sold and written off volumes) remained relatively modest in each quarters of 2014, in line with trends experienced since 2H 2013. The DPD90+ ratio remained stable y-o-y at 17.8%, supported also by write-offs in the corporate segment in the fourth quarter of 2014. The coverage ratio improved to 80.4% (+4.5 ppts y-o-y).

The total annual risk costs moderated by 20%, despite additional provisioning of altogether HUF 2.1 billion emerged in 2014 in line with the central bank requirements.

The FX-adjusted gross loan portfolio contracted by 2% in yearly comparison. Despite cash loan disbursement in 2014 fell short of that in the base period by 23%, their volumes kept on increasing dynamically (+13% y-o-y). The mortgage portfolio continued eroding (–6% y-o-y). Corporate volumes however picked up and expanded by 10% y-o-y (performing corporate loan volumes showed an even stronger growth rate of 14% y-o-y).

Total deposit volumes expanded by 3% y-o-y (adjusted for the FX-effect). The growth of household deposits reached 6%, whereas deposit rates eroded in line with overall market trends. The share of sight deposits increased since loan disbursements linked to regular income transfers continued gaining ground. SME deposits grew remarkably in the last 12 months (+46% y-o-y). Corporate deposits showed large volatility in each quarters in 2014 and dropped altogether by 35% y-o-y (FX-adjusted).

The Bank's capital adequacy ratio stood at 12.7% by the end of December, the same as a year ago.

On 30 July OTP Bank Romania agreed on purchasing 100% of Millennium Bank for EUR 39 million. The transaction has not been completed in 2014, similar to the consolidation of Millennium Bank, therefore the 2014 balance sheet and income statement of OTP Bank Romania does not include volumes and performance of Millennium Bank.

The transaction has been completed on 8 January 2015 after the settlement of the purchase price, thus OTP Bank Romania gained 100% ownership in the target company.

The capital increase of RON 175.3 million from OTP Bank was registered by the Romanian Court of Registration in January 2015.

OTP BANKA HRVATSKA (CROATIA)

Performance of OTP banka Hrvatska:

Main components of P&L account	2013 HUF million	2014 HUF million	Change %
After tax profit without the effect of adjustments	2,210	104	(95)
Income tax	(587)	(524)	(11)
Profit before income tax	2,797	628	(78)
Operating profit	7,910	7,528	(5)
Total income	22,697	25,427	12
Net interest income	16,010	17,924	12
Net fees and commissions	4,878	5,203	7
Other net non-interest income	1,808	2,300	27
Operating expenses	(14,787)	(17,899)	21
Total provisions	(5,113)	(6,900)	35
Provision for possible loan losses	(5,142)	(5,747)	12
Other provision	29	(1,153)	
Main components of balance sheet closing balances	**2013**	**2014**	**%**
Total assets	538,112	654,793	22
Gross customer loans	379,177	467,749	23
Gross customer loans (FX-adjusted)	402,380	467,749	16
Retail loans	247,310	298,265	21
Corporate loans	154,650	169,209	9
Car financing loans	420	275	(34)
Allowances for possible loan losses	(29,213)	(38,725)	33
Allowances for possible loan losses (FX-adjusted)	(30,927)	(38,725)	25
Deposits from customers	421,276	518,313	23
Deposits from customer (FX-adjusted)	452,534	518,313	15
Retail deposits	404,009	463,720	15
Corporate deposits	48,525	54,593	13
Liabilities to credit institutions	40,944	51,453	26
Subordinated debt	1,521	0	(100)
Total shareholders' equity	62,880	71,156	13

Loan Quality	2013	2014	%/ppts
90+ days past due loan volume (in HUF million)	47,493	62,222	31
90+ days past due loans/gross customer loans	12.5%	13.3%	0.8
Cost of risk/average gross loans	1.41%	1.36%	(0.05)
Cost of risk/average (FX-adjusted) gross loans	1.32%	1.32%	0.00
Total provisions/90+ days past due loans	61.5%	62.2%	0.7
Performance Indicators	**2013**	**2014**	**ppts**
ROA	0.4%	0.0%	(0.4)
ROE	3.6%	0.2%	(3.4)
Total income margin	4.29%	4.26%	(0.03)
Net interest margin	3.03%	3.01%	(0.02)
Cost/income ratio	65.1%	70.4%	5.3
Net loans to deposits (FX-adjusted)	82%	83%	1
FX rates	**2013**	**2014**	**Change**
	HUF	**HUF**	**%**
HUF/HRK (closing)	38.9	41.1	6
HUF/HRK (average)	39.2	40.4	3

On 24 April 2014 OTP banka Hrvatska accomplished the purchase process of Banco Popolare Croatia (BPC) acquiring a 98.37% stake in the bank. The Croatian P&L was adjusted for certain items which are directly in connection with the acquisition and integration, these corrections are shown on consolidated level, among adjustment items. In the third quarter OBH increased its stake in BPC to 100%. The integration of BPC was successfully completed by the end of the year.

OTP banka Hrvatska posted HUF 104 million after-tax profit in 2014 (with BPC) against HUF 2.2 billion in the base period. The operating profit lagged behind that of in the base period by 5% y-o-y, while rising risk costs pushed down the results, moreover the effective tax rate notably increased.

The annual net interest income went up by 12% y-o-y as a result of changing accounting rules in the last quarter: the rental income (HUF 0.3 billion) was reclassified from other income to net interest income. The net interest margin remained stable at 3%.

Operating expenses surged notably due to the consolidation of BPC's costs. Due to accounting changes in the fourth quarter the depreciation of real estate revaluation in amount of HUF 1.1 billion was reclassified to other risk costs from operating cost.

The DPD90+ ratio indicates a y-o-y 0.8 ppt increase (13.3%). The annual risk costs for loan losses went up by 12% y-o-y, which is explained by deteriorating portfolio and further provisioning for ongoing litigations on CHF mortgage loans (2014: HUF 0.6 billion). The coverage ratio of DPD90+ loans (62.2%) improved by 0.7 ppt y-o-y.

The FX-adjusted DPD0–90 loan book advanced by 15% y-o-y as a result of the BPC acquisition. BPC loan portfolio contributed mainly to the retail book; this and the success of cash loan lending were reflected in the 40% y-o-y growth in consumer loans. The corporate loan volumes grew at a fast pace as well, mainly municipal segment expanded notably (+22% y-o-y).

The FX-adjusted deposit book surged by 15% y-o-y.

The capital adequacy ratio reached 15% at the end of December.

OTP BANKA SLOVENSKO (SLOVAKIA)

Performance of OTP Banka Slovensko*:

Main components of P&L account	2013 HUF million	2014 HUF million	Change %
After tax profit w/o dividends and net cash transfer	1,153	32	(97)
Income tax	(351)	(334)	(5)
Profit before income tax	1,503	366	(76)
Operating profit	4,099	5,894	44
Total income	14,908	17,098	15
Net interest income	12,088	14,207	18
Net fees and commissions	3,101	3,000	(3)
Other net non-interest income	(280)	(109)	(61)
Operating expenses	(10,810)	(11,204)	4
Total provisions	(2,595)	(5,528)	113
Provision for possible loan losses	(2,594)	(5,277)	103
Other provision	(2)	(251)	
Main components of balance sheet closing balances	**2013**	**2014**	**%**
Total assets	425,219	464,296	9
Gross customer loans	339,602	369,624	9
Gross customer loans (FX-adjusted)	360,216	369,624	3
Retail loans	281,769	298,109	6
Corporate loans	78,002	71,234	(9)
Car financing loans	445	281	(37)
Allowances for possible loan losses	(22,670)	(22,785)	1
Allowances for possible loan losses (FX-adjusted)	(24,044)	(22,785)	(5)
Deposits from customers	332,452	375,687	13
Deposits from customer (FX-adjusted)	352,881	375,687	6
Retail deposits	327,676	358,890	10
Corporate deposits	25,206	16,797	(33)
Liabilities to credit institutions	25,821	17,729	(31)
Issued securities	24,881	18,609	(25)
Subordinated debt	8,627	14,818	72
Total shareholders' equity	27,028	30,501	13
Loan Quality	**2013**	**2014**	**%/ppts**
90+ days past due loan volume (in HUF million)	39,044	38,211	(2)
90+ days past due loans/gross customer loans	11.5%	10.3%	(1.2)
Cost of risk/average gross loans	0.82%	1.49%	0.67
Cost of risk/average (FX-adjusted) gross loans	0.77%	1.45%	0.68
Total provisions/90+ days past due loans	58.1%	59.6%	1.5
Performance Indicators	**2013**	**2014**	**ppts**
ROA	0.3%	0.0%	(0.3)
ROE	4.3%	0.1%	(4.2)
Total income margin	3.73%	3.84%	0.11
Net interest margin	3.03%	3.19%	0.16
Cost/income ratio	72.5%	65.5%	(7.0)
Net loans to deposits (FX-adjusted)	95%	92%	(3)
FX rates	**2013 HUF**	**2014 HUF**	**Change %**
HUF/EUR (closing)	296.9	314.9	6
HUF/EUR (average)	296.9	308.7	4

*P&L account lines and indicators are adjusted for banking tax and Deposit Protection Fund contributions.

In 2014 **OTP Banka Slovensko** posted HUF 32 million adjusted[10] after-tax profit. The reason for the significant y-o-y drop was the doubling of risk cost. As a favourable development, the rate of DPF contribution shrank to one-fifth in 2H, and there was no banking tax paid in the last quarter of 2014. According to the law, the rate of banking tax will be halved (0.2%) starting from 2015. The main reason for the 76% drop of pre-tax profit is the 113% y-o-y surge of risk cost. In 2014 operating profit grew by 44% y-o-y, due to the increasing total income and stringent cost control. Total income grew by 15% y-o-y supported by the higher loan portfolio and the y-o-y 11 bps improvement of total income

[10] Adjustments include the elimination of banking tax and DPF contribution paid by OBS; these are treated as an adjustment in the consolidated results.

margin. Due to the outstanding retail loan (especially consumer loans) and SME loan disbursement dynamics and lower funding cost NII increased by 18% y-o-y. Net fee and commission income decreased by 3% on the yearly basis (–7% in EUR terms), partly reasoned by the lower income as a result of corporate and municipal deposit outflow. Due to the stringent cost control operating expenses remained unchanged y-o-y in local currency terms (+4% in HUF). As a result of those developments the cost-to-income ratio improved in 2014 by 7 ppts to 65.5% y-o-y. DPD90+ portfolio decreased y-o-y by 2% in the course of 2014, partly because of NPL sale/write-off in the amount of EUR 20 million. The DPD90+ ratio improved by 1.2 ppts y-o-y to 10.3%. Provision coverage of DPD90+ loans increased by 1.6 ppts to 59.6% on the yearly basis.

FX-adjusted DPD0–90 loans expanded by 4% y-o-y, mainly due to the dynamic growth of consumer loans. Due to the lower yield environment and the fierce pricing competition mortgage loan disbursements in 2014 fell back y-o-y, and the FX-adjusted gross portfolio shrank by 3% y-o-y. Retail consumer loans kept growing, thee yearly growth was 69%. Corporate loan segment suffered a decrease y-o-y (–9%). FX-adjusted deposits grew by 6% on yearly basis. Bulk of the annual growth was generated by the retail and SME segment (+10% y-o-y), while corporate deposits dropped significantly (–33% y-o-y). FX-adjusted net loan-to-deposit ratio stood at 92% by the end of 2014 (–2.9 ppts y-o-y). After the EUR 18 million subordinated capital increase in the third quarter 2014, OBS received another EUR 10 million share capital in the fourth quarter; thus the capital adequacy ratio increased to 13.5% by the end of 2014.

OTP BANKA SRBIJA (SERBIA)

Performance of OTP banka Srbija:

Main components of P&L account	2013 HUF million	2014 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(13,246)	50	(100)
Income tax	(11)	4	(137)
Profit before income tax	(13,235)	46	(100)
Operating profit	409	1,359	232
Total income	7,580	8,556	13
Net interest income	4,553	6,613	45
Net fees and commissions	1,671	1,851	11
Other net non-interest income	1,356	92	(93)
Operating expenses	(7,171)	(7,197)	0
Total provisions	(13,644)	(1,313)	(90)
Provision for possible loan losses	(13,002)	(1,202)	(91)
Other provision	(642)	(111)	(83)
Main components of balance sheet closing balances	**2013**	**2014**	**%**
Total assets	86,136	109,509	27
Gross customer loans	91,648	99,011	8
Gross customer loans (FX-adjusted)	94,717	99,011	5
Retail loans	44,283	44,549	1
Corporate loans	50,435	54,462	8
Allowances for possible loan losses	(36,989)	(33,010)	(11)
Allowances for possible loan losses (FX-adjusted)	(37,916)	(33,010)	(13)
Deposits from customers	43,614	66,934	53
Deposits from customer (FX-adjusted)	45,531	66,934	47
Retail deposits	38,224	43,850	15
Corporate deposits	7,308	23,084	216
Liabilities to credit institutions	6,984	6,206	(11)
Subordinated debt	8,349	2,542	(70)
Total shareholders' equity	24,050	30,197	26

Loan Quality	2013	2014	%/ppts
90+ days past due loan volume (in HUF million)	44,793	43,355	(3)
90+ days past due loans/gross customer loans	48.9%	43.8%	(5.1)
Cost of risk/average gross loans	14.31%	1.26%	(13.05)
Cost of risk/average (FX-adjusted) gross loans	13.74%	1.24%	(12.50)
Total provisions/90+ days past due loans	82.6%	76.1%	(6.5)
Performance Indicators	**2013**	**2014**	**ppts**
ROA	(12.7%)	0.1%	12.8
ROE	(53.8%)	0.2%	54.0
Total income margin	7.25%	8.75%	1.50
Net interest margin	4.35%	6.76%	2.41
Cost/income ratio	94.6%	84.1%	(10.5)
Net loans to deposits (FX-adjusted)	125%	99%	(26)
FX rates	**2013**	**2014**	**Change**
	HUF	**HUF**	**%**
HUF/RSD (closing)	2.6	2.6	0
HUF/RSD (average)	2.6	2.6	0

OTP banka Srbija posted HUF 50 million profit after-tax in 2014, against the negative result of HUF 13.2 billion in the base period. The 2014 positive result was due to y-o-y lower risk costs, while the operating profit developed favourably as well.

The annual total revenues expanded by 13% y-o-y, fuelled mainly by rise of DPD0–90 loan volumes and decreasing funding costs.

The notable change in net interest income and other income is explained by local accounting rule changes: suspended interest income (HUF 1.1 billion) was transferred from other income line to net interest income line. Excluding the effect of this methodological change the net interest income went up significantly by 21% y-o-y, while other income moderated by 10% y-o-y; the latter reflects negative FX results. The increasing number of money transactions alongside the expanding deposit book caused 11% y-o-y surge in net fee income.

The DPD90+ ratio improved to 43.8% (–5.1 ppts y-o-y), due to increasing gross loan portfolio and loan write-offs. In the last quarter corporate loan volumes were written off in the amount of HUF 4 billion. The risk costs materially diminished in 2014. The coverage ratio of DPD90+ loans changed to 76.1% (–6.4 ppts y-o-y).

The FX-adjusted DPD0–90 loan book expanded by 14% y-o-y. Mainly the rise of large corporate loan book (+8% y-o-y) caused this expansion. The retail volumes stagnated, while the Bank focused its lending activity on consumer loans which grew by 10% y-o-y (FX-adjusted) due to the success of cash loan products.

FX-adjusted deposits increased by 47% y-o-y, mainly as a result of corporate deposit inflow (+216% y-o-y). The net loan-to-deposit ratio declined to 99%, which is the lowest for the last couple of years.

The capital adequacy ratio of the Bank reached 31.5% at the end of December.

CRNOGORSKA KOMERCIJALNA BANKA (MONTENEGRO)

Performance of CKB:

Main components of P&L account	2013 HUF million	2014 HUF million	Change %
After tax profit w/o dividends and net cash transfer	801	391	(51)
Income tax	0	19	n/a
Profit before income tax	801	372	(54)
Operating profit	3,506	3,789	8
Total income	10,516	11,518	10
Net interest income	7,804	8,359	7
Net fees and commissions	2,475	2,877	16
Other net non-interest income	237	282	19
Operating expenses	(7,010)	(7,729)	10
Total provisions	(2,705)	(3,417)	26
Provision for possible loan losses	(3,007)	(3,069)	2
Other provision	302	(348)	(215)
Main components of balance sheet closing balances	**2013**	**2014**	**%**
Total assets	196,209	195,770	0
Gross customer loans	164,124	158,297	(4)
Gross customer loans (FX-adjusted)	174,062	158,297	(9
Retail loans	73,670	70,955	(4)
Corporate loans	100,392	87,342	(13)
Allowances for possible loan losses	(49,836)	(50,981)	2
Allowances for possible loan losses (FX-adjusted)	(52,854)	(50,981)	(4)
Deposits from customers	145,882	142,593	(2)
Deposits from customer (FX-adjusted)	155,441	142,593	(8)
Retail deposits	127,162	114,506	(10)
Corporate deposits	28,279	28,087	(1)
Liabilities to credit institutions	18,013	19,990	11
Subordinated debt	4,173	2,219	(47)
Total shareholders' equity	21,151	22,840	8
Loan Quality	**2013**	**2014**	**%/ppts**
90+ days past due loan volume (in HUF million)	61,339	62,808	2
90+ days past due loans/gross customer loans	37.4%	39.7%	2.3
Cost of risk/average gross loans	1.93%	1.90%	(0.03)
Cost of risk/average (FX-adjusted) gross loans	1.80%	1.85%	0.05
Total provisions/90+ days past due loans	81.2%	81.2%	0
Performance Indicators	**2013**	**2014**	**ppts**
ROA	0.4%	0.2%	(0.2)
ROE	4.2%	1.8%	(2.4)
Total income margin	5.20%	5.88%	0.68
Net interest margin	3.86%	4.26%	0.4
Cost/income ratio	66.7%	67.1%	0.4
Net loans to deposits (FX-adjusted)	78%	75%	(3)
FX rates	**2013 HUF**	**2014 HUF**	**Change %**
HUF/EUR (closing)	296.9	314.9	6
HUF/EUR (average)	296.9	308.7	4

The Montenegrin **CKB Bank** posted HUF 391 million after-tax profit in 2014 (–51% y-o-y), as a result of the 8% increase in operating profit and higher risk cost (+26%).

Total income as well as operating expenses grew by 10% y-o-y in 2014. Net interest margin improved by 41 bps to 4.26% y-o-y, owing to favourable deposit pricing enabled by the cutback of excess liquidity. So interest expenses dropped by 43% in EUR terms. Net fees and commissions income grew by 16% y-o-y.

With regards to operating expenses, the 10% yearly growth in 2014 was driven mainly by the growth of personnel costs in relation to the cut-back of employees in 2H – in the last 12 months number of employees decreased by 22 to 427. On the whole cost-to-income ratio of CKB grew in 2014 (2014: 67,1%, +0.4 ppt y-o-y).

DPD90+ ratio grew to 39.7% by the end of 2014 (+2.3 ppts y-o-y). Provision coverage of DPD90+ loans decreased by 0.1 ppt to 81.2% y-o-y. Risk indicators are biased because of the write-off of non-performing loans in the fourth quarter in the amount of EUR 32 million and due to the purchase of loans from OTP by the Montenegrin factoring company in the amount of EUR 30 million.

The FX-adjusted DPD0–90 loans decreased by 12% y-o-y, partly because of a loan disbursed in the third quarter of 2013 to the Montenegrin state and repaid gradually in 2014, but also due to scheduled large corporate loan repayments in 2014. FX-adjusted retail loans decreased by 4% y-o-y. Throughout the whole year cash loan sales were spectacular with 8% y-o-y volume increase. The mortgage loan book kept shrinking (–11% y-o-y); and the corporate and municipal loan book also decreased (–13% y-o-y).

The FX-adjusted deposit base decreased by 8% y-o-y mainly as a result of the cut-back of deposit volumes due to the strong liquidity position of the bank. Net loan-to-deposit ratio stood at 75% at the end of 2014 (–3 ppts y-o-y). The Montenegrin bank repaid EUR 7 million subordinated loan to the Group in the last quarter of 2014. Its capital adequacy ratio stood at 14.75% at the end of 2014.

STAFF LEVEL AND OTHER INFORMATION

The closing staff number of OTP Group (including the number of employed selling agents) was 35,240 as of 31 December 2014. In 2014 there was a decrease in Russia and the Ukraine in the headcount of agents as consumer lending slowed down.

OTP Group provides services through 1,421 branches and close to 4,000 ATMs in 9 countries of the CEE region. In Hungary, OTP Bank has an extensive distribution network, which includes 380 branches and 1,976 ATM terminals. The bank (Hungary) has around 52 thousands POS terminals.

	31/12/2014				31/12/2013			
	Branches	ATM	POS	Headcount (closing)	Branches	ATM	POS	Headcount (closing)
OTP Core	380	1,976	52,336	8,244	382	2,017	51,683	8,615
DSK Group	385	883	4,936	4,527	378	873	4,396	4,514
OTP Bank Russia (w/o employed agents)	198	228	1,203	5,992	200	222	3,038	6,020
OTP Bank Ukraine (w/o employed agents)	116	133	317	3,004	140	158	353	3,282
OTP Bank Romania	84	122	1,471	918	84	122	1,185	930
OTP banka Hrvatska	117	242	1,967	1,201	102	223	1,526	993
OTP Banka Slovenko	61	139	196	668	68	123	187	655
OTP banka Srbija	51	121	2,305	642	51	119	2,371	663
CKB	29	80	4,821	427	29	82	4,688	449
Foreign subsidiaries, total	**1,041**	**1,948**	**17,216**	**17,379**	**1,052**	**1,922**	**17,744**	**17,506**
Other Hungarian and foreign subsidiaries				818				843
OTP Group (w/o employed agents)				**26,441**				**26,964**
OTP Bank Russia – employed agents				7,722				8,593
OTP Bank Ukraine – employed agents				1,077				2,336
OTP Group (aggregated)	**1,421**	**3,924**	**69,552**	**35,240**	**1,434**	**3,939**	**69,427**	**37,893**

SUPPLEMENTARY DATA

Footnotes to the table 'consolidated net profit breakdown by subsidiaries (IFRS)'

General note: regarding OTP Core and other subsidiaries, profit after-tax is calculated without received dividends and net cash transfers. Dividends and net cash transfers received from non-group member companies are shown on a separate line in one sum in the table, regardless to the particular receiver or payer group member company.

(1) OTP Core, Corporate Centre and foreign banks aggregated, excluding one-timers.

(2) OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials of OTP Core are calculated from the partially consolidated IFRS financial statements of the companies engaged in OTP 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. and companies providing intragroup financing. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

(3) Within OTP Group, the Corporate Centre acts as a virtual entity established by the equity investment of OTP Core for managing the wholesale financing activity for all the subsidiaries within OTP Group but outside OTP Core. Therefore the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core plus the subordinated debt and senior notes arranged by OTP Bank under its running EMTN program. From this funding pool, the Corporate Centre is to provide intragroup lending to, and hold equity stakes in OTP subsidiaries outside OTP Core. Main subsidiaries financed by Corporate Centre are as follows: Hungarians: Merkantil Bank Ltd., Merkantil Car Ltd., Merkantil Leasing Ltd., OTP Real Estate Leasing Ltd., OTP Fund Management Ltd., OTP Real Estate Fund Management Ltd., OTP Life Annuity Ltd.; foreigners: banks, leasing companies, factoring companies.

(4) The profit impact of the repurchase from the perpetual EUR 500 million subordinated Notes series executed in the fourth quarter of 2013 was eliminated from the performance of both parties, OTP Bank (Hungary) and OTP Bank Russia, since the transaction had no direct impact on consolidated earnings. The pre-tax gain realised on the perpetual EUR 500 million subordinated Notes transaction within the Group in the third quarter of 2014 was eliminated from the performance of OTP Bank Russia.

(5) From the fourth quarter of 2008 figures are based on the aggregated financial statements of OTP Bank JSC and LLC OTP Leasing Ukraine, from the fourth quarter of 2009 the result of LLC OTP Factoring Ukraine was also aggregated, while in the fourth quarter of 2010 the statement of recognised income and balance sheet of LLC OTP Credit was also added.

(6) From the third quarter of 2010, statements are based on the aggregated financials of DSK Group and the Bulgarian factoring company, OTP Factoring Bulgaria LLC. DSK Group balance sheet contains the loans sold to the factoring company at before sale gross value and the related provisions as well.

(7) Net earnings are adjusted with the result of CIRS swap transactions executed with OTP Bank Hungary in relation to interbank financing. Before transfer balance sheet numbers are displayed. From the second quarter of 2010 the statement of recognised income and balance sheet of OTP Faktoring SRL was included.

(8) Including the financial performance of OTP Factoring Serbia d.o.o from the fourth quarter of 2010.

(9) Includes the financial result and volumes of OTP Faktoring d.o.o. Banco Popolare Croatia has been consolidated into OBH's results from the second quarter of 2014.

(10) From 2011 on the balance sheet contains consolidated data of OTP Banka Slovensko and OTP Faktor Slovensko s.r.o., adjusted for loans sold to OTP Bank Plc. and OTP Factoring Ltd., and the related interbank financing in the net amount of the sold loans. The recoveries of sold loans to OTP Faktoring are recognised in the P&L accounts as risk cost decreasing elements since 2011. From 2012 on P&L data and related indices are adjusted for the special banking tax and the Slovakian Deposit Protection Fund contributions being introduced again in 2014.
(11) Including the financial performance of OTP Factoring Montenegro d.o.o.
(12) Aggregated after-tax profit of Merkantil Bank and Merkantil Car without dividends, net cash transfer and provisioning for investments in subsidiaries.
(13) From the fourth quarter of 2009: OTP Leasing Romania IFN S.A. (Romania), Z plus d.o.o. (Croatia) (until 3Q 2011), OTP Leasing d.d. (Croatia), DSK Leasing AD (Bulgaria).
(14) LLC AMC OTP Capitol (Ukraine) and OTP Asset Management SAI S.A. (Romania), DSK Asset Management (Bulgaria).
(15) HIF Ltd. (United Kingdom), OTP Faktoring Slovensko (Slovakia) (until 1Q 2011), OTP Buildings (Slovakia), OTP Real Slovensko (Slovakia), Velvin Ventures Ltd. (Belize), Debt Management Project 1 Montenegro d.o.o. (Montenegro), R.E. Four d.o.o., Novi Sad (Serbia), SC Aloha Buzz SRL, SC Favo Consultanta SRL, SC Tezaur Cont SRL (Romania).
(16) Total Hungarian subsidiaries: sum of the adjusted after-tax results of Hungarian group members, Corporate Centre and related eliminations.
(17) Total Foreign subsidiaries: sum of the adjusted after-tax profits of foreign subsidiaries and one-off items (after-tax).

Calculation of adjusted lines of ifrs profit and loss statements presented in the business report

In order to present Group level trends in a comprehensive way in the Interim Management Report, the presented consolidated and separate profit and loss statements of the Report were adjusted in the following way, and the adjusted P&Ls are shown and analysed in the Report. Consolidated accounting figures together with Separate accounting figures of OTP Bank are still disclosed in the Financial Data section of the Report.

Adjustments:

- As non-recurring results, the after-tax effect of the following items are shown separately on the Statement of Recognised Income: received dividends, received and paid cash transfers, goodwill write-offs, the tax shield effect of investment write-offs, special tax on financial institutions, the one-timer payment compensating the underperformance of the financial transaction tax in 2013, the fine imposed by the Hungarian Competition Authority in the fourth quarter of 2013, the corporate tax impact of the transfer of general risk reserves to retained earnings, the effect of Banco Popolare Croatia acquisition, the expected one-off impact of regulatory changes related to consumer contracts in Hungary, the risk cost created toward Crimean exposures from the second quarter of 2014, the risk cost related toward exposure to Donetsk and Luhansk from the third quarter of 2014 and the net loss from early repayment of FX mortgage loans in Hungary. Beside the Slovakian banking levy, from the first quarter of 2014 the total amount of the special banking tax includes and the Slovakian Deposit Protection Fund contributions being introduced again in 2014.
- Other non-interest income elements stemming from provisioning release in connection with provisions on loans originated before the acquisitions of the subsidiaries have been reclassified to and deducted from the volume of provisions for possible loan losses in the income statement.
- From the second quarter of 2014 OTP Bank's share in the change in the shareholders' equity of companies consolidated with equity method is reclassified from the After tax dividends and net cash transfers line to the

Net other non-interest result (adj.) without one-offs line.

- Other non-interest income is shown together with gains/losses on real estate transactions, but without the above mentioned income from the release of pre-acquisition provisions and without received cash transfers. However other non-interest expenses stemming from non-financial activities are added to the adjusted net other non-interest income line, therefore the latter incorporates the net amount of other non-interest income from non-financial activities.
- Out of other expenses, other provisions are deducted and shown separately as other risk costs in the adjusted income statement. Other provisions contain provisioning on off-balance sheet liabilities and on legal contests, provisioning on securities, shares and other investments as well as provisioning on other assets.
- Other administrative expenses have been adjusted in the following way in order to create a category comprising administrative cost items exclusively. Other costs and expenses and other non-interest expenses were included into the adjusted Other non-interest expenses. At the same time, the following cost items were excluded from adjusted other non-interest expenses: paid cash transfers – except for movie subsidies and cash transfers to public benefit organisations –, Other non-interest expenses stemming from non-financial activities, Special tax on financial institutions and the one-timer payment compensating the underperformance of the financial transaction tax.
- From the fourth quarter of 2010 onwards, the fee expenses paid by Merkantil Group to car dealers ('dealer fees') were registered as interest expense in the accounting income statement. Earlier this item had been booked as fee expense. In order to create a comparable time series, since the fourth quarter of 2010 dealer fees have been reclassified from net interest income to net fees and commissions – both on the consolidated and on a standalone level.
- Within the aggregated income statement of Merkantil Bank and Car, other risk cost related to leasing companies – as investments of the Merkantil Group – is eliminated. The reason behind is that this provisioning is eliminated in the consolidated income statement of OTP Group, and only the net result of the leasing companies is making part of OTP Group's consolidated net earnings.
- Performing indicators such as cost/income ratio, net interest margin, risk cost to average gross loans as well as ROA and ROE ratios are calculated on the basis of the adjusted profit and loss statement, excluding adjustment items such as received dividends and net cash transfers, the after-tax effect of the goodwill write-downs, the effect of special banking tax, the effect of Banco Popolare Croatia acquisition, the expected one-off impact of regulatory changes related to consumer contracts in Hungary, the risk cost created toward Crimean exposures from the second quarter of 2014, the risk cost related toward exposures to Donetsk and Luhansk from the third quarter of 2014 and the net loss from early repayment of FX mortgage loans in Hungary.
- OTP Group is hedging the revaluation result of the FX provisions on its FX loans by keeping hedging open FX positions. In the accounting statement of recognized income, the revaluation of FX provisions is part of the risk costs (within line "Provision for loan losses"), whereas the revaluation result of the hedging open FX positions is made through other non-interest income (within line "Foreign exchange result, net"). The two items have the same absolute amount but an opposite sign. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L. By modifying only the structure of the income statement, this correction does not have any impact on the bottom line net profits.
- In the third quarter of 2012 and in the second quarter of 2013, seven subsidiaries of OTP Real Estate Ltd. were for the first time consolidated into OTP Group. The cumulated

loss of the companies' previous operation was recognised as Other expenses in the accounting P&L, while loan loss and other provisioning earlier made by OTP Bank and OTP Real Estate in relation to these companies were released. By influencing only the structure of the income statement, the net effect of these two entries was neutral to consolidated net earnings. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L.

- Tax deductible transfers paid by Hungarian group members from the third quarter of 2012 were reclassified from Other non-interest expenses to Corporate income tax. As a result, the net P&L effect of the transfers (i.e. the paid transfer less the related tax allowances) is recognised in the corporate income tax line of the adjusted P&L.
- From 2012 credit institutions' contribution tax was recognised in the accounting P&L of OTP Group and OTP Core as OTP Core's burden share in the fixed exchange rate scheme provided to Hungarian FX mortgage debtors. The paid contribution tax equals 50% of the forgiveness provided on the interest payments of the clients. In the adjusted P&L the contribution tax is reclassified from other (administrative) expenses and to a lesser extent from other risk cost to net interest income.
- The financial transaction tax paid from the beginning of 2013 in Hungary is reclassified from other (administrative) expenses to net fee and commission income, both on consolidated and OTP Core level.
- The revaluation result booked on Other provisions line due to regulatory changes related to FX mortgage loans in Hungary are moved to the Foreign exchange result line.
- Within the report, FX-adjusted statistics for business volumes are disclosed. For FX-adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods. Thus the FX-adjusted volumes will be different from those published earlier.

ADJUSTMENTS ON THE CONSOLIDATED STATEMENT OF RECOGNIZED INCOME (IFRS)

	2013 HUF million	2014 HUF million
Net interest income	**653,728**	**636,097**
(–) Agent fees paid to car dealers by Merkantil Group	(2,319)	(2,047)
(+) Credit institutions' contribution tax paid in relation to the fixed exchange rate scheme	(2,206)	(2,796)
Net interest income (adj.) with one-offs	**653,841**	**635,348**
(–) Revaluation result of FX swaps at OTP Core (booked within net interest income)	715	(824)
Net interest income (adj.) without one-offs	**653,126**	**636,172**
Net fees and commissions	**201,757**	**215,656**
(+) Agent fees paid to car dealers by Merkantil Group	(2,318)	(2,047)
(+) Financial Transaction Tax	(32,503)	(44,030)
Net fees and commissions (adj.)	**166,936**	**169,579**
Foreign exchange result	**18,279**	**156,918**
(–) Revaluation result of FX positions hedging the revaluation of FX provisions	96	144,203
(+) Revaluation result booked on Other risk cost line due to regulatory changes related to FX mortgage loans in Hungary	0	(1,428)
Foreign exchange result (adj.) with one-offs	**18,183**	**11,287**
Foreign exchange result (adj.) without one-offs	**18,183**	**11,287**
Gain/loss on securities, net	**11,546**	**6,911**
Gain/loss on securities, net (adj.) with one-offs	**11,546**	**6,911**
(–) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net [adj.] at OTP Core)	508	422
Gain/loss on securities, net (adj.) without one-offs	**11,038**	**6,489**
Gains and losses on real estate transactions	**1,552**	**734**
(+) Other non-interest income	**24,840**	**13,645**
(–) Received cash transfers	43	5
(–) Non-interest income from the release of pre-acquisition provisions	156	1,260
(+) Other other non-interest expenses	(4,940)	(7,665)
(+) Release of loan loss provisioning related to the consolidation of the subsidiaries of OTP Real Estate Ltd.	224	0
(+) Release of other provisioning related to the consolidation of the subsidiaries of OTP Real Estate Ltd.	254	0
(+) Change in shareholders' equity of companies consolidated with equity method	0	1,648
(–) Badwill booked in relation to Banco Popolare Croatia acquisition	0	4,563
Net other non-interest result (adj.) with one-offs	**21,731**	**2,534**
(–) Gain on the repurchase of own Upper and Lower Tier2 Capital (booked as Net other non-interest result [adj.] at OTP Core and at the Corporate Centre)	6,104	0
Net other non-interest result (adj.) without one-offs	**15,627**	**2,534**
Provision for loan losses	**(262,569)**	**(446,830)**
(+) Non-interest income from the release of pre-acquisition provisions	156	1,260
(–) Revaluation result of FX provisions	(96)	(144,203)
(–) Release of loan loss provisioning related to the consolidation of the subsidiaries of OTP Real Estate Ltd.	224	0
(–) Risk cost created toward Crimean exposures from 2Q 2014	0	(8,953)
(–) Risk cost created toward exposures to Donetsk and Luhansk from 3Q 2014	0	(28,903)
Provision for loan losses (adj.)	**(262,541)**	**(263,511)**
After tax dividends and net cash transfers	**(11,909)**	**(7,481)**
(–) Sponsorships, subsidies and cash transfers to public benefit organisations	(13,819)	(12,277)
(–) Dividend income of swap counterparty shares kept under the treasury share swap agreement	2,316	2,957
(–) Change in shareholders' equity of companies consolidated with equity method	0	1,648
After tax dividends and net cash transfers	**(406)**	**191**
Depreciation	**(78,017)**	**(65,947)**
(–) Goodwill impairment charges (OTP Bank JSC [Ukraine])	(30,819)	(22,225)
Depreciation (adj.)	**(47,198)**	**(43,722)**

	2013 HUF million	2014 HUF million
Income taxes	**(20,944)**	**51,385**
(–) Corporate tax impact of goodwill/investment impairment charges	1,379	17,210
(–) Corporate tax impact of the special tax on financial institutions	6,825	6,818
(+) Tax deductible transfers	(11,562)	(9,734)
(–) Corporate tax impact of the one-timer payment compensating the underperformance of the Financial Transaction Tax	3,091	0
(–) Corporate tax impact of the fine imposed by the Hungarian Competition Authority	745	0
(–) Corporate tax impact of the transfer of general risk reserves to retained earnings	(5,533)	0
(–) Corporate tax impact of the badwill booked in relation to Banco Popolare Croatia acquisition	0	(913)
(–) Corporate tax shield on earlier loss of Banco Popolare Croatia	0	913
(–) Corporate tax impact of provision on potential expenses in relation to BPC merger	0	108
(–) Corporate tax impact of the expected one-off impact of regulatory changes related to consumer contracts in Hungary	0	37,464
(–) Corporate tax impact of risk cost created toward Crimean exposures from 2Q 2014	0	1,010
(–) Corporate tax impact of risk cost created toward exposures to Donetsk and Luhansk from 3Q 2014	0	3,368
Corporate income tax (adj.)	**(39,013)**	**(24,327)**

Other operating expense, net	**(39,795)**	**(232,906)**
(+) Provision on securities available-for-sale and securities held-to-maturity	**11**	**0**
(–) Other costs and expenses	(10,756)	(6,354)
(–) Other non-interest expenses	(19,366)	(19,975)
(–) Release of other provisioning related to the consolidation of the subsidiaries of OTP Real Estate Ltd.	254	0
(–) Provision on potential expenses in relation to Banco Popolare Croatia merger	0	(539)
(–) Expected one-off impact of regulatory changes related to consumer contracts in Hungary	0	(193,371)
(–) Revaluation result booked on Other risk cost line due to regulatory changes related to FX mortgage loans in Hungary	0	(1,428)
Other provisions (adj.)	**(9,916)**	**(11,239)**

Other administrative expenses	**(244,477)**	**(236,410)**
(+) Other costs and expenses	(10,756)	(6,354)
(+) Other non-interest expenses	(19,366)	(19,976)
(–) Paid cash transfers	(14,426)	(12,309)
(+) Film subsidies and cash transfers to public benefit organisations	(13,819)	(12,277)
(–) Other non-interest expenses	(4,939)	(7,666)
(–) Special tax on financial institutions	(36,867)	(37,011)
(–) Tax deductible transfers	(11,562)	(9,734)
(–) Credit institutions' contribution tax paid in relation to the fixed exchange rate scheme	(2,205)	(2,798)
(–) Financial Transaction Tax	(32,503)	(44,029)
(–) One-timer payment compensating the underperformance of the Financial Transaction Tax	(16,267)	0
(–) Fine imposed by the Hungarian Competition Authority	(3,922)	0
Other non-interest expenses (adj.)	**(165,727)**	**(161,470)**

Statement of recognized income of OTP Bank Plc., according to Hungarian Accounting standards (unconsolidated, audited)

	2013 HUF million	2014 HUF million	Change %
Net interest income	**236,691**	**223,408**	**(6)**
Interest received and similar income	569,465	436,638	(23)
Interest paid and similar charges	(332,774)	(213,230)	(36)
Net fee and commission income	**130,819**	**143,473**	**10**
Commissions and fees received or due	158,788	169,874	7
Commissions and fees paid or payable	(27,969)	(26,401)	(6)
Other income	**96,704**	**65,320**	**(32)**
Income from securities	47,283	43,095	(9)
Net profit or net loss on financial operations	(4,268)	(60,686)	1322
Other operating income	53,689	82,911	54
General administrative expenses	**(130,397)**	**(132,303)**	**1**
Depreciation	**(15,370)**	**(16,692)**	**9**
Other operating charges	**(151,416)**	**(294,483)**	**94**
Value adjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	**(51,706)**	**(28,377)**	**(45)**
Value readjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	**48,322**	**37,508**	**(22)**
Difference between formation and utilization of general risk provisions	**6,305**	**0**	**(100)**
Value adjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests	**(9,831)**	**(25,439)**	**159**
Value readjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests	**4,782**	**724**	**(85)**
Profit or loss on ordinary activities	**164,903**	**(26,861)**	**(116)**
Extraordinary profit or loss	(10,453)	(13,490)	29
Profit or loss before tax	**154,450**	**(40,351)**	**(126)**
Taxes on income	(32,265)	(1,367)	(96)
Profit or loss after-tax	**122,185**	**(41,718)**	**(134)**
General reserve	(12,218)	41,718	(441)
Profit reserves used for dividends and profit-sharing	0	40,600	n/a
Dividend and profit-sharing payable	(40,600)	(40,600)	0
Profit or loss for the financial year	**69,367**	**0**	**(100)**

Balance sheet of OTP Bank Plc., according to Hungarian Accounting standards (unconsolidated, audited)

	2013 HUF million	2014 HUF million	Change %
Total assets	**6,600,634**	**7,319,679**	**11**
1. Liquid assets	140,312	1,897,146	1252
2. Treasury bills and similar securities	1,838,166	1,028,682	(44)
3. Loans and advances to credit institutions	639,166	738,467	16
4. Loans and advances to customers	**2,140,217**	**1,922,912**	**(10)**
5. Debt securities, including fixed-income securities	883,338	804,952	(9)
6. Shares and other variable-yield securities	127,985	121,241	(5)
7. Shares and participations in corporations held as financial fixed assets	926	588	(37)
8. Shares and participating interests in affiliated companies	496,548	488,226	(2)
9. Intangible assets	128,552	63,945	(50)
10. Tangible assets	71,414	68,114	(5)
11. Own shares	6,731	7,073	5
12. Other assets	30,755	37,851	23
13. Prepayments and accrued income	96,524	140,482	46
Total liabilities	**6,600,634**	**7,319,679**	**11**
1. Amounts owed to credit institutions	910,780	1,153,744	27
2. Amounts owed to customers	**3,730,071**	**4,277,541**	**15**
3. Debts evidenced by certificates	215,550	199,822	(7)
4. Other liabilities	82,199	78,536	(4)
5. Accruals and deferred income	149,066	185,053	24
6. Provisions for liabilities and charges	58,314	111,841	92
7. Subordinated liabilities	324,656	344,316	6
8. Shareholders' equity	1,129,998	968,826	(14)
Performance Indicators			**ppts**
Loans and advances to customers/amounts owed to customers	57%	45%	(22)

Statement of recognized income of OTP Bank Plc., according to IFRS standards (consolidated, audited, accounting structure)

	2014 HUF million	2013 HUF million	Change %
Loans	708,873	771,542	(8)
Placements with other banks	94,941	207,951	(54)
Amounts due from banks and balances with the National Banks	16,498	4,207	292
Securities held for trading	0	924	(100)
Securities available-for-sale	41,969	71,743	(42)
Securities held-to-maturity	39,934	33,002	21
Other interest income	7,015	0	n/a
Interest income	909,230	1,089,369	(17)
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	(100,615)	(189,539)	(47)
Deposits from customers	(138,179)	(197,236)	(30)
Liabilities from issued securities	(13,826)	(34,896)	(60)
Subordinated bonds and loans	(13,883)	(11,412)	22
Other interest expense	(6,630)	(2,558)	159
Interest expense	(273,133)	(435,641)	(37)
NET INTEREST INCOME	**636,097**	**653,728**	**(3)**
Provision for impairment on loans	(446,820)	(262,943)	70
Provision for impairment on placement losses	(10)	374	(103)
Provision for impairment on loans and placement losses	(446,830)	(262,569)	70
NET INRETEST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES	**189,267**	**391,159**	**(52)**
Income from fees and commissions	265,392	257,135	3
Expense from fees and commissions	(49,736)	(55,378)	(10)
NET PROFIT FROM FEES AND COMMISSIONS	215,656	201,757	7
Foreign exchange gains, net (+)	156,918	18,279	758
Gains on securities, net	6,911	11,546	(40)
Gains on real estate transactions	734	1,552	(53)
Dividend income	4,824	2,474	95
Other operating income	13,645	24,840	(45)
Other operating expense	(232,906)	(39,785)	485
NET OPERATING GAIN/(LOSS)	(49,874)	18,907	(364)
Personnel expenses	(206,335)	(204,277)	1
Depreciation and amortization	(65,947)	(78,017)	(15)
Other administrative expenses	(236,410)	(244,477)	(3)
OTHER ADMINISTRATIVE EXPENSES	(508,692)	(526,771)	(3)
PROFIT/(LOSS) BEFORE INCOME TAX	**(153,643)**	**85,052**	**(281)**
Income tax	51,385	(20,944)	(345)
NET PROFIT/(LOSS) FOR THE YEAR	**(102,258)**	**64,108**	**(260)**

Statement of comprehensive income

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

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

Statement of financial position of OTP Bank Plc., according to IFRS standards (consolidated, audited)

	2014 HUF million	2013 HUF million	Change %
Cash, amounts due from banks and balances with the National Bank of Hungary	2,307,632	539,125	328
Placements with other banks, net of allowance for placement losses	281,006	273,479	3
Financial assets at fair value through profit or loss	289,275	415,605	(30)
Securities available-for-sale	839,152	1,637,255	(49)
Loans, net of allowance for loan losses	5,864,241	6,245,210	(6)
Investments in subsidiaries, associates and other investments	23,381	23,837	(2)
Securities held-to-maturity	709,369	580,051	22
Property, equipments and intangible assets	365,161	455,244	(20)
Other assets	291,835	211,241	38
TOTAL ASSETS	**10,971,052**	**10,381,047**	**6**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	708,274	784,212	(10)
Deposits from customers	7,673,478	6,866,606	12
Liabilities from issued securities	267,084	445,218	(40)
Financial liabilities at fair value through profit or loss	183,994	87,164	111
Other liabilities	592,088	421,353	41
Subordinated bonds and loans	281,968	267,162	6
TOTAL LIABILITIES	**9,706,886**	**8,871,715**	**9**
Share capital	28,000	28,000	0
Retained earnings and reserves	1,288,757	1,532,164	(5)
Treasury shares	(55,940)	55,599	1
Non-controlling interest	3,349	4,767	(30)
TOTAL SHAREHOLDERS' EQUITY	**1,264,166**	**1,509,332**	**(16)**
TOTAL LIABILTITIES AND SHAREHOLDERS' EQUITY	**10,971,052**	**10,381,047**	**6**