



OTP Bank Annual Report 2014

Contents

4	Message from the Chairman and Chief Executive Officer
12	Macroeconomic and financial environment in 2014
17	Management's Analysis
18	Management's analysis of the 2014 results of the OTP Group
71	Financial Statements
72	Independent Auditors' report (consolidated, in accordance with IFRS)
74	Statement of financial position (consolidated, in accordance with IFRS)
75	Statement of recognized income (consolidated, in accordance with IFRS), Statement of comprehensive income (consolidated, in accordance with IFRS)
76	Statement of cash-flows (consolidated, in accordance with IFRS)
77	Statement of changes in shareholders' equity (consolidated, in accordance with IFRS)
78	Notes to the consolidated financial statements for the year ended 31 December 2014
164	Independent Auditors' report (separate, in accordance with IFRS)
166	Statement of financial position (separate, in accordance with IFRS)
167	Statement of recognized income (separate, in accordance with IFRS), Statement of comprehensive income (separate, in accordance with IFRS)
168	Statement of cash-flows (separate, in accordance with IFRS)
169	Statement of changes in shareholders' equity (separate, in accordance with IFRS)
170	Notes to the separate financial statements for the year ended 31 December 2014
247	Corporate Governance
248	Senior management of OTP Bank and executive members of the Board of Directors
250	Non-executive members of the Board of Directors of OTP Bank
252	Members of the Supervisory Board of OTP Bank
254	Information for Shareholders
257	Statement on Corporate Governance Practice
261	Anti-money laundering measures
262	OTP Bank's social participation in 2014

Message from the Chairman & CEO



DEAR SHAREHOLDERS,

Although 2014 was not the most profitable year in terms of the bottom line, overall we had a successful twelve months. I would like to explain this apparent contradiction in a little more detail.

The HUF 102.3 billion accounting loss incurred by the OTP Group last year was the result of one-off adjustment items. What's more, the HUF 220.3 billion annual total of these correction items exceeds that of any previous year, and includes items that have little to do with normal banking operations in the strictest sense of the word; specifically, these were the losses related to the escalation of the Russia-Ukraine conflict, and the expected one-off negative impact on profit of the statutory changes relating to consumer contracts in Hungary. The latter, in terms of size, was the most significant of the one-off items, at almost HUF 156 billion (after-tax). Although ultimately the laws, commonly referred to as the laws on 'calling banks to account', declared that the banks had illegitimately applied an interest rate spread when disbursing foreign-currency loans, and that their unilateral interest rate increases were unfair, I continue to maintain that OTP Bank was acting within the constraints of the prevailing legislative environment, and we intend to pursue every legal avenue of recourse.

The other one-off factor that resulted in several changes to the profit forecast during 2014 was the Russia-Ukraine conflict. First of all, in the second quarter, all our branches in the Crimean Peninsula were closed and we set aside risk

provisions for 100% of the outstanding receivables; then, in the third and fourth quarters, the exposures in East Ukraine (Donetsk and Luhansk counties) were also effectively provisioned in their entirety. The combined negative impact of this on profit was HUF 33.4 billion (after-tax). Furthermore, two additional items affected the amount of the correction items: the HUF 5 billion negative impact of the Ukrainian goodwill write-off, and the HUF 4 billion positive impact of the acquisition in Croatia.

The Bank Group's after-tax, consolidated adjusted profit was HUF 118 billion, which falls 19% short of the figure for the previous year. Before embarking on a detailed exposition of the result, I would also like to evaluate certain other aspects of the past year.

In 2014 we saw a continuation, indeed a strengthening, of the duality represented by the improvements in macroeconomic indicators and banking operations in Central and Eastern Europe on the one hand, and the deterioration in the outlook and performance in Ukraine and Russia on the other.

Following a return to growth in 2013, in 2014 the Hungarian economy produced one of the most dynamic growth rates within the European Union, with GDP expanding by 3.5% y-o-y. In the meantime the financial balance indicators

continued to develop favourably: the budget deficit was below 3% for the third year running, the balance of payments showed a stable surplus (4% of GDP), and the national debt decreased to a level of 77.3%. Employment improved, and the unemployment rate fell to 7.1%. Annual inflation was -0.2%, and following a 90-basispoint annual reduction, the central bank's base interest rate has stood at 2.1% since August. The excellent economic performance was paired with a favourable structural transformation: in parallel to the continuing run of good export figures, domestic consumption is also growing discernibly, due in no small measure to improving household incomes. A welcome development is that the domestic property market also appears to be recovering: the number of home construction permits is on the rise again, trade in property is growing, and house prices, which had long been falling, also started to increase in 2014. With the exception of Ukraine and Russia, we witnessed similarly favourable trends, albeit in varying degrees, in the other countries where the Group has a presence: alongside the improved economic performance, consumption is picking up, structural reforms are continuing, and in Croatia, which has been in recession for years, we expect a positive turn of events in 2015. As regards Ukraine and Russia, however, the management was faced with a substantial deterioration in the operating environment, and with greater-than-expected losses. A positive development is that in Hungary the regulatory environment improved considerably: in 2014 the passing of four new laws marked an end, in legal terms, to the uncertainty that had surrounded foreign currency loans, and consumer loans in the broader sense, for many years. The Hungarian Parliament passed laws in July, and then in September 2014, declaring the previously applied interest rate spread to be null and void, establishing the presumption of unfairness with respect to unilateral contract amendments, and ordering settlement by the banks. These were followed in November by the act on the conversion of foreign currency loans to forint, and the act on "fair banking". Although the aforementioned laws placed a considerable burden on the banks in connection with the settlement process, and will also have a negative impact on their future revenues, they have

eliminated from the system a risk factor that had generated constant tension and impeded the more predictable, healthier operation of the banking system in previous years. Parallel to this, the settlement, through an income transfer in the order of hundreds of billions of forints, will substantially improve the financial position of customers, which hopefully will result in increased borrowing activity in time. In past years I have commented more than once on the negative impact that the frequently changing, often unpredictable domestic legislative environment has on normal business operations. It seems that we are starting to see positive changes in this respect, for which the improving macroeconomic environment has created a favourable framework. There is no doubt that resolving the problem of foreign currency mortgage loans is of key importance with regard to the banking sector's long-term development. Through the aforementioned forint-conversion act, the bulk of the foreign currency mortgage loans have been eliminated, and in relation to this the National Bank of Hungary (MNB), in November 2014, made available the quantity of foreign currency necessary for the sector to close its open positions. Besides this, with effect from 1 January 2015 customers' repayments on mortgage loans denominated in Swiss franc, euro or Japanese yen, were calculated at the central bank's exchange rate valid on 7 November. On 15 January 2015 the Swiss central bank unexpectedly unpegged the Swiss franc's exchange rate from the euro, temporarily triggering massive swings in the market. In this light, the MNB's action and professional implementation is highly commendable, as the strengthening of the Swiss franc led to no extra burden whatsoever for Hungarian foreign currency mortgage borrowers. In addition to the above step, a growing number of market-friendly measures were reflected in economic policy. Specifically, on 9 February 2015 an agreement was reached between the Government and the EBRD, under which the Government committed itself to a cut of some HUF 60 billion in the bank tax for 2016, followed by a further substantial reduction from 2017 onwards. The government also agreed to refrain from introducing measures that are detrimental

to the banking sector's profitability, and to ensure fair competition and equal treatment among the financial institutions active in the market.

Besides this, the MNB extended and expanded the Funding for Growth Scheme (FGS) launched in 2013. In the first phase of the FGS, some HUF 701 billion in credit was disbursed at favourable terms to the domestic small and medium-sized enterprise sector, while in the second phase, by the end of 2014, contracts totalling HUF 585 billion were concluded. On 18 February 2015 the central bank, as part of what was dubbed FGS+, improved the borrowing opportunities for the small and medium-sized enterprises that had until then been excluded from the scheme, by taking on 50% of the lending losses resulting from the concluded credit agreements, for a maximum of 5 years and up to 2.5% of each individual credit institution's portfolio of loans provided under the scheme. Apart from stabilising the situation of the domestic SME sector, through the loan placements the scheme also contributed to the growth in GDP.

I would also like to highlight two more important events from last year. Firstly, following the past years' continuous market assessment and search for potential targets, in 2014 two successful acquisitions were made: in Croatia, we succeeded in purchasing the local subsidiaries of the Italian Banco Popolare, while in Romania, we acquired Portugal's Bank Millennium. We expect these two deals to bring a further improvement in our market positions, primarily in the field of consumer lending. The integration of the acquired bank was completed in 2014 in Croatia, and is expected to take place in the first half of 2015 in Romania.

Furthermore, October 2014 saw the completion of the asset quality and stress test, encompassing 123 European banks, conducted by the European Central Bank (ECB) and the European Banking Authority (EBA). Before the stress test, the MNB also carried out its asset quality review (AQR) of OTP Bank's asset quality on the basis of the EBA's protocol, which took place on the basis of the ECB's asset quality review methodology with the involvement of an independent auditing firm that does not perform the auditing of OTP Bank. The AQR established no additional provisioning requirement in the case of OTP Bank. Based on the result of the EBA stress test modified with

the AQR result, OTP Bank achieved a common equity Tier1 capital ratio of 11.95% in the stress scenario at the end of 2016, which is the 22nd highest value among the tested banks, placing OTP Bank in the upper quintile in this respect.

Overview of financial performance in the year 2014

In 2014 the OTP Group posted a HUF 118 billion adjusted after-tax profit, which is 19% lower than in the previous year. The contributions of individual subsidiaries to profit and loss reflect the duality already described in connection with the macroeconomic trends. The Central and Eastern European group members achieved a combined after-tax profit of HUF 182.5 billion, which reflects a 32% y-o-y improvement owing to the good performance of the Hungarian and Bulgarian operations (which increased their after-tax profit by 20% and 30% respectively). Besides this, all of the smaller subsidiary banks were profitable in 2014 which, given the substantial losses of past years, is a major achievement. Unfortunately, parallel to this, the Russian and Ukrainian subsidiary banks realised a combined loss of HUF 57.7 billion (further increased by the additional HUF 33.4 billion negative impact of the Crimean and East-Ukrainian losses recorded among the adjustment items).

The Bank Group's profitability ratios continue to be good by international comparison although a y-o-y decline can be observed: the adjusted return on assets was 1.1%, while the return on equity came in at 8.5%. The development of revenues and the profit lines in general was significantly impacted by the trends in the ruble and hryvnia exchange rates, with the former dropping by 77% and the latter by 92% against the US dollar.

The Bank Group's operating profit, stripped of one-off items, was HUF 414.5 billion, which is 7% lower than in the previous year. The 4% y-o-y decrease in revenues was due partly to the already mentioned exchange rate impact, and partly to the drop in credit volumes. Within the main revenue lines, net interest income decreased by 3%, but net fee and commission income rose by 2%. The significant

drop in other net non-interest revenues is the combined result of the base effect and the reclassification of certain items.

The consolidated income margin (7.74%) decreased at annual level (–70 basis points), and within this figure the net interest margin (5.96%) also showed a y-o-y decline. Among the main markets, the bulk of the fall in the Hungarian, Bulgarian and Russian net interest margin resulted from the growth in total assets. Consolidated operating expenses decreased by 1% in the past 12 months. As a part of the network rationalisation program, relatively major branch closures took place in 2014 in Ukraine and Slovakia (24 and 7 branches respectively, y-o-y), and in response to the altered market circumstances significant cost-cutting projects got under way in Russia and Ukraine.

As regards the most important balance sheet items, on the lending side tentative changes can be observed, but the deposit dynamics also reflect one-off events.

The Bank Group's gross loan portfolio adjusted for the impact of exchange rate changes decreased by 7% y-o-y. Because of the substantial credit write-downs that took place in the reporting period, the development of the performing (DPD0–90) loan portfolio gives a more realistic picture of the actual tendencies. The trend of the previous years continued and accordingly, the portfolios declined by 6%. With regard to the FX-adjusted change in the performing (DPD0–90) portfolios, the greatest y-o-y decreases occurred at OTP Core (–12%) and Ukraine (–24%), but the picture is nuanced somewhat by the fact that the portfolio shrank by HUF 167 billion y-o-y in the context of the consolidation of municipality loans in Hungary. The consolidated retail loan portfolio declined 3% y-o-y, and within this figure mortgage loans dropped by 7%, but on the other hand performing consumer loans and micro and small business loans grew (+2% and +4% respectively). The portfolio of loans to large corporations fell by 3%. In terms of individual performances, at the Serbian and Croatian subsidiary banks the gross performing loan portfolio increased y-o-y (+14% and +15%), with a substantial part of the growth reflecting

the impact of the acquisition in the latter case. Russian consumer loans, which had previously shown dynamic expansion, only increased by a modest 3% y-o-y, but this portfolio grew substantially at annual level at the Romanian (7%), Serbian (10%) and especially the Slovak (69%) subsidiaries, as well as at the Croatian operation (39%) due to the acquisition. In the large corporate segment the performance of the Bulgarian and Serbian subsidiaries stands out (17% and 25% y-o-y growth respectively). The Hungarian micro and small business DPD0–90 portfolio expanded by 7% y-o-y, due in part to the Funding For Growth Scheme. The FX-adjusted, consolidated deposit volume increased dynamically, by 11% y-o-y, with the highest growth rate registered in Serbia (+47%), although given their weight in absolute terms the growth in the portfolios of OTP Core (+13%) and DSK (+14%) was also considerable. Commendably, Ukrainian deposits grew both y-o-y and quarter on quarter (by 9% and 5% respectively), which is highly unusual in the Ukrainian market, and also reflects customers' confidence in our bank. Russian deposits also grew in the fourth quarter (+3%), but over the year as a whole they fell by 4%.

As a consequence of the above processes, the Group's net loan-to-deposit ratio (75%) declined significantly over the past year, by 14 percentage points. Another important point is that the Bank Group's liquid reserves at the end of 2014 amounted to the equivalent of EUR 7 billion, while we have no substantive international items due to mature in the coming 1–2 years. Based on all these factors, it is safe to assert that the Bank Group has a stable financial base. At the same time, I would be happier if our consolidated loan-to-deposit ratio were in the region of 100%, because this would mean that our successful deposit collection activity was being accompanied by substantive growth in our lending activity.

A recurring question since the crisis is how long the share of non-performing loans within the portfolio will continue to grow, and whether any improvement can already be seen. The significant non-performing loan portfolio and the resulting provisioning requirement is in itself a major profit-reducing item, and also suppresses

the banks' propensity to take risks. In this respect the situation is by no means straightforward, as here too, the duality that characterises the Group is apparent: growth in the portfolio of loans in default for more than 90 days accelerated, increasing from HUF 190 billion in 2013 to HUF 254 billion (adjusted for exchange rates and stripped of the effect of loan sales and write-offs). The y-o-y deterioration, however, was almost exclusively concentrated in the Russian and Ukrainian portfolios (in HUF billion: Russian subsidiary 110, Ukrainian subsidiary 61). While in these two markets the portfolio growth of DPD90+ loans accelerated, at the other banks in the Group the trend was one of stabilisation or a gradual decrease from the second quarter of 2014 onwards.

A positive development in 2014 was that the proportion of loans in default for more than 90 days decreased y-o-y, by 0.4 ppts, to 19.3%, due to write-offs and sales. Since September 2014 the Group has made use of the opportunity to effect partial write-off. This is permitted where the chance of fully recovering a financial claim is very slight. Partial write-off may only be applied to the part of the claim in excess of the maximum expected recovery. The methodological background was agreed with the auditor. As a part of this, during 2014 a total of HUF 238 billion in non-performing loans were written off at group level, which primarily affected OTP Core (HUF 66 billion), the Russian (HUF 56 billion) and Ukrainian (HUF 27 billion) subsidiary banks, and DSK Bank (HUF 67 billion). In terms of the product segments, at the Hungarian and Ukrainian operations, corporate receivables, and in the case of the Russian and Bulgarian subsidiaries, mostly retail claims, were taken off the books. Had it not been for the use of the partial write-off method, the DPD90+ rate would have been 22% at the end of 2014.

The OTP Group's capital strength remained exceptionally stable as of the end of 2014: The Bank Group's IFRS consolidated Common Equity Tier1 (CET1) ratio was 14.1% at the end of 2014. The amount earmarked for dividend payment in 2014 in accordance with Hungarian accounting standards was not deducted from the capital when calculating the IFRS consolidated capital

adequacy ratios, because in the event of a loss, the result of the reporting year is not reduced by the dividend. With deduction of the amount earmarked for dividend, the consolidated CET1 ratio would have come in at 13.5%. The stand-alone CET1 ratio of OTP Bank was 14.8%, at the end of 2014.

The Bank's stable capital position provides scope for the payment of dividend, the ultimate extent of which will be decided by the General Meeting due to be held in April. The management will make a proposal for payment of the same amount as last year (HUF 40.6 billion), resulting in a dividend payment of approximately HUF 146 per share. On the one hand, the payment of dividend reflects our optimism with regards to the economic and financial trends in Central and Eastern Europe, but at the same time the unchanged amount signifies a need for caution in light of the uncertainty surrounding the situation in Russia and Ukraine.

Individual performances of banks in the group

Within the Bank Group, in 2014 the adjusted profit of the **Hungarian core operation** was HUF 137.4 billion, which exceeds the previous year's performance by 20%. The considerable improvement in the annual adjusted profit is, first and foremost, a consequence of the 57% decrease in risk costs: the operating profit/loss figure adjusted for one-off items dropped by 6%, as the combined result of the fall in revenues (-2% y-o-y) and the 2% rise in operating expenses. The 39 basis-points drop in the annual interest margin (3.92%) was primarily due to the environment of lower domestic interest rates, and the considerable growth in the balance sheet total experienced in the second half; net interest income declined by 3%.

A favourable development is that the rate of portfolio deterioration slowed continuously after the first quarter, with factors in this being the relatively stable forint and the increasingly widespread use of the exchange rate cap scheme, available to customers with foreign currency loans, which results in fixed

monthly repayments for a period of five years. Accompanied by a substantial drop in the cost of risk, the provisioning coverage of loans in default by more than 90 days decreased (76.5%, -8.8 pps y-o-y). The DPD90+ rate remained effectively unchanged (17.5%). The performing loan portfolio shrank by 12% over the year, adjusted for exchange rates. The retail portfolio decreased by 7% in the case of both mortgage loans and consumer loans. Within the corporate portfolios, the 77% annual drop in municipality loans predominantly reflects the impact of the state debt consolidation initiative. It was favourable, however, that partly due to the Funding for Growth Scheme of the National Bank of Hungary the portfolio of loans provided to Hungarian businesses increased 4.2% over the year at OTP Bank (adjusted for the partial write-offs effected at OTP), while the portfolio of the Hungarian credit institutions sector, excluding OTP, declined by 3.5%. The OTP Group's share of the portfolio of loans provided to Hungarian businesses increased further (Q4 2014: 13%, +0.6 ppt y-o-y).

Concurrently with the restrained loan disbursement prevalent in the banking sector as a whole, OTP's share of the retail market is consistently high, with a 30.4% share of new mortgage loan disbursements in the fourth quarter of 2014 (28.3% over the year), and within this, an outstanding volume of mortgage loans disbursed in December, representing a market share of 34.1%. The FX-adjusted deposit volume, including retail bonds, increased by 12% y-o-y. Despite the popularity of alternative investment vehicles on offer (government securities, investment funds), the volume of retail deposits grew by 7% at both annual and quarterly level. This rate of growth was considerably surpassed by the 21% rise in corporate deposits. The net loan-to-deposit ratio sank to a low that has not been seen for a long time (53%, -14 ppts y-o-y, FX-adjusted).

Among the key members of the Hungarian group, **OTP Fund Management** posted an annual after-tax profit, excluding bank tax and one-offs, of HUF 6.1 billion; the substantial 71% y-o-y improvement was due to the growth in the fund and asset management portfolios and, in relation to this, the considerable growth in fee and commission revenues. The **Merkantil Group**

suffered a HUF 1.5 billion loss in 2014 as a result of the significant increase in risk costs. The loan portfolio continued to decrease, but the pace of growth in new loans is showing an improving trend. Underlying the consolidated annual adjusted profit was a significant change in the ranking of foreign subsidiaries by individual performance, and due to the losses in Ukraine and Russia the foreign subsidiary banks' contribution to profit was overall negative (in HUF billion, 2013: +25, 2014: -20.8).

The excellent performance of the **Bulgarian DSK Bank** stood out not only on its own merits, but also in the light of its weight within the Group: its HUF 39.2 billion annual after-tax profit is a 30% improvement on the previous year, and significantly exceeds the previous, HUF 31 billion, record profit of 2008. This superlative performance is only partly attributable to the 12% decrease in risk costs; the main driving force was the 13% improvement in operating profit. The bank's FX-adjusted DPD0-90 loan portfolio expanded by 2% y-o-y, and within this figure the 2% drop in the retail loan portfolio was compensated for in a considerable extent by the 18% growth in the corporate portfolio. Owing to the bank's excellent operation and market reputation, the FX-adjusted deposit volume rose by 14%.

The **Russian subsidiary** made a loss for the first time since it became a member of the Group in 2006. In 2014 overall the Bank realised a HUF 14.5 billion negative result, which contrasted with the HUF 2.4 billion profit of the base period. The loss can primarily be attributed to the fall in operating profit (in ruble: -6% y-o-y) resulting from the worsening economic environment, but risk costs also increased by a significant extent (in ruble: +12% y-o-y). The deterioration in portfolio quality continued, with the portfolio of non-performing loans growing by HUF 110 billion last year. However, as a consequence of the sales and write-offs of non-performing loans, most of which took place in the fourth quarter, the DPD90+ rate decreased substantially y-o-y, from 18.1% to 14.7%. It is clear that the consumer credit boom that began in the Russian market at the end of the last decade has slowed discernibly, and OTP Bank Russia reacted to this earlier than the market, and has pursued a more conservative business policy. The cyclical correction brought a substantial

increase in the risk costs for all players in the market. The latest developments beg the question of whether it was a good decision to enter the Russian market in 2006. My answer is an unqualified yes! In spite of last year's loss, the cumulative profit of the past nine years approaches HUF 110 billion. In the future we will concentrate mainly on the consumer durable loans market; and through Touch Bank, launched in spring 2015, we aim to use online channels to reach a new affluent customer base within the younger age cohort. In other words, we have no intention of leaving the Russian market.

The performance of the **Ukrainian subsidiary** dropped off considerably due to the worsening operating environment and substantial weakening of the hryvnia: in 2014 the bank's total loss was HUF 76.6 billion, and within this, the after-tax impact of the provisions set aside for the Crimean and East-Ukrainian (Donetsk and Luhansk counties) exposures represented HUF 7.9 and 25.5 billion dollars respectively. Although the loss had a sensitive impact on the Group's annual performance, the size of the Ukrainian subsidiary bank is relatively modest within the Group, with 5.5% of performing loans being in Ukraine. The FX-adjusted DPD0–90 loan portfolio fell by 24% y-o-y; a more pronounced decrease occurred in respect of performing retail loans (–32%), while the corporate loan portfolio fell by 17%. The bank's operating result fell considerably (in hryvnia: –11% y-o-y), and risk costs grew three-and-a-half fold. The portfolio deterioration accelerated, and despite the write-offs the DPD90+ rate rose by 11.5 ppts (46.1%). Amid the current uncertain circumstances, lending activity is restrained and selective, besides which the Bank is working to continuously reduce its net position towards the subsidiary, while injections of capital necessary for operation can only take place in the form of the conversion of existing subordinated loans into capital.

A favourable development last year was that the **Romanian subsidiary** moved into profit: in contrast to the HUF 4.1 billion negative result of the previous year, the bank achieved an after-tax profit of HUF 0.8 billion in 2014. Although the cost of risk decreased by 20% over the year as a whole, the improvement in business performance was primarily due to the excellent operating profit (+37% y-o-y). The integration of the Portuguese

Bank Millennium, which was acquired in 2014, is expected to take place in the first half of 2015, and thanks to the improving Romanian economy we expect our Romanian subsidiary bank to show a further gain in profitability.

The **Croatian subsidiary** remained profitable in 2014, posting an after-tax profit of HUF 104 million. Predominantly due to the acquisition, the FX-adjusted performing loan portfolios grew by 15%, and within this, retail loans were up 21% y-o-y, while deposits increased by 15%. Similarly to our Croatian subsidiary, the **Slovak** and **Serbian operations** were also profitable in 2014, improving the Group's after-tax profit by HUF 32 million and HUF 50 million respectively. Both subsidiary banks showed robust growth in their consumer loan portfolios, with the dynamic increase in deposit volumes providing the source of funding for this expansion. The **Montenegrin** subsidiary, as in 2013, turned a profit in 2014 (HUF 406 million).

As one of the most important strategic objectives of last year, we concentrated our efforts on continuously improving the quality of service, and the projects launched in this context focused on raising customer satisfaction, boosting customer acquisition and cross-selling activity, partly through the use of new (e.g. digital) sales channels, as well as on strengthening operational efficiency. OTP is already a market leader in the use of mobile payment solutions such as PayPass and the mobile wallet; and the "Simple" integrated mobile app, which was launched in September and offers an effective solution for age groups that actively use smart phones, is enjoying growing popularity. We engaged in considerable lending activity in the domestic SME and agricultural sectors, in excess of our market share; with respect to the latter sector we aim to achieve a 20% market share in the next five years. With regard to our large corporate customers, the aim is to leverage cross-selling opportunities as effectively as possible: the corporate project launched in Bulgaria in 2013 generated a considerable portfolio growth, and at the same time improved DSK Bank's market share. Our stable and profitable operation and constant innovation once again earned us several professional accolades: Global Finance awarded us the title of Best Bank in Hungary, while Euromoney and The Banker named OTP Bank

and DSK Bank as Best Private Bank in Hungary and Best Bank in Bulgaria respectively. MasterCard presented OTP Bank with the awards of Most Innovative Bank in 2014 and Best Retail Savings Product, as well as the title of Most Innovative Bank in the Development of Financial Literacy.

Expectations for 2015

Our original expectations relating to 2014 were only partially fulfilled, the primary reason for this being that far from being resolved, the Ukraine–Russia conflict escalated considerably, especially in the last quarter of the past year, resulting in a fall in economic performance and a weakening of the local currency in both countries. Due to this, in terms of the 2015 forecasts it makes sense to deal with the Russian and Ukraine market separately.

Overall, in the **Central and Eastern European countries** where the Bank Group is present, we expect to see improving economic performance and operating environments, and accordingly, a moderate expansion in the banking markets. Following the settlement of FX loans with customers, hopefully the willingness to borrow will strengthen further in Hungary, and the loan portfolio will begin to grow. Besides this, we expect to see a further stabilisation in the quality of the loan portfolios, and a reduction in risk costs. The net interest margin could shrink slightly, mainly due to OTP Core: loan fees will decrease following the conversion of FX loans to forint, and the interest rate environment will remain low for a sustained period.

In **Ukraine and Russia**, however, our subsidiary banks will continue to operate at a loss. While in Ukraine the optimisation of operation is moving into focus, in the Russian market we are trying to target new customer segments with the already mentioned digital bank, and make better use of our existing advantages in the consumer durable loans segment. In addition to this, in both markets substantial cost-cutting and network-rationalisation steps will be taken. The crisis that has lasted since 2008 is also an opportunity: the challenges of past years have continuously motivated the Bank's management, while retaining its existing values, to seek

opportunities for ensuring the Company's stable and predictable operation, in a way that is efficient and profitable both in itself and in comparison to our regional competitors. On the one hand we have continuously sought acquisition targets that fit in well with our business policy strategy, and that contribute to boosting shareholder value. We have every reason to hope that the Croatian and Romanian acquisitions made in 2014 will live up to our expectations. At the same time, we took care to ensure that the Bank's capital strength complies with the strictest regulatory requirements that are set to be introduced in the future. We believe that our 14.1% CET1 ratio (13.5% after deducting the amount earmarked for dividends) represents a safe level, so we have proposed a dividend payment on a par with that of last year. However, in light of the uncertainty stemming from the conflict between Ukraine and Russia, I can now say that this year secure operation and organic growth will take priority over any corporate acquisitions, both at home and abroad.

In 2015 we have entered the last of the seven lean years of the crisis. I hope it is not just my own personal optimism that prompts me to say that this year will mark the end of a very difficult period for us. In my opinion, overall we have made a good showing, and in comparison to our competitors the situation is clearly favourable: the bank has maintained its stable capital strength and liquidity, our positions on our various markets are strong, and indeed, in certain segments, have improved. I believe that all these fundamental strengths, paired with the selfless, dedicated commitment of our employees to innovation and to continuously improving the standard of our services, as well as the loyalty of our customers, serve as an excellent basis on which OTP Bank can actively contribute to the development of the respective national economies of the countries in which we do business, promoting the prosperity of individuals and communities alike. We appreciate and look forward to your continued support for the achievement of our objectives.



Dr. Sándor Csányi

Chairman & CEO

Macroeconomic and financial environment in 2014

MACROECONOMIC AND FINANCIAL TRENDS IN HUNGARY

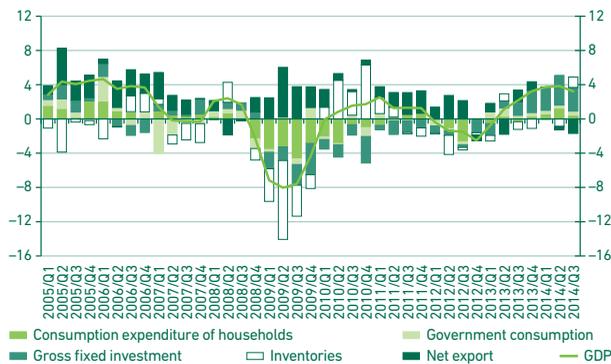
In 2014 economic trends were the product of sluggish external demand, a supportive international money-market environment and strengthening domestic demand. In the eurozone, the economy picked up in the second half of the year, and several of the peripheral countries were also able to put the recessionary period behind them. The money-market environment was supportive; while the Fed began to phase out its quantitative easing program, the Bank of Japan and the European Central Bank both implemented further monetary easing measures. The strengthening of the dollar, falling commodity prices and the Russian conflict negatively impacted emerging markets, although the central and eastern European region, which is less dependent on raw materials, was affected only to a smaller degree.

In 2014 the Hungarian economy expanded by 3.5%, following 1.5% growth in 2013.

The trend of previous years, in which growth was essentially driven by net exports, came to an end last year. Instead of this, in 2014 the growth in capital investments was the main driver, while the contribution of net exports to growth turned negative following a long period of positive input. Besides capital investments, a degree of recovery was also seen in consumption; following the stagnation of 2013, household consumption expanded by around 1.5% in 2014.

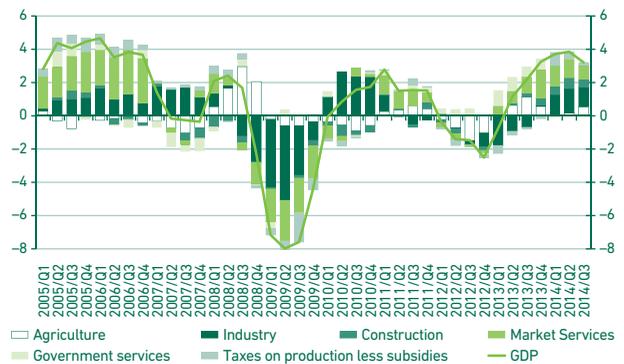
As a combined effect of an election year and the end of the seven-year EU budget cycle, state investments grew at an extremely rapid pace, but in the private sector as well, fixed-asset accumulation began to expand. In terms of the latter, the main driver was car manufacturing, and the capacity expansions that were implemented in the supplier networks associated with it.

Hungary's GDP growth, in an expenditure-side breakdown (%)



Source: HCSO, OTP Research

Hungary's GDP growth, in a production-side breakdown (%)



Source: HCSO, OTP Research

Following the stagnation of 2013, household consumption also increased in 2014. The rate of such consumption growth, however, was significantly lower than the rate of growth in real incomes, and thus household savings increased at a rapid pace. On the labour market there was significant improvement, mainly in the first half of the year; by the end of the year the growth in employment had come to a halt. The low interest rate environment and increasing real incomes also brought about a change in household investments, and thus household lending and home investments also began to rise.

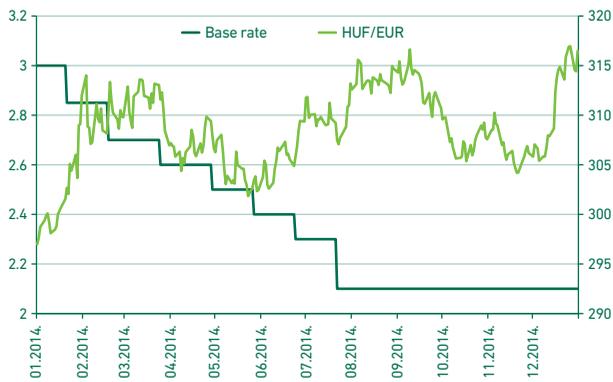
Inflation, from what had been a record low of 1.7% in 2013, continued to fall, with

consumer prices decreasing by 0.2% over the year as a whole. Besides various government measures, the drop in inflation was also due to falling agricultural prices and, in the last third of the year, to plummeting oil prices too.

The further fall in inflation prompted a continuation in the first half of the year of the rate-cutting cycle, which closed with a 20 bps cut in July, at 2.1%.

As a result of the supportive international environment (liquidity abundance), yields continued to drop in the government securities market.

HUF/EUR rate and base interest rate



Source: Reuters, MNB (National Bank of Hungary), OTP Research

Change in government bond yields (%)



Source: ÁKK (Hungarian Debt Management Agency), OTP Research

From February on, the forint remained mainly in the 305–315 HUF/EUR band, with the

Hungarian currency depreciating some 5% over the year as a whole.

MACROECONOMIC AND FINANCIAL TRENDS IN THE COUNTRIES OF OTP BANK'S FOREIGN SUBSIDIARIES

The economic performance of the countries of OTP's foreign subsidiaries was mixed. Most of these countries suffered from the weak growth of the eurozone, which acted as a break on exports. Despite this, economic growth, at 2.5–3.5%, was highest in the economies that are the most tightly integrated with the European Union – Hungary, Slovakia and Romania. Besides the increase in EU funds that accompanied the end of the seven-year budget cycle, this was also due to the fact that in these latter countries, the macroeconomic balance had been restored by 2013; there was no need for any further austerity measures, and domestic demand was free to rise, thus reducing the reliance on exports. The countries of the Balkan region, however, are still struggling with budgetary or with external balance problems, which in most of these countries served to limit domestic demand.

Due to this, in Croatia the recession continued, while Serbia found itself back in recession following a year of growth. Bulgaria, in terms of its location and economic structure, is most closely associated with this second group of countries: here, growth accelerated slightly, but remained below two percent, despite the fact that it supported the economy through a marked increase in its budget deficit. In the third group, the macroeconomic outlook deteriorated significantly in commodity-exporting Russia and in Ukraine last year. In Russia, due to the sanctions resulting from the deepening conflict with Ukraine and to the dramatic fall in the price of oil, GDP growth slowed considerably, to 0.5%, while the rouble weakened against the dollar from 37 in early September to 58 at the end of December. Although the 76% y-o-y depreciation effectively offsets the impact of a



fall in the price of oil on rouble-denominated budgetary and export revenues, it raises the spectre of a serious recession on a number of fronts. For one, the Russian central bank, in order to guard against market turbulence, raised the benchmark rate by 10.5 ppts to 17% during the year, and this, together with increased payments on corporate foreign-currency loans, is restricting investment activity. While foreign-currency exposure is notably low in the Russian economy, and thus in the medium term the country stands to gain from the depreciation of its currency in terms of greater competitiveness, the weaker exchange rate comes with a cost: annual inflation rose to 11.4% by December. This is leading to a drop in real wages not seen for a long time, thus reining in consumption. The balance-of-payments position remains stable, but the USD 131 billion net capital outflow from the country last year is a call to caution. The central bank's reserves stood at USD 389 billion at the end of December, which is nearly four times the required level.

In Ukraine there was a revolution at the start of 2014, which brought an end to the presidency of Viktor Yanukovich. In response, Russia

carved off and effectively annexed the Crimean peninsula, and lent its support to eastern Ukrainian separatists, as a result of which matters soon deteriorated into a situation of armed conflict in Donetsk and Lugansk. Due to the flight of capital from the country, and despite a loan package from the IMF, the hryvnia depreciated by 92% over the year. The Ukrainian central bank raised its benchmark rate by 7.5 ppts to 14% over the course of the year. Industrial output dropped by 10.7% over the year, and GDP fell by 7.5%. By December, inflation had increased to 24.9% y-o-y, partly because household gas prices had risen from April. National debt doubled (to 66%) between the end of 2013 and the end of 2014.

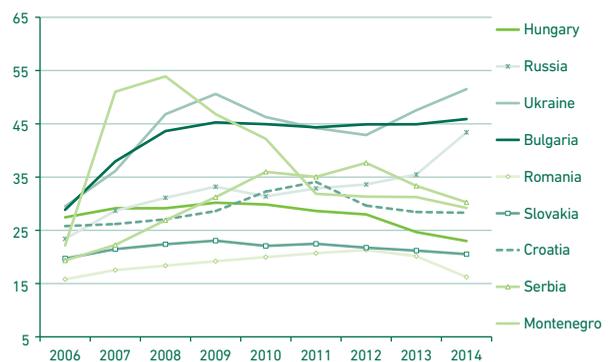
In terms of the banking markets, there continues to be considerable variation between the countries of the region. In Ukraine, Romania and Croatia, net lending, in both the retail and the corporate sectors, was negative. By contrast, in Russia and Slovakia, the volume of both retail and corporate loans grew. In the other countries, net lending to households was generally positive, while the corporate sector repaid more credit than it took up.

Retail loans of the bank sector (as a percentage of GDP)

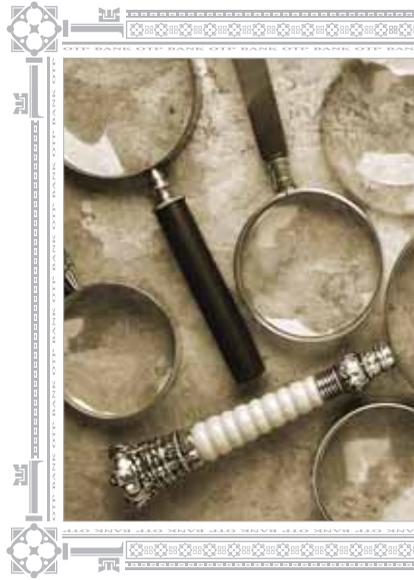


Source: National banks, OTP Research

Corporate loans of the bank sector to non-financial companies (as a percentage of GDP)



Source: National banks, OTP Research



OTP Bank
Annual Report
2014





685	1,221	2,004	120
-904	2,503	15,156	250
143	143	512	76
1,590	1,590	13,415	230
	0	84	4
-2,124	2,847	6,896	114
18	-64	3,236	44
-	0	180	3
-	0		
-	0	19	
-	0	138	
-	0	105	
-	0	-35	
-	0	142	
-	0	43	
-	0	46	
3,656	8,240		
3,656	8,240		
-	0		
-	0	-16,894	-430
-	0	-1,037	-18
0	0	-17,931	-408
-6,667	-12,124	-12,124	-1224
-3,011	-3,884	166,676	1320

Management's Analysis

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

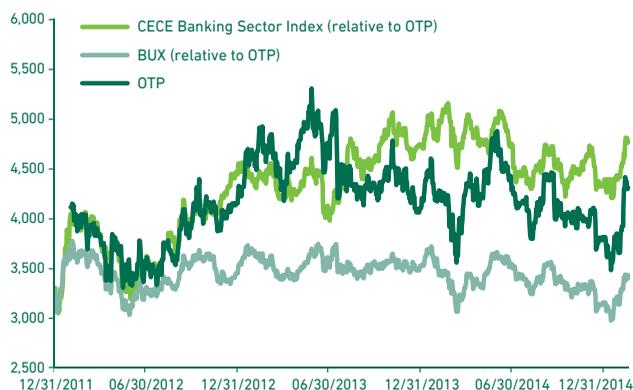
CONSOLIDATED FINANCIAL HIGHLIGHTS AND SHARE DATA¹

Main components of the Statement of recognised income	2013	2014	Change %
	HUF million	HUF million	
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 23rd 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 to 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 pts 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 pts), Russia (+10.9 pts) and at DSK Bank (+3.5 pts).

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-y³ 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 temporarily 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 to 18.5%. 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 Management'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 Management'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 Management'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 GROUP⁶

Main components of P&L account	2013	2014	Change
	HUF million	HUF million	%
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	2014	Change
	HUF million	HUF million	%
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 BANK'S HUNGARIAN CORE BUSINESS

OTP Core Statement of recognized income:

Main components of the Statement of recognised income	2013	2014	Change
	HUF million	HUF million	%
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 items⁷ **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 clients⁸ 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 share⁹ 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	2014	Change
	HUF million	HUF million	%
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	2014	Change
	HUF billion	HUF billion	%
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	2014	Change
	HUF million	HUF million	%
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	2014	Change
	HUF million	HUF million	%
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	2014	Change
	HUF	HUF	%
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	2014	Change %
	HUF million	HUF million	
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	2014	Change
	HUF	HUF	%
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	2014	Change
	HUF million	HUF million	%
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	2014	Change
	HUF	HUF	%
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	2014	Change
	HUF million	HUF million	%
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	2014	Change
	HUF	HUF	%
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 pts 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	2014	Change %
	HUF million	HUF million	
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	2014	Change
	HUF million	HUF million	
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	2014	Change
	HUF	HUF	%
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 adjusted¹⁰ 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 pts 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 pts y-o-y to 10.3%. Provision coverage of DPD90+ loans increased by 1.6 pts 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, the 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 pts 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	2014	Change
	HUF million	HUF million	%
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	2014	Change
	HUF million	HUF million	%
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	2014	Change
	HUF	HUF	%
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 Faktoring 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 Faktoring 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 Consultant 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	2014
	HUF million	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	2014
	HUF million	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	2014	Change
	HUF million	HUF million	%
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	2014	Change
	HUF million	HUF million	%
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	2013	Change
	HUF million	HUF million	%
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	2013	Change
	HUF million	HUF million	%
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 LIABILITIES AND SHAREHOLDERS' EQUITY	10,971,052	10,381,047	6



OTP Bank
Annual Report
2014





Deloitte Auditing and Consulting Ltd.
H-1068 Budapest, Dózsa György út 84/C, Hungary
H-1438 Budapest, P.O.Box 471, Hungary

Tel: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.com/hungary

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other matters

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

Other Reporting Obligation: Report on the Consolidated Business Report

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

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

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

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

Budapest, April 30, 2015



Tamás Horváth

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



dr. Attila Hruby

registered statutory auditor
007118

Statement of financial position

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

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

Budapest, 17 March 2015

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

Statement of recognized income

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

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

Statement of comprehensive income

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

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

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

Statement of cash-flows

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

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

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

*See more details in Note 20.

Statement of changes in shareholders' equity

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

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

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

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

NOTE 1:

ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1 General information

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

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

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

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

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

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide

network of 1,434 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

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

1.2 Base of Accounting

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

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

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

Certain adjustments have been made to the entities' statutory accounts in order to present the Consolidated Financial Position and Statement of Recognized and Comprehensive Income of the Bank in accordance with all standards and

interpretations approved by the International Accounting Standards Board ("IASB").

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

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

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

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

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

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

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

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

- Amendments to various standards “Improvements to IFRSs (cycle 2010–2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards “Improvements to IFRSs (cycle 2011–2013)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),
- Amendments to IAS 19 “Employee Benefits”
 - Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- IFRIC 21 “Levies” adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 “Joint Arrangements”
 - Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 “Presentation of Financial Statements” – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”
 - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”
 - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards “Improvements to IFRSs (cycle 2012–2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2016).

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016),
- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),

The hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Group’s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39:

“Financial Instruments: Recognition and Measurement”, would not significantly impact the financial statements, if applied as at the balance sheet date.

The adoption of the above presented Amendments and new Standards and Interpretations would

have no significant impact on the Consolidated Financial Statements except of the application of IFRS 9 which might have significant impact on the Group Consolidated Financial Statements, the Group will analyse the impact after the adoption of the standard by EU.

NOTE 2:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying Consolidated Financial Statements are summarized below:

2.1 Basis of Presentation

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

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

2.2 Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's presentation

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

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

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

initially in Other Comprehensive Income and reclassified from equity to profit or loss on repayment of the monetary items.

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

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

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

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation

are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in Other Comprehensive Income and accumulated in equity.

2.3 Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank exercises control. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 31. However, certain subsidiaries in which the Bank holds a significant interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.13). As the ultimate parent, the Bank is preparing consolidated financial statement of the Group.

2.4 Accounting for acquisitions

Business combinations are accounted for using purchase method of accounting. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.

The acquisition date is the date on which the acquirer effectively obtains control over the acquiree. Before this date, it should be presented as Advance for investments within Other assets.

Goodwill, which represents the residual cost of the acquisition after obtaining the control over the acquiree in the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements.

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

goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Recognized Income.

Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.

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

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

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

2.5 Securities held-to-maturity

Investments in securities, traded in active market (with fixed or determinable cash-flows) are accounted for on a settlement date basis and are initially measured at fair value.

At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts.

The annual amortisation of any discount or premium on the acquisition of a

held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment.

Such securities comprise mainly securities issued by the Hungarian and foreign Government, discounted Treasury bills, mortgage bonds and corporate bonds.

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

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

2.6.2 Derivative financial instruments

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

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

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

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

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

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

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

prepared, effectiveness test is performed and based on it the hedge is qualified as effective.

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

2.8 Offsetting

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

2.9 Embedded derivatives

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

- The economic characteristics and risks of the embedded derivative are not closely related

to the economic characteristics and risks of the host contract;

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

2.10 Securities available-for-sale

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

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

Securities available-for-sale are remeasured at fair value based on quoted prices or amounts derived from cash-flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value

of future cash-flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

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

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

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

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

According to IAS 39, initially financial asset shall be recognized at fair value which is usually equal to transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence the Bank is deferring the difference between the fair value at initial

recognition and the transaction price relating to loans and receivables because input data for measuring the fair values are not available on observable markets.

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

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

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

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

cost would have been had the impairment not been recognised at the date the impairment is reversed.

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

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

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

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

2.12 Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Statement of Financial Position and the consideration paid

is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement.

In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.13 Associates and other investments

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

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

2.14 Property and equipment, Intangible assets

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

Depreciation and amortization are computed using the straight-line method over the

estimated useful lives of the assets based on the following annual percentages:

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

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

At each balance sheet date, the Group reviews the carrying value of its Property and equipment and Intangible assets to determine if there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

In the case of effective hedge the realised profit or loss of hedging instrument is stated

as the part of the cost of the hedged asset as it has arisen until recognising the asset and it is tightly connecting to the purchasing.

2.15 Financial liabilities

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

2.16 Leases

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

The Group as a lessor

Amounts due from lessees under finance leases are recorded as other receivables at the amount of the net investment in the lease of the Group. Finance lease income is allocated to accounting periods so as to reflect a constant

rate of return on the net investment outstanding of the Group in respect of the leases. Direct costs such as commissions are included in the initial measurement of the finance lease receivables.

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

The Group as a lessee

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

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

2.17 Investment properties

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

fair value and the carrying value of the these properties.

2.18 Treasury shares

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

2.19 Interest income and interest expense

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

2.20 Fees and Commissions

Fees and commissions are recognized using the effective interest method referring

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

2.21 Dividend income

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

2.22 Income tax

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

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

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

2.23 Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group enters into off-balance sheet commitments such as guarantees, letters of credit, commitments to extend credit and transactions

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

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

2.24 Share-based payment and employee benefit

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

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

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

2.25 Consolidated Statement of Cash-flows

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

2.26 Segment reporting

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

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

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

2.27 Comparative figures

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

2.28 Government measures related to customer loan contracts

Act XXXVIII of 2014 on "Settlement of certain issues concerning the Uniformity Decision of the Supreme Court related to customer loan agreements¹ provided by financial institutions" ("Curia Law") was promulgated on 18 July 2014. The Hungarian Parliament has adopted on 24 September 2014 the Act XL of 2014 on "Rules of the settlement and certain other issues put in Act XXXVIII of 2014 on Settlement of certain issues concerning the Uniformity Decision of the Supreme Court related to customer loan agreements provided by financial institutions" ("Act on Settlement"), based on that financial institutions need to settle up with their clients on account of overpayments arisen from invalidity of the bid-ask exchange rate spread and unilateral amendment of contractual clauses. Act on Settlement has specified the regulations of Curia Law; obligation of settlement does not apply to credit cards, current account loans and mortgage housing loans supported by State. Furthermore amount due to customers can be reduced by total amount of allowances. Act LXXVII of 2014 on "Settlement of certain issues concerning the modification of the currency and interest conditions related to customer loan agreements" was promulgated. The act includes regulations about the conversion of foreign currency customer mortgage loans into HUF which became legally effective on 1 February 2015 ("Act on Conversion into HUF"). Hereinafter three acts together are called as Acts on Customer Loans.

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

a) Act on Settlement

The Group's reimbursement obligation related to invalidity of the bid-ask exchange rate spread will be prospectively in amount of HUF 32.4 billion. Related to bid-ask exchange rate spread the Group recognised provision for impairment in the amount of

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

b) Act on Conversion into HUF

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

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

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

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

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

Provision on losses expected from bid-ask exchange rate spread and unilateral

amendment was recognised up to the Bank's standalone expected losses in the Bank's financial statements as at 31 December 2014. Provision on expected losses in case of subsidiaries is recognised by subsidiaries in their financial statements.

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

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

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

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

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

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

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

Prescription 29/ZS § of the Act LXXXI of 1996² enables – based on accounting regulations in 44 § of Act on Settlement – to recognise tax difference ("tax receivables")

calculated for clients' overpayments relating to customer loan agreements in the form of corporate tax, special tax of business partnerships, local business tax, innovation contribution, special tax of financial institutions, up to the tax declared and paid for the 2008–2014 tax years. Tax receivable shall be deducted from the amount of corporate tax payable for the 2015 and the following tax years.

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

² On Corporate Tax and Dividend Tax.

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

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

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

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

NOTE 3:

SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

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

3.1 Impairment on loans and placements

The Group regularly assesses its loan portfolio for impairment. Management determines the adequacy of the allowances based upon

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

3.2 Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. correlations, volatilities, etc.). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.

IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3 Provisions

Provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the

amount of potential financial losses which are appropriately provided for (see Note 17.)

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

3.4 Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 "Impairment of assets".

The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash-flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected. Goodwill impairment is recorded among the Depreciation and amortization in the Consolidated Statement of Recognized Income.

NOTE 4:

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

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

NOTE 5:

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

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

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

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

Interest conditions of placements with other banks:

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

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

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

Securities held for trading:

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

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

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

An analysis of securities held for trading portfolio by currency:

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

An analysis of government bond portfolio by currency:

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

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

** CCIRS: Cross Currency Interest Rate Swaps (see Note 28.).

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

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

NOTE 7:

SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

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

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

An analysis of securities available-for sale by currency:

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

An analysis of government bonds by currency:

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

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

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

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

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

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

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

NOTE 8:

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

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

An analysis of the loan portfolio by currency:

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

Interest rates of the loan portfolio are as follows:

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

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

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

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

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

NOTE 9:

ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)

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

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

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

* See details in Note 2.11.

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

NOTE 10:

SECURITIES HELD-TO-MATURITY (in HUF mn)

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

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

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

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

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

In most cases, interest on variable rate bonds is based on the interest rates of 90 day Hungarian government Treasury bills and is adjusted

semi-annually. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

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

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

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

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

For the year ended 31 December 2014:

	Intangible assets and goodwill	Property	Office equipmen and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	374,911	222,634	188,906	26,341	812,792
Additions	41,354	7,292	14,785	18,246	81,677
Acquisition	252	1,472	430	2	2,156
Foreign currency translation differences	(20,986)	(3,887)	(5,142)	165	(29,850)
Disposals	(49,075)	(2,398)	(16,275)	(32,777)	(100,525)
Transfer*	(628)	(28,190)	(20,939)	–	(49,757)
Change in consolidation scope	27	–	90	6	123
Balance as at 31 December	345,855	196,923	161,855	11,983	716,616
Depreciation and Amortization					
Balance as at 1 January	181,190	49,799	126,559	–	357,548
Charge for the year (without goodwill impairment)	22,614	5,346	15,762	–	43,722
Goodwill impairment	22,225	–	–	–	22,225
Foreign currency translation differences	3,207	(1,311)	(4,219)	–	(2,323)
Disposals	(41,945)	(180)	(13,168)	–	(55,293)
Transfer*	(179)	(6,909)	(7,403)	–	(14,491)
Change in consolidation scope	22	–	45	–	67
Balance as at 31 December	187,134	46,745	117,576	–	351,455
Net book value					
Balance as at 1 January	193,721	172,835	62,347	26,341	455,244
Balance as at 31 December	158,721	150,178	44,279	11,983	365,161

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

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

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

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

The Bank prepared the IFRS goodwill impairment tests of the subsidiaries based on two different net present value calculation methods that shows the same result; however they represent different economical logics. On one hand is the discount cash-flow method (DCF)

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

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

that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future.

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

Present value calculation with the DCF method

The Bank calculated the expected cash-flow for the given period based on the expected after-tax profit of the companies. For calculating the discount factor it was considered the base rates of the national banks in the actual macro forecasts as risk free rates and the Group calculated risk premiums by modifying the country risk premiums that are published on damodaran.com with the CDS of the different countries spread as at 31 December 2014.

The values of the subsidiaries in the DCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method

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

Summary of the impairment test for the year ended 31 December 2014

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

For the year ended 31 December 2013:

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

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

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

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

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

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

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

NOTE 12:

OTHER ASSETS** (in HUF mn)

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

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

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

*** Assets subject to operating lease and investment properties are differentiated according to their purposes for use so they had been transferred from tangible and intangible assets to other assets (see more details in Note 11.).

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

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

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

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

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

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

NOTE 13:

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

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

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

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

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

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

NOTE 14:

DEPOSITS FROM CUSTOMERS (in HUF mn)

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

Interest rates on deposits from customers are as follows:

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

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

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

NOTE 15:

LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

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

Interest rates on liabilities from issued securities are as follows:

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

* Without accrued interest liability.

Issued securities denominated in HUF as at 31 December 2014:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 17: OTHER LIABILITIES* (in HUF mn)

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

* Other liabilities – except financial liabilities from OTP-MOL share swap transaction, deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP-MOL share swap transaction is settled in June of each year until the maturity date. The fair value of amount being settled in 2014 is HUF 423 million as at 31 December 2014. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity. Besides the total other liabilities mentioned above which are expected to be recovered or settled more than twelve months after the reporting period it should be mentioned accrued contractual liabilities, compulsory pension reserve, guarantee deposits in relation with leasing activities, loans from government and liabilities from preferential dividend shares.

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

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

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

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

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

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

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

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

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

Interest rates on subordinated bonds and loans are as follows:

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

* See details in Note 2.28.

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as at 31 December 2014
Subordinated bond	EUR 93.45 million	04/03/2005	04/03/2015	100%	Three-month EURIBOR + 0.55% quarterly	–
Subordinated bond	EUR 247.7 million	07/11/2006	Perpetual, but callable after 10 years	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	–
Subordinated bond (under EMTN* program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN* program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated loan	USD 65 million	21/04/2008	13/10/2015	100%	Variable, six-month LIBOR + 1.4%	1.72%
Subordinated bond	RUB 4.2 million	30/04/2004	21/06/2015	100%	Variable monthly, based on the Russian National Bank's interest rate	8.25%

NOTE 19: SHARE CAPITAL (in HUF mn)

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

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

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

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

The legal reserves (general reserve and tied-up reserve) are not available for distribution.

The dividend has been determined on the basis of the net profit for the year determined in the separate financial statements in accordance with the HAS.

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

dividend by share to the shareholders. In 2015 dividend of HUF 40,600 million are expected to be proposed by the Management from the profit of the year 2014, which means 145 HUF payable dividends by share to the shareholders.

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

* European Medium Term Note Program.

respectively. The reserves include mainly net profit for the year attributable to the owners of the company, the fair value adjustment of securities available-for-sale, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous year at the subsidiaries, changes due to consolidation and exchange differences. In the Consolidated Financial Statement the Group recognizes the non-monetary items on historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented among the shareholders' equity as difference of translation. The accumulated amounts of exchange differences were HUF 121,306 million and HUF 14,381 million as at 31 December 2014 and 2013 respectively.

On 19 October 2006, the Bank sold 14.5 million Treasury shares owned by the Group through an issue of ICES. Within the transaction 10 million shares owned by OTP, and further

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

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

NOTE 21:

TREASURY SHARES ((in HUF mn)

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

The changes in the carrying value of treasury shares are due to repurchase and sale

transactions on market authorised by the General Assembly.

Change in number of shares:		2014	2013
Number of shares as at 1 January		17,972,405	18,755,373
Additions		6,474,942	4,247,043
Disposals		(6,272,000)	(5,030,011)
Closing number of shares		18,175,347	17,972,405
Change in carrying value:		2014	2013
Balance as at 1 January		55,599	53,802
Additions		27,522	19,740
Disposals		(27,181)	(17,943)
Closing balance		55,940	55,599

NOTE 22:

NON-CONTROLLING INTEREST (in HUF mn)

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

NOTE 23:

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

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

NOTE 24:

NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions:

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

Expense from fees and commissions:

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

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

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

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

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

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

NOTE 26:**INCOME TAX (in HUF mn)**

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

Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria,

12,5% in Cyprus, 15% in Serbia, 16% in Romania, 18% in Ukraine, 19% in Hungary, 20% in Croatia, Russia and the United Kingdom, 22% in Slovakia and 25% in the Netherlands.

The breakdown of the income tax expense is:

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

* See details in Note 2.28.

** Provisions on assets subject to operating lease and investment properties which were transferred from tangible and intangible assets to the other assets (see more details in Note 12.).

*** See details in Note 9.

**** See details in Note 11.

***** Special tax of financial institutions was paid by the Group in the amount of HUF 37 billion and HUF 36.9 billion for the year 2014 and 2013 respectively, recognized as an expense thus decreased the corporate tax base. In the year period ended 31 December 2014 financial transaction duty was paid by the Bank in the amount of HUF 44 billion.

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

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

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

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

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

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

* See details in Note 2.28.

Income tax adjustments due to permanent differences are as follows:

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

NOTE 27:

FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

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

27.1 Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

27.1.1 Analysis by loan types and by DPD categories

Classification into DPD categories

The Group presents the performing loan portfolio according delay of payment above 90 days past due. When determining the impairment beside the delay of payment other information available for the Group is also taking into consideration. The foreseeable risks and expected losses are considered, when the Group during determining the result of the current year, calculates and accounts impairment and credits provisions.

The impairments and provisions are accounted notwithstanding whether the result recognized in the current year is gain or loss. The Group

* From year 2011 legal regulation has allowed to recognize the financial support provided to sight-team sport as extraordinary expense and corporate tax allowance in the financial statements prepared on the base of HAS. The Bank couldn't apply this tax allowance in the financial statements prepared according to the HAS in 2012, since the tax base for year 2012 was negative. In IFRS financial statements this amount was settled as deferred tax.

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

when calculates the impairment of the loans applies the requirement of IFRS and the principles defined in the impairment policy of the Group.

Exposures with small amounts are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are classified into five valuation groups which have been formed based on past due days from which there classes were presented (A: 0–90 days past due – DPD, B: 91–360 DPD, C: over 360 days past due). The three new groups do not match one by one to the earlier used risk classes, the composition of the classes has changed due to the different criteria. The Group intends – where enough large number of items and enough long experiences are available – applying models on statistical bases. The impairment is calculated according to the possibility of listing the loan into default categories examined on the base of objective valuation criteria (delay of payment, change of exchange) and the expected recovery from the collecting. If the loss of the exposure can't be modelled reliably, the impairment is determined by expert keys.

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

- the credit rating of the customer or the partner: the financial position, stability and

income-generating capacity affected by the financial or investment service and issuer of the security, and any changes thereto;

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

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

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

As at 31 December 2014:

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

As at 31 December 2013:

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

The Group's loan portfolio decreased by 6.1% in year 2014. Analysing the contribution of loan types to the loan portfolio, the share of the mortgage loan types slightly increased, the consumer and municipal loan type slightly decreased, while the other types of loans remained almost the same as at

31 December 2014 comparing with the previous year. As a consequence of the economic situation, the qualification of the loan portfolio deteriorated in the previous year, but for the end of 2014 the ratio of the more than 90 days past due to the above 360 days past due loans

compared to the gross loan portfolio decreased from 19% to 18.6%. Among the qualified loan portfolio, the loans classified to the risk class of "more than 90 until 360 days past due" expanded at the fastest level.

The Group has a prudent provisioning policy, the indicator which describes the coverage of loans by provision for impairment on loans classified as "Above 360 days", was the same 74.5% as at 31 December 2014 and 31 December 2013 respectively.

Not impaired loan portfolio

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

As at 31 December 2014:

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

As at 31 December 2013:

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

Loans not past due or past due, but not impaired cover only balance sheet items. The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio slightly increased from 40.85% to 42.72% as at 31 December 2014 comparing to the end of the previous year. The ratio of the mortgage loans and placements with other banks compared to the portfolio of loans neither past due nor impaired increased slightly during year 2014, while the ratio of the municipal loans decreased mostly.

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

loan type. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Group.

Loans individually assessed for provision

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

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

As at 31 December 2014:

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

As at 31 December 2013:

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

By 31 December 2014 the volume of the individually rated portfolio increased by 6.7% in the corporate loan type. Among the rating factors of the corporate loan type, the decrease is mostly based on the legal proceedings and loan characteristics, while increase is based on the regularity of

payment and country risk. The decrease is more significant in the municipal loan portfolio, where the decrease is mostly based on the improving regularity of payment, restructuring, and on the improving client classification. The increase is based only on the delay of payment.

Transactions with high level of risk

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

Business lines risks

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

Loan portfolio by countries

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

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

* Other category in the year of 2014 includes e.g.: Bosnia and Herzegovina, Greece, Hong Kong, Vietnam, Moldova, Macedonia, United Arab Emirates, Brazil, Israel, Slovenia, India, South Korea, Finland, Morocco, Armenia and Kyrgyzstan.

** Without the amount of bill of exchange.

The loan portfolio decreased mostly in Russia, Ukraine and Hungary, and increased in the Croatia and Slovakia but there were no significant changes in the other countries of Group members'. Their stock of provision increased mostly in Ukraine, Croatia and Romania, decreased in Russia, Bulgaria and Hungary due to the slightly decreased

loan portfolio but there were no significant movements in none of the other countries.

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

27.1.2 Collaterals

The values of collaterals held by the Group by types are as follows (**total collaterals**).

The collaterals cover loans as well as off-balance sheet exposures.

Types of collaterals	2014	2013
Mortgages	5,323,528	5,899,371
Assignments (revenue or other receivables)	407,051	380,540
Guarantees of state or organizations owned by state	277,260	273,258
Guarantees and warranties	114,034	109,589
Cash deposits	74,435	83,890
Securities	34,508	56,813
Other	793,137	842,311
Total	7,023,953	7,645,772

The values of collaterals held by the Group by types are as follows (**to the extent of the**

exposures). The collaterals cover loans as well as off-balance sheet exposures.

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

The coverage level of the loan portfolio (total collaterals) decreased by 0.7%, as well as the

coverage level to the extent of the exposures decreased by 1.05% as at 31 December 2014.

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

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

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

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

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

27.1.3 Restructured loans

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

Restructured portfolio definition:

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

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

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

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

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

and any of the following restructuring tools were applied:

- cancellation of interest rate (final or temporary reduction of the interest margin, cancellation of due interest), or
- restructuring of interest payments (postponement of the interest payment, capitalization of the interest), or
- restructuring of principal repayment (partial or full postponement of repayment of a given instalment, rescheduling one

or more instalments within the original term or with extension of the term simultaneously).

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

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

27.1.4 Financial instruments by rating categories*

Securities held for trading as at 31 December 2014:

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

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

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

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

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

* Moody's ratings.

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

27.2 Market risk

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

27.2.1 Market Risk sensitivity analysis

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

The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets.

Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

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

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

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

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

27.2.2 Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding

foreign currency denominated monetary items as strategic open positions related to foreign activities.

The strategic open position related to the foreign operations was short, amounted to EUR 310 million and was long amounted to 1.9 million CHF as at 31 December 2014. High portion of strategic positions is considered as effective hedge of future profit inflows of investment of foreign subsidiaries,

and so FX risk affects the Group's other comprehensive income and not its earnings.

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

Probability	Effects to the Consolidated Statement of Recognized Income in 3 months period	
	2014 (in HUF billion)	2013 (in HUF billion)
1%	(15.2)	(12.7)
5%	(10.6)	(8.7)
25%	(4.6)	(3.6)
50%	(0.8)	(0.3)
25%	2.9	2.8
5%	7.9	7.0
1%	11.7	9.9

Notes:

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

repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.

- Assets and liabilities with an interest rate lower than 0.3% were assumed to be unchanged for the whole period.
- The sensitivity of interest income to changes in BUBOR is analyzed.

The simulations were prepared by assuming two scenarios:

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

27.2.3 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date.

The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date were outstanding for the whole year. The analysis was prepared by assuming only adverse interest rate changes.

The main assumptions were as follows:

- Floating rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be

The net interest income in a one year period after 31 December 2014 would be decreased by HUF 1,030 million (probable scenario) and HUF 4,098 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 2,208 million (probable scenario) and HUF 3,432 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2013.

This effect is counterbalanced by capital gains (HUF 899 million for probable scenario, HUF 3,689 million for alternative scenario) as at 31 December 2014 and (HUF 1,344 million for probable scenario, HUF 1,978 million for alternative scenario) as at 31 December 2013 on the government bond portfolio held for hedging (economic).

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

Description	2014		2013	
	Effects to the net interest income (one-year period)	Effects to capital (Price change of AFS government bonds)	Effects to the net interest income (one-year period)	Effects to capital (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(361)	374	(410)	240
EUR (0.1%) parallel shift	(503)	–	(451)	–
USD (0.1%) parallel shift	(50)	–	(3)	–
Total	(914)	374	(864)	240

27.2.4 Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by

recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

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

27.2.5 Capital management

Capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure. The capital management of the Group members includes the management and evaluation of the shareholders' equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

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

The Group members maintain the capital adequacy required by the regulatory bodies and

the planned risk taking mainly by means of ensuring and developing their profitability.

In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures.

A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

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

and absorb any losses they may incur in doing business.

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

The Group has entirely complied with the regulatory capital requirements in 2014 as well as in 2013.

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

For international comparison purposes,

the Group calculated the Regulatory capital based on IFRS data, and the consolidated Capital adequacy ratio based on this.

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

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

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

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

Basel II

The positive components of the Core capital are the following: Issued capital, Other reserve, Profit reserve, Changes in the equity of subsidiaries, Changes due to consolidation, Profit for the year, Other issued capital components.

The negative components of the Core capital are the following: Treasury shares, Goodwill and other Intangible assets, Dividends.

The components of the Supplementary capital are the following: Supplementary loan capital, Subordinated loan capital, Revaluation reserves, Fair value adjustments, Share based payments, Cash-flow hedges, Net investment hedge in foreign operations (in Supplementary Capital), Other issued capital.

The components of the Deductions: deductions due to investments.

Basel III

The components of the Common Equity Tier1 capital (CET1) are the following: Issued capital, Reserves (Profit reserves, Other reserves, Changes in the equity of subsidiaries, Profit for the year, Changes due to consolidation) Fair value adjustments, Other capital components, (Revaluation reserves, Share based payments, Cash-flow hedges, Net investment hedge in foreign operations), Non-controlling interest, Treasury shares, Goodwill and other Intangible assets, other adjustments (due to prudential filters, due to deferred tax receivables, due to temporary regulations).

Supplementary capital (Tier2): Subordinated loan capital, Supplementary loan capital, Other issued capital components, Components recognized in T2 capital issued by subsidiaries.

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

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

The ratios of the foreign subsidiaries exceed the requirements of the local regulations in every cases.

NOTE 28:

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

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the Consolidated Statement of Financial Position

and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities:

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

Legal disputes

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

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 7,454 million and HUF 3,267 million as at 31 December 2014 and 2013, respectively (see Note 17.).

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

The Bank considers the claim is entirely unfounded as it is confirmed by the court of first instance.

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

Commitments to extend credit, guarantees and letters of credit

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

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions,

* See details in Note 2.28.

are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

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

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

Guarantees, payment undertakings arising from banking activities

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

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

in writing and signed by the surety and the principal.

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

Derivatives

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

Foreign currency contracts

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

Foreign currency contracts are used by the Group for risk management and trading purposes. The risk management foreign currency contracts of the Group were used to

hedge the exchange rate fluctuations of loans and deposits to credit institutions denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

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

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

The interest rate swaps are used by the Group for risk management and trading purposes.

Cross-currency interest rate swaps

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

Equity and commodity swaps

Equity swaps obligate two parties to exchange more payments calculated with reference

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

Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

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

Foreign exchange options

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

NOTE 29:

SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in 9/2011 resolution of Annual General Meeting regarding to the amendment of CRD III.

directives and Act on Credit Institutions and Financial Enterprises.

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

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

The value of the discounted share-based payment at the performance assessment is determined by Board of Directors based on the average of the three previous trade day's middle rate of the Bank's equity shares fixed on the Budapest Stock Exchange.

Discounted share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date is determined by Board of Directors, maximum HUF 4,000.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In connection with shares as a part of the Bank Group Policy on Payments modified by 7/2013

resolution of Annual General Meeting and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 4,393 million was recognized as expense as at 31 December 2014.

NOTE 30:

RELATED PARTY TRANSACTIONS (in HUF mn)

The compensation of key management personnel, such as the members of the Board of Directors, members of the Supervisory Board, key employees of the Bank and its major

subsidiaries involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

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

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members

owned credit line "A" in the amount of HUF 164.3 million and HUF 175.4 million as at 31 December 2014 and as at 31 December 2013.

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

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

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

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

One member of Board of Directors and its family member owned AMEX Blue credit card loan in the amount of HUF 0.6 million as at 2014 and 31 December 2013, respectively.

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

The members of the Board of Directors, members of the Supervisory Board, chief executives

and their close family members owned AMEX Platinum credit card loan in the amount of HUF 23.5 and 10.5 million, respectively as at 31 December 2014 and 31 December 2013.

Members of Board of Directors, members of Supervisory Board and chief executives owned other kinds of credit card loan, which are not listed above in the amount of HUF 18.2 and 35.4 million as at 2014 and 31 December 2013, respectively.

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

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

In the normal course of business, the Bank enters into other transactions with its subsidiaries, the amounts and

volumes of which are not significant to these financial statements taken as a whole.

NOTE 31:

ACQUISITION (in HUF mn)

a) Purchase and consolidation of subsidiaries

On 31 January 2014 OTP banka Hrvatska d.d. signed a purchase agreement with the Croatian Banco Popolare d.d. on acquiring

a 98.37% stake in the bank. The transaction was closed by setting the purchase price on 24 April 2014. The acquisition contributes to a more optimal economies of scale of the Bank in Croatia.

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

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

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

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

NOTE 32:

SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

Investments in companies in which the Bank has a significant interest are detailed below. They are fully consolidated companies and

incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

Significant subsidiaries

Name	Ownership (Direct and Indirect)		Activity
	2014	2013	
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.86%	97.81%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	97.90%	97.56%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.26%	99.21%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	–	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	flat finance and reconstruction
OTP Fund Management Ltd.	100.00%	100.00%	fund management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)/OTP Financing Cyprus	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

Significant associates*

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

As at 31 December 2014:

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

As at 31 December 2013:

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

* Based on unaudited financial statements.

NOTE 33:**TRUST ACTIVITIES (in HUF mn)**

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds.

As these loans and related funds are not considered to be assets or liabilities of the Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

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

NOTE 34:**CONCENTRATION OF ASSETS AND LIABILITIES**

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

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

these partners in order to secure the stability of the level of deposits.

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

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

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

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

business line (deposit withdrawal), the national economy (exchange rate shock yield curve shock) and the global financial system (capital market shock).

The essential of the liquidity risk management strategy is to identify all relevant systemic and idiosyncratic sources of liquidity risk and to measure the probability and severity of such events. During liquidity risk management the Group considers the effect of liquidity risk events caused by reasons arising in the bank

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

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

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

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

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

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash-flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash-flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash-flows are exchanged; gross loan commitments.

Such undiscounted cash-flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash-flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

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

As at 31 December 2014:

	Within 3 months	Within one year and over 3 months	Within 5 year and over one year	Over 5 years	Without maturity	Total
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	413,402	42,767	98,259	166,929	–	721,357
Deposits from customers	6,219,811	1,223,544	251,098	19,366	–	7,713,819
Liabilities from issued securities	35,666	52,087	130,622	23,422	–	241,797
Other liabilities*	417,716	151,980	4,718	2,444	–	576,858
Subordinated bonds and loans	30,593	17,897	140,051	–	111,191**	299,732
TOTAL LIABILITIES	7,117,188	1,488,275	624,748	212,161	111,191	9,553,563
Receivables from derivative financial instruments classified as held for trading	1,480,795	339,420	47,408	19,340	–	1,886,963
Liabilities from derivative financial instruments classified as held for trading	(1,393,686)	(304,425)	(9,408)	(5,578)	–	(1,713,097)
Net notional value of financial instruments classified as held for trading	87,109	34,995	38,000	13,762	–	173,866
Receivables from derivative financial instruments designated as fair value hedge	203,857	552,775	338,138	3,898	–	1,098,668
Liabilities from derivative financial instruments designated as fair value hedge	(199,337)	(500,996)	(308,413)	(3,273)	–	(1,012,019)
Net notional value of financial instruments designated as fair value hedge	4,520	51,779	29,725	625	–	86,649
Net notional value of derivative financial instruments total	91,629	86,774	67,725	14,387	–	260,515
Commitments to extend credit	414,398	411,093	115,034	59,207	–	999,732
Bank guarantees	61,818	82,014	64,519	160,319	–	368,670
Off-balance sheet commitments	476,216	493,107	179,553	219,526	–	1,368,402

As at 31 December 2013:

	Within 3 months	Within one year and over 3 months	Within 5 year and over one year	Over 5 years	Without maturity	Total
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	467,393	60,220	197,362	84,786	–	809,761
Deposits from customers	5,515,729	1,110,320	264,421	23,144	–	6,913,614
Liabilities from issued securities	65,351	211,232	111,567	65,940	–	454,090
Other liabilities*	329,973	15,572	12,223	1,222	–	358,990
Subordinated bonds and loans	3,211	4,311	178,764	–	104,842**	291,128
TOTAL LIABILITIES	6,381,657	1,401,655	764,337	175,092	104,842	8,827,583
Receivables from derivative financial instruments classified as held for trading	741,284	103,784	56,205	14,920	–	916,193
Liabilities from derivative financial instruments classified as held for trading	(772,367)	(114,122)	(94,783)	(32,048)	–	(1,013,320)
Net notional value of financial instruments classified as held for trading	(31,083)	(10,338)	(38,578)	(17,128)	–	(97,127)
Receivables from derivative financial instruments designated as fair value hedge	250,813	249,030	688,987	3,942	–	1,192,772
Liabilities from derivative financial instruments designated as fair value hedge	(261,502)	(264,224)	(735,838)	(2,579)	–	(1,264,143)
Net notional value of financial instruments designated as fair value hedge	(10,689)	(15,194)	(46,851)	1,363	–	(71,371)
Net notional value of derivative financial instruments total	(41,772)	(25,532)	(85,429)	(15,765)	–	(168,498)
Commitments to extend credit	652,949	379,707	158,340	69,161	6,028	1,266,185
Bank guarantees	53,902	78,177	154,536	25,876	503	312,994
Off-balance sheet commitments	706,851	457,884	312,876	95,037	6,531	1,579,179

* Without derivative financial instruments designated as fair value hedge.

** See Note 18.

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

As at 31 December 2014	USD	EUR	CHF	Others	Total
Assets	434,794	1,887,373	817,241	2,278,135	5,417,543
from this: loans concerned in conversion into HUF*	–	27,842	402,150	74,704	504,696
Liabilities	(428,962)	(1,887,894)	(139,131)	(2,263,759)	(4,719,746)
from this: provision for loans concerned in conversion into HUF*	–	(1,531)	(73,854)	(3,870)	(79,255)
Off-balance sheet assets and liabilities, net	(9,117)	(40,166)	(277,512)	55,425	(271,370)
Net position	(3,285)	(40,687)	400,598	69,801	1,124,224

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

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within 'Others'. 'Others' category contains mainly foreign currencies in RON, UAH, RUB and BGN. Whilst the Group monitors its foreign exchange position for compliance with the

regulatory requirements of the National Banks and own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the 'Value-at-Risk' ("VaR") limit on the foreign exchange exposure of the Group.

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

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

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

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

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

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

As at 31 December 2014:

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

As at 31 December 2014:

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

As at 31 December 2013:

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

As at 31 December 2013:

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

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

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

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

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

NOTE 39:**NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)****As at 31 December 2014:**

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

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

As at 31 December 2013:

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

NOTE 40:

FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 40. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,

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

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

a) Fair value of financial assets and liabilities

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

b) Fair value of derivative instruments

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

c) Hedge accounting

The Group regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging trans-

action do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading.

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

As at 31 December 2014:

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

As at 31 December 2013:

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

d) Fair value hedges

1. Deposits from customers

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

the interest rate risk of the interest payments the Group entered into interest rate swap transactions, where the risk of the cash-flow's from the structured deposits were swapped to payments linked to 3 month BUBOR or EURIBOR, resulting in a decrease in the fair value exposure of the deposits from customers.

	2014	2013
Fair value of the hedging instruments	107	101

2. Securities available-for-sale

The Group holds fixed interest rate securities denominated in foreign currencies and fixed interest rate government bonds denominated in HUF within the available-for-sale portfolio. These fixed interest rate securities and bonds are exposed to the fair value risk driven by the changes in the risk-free interest rates.

In order to hedge the interest rate risk of the cash-flows the Group entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 12 month EURIBOR and the risk from the cash-flows of the bonds are swapped to payments linked to 6 month BUBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

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

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

3. Loans to customers

The Group has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the

cash-flows the Group entered into pay-fixed, receive-floater interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 month EURIBOR or BUBOR resulting in a decrease in the interest rate fair value exposure of the loans to customers.

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

4. Issued securities

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

transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities. Certain structured bonds are hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond.

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

As at 31 December 2014:

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

As at 31 December 2013:

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

e) Fair value classes

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

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

Level 2: inputs other than quoted prices included within Level 1, that are

observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with

instruments measured not at fair value – are categorized in level 2;

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

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

As at 31 December 2014	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	288,650	90,053	198,597	–
from this: securities held for trading	94,015	89,496	4,519	–
from this: positive fair value of derivative financial instruments classified as held for trading	194,635	557	194,078	–
Securities available-for-sale	823,458	721,957	97,154	4,347
Positive fair value of derivative financial instruments designated as fair value hedge	30,454	–	30,454	–
Financial assets measured at fair value total	1,142,562	812,010	326,205	4,347
Negative fair value of derivative financial instruments classified as held for trading	183,994	1,220	182,774	–
Negative fair value of derivative financial instruments designated as fair value hedge	85,679	–	85,679	–
Financial liabilities measured at fair value total	269,673	1,220	268,453	–
As at 31 December 2013	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	414,618	321,194	93,424	–
from this: securities held for trading	340,553	321,133	19,420	–
from this: positive fair value of derivative financial instruments classified as held for trading	74,065	61	74,004	–
Securities available-for-sale	1,628,005	1,474,724	153,254	27
Positive fair value of derivative financial instruments designated as fair value hedge	26,803	7	26,796	–
Financial assets measured at fair value total	2,069,426	1,795,925	273,474	27
Negative fair value of derivative financial instruments classified as held for trading	87,164	18	87,146	–
Negative fair value of derivative financial instruments designated as fair value hedge	74,695	–	74,695	–
Financial liabilities measured at fair value total	161,859	18	161,841	–

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

Movements in Level 3 financial instruments measured at fair value

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

Movement on securities available-for-sale in Level 3	Opening balance	Increase	Closing balance
OTP Factoring Ltd.	–	2,103	2,103
OTP Factoring Ukarine LLC	–	1,175	1,175
DSK Bank EAD	–	967	967
OTP banka Srbija a.d.	27	75	102
Total	27	4,320	4,347

NOTE 41:

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

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

The reportable segments of the Group on the base of IFRS 8 are the following:

OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries and Corporate Center.

OTP Core is an economic unit for measuring the result of core business activity of the Group in Hungary. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in the Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financing Netherlands Ltd., OTP Holding Ltd., OTP Financing Cyprus and OTP Financing Solutions B.V. Corporate Centre: it is separated from OTP Core consolidated financial statements, this is a virtual entity responsible for rendering debt and capital market related to services to the subsidiaries across the Group, mainly in the form of capital and credit financing.

The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., OTP Factoring Montenegro d.o.o. and OTP Factoring Slovensko s.r.o. are included into the foreign banks segment. The activities of the other subsidiaries are out of the leasing and fund management activity, like:

OTP Real Estate Ltd., OTP Life Annuity Ltd., OTP Funds Servicing and Consulting Ltd., Monicomp Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

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

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

Goodwill/investment impairment and their tax saving effect:

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

The tax saving effect was HUF (17,210) million in relation with goodwill and investment impairment of OTP Bank JSC (Ukraine) in the year ended as at 31 December 2014. The total saving effect was HUF (5,015) million in the year 2014 while the same effect at the same company was recognized in the amount of HUF (29,440) in year 2013.

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

As at 31 December 2014:

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)
	a	b	^{1=a+b} 1=2+3+12+16+17	2	3=4+...+11	4	5	6
Net profit for the year	(102,258)		(102,258)					
Adjustments (total)		(220,273)	(220,273)					
Dividends and net cash transfers (after income tax)		191	191					
Goodwill/investment impairment (after income tax)		(5,015)	(5,015)					
Bank tax on financial institutions (after income tax)		(30,193)	(30,193)					
Effect of Banco Popolare acquisition (after income tax)		4,131	4,131					
Impact of the expected refund obligation stemming from the invalidity of using FX margin in Hungary (after income tax)		(26,923)	(26,923)					
Potential refund obligation stemming from the presumed unfairness of unilateral amendments to loan contracts in Hungary (after income tax)		(128,985)	(128,985)					
Risk cost created toward Crimean exposures in 2014 (after income tax)		(7,943)	(7,943)					
Risk cost created toward exposures to Donetsk and Luhansk in 2014 (after income tax)		(25,536)	(25,536)					
Consolidated adjusted net profit for the year	(102,258)	220,272	118,014	137,418	(17,196)	(14,541)	(43,166)	39,170
Profit before income tax	(153,643)	295,983	142,340	161,097	(19,237)	(17,678)	(47,322)	43,587
Adjusted operating profit	293,187	121,346	414,533	181,952	219,065	101,028	27,269	62,392
Adjusted total income	801,879	24,180	826,059	375,668	419,716	179,392	52,078	102,238
Adjusted net interest income	636,097	73	636,170	266,329	349,904	158,972	45,327	79,116
Adjusted net profit from fees and commissions	215,656	(46,076)	169,580	94,244	67,306	21,378	10,306	20,262
Adjusted other net non-interest income	(49,874)	70,183	20,309	15,095	2,506	(958)	(3,555)	2,860
Adjusted other administrative expenses	(508,692)	97,166	(411,526)	(193,716)	(200,651)	(78,364)	(24,809)	(39,846)
Total risk costs	(446,830)	172,081	(274,749)	(23,411)	(238,302)	(118,706)	(74,591)	(18,805)
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(446,830)	183,318	(263,512)	(22,088)	(231,272)	(117,623)	(71,947)	(17,526)
Other provision (adjustment)	0	(11,237)	(11,237)	(1,323)	(7,030)	(1,083)	(2,644)	(1,279)
Total other adjustments (one-off items)*	0	2,556	2,556	2,556	0	0	0	0
Income tax	51,385	(75,711)	(24,326)	(23,679)	2,041	3,137	4,156	(4,417)
Total Assets	10,971,052	0	10,971,052	7,251,833	4,678,642	750,747	423,363	1,603,812
Total Liabilities	9,706,886	0	9,706,886	5,932,448	4,122,494	638,968	417,903	1,355,819

() used at: provisions, impairment and expenses.

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

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

As at 31 December 2013:

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

() used at: provisions, impairment and expenses.

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

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

NOTE 42:

SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2014

1) Government measures related to customer loan contracts

See details in Note 2.28.

2) Acquisition in Croatia

By setting the purchase price on 24 April 2014, the Group accomplished its Croatian acquisition. On 31 January 2014 OTP banka Hrvatska d.d. signed a purchase agreement with the Croatian Banco Popolare d.d. on acquiring a 98.37% stake in the bank. Following the submission of all the relevant documents the Croatian Central Bank approved the purchase of the majority stake. OTP banka Hrvatska accomplished the merge with Banco Popolare in December, 2014. The Group gained whole control over the company and will be fully consolidated from January, 2015. As a result of the deal OTP banka Hrvatska d.d. will enhance its presence in Northern Croatia, Zagreb and Slavonia in particular, mainly in the retail segment.

3) Purchase of Banco Comercial Português

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

4) Incorporation of OTP Financing Malta Company Ltd.

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

5) Incorporation of OTP Holding Malta Ltd.

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

6) Term Note Program

See details in Note 15.

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

See details in Note 28.

8) Legal dispute in Montenegro

See details in Note 28.

1) Act on Fair banking

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

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

On 15 January 2015 the Swiss National Bank announced the abandonment of the CHF's exchange rate floor set at 1.2 against the euro. After the decision, the CHF sharply and substantially strengthened against the EUR and other foreign currencies in the CEE region: the CHF appreciated against the EUR from 1.2 CHF/EUR to under the parity, then it went up to 1.08 until 19 February. According to NBH's data the CHF strengthened by 20% against the HUF on the day of the announcement, the devaluation moderated to 7% until 19 February. In Hungary, according to the Act on Conversion into HUF the CHF mortgage loans are to be converted to forint loans at 256.47 CHF/HUF exchange rate. The conversion became legally effective on 1 February 2015. (A customer may initiate an opt-out if meeting the criteria set by the law.) Starting from 1 January 2015 the monthly instalments of the FX mortgage loans must be calculated with the fixed rates set in

the law on conversion, thus clients under the scope of the conversion law did not experience any negative effect of the CHF strengthening. The Bank fully hedged the open EUR/HUF positions derived from the conversion of FX mortgage loans to HUF on the FX tenders of the NBH, while the open EUR/CHF and EUR/JPY positions were hedged on the market until the end of 2014.

Within the Hungarian household loan portfolio at the end of 2014 the net volume of CHF customer loans at OTP Core stood at HUF 12 billion equivalent, and the net volume of CHF car financing loans at Merkantil Bank Ltd. reached HUF 82 billion equivalent. The car financing loans are not subject to the conversion law. However, the monthly instalments' increase due to the CHF strengthening may be mitigated (to a different extent at individual clients) by the reduction in the nominal interest rate according to Curia Law and Act on Settlement, and the compensation may lower the loan principal. In Romania the subsidiary of the Bank had HUF 134 billion equivalent net CHF mortgage loan volumes at the end of 2014. OTP Bank Romania S.A. was the first one to react to the step of the Swiss National Bank abolishing the peg to the euro: on 16 January 2015 the Romanian subsidiary announced that in order to mitigate the negative impact of CHF appreciation on monthly instalments the interest margin will be reduced by 1.5 ppts for 3 months for those customers who had variable-rate CHF mortgage loans (in accordance with effective conditions and depending on the antecedents of the loans). Clients can apply for this scheme until 27 February 2015 in the branches. By 12 February the take-up ratio reached 40% of performing CHF mortgage loan volumes. The Croatian subsidiary held HUF 22 billion equivalent net CHF mortgage loan volumes on its balance sheet at the end of 2014. On 19 January 2015 the Croatian Government announced that the CHF/HRK rate will be fixed at 6.39 for 12 months. The measure took effect on 26 January.

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

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

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

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

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

to a turnaround in private investments too, helping housing-related lending and housing investments start to rise.

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

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

Funding for Growth Scheme

On 11 September 2013 the National Bank of Hungary decided on extending the Funding for Growth Scheme with a second phase which is to be open from 1 October 2013 till 31 December 2015. The total amount of refinancing available for banks in the second phase was originally set at HUF 500 billion, in September 2014 the total amount of available funding was lifted to HUF 1,000 billion. The limit can be increased to a maximum of HUF 2,000 billion by the Monetary Council. Similarly to the first phase, the central bank refinancing carries zero interest rate, a maximum 10-year tenor and can be lend over to SMEs by applying a maximum interest margin of 2.5%.

The goal of the first pillar is to originate new loans, whereas the second pillar is for refinancing forint or foreign currency denominated liabilities of SMEs. The share of loan contracts concluded under the second pillar must not surpass 10% of the total amount of contracts concluded under the two pillars. The maximum available amount of loans for SMEs is limited at HUF 10 billion in each pillar. Under the second phase of the Programme the Group already contracted in the amount of more than HUF 117 billion until the end of

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

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

between the end of 2013 and 2014 (to 66%). In February 2015 the expansion and extension of the IMF programme was announced. Originally the credit facility amounted to USD 27 billion, of which USD 17 billion was provided by the IMF. According to the IMF the credit line will be widened to USD 40 billion. In the meantime the Ukrainian government downgraded its GDP growth forecast for 2015: the economy is estimated to contract by 5.5% against the previous forecast of 4.3%.

The Bank's operation in Russia

Since the second half of 2013 the Bank has put particular emphasis on the improvement of consumer loan products' profitability, in line with the fine-tuning of the risk profile of these portfolios and the efficiency of collection activities. Both the stricter underwriting rules applied by the Bank, the measures introduced by the supervisory authorities, the economic slowdown and the cyclical setback of the consumer loan market eventually resulted in moderated loan dynamics in 2014. As a reaction to the deterioration of the operating environment in the fourth quarter of 2014 (significant weakening of the rouble, 900 bps base rate hike in total) the Bank halted or limited new loan disbursement and made certain pricing steps. Since October no new credit cards have been sent out and the Bank cut back part of the card limits in December. Due to the market turbulences, since the middle of December cash loan disbursement has been suspended.

The total FX-adjusted deposit base dropped by 10% in the first quarter of 2014 quarter-over-quarter, than it remained stable in the second quarter and grew already both in the third and fourth quarter, thus the yearly FX-adjusted decrease was 4% altogether. In the fourth quarter the Bank managed to increase its deposit base (+3% quarter-over-quarter, FX-adjusted) despite the unfavourable market environment – deposit rates were increased in line with market trends at the end of December in order to reverse the deposit outflows.

In the course of 2014 the deposit base of JSC "OTP Bank" (Russia) increased nominally by 7% in RUB terms due to the devaluation of RUB. Due to the fact that the liquidity demand of maturing capital market instruments and the funding need of higher loan volumes increased, the net funding provided by the Partner Company to the Russian bank grew to USD 320 million by the end of 2014 from USD –204 million in 2013 (which practically meant that JSC "OTP Bank" (Russia) was net lender to the Group in 2013).

It is important to note that the partner company funding provided at the end of 2014 contained a significant safety buffer due to the long Russian holiday period and the uncertainties stemming from the market turbulences. This is proved well by the fact that the net partner company funding dropped to USD 9 million at the end of January 2015. In 2015 JSC "OTP Bank" (Russia) will have RUB 300 million capital market redemptions (this is the total outstanding amount of issued bonds), so from a liquidity perspective the emphasis will be put on keeping the loan and deposit volume developments in balance. Given that the deposit of JSC "OTP Bank" (Russia) deposit base remained stable despite the liquidity shock the Russian banking system suffered, the liquidity risks are deemed to be moderate in 2015, too.

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

In 2015 the DPD0–90 loan portfolio is expected to decline, which, together with a stable deposit base might result in improving liquidity position, but lower revenues. Due to the increased funding cost net interest income

might decrease in 2015. The operating environment is not expected to improve materially, thus with respect to elevated risk costs no material turnaround is expected in 2015. The Russian operation is expected to remain loss-making in 2015.

The Bank's operation in Ukraine

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

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

The decline of USD deposits did not cause liquidity problems, because this coincided with the decline of FX loan volumes. Latter was attributable not only to the loan repayments, but to the elevated provisioning, too, which required the Bank to purchase USD from its UAH liquidity reserves. Both the USD liquidity generated through these transactions and the FX liquidity coming from repayments of performing FX

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

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

The shareholders' equity of the Ukrainian banking group under IFRS consists of the impact of the conversion of UAH 800 million equivalent subordinated debt into equity booked in the fourth quarter of 2014. The decision about the capital increase was signed on 12 December 2014, which meant issue of additional 64,563 pieces of ordinary shares. Compared to December 2013 the shareholders' equity of the Ukrainian banking group in HUF terms dropped as a result of weakening UAH against HUF, whereas losses realized in 2014 had a negative impact on equity, too. The Ukrainian shareholders' equity includes that of 3 entities: the Bank, the Leasing and Factoring companies. The standalone capital adequacy ratio of the Bank under local regulation stood at 10.4% at the end of 2014, thus it exceeded the regulatory minimum. This capital adequacy ratio under local regulation did not incorporate the impact of the capital conversion booked in the fourth quarter

of 2014. Leasing and Factoring companies are exempt from banks' capital adequacy rules. The Ukrainian Factoring company that received HUF 19 billion equivalent capital increase in September 2014 (through converting debt into equity). In 2015 the equity of the Factoring Company is expected to be raised by converting partner company financing into equity.

In the second quarter of 2014 the Bank decided to close down its business in the Crimea, 8 branches were closed there. In Donetsk and Luhansk counties where special circumstances prevail the Bank closed altogether 15 branches, thus the number of banking outlets declined to 2 at the end of 2014. Significant additional risk cost was created both in Crimea and the Eastern Ukrainian region (Donetsk and Luhansk), as a result the provision coverage of total gross loans reached 100% in Crimea and went up to 99.4% in case of gross loan exposures toward Donetsk and Luhansk regions.

The Ukrainian market and operating environment was volatile, especially in the time period between the end of 2014 and the writing of the report: after the conflict intensified again the parties reached a cease-fire accord and the IMF assistance programme is likely to be expanded, but despite all of these the UAH weakened further against the dollar. This points to further losses in Ukraine in 2015 both in case of OTP Bank JSC (Ukraine) and the Factoring company. By the end of 2014 the large majority of exposures toward Crimea, Donetsk and Luhansk counties were covered by provisions. If the territorial conflict did not escalate, and if the operating environment changed in the positive direction in Donetsk and Luhansk counties paving the way for banks to operate normally, that could create the possibility to release part of the provision already created there. The key focus areas are the optimisation of the operation and the gradual reduction of OTP's exposures. The funds expected to be granted to the country by supranational institutions as well as the related requirements to implement structural changes in the economy might stabilize the economic situation and the exchange rate of the UAH.



Deloitte Auditing and Consulting Ltd.
H-1068 Budapest, Dózsa György út 84/C, Hungary
H-1438 Budapest, P.O.Box 471, Hungary

Tel: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.com/hungary

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Separate Financial Statements

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

Management's Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

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

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

Budapest, April 30, 2015



.....

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

Statement of financial position

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

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

Budapest, 17 March 2015

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

Statement of recognized income

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

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

Statement of comprehensive income

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

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

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

Statement of cash-flows

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

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

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

*See Note 4 and 5.

Statement of changes in shareholders' equity

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

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

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

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

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1 General information

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

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

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

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

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

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

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

1.2 Accounting

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

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

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial standards. Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with the International

Financial Reporting Standards ("IFRS"). Certain adjustments have been made to the Bank's Hungarian separate statutory accounts (see Note 38.), in order to present the separate financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").

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

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

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

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

- IFRS 10 “Consolidated Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 “Joint Arrangements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 “Disclosures of Interests in Other Entities”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) “Separate Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 (revised in 2011) “Separate Financial Statements” – Investment Entities, adopted

by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),

- Amendments to IAS 32 “Financial instruments: presentation” – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 “Impairment of assets” – Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”
- Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

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

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

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

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

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

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016),
- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),

- Amendments to IAS 1 “Presentation of Financial Statements” – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards “Improvements to IFRSs (cycle 2012–2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Entity’s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement”, would not significantly impact the financial statements, if applied as at the balance sheet date.

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

NOTE 2:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of presentation

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

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

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

2.2 Foreign currency translation

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

2.3 Consolidated financial statements

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

2.4 Investments in subsidiaries

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

Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.

Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

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

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

2.5 Securities held-to-maturity

Investments in securities, traded in active market (with fixed or determinable cash-flows) are accounted for on a settlement date basis and are initially measured at fair value.

At subsequent reporting dates, securities that the Bank has the expressed intention and ability to hold to maturity (securities held-to-maturity) are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivables over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment.

Such securities comprise mainly securities issued by the Hungarian Government, mortgage bonds and Hungarian Government discounted Treasury Bills.

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

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

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

2.6.2 Derivative financial instruments

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

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

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

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

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

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

The ineffective element of the hedge is charged directly to the separate statement of recognized income.

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

2.8 Offsetting

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

2.9 Embedded derivatives

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

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

2.10 Securities available-for-sale

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

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

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

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

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

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

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

Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount

at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest becomes impaired.

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

The amount of allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash-flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate. Allowance for losses on loans and placements with other banks represent management assessment for potential losses in relation to these activities.

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

The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation

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

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

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

2.12 Sale and repurchase agreements, security lending

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

2.13 Property, equipment and intangible assets

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

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

Depreciation and amortization on properties, equipment and intangible assets starts on the

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

If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

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

Reducing the foreign currency risk caused by firm commitment, forward foreign currency contracts may be concluded to ensure the amount payable in foreign currency on a specified future date on one hand and to eliminate the foreign currency risk arising until settlement date of the contract on the other hand. In the case of effective hedge the realised profit or loss of hedging instrument is stated as the part of the cost of the hedged asset as it has arisen until recognising the asset and it is tightly connecting to the purchasing.

2.14 Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. In connection to the financial liabilities at fair value through profit or loss, the Bank presents the amount of change in their fair value originated from the changes of

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

2.15 Leases

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

2.16 Treasury shares

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

directly to shareholder's equity in the treasury shares. Derecognition of treasury shares is based on the FIFO method.

2.17 Interest income and interest expense

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

2.18 Fees and Commissions

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

2.19 Dividend income

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

2.20 Income tax

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

2.21 Off-balance sheet commitments and contingent liabilities

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

2.22 Share-based payment and employee benefit

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

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

2.23 Separate statement of cash-flows

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

2.24 Segment reporting

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

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

At separate level, the Management does not separate and makes decisions based on different segments; the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the business and geographical segments. The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, other subsidiaries, Corporate Centre.

2.25 Comparative figures

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

2.26 Government measures related to customer loan contracts

Act XXXVIII of 2014 on "Settlement of certain issues concerning the Uniformity Decision of the Supreme Court related to customer loan agreements¹ provided by financial institutions" ("Curia Law") was promulgated on 18 July 2014. The Hungarian Parliament has adopted on 24 September 2014 the Act XL of 2014 on "Rules of the settlement and certain other issues put in Act XXXVIII of 2014 on Settlement of certain issues concerning the Uniformity Decision of the Supreme Court related to customer loan agreements provided by financial institutions" ("Act on Settlement"), based on that financial institutions need to settle up with their clients on account of overpayments arisen from invalidity of the bid-ask exchange rate spread and unilateral amendment of contractual clauses. Act on Settlement has specified the regulations of Curia Law; obligation of settlement does not

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

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

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

a) Act on Settlement

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

loans – the provision for impairment was recognized at foreign exchange rates according to NBH as at 31 December 2014 in these financial statements. OTP Bank is recognising the provision on contingent liabilities related to Act on Settlement among the provision on other liabilities, off-balance sheet commitments and contingent liabilities in the IFRS financial statements.

b) Act on Conversion into HUF

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

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

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

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

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

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

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

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

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

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

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

Prescription 29/ZS § of the Act LXXXI of 1996² enables – based on accounting regulations in 44 § of Act on Settlement – to recognise tax difference ("tax receivables") calculated for clients' overpayments relating to customer loan agreements in the form of corporate tax, special tax of business partnerships, local business tax, innovation contribution, special tax of financial institutions, up to the tax declared and paid for the 2008–2014 tax years. Tax receivable shall be deducted from the amount of corporate tax payable for the 2015 and the following tax years.

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

expenses directly incurred in connection with implementation of the Act on Settlement.

This support has been claimed as expense during calculation of corporate tax. OTP Bank proposes to provide financial support for its subsidiaries to cover their losses.

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

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

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

² On Corporate Tax and Dividend Tax.

NOTE 3:

SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

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

3.1 Impairment on loans and placements

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

systems and applications. As a consequence, acquiring new data by the Bank could affect the level of impairment allowances in the future.

3.2 Valuation of instruments without direct quotations

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

3.3 Provisions

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

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

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

NOTE 4:

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

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

NOTE 5:

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

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

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

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

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

Interest conditions of placements with other banks:

	2014	2013
Placements with other banks in HUF	3%–6.6%	2.5%–7.49%
Placements with other banks in foreign currency	0.58%–1.3%	0.26%–1.9%
Average interest of placements with other banks	2.19%	3.26%

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

Securities held for trading:

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

Derivative financial instruments:

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

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

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

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

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

** CCIRS: Cross Currency Interest Rate Swap (see Note 27.).

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

NOTE 7:

SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

	2014	2013
Mortgage bonds	741,567	789,419
Government bonds	375,040	90,177
Bonds issued by NBH*	–	1,021,825
Other securities	64,593	67,264
listed securities	31,535	36,883
in HUF	–	–
in foreign currency	31,535	36,883
non-listed securities	33,058	30,381
in HUF	27,397	26,589
in foreign currency	5,661	3,792
Subtotal	1,181,200	1,968,685
Accrued interest	34,707	28,806
Securities available-for-sale total	1,215,907	1,997,491
	2014	2013
Securities available-for-sale denominated in HUF	67%	77%
Securities available-for-sale denominated in foreign currency	33%	23%
Securities available-for-sale total	100%	100%
Interest rates on securities available-for-sale denominated in HUF	3.5%–11%	4.5%–11%
Interest rates on securities available-for-sale denominated in foreign currency	1.99%–5.88%	2.12%–10.5%
Average interest on securities available-for-sale	4.67%	5.36%

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

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

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

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

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

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

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

An analysis of the loan portfolio by currency:

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

Interest rates of the loan portfolio are as follows:

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

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

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

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

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

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

** Incl. housing loans.

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

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

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

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

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

NOTE 9:

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

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

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

* See Note 2.11.

Significant subsidiaries

Investments in companies in which the Bank has a controlling interest are detailed below.

All companies are incorporated in Hungary unless indicated otherwise:

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

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

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

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

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

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

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

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

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

Significant associates

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

As at 31 December 2014:

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

As at 31 December 2013:

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

* Based on the valuation of the OTP Bank JSC (Ukraine) the total IFRS goodwill was impaired. Ukrainian situation is disclosed in Note 41.

** Given subsidy. See details in Note 2.26.

*** Based on unaudited financial statements.

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

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

By setting the purchase price on 24 April 2014, OTP Group accomplished its Croatian acquisition.

On 31 January 2014 OTP banka Hrvatska d.d. ("OBH") signed a purchase agreement with the Croatian Banco Popolare d.d. on acquiring a 98.37% stake in the bank. Following the submission of all the relevant documents the Croatian Central Bank approved the purchase of the majority stake at its meeting on 18 April 2014; as a result OTP Bank got all the necessary approvals for completing the transaction.

As a result of the deal OBH will enhance its presence in Northern Croatia, Zagreb and Slavonia in particular, mainly in the retail segment. The purchase price was HRK 106,977,375. Following the transaction OTP Group can serve 440 thousands customers in the Croatian market, possesses more than 250 ATMs and its network of branches has increased by 33 to 130.

On 30 June 2014 OTP Holding Malta Limited has been registered by the Registrar of Companies. The registered capital of the

Company EUR 104.95 million and the direct and indirect ownership ratio of OTP Bank is 100%.

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

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

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

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

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

NOTE 10:

SECURITIES HELD-TO-MATURITY (in HUF mn)

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

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

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

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

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

In most cases, interest on variable rate securities is based on the interest rates of 90 day Hungarian government

Treasury bills and is adjusted semi-annually. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

NOTE 11:

PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the year ended 31 December 2014:

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

For the year ended 31 December 2013:

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

NOTE 12: OTHER ASSETS* (in HUF mn)

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

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

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

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

** See Note 25.

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

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

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

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

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

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

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

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

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

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

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

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

Interest rates on deposits from customers are as follows:

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

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

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

NOTE 15:

LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

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

Interest rates on liabilities from issued securities are as follows:

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

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

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

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

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

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

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

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

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

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

The Issuer can initiate to introduce the bonds

issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange.

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

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

Issued securities denominated in HUF as at 31 December 2014:

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

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

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

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

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

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

NOTE 17:

OTHER LIABILITIES* (in HUF mn)

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

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

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

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

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

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

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

*** See Note 2.26.

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

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

Interest rates on subordinated bonds and loans are as follows:

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

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

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

NOTE 19:**SHARE CAPITAL (in HUF mn)**

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

* European Medium Term Note Program.

NOTE 20:**RETAINED EARNINGS AND RESERVES (in HUF mn)****The reserves of the Bank under Hungarian Accounting Standards (“HAS”)*:**

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

The legal reserves (general reserve and tied-up reserve) are not available for distribution.

Dividend was calculated on the bases of the separate annual net profit according to HAS.

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

On 19 October 2006 the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares (“ICES”). Within the transaction 10 million shares owned by OTP Bank and 4.5 million OTP shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted

average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A.

(“OPUS”), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares.

The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10.

The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to redeem the bonds at face value.

Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP Bank has discretionary right to cancel the payments. The interest payable is non-cumulative.

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

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

NOTE 21:**TREASURY SHARES (in HUF mn)**

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

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

Change in number of shares:

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

Change in carrying value:

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

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

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

NOTE 23:**NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)****Income from fees and commissions:**

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

Expenses from fees and commissions:

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

NOTE 24:

OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

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

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

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

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

* See Note 2.26.

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

NOTE 25: INCOME TAX (in HUF mn)

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

A breakdown of the income tax expense is:

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

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

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

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

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

A reconciliation of the income tax expense is as follows:

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

* See Note 2.26.

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

Income tax adjustments due to permanent differences are as follows:

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

NOTE 26:

FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

26.1 Credit risk

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

foreign exchange contracts. Actual exposures against limits are monitored daily.

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

26.1.1 Analysis by loan types

Classification into risk classes

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

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

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

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

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

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

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

- the credit rating of the customer or the partner: the financial position, stability and income-generating capacity affected by the financial or investment service and issuer of the security, and any changes thereto;
- compliance with the rules of repayment (delay): delays in the repayment of the loan principal and its interests;

- the country risk relating to the customer (both political and transfer risks) and any changes thereto;
- the value of collaterals, their liquidity and accessibility, and any changes therein;
- the transferability and liquidity of the exposures (the market conditions of supply and demand, the available market prices and participation in the shareholders' equity of the issuer in proportion to the investment);
- the future payment obligation recognized as a loss arising from the exposure.

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

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

As at 31 December 2014:

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

As at 31 December 2013:

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

The Bank's gross loan portfolio decreased by 7.5% in the year ended 31 December 2014.

Analysing the contribution of loan types to the loan portfolio, the share of several business lines hardly changed.

The ratio of the DPD090– loans compared to the gross loan portfolio increased slightly from 96.47% to 96.68% as at 31 December

2014, while the ratio of DPD90+ loans in gross loan portfolio decreased from 3.53% to 3.32%.

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

Not impaired loan portfolio

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

As at 31 December 2014:

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

As at 31 December 2013:

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

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 81.58% to 85.16% as at 31 December 2014 compared to 31 December 2013. The loans that are neither past due nor impaired are concentrated in the corporate business line. The ratio of the gross value of the loans past due not impaired compared to the whole portfolio decreased from 2.29% to 2.04%. The loans that are past due but not impaired are concentrated in the retail business line. During collective valuation method the Bank recognizes provision for impairment on loans over a 30 day delay. Those loans which are guaranteed by state and are past due 30 days not impaired due to the state guarantee. The level of corporate loans past due but not impaired is possible

because of endorsing collaterals considering during the individual evaluation. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank. Among the past due loans, the share of certain loan types changed insignificantly as at 31 December 2014 compared to 31 December 2013.

Loans individually assessed for provision

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

As at 31 December 2014:

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

As at 31 December 2013:

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

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

Refinancing of retail loans at the subsidiaries:

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

Transactions with high level of risk:

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

Business lines risks:

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

Loan portfolio by countries

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

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

The non-performing loans connected to the OTP Financing Solutions B.V. (the Netherlands) are related to the refinancing of retail loans at the subsidiaries, the actual exposure of

non-performing loans is HUF 13.7 billion as at 31 December 2014, from that HUF 2.9 billion is related to non-performing corporate loans and HUF 10.9 billion to retail ones.

26.1.2 Collaterals

The collateral value held by the Bank by collateral types is as follows (**total collateral value**).

The collaterals cover loans as well as off-balance sheet exposures.

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

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

The collateral value held by the Bank by collateral types is as follows (to the extent of

the exposures). The collaterals cover loans as well as off-balance sheet exposures.

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

The coverage level of loan portfolio to the extent of the exposures increased from 15.75% to 18.03% as at 31 December 2014,

as well as coverage to the total collateral value improved from 33.07% to 36.90%.

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

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

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

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

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

26.1.3 Restructured loans

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

* Incl.: project and syndicated loans.

Restructured portfolio definition

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

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

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

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

- independently from the date of the restructuring the following restructuring tool was applied:
 - cancellation of principal outstanding (cancelled or partially cancelled principal receivables);

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

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

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

Financial instruments by rating categories*

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

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

* Moody's ratings.

** Corporate shares listed on Budapest Stock Exchange.

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

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

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

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

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

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

26.2 Market risk

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

26.2.1 Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding

period for a specified confidence level.

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

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

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

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

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

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

26.2.2 Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to an increase and decrease in the HUF exchange rate against EUR, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to

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

Probability	Effects to the P&L in 3 months period In HUF billion	
	2014	2013
1%	(15.0)	(12.7)
5%	(10.5)	(8.7)
25%	(4.5)	(3.6)
50%	(0.6)	(0.3)
25%	3.2	2.8
5%	8.2	7.0
1%	11.8	9.9

Notes:

- (1) The short-term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
- (2) The HUF/EUR volatility remained at its long-term average, so potential losses or gains have not changed significantly.
- (3) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2014.

26.2.3 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date were outstanding for the whole year. The analysis was prepared by assuming only

the advertising interest rate changes. The main assumptions were as follows:

- Floating-rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed-rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.
- The sensitivity of interest income to changes in BUBOR is analysed.

The simulation was prepared by assuming two scenarios:

1. HUF base rate decreases gradually to 1.5% (probable scenario)
2. HUF base rate decreases gradually to 0.1% (alternative scenario)

The net interest income in a one year period beginning with 1 January 2015 would be decreased by HUF 438 million (probable scenario) and HUF 2,069 million (alternative scenario) as a result of these simulations. This effect is counterbalanced by capital gains (HUF 899 million for probable scenario, HUF 3,689 million for alternative scenario) on the government bond portfolio held for hedging (economic).

The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period and to the market value of the hedge government bond portfolio booked against capital can be summarized as follows:

Description	2014		2013	
	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(138)	374	(195)	240
EUR (0.1%) parallel shift	(134)	–	(161)	–
USD 0.1% parallel shift	(73)	–	(43)	–
Total	(345)	374	(399)	240

26.2.4 Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Bank uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as

risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability. The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. This scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2014	2013
VaR (99%, one day, million HUF)	13	14
Stress test (million HUF)	(43)	(60)

26.2.5 Capital management

Capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Bank includes the management and evaluation of the shareholders' equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business. The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with HAS applying the current directives, rulings and indicators from 1 January 2014.

The Bank has entirely complied with the regulatory capital requirements in 2014 as well as in 2013.

The capital adequacy calculations of the Bank in accordance with HAS are prepared based on the Basel II for the year ended 31 December 2013 and based on Basel III as at 31 December 2014 due to modification of the regulation.

The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA) is applied since 31 December 2012.

The calculation of the Capital Adequacy ratio as at 31 December 2014 and 2013 is as follows:

	2014		2013
	Basel III		Basel II
Tier1 capital	525,849	Core capital	994,715
Common equity Tier1 capital (CET1)	525,849	Supplementary capital	215,902
Additional Tier1 capital (AT1)	–	Deductions	(460,870)
Tier2 capital	146,471	Deductions due to PIBB* investments	(413,220)
		Deductions due to limit breaches	(47,650)
Regulatory capital	672,320	Regulatory capital	749,747
Credit risk capital requirement	217,891	Credit risk capital requirement	201,729
Market risk capital requirement	43,188	Market risk capital requirement	32,942
Operational risk capital requirement	22,650	Operational risk capital requirement	25,972
Total requirement regulatory capital	283,729	Total requirement regulatory capital	260,643
Surplus capital	388,591	Surplus capital	489,104
CET1 ratio	14.83%	Tier1 ratio	23.01%
Capital adequacy ratio	18.96%	Capital adequacy ratio	23%

Basel II

The positive components of the Core capital

are: Issued capital, Capital reserve, Tied-up reserve, General reserve, Profit reserve, Profit for the year, General risk reserve.

The negative components of the Core capital

are: Treasury shares, Intangible assets.

The positive components of the

Supplementary capital are: Subsidiary loan capital, Subordinated loan capital.

Deductions: PIBB investments, limit breaches.

Basel III

Common equity Tier1 capital (CET1):

Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due to investments, adjustments due to temporary disposals

Tier2 capital:

Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals.

NOTE 27:

OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred

to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities and commitments	2014	2013
Commitments to extend credit	753,152	650,300
Guarantees arising from banking activities	366,756	420,166
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	102,133	115,328
Promissory obligation to OTP Financing Solutions B.V.	120,664	124,517
Legal disputes (disputed value)	53,729	49,944
Contingent liabilities ordered by law related to customer loans**	44,127	–
Confirmed letters of credit	108	470
Other	33,428	26,995
Total	1,371,964	1,272,392

* PIBB: Financial Institutions, Investing Enterprises, Insurance Companies.

** See Note 2.26.

Legal disputes

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provision due to legal disputes was HUF 998 million and HUF 554 million as at 31 December 2014 and 2013, respectively (see Note 17.).

Complying with Act CXX of 2001 on the capital market, OTP Bank announces that action for damages initiated by DOO VEKTRA JAKIC in bankruptcy in the amount of EUR 80 million against OTP Bank before the Commercial Court in Bijelo Polje (Montenegro) has been dismissed entirely and the court decided in favour of OTP Bank. The decision of the court is subject to appeal. OTP Bank considers the claim is entirely unfounded as it is confirmed by the court of first instance.

The Competition Council of the Hungarian Competition Authority with its resolution issued on 18 June 2014 established that OTP Bank committed a violation of law; therefore the company was obliged to pay a fine in the amount of HUF 38 million.

Commitments to extend credit, guarantees and letter of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The Management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount and until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank. A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is

some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Contingent liabilities related to OTP Mortgage Bank Ltd.

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank had guaranteed, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. The repurchase guarantee contract of non-performing loans between OTP Mortgage Bank Ltd. and OTP Bank Plc. was modified in 2010. According to the new arrangement the repurchase guarantee was cancelled and OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

Derivatives

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with

potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Bank in most of the cases requires margin deposits.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of spot contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge the exchange rate fluctuations of loans and deposits denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

The Bank enters into foreign-exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consist of a prompt and one or more forward contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts are often used to express the volume of these transactions

but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

Cross-currency interest rate swaps

The Bank enters into cross-currency interest rate swap (CCIRS) transactions which have special attributes, i.e. the parties exchange the notional amount at the beginning and also at the maturity of the transaction. A special type of these deals is the mark-to-market CCIRS agreements. At this kind of deals the parties – in accordance with the foreign exchange prices – revalue the notional amount during lifetime of the transaction.

Equity and commodity swaps

Equity swaps obligate two parties to exchange more payments calculated with reference periodically reset rates of interest and performance of indexes. A specific notional principal amount is the base of the interest calculation. The payment of index return is calculated on the basis of current market price compared to the previous market price. In case of commodity swaps payments are calculated on the basis of the strike price of a predefined commodity compared to its average market price in a period.

Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

Foreign exchange options

A foreign exchange option is a derivative financial instrument that gives the owner the right to exchange money denominated in one currency into another currency at a pre-agreed exchange rate at a specified future date. The transaction, for a fee, guarantees a worst-case exchange rate for the futures purchase of one currency for another. These options protect against unfavourable currency movements while preserving the ability to participate in favourable movements.

NOTE 28:

SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises.

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50–50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

OTP Bank ensures the share-based payment part for the management personnel of OTP Group members.

The value of the discounted share-based payment at the performance assessment is determined by Board of Directors based on the average of the three previous trade day's middle rate of OTP Bank's equity shares fixed on the Budapest Stock Exchange. Discounted share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date is determined by Board of Directors, maximum HUF 4,000.

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with concerning EU-directives –, therefore the Board of Directors made a decision to cancel the share-based payment in referred countries.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies. In case of the jubilee benefits both standards contain regulations.

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. Other long-term employee benefits are all employee benefits other than short-term employee benefits, postemployment benefits and termination benefits.

Board of Directors determined the parameters for the share-based payment relating to the year 2010–2013 for periods of each year as follows:

Year	Exercise price per share	Maximum earnings per share	Exercise price per share	Maximum earnings per share	Exercise price per share	Maximum earnings per share	Exercise price per share	Maximum earnings per share
	for the year 2010		for the year 2011		for the year 2012		for the year 2013	
2011	3,946	2,500	–	–	–	–	–	–
2012	3,946	3,000	1,370	3,000	–	–	–	–
2013	4,446	3,500	1,870	3,000	2,886	3,000	–	–
2014	4,946	3,500	1,870	4,000	2,886	3,000	2,522	2,500
2015	–	–	1,870	4,000	2,886	3,000	2,522	3,000
2016	–	–	–	–	2,886	3,500	2,522	3,500
2017	–	–	–	–	–	–	2,522	3,500

Based on parameters accepted by Board of Directors, relating to the year 2010 effective pieces are follows as at 31 December 2014:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2014	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2011	–	340,950	11,622	5,731	329,328
Share-purchasing period started in 2012	–	735,722	714,791	4,593	20,931
Share-purchasing period started in 2013	–	419,479	31,789	4,808	387,690
Share-purchasing period started in 2014	497,451	497,451	–	–	–

Effective pieces are follows in exercise periods of each year relating to the year 2011 as at 31 December 2014:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2014	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2012	–	471,240	464,753	3,758	6,487
Share-purchasing period started in 2013	–	1,267,173	1,256,529	4,886	10,644
Share-purchasing period started in 2014	214,805	609,137	394,332	4,491	–
Share-purchasing period starting in 2015	724,886	–	–	–	–

Effective pieces are follows in exercise periods of each year relating to the year 2012 as at 31 December 2014:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2014	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2013	–	450,861	445,671	4,413	5,190
Share-purchasing period started in 2014	720,281	1,156,631	436,350	4,502	–
Share-purchasing period starting in 2015	649,653	–	–	–	–
Share-purchasing period starting in 2016	688,990	–	–	–	–

Effective pieces are follows in exercise periods of each year relating to the year 2013 as at 31 December 2014:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2014	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2014	–	406,044	404,263	4,369	1,781
Share-purchasing period starting in 2015	843,340	–	–	–	–
Share-purchasing period starting in 2016	495,340	–	–	–	–
Share-purchasing period starting in 2017	549,909	–	–	–	–

Effective pieces relating to the periods starting in 2015–2017 settled during valuation of performance of year 2011–2013, can be modified based on risk assessment and personal changes.

In connection with shares as a part of the Bank Group Policy on Payments modified

by 7/2013 resolution of Annual General Meeting and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 4,393 million was recognized as expense as at 31 December 2014.

NOTE 29: RELATED PARTY TRANSACTIONS (in HUF mn)

The Bank provides loans to related parties, and collects deposits.

Transactions with related parties (subsidiaries), other than increases in share capital or dividend received, are summarized below:

a) Loans provided to related parties

	2014	2013
OTP Mortgage Bank Ltd.	300,562	237,163
OTP Factoring Ltd.	174,422	165,310
Merkantil Bank Ltd.	159,847	176,993
OTP Holding Ltd./OTP Financing Cyprus Co. Ltd. (Cyprus)	149,086	215,101
OTP Financing Solutions B.V. (the Netherlands)	120,664	124,478
OTP Financing Netherlands B.V. (the Netherlands)	82,453	100,714
JSC "OTP Bank" (Russia)	68,625	14,735
OTP Real Estate Leasing Ltd.	27,518	25,706
OTP Leasing d.d. (Croatia)	26,591	20,914
Merkantil Lease Ltd.	21,356	16,625
OTP Leasing Ukraine	17,744	15,256
DSK Leasing AD (Bulgaria)	17,319	15,142
OTP Factoring Slovensko a.s. (Slovakia)	10,506	–
Inga Kettő Ltd.	10,281	19,281
OTP Bank JSC (Ukraine)	7,750	12,550
Bank Center Ltd.	6,000	10,000
OTP banka Hrvatska Group (Croatia)	3,716	3,504
D-ÉG Thermoset Ltd.	2,886	2,925
Merkantil Car Ltd.	1,040	8,721
Other	848	7,115
Total	1,209,214	1,192,233

* Associate company.

b) Deposits from related parties

	2014	2013
DSK Bank EAD (Bulgaria)	330,829	127,443
OTP Mortgage Bank Ltd.	148,124	62,335
OTP Banka Slovensko a.s. (Slovakia)	63,001	3,833
OTP Building Society Ltd.	33,312	29,333
OTP Funds Servicing and Consulting Ltd.	26,369	25,094
OTP Bank Romania S.A. (Romania)	24,114	7,840
OTP banka Hrvatska d.d. (Croatia)	19,225	1,793
JSC "OTP Bank" (Russia)	19,126	51,894
Crnogorska komercijalna banka a.d (Montenegro)	15,876	11,894
OTP Factoring Ltd.	13,438	5,598
Merkantil Bank Ltd.	13,018	11,386
OTP Real Estate Leasing Ltd.	5,700	596
OTP banka Srbija a.d. (Serbia)	3,922	626
OTP Life Annuity Ltd.	3,195	–
OTP Holding Ltd./OTP Financing Cyprus Co. Ltd. (Cyprus)	2,591	105
Bank Center Ltd.	2,506	4,014
Balansz Real Estate Institute Fund	2,436	1,930
OTP Financing Malta Ltd. (Malta)	1,679	–
OTP Financing Netherlands B. V. (the Netherlands)	1,384	1,724
Monicomp Ltd.	1,292	894
Other	2,183	3,421
Total	733,320	351,753

c) Interests received by the Bank*

	2014	2013
OTP Holding Ltd./OTP Financing Cyprus Co. Ltd. (Cyprus)	8,716	9,331
OTP Mortgage Bank Ltd.	5,711	9,916
OTP Financing Solutions B.V. (the Netherlands)	5,627	5,807
Merkantil Bank Ltd.	4,912	5,658
OTP Factoring Ltd.	3,557	4,784
OTP Financing Netherlands B.V. (the Netherlands)	2,141	5,993
JSC "OTP Bank" (Russia)	1,697	2,046
OTP Leasing Ukraine	936	584
Merkantil Lease Ltd.	766	1,132
OTP Leasing d.d. (Croatia)	542	583
OTP Real Estate Leasing Ltd.	426	473
DSK Leasing AD (Bulgaria)	356	507
Bank Center Ltd.	273	110
OTP Factoring Slovensko a.s. (Slovakia)	264	–
OTP Banka Slovensko a.s. (Slovakia)	260	12
OTP banka Hrvatska Group (Croatia)	187	184
D-ÉG Thermoset Ltd.**	152	213
Merkantil Car Ltd.	96	332
Inga Kettő Ltd.	91	213
Other	549	528
Total	37,259	48,406

* Derivatives and interest on securities are not included.

** Associate company.

d) Interests paid by the Bank*

	2014	2013
DSK Bank EAD (Bulgaria)	2,811	2,422
OTP Mortgage Bank Ltd.	1,799	1,069
Merkantil Lease Ltd.	1,278	1,669
OTP Funds Servicing and Consulting Ltd.	715	1,368
OTP Banka Slovensko a.s. (Slovakia)	664	126
OTP Building Society Ltd.	559	947
JSC "OTP Bank" (Russia)	460	2,162
Crnogorska komercijalna banka a.d (Montenegro)	284	1,914
OTP Bank Romania S.A. (Romania)	244	608
OTP Factoring Ltd.	139	–
Merkantil Bank Ltd.	111	143
OTP Life Annuity Ltd.	91	–
Bank Center Ltd.	80	117
OTP banka Srbija a.d. (Serbia)	45	88
Balanz Real Estate Institute Fund	32	173
OTP Real Estate Leasing Ltd.	14	101
Other	299	114
Total	9,625	13,021

e) Commissions received by the Bank

	2014	2013
From OTP Fund Management Ltd. in relation to trading activity	10,476	8,302
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	2,973	2,241
From OTP Bank JSC (Ukraine) in relation to lending activity	1,666	630
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	592	263
From OTP Funds Servicing and Consulting Ltd. in relation to banking	419	–
From OTP Fund Management Ltd. in relation to custody activity	67	265
Total	16,193	11,701

f) Commissions paid by the Bank

	2014	2013
OTP Bank Romania S.A. (Romania) related to loan portfolio handling	244	295
Crnogorska komercijalna banka a.d. (Montenegro) related to loan portfolio handling	124	150
Total	368	445

g) Transactions related to OTP Mortgage Bank Ltd.

	2014	2013
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	5,967	8,179
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	1,440	1,351
The gross book value of the loans sold	1,440	1,350

* Derivatives and interest on securities are not included.

h) Transactions related to OTP Factoring Ltd.

	2014	2013
The gross book value of the loans sold	24,605	40,828
Provision for loan losses on the loans sold	12,667	21,023
Loans sold to OTP Factoring Ltd. without recourse (including interest)	7,261	13,584
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	4,677	6,221

The underlying mortgage rights were also transferred to OTP Factoring Ltd.

i) Transactions related to OTP Banka Slovensko a.s. (Slovakia)

	2014	2013
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	7,872	14,846

j) Transactions related to OTP Factoring Montenegro d.o.o. (Montenegro)

	2014	2013
The gross book value of the loans sold	5,913	–
The selling price of the loans sold	2,775	–

k) Transactions related to OTP Financing Malta Ltd. (Malta)

	2014	2013
The gross book value of the loans sold	31,293	–
The selling price of the loans sold (including interest and premium)	31,506	–

l) Related party transactions with key management

The compensation of key management, such as the members of the Board of Directors, the members of the Supervisory Board and the employees involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

Compensations	2014	2013
Short-term employee benefits	3,453	4,658
Share-based payment	2,937	3,297
Long-term employee benefits (on the basis of IAS 19)	443	701
Total	6,833	8,656

	2014	2013
Loans provided to companies owned by the Management (in the normal course of business)	11,854	38,538
Commitments to extend credit and bank guarantees	15,545	1,030
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	136	131

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned credit line "A" in the amount of HUF 139.7 and 133.3 million as at 31 December 2014 and 2013.

An analysis of credit limit related to MasterCard Gold is as follows:

	2014	2013
Members of Board of Directors and their close family members	18	18
Members of Supervisory Board	4	4
Chief executive	2	–

The family member of a member of the Board of Directors owned AMEX Blue credit card loan in the amount of HUF 0.6 million as at 31 December 2014.
Chief executives owned AMEX Gold loading card loan in the amount

of HUF 3.5 million as at 31 December 2014.
Member of Board of Directors, members of Supervisory Board and chief executives with their close family members owned AMEX Platinum credit card loan in the amount of HUF 23.5 million as at 31 December 2014.

An analysis of payment to chief executives related to their activity in Board of Directors and Supervisory Board is as follows:

	2014	2013
Members of Board of Directors	539	545
Members of Supervisory Board	73	71
Total	612	616

In the normal course of business, OTP Bank enters into other transactions with its subsidiaries, the amounts

and volumes of which are not significant to these financial statements taken as a whole.

NOTE 30:

TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the

funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying separate statement of financial position.

	2014	2013
Loans managed by the Bank as a trustee	39,618	42,280

NOTE 31:

CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2014	2013
Receivables from, or securities issued by the Hungarian Government or the NBH*	44%	30%
Securities issued by the OTP Mortgage Bank Ltd.	9.77%	11.68%

There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2014 or 2013.

OTP Bank continuously provides the Authority with reports on the extent of dependency

on large depositors as well as the exposure of the biggest 50 depositors towards OTP Bank. Further to this obligatory reporting to the Authority, OTP Bank pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with

* Securities issued by the NBH were changed into two-weeks NBH deposit during the year ended 31 December 2014.

these partners in order to secure the stability of the level of deposits.

The organisational unit of OTP Bank in charge of partner-risk management analyses the biggest partners on a constant basis and

sets limits on OTP Bank's and the Group's exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas.

NOTE 32:

MATURITY ANALYSIS LIABILITIES AND LIQUIDITY RISK (in HUF mn)

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the NBH.

The essential of the liquidity risk management strategy is to identify all relevant systemic and idiosyncratic sources of liquidity risk and to measure the probability and severity of such events. During liquidity risk management the Bank considers the effect of liquidity risk events caused by reasons arising in the bank business line (deposit withdrawal), the national economy (exchange rate shock, yield curve shock) and the global financial system (capital market shock).

In line with the Bank's risk management policy liquidity risks are measured and managed on multiple hierarchy levels and applying integrated unified VaR based methodology. The basic requirement is that the Bank must keep high quality liquidity reserves by means it can fulfil all liabilities when they fall due without material additional costs.

The liquidity reserves can be divided into two parts. There are separate decentralized liquid asset portfolios at subsidiary level and a centralized flexible liquidity pool at Group's level. The reserves at subsidiary levels are held to cover the relevant shocks of the subsidiaries which may arise in local currencies (deposit withdrawal, local capital market shock, unexpected business expansion), while the centralized liquidity pool is held to cover the OTP Bank's separate shocks (deposit-, yield curve- and exchange rate shocks) and all group member's potential shocks that may arise in foreign currencies (deposit withdrawal, capital market shock).

The recalculation of shocks is made at least quarterly while the recalibration of shock measurement models and review of the risk management methodology is an annual process. The monitoring of liquidity reserves for both centralized and decentralized liquid asset portfolio has been built into the daily reporting process.

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over) coverage of risk liquidity risk exposure by high quality liquid assets is in all-time record highs. In 2014 there were no material changes in liquidity risk management process.

The following tables provide an analysis of liabilities about the non-discounted cash-flow into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash-flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash-flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash-flows are exchanged; gross loan commitments. Such undiscounted cash-flows differ from

the amount included in the statement of financial position because the amount in that statement is based on discounted cash-flows. When the amount payable is not fixed, the amount disclosed is determined by reference

to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

As at 31 December 2014:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	950,833	56,734	85,328	61,561	–	1,154,456
Deposits from customers	3,952,755	251,993	17,039	13,208	–	4,234,995
Liabilities from issued securities	22,705	41,355	57,667	29,174	–	150,901
Other liabilities*	215,057	102,572	–	–	–	317,629
Subordinated bonds and loans	30,820	–	168,481	–	111,191**	310,492
TOTAL LIABILITIES	5,172,170	452,654	328,515	103,943	111,191	6,168,473
Receivables from derivative financial instruments classified as held for trading	2,202,779	968,403	566,209	5,578	–	3,742,969
Liabilities from derivative financial instruments classified as held for trading	(2,334,158)	(1,086,572)	(668,861)	(19,340)	–	(4,108,931)
Net notional value of financial instruments classified as held for trading	(131,379)	(118,169)	(102,652)	(13,762)	–	(365,962)
Receivables from derivative financial instruments designated as fair value hedge	–	202	16,050	3,273	–	19,525
Liabilities from derivative financial instruments designated as fair value hedge	(1)	(710)	(19,518)	(3,898)	–	(24,127)
Net notional value of financial instruments designated as fair value hedge	(1)	(508)	(3,468)	(625)	–	(4,602)
Net notional value of derivative financial instruments total	(131,380)	(118,677)	(106,120)	(14,387)	–	(370,564)
Commitments to extend credit	220,283	434,835	66,152	31,882	–	753,152
Bank guarantees	44,380	76,055	42,793	203,528	–	366,756
Off-balance sheet commitments	264,663	510,890	108,945	235,410	–	1,119,908

As at 31 December 2013:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	674,084	42,185	146,937	48,804	–	912,010
Deposits from customers	3,427,471	224,959	21,461	10,870	–	3,684,761
Liabilities from issued securities	20,423	48,476	79,890	26,357	–	175,146
Other liabilities*	234,546	145	–	–	–	234,691
Subordinated bonds and loans	3,424	–	187,091	–	104,842**	295,357
TOTAL LIABILITIES	4,359,948	315,765	435,379	86,031	104,842	5,301,965
Receivables from derivative financial instruments classified as held for trading	1,106,691	418,829	1,078,210	14,337	–	2,618,067
Liabilities from derivative financial instruments classified as held for trading	(1,148,354)	(452,579)	(1,200,157)	(31,459)	–	(2,832,549)
Net notional value of financial instruments classified as held for trading	(41,663)	(33,750)	(121,947)	(17,122)	–	(214,482)
Receivables from derivative financial instruments designated as fair value hedge	1	19	2,680	3,942	–	6,642
Liabilities from derivative financial instruments designated as fair value hedge	(1)	(24)	(3,355)	(2,579)	–	(5,959)
Net notional value of financial instruments designated as fair value hedge	–	(5)	(675)	1,363	–	683
Net notional value of derivative financial instruments total	(41,663)	(33,755)	(122,622)	(15,759)	–	(213,799)
Commitments to extend credit	72,976	410,673	115,809	50,842	–	650,300
Bank guarantees	26,657	56,408	134,827	202,274	–	420,166
Off-balance sheet commitments	99,633	467,081	250,636	253,116	–	1,070,466

* Derivative financial instruments designated as fair value hedge are not included.

** See Note 18.

NOTE 33:**NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)**

As at 31 December 2014	USD	EUR	CHF	Others	Total
Assets*	279,394	1,105,039	476,074	99,485	1,959,992
from this: loans concerned in conversion into HUF**	–	820	46,338	49	47,207
Liabilities	(191,873)	(1,186,305)	(92,377)	(69,823)	(1,540,378)
from this: provision for loans concerned in conversion into HUF**	–	(118)	(6,833)	(401)	(7,352)
Off-balance sheet assets and liabilities, net	(40,738)	(56,494)	(277,512)	(13,483)	(388,227)
Net position	46,783	(137,760)	106,185	16,179	31,387

As at 31 December 2013	USD	EUR	CHF	Others	Total
Assets*	293,385	1,219,825	527,580	76,540	2,117,330
Liabilities	(279,143)	(1,043,770)	(117,690)	(36,259)	(1,476,862)
Off-balance sheet assets and liabilities, net	49,057	(391,718)	(409,898)	(38,855)	(791,414)
Net position	63,299	(215,663)	(8)	1,426	(150,946)

The table above provides an analysis of the Bank's main foreign currency exposures. The remaining foreign currencies are shown within 'Others'. Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the

NBH and own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

NOTE 34:**INTEREST RATE RISK MANAGEMENT (in HUF mn)**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the Bank's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Bank to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Bank. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

* The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

** Loans were converted into HUF at foreign exchange rates applied in conversion due to Acts on Customer loans so these do not bear further foreign currency risk or exposure. Loans denominated in JPY are included by others. See Note 26.2.

As at 31 December 2014:

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	1,795,868	30,640	-	-	-	-	-	-	-	-	65,691	5,579	1,861,559	36,219	1,897,778
fixed interest	1,795,868	30,640	-	-	-	-	-	-	-	-	-	-	1,795,868	30,640	1,826,508
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	65,691	5,579	65,691	5,579	71,270
Placements with other banks	244,689	155,569	5,023	241,423	50,000	13,754	-	-	-	-	1,293	361	301,005	411,107	712,112
fixed interest	9,504	41,481	23	89,459	50,000	798	-	-	-	-	-	-	59,527	131,738	191,265
variable interest	235,185	114,088	5,000	151,964	-	12,956	-	-	-	-	-	-	240,185	279,008	519,193
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,293	361	1,293	361	1,654
Securities held for trading	251	-	1,362	66	3,894	124	94	64	11,488	1,232	58,671	341	75,760	1,827	77,587
fixed interest	165	-	1,241	66	3,080	16	94	64	11,488	1,232	-	-	16,068	1,378	17,446
variable interest	86	-	121	-	814	108	-	-	-	-	-	-	1,021	108	1,129
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	58,671	341	58,671	341	59,012
Securities available-for-sale	-	153,169	-	171,458	64,475	21,475	162,483	9,493	539,770	26,612	56,956	10,016	823,684	392,223	1,215,907
fixed interest	-	-	-	3,897	64,475	21,475	162,483	9,493	539,770	26,612	-	-	766,728	61,477	828,205
variable interest	-	153,169	-	167,561	-	-	-	-	-	-	-	-	-	320,730	320,730
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	56,956	10,016	56,956	10,016	66,972
Loans, net of allowance for loan losses	562,470	389,547	157,059	617,098	28,882	40,575	23,298	5,650	63,678	13,335	4,085	2,954	839,472	1,069,159	1,908,631
fixed interest	1,752	396	4,287	1,408	25,805	32,701	23,298	5,650	63,678	13,335	-	-	118,820	53,490	172,310
variable interest	560,718	389,151	152,772	615,690	3,077	7,874	-	-	-	-	-	-	716,567	1,012,715	1,729,282
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,085	2,954	4,085	2,954	7,039
Securities held-to-maturity	-	-	63,374	-	346	-	36,271	-	546,756	-	16,200	-	662,947	-	662,947
fixed interest	-	-	56,697	-	346	-	36,271	-	546,756	-	-	-	640,070	-	640,070
variable interest	-	-	6,677	-	-	-	-	-	-	-	-	-	6,677	-	6,677
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	16,200	-	16,200	-	16,200
Derivative financial instruments	892,417	1,380,421	899,135	2,425,913	136,282	812,239	8,578	19,996	31,973	41,671	-	1,300	1,968,385	4,681,540	6,649,925
fixed interest	514,405	1,148,879	147,078	1,009,941	85,034	809,065	8,578	19,996	31,973	41,671	-	-	787,068	3,029,552	3,816,620
variable interest	378,012	231,542	752,057	1,415,972	51,248	3,174	-	-	-	-	-	-	1,181,317	1,650,688	2,832,005
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	1,300	-	1,300	1,300

As at 31 December 2014:

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	488,536	465,214	26,437	15,430	37,198	5,875	5,109	3,646	88,368	5,863	429	386	646,077	496,414	1,142,491
fixed interest	488,536	301,144	24,964	12,386	9,371	5,834	5,109	3,646	88,368	5,863	-	-	616,348	328,873	945,221
variable interest	-	164,070	1,473	3,044	27,827	41	-	-	-	-	-	-	29,300	167,155	196,455
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	429	386	429	386	815
Deposits from customers	2,026,492	216,669	318,340	122,814	146,518	98,188	4,056	-	1,136,819	161,456	3,473	431	3,635,698	599,558	4,235,256
fixed interest	1,564,995	210,633	307,855	122,220	146,518	98,188	4,056	-	5,607	-	-	-	2,029,031	431,041	2,460,072
variable interest	461,497	6,036	10,485	594	-	-	-	-	1,131,212	161,456	-	-	1,603,194	168,086	1,771,280
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,473	431	3,473	431	3,904
Liabilities from issued securities	6,082	3,827	5,544	5,230	11,397	31,069	13,862	8,520	74,176	439	174	2,347	111,235	51,432	162,667
fixed interest	6,082	3,827	5,544	5,230	11,397	30,707	13,862	8,520	74,176	439	-	-	111,061	48,723	159,784
variable interest	-	-	-	-	-	362	-	-	-	-	-	-	-	362	362
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	174	2,347	174	2,347	2,521
Derivative financial instruments	618,118	1,696,937	675,674	2,636,782	286,480	732,283	6,698	19,847	23,515	41,313	26	2,871	1,610,511	5,130,033	6,740,544
fixed interest	617,938	1,043,376	152,869	1,023,806	283,456	701,466	6,698	19,847	23,515	41,313	-	-	1,084,476	2,829,808	3,914,284
variable interest	180	653,561	522,805	1,612,976	3,024	30,817	-	-	-	-	-	-	526,009	2,297,354	2,823,363
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	26	2,871	26	2,871	2,897
Subordinated bonds and loans	-	-	-	29,375	-	-	-	-	-	263,843	-	1,394	-	294,612	294,612
fixed interest	-	-	-	-	-	-	-	-	-	263,843	-	-	-	263,843	263,843
variable interest	-	-	-	29,375	-	-	-	-	-	-	-	-	-	29,375	29,375
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	1,394	-	1,394	1,394
NET POSITION	356,467	(273,301)	99,958	646,327	(197,714)	20,752	200,999	3,190	(129,213)	(390,064)	198,794	13,122	529,291	20,026	549,317

As at 31 December 2013:

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	48,235	19,529	-	-	-	-	-	-	-	-	67,534	5,223	115,769	24,752	140,521
fixed interest	48,235	19,529	-	-	-	-	-	-	-	-	-	-	48,235	19,529	67,764
variable interest	-	-	-	-	-	-	-	-	-	-	67,534	5,223	67,534	5,223	72,757
Placements with other banks	222,029	182,597	6,910	150,096	680	32,646	35,000	773	-	-	1,532	636	266,151	366,748	632,899
fixed interest	36,049	182,597	1,910	1,960	680	32,646	35,000	773	-	-	-	-	73,639	217,976	291,615
variable interest	185,980	-	5,000	148,136	-	-	-	-	-	-	-	-	190,980	148,136	339,116
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,532	636	1,532	636	2,168
Securities held for trading	211,318	81	2,344	-	4,658	436	638	34	3,607	345	73,215	172	295,780	1,068	296,848
fixed interest	211,318	81	2,344	-	4,513	225	638	34	3,607	345	-	-	222,420	685	223,105
variable interest	-	-	-	-	145	211	-	-	-	-	-	-	145	211	356
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	73,215	172	73,215	172	73,387
Securities available-for-sale	1,021,825	150,238	-	217,824	-	21,994	80,925	30,711	382,525	32,802	48,852	9,795	1,534,127	463,364	1,997,491
fixed interest	1,021,825	9,397	-	-	-	21,994	80,925	30,711	382,525	32,802	-	-	1,485,275	94,904	1,580,179
variable interest	-	140,841	-	217,824	-	-	-	-	-	-	-	-	-	358,665	358,665
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	48,852	9,795	48,852	9,795	58,647
Loans, net of allowance for loan losses	670,550	423,095	169,397	671,680	13,680	103,065	8,303	30,396	32,702	11,491	4,879	5,463	899,511	1,245,190	2,144,701
fixed interest	430	69	1,268	14,943	6,907	11,196	8,303	30,396	32,702	8,748	-	-	49,610	65,352	114,962
variable interest	670,120	423,026	168,129	656,737	6,773	91,869	-	-	-	2,743	-	-	845,022	1,174,375	2,019,397
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,879	5,463	4,879	5,463	10,342
Securities held-to-maturity	-	-	10,014	-	5,368	-	57,681	-	438,856	-	13,130	-	525,049	-	525,049
fixed interest	-	-	-	-	341	-	57,681	-	438,856	-	-	-	496,878	-	496,878
variable interest	-	-	10,014	-	5,027	-	-	-	-	-	-	-	15,041	-	15,041
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	13,130	-	13,130	-	13,130
Derivative financial instruments	612,614	1,368,827	600,760	1,124,073	74,466	105,302	12,228	28,316	30,284	22,587	-	660	1,330,352	2,649,765	3,980,117
fixed interest	259,204	791,521	30,759	190,769	50,842	102,317	12,149	28,316	30,284	22,587	-	-	383,238	1,135,510	1,518,748
variable interest	353,410	577,306	570,001	933,304	23,624	2,985	79	-	-	-	-	-	947,114	1,513,995	2,460,709
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	660	-	660	660

As at 31 December 2013:

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	376,793	308,524	10,417	59,271	69,975	3,028	798	5,669	61,496	5,410	618	745	520,097	382,647	902,744
fixed interest	365,718	260,785	6,658	23,225	1,041	2,969	798	5,669	61,496	5,410	-	-	435,711	298,058	733,769
variable interest	11,075	47,739	3,759	36,046	68,934	59	-	-	-	-	-	-	83,768	83,844	167,612
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	618	745	618	745	1,363
Deposits from customers	1,499,986	293,191	463,072	180,222	156,755	53,170	4,284	-	886,786	133,583	5,406	995	3,016,289	661,161	3,677,450
fixed interest	1,129,330	288,725	440,204	180,222	156,755	53,170	4,284	-	2,667	-	-	-	1,733,240	522,117	2,255,357
variable interest	370,656	4,466	22,868	-	-	-	-	-	884,119	133,583	-	-	1,277,643	138,049	1,415,692
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	5,406	995	5,406	995	6,401
Liabilities from issued securities	6,674	1,872	4,245	4,407	20,739	26,663	18,079	7,046	79,298	1,246	495	15	129,530	41,249	170,779
fixed interest	6,436	1,872	4,245	4,407	20,739	26,663	18,079	7,046	79,298	1,246	-	-	128,797	41,234	170,031
variable interest	238	-	-	-	-	-	-	-	-	-	-	-	238	-	238
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	495	15	495	15	510
Derivative financial instruments	423,640	1,575,964	64,868	1,635,778	44,510	132,077	126,788	28,595	22,221	22,757	-	624	682,027	3,395,795	4,077,822
fixed interest	423,111	629,717	63,836	155,154	40,519	109,502	126,788	28,595	22,221	22,757	-	-	676,475	945,725	1,622,200
variable interest	529	946,247	1,032	1,480,624	3,991	22,575	-	-	-	-	-	-	5,552	2,449,446	2,454,998
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	624	-	624	624
Subordinated bonds and loans	-	-	-	27,746	-	-	-	-	-	247,071	-	3,424	-	278,241	278,241
fixed interest	-	-	-	-	-	-	-	-	-	247,071	-	-	-	247,071	247,071
variable interest	-	-	-	27,746	-	-	-	-	-	-	-	-	-	27,746	27,746
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	3,424	-	3,424	3,424
NET POSITION	479,478	(35,184)	246,823	256,249	(193,127)	48,505	44,826	48,920	(161,827)	(342,842)	202,623	16,146	618,796	(8,206)	610,590

NOTE 35:

EARNINGS PER SHARE

Earnings per share attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary shareholders, after the deduction of declared preference dividends,

by the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

	2014	2013
Net (loss)/profit for the year attributable to ordinary shareholders (in HUF mn)	(74,469)	47,891
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	278,355,195	278,235,026
Basic Earnings per share (in HUF)	(268)	172
Separate net (loss)/profit for the year attributable to ordinary shareholders (in HUF mn)	(74,469)	47,891
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	278,643,335	278,468,896
Diluted Earnings per share (in HUF)	(267)	172

	2014	2013
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(1,644,815)	(1,764,984)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	278,355,195	278,235,026
Dilutive effect of options issued in accordance with the Remuneration Policy/Management Option Program and convertible into ordinary shares*	288,140	233,870
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	278,643,335	278,468,896

The ICES bonds could potentially dilute basic EPS in the future, but were not included in the

calculation of diluted EPS because they are antidilutive for the period presented.

NOTE 36:

NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2014:

	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	15,556	-	-	-
Placements with other banks, net of allowance for placement losses	14,689	-	(4)	-
Securities held for trading	-	4,283	-	-
Securities available-for-sale	72,056	4,947	-	51,404
Loans, net of allowance for loan losses	153,501	9,280	2,696	-
Securities held-to-maturity	36,518	-	-	-
Derivative financial instruments	3,636	(67)	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(14,779)	-	-	-
Deposits from customers	(46,423)	108,737	-	-
Liabilities from issued securities	(4,206)	-	-	-
Subordinated bonds and loans	(16,825)	-	-	-
Total	213,723	127,180	2,692	51,404

* In 2014 and 2013 dilutive effect is in connection with the Remuneration Policy.

As at 31 December 2013:

	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	3,720	–	–	–
Placements with other banks, net of allowance for placement losses	20,583	–	(22)	–
Securities held for trading	–	313	–	–
Securities available-for-sale	102,376	9,769	–	38,199
Loans, net of allowance for loan losses	181,341	10,258	(1,533)	–
Securities held-to-maturity	30,027	(87)	–	–
Derivative financial instruments	4,664	(1,099)	–	–
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(17,388)	–	–	–
Deposits from customers	(87,342)	101,329	–	–
Liabilities from issued securities	(15,241)	–	–	–
Subordinated bonds and loans	(16,922)	–	–	–
Total	205,818	120,483	(1,555)	38,199

NOTE 37:

FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 37. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortised cost, the Bank used the discounted cash-flow analysis (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Bank of Hungary represent amounts available immediately thus the fair value equals to the cost. The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the

- non-performing loans, the amortised cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

Classes of assets and liabilities not measured at fair value in the statement of financial position, income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, fair value of other classes not measured at fair value of the statement of financial position measured at discounted cash-flow method. Fair value of loans, net of allowance for loan losses measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

a) Fair value of financial assets and liabilities

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Bank of Hungary	1,897,778	1,897,778	140,521	140,521
Placements with other banks, net of allowance for placement losses	712,112	746,469	632,899	640,404
Financial assets at fair value through profit or loss	351,753	351,753	396,565	396,565
Held for trading securities	77,587	77,587	296,848	296,848
Derivative financial instruments classified as held for trading	274,166	274,166	99,717	99,717
Securities available-for-sale	1,215,907	1,215,907	1,997,491	1,997,491
Loans, net of allowance for loan losses*	1,908,631	2,277,701	2,144,701	2,466,835
Securities held-to-maturity	662,947	721,436	525,049	533,609
Derivative financial instruments designated as hedging instruments	14,041	14,041	9,734	9,734
FINANCIAL ASSETS TOTAL	6,763,169	7,225,085	5,846,960	6,185,159
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	1,142,491	1,128,655	902,744	883,999
Deposits from customers	4,235,256	4,242,841	3,677,450	3,681,927
Liabilities from issued securities	162,667	171,909	170,779	187,925
Derivative financial instruments designated as hedging instruments	3,463	3,463	2,639	2,639
Financial liabilities at fair value through profit or loss	375,363	375,363	204,517	204,517
Financial liabilities from OTP-MOL transaction	56,445	56,445	71,548	71,548
Subordinated bonds and loans	294,612	292,746	278,241	258,684
FINANCIAL LIABILITIES TOTAL	6,270,297	6,271,422	5,307,918	5,291,239

b) Fair value of derivative instruments

	Fair value		Notional value, net	
	2014	2013	2014	2013
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	43,538	53,728	46,128	59,680
Negative fair value of interest rate swaps classified as held for trading	(63,670)	(67,854)	(66,510)	(74,699)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	60,833	6,637	57,280	6,876
Negative fair value of foreign exchange swaps classified as held for trading	(60,110)	(5,744)	(55,697)	(5,917)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated in fair value hedge	14,032	9,722	8,539	4,491
Negative fair value of interest rate swaps designated in fair value hedge	(3,463)	(2,639)	(4,602)	682
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	152,540	30,914	144,886	33,067
Negative fair value of CCIRS classified as held for trading	(227,167)	(121,786)	(222,373)	(117,113)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	–	1,849	–	1,466
Negative fair value of mark-to-market CCIRS classified as held for trading	(9,576)	(2,770)	(9,856)	(3,339)
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	17,255	6,589	14,088	2,849
Negative fair value of other derivative contracts classified as held for trading	(14,840)	(6,363)	(11,526)	(13,575)
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated in fair value hedge	9	12	4	(37)
Negative fair value of other derivative contracts designated in fair value hedge	–	–	–	–
Derivative financial assets total	288,207	109,451	270,925	108,392
Derivative financial liabilities total	(378,826)	(207,156)	(370,564)	(213,961)
Derivative financial instruments total	(90,619)	(97,705)	(99,639)	(105,569)

* Fair value of loans increased in the year ended 31 December 2014 due to decrease of short-term and long-term interests.

c) Hedge accounting

OTP Bank regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transactions do not meet the criteria to account for

hedge accounting, therefore these transactions were accounted as derivatives held for trading. Net investment hedge in foreign operations is not applicable in separate financial statements.

The summary of the hedging transactions of the Bank are as follows:

As at 31 December 2014:

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash-flow hedges	–	–	–
Fair value hedges	IRS/Index option	HUF 10,578 million	Interest rate

As at 31 December 2013:

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash-flow hedges	–	–	–
Fair value hedges	IRS/Index option	HUF 7,095 million	Interest rate

d) Fair value hedges

1. Deposits from customers

The interest payment cash-flows of some structured deposits of OTP Bank denominated in HUF and EUR are exposed to the change of equity prices, equity indices or the change of HUF/EUR exchange rate. In order to hedge

the interest rate risk of the interest payments OTP Bank entered into interest rate swap transactions, where the risk of the cash-flow's from the structured deposits were swapped to payments linked to 3 month BUBOR or EURIBOR, resulting in a decrease in the fair value exposure of the deposits from customers.

	2014	2013
Fair value of the hedging instruments	107	101

2. Securities available-for-sale

OTP Bank holds fixed interest rate securities denominated in foreign currencies and fixed interest rate government bonds denominated in HUF within the available-for-sale portfolio. These fixed interest rate securities and bonds are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order

to hedge the interest rate risk of the cash-flows OTP Bank entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 12 month EURIBOR and the risk from the cash-flows of the bonds are swapped to payments linked to 6 month BUBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

	2014	2013
Fair value of the hedging instruments	(2,570)	(879)

3. Loans to customers

OTP Bank has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the

cash-flows OTP Bank entered into pay-fixed, receive-floater interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 month EURIBOR or BUBOR resulting in a decrease in the interest rate fair value exposure of the loans to customers.

	2014	2013
Fair value of the hedging instruments	(417)	(518)

4. Issued securities

The cash-flows of the fixed rate securities issued by OTP Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS and index option

transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulted a decrease in the interest rate and foreign exchange exposure of issued securities. Certain structured bonds are hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond.

	2014	2013
Fair value of the hedging IRS instruments	13,449	8,379
Fair value of the hedging index option instruments	9	12

As at 31 December 2014:

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 286,344 million	HUF (2,570) million	HUF 1,691 million	HUF (1,691) million
Loans to customers	IRS	HUF 12,158 million	HUF (417) million	HUF (101) million	HUF 101 million
Deposits from customers	IRS	HUF 1,627 million	HUF 107 million	HUF (6) million	HUF 6 million
Liabilities from issued securities	IRS	HUF 88,309 million	HUF 13,449 million	HUF (5,070) million	HUF 5,070 million
Liabilities from issued securities	Index option	HUF 651 million	HUF 9 million	HUF 3 million	HUF (3) million

As at 31 December 2013:

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 23,629 million	HUF (879) million	HUF (388) million	HUF 388 million
Loans to customers	IRS	HUF 12,866 million	HUF (518) million	HUF (540) million	HUF 540 million
Deposits from customers	IRS	HUF 5,224 million	HUF 101 million	HUF (197) million	HUF 197 million
Liabilities from issued securities	IRS	HUF 94,344 million	HUF 8,379 million	HUF (6,640) million	HUF 6,640 million
Liabilities from issued securities	Index option	HUF 644 million	HUF 12 million	HUF (8) million	HUF 8 million

e) Fair value classes

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are

observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2014:

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	351,319	73,090	278,229	–
from this: securities held for trading	77,153	72,634	4,519	–
from this: positive fair value of derivative financial instruments classified as held for trading	274,166	456	273,710	–
Securities available-for-sale	1,181,200	342,629	838,571	–
Positive fair value of derivative financial instruments designated as fair value hedge	14,041	–	14,041	–
Financial assets measured at fair value total	1,546,560	415,719	1,130,841	–
Negative fair value of derivative financial instruments classified as held for trading	375,363	478	374,885	–
Negative fair value of derivative financial instruments designated as fair value hedge	3,463	–	3,463	–
Financial liabilities measured at fair value total	378,826	478	378,348	–

As at 31 December 2013:

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	396,460	289,558	106,902	–
from this: securities held for trading	296,743	289,497	7,246	–
from this: positive fair value of derivative financial instruments classified as held for trading	99,717	61	99,656	–
Securities available-for-sale	1,968,685	1,051,818	916,867	–
Positive fair value of derivative financial instruments designated as fair value hedge	9,734	–	9,734	–
Financial assets measured at fair value total	2,374,879	1,341,376	1,033,503	–
Negative fair value of derivative financial instruments classified as held for trading	204,517	9	204,508	–
Negative fair value of derivative financial instruments designated as fair value hedge	2,639	–	2,639	–
Financial liabilities measured at fair value total	207,156	9	207,147	–

NOTE 38:**RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HAS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF mn)**

	Retained Earnings and Reserves 1 January 2014	Net loss for the year ended 31 December 2014	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves as at 31 December 2014
Financial Statements in accordance with HAS	1,101,998	(41,718)	(40,600)	(78,854)	940,826
Premium and discount amortization of financial instruments measured at amortised cost	3,640	23	–	(866)	2,797
Effect of redemption of issued securities	15,442	(1,331)	–	–	14,111
Differences in carrying value of subsidiaries	34,115	(78,854)	–	78,854	34,115
Difference in accounting for finance leases	(1,499)	626	–	–	(873)
Effects of using effective interest rate method	6,475	(541)	–	–	5,934
Fair value adjustment of held for trading and available-for-sale financial assets	38,532	2,968	–	16,641	58,141
Fair value adjustment of derivative financial instruments	6,599	3,412	–	–	10,011
Reversal of statutory goodwill	40,596	–	–	–	40,596
Revaluation of investments denominated in foreign currency to historical cost	(33,647)	976	–	–	(32,671)
Difference in accounting of security lending	(23,460)	1,479	–	–	(21,981)
Treasury share transaction	–	3,908	–	(3,908)	–
Share-based payment	–	(4,393)	–	4,393	–
Payments to ICES holders	10,061	1,112	–	(4,159)	7,014
OTP–MOL share swap transaction	(54,489)	422	–	–	(54,067)
Provision for exchange of customer loans to HUF	–	(7,906)	–	–	(7,906)
Deferred taxation	(9,672)	45,648	–	(2,419)	33,557
Dividend paid by Monicomp in advance	300	(300)	–	–	–
Dividend paid for 2013	40,600	–	(40,600)	–	–
Dividend payable in 2014	–	–	40,600	–	40,600
Financial Statements in accordance with IFRS	1,175,591	(74,469)	(40,600)	9,682	1,070,204

NOTE 39:**SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2014****1) Government measures related to customer loan contracts**

See details in Note 2.26.

2) Capital settlement package of OTP Real Estate Ltd. and its subsidiaries

See details in Note 9.

3) Capital increase at OTP banka Srbija

See details in Note 9.

4) Acquisition in Croatia

See details in Note 9.

5) Incorporation of OTP Holding Malta Limited

See details in Note 9.

6) Purchase of Banco Comercial Português

See details in Note 9.

7) Incorporation of OTP Financing Malta Company Limited

See details in Note 9.

8) Capital increase at OTP Banka Slovensko

See details in Note 9.

9) Change in ownership structure of OTP Factoring

See details in Note 9.

10) Term Note Program

See details in Note 15.

11) Judgment of the Competition Council of the Hungarian Competition Authority

See details in Note 27.

12) Legal dispute in Montenegro

See details in Note 27.

NOTE 40:

POST BALANCE SHEET EVENTS

1) Capital increase at OTP Bank Romania

See details in Note 9.

2) Act on Fair banking

Act LXXVIII of 2014 known as Act on Fair banking was promulgated that modified the Act CLXII of 2009 on Consumer Credit. The Act on Fair banking is aimed at making the variation in interest of customer loan contracts transparent and traceable. Regulations of the act are effective from 1 February 2015. The Act includes new regulations for modification of loan contracts, rules for uncharged cancellation by clients, special directions for foreign currency loans and rules of change for new contract conditions. The Act prescribes in relation with unilateral amendment of contractual clauses that interest, spread, cost and fee can be solely modified disadvantageously. Disadvantageous amendment for clients is not allowed in other conditions.

3) The impact of CHF strengthening started in January 2015 on OTP Bank

On 15 January 2015 the Swiss National Bank announced the abandonment of the CHF's exchange rate floor set at 1.2 against the euro. After the decision, the CHF sharply and substantially strengthened against the EUR and other foreign currencies in the CEE region: the CHF appreciated against the EUR from 1.2 CHF/EUR to under the parity and then it went up to 1.08 until 19 February. According to NBH's data the CHF strengthened by

20% against the HUF on the day of the announcement, the devaluation moderated to 7% until 19 February.

In Hungary, according to the Act on Conversion into HUF, the CHF mortgage loans are to be converted to HUF loans at 256.47 CHF/HUF exchange rate. The conversion became legally effective on 1 February 2015. (A customer may initiate an opt-out if meeting the criteria set by the law.) Starting from 1 January 2015 the monthly instalments of the FX mortgage loans must be calculated with the fixed rates set in the law on conversion, thus clients under the scope of the conversion law did not experience any negative effect of the CHF strengthening. OTP Bank fully hedged the open EUR/HUF positions derived from the conversion of FX mortgage loans to HUF on the FX tenders of the NBH, while the open EUR/CHF and EUR/JPY positions were hedged on the market until the end of 2014.

Within the Hungarian household loan portfolio at the end of 2014 the net volume of CHF consumer loans at OTP Core stood at HUF 12 billion equivalent, and the net volume of CHF car financing loans at Merkantil Bank Ltd. reached HUF 82 billion equivalent. The car financing loans are not subject to the conversion law. However, the monthly instalments' increase due to the CHF strengthening may be mitigated (to a different extent at individual clients) by the reduction in the nominal interest rate according to Curia Law and Act on Settlement, and the compensation may lower the loan principal.

In Romania the subsidiary of OTP Bank had HUF 134 billion equivalent net CHF mortgage loan volumes at the end of 2014. OTP Bank Romania S.A. was the first one to react to the step of the Swiss National Bank abolishing the

peg to the euro: on 16 January 2015 the Romanian subsidiary announced that in order to mitigate the negative impact of CHF appreciation on monthly instalments the interest margin will be reduced by 1.5 ppts for 3 months for those customers who had variable-rate CHF mortgage loans (in accordance with effective conditions and depending on the antecedents of the loans). Clients can apply for this scheme

until 27 February 2015 in the branches. By 12 February the take-up ratio reached 40% of performing CHF mortgage loan volumes. The Croatian subsidiary held HUF 22 billion equivalent net CHF mortgage loan volumes on its balance sheet at the end of 2014. On 19 January 2015 the Croatian Government announced that the CHF/HRK rate will be fixed at 6.39 for 12 months. The measure took effect on 26 January.

NOTE 41:

STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS

In 2014, economic developments in Hungary were shaped by sluggish external demand, supportive international money market environment, and intensifying domestic demand. The Eurozone's economy picked up speed in the second half of the year, and a number of Eurozone periphery countries came out of recession. Money market background was supportive – even though the Fed started phasing out its Quantitative Easing, the Bank of Japan and the European Central Bank introduced further monetary easing. The dollar's firming, the plunging commodity prices and the Russian conflict adversely affected emerging markets, but this had little effect on the less commodity-oriented Central and Eastern European region.

Hungary's economy grew by 3.5% in 2014, stronger than the 1.5% expansion in 2013. Last year broke the trend of the preceding years, when the main driving force of growth was net exports. Instead, an increase in investments became the key driver in 2014, while net exports' contribution to growth became negative for the first time after a long while. In addition to investments, consumption also picked up: the consumption expenditure of households rose about 1.5% in 2014, following the stagnation in 2013.

As a combined effect of the election year and the end of the seven-year EU budget, public

investments surged at an extraordinary pace, but gross fixed capital formation also started to increase in the private sector. The key drivers in the latter were mostly car manufacturing, and the related capacity increasing projects in the supplier network.

Picking up from the stagnation in 2013, the households' consumption expenditure could go up in 2014. But its rise lagged behind that of real income, allowing retail savings to expand faster. The improvement on the labour market was pronounced mostly in the first half-year, the increase in employment came to a halt by the end of the year. The low interest rate environment and the higher real incomes led to a turnaround in private investments too, helping housing-related lending and housing investments start to rise.

Following a record low of 1.7% in 2013, inflation fell further: consumer prices dropped by 0.2% in 2014. In addition to the government's measures, the favourable development in agricultural product prices, and oil prices' plunge in the last four months of the year all contributed to the lower inflation rate.

A steady fall in inflation justified the continuation of the rate cut cycle in the first half of the year, which ended with a 20-basis-point cut in July, at 2.1%. In the supportive international backdrop (abundance of liquidity), government bond yields fell further.

OTP Bank's operation in Ukraine

In 2014 both the retail and corporate lending activity of the Ukrainian banking group became muted. In the consumer lending segment more stringent lending standards were introduced already in the first quarter of 2014.

Cash loan disbursement was suspended from 9 April 2014. However, it was resumed in the second half of August, but since then newly sold cash loan volumes significantly lagged behind those in the base period (in the fourth quarter the volume of new disbursements reached only 14% that a year ago). From the second quarter of 2014 the cross-sale of credit cards declined to practically zero. As for the retail lending the Bank has remained active only in the point of sale (POS) loan segment. As a consequence of stricter lending conditions new POS loan origination melted down by more than 40% year-over-year in 2014. Regarding corporate lending the activity is focused rather on using existing credit limits.

Customer deposit volumes showed a 9% year-over-year increase (adjusted for the FX-effect). After the 7% FX-adjusted quarter-over-quarter decline in the first quarter, the second quarter saw a 7% increase followed by a 4% expansion in the third quarter and a 5% growth in the fourth quarter of 2014. The net loan to deposit ratio came down to 137% at the end of 2014, which marks multi-year low.

The decline of USD deposits did not cause liquidity problems, because this coincided with the decline of FX loan volumes. Latter was attributable not only to the loan repayments, but to the elevated provisioning, too, which required the Bank to purchase USD from its UAH liquidity reserves. Both the USD liquidity generated through these transactions and the FX liquidity coming from repayments of performing FX loans was used by the Ukrainian banking group (including the Bank, the Leasing and Factoring company) to repay mother company financing, which declined by altogether USD 445 million in 2014 (without subordinated debt). In January 2015 an additional USD 30 million intragroup funding was paid back by the OTP Bank JSC (Ukraine).

The UAH liquidity is managed in Ukraine and OTP Bank JSC (Ukraine) has to prepare for any UAH liquidity needs. The excess UAH liquidity is invested typically in assets maturing within 1 month, mainly central bank instruments, collateralized money market instruments (FX swap, repo). The excess liquidity can be invested in uncollateralized instruments only in small amount, with strict counterparty risk limits and a maturity of 1–7 days. In 2014 the maturing Ukrainian government bonds were not rolled over, at the beginning of 2015 the amount of Ukrainian government bonds kept on the balance sheet reached only UAH 26 million. The UAH liquidity has to safely cover at all times the UAH money market and capital market redemptions within 3 months as well as the potential UAH deposit shocks.

UAH 800 million equivalent subordinated debt was converted into equity booked in the fourth quarter of 2014. Compared to December 2013 the shareholders' equity of the Ukrainian banking group in HUF terms dropped as a result of weakening UAH against HUF, whereas losses realized in 2014 had a negative impact on equity, too. The Ukrainian shareholders' equity includes that of 3 entities: the Bank, the Leasing and Factoring companies. The standalone capital adequacy ratio of the Bank under local regulation stood at 10.4% at the end of 2014, thus it exceeded the regulatory minimum. This capital adequacy ratio under local regulation did not incorporate the impact of the capital conversion booked in the fourth quarter of 2014. Leasing and Factoring companies are exempt from banks' capital adequacy rules. The Ukrainian Factoring company received HUF 19 billion equivalent capital increase in September 2014 (through converting debt into equity).

In 2015 the equity of the Factoring Company is expected to be raised by converting mother company financing into equity.

In the second quarter of 2014 OTP Bank decided to close down its business in the Crimea, 8 branches were closed there. In Donetsk and

Luhansk counties where special circumstances prevail the Bank closed altogether 15 branches, thus the number of banking outlets declined to 2 at the end of 2014. Significant additional risk cost was created both in Crimea and the Eastern Ukrainian region (Donetsk and Luhansk), as a result the provision coverage of total gross loans reached 100% in Crimea and went up to 99.4% in case of gross loan exposures toward Donetsk and Luhansk regions.

The Ukrainian market and operating environment was volatile, especially in the time period between the end of 2014 and the writing of the report: after the conflict intensified again the parties reached a cease-fire accord and the IMF assistance programme is likely to be expanded, but despite all of these the UAH weakened further against the dollar. This points to further losses in Ukraine in 2015 both in case of the Bank and the Factoring company. By the end of 2014 the large majority of exposures toward Crimea, Donetsk and Luhansk counties were covered by provisions. If the territorial conflict did not escalate, and if the operating environment changed in the positive direction in Donetsk and Luhansk counties paving the way for banks to operate normally, that could create the possibility to release part of the provision already created there. The key focus areas are the optimisation of the operation and the gradual reduction of OTP Bank's exposures. The funds expected to be granted to the country by supranational institutions as well as the related requirements to implement structural changes in the economy might stabilize the economic situation and the exchange rate of the UAH.

OTP Bank's operation in Russia

Since the second half of 2013 the Bank has put particular emphasis on the improvement of consumer loan products' profitability, in line with the fine-tuning of the risk profile of these portfolios and the efficiency of collection activities. Both the stricter underwriting rules applied by the Bank,

the measures introduced by the supervisory authorities, the economic slowdown and the cyclical setback of the consumer loan market eventually resulted in moderated loan dynamics in 2014. As a reaction to the deterioration of the operating environment in the fourth quarter of 2014 (significant weakening of the rouble, 900 bps base rate hike in total) the Bank halted or limited new loan disbursement and made certain pricing steps. Since October no new credit cards have been sent out and the Bank cut back part of the card limits in December. Due to the market turbulences, since the middle of December cash loan disbursement has been suspended.

The total FX-adjusted deposit base dropped by 10% in the first quarter of 2014 quarter-over-quarter, than it remained stable in the second quarter and grew already both in the third and fourth quarter, thus the yearly FX-adjusted decrease was 4% altogether. In the fourth quarter the Bank managed to increase its deposit base (+3% quarter-over-quarter, FX-adjusted) despite the unfavourable market environment – deposit rates were increased in line with market trends at the end of December in order to reverse the deposit outflows.

In the course of 2014 the deposit base of JSC "OTP Bank" (Russia) increased nominally by 7% in RUB terms due to the devaluation of RUB. Due to the fact that the liquidity demand of maturing capital market instruments and the funding need of higher loan volumes increased, the net funding provided by the Mother Company to the Russian Bank grew to USD 320 million by the end of 2014 from USD –204 million in 2013 (which practically meant that OTP Russia was net lender to the Group in 2013). It is important to note that the mother company funding provided at the end of 2014 contained a significant safety buffer due to the long Russian holiday period and the uncertainties stemming from the market turbulences. This is proved well by the fact that the net mother company funding dropped to USD 9 million at the end of January 2015.

In 2015 JSC "OTP Bank" (Russia) will have RUB 300 million capital market redemptions

(this is the total outstanding amount of issued bonds), so from a liquidity perspective the emphasis will be put on keeping the loan and deposit volume developments in balance. Given that JSC "OTP Bank" (Russia)'s deposit base remained stable despite the liquidity shock the Russian banking system suffered, the liquidity risks are deemed to be moderate in 2015, too.

The Bank paid back issued bonds in the amount of RUB 13.3 billion in 2014, out of which RUB 1.1 billion matured in the fourth quarter of 2014.

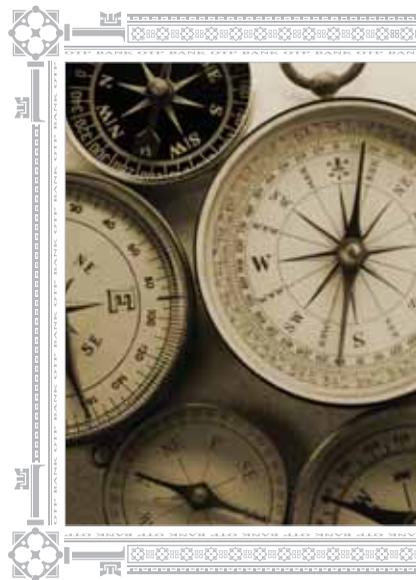
In the fourth quarter the Russian subsidiary received RUB 3 billion subordinated loan with 10 years maturity from the Mother Company, whereas in 2014 JSC "OTP Bank" (Russia) repaid altogether RUB 1.2 billion equivalent subordinated debt to the Mother Company. The Bank's capital adequacy ratio stood at 12.1% at the end of 2014.

In 2015 the DPD0-90 loan portfolio is expected to decline, which, together with a stable deposit base might result in improving liquidity position, but lower revenues. Due to the increased funding cost net interest income might decrease in 2015. The operating environment is not expected to improve materially, thus with respect to elevated risk costs no material turnaround is expected in 2015.

The Russian operation is expected to remain loss-making in 2015.

Funding for Growth Scheme

On 11 September 2013 the National Bank of Hungary decided on extending the Funding for Growth Scheme with a second phase which is to be open from 1 October 2013 till 31 December 2015. The total amount of refinancing available for banks in the second phase was originally set at HUF 500 billion; in September 2014 the total amount of available funding was lifted to HUF 1,000 billion. The limit can be increased to a maximum of HUF 2,000 billion by the Monetary Council. Similarly to the first phase, the central bank refinancing carries zero interest rate, a maximum 10-year tenor and can be lend over to SMEs by applying a maximum interest margin of 2.5%. The goal of the first pillar is to originate new loans, whereas the second pillar is for refinancing HUF or foreign currency denominated liabilities of SMEs. The share of loan contracts concluded under the second pillar must not surpass 10% of the total amount of contracts concluded under the two pillars. The maximum available amount of loans for SMEs is limited at HUF 10 billion in each pillar. Under the second phase of the Programme OTP Group already contracted in the amount of more than HUF 117 billion until the end of 2014, moreover loan applications in the pipeline exceeded HUF 38 billion.



OTP Bank
Annual Report
2014



Senior management* of OTP Bank and executive members of the Board of Directors



Dr. Sándor Csányi
Chairman & CEO

Dr. Sándor Csányi graduated from the College of Finance and Accountancy in 1974 with a bachelor's degree in business administration and in 1980 from the Budapest University of Economic Sciences with a degree in economics. He is an economist with a specialisation in finance and a chartered auditor. After graduation he worked at the Revenue Directorate and then at the Secretariat of the Ministry of Finance, after which, between 1983 and 1986, he was a departmental head at the Ministry of Agriculture and Food Industry. From 1986 to 1989 he worked as a head of department at Magyar Hitel Bank. He was deputy CEO of K&H Bank from 1989 to 1992. Since 1992 he has been Chairman & CEO of OTP Bank Plc. He is a member of the Europe Advisory Board for MasterCard, one of the world's leading payment card companies, and Vice Chairman of the Board of Directors of MOL Plc., Co-Chairman of the National Association of Entrepreneurs and Employers (VOSZ) and Co-Chairman of the Chinese-Hungarian Business Council. He has been the President of the Hungarian Football Association (MLSZ) since July 2010. As of 31 December 2014 he held 108,866 ordinary OTP shares (while the total number of OTP shares held by him directly and indirectly was 608,866).

Dr. Antal Pongrácz
Deputy Chairman, Deputy CEO
Staff Division

Dr. Antal Pongrácz graduated from the Budapest University of Economic Sciences and earned a PhD in 1971. From 1969 he worked as an analyst at the Petrochemical Investment Company, then as a group manager at the Revenue Directorate until 1975. From 1976 he held various executive positions at the Ministry of Finance. After that, in 1986–87 he was the first deputy Chairman of the State Office for Youth and Sports. Between 1988 and 1990 he was the first deputy CEO of OTP Bank. Between 1991 and 1994 he was CEO, and then Chairman & CEO, of the European Commercial Bank Rt. Between 1994 and 1998 he was Chairman & CEO of Szerencsejáték Rt., then in 1998–99 he served as CEO of Hungarian flagship carrier, Malév. Since 2001 he has been managing director of OTP Bank's Staff Division and more recently, deputy CEO. He has been a member of OTP Bank Plc.'s Board of Directors since 2002, and its deputy Chairman since 9 June 2009. Since 12 April 2012 he has been Chairman of the Supervisory Board of OTP banka Hrvatska d.d. As of 31 December 2014 he held 25,427 ordinary OTP shares.

Dr. István Gresa
Deputy CEO
Credit Approval and Risk
Management Division

Dr. István Gresa graduated from the College of Finance and Accountancy in 1974 and received a degree in economics from the Budapest University of Economic Sciences in 1980. He earned a PhD from the same establishment in 1983. He has worked in the banking sector since 1989. Between 1989 and 1993 he was branch manager of Budapest Bank's Zalaegerszeg branch. From 1993 he was director of OTP Bank's Zala County Directorate, and from 1998 he served as the managing director of the bank's West Transdanubian Region. Since 1 March 2006 he has been deputy CEO of OTP Bank, as well as the head of the Credit Approval and Risk Management Division and Chairman of the Board of Directors at OTP Factoring Ltd. He has been a member of OTP Bank's Board of Directors since 27 April 2012. As of 31 December 2014 he held 45,752 ordinary OTP shares.

László Bencsik
Chief Finance and Strategic Officer
Strategy and Finance Division

Mr. László Bencsik has been deputy CEO of OTP Bank Plc. and head of the Strategy and Finance Division since August 2009. He joined OTP Bank in September 2003, when he became managing director of the Bank Operations Management Directorate, and the manager with overall responsibility for controlling and planning. From 2000 to 2003 he was a project manager at consulting firm McKinsey & Company. Between 1996 and 2000 he worked as a consultant at Andersen Consulting (Accenture). In 1996 he graduated from the Faculty of Business Administration at the Budapest University of Economic Sciences, and in 1999 he obtained a Masters in Business Administration (MBA) from INSEAD Business School in France. Since 13 March 2012 he has been Chairman of the Supervisory Board of DSK Bank. As of 31 December 2014 he held 14,039 ordinary OTP shares.

* Mr. Daniel Gyuris has been deputy CEO until 15 April 2014. (see on Annual Report – 2013)
Mr. Ákos Takáts has been deputy CEO until 30 June 2014. (see on Annual Report – 2013)



Antal Kovács

Member of the Supervisory Board
Deputy CEO
Retail Division

Mr. Antal Kovács graduated from the Budapest University of Economics with a degree in economics. He began his professional career in 1990 at the Nagyatád branch of K&H Bank, where he worked as a branch manager between 1993 and 1995. He has been working at OTP Bank Plc. since 1995, first as a county director and from 1998 as the managing director of OTP Bank's South Transdanubian Region. Since 1 July 2007 he has served as OTP Bank's deputy CEO. He has received additional training at the International Training Centre for Bankers and on various courses held by the World Trade Institute. He has been a member of OTP Bank's Supervisory Board since 2004. He has been Chairman of the Supervisory Board of OTP Bank Romania SA since 12 December 2012. Since 24 April 2014 he has been Chairman of the Board of Directors at OTP Mortgage Bank Ltd. and OTP Building Society. As of 31 December 2014 he held 27,074 ordinary OTP shares.

Miroslav Stanimirov Vichev

Deputy CEO
IT and Operations Division

Mr. Miroslav Vichev graduated from the Technical University of Sofia in 1988. During his professional career he held various executive positions in the financial sector, at technology companies as well as at consulting firms. From 2003 he was employed as the Head of IT and Bank Operations Division of DSK Bank and he was there deputy CEO between 2007 and 2014. Since 1 July 2014 he has been deputy CEO of OTP Bank and the head of IT and Operations Division. As of 31 December 2014 he held no ordinary OTP shares.

László Wolf

Deputy CEO
Commercial Banking Division

Mr. László Wolf graduated from the Budapest University of Economic Sciences in 1983. After graduation, he worked at the Bank Relations Department of the National Bank of Hungary for 8 years, and then served as head of Treasury at BNP-KH-Dresdner Bank between 1991 and 1993. From April 1993 he was managing director of OTP Bank's Treasury Directorate, and since 1994 he has been deputy CEO of the Commercial Banking Division. He has been Chairman of the Board of Directors at OTP banka Srbija since 10 December 2010. As of 31 December 2014 he held 542,895 ordinary OTP shares.

Non-executive members of the Board of Directors of OTP Bank



Mihály Baumstark
Agricultural engineer, economist

Mr. Mihály Baumstark is an agricultural engineer and an agricultural economist. He was employed by the Ministry of Agriculture and Food Industry between 1978 and 1989. When he left, he was deputy head of the Investment Policy Department of the Ministry. After this he was managing director of Hubertus Rt., and from 1999 to 2012 he was deputy CEO and then Chairman & CEO of Csányi Winery Ltd. He is currently retired. He was a member of OTP Bank's Supervisory Board from 1992 to 1999, and has been a non-executive member of OTP Bank's Board of Directors since 1999. He has been a member of the OTP Bank's Remuneration Committee since 2011 and a member of the Nomination Committee since 2014. As of 31 December 2014 he held 25,600 ordinary OTP shares.

Dr. Tibor Bíró
College Associate Professor
Budapest Business School

Dr. Tibor Bíró graduated from the Budapest University of Economic Sciences with a degree in business administration. He is a certified auditor and chartered accountant. He was head of the Finance Department of Tatabánya City Council's Executive Committee between 1978 and 1982, then from 1982 a professor at the College of Finance and Accountancy, and between 1990 and 2013 head of department at the Budapest Business School. From 2000 to 2010 he was a member of the Presidium of the Budapest branch of the Chamber of Hungarian Auditors, and currently works as a member of the Chamber's Education Committee. He has been a non-executive member of OTP Bank's Board of Directors since 1992. He has been a member of the OTP Bank's Remuneration Committee since 2009 and Chairman of the Nomination Committee since 2014. As of 31 December 2014 he held 38,956 ordinary OTP shares.

Péter Braun
Electrical Engineer
Former Deputy CEO

Mr. Péter Braun earned a degree in electrical engineering from the Technical University of Budapest. Between 1954 and 1989 he worked for the Research Institute for Electrical Energy, with his last position there being head of department. After that, he was the managing director of K&H Bank Rt., working in its Computer and Information Centre. He was deputy CEO of OTP Bank Plc. from 1993 until his retirement in 2001. Since the second half of 2009 he has been the chairman of the Chief Information Officers' Association (VISZ). He has been a member of OTP Bank's Board of Directors since 1997. As of 31 December 2014 he held 298,505 ordinary OTP shares.

Tamás Erdei

Mr. Tamás Erdei graduated in 1978 with a degree from the College of Finance and Accountancy. He began his professional career at OTP, in a variety of administrative roles (his last position was branch manager), before going on to work at the Ministry of Finance for two years in the area of bank supervision. Since 1983 he has been employed by the Hungarian Foreign Trade Bank (today MKB), where he gradually worked his way up through the ranks. In 1985 he became managing director, in 1990 he was appointed deputy CEO, then in 1994 he was made CEO, and from 1997 until the end of March 2012 he was Chairman and CEO. Between 1997 and 2008 he was the elected president of the Hungarian Banking Association. He is the chairman of the Supervisory Board of the International Children's Safety Service. He has been a member of OTP Bank's Board of Directors since 27 April 2012. He has been Chairman of the OTP Bank's Risk Assumption and Risk Management Committee and a member of the Nomination Committee since 2014. As of 31 December 2014 he held 16,039 ordinary OTP shares.



Zsolt Hernádi
Chairman & CEO
MOL Plc.

Mr. Zsolt Hernádi graduated in 1986 from the department of industrial planning at the Karl Marx University of Economic Science. Between 1989 and 1994 he held a number of positions at K&H Bank, where from 1992 to 1994 he was deputy CEO of the financial institution. Between 1994 and 2001 he was CEO and a member of the Board of Directors at Magyar Takarékszövetkezeti Bank Rt. He has been a member of MOL's Board of Directors since 1994, and its Chairman since 2000, while since 11 June 2001 he has been the company's Chairman and CEO. He is also a member of the Corporate Governance and Remuneration Committee of MOL's Board of Directors. He has been a member of OTP Bank's Board of Directors since 29 April 2011. Membership suspended since 3 April 2014. As of 31 December 2014 he held 25,600 ordinary OTP shares.

Dr. István Kocsis
Managing Director
Merkantil Bank Ltd.

Dr. István Kocsis obtained his degree in mechanical engineering from the Mechanical Engineering Faculty of the Technical University of Budapest in 1976, and earned his PhD in 1985. Career highlights: 2002–2005 Paks Nuclear Power Plant, CEO; 2005–2008 Hungarian Power Companies Ltd. (MVM Ltd.), CEO; 2008–2011, CEO of Budapest Transport Corporation (BKV Ltd.); since 2011 managing director of Merkantil Bank Ltd. Offices held: Chairman of the Ányos Jedlik Society; chairman of the Scientific Society For Measurement, Automation and Informatics; member of the Social Senate of the University of Pécs; member of the national Presidium of the Hungarian Chamber of Commerce and Industry; chairman of the endowment advisory board of the Duna-Mecsek Regional Development Foundation. Non-executive member of OTP Bank's Board of Directors since 1997. He's membership suspended since 3 October 2012. As of 31 December 2014 he held 3,635 ordinary OTP shares.

Dr. László Utassy
Chairman & CEO
Merkantil Bank Ltd.

Dr. László Utassy graduated from the Faculty of Law of ELTE University in Budapest in 1978. He held various positions at the State Insurance Company between 1978 and 1995 and then went on to work at ÁB-Aegon Rt. He was Chairman & CEO of OTP Garancia Insurance from 1996 to 2008. He was managing director of OTP Bank Plc. between 2009 and 2010. Since 1 January 2011 he has been Chairman & CEO of Merkantil Bank Ltd. He has been a member of OTP Bank's Board of Directors since 2001. As of 31 December 2014 he held 300,915 ordinary OTP shares.

Dr. József Vörös
Professor, Head of Institute
University of Pécs

Dr. József Vörös earned a degree in economics from the Budapest University of Economic Science in 1974. In 1984 he earned a PhD in economics from the Hungarian Academy of Sciences, and a Doctor of Science degree in 1993. He has been a member of the Hungarian Academy of Sciences since 2013. Between 1990 and 1993 he was the dean of the Faculty of Business and Economics, Janus Pannonius University (JPTE) in Pécs. In 1993 he attended a course in management for senior executives at Harvard University. From 1994 he was a professor at JPTE, and was the senior Vice Rector of the University of Pécs from 2004–2007, between 2007 and 2011 he was Chairman of the Board of Trustees. Non-executive member of OTP Bank's Board of Directors since 1992. He has been Chairman of the OTP Bank's Remuneration Committee since 2009 and a member of the OTP Bank's Risk Assumption and Risk Management Committee since 2014. As of 31 December 2014 he held 140,914 ordinary OTP shares.

Members of the Supervisory Board* of OTP Bank



Tibor Tolnay
Chairman of the Supervisory Board
Chairman & CEO
Magyar Építő Ltd.

Mr. Tibor Tolnay graduated from the Budapest University of Technology with a degree in civil engineering and then in economic engineering, and subsequently received a degree in economics from the Budapest University of Economics. In 1994 he was appointed Chairman & CEO of Magyar Építő Rt. He has been Chairman of OTP Bank's Supervisory Board since 1999. He was a member of the Audit Committee between 2007 and 2011 and he has been its member since 2014. As of 31 December 2014 he held 54 ordinary OTP shares.

Dr. Gábor Horváth
Deputy Chairman of
the Supervisory Board
Lawyer

Dr. Gábor Horváth earned a degree in law from ELTE University in Budapest. From 1983 he worked for the Hungarian State Development Bank. He has been a lawyer since 1986, and since 1990 has run his own law firm, which specialises in corporate finance and corporate governance. He has been a member of the Supervisory Board of OTP Bank Plc. since 1995. He was a member of MOL Plc.'s Board of Directors between 1999 and 2014. He has been the deputy Chairman of OTP Bank's Supervisory Board since 2007. He was the Chairman of the Audit Committee between 2007 and 2011 and he has been its Chairman since 2014. He has been a member of the Management Board of INA Indusztija Nafta d.d. since 2014. As of 31 December 2014 he held no ordinary OTP shares.

András Michnai
Managing Director

Mr. András Michnai, who represents the employees of OTP Bank, graduated from the College of Finance and Accountancy with a degree in business economics. He has been an employee of the Bank since 1974, and until 1981 held a variety of posts in the branch network. From 1981 he held a management position in the central network coordination department and then in the network. From 1994, as deputy managing director, he participated in the central coordination of the branch network. Since 2005 he has headed the Bank's Compliance Department (since 2011 a Directorate) as managing director until 30 April 2014. He further expanded his professional skills, earning a masters degree at the College of Finance and Accounting, and is a registered tax advisor. He has been a member of OTP Bank's Supervisory Board since 2008. He has been the secretary of the OTP Bank's Trade Union since December 2011. As of 31 December 2014 he held 6,528 ordinary OTP shares.

* Mr. Antal Kovács has been a member of OTP Bank's Supervisory Board since 2004 (see page 249).



Dominique Uzel
Director
Groupama International SA

Mr. Dominique Uzel graduated as an agricultural development engineer, then obtained a Masters degree in agricultural and food industry management at the ESSEC Business School. He joined Gan in 1991 as head of the agricultural division. Five years later he left France to join Gan España, where he headed the subsidiary's department responsible for planning and auditing, then became technical director of the newly established Groupama Seguros. In 2008 he was appointed managing director of the insurance business, in which capacity he was instrumental in the launch and roll-out of Click Seguros, a direct marketing tool on the Spanish insurance market. In July 2010 he joined the international board of Groupama S.A. as Managing Director for direct insurance, but he also continued to be responsible for the management of the direct insurance division in Spain and Poland. Since 1 October 2012, he is in charge of the international activities of Groupama. He has been a member of OTP's Supervisory Board since 2013. From 2014 he has been a member of the OTP Bank's Audit Committee. As of 31 December 2014 he held no ordinary OTP shares.

Dr. Márton Gellért Vági
General Secretary
Hungarian Football Association

Dr. Márton Gellért Vági graduated in 1987 from the department of foreign economics at the Karl Marx University of Economic Science (today the Corvinus University of Budapest), where he also earned his doctorate in 1994. Between 1987 and 2000 he was university lecturer, since 1994 he has been senior university lecturer. Between 2000 and 2006 he worked at the State Holding and Privatisation Co. (ÁPV Ltd.), as managing director, deputy CEO and then CEO. Between 2006 and 2010 he was Chairman of the National Development Agency. From July 2002 until 1 January 2011 he was a member of the Board of Directors of FHB Plc., during which period he also spent four years as Chairman of the Board. Since 2010 he has been general secretary of the Hungarian Football Association. He has authored or co-authored more than 80 research papers, essays and books. He has been a member of OTP's Supervisory Board since 2011. He has been a member of the OTP Bank's Audit Committee since 2014. As of 31 December 2014 he held no ordinary OTP shares.

Information for Shareholders

General company data

Date of foundation:

31 December 1990, registered by the Metropolitan Court of Budapest as Court of Registration on 28 October 1991 under company registration number 01-10-041585. The latest Bylaws may be requested from the company or may be downloaded from the Bank's website.

Legal predecessor:

Országos Takarékpénztár, founded 1 March 1949

Registered head office of OTP Bank Plc.:

Nádor Street 16, H-1051 Budapest
Telephone: (+36-1) 473-5000
Fax: (+36-1) 473-5955

Share capital:

OTP Bank's share capital as at 31 December 2014 was HUF 28,000,001,000, consisting of 280,000,010 ordinary shares of nominal value HUF 100 each.

Ownership structure as at 31 December 2014:

Shareholder	Ownership (%)	Voting rights (%)
Treasury shares	1.32%	0.00%
Government held owner*	5.12%	5.18%
Foreign institutions**	57.41%	58.18%
Foreign individuals	0.59%	0.59%
Domestic institutions	21.00%	21.28%
Domestic individuals	10.99%	11.14%
Other**	3.58%	3.63%
Total	100.0%	100.0%

Stock exchange listing

The ordinary shares of OTP Bank Plc. are listed on the Budapest Stock Exchange under category "Premium Equity", and the global depository receipts (GDRs) representing the ordinary shares that are traded abroad are listed on the Luxemburg Stock Exchange. (2 GDR represents 1 ordinary shares) Regulation S GDRs are traded on the London SEAQ International, and Rule 144A GDRs are traded in the PORTAL system. The custodian bank for OTP GDRs is the Bank of New York, and the safekeeping bank is OTP Bank Plc. (Stock exchange symbol for OTP Bank shares: OTP, Reuters: OTP.BU)

Participation and voting rights at the General Meeting

The General Meeting will be conducted with the personal presence of those entitled to participate. Shareholders may participate in the General Meeting in person or through a proxy. OTP Bank Plc. is entitled to check the personal identity of the shareholders and their proxies on the basis of documents, prior to their admission to the General Meeting.

The authorisations relating to representation as a proxy at the General Meeting must comply with the relevant provisions of Hungarian law. The authorisation must include, clearly and expressly, a statement of authorisation

* E.g.: Hungarian National Asset Management Inc., Social Security, Municipality, 100% state-owned companies etc.

** Foreign institutions, and International Development Institutions (E.g.: EBRD, EIB, etc.).

*** Non-identified shareholders.

with respect to the proxy, a specification of the authoriser and of the proxy, and any limitations that may apply to the authorisation.

The authorisation must be issued in the form of a notarised deed or a private document of full probative force.

One representative may represent several shareholders; however, he/she must possess authorisations from every shareholder represented by him/her, either in the form of a notarised deed or a private document of full probative force. If several proxies are indicated in one authorisation, then it must be specified that, under the authorisation, each proxy may exercise his/her right of representation independently. If one shareholder is represented by several proxies, they may not vote or make statements differently from each other.

The letter of proxy may be issued as valid for one or more general meetings, or for an indefinite or definite period of time. The validity of the authorisation shall only extend to any continuation of a suspended general meeting, or to a general meeting reconvened due to a lack of quorum (see section VII – Reconvened General Meeting) if there is a specific instruction to such effect.

If a shareholder is represented at the General Meeting by its lawful representative (e.g. chief executive, managing director, mayor, etc.), the court or company court document evidencing the right of representation – in its original form, or in the form of a copy certified as authentic by a notary public, issued not more than 30 days previously – or a certificate regarding the election of the mayor, as the case may be, must be presented at the venue of the General Meeting. When providing evidence of the existence of companies (and other organisations) registered abroad, and of the right to represent the entity issuing the authorisation, it is essential that the foreign document be issued by a certified public records body or that these facts be attested by a notary public.

If the authorisation or any document submitted as evidence of the representation right was not issued in Hungary, the form of the document

must satisfy the legal regulations pertaining to the certification and/or legalisation of documents issued abroad. According to these regulations, in the absence of a bilateral international agreement to the contrary, (I) the diplomatic certification and/or legalisation of the document is needed, or (II) – if the given country is a party to the relevant international convention – the furnishing of the document with an apostille is required. Detailed information on the applicable rules are provided by the Hungarian foreign representation offices. If the document is written in a language other than English or Hungarian, then a certified Hungarian translation of the document must be presented.

The authorisation and the related documents must be handed over by 16:00 p.m. on 14 April 2015 (Tuesday) at the very latest, at any of the designated OTP branches listed under section X below of AGM announcement, or – if the proxy, based on a foreign document, is representing more than one shareholder – at the Corporate Secretariat of OTP Bank Plc. (1051 Budapest, Nádor utca 16.).

Preconditions for participation in the General Meeting and for the exercising of voting rights are that:

- a) the result of the shareholder identification procedure confirms the shareholding as at the date of the shareholder identification procedure;
- b) the shareholder be registered in the Company's Share Register by the closure of the register as specified in section III of this announcement;
- c) the shareholding and/or the voting rights of the shareholder do not violate the legal regulations or the provisions of the Company's Bylaws, and the Company shall check this circumstance.

Dividend

On 17 April 2015 OTP Bank Plc.'s General Meeting decided to pay dividend after fiscal year 2014.

Dividends will be HUF145 per share, representing 145% of the face value of each share. The actual amount of dividends to be paid to the individual shareholders will be calculated and disbursed in accordance with the Company's Bylaws, that is, the Company will distribute the dividend calculated in respect of all the shares qualifying as treasury shares among the shareholders entitled to receive dividends. Dividends will be disbursed from 15 June 2015, in accordance with the procedural order set forth in the Bylaws.

Announcements

OTP Bank Plc. fulfils its disclosure obligations related to corporate events and prescribed in Act

CXX of 2001 on the website of the OTP Bank Plc. (www.otpbank.hu), on the website of the Budapest Stock Exchange (www.bet.hu), and on the website operated by the National Bank of Hungary (www.kozzetetelek.hu).

Investor relations

Institutional shareholders of OTP Bank Plc. should contact the following address if they require further information:

OTP Bank Plc. Investor Relations & DCM

Nádor Street 16, H-1051 Budapest

Telephone: (+36-1) 473-5460

Fax: (+36-1) 473-5951

e-mail: investor.relations@otpbank.hu



Statement on Corporate Governance Practice

OTP Bank Plc.'s operation fully complies with the provisions of the relevant statutory regulations, the decrees of the supervisory authorities and the regulations of the Budapest Stock Exchange (BSE). The structure and operating conditions of the Company are contained in the Bylaws, which are approved by the General Meeting.

Management bodies

The Company's executive body is the Board of Directors. The scope of authority of the Board of Directors is defined in the effective statutory provisions, the Company's Bylaws, General Meeting resolutions, and the procedural rules of the Board of Directors. The procedural rules set out the structure of the Board of Directors, the tasks relating to the preparation, implementation and drafting of resolutions of its meetings, as well as all other issues relating to the operation of the Board of Directors.

The members of the Board of Directors are elected by the General Meeting for a term of five years.

All the obligations and prohibitions specified for executive officers under Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act) apply to the members of the Board of Directors.

The oversight of the Company's management and business activity is performed by the Supervisory Board. The Supervisory Board establishes its own procedural rules, which are approved by the General Meeting.

Supervisory Board members are elected by the General Meeting for a term of three years. The ratio of independent (non-executive)

Supervisory Board members (4 persons) to the total number of Supervisory Board members (6 persons) is 67%.

In order to avoid conflicts of interest, the General Meeting may not appoint the members of the Board of Directors and their close relatives to the Supervisory Board. The rules pertaining to the election and recall of the employee-representative member of the Board of Directors are determined by the Workers' Council operating at the Company, and this members are not considered to be independent by the Company.

The Company's internal audit organisation is governed by the Supervisory Board, in keeping with the provisions specified in the Credit Institutions Act. The Supervisory Board exercises the right of prior approval in respect of the establishment, termination and remuneration of the managers and employees of the internal audit organisation.

In 2014 the Board of Directors met on a total of 7 occasions, and the Supervisory Board on a total of 8. In addition, resolutions were passed by means of correspondence voting, by the Board of Directors on 126 occasions and by the Supervisory Board on 8 occasions.

Meetings of the Board of Directors are convened by the Chairman & CEO by means of a written invitation, in accordance with the prevailing work schedule.

The Chairman & CEO must convene a meeting of the Board of Directors if

- a resolution has been passed by the Board of Directors to hold an extraordinary meeting of the Board;

- At least three Board members requests a meeting in writing by designating the reason and the purpose, and the items of the agenda, and by submitting a written proposal in respect of the decision to be made;
- The Supervisory Board or the auditor initiates such a meeting in writing;
- The National Bank of Hungary/Authority requires it;
- Under the law, a decision must be made about whether to convene an extraordinary General Meeting.

Meetings of the Supervisory Board are convened by the chairperson, and the meeting must also be convened if a member of the Supervisory Board or at least two members of the Board of Directors, or the auditor, requests it in writing, indicating the objectives of, and reasons for the meeting.

Minutes are taken of the meetings of the Board of Directors and the Supervisory Board, and their resolutions are documented.

The employer's rights towards the executive officers of the Company are exercised by the Board of Directors through the Chairman & CEO, with the proviso that the Board of Directors must be notified in advance for the appointment or withdrawal of appointment of deputy CEOs.

Determining the remuneration of the Board of Directors and the Supervisory Committee is in the competence of the Company's supreme body, the General Meeting. The principles and frameworks of the long-term remuneration and incentives system for employees in senior positions are also determined by the General Meeting. Accordingly – on the basis of the provisions relating to remuneration policies set forth in the Credit Institutions Act, which complies with the relevant EU directives – the Bank's Annual General Meeting of 2011, in its resolution no. 9/2011, approved for the first time the principles and rules of the remuneration policy of OTP Bank Plc. and the Bank Group, and the Board of Directors issued the internal regulations and procedures necessary for their implementation, which documents have been

amended several times in the past years by the Bank's General Meeting, Board of Directors and as a result of regulatory amendments in 2014, by the Supervisory Board of the Bank. From 2014 onwards the provisions of the Remuneration Policy of the Banking Group are approved, implemented and revised by the Supervisory Board, whereas the Board of Directors is responsible for the supervision. At the Annual General Meetings the Supervisory Board gives a briefing on the annual and medium-term objectives providing the basis for performance-based remuneration, and on their fulfilment.

The following management bodies have been established at the Company to assist the Board of Directors and Supervisory Board in their work: Audit Committee, Management Committee, Management Coordination Committee. The following additional permanent and special committees also operate within the Company for the performance of specific tasks: Asset-Liability Committee, Credit-Limit Committee; Product Development, Sales and Pricing Committee; International Product Development, Sales and Pricing Committee; Workout Committee; Group-wide Investment Committee, Group Operational Risk Management Committee, Ethics Committee, Remuneration Committee, Nomination Committee, Risk Assumption and Risk Management Committee.

Audit

The main function of the internal audit system is to protect customers, the company's assets and shareholder's interests, as well as to facilitate and monitor operation in compliance with the statutory provisions.

The internal audit system extends to all of the company's organisational units, business lines and activities, including outsourced activities. To ensure effective auditing, the system's structure is subdivided both vertically and horizontally, and built on three modular levels

of control, as well as being segmented by department. The elements of the internal audit system are comprised of in-process and management controls, and an independent internal audit organisation and management information system.

The independent internal audit organisation assists in the legally compliant and effective management of assets and liabilities and the protection of property; it supports secure business operation, the effectiveness, cost-efficiency and success of internal control systems, the minimisation of risks, and more-over – alongside the compliance organisation – it detects and reports departures from the provisions of the statutory regulations and internal policies, makes recommendations for the elimination of deficiencies, and monitors the implementation of the measures. It performs its activities independently, objectively and professionally. Its independence is ensured by the fact that it is professionally overseen by the Supervisory Board, within the framework set by the Credit Institutions Act.

The independent internal audit organisation has an annual audit plan which is approved by the Supervisory Board. The annual plan is prepared using a risk-based methodology and, in addition to focusing on the areas that entail regulatory, business and operational risk, and the other main risk exposures, it also takes into account the company's prevailing strategic priorities.

The internal audit system, which is applied consistently throughout the Bank Group, includes shareholder audits conducted at the foreign and domestic group members as well as the professional oversight of the internal audit organisations of the subsidiaries defined in the Credit Institutions Act as included in the scope of consolidated supervision. Uniform internal audit methods are created, continuously developed and implemented in respect of the operation and activities of the bank group members' internal audit organisations. Internal audit also liaises regularly, and cooperates, with external auditing bodies.

The internal audit organisation makes independent reports on its auditing activities for the management bodies at quarterly and annual intervals. In its quarterly reports it gives a group-level, summary account of the audits conducted in the given quarter, the risks identified in the course of its own audits and audits conducted by the authorities, and the success of any action taken to eliminate them. In exceptional cases that require immediate intervention, it provides the management with extraordinary briefings. It reports annually on the performance of the tasks stipulated in the group-level annual audit schedule, the audits conducted and other activities, and on the circumstances of the organisation's operation, as well as on any changes to the internal audit system.

The internal audit organisation annually prepares, for the Supervisory Board, objective and independent reports in respect of the operation of risk management, internal control mechanisms and corporate governance functions.

The General Meeting has the authority to elect the company performing the audit, and to approve the nomination of the member responsible for the audit.

Compliance

In accordance with EU regulations and with the Hungarian statutory provisions an independent organisational unit (the Compliance and Security Directorate) operates at the Company, with the task of exploring and managing compliance risks. This function is supported by the appropriate regulatory documents: the compliance policy, strategy and work plan. The purpose of the compliance policy is to establish the framework of compliance activities in respect of the entire OTP Bank Group, to determine the definition, purpose of compliance and the tasks and scope of the function. Another important document of the compliance policy is the OTP Bank Group's compliance strategy.

The compliance policy is approved by the Board of Directors of OTP Bank Plc. The Compliance and Security Directorate prepares a comprehensive report each year about the Bank Group's compliance activities and position, which is approved by the Bank's Board of Directors. The OTP Bank Group's senior management is responsible for the implementation in practice of the compliance policy.

Disclosure of information

Providing regular, authentic information is essential if the shareholders and the other participants in the capital market are to make sound decisions, and the way in which the Company discloses information also has an impact on its reputation.

The Company discloses information in strict compliance with the provisions of the Civil Code, Companies Act, the Capital Market Act, the Credit Institutions Act and the Investment Services Act, the Accounting Act and Ministry of Finance Decree 24/2008 (VIII. 15.), as well as the relevant regulations of the Budapest Stock Exchange. In addition, the Company has effective internal regulations that ensure compliance with the obligation to disclose information.

The aforementioned regulations ensure that all material information pertaining to the Company and having a bearing on the price of the Company's shares is published accurately, in full, and in good time.

The Board of Directors describes its business and strategic goals of the given year at every ordinary General Meeting. The proposal to the General Meeting is published by the Company on the website of the Budapest Stock Exchange in accordance with its rules of disclosure and the

provisions of the relevant regulations of the BSE. The Company, in accordance with the statutory regulations, publishes on the Company's website and in its Annual Report the professional careers of the members of the Board of Directors, the Supervisory Board and the management.

The proposal pertaining to the remuneration of the chairman and members of the Board of Directors and the chairman and members of the Supervisory Board constitute a part of the proposals of the General Meeting.

The Company has detailed risk management regulations that include every type of risk (liquidity, market, credit risk, operational, compliance) which are consistent with the statutory regulations pertaining to prudential banking operation. The Annual Report provides information about the Company's risk management practices, the relevant limits and compliance with the limits.

The Company has detailed internal regulations pertaining to insiders and potential insiders that fully comply with the restrictions and prohibitions regulated in detail by the Capital Market Act. In addition, the guidelines pertaining to securities trading by insiders are also available on the website. All transactions involving the Company's shares performed by the members of the Board of Directors and the Supervisory Board are published by the Company in accordance with the rules on disclosure, and the shareholdings in the Company of the officers of the Company (number of shares) are published in the Company's Annual Report.

The Board of Directors has assessed the effectiveness of information disclosure processes in 2014, and found them to be satisfactory.

Anti-money laundering measures

Money laundering is where criminals or their accomplices attempt to conceal the origins of money acquired from criminal acts by, for example, using the services of financial institutions.

In order to prevent the use of our bank for money-laundering purposes, we will do our best to ascertain the true identities of those who use our services, and OTP Bank will refuse to execute orders made by clients who fail to give evidence of their true identities in accordance with the relevant legal stipulations.

In keeping with the provisions of Act CXXXVI of 2007 on the prevention and impeding of money laundering and the financing of terrorism (hereinafter: Act on Money Laundering), OTP Bank has introduced, and applies, the following measures and rules:

- It operates an internal control and information system designed to prevent banking or financial operations that might enable, or in themselves constitute, money laundering.

- It has internal regulations, in accordance with Ministry of Finance Decree 35/2007. (XII. 29.) and the recommendations of the Hungarian Financial Supervisory Authority, that all employees of the bank must observe.
- The employees of the bank must fulfill their customer due diligence and reporting obligations.
- Compliance with the reporting obligations are not construed as a breach of bank, securities, insurance or trade secrets.
- Failure to fulfill the reporting obligation may result in prosecution under criminal law.
- OTP Bank cooperates with the criminal investigation authorities in the investigation of all circumstances suggestive of money laundering.

OTP Bank discloses the customer identification procedure applied by the bank in an Announcement posted in all rooms open for serving customers.



With trust and responsibility for each other

OTP Bank's social participation in 2014

The OTP Group is committed to its social and natural environment, and continues to pursue the goal of creating value for its investors and customers, as well as for society as a whole. It performs its corporate social responsibility activity in an integrated manner at every level of its organisational operation, and aims to share best practices across the group.

This year promoting financial literacy and equal opportunities continued to be at the focus of the bank's CSR activities. As in previous years, a substantial proportion of the charitable donations of companies in the group served the creation of opportunities and the conservation of cultural heritage.

Financial education

OTP Bank wishes to set in motion a process that will bring a new approach to financial skills in education, and thus also in the minds of the Hungarian public. Promoting financial awareness and improving the financial literacy of the population represents the most important social investment for the bank, since this also has an impact on its own operation in the long-term. To this end we have already launched numerous initiatives, one of the most prominent among these being the **work of the OTP Fáy András Foundation**, which has operated for 20 years and focuses its professional efforts on educating young people in finance, economics and money management, in which the O.K. Centre fulfils a central role. In 2014 the project surpassed its achievements of previous years, not only in terms of its uniqueness and the scale of its activities, but also by virtue of its complexity (O.K. training sessions, Summer Camp, Conference, Career School) and accessibility (training courses in

Hungary and abroad). Thanks to the constantly expanding programmes and the results achieved so far, in two consecutive years OTP Bank has earned the title of "Most active bank in the field of improving financial literacy" from MasterCard's specialist judging panel.

In the past two years the **O.K. Centre** has passed on basic financial, economics and money management skills to more than 15,000 students. In 2014, in addition to the institution in Budapest, it also opened its first centre outside the capital, in Nyíregyháza. In this county seat the centre's own training team works to provide the youth of the city, the county and the region with skills that they can put to good use in real-life settings in relation to daily finances. Since October 2014 the institution's free training courses, unique in Europe, are also available to young people at its first site abroad, in Bucharest. In the Romanian O.K. project training is provided in three languages (Hungarian, Romanian and English) to ensure that both Romanian and Hungarian-speaking schools have access to the latest financial skills.

Equal Opportunities

To ensure access to services, a high standard of customer service and provision of the appropriate information, the bank constantly monitors and improves its processes. The purpose of the developments is to ensure quick and convenient access for customers. The programme aimed at enabling people with disabilities to administer their financial affairs without difficulty has been running for more than a decade now. To gain the fullest possible understanding of needs and expectations, since 2010 our bank has consulted on a continuous

basis with the experts at the **Hand in Hand Foundation**. When physically converting our branches to ensure accessibility we not only provided access to bank branches for customers with disabilities, but also ensured the unimpeded use of in-branch facilities such as queue ticket dispensers, and counters. Owing to the Bank's **complex accessibility programme** and the continuous developments, the adapted bank branch environment, the new equipment and the special aids all improve accessibility to banking services. Some 95% of the bank's branches in Hungary, and around half at group level, are now barrier-free. Induction loops have been installed at 270 bank branches, and counter staff who have received special sign-language training are on hand to assist deaf and hard-of-hearing customers in 35 high-footfall branches. The appointment-making function, which also allows customers with disabilities to indicate their special needs, is growing in popularity, and the queue ticket dispensers in the branches offer a special option for requesting a dedicated service.

Equal opportunity

Promoting financial literacy and creating opportunities lie at the heart of the bank's corporate social responsibility activities. The bank is one of the largest donors in Hungary (HUF 1.2 billion per annum), but as well as providing financial support it is launching a growing number of projects that are implemented and continue to evolve through the engagement of civil-sector or industry partners and dialogue with stakeholders.

OTP Voluntary Programme (2010–)

It is important for OTP Bank to further strengthen the culture of corporate social responsibility within the company, and for as many employees as possible to be active participants and initiators of a growing number of valuable programmes. The staff volunteering programme has run for 5 years now, with 30–40 programmes implemented every year with the involvement of hundreds of employees. Since 2010 the bank has continuously provided

opportunities to apply for funding, thus supporting the selected good causes with financial assistance.

Model School Programme (2011–)

For OTP Bank and the Fáy András Foundation the Model School Programme represents a close professional partnership. In addition to the training in financial, economics and money-management skills, it provides the Budai Secondary School with access to the programmes of the Foundation, and to elements of its CSR activity, as well as other forms of support. These include the various donation programmes, opportunities to participate in events, student camps and other educational and free-time programmes, and the chance to gain a deeper insight into volunteering and environmental awareness.

EMMI Home Making (2012–)

The purpose of the Home Making Assistance scheme run jointly by OTP Bank and the Ministry for Human Resources is to raise society's awareness of parents who are raising another person's child as their own. Every year 12 socially disadvantaged foster families and adoptive families won housing assistance under the scheme, which had a HUF 20 million budget, and by the end of 2014 we had successfully assisted 36 families in need with their home making efforts.

The bank's own Humanitás Foundation

essentially seeks to provide a point where the needy can break free of their disadvantaged social situation. In its open support system it gives priority to granting long-term assistance linked to a specific purpose, while maintaining its role as a provider of assistance in crisis situations. Besides this it takes on a role in the implementation of education and training programmes, and also supports independent programmes showcasing best practices, and community development schemes.

OTP Bank gives stakeholders a comprehensive overview of its own corporate social responsibility guidelines, objectives and initiatives via its website at www.otpbank.hu/csr.



Publisher: OTP Bank Plc.
Responsible: Investor Relations & DCM
Cover Design: László Lelkes
Pre-press, production: Artemis Ltd.



Made of recycled paper
OTP Bank – Responsible for our environment