OTP MORTGAGE BANK LTD.

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

FOR THE YEAR ENDED
31 DECEMBER 2014

CONTENTS

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of OTP Mortgage Bank Ltd.

Report on the Unconsolidated Financial Statements

We have audited the accompanying unconsolidated financial statements (pages 2 to 49) of OTP Mortgage Bank Ltd. for the year 2014, which unconsolidated financial statements comprise the statement of financial position as at December 31, 2014 and the related statement of recognized and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated financial statements give a true and fair view of the financial position of OTP Mortgage Bank Ltd. as of 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.

Budapest, March 27, 2015

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Nagyváradiné Szépfalvi Zsuzsanna
Deloitte Auditing and Consulting Ltd.
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OTP MORTGAGE BANK LTD.
UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION 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.*	399	355
Placements with other banks	*5.*	147,801	62,040
Financial assets at fair value through profit and loss	*6.*	502	-
Securities available-for-sale	*7.*	-	29,963
Loans, net of allowances for loan losses	*8.*	1,101,447	1,144,089
Property and equipment	*9.*	25	124
Intangible assets	*9.*	176	177
Other assets	*10.*	39,718	50,128
TOTAL ASSETS		**1,290,068**	**1,286,876**
Amounts due to OTP Bank and other banks	*11.*	296,909	233,947
Liabilities from issued securities	*12.*	833,149	966,699
Financial liabilities at fair value through profit or loss		29	-
Other liabilities	*13.*	110,235	10,428
Subordinated bonds and loans	*14.*	3,975	3,656
TOTAL LIABILITIES		**1,244,297**	**1,214,730**
Share capital	*15.*	27,000	27,000
Retained earnings and reserves	*16.*	18,771	45,146
TOTAL SHAREHOLDER'S EQUITY		**45,771**	**72,146**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,290,068**	**1,286,876**

Budapest, 27 March 2015

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András Becsei
Chief Executive Officer

OTP JELZÁLOGBANK Zrt.
otp Jelzálogbank
vezérigazgató

OTP MORTGAGE BANK LTD.
UNCONSOLIDATED STATEMENT OF RECOGNIZED INCOME FOR THE YEAR ENDED 31 DECEMBER 2014 (in HUF million)

	Note	2014	2013
Interest Income:			
Loans		79,958	88,154
Placements with other banks		8,365	7,977
Amounts due from banks and balances with the National Bank of Hungary		-	1
Interest subsidy on housing loans financed by mortgage bonds		28,480	34,360
Securities available-for-sale		619	2,621
Total Interest Income		**117,422**	**133,113**
Interest Expense:			
Amounts due to OTP Bank and other banks		8,119	12,058
Deposits from customers		-	175
Liabilities from issued securities		60,660	74,744
Subordinated bonds and loans		151	143
Total Interest Expense		**68,930**	**87,120**
NET INTEREST INCOME		**48,492**	**45,993**
Provision for impairment on loan and placement losses	*8.*	8,977	18,498
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**39,515**	**27,495**
Income from fees and commissions	*18.*	1,636	1,820
Expenses from fees and commissions	*18.*	(2,294)	(2,644)
Net fees and commissions		**(658)**	**(824)**
Foreign exchange (losses)/gains, net		2,954	(872)
Gains on securities, net		-	9
Other operating income		(8)	(6)
Other operating expenses		(101,860)	(2,273)
from this: provision on contingent liabilities due to regulations related to customer loans		*(102,379)*	-
Net operating income		**98,914**	**(3,142)**
Personnel expenses		527	635
Depreciation and amortization		110	116
Other administrative expenses	*19.*	16,104	15,840
Other administrative expenses		**16,741**	**16,591**
(LOSS)/PROFIT BEFORE INCOME TAX		**(76,798)**	**6,938**
Income tax	*21.*	1,472	806
(LOSS)/PROFIT FOR THE YEAR		**(78,270)**	**6,132**
Earnings per share (in HUF)			
Basic and diluted	*22.*	(289,889)	22,711

OTP MORTGAGE BANK LTD.
UNCONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED
31 DECEMBER 2014 (in HUF million)

	Note	2014	2013
(LOSS)/PROFIT FOR THE YEAR		**(78,270)**	**6,132**
Fair value adjustment of securities available-for-sale	*7.*	-	(27)
Fair value adjustment of derivative financial instruments		411	430
Other comprehensive income, net of income tax		411	403
NET COMPREHENSIVE INCOME		**(77,859)**	**6,535**

OTP MORTGAGE BANK LTD.
UNCONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014
(in HUF million)

	Note	2014	2013
OPERATING ACTIVITIES			
(Loss)/Profit before income tax		**(76,798)**	**6,938**
Depreciation and amortization	*9.*	110	116
Provision for impairment on loan and placement losses		8,977	18,498
(Release of provision)/provision for impairment on other assets	*10.*	(52)	45
Unrealised losses on fair value adjustment of derivative financial instruments		2,546	4,388
Net changes in assets and liabilities in operating activities:			
Net changes in financial assets through comprehensive income		(502)	-
Decrease in loans, net of allowances for loan losses	*8.*	33,665	111,332
Decrease/(increase) in other assets before provisions for losses	*10.*	10,462	(16,122)
Increase/(Decrease) in other liabilities	*10.*	102,731	(5,218)
Income tax paid		(3,772)	(697)
Net cash provided by operating activities		**77,367**	**119,280**
INVESTING ACTIVITIES			
Net increase in placements with other banks	*5.*	(85,761)	(25,858)
Net decrease in securities available-for-sale	*7.*	29,963	11,862
Net additions to property, equipment and intangible assets	*9.*	(10)	(123)
Net cash used in investing activities		**(55,808)**	**(14,119)**
FINANCING ACTIVITIES			
Net increase in amounts due to OTP Bank and other banks	*11.*	62,962	8,870
Cash received from issuance of securities		-	222,698
Cash used for repurchase and redemption of issued securities		(136,280)	(401,454)
Net increase in subordinated bonds and loans	*15.*	319	16
Dividend paid	*17.*	(5,097)	(10,000)
Capital contribution received from OTP Bank Plc. related to regulations of customer loans		56,581	-
Net cash used in financing activities		**(21,515)**	**(179,870)**
Net increase/(decrease) in cash and cash equivalents		**44**	**(74,709)**
Cash and cash equivalents at the beginning of the year		**355**	**75,064**
Cash and cash equivalents at the end of the year		**399**	**355**
Analysis of cash and cash equivalents opening and closing balance			
Cash, amounts due from banks and balances with the National Bank of Hungary		355	75,064
Cash and cash equivalents at the beginning of the year		**355**	**75,064**
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	399	355
Cash and cash equivalents at the end of the year		**399**	**355**

OTP MORTGAGE BANK LTD.
UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (in HUF million)

	Note	Share Capital	Retained earnings and reserves	Total
Balance as at 1 January 2013		**27,000**	**48,611**	**75,611**
Dividend paid		-	(10,000)	(10,000)
Net profit for the year		-	6,132	6,132
Other comprehensive income		-	403	403
Balance as at 31 December 2013		**27,000**	**45,146**	**72,146**
Dividend paid		-	(5,097)	(5,097)
Net loss for the year		-	(78,270)	(78,270)
Capital contribution		-	56,581	56,581
Other comprehensive income		-	411	411
Balance as at 31 December 2014		**27,000**	**18,771**	**45,771**

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. ("OTP Bank") established OTP Mortgage Bank Ltd. ("OTP Mortgage Bank" or the "Bank") as a fully owned subsidiary on 15 May 2001. The State Financial Supervisory Authority issued the operating license on 10 January 2002, and the Bank commenced operations on 1 February 2002.

OTP Bank is the ultimate parent of the OTP Mortgage Bank, and also the ultimate parent of OTP Group.

These financial statements authorised for issue on 18 March 2015.

The Bank completed its publication in accordance with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, 575/2013/EU directive (CRR). OTP Mortgage Bank completed its publication with Unconsolidated Financial Statements prepared in accordance with IFRS jointly with OTP Bank Plc on the homepage of OTP Bank Plc.

The Bank's registered office address is Nádor u. 21, Budapest 1051.

The Bank is a specialized financial institution with its main business being governed by Act XXX of 1997 on Mortgage Lending Institutions and Mortgage Bonds.

The Bank started the operations in foreign currency in 2004 with the issuance of EUR denominated medium term mortgage bonds. In 2005, the Bank started to extend its mortgage loan portfolio with CHF denominated assets, in 2006 the Bank started to extend the portfolio with EUR denominated assets too. In 2007, the Bank started to disburse JPY based loans. In accordance with the above-mentioned law, the net foreign currency position must be hedged by derivative instruments. From 2011 based on the effect of the financial crisis and the debtor's exposure in foreign currencies FX loan financing activities are continued with stricter conditions. Foreign currency loan disbursements are stopped.

The Bank employs limited staff at its head office and use approximately 381 branches of OTP Bank engaged in the housing loan business. Under a syndication agreement between OTP Bank and OTP Mortgage Bank, OTP Bank, through its branch network, provides services for OTP Mortgage Bank concerning the administration of the mortgage loans, for which fees are paid by OTP Mortgage Bank. Credit scoring and lending are performed at the branches of OTP Bank in accordance with the regulations of OTP Mortgage Bank. Loans are approved by OTP Mortgage Bank and OTP Bank acts for and on behalf of OTP Mortgage Bank during the conclusion of a loan agreement. The mortgage right, along with the restraint of transfer and encumbrance on property pledged to secure loans is entered in the property register for the benefit of OTP Mortgage Bank.

As the sole shareholder, OTP Bank provides financial and administrative support to the Bank. Additionally, any short-term liquidity gaps which may arise from the timing difference between the loan disbursements and issuance of mortgage backed securities are generally financed by OTP Bank Details of related party balances and transactions are summarised in Note 27 to these financial statements.

A significant proportion of mortgage loans are extended for periods for more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity (1-10 years). One reason for this mismatch was that the interest subsidy (see Note 18 for details) on mortgage bonds was only for a period of up to five years. As a result of change in 2004, the interest subsidy regime now allows mortgage bond subsidies for up to twenty years. As a result the Bank is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

As at 31 December 2013 and 2014 the number and the average number of the employees at the Bank were 38 and 33.

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.

OTP Mortgage Bank's functional currency is the Hungarian Forint ("HUF").

The accounting policies followed by the Bank in the preparation of these financial statements conform with International Financial Reporting Standards ("IFRS"). Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to OTP Mortgage Bank's Hungarian statutory accounts (see Note 32), in order to present the financial position and results of operations of OTP Mortgage Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB"), which are referred to as IFRS.

The 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 financial statements, had it been approved by the EU before the preparation of these financial statements.

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

1.2. Accounting [continued]

1.2.1. The effect of adopting new and revised IFRS effective from 1 January 2014

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (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).

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

1.2. Accounting [continued]

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

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

2.1. Basis of presentation

These unconsolidated financial statements have also 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 unconsolidated financial statements in conformity with IFRS requires 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 financial statements.

2.2. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the financial statements. Income and expenses arising in foreign currencies are converted at the middle rate of exchange quoted by OTP Bank Plc. on the transaction date. Resulting foreign exchange gains or losses are recorded to the Unconsolidated Statement of Recognized Income.

2.3. Securities and other financial assets

The Bank classifies its financial assets into the following categories: fair value through profit or loss (either held for trading or assets initially classified as fair value through profit or loss), held-to-maturity and available-for-sale. Securities that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as securities held for trading. Investments in financial assets (other than those which meet the definition of loans and receivables) with fixed maturity that the management has the expressed intention and ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale.

The Bank had no securities classified as held for trading or held-to-maturity as at 31 December 2014 and 2013.

2.3.1. 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 investments 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, unless such available-for-sale security is part of an effective fair value hedge. Such gains and losses will be reported when realised in profit and loss for the applicable period. 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.

Interest received from available for sale securities are recognised as interest income in the Unconsolidated Statement of Recognized Income. Such securities consist of bonds issued by the NBH and the Hungarian Government as at 31 December 2013.

Available-for-sale securities are re-measured 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 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 recognized income for equity AFS securities is not reversed through recognized income.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.3.2. 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 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 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 included in the Unconsolidated 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.

2.3.3. 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 Unconsolidated 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 portion of the hedge is charged directly to the Unconsolidated 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 the effective portion of the 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 Unconsolidated Statement of Recognized Income and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Unconsolidated Statement of Recognized Income for the period. The ineffective element of the hedge is charged directly to the Unconsolidated 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.

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

2.4. 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.

2.5. Embedded derivatives

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

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

The Bank has not had embedded derivatives in 2014 and in 2013.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

Loans and placements with other banks are presented 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 the Bank transfers the asset and the transfer qualifies for derecognition in accordance with IAS 39. Interest and amortised cost are accounted using effective interest rate method.

When a borrower is unable to meet payments as they fall due or, there is an indication that a borrower may be unable to meet payments as agreed all accrued unpaid interest is impaired.

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

Due to the composition of the loan portfolio, the Bank does not have loans which are individually significant. The impairment is recorded on portfolio basis based on the type of the loans, overdue days, historical probability of default and incurred losses.

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 Unconsolidated Statement of Recognized Income. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income.

2.7. Liabilities from issued securities

Issued mortgage bonds are measured at amortized cost. The costs related to their issuance is included in the amortized cost of the issued securities and amortized over the term of the securities using effective interest method. Mortgage bonds are issued based on the total amount of property pledged as collateral to the Bank and recorded in the Bank’s collateral register.

2.8. 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 computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Intangible assets	
Software	33.3%
Property rights	33.3%
Office equipment and vehicles	14.5-33.3%

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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 written down immediately to the estimated recoverable amount.

2.9. 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 recognises interest income when it assumes 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 available-for-sale and amounts due to OTP Bank and other banks, liabilities from issued securities, subordinated bonds and loans are presented under these lines of the financial statements. Any fees received or paid related to the origination of the loan are an integral part of the effective interest rate and revenue is recognized with the effective interest rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

2.10. 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 unconsolidated statement of recognised income on an accrual basis based on IAS 18.

2.11. 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, based on tax rates that have been enacted at the date of the balance sheet. Deferred tax assets are recognized by the Bank for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carry forward of unused tax losses and the carry forward of unused tax credits.

2.12. Government subsidies

The Bank receives subsidies from the Hungarian government designed to compensate for the difference between the amount of interest charged to the customer, such interest being capped by legislation, and the interest charge on the issued mortgage bonds. Such subsidies are calculated on a monthly basis, are applicable over the life of the loan and are recognized among interest income in the Unconsolidated Statement of Recognized Income in the period to which they relate.

2.13. Statement of Cash Flows

For the purposes of reporting cash flows, cash and cash equivalents include cash, amounts 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 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.

2.14. Segment reporting

The Bank’s main operation is mortgage lending to retail customers in Hungary, and the related value-appraisal services. Since the Bank has only one main product (mortgage loan) revenues from external customers are reported aggregately. The management believes that the Bank operates in a single business and geographical segment. The segment reporting is disclosed at consolidated level in the OTP Bank’s consolidated financial statements. From 2011 the loan financing activity is widened with loan portfolio from OTP Bank Romania. The significant part of the total loan portfolio is from Hungary.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.15. Government measures related to customer loan contracts

Act XXXVIII of 2014 on "Settlement of certain issues concerning the Uniformity Decision of the Supreme Court related to customer loan agreements[1] provided by financial institutions" ("Curia Law") was promulgated on 18 July 2014.

The Hungarian Parliament has adopted on 24 September 2014 the Act XL of 2014 on "Rules of the settlement and certain other issues put in Act XXXVIII of 2014 on Settlement of certain issues concerning the Uniformity Decision of the Supreme Court related to customer loan agreements provided by financial institutions" ("Act on Settlement"), based on that financial institutions need to settle up with their clients on account of overpayments arisen from invalidity of the bid-ask exchange rate spread and unilateral amendment of contractual clauses.

Act on Settlement has specified the regulations of Curia Law; obligation of settlement does not apply to credit cards, current account loans and mortgage housing loans supported by State. Furthermore amount due to customers can be reduced by total amount of allowances.

Act LXXVII of 2014 on "Settlement of certain issues concerning the modification of the currency and interest conditions related to customer loan agreements" was promulgated. The act includes regulations about the conversion of foreign currency customer mortgage loans into HUF which became legally effective on 1 February 2015 ("Act on Conversion into HUF").

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

Act on Settlement

OTP Mortgage Bank's reimbursement obligation related to invalidity of the bid-ask exchange rate spread will be prospectively in amount of HUF 14 billion.

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 contingent liability and provision for impairment in the amount of HUF 74.5 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).

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.

Act on Conversion into HUF

Based on the Act on Conversion into HUF, in case of mortgage loans concerned in conversion into HUF, OTP Mortgage 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 13,842 million in the Bank's unconsolidated IFRS financial statements.

Effect of the Acts on Customer Loans

Bid-ask exchange rate spread	13,978
Unilateral amendment of interests	74,493
Unilateral amendment of fees	66
Provision for settlement Total	**88,537**

OTP Mortgage Bank still maintains the point of view that the Bank keeps completely the effective regulations during its loan activity practice.

Introduction of deferred tax relating to acts on customer loans

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

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

[2] on Corporate Tax and Dividend Tax

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

Introduction of deferred tax relating to acts on customer loans [continued]

The Mortgage Bank recognized 2.6 billion HUF deferred tax receivable in the unconsolidated 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.

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

OTP Mortgage 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 through OTP Bank Plc. With the Mortgage Bank which were affected by the Act on Settlement the OTP Bank Plc. 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 in parallel with the deals settled.

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 Bank 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. Actual results could differ from those estimates. Significant areas of subjective judgement include:

Impairment on loans and placements

The Bank regularly assesses its loan portfolio for impairment. Management determines the adequacy of 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, considering received collaterals and guarantees. 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.

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

	2014	**2013**
Amounts due from banks and balances with the NBH:		
Within one year		
In HUF	13	250
In foreign currency	386	105
	399	**355**
Total	**399**	**355**
From this: amounts due from OTP Bank	393	336
Compulsory reserve	11	15
Rate of the compulsory reserve	2%	2%

The main amount of cash due from banks shows the balance of the nostro accounts placed at OTP Bank of HUF 393 million and HUF 336 million as at 31 December 2014 and 2013, respectively. The remaining amounts represent the balances of the Bank’s clearing account placed at the NBH.

The Bank fulfilled the compulsory reserve requirement on an average monthly basis.

NOTE 5: PLACEMENTS WITH OTHER BANKS (in HUF million)

Within one year	2014	2013
in HUF	136,236	20,000
in CHF	11,495	8,918
in EUR	-	31,232
in JPY	-	1,849
Total in foreign currency	11,495	41,999
	147,731	**61,999**
Accrued interest	70	41
Total	**147,801**	**62,040**
From this: amounts due from OTP Bank	147,731	61,999

Interest conditions on placements with other banks	2014	2013
in HUF	1.10%-9.00%	3.00%-9.00%
in foreign currency	0.44%-4.82%	0.88%-4.24%

Average interest of placements with other banks	2014	2013
in HUF	2.33%	3.36%
in EUR	1.04%	1.17%
in CHF	0.84%	0.88%
in JPY	1.09%	1.59%

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

	2014	2013
Foreign exchange swaps designated as held for trading	502	-
Total	**502**	**-**

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

	2014	2013
Bonds issued by the NBH	-	29,963
	-	**29,963**
Accrued interest	-	-
Total	**-**	**29,963**

The whole portfolio was denominated in HUF as at 31 December 2013. NBH bonds were pledged as additional collateral of issued mortgage bonds. Financial sources derived from mortgage bonds issued during 2013 were used partially for lending activity, from the remaining amount invested into short term debt instruments.

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

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

	2014	2013
Within five years, fixed interest	-	29,963

The valuation of the securities available-for-sale was as follows as at 31 December 2013:

	2013	
	Cost	Fair value
Bonds issued by the NBH	29,963	29,963
Total	**29,963**	**29,963**

NOTE 8: LOANS, NET OF ALLOWANCES FOR LOAN LOSSES (in HUF million)

	2014	2013
Short-term loans (within one year)		
in HUF	44,021	44,578
in CHF	1,315	316
in EUR	1	38
in JPY	-	-
in foreign currency	1,316	354
	45,337	**44,932**
Long-term loans (over one year)		
in HUF	605,688	619,819
in CHF	367,923	398,184
in EUR	26,230	28,672
in JPY	77,492	78,408
in foreign currency	471,645	505,264
	1,077,333	**1,125,083**
Loans Gross Total	**1,122,670**	**1,170,015**
Provision for impairment	(27,691)	(32,977)
Accrued interest	6,468	7,051
Total	**1,101,447**	**1,144,089**

A significant part of the loans above are mortgage loans for housing. The loans have collateral notified in the public property register in favour of OTP Mortgage Bank. Such loans and their collateral are included in the Bank's register and mortgage bonds can be issued up to this registered amount. The remaining parts of the loans are real estate development loans given to individual farmers that work in the agro-industry. Real estate and arable land can be accepted as collateral of these loans.

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

Interest conditions on loans, net of allowance for loan losses:

	2014	2013
Loans denominated in HUF with the maturity over one year	4.91%-13.15%	5%-21.12%
Average interest rate of mortgage loans denominated in foreign currency for housing purposes		
CHF	8.76%	8.76%
EUR	8.01%	8.01%
JPY	5.84%	5.84%
Average interest rate of mortgage loans denominated in foreign currency for free purposes		
CHF	10.00%	10.00%
EUR	8.94%	8.94%
JPY	5.72%	5.71%
Average interest rate of real estate development loans		
HUF	9.64%	10.28%
EUR	6.58%	6.69%

OTP Mortgage Bank Ltd. only provides loans with the original maturity over one year.

An analysis of the loan portfolio by type, before allowances for loan losses, is as follows:

	2014		2013	
Mortgage loans	1,117,582	99.55%	1,164,007	99.49%
SME loans	3,035	0.27%	3,662	0.31%
Loans to medium and large corporates	2,053	0.18%	2,346	0.20%
Total	**1,122,670**	**100.00%**	**1,170,015**	**100.00%**

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

	2014	2013
Balance as at 1 January	**32,977**	**44,384**
Provision for the year	34,758	48,977
Provision released for the year	(40,044)	(60,384)
Balance as at 31 December	**27,691**	**32,977**

The Bank sells non-performing loans without recourse at estimated fair value to an OTP Group member, OTP Factoring Ltd. The Bank sells subsidised non-performing loans at estimated fair value to OTP Bank Plc.

NOTE 9: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF million)

For the year ended 31 December 2014

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January 2014	**1,266**	**96**	**102**	**-**	**1,464**
Additions	202	-	1	104	307
Disposals	(104)	(96)	(10)	(104)	(314)
Balance as at 31 December 2014	**1,364**	**-**	**93**	**-**	**1,457**
Accumulated Depreciation and Amortization					
Balance as at 1 January 2014	**1,089**	**8**	**66**	**-**	**1,163**
Charge for the year	99	-	13	-	112
Disposals	-	(8)	(11)	-	(19)
Balance as at 31 December 2014	**1,188**	**-**	**68**	**-**	**1,256**
Net book value					
Balance as at 1 January 2014	**177**	**88**	**36**	**-**	**301**
Balance as at 31 December 2014	**176**	**-**	**25**	**-**	**201**

For the year ended 31 December 2013

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January 2013	**1,159**	**93**	**129**	**15**	**1,396**
Additions	226	3	22	5	256
Disposals	(119)	-	(49)	(20)	(188)
Balance as at 31 December 2013	**1,266**	**96**	**102**	**-**	**1,464**
Accumulated Depreciation and Amortization					
Balance as at 1 January 2013	**995**	**7**	**100**	**-**	**1,102**
Charge for the year	100	1	15	-	116
Disposals	(6)	-	(49)	-	(55)
Balance as at 31 December 2013	**1,089**	**8**	**66**	**-**	**1,163**
Net book value					
Balance as at 1 January 2013	**164**	**86**	**29**	**15**	**294**
Balance as at 31 December 2013	**177**	**88**	**36**	**-**	**301**

NOTE 10: OTHER ASSETS (in HUF million)

	2014	2013
Derivatives qualified for hedge accounting[1]	36,379	43,672
Receivables from the Hungarian Government	1,341	3,833
Trade receivables	776	1,309
Current income tax receivable	282	736
Prepayments and other assets	947	637
	39,725	**50,187**
Provision for other assets	(7)	(59)
Total	**39,718**	**50,128**

Receivables from the Hungarian Government represent receivables from government subsidies on housing mortgage loans.

NOTE 11: AMOUNTS DUE TO OTP BANK AND OTHER BANKS (in HUF million)

	2014	2013
Within one year		
In HUF	223,663	186,267
In EUR	252	-
In JPY	9,086	14,380
In CHF	63,800	33,076
Total in foreign currency	73,138	47,456
	296,801	**233,723**
Accrued interest	108	224
Total	**296,909**	**233,947**
From this: amounts due to OTP Bank	296,801	233,723

Interest conditions on amounts due to OTP Bank and other banks

	2014	2013
In HUF	2.10% - 6.20%	2.20% - 4.59%
In foreign currency	0.02% - 4.82%	0.82% - 4.86%

[1] For more details (including types of derivatives) see Note 30.

NOTE 12: LIABILITIES FROM ISSUED SECURITIES (in HUF million)

	2014	2013
Within one year:		
In HUF	114,834	13,790
In EUR	160,725	133,610
	275,559	**147,400**
Over one year		
In HUF	364,254	483,015
In EUR	158,055	300,033
	522,309	**783,048**
Subtotal	**797,868**	**930,448**
Accrued interest	35,281	36,251
Total	**833,149**	**966,699**

Issued mortgage bonds during the period (nominal value)	-	146,400
Mortgage bonds became due or repurchased during the period (nominal value)	140,671	325,523

Interest conditions on issued securities

	2014	2013
In HUF	7.50% - 11.00%	7.50% - 11.00%
In foreign currency	1.99% - 4.08%	2.12% - 4.24%

A reconciliation of the face value and the amortized cost is as follows:

	2014	2013
Nominal value of the issued securities	786,615	915,856
Unamortized premiums	9,244	10,735
Fair value hedge adjustment	2,009	3,857
Amortized cost	**797,868**	**930,448**

Face value and interest of mortgage bonds issued by OTP Mortgage Bank shall not exceed registered normal and additional collaterals (face value and interest). Mortgage Bank keeps record of pledges, normal and additional collateral values which are shown separately. Independent coverage supervisor monitors the availability of mortgage bond's collateral values in accordance with regulations, the registration of pledges as the normal collateral of the mortgage bonds, those property register data and the normal and additional collateral in the coverage register.

NOTE 12: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]

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

Name	Date of issue	Maturity	Nominal value in HUF million	Interest conditions (in % p.a.)		Hedged
OJB 2015/I	6/10/2005	6/10/2015	3,243	7.70%	fixed	not hedged
OJB 2015/II	5/17/2012	5/17/2015	110,000	9.00%	fixed	hedged
OJB 2015/J	1/28/2005	1/28/2015	9	8.69%	fixed	not hedged
OJB 2016/I	2/3/2006	2/3/2016	1,268	7.50%	fixed	not hedged
OJB 2016/II	8/31/2006	8/31/2016	4,692	10.00%	fixed	not hedged
OJB 2016/III	2/17/2009	2/17/2016	150,000	10.75%	fixed	not hedged
OJB 2016/J	4/18/2006	9/28/2016	114	7.59%	fixed	not hedged
OJB 2019/I	3/17/2004	3/18/2019	31,517	9.48%	fixed	not hedged
OJB 2019/II	5/25/2011	3/18/2019	7,733	9.48%	fixed	not hedged
OJB 2020/I	11/19/2004	11/12/2020	5,503	9.00%	fixed	not hedged
OJB 2020/II	5/25/2011	11/12/2020	4,497	9.00%	fixed	not hedged
OJB 2025/I	7/31/2009	7/31/2025	150,000	11.00%	fixed	not hedged
Total issued securities in HUF			**468,576**			
Unamortized premium			9,245			
Fair value hedge adjustment			1,267			
Total issued securities in HUF			**479,088**			
Accrued interest			34,298			
Total in HUF			**513,386**			

The HUF denominated mortgage bonds are being hedged in fair value hedge relationship. See Note 30 for further details of hedge accounting.

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

Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % p.a.)		Hedged
OMB 2015/I	8/30/2012	3/6/2015	EUR	510	160,594	4.08%	floating	hedged
OMB 2016/I	10/25/2013	10/25/2016	EUR	500	157,445	1.99%	floating	hedged
Total issued securities in FX					**318,039**			
Unamortized discount					(1)			
Fair value hedge adjustment					742			
Total issued securities in FX					**318,780**			
Accrued interest					983			
Total in FX					**319,763**			
Total					**833,149**			

The EUR denominated mortgage bonds are being hedged in fair value hedge relationship. See Note 30 for further details of hedge accounting.

NOTE 13: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF million)

	2014	2013
Negative fair value change of derivative financial instruments designated as held-for-trading	29	-
Total	**29**	-

NOTE 14: OTHER LIABILITIES (in HUF million)

	2014	2013
Provision for impairment off-balance sheet commitments and contingent liabilities	102,811	1,625
from this: on contingent liabilities due to regulations related to customer loans[1]	*102,379*	-
Fair value of derivative financial instruments designated as fair value hedge[2]	3,666	848
Current income tax payable	1,240	1,127
Accounts payable	924	743
Liabilities to customers	727	845
Accrued services	525	2,699
Deferred tax liabilities	309	2,512
Salaries and social security payable	6	26
Other	27	3
Total	**110,235**	**10,428**

NOTE 15: SUBORDINATED BONDS AND LOANS (in HUF million)

	2014	2013
With the maturity over one year denominated in CHF	3,975	3,656

On 30 January 2009, OTP Bank provided CHF 15 million subordinated loan to the Bank with the maturity of 8 years. The loan is due at 30 January 2017. The interest of the loan is 3 month CHF LIBOR + 3.88%.

The CHF denominated subordinated loan is being hedged in fair value relationship. See Note 30 for further details of hedge accounting.

NOTE 16: SHARE CAPITAL (in HUF million)

All shares are ordinary shares with a nominal value of HUF 100 thousand and are authorised and fully paid.

	2014	2013
Share capital (in HUF million)	27,000	27,000

[1] For more details see Note 2.15.
[2] For more details (including types of derivatives) see Note 30.

NOTE 17: RETAINED EARNINGS AND RESERVES (in HUF million)

	2014	2013
Balance as at 1 January	**45,146**	**48,611**
Dividend paid	(5,097)	(10,000)
Net income after income taxes	(78,270)	6,132
Capital contributions from OTP Bank Plc. related to regulations of customer loans	56,581	-
Other comprehensive income	411	403
Balance as at 31 December	**18,771**	**45,146**

The Bank's retained earnings and reserves under IFRS were HUF 18,771 million and HUF 45,146 million as at 31 December 2014 and 2013 respectively. Retained earnings contains the net income after income taxes for the year ended 31 December 2014 in HUF (78,270) million, the retained earnings from previous years in HUF 86,054 million. During 2014 tied-up reserve was recognised due to the capital contribution of OTP Bank Plc. related to regulations of customer loans[1].

The Bank's reserves under Hungarian Accounting Standards ("HAS") were HUF 22,092 million and HUF 29,423 million as at 31 December 2014 and 2013 respectively. These amounts include legal reserves amounting to HUF 9,988 million as at 31 December 2013. During 2014 the legal reserve was used for the losses from regulations related to customer loans. The legal reserve is not available for distribution.

Dividends are recognised in the period which they are approved by the owners. In 2014 the Bank paid dividend of HUF 5,097 million from the profit of the year 2013. Regarding to the net income for the year 2014 dividends are not expected to be proposed by the management. Dividend per share was 18,878 HUF for the year ended 2013.

[1] See Note 2.15 for regulations related to customer loans.

NOTE 18: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

During 2014 5 types of interest subsidised loans were among OTP Mortgage Bank's portfolio:

(i) loans granted before 16 June 2003
(ii) loans granted between 16 June 2003 and 22 December 2003
(iii) loans granted between 22 December 2003 and 30 June 2009
(iv) loans granted after 1 October 2009
(v) loans granted after 2012

Interest subsidised loans fulfil the following conditions

- granted for purchase, building of new property, or purchase, renovation, enlargement of existing property
- for overdue loans-disbursed before 2012 to ensure smaller financial encumbrance for the debtors
- maximised interest rate
- interest subsidy fixed to the reference rate of the government bonds or to the reference rate of the issued mortgage bonds
- subsidy till the maturity of the loan, but maximum for 20 years.

Certain interest subsidised loans at OTP Mortgage Bank's portfolio are acquired from OTP Bank and the state provides one-off payment for these. As this one-off payment is fully transferred to OTP Bank, it is presented net in these financial statements. The one-off payment was HUF 0.54 million and HUF 1.8 million for the years ended 31 December 2014 and 2013.

Relevant elements of the currently available interest subsidised loans:

- the applicants can be residents of Hungary or residents outside Hungary
- purpose of the loan:
  - purchasing or building of new property
  - purchasing or modernisation or enlargement of used property
  - purchasing of mortgaged properties with overdue mortgage loan or with cancelled loan
  - purchasing of smaller property owned by debtors with overdue loan
  - conversion of overdue FX mortgage loan
- in case of building or purchasing of property the building costs or the purchase price without the building plot price shall not exceed the amount of HUF 30 million, in case of purchase of used properties the amount of HUF 20 million, in case of modernisation or enlargement shall not exceed the costs the amount of HUF 15 million
- loan amount shall not exceed in case of new properties the amount of HUF 15 million, and in case of used properties the amount of HUF 10 million.

The interest subsidy is determined in the per cent of government bonds' yields depending on the purpose of the loan, and it can be granted as a maximum for 5 years.

Due to the strict conditions the loan demand remains moderate. Loans granted at the end of 2014 about HUF 7,692 million based on the conditions of 2009 and HUF 47,718 million based on conditions of 2012. Net closing amount of the loan with the conditions of 2009 was HUF 6,352 million and for the conditions of 2012 was HUF 46,975 million.

NOTE 19: NET LOSS FROM FEES AND COMMISSIONS (in HUF million)

Income from fees and commissions

	2014	2013
Fees and commissions relating to lending	1,491	1,496
Other	145	324
Total	**1,636**	**1,820**

Expense from fees and commissions

	2014	2013
Fees and commissions relating to issued securities	154	330
Fees and commissions relating to lending	2,140	2,314
Total	**2,294**	**2,644**
Net loss from fees and commissions	**(658)**	**(824)**

The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance.

NOTE 20: OTHER ADMINISTRATIVE EXPENSES (in HUF million)

	2014	2013
Taxes, other than income tax:		
Bank tax	*8,759*	8,759
Credit institution's contribution	5,194	5,174
from this: credit institution's contribution based on the escrow account loans	*2,527*	*2,001*
Other taxes	*1,314*	1,207
Total taxes, other than income tax	15,267	15,140
Services	381	386
Professional fees	352	201
Rental fees	55	56
Material type expenses	22	33
Administration expenses	20	21
Advertising	7	3
Total	**16,104**	**15,840**

Taxes, other than income taxes are Credit institution’s contribution that is payable by the Bank on HUF denominated loans having interest subsidy from the Hungarian government, bank tax and other local taxes. An amount of HUF 2,527 million was paid by the Bank as credit institution’s contribution in connection with escrow account loans. Based on the approved regulation the whole amount of the exempted receivables were borne by the Government, and the Bank paid 50% credit institution’s contribution based on these receivables.
The total tax amount is HUF 8,759 million recognised as an expense thus decreased the corporate tax base. The tax is based on the total assets of the Bank as of 31 December 2009, adjusted with certain items. Financial institutions are obliged to pay the bank tax until an undetermined date of ceasing.

NOTE 21: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)

	2014	2013
Key executives (Managing Director and Deputies)	40	30
Total	**40**	**30**

The remunerations of key management personnel include only short-term benefits.

NOTE 22: INCOME TAX (in HUF million)

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

A reconciliation of the total income tax charge for the years ended 31 December 2014 and 2013 is as follows:

	2014	**2013**
Current tax expense	3,772	697
Deferred tax (benefit)/expense	(2,300)	109
Total income tax expense/(benefit)	**1,472**	**806**

A reconciliation of the deferred tax liability as at 31 December 2014 and 2013 is as follows:

	2014	**2013**
Balance as at 1 January	**(2,512)**	**(2,309)**
Recognized in other comprehensive income as tax expense	(97)	(94)
Deferred tax benefit/(expense)	2,300	(109)
Balance as at 31 December	**(309)**	**(2,512)**

A reconciliation of deferred tax assets and liabilities as at 31 December 2014 and 2013 is as follows:

	2014	**2013**
Deferred tax assets from regulations related to customer loans	2,630	-
Deferred tax assets	**2,630**	**-**
Effect of applying effective interest rate method	(2,910)	(2,465)
Amortized cost of issued securities	(21)	(31)
Fixed assets	(5)	(16)
Fair value adjustment for available-for-sale financial assets	(3)	-
Deferred tax liabilities	**(2,939)**	**(2,512)**
Net deferred tax liabilities	**(309)**	**(2,512)**

A reconciliation of the effective tax rate as at 31 December 2014 and 2013 is as follows:

	2014	**2013**
Profit/Loss before income taxes	(76,798)	6,938
Tax at statutory income tax rate (19%)	(14,591)	1,318
Permanent differences due to income tax	15,198	(512)
Permanent differences due to regulations related to customer loans	876	-
Other permanent differences	(11)	-
Income tax expense/(benefit)	**1,472**	**806**
Effective tax-rate	(1.92%)	11.62%

NOTE 23: EARNINGS PER SHARE

Earnings per share attributable to ordinary shares are determined based by dividing Net profit for the year by the weighted average number of ordinary shares outstanding during the period. The Bank has no preference shares and no options or other rights related to shares.

	2014	**2013**
Net profit for the year (in HUF million)	(78,270)	6,132
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	270,000	270,000
EPS (in HUF) basic and diluted	**(289,889)**	**22,711**

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million)

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[1]:

24.1. Credit risk

The Bank takes on exposure to credit risk, which is the risk that the counter-party will be unable to pay amounts in full when due. The risk of the mortgage lending activity is controlled and the safety is enhanced by the legal environment, which provides that loans can only be extended against a specific collateral of real property and with certain legal assurances.
In the treasury activity the Bank structures the levels of credit risk it undertakes by placing limits to each counter-party. Actual exposures against limits are monitored daily.

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

24.1. Credit risk [continued]

Analysis by loan types

An analysis of the gross loan portfolio by loan types and financial risk classes is as follows. The table consists of only on-balance sheet items.

As at 31 December 2014

Loan type	DPD 0-90	DPD 90-360	DPD 360+	Total carrying amount /allowance
Loans to medium and large corporates	1,984	37	32	**2,053**
Placements with other banks	147,731	-	-	**147,731**
Retail loans	1,057,360	42,210	18,012	**1,117,582**
SME loans	3,013	22	-	**3,035**
Gross loan portfolio total	**1,210,088**	**42,269**	**18,044**	**1,270,401**
Allowance Total	***(8,823)***	***(12,780)***	***(6,087)***	***(27,690)***
Net loan portfolio total	**1,201,265**	**29,489**	**11,957**	**1,242,711**
Accrued interest				
Placements with other banks				70
Loans				6,468
Total accrued interest				**6,538**
Total placements with other banks				**147,801**
Total loans				**1,129,138**
Total allowance				***(27,690)***
Total				**1,249,249**

[1] The management of liquidity risk related to financial instruments are shown in Note 29.

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

24.1. Credit risk [continued]

Analysis by loan types [continued]

As at 31 December 2013

Loan type	DPD 0-90	DPD 90-360	DPD 360+	Total carrying amount /allowance
Loans to medium and large corporates	2,265	81	-	**2,346**
Placements with other banks	61,999	-	-	**61,999**
Retail loans	1,096,981	50,159	16,867	**1,164,007**
SME loans	3,615	46	1	**3,662**
Gross loan portfolio total	**1,164,860**	**50,286**	**16,868**	**1,232,014**
Allowance Total	***(12,661)***	***(15,122)***	***(5,194)***	***(32,977)***
Net loan portfolio total	**1,152,199**	**35,164**	**11,674**	**1,199,037**
Accrued interest				
Placements with other banks				41
Loans				7,051
Total accrued interest				**7,092**
Total placements with other banks				**62,040**
Total loans				**1,177,066**
Total allowance				***(32,977)***
Total				**1,206,129**

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 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.

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

24.1. Credit risk [continued]

Classification into risk classes [continued]

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.

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 90-360	DPD 360+	Total
Loans to medium and large corporates	1,789	49	-	-	**1,838**
Placements with other banks	147,731	-	-	-	**147,731**
Retail loans	821,800	51,479	251	153	**873,683**
SME loans	2,852	68	-	-	**2,920**
Total	**974,172**	**51,596**	**251**	**153**	**1,026,172**

As at 31 December 2013

Loan type	Not past due	DPD 0-90	DPD 90-360	DPD 360+	Total
Loans to medium and large corporates	2,085	73	5	-	**2,163**
Placements with other banks	61,999	-	-	-	**61,999**
Retail loans	798,569	70,484	393	48	**869,494**
SME loans	3,333	148	-	-	**3,481**
Total	**865,986**	**70,705**	**398**	**48**	**937,137**

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

24.1. Credit risk [continued]

Collaterals

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

Types of collateral	2014	2013
Government guarantees	103,371	117,419
Mortgage	2,032,121	2,009,338
Total	**2,135,492**	**2,126,757**

The collateral value held by the Bank by 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
Government guarantees	102,905	116,881
Mortgage	934,413	973,775
Total	**1,037,318**	**1,090,656**

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 as at 31 December 2014 and 2013 is as follows:

Types of collateral (total collateral value)	2014	2013
Retail loans	87,607	111,503
Corporate loans	165	166
SME loans	155	354
Total	**87,928**	**112,023**

Types of collateral (to the extent of the exposures)	2014	2013
Retail loans	48,594	66,756
Corporate loans	44	65
SME loans	41	116
Total	**48,679**	**66,937**

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

Non-qualified gross loan portfolio by countries

	2014	2013
Hungary	1,026,019	936,984
Romania	152	152
Total	**1,026,171**	**937,136**

Forborne loans

	2014		2013	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	9,126	651	16,483	1,784
Total	**9,126**	**651**	**16,483**	**1,784**

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

24.1. Credit risk [continued]

Forborne loans [continued]

Forborne portfolio for **retail business line** includes each relevant forborne loan with less than 91 days of delinquency. The following cases are considered as relevant forborne:

- forbearance occurred in the past year or
- forbearance occurred earlier than the past year but the grace period belonging to the forbearance is not yet or in the past year expired.
- Housing loans are not considered as forborne which are in state protection program.

In case of several forbearance events last one is taken into consideration.

Forborne portfolio for **corporate / SME business line** includes each relevant forborne loan with less than 91 days of delinquency. The following cases are considered as relevant forborne:

- irrespective of forbearance date permanent remittal occurs in the amount of principal
- forbearance occurred in the past year or earlier than the past year but the grace period belonging to the forbearance is not yet or in the past year expired and:
  - remittal of interest occurred (remittal of payable interest payment, reducing the level of interest) or
  - rescheduling the interest payment (suspending the interest payment, capitalizing the interest) or
  - rescheduling the principal payment (suspending the principal payment, rescheduling the instalment, prolongation).

Other modifications of contract are not considered as forborne which are not included above (i.e. exchange of collateral, amending aim of loan etc.). In case of several forbearance events last one is taken into consideration.

24.2. Market risk

Market risks arise from positions taken in securities and other instruments. The Bank takes no significant exposure to market risks. Market risk generally monitored and controlled by the Asset and Liability Management function.

24.2.1. Interest rate sensitivity analysis[1]

The sensitivity analysis below has 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 adverse interest rate changes. The main assumptions were as follows:

- Floating-rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed-rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- 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. continuously decreasing HUF basic interest rate to 1.5% (probable scenario)
2. continuously decreasing HUF basic interest rate to 0.0% (alternative scenario)

The net interest income in a one year period after January 1, 2015 would be decreased by HUF 340 million (probable scenario) and HUF 1,131 million (alternative scenario) as a result of these simulation.

The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period can be summarized as follows (in HUF million):

[1] Quantitative data on interest rate risk are shown in Note 28

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

24.2. Market risk

24.2.1. Interest rate sensitivity analysis[1] [continued]

Description		Effects to the net interest income in one year period	
		2014	2013
HUF	(0.1%) parallel shift	(124)	(76)
EUR	(0.1%) parallel shift	(7)	(58)
Total		**(131)**	**(134)**

24.2.2. Foreign exchange rate sensitivity analysis[2]

The foreign exchange sensitivity analysis has been determined based on the net open position, taking into account both balance sheet exposure and off balance sheet exposure. The simulation was made on the assumption, that the price changes happens as a one off event, and neither does it take into consideration possible balance sheet dynamics, nor the potential increase or decrease of risk costs related to foreign exchange denominated assets.

The total net open position of OTP Mortgage Bank Ltd. was an amount of HUF 767 million short on 31 December 2014, which consisted of EUR, CHF and JPY exposure. Considering the volatilities estimated at the given reference date (7.2%, 7.1% and 12.0% respectively), we assumed a +/- 8.3%, 8.3% and 14.1% price shock for a one quarter long time horizon, which is equivalent to the estimated VaR of the price distribution. Based on this, the following profit or loss impact was estimated.

	2014			2013		
	Price change	-	+	Price change	-	+
EUR	8.3%	4.2	-4.6	6.4%	7.7	(8.2)
CHF	8.3%	(40.1)	43.6	6.6%	(132.2)	141.1
JPY	14.1%	(41.4)	47.7	13.9%	(40.4)	46.4
Total		**(77.3)**	**86.7**		**(164.8)**	**179.3**

It has a negative impact on the Unconsolidated Statement of Recognized Income of the Bank when HUF weakens against key currencies. Compared to 2013, the main reason of decreasing of the loss is due to the decreasing foreign currency volatility. At the same time, it has to be pointed out, that potential loss is marginal compared to the regulatory capital of the Bank.

24.3. Equity sensitivity analysis

The Bank has no equity instruments held in 2014 and 2013, therefore not exposed to equity risk.

24.4. 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 shareholder's 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 turn is the continuous monitoring of its capital position, in the long turn 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 including the owner of the Bank.

[1] Quantitative data on interest rate risk are shown in Note 28
[2] Quantitative data on foreign exchange rate risk are shown in Note 26

NOTE 24: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

24.4. Capital management [continued]

Capital adequacy

The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with HAS applying the directives, rulings and indicators defined by the Basel Committee, that has been adopted in Hungary in 2008.
The Bank has entirely complied with the regulatory capital requirements in 2013 similar to prior years.
The capital adequacy calculations of the Bank for the year 2014 are prepared based on the data of the audited financial statements prepared in accordance with HAS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and the alternative standard method in case of the operational risk. In 2014 the Mortgage Bank's solvency ratio is 10,27%. Surplus capital is 50,553; the total required regulatory capital is 39,397.

In HUF million	**2014**	**2013**
Core capital	48,917	56,245
Supplementary capital	1,636	2,179
Regulatory capital	**50,553**	**58,424**
Credit risk capital requirement	36,101	37,528
Market risk capital requirement	42	203
Operational risk capital requirement	3,254	3,306
Total required regulatory capital	**39,397**	**41,037**
Surplus capital	**11,156**	**17,387**
Solvency ratio	**10.27%**	**11.39%**

The positive components of the Core capital are the following:
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 the following:
Intangible assets

The positive components of the Supplementary capital are the following:
Subsidiary loan capital, Subordinated loan capital

The negative components of the Supplementary capital are the following:
Part of the subordinated loan capital which shall not be considered

Deductions are deductions due to PIBB[1] investments and deductions due to limit breaches.

[1] PIBB: Financial Institutions, Investing Enterprises, Insurance Companies

NOTE 25: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF million)

Off balance sheet items

	2014	2013
Current litigations	16,465	16,040
Loan facilities	5,531	3,406
Litigations on foreign currency denominated loans	-	1,444
Contingent liabilities ordered by law related to customer loans	85,807	-
from this: obligation related to application of the bid-ask exchange rate spread	*13,978*	-
from this: obligation related to unilateral amendment of contractual clauses	*71,829*	-
Other contingent and future liabilities	4	5
Contingent and future liabilities total	***107,807***	***20,895***

Derivative financial instruments

The Bank has certain swap and forward transactions, which are qualified as hedging instrument based on the Bank’s risk management policy. However these financial instruments are not qualified as hedging instrument based on IAS 39, therefore the Bank qualified these derivative financial instruments as held for trading, and fair value adjustment is recognised directly in the Unconsolidated Statement of Recognized Income.

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.

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 contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts can be used by the Bank for risk management and trading purposes. The Bank’s risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions 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 futures 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 swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Cross-currency interest rate swap

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. Special types of these deals are the mark-to-market CCIRS agreements. At this kind of deals the parties – in accordance with the foreign exchange prices – revalue the notional amount during lifetime of the transaction.

NOTE 26: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at 31 December 2014

	CHF	**EUR**	**JPY**	**Total**
Assets	352,655	26,237	74,930	453,822
from this: loans concerned in conversion into HUF[1]	*339,660*	*25,066*	*74,121*	*438,847*
Liabilities	(132,267)	(320,453)	(13,027)	(465,747)
from this: provision for loans concerned in conversion into HUF	*(63,381)*	*(1,136)*	*(3,442)*	*(67,959)*
Off-balance sheet assets and liabilities, net	55,104	318,039	915	374,058
Net position	**275,492**	**23,823**	**62,818**	**362,133**

As at 31 December 2013

	CHF	**EUR**	**JPY**	**Total**
Assets	374,482	60,781	76,821	512,084
Liabilities	(38,156)	(435,063)	(14,835)	(488,054)
Off-balance sheet assets and liabilities, net	(333,907)	374,107	(61,626)	(21,426)
Net position	**2,419**	**(175)**	**360**	**2,604**

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 27: RELATED PARTY TRANSACTIONS (in HUF million)

27.1. Outstanding balances/Transactions due from or due to OTP Bank Plc.

27.1.1. Outstanding balances in the Unconsolidated Statement of Financial Position related to OTP Bank Plc.

The Bank had the following assets and liabilities due from, or due to the OTP Bank Plc.:

Assets	**2014**	**2013**
Cash, amounts due from OTP Bank	393	336
Placements with OTP Bank	147,801	61,999
Financial assets at fair value through profit and loss	502	-
Accrued receivables	11	16
Fair value hedge derivatives – positive fair value	36,379	43,672

Liabilities	**2014**	**2013**
Amounts due to OTP Bank and other banks	296,909	233,947
Issued mortgage bonds held by OTP Bank	774,054	840,057
Accrued interest payable related to mortgage bonds held by OTP Bank	30,677	31,616
Financial liabilities at fair value through profit or loss	29	-
Other liabilities due to OTP Bank	7,262	2,959
Fair value hedge derivatives – negative fair value	3,666	848

[1] Loans were converted into HUF at foreign exchange rates applied in conversion due to Acts on Customer loans so these do not bear further foreign currency risk or exposure.. See Note 2.15.

NOTE 27: RELATED PARTY TRANSACTIONS (in HUF million) [continued]

27.1.2. Transactions in the Unconsolidated Statement of Recognized Income related to OTP Bank Plc.

	2014	**2013**
Interest income	4,975	7,978
Interest expense	63,752	85,721
Account handling fees paid to OTP Bank	3,390	5,808
Other fees and commissions relating to lending paid to OTP Bank	2,996	2,671
One-off payments fee (0.5%)	1	2
Revenue from the value appraisal activity from OTP Bank	138	145

27.1.3. Transactions of the Mortgage Bank's loan portfolio related to OTP Bank Plc.

	2014	**2013**
Performing loans purchased from OTP Bank	1,432	1,351
Book value of performing loans purchased from OTP Bank	1,440	1,350

27.2. Outstanding balances related to key management personnel

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 403.9 million as at 31 December 2014. These loans were covered by HUF 908.3 million mortgage.

27.3. Outstanding balances/Transactions related to other related party[1]

27.3.1. Transactions related to OTP Building Society Ltd.

	2014	**2013**
Issued mortgage bonds held by OTP Building Society Ltd.	5,392	5,424
Accrued interest payable related to mortgage bonds held by OTP Building Society Ltd.	185	185

27.3.2. Transactions of the Mortgage Bank's loan portfolio related to OTP Factoring Ltd.

	2014	**2013**
Book value of non-performing loans sold to OTP Factoring Ltd.	19,851	45,102
Selling price of the non-performing loans related to OTP Factoring Ltd.	15,781	36,560

27.3.3. Further Outstanding balances/Transactions related to other related party

	2014	**2013**
Accrued receivables due from other related party	-	53
Other liabilities due to other related party	47	983
Issued mortgage bonds held by OTP Fund Management Ltd.	2,565	2,581
Accrued interest payable related to mortgage bonds held by OTP Fund Management Ltd.	93	93
Other operating income from other related party	8	13
Revenue from the value appraisal activity from OTP Factoring Ltd. and from other related party	63	63

Compensation of key management personnel is shown in Note 21.

In the normal course of the business the Bank enters into other transactions with the entities within the OTP Group, the amounts and volumes of which are not significant to these financial statements taken as a whole. Only significant transactions were highlighted.

[1] The Bank has significant transactions with OTP Building Society Ltd. and OTP Factoring Ltd. in OTP Group, these transactions are highlighted.

NOTE 28: INTEREST RATE RISK MANAGEMENT

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.

31 December 2014	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	
Cash, amounts due from banks and balances with the National Bank of Hungary	**13**	**386**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**386**	**399**
variable interest	13	386	-	-	-	-	-	-	-	-	-	-	13	386	399
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Placements with other banks	**112,480**	**-**	**23,755**	**11,496**	**-**	**-**	**-**	**-**	**-**	**-**	**69**	**1**	**136,304**	**11,497**	**147,801**
fixed interest	112,480	-	23,755	-	-	-	-	-	-	-	-	-	136,235	-	136,235
variable interest	-	-	-	11,496	-	-	-	-	-	-	-	-	-	11,496	11,496
non-interest bearing	-	-	-	-	-	-	-	-	-	-	69	1	69	1	70
Loans, net of allowances for loan losses	**214,693**	**447,164**	**75,004**	**-**	**40,552**	**-**	**30,340**	**-**	**287,227**	**-**	**4,797**	**1,671**	**652,613**	**448,835**	**1,101,448**
variable interest	214,693	447,164	75,004	-	40,552	-	30,340	-	287,227	-	-	-	647,816	447,164	1,094,980
non-interest bearing	-	-	-	-	-	-	-	-	-	-	4,797	1,671	4,797	1,671	6,468
Derivative financial instruments	**5,245**	**546,013**	**-**	**38,020**	**92,605**	**162,206**	**-**	**-**	**-**	**-**	**-**	**-**	**97,850**	**746,239**	**844,089**
fixed interest	5,245	14,355	-	38,020	92,605	162,206	-	-	-	-	-	-	97,850	214,581	312,431
variable interest	-	531,658	-	-	-	-	-	-	-	-	-	-	-	531,658	531,658

NOTE 28: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

31 December 2014	**Within 1 month**		**within 3 months over 1 month**		**within 1 year over 3 months**		**within 2 years over 1 year**		**over 2 years**		**Non-interest -bearing**		**Total**		**Total**
LIABILITIES	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	
Amounts due to OTP Bank and other banks	**223,663**	**9,338**	**-**	**63,800**	**-**	**-**	**-**	**-**	**-**	**-**	**26**	**83**	**223,689**	**73,221**	**296,910**
fixed interest	283	9,338	-	63,800	-	-	-	-	-	-	-	-	283	73,138	73,421
variable interest	223,380	-	-	-	-	-	-	-	-	-	-	-	223,380	-	223,380
non-interest bearing	-	-	-	-	-	-	-	-	-	-	26	83	26	83	109
Liabilities from issued securities	**-**	**158,056**	**9**	**160,725**	**114,755**	**-**	**155,925**	**-**	**208,398**	**-**	**34,298**	**983**	**513,385**	**319,764**	**833,149**
fixed interest	-	-	9	-	114,755	-	155,925	-	208,398	-	-	-	479,087	-	479,087
variable interest	-	158,056	-	160,725	-	-	-	-	-	-	-	-	-	318,781	318,781
non-interest bearing	-	-	-	-	-	-	-	-	-	-	34,298	983	34,298	983	35,281
Derivative financial instruments	**44,830**	**275,515**	**37,561**	**-**	**224,329**	**228,668**	**-**	**-**	**-**	**-**	**-**	**-**	**306,720**	**504,183**	**810,903**
fixed interest	14,338	5,248	37,561	-	-	-	-	-	-	-	-	-	51,899	5,248	57,147
variable interest	30,492	270,267	-	-	224,329	228,668	-	-	-	-	-	-	254,821	498,935	753,756
Subordinated bonds and loans	**-**	**3,948**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**26**	**-**	**3,974**	**3,974**
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	3,948	-	-	-	-	-	-	-	-	-	-	-	3,948	3,948
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	26	-	26	26
NET POSITION	**63,938**	**546,706**	**61,189**	**(175,009)**	**(205,927)**	**(66,462)**	**(125,585)**	**-**	**78,829**	**-**	**(29,458)**	**580**	**(157,014)**	**305,815**	**148,801**

NOTE 28: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

31 December 2013	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	**250**	**105**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**250**	**105**	**355**
variable interest	250	105	-	-	-	-	-	-	-	-	-	-	250	105	355
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Placements with other banks	**20,000**	**41,999**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21**	**20**	**20,021**	**42,019**	**62,040**
fixed interest	20,000	41,999	-	-	-	-	-	-	-	-	-	-	20,000	41,999	61,999
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest bearing	-	-	-	-	-	-	-	-	-	-	21	20	21	20	41
Securities available-for-sale	**29,963**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29,963**	**-**	**29,963**
fixed interest	29,963	-	-	-	-	-	-	-	-	-	-	-	29,963	-	29,963
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans, net of allowances for loan losses	**250,806**	**475,711**	**84,482**	**-**	**47,153**	**-**	**32,712**	**-**	**246,174**	**-**	**5,412**	**1,639**	**666,739**	**477,350**	**1,144,089**
variable interest	250,806	475,711	84,482	-	47,153	-	32,712	-	246,174	-	-	-	661,327	475,711	1,137,038
non-interest bearing	-	-	-	-	-	-	-	-	-	-	5,412	1,639	5,412	1,639	7,051
Derivative financial instruments	**-**	**157,708**	**-**	**75,989**	**98,089**	**159,356**	**-**	**-**	**-**	**-**	**-**	**-**	**98,089**	**393,053**	**491,142**
fixed interest	-	-	-	-	98,089	159,356	-	-	-	-	-	-	98,089	159,356	257,445
variable interest	-	157,708	-	75,989	-	-	-	-	-	-	-	-	-	233,697	233,697

NOTE 28: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

31 December 2013	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
LIABILITIES	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	**HUF**	**Foreign currency**	
Amounts due to OTP Bank and other banks	**186,267**	**47,456**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**167**	**57**	**186,434**	**47,513**	**233,947**
fixed interest	287	47,456	-	-	-	-	-	-	-	-	-	-	287	47,456	47,743
variable interest	185,980	-	-	-	-	-	-	-	-	-	-	-	185,980	-	185,980
non-interest bearing	-	-	-	-	-	-	-	-	-	-	167	57	167	57	224
Liabilities from issued securities	**-**	**148,298**	**13,487**	**226,026**	**131**	**59,336**	**117,823**	**-**	**365,347**	**-**	**34,782**	**1,469**	**531,570**	**435,129**	**966,699**
fixed interest	-	-	13,487	-	131	59,336	117,823	-	365,347	-	-	-	496,788	59,336	556,124
variable interest	-	148,298	-	226,026	-	-	-	-	-	-	-	-	-	374,324	374,324
non-interest bearing	-	-	-	-	-	-	-	-	-	-	34,782	1,469	34,782	1,469	36,251
Derivative financial instruments	**-**	**158,512**		**133,844**	**-**	**155,962**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**448,318**	**448,318**
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	158,512		133,844	-	155,962	-	-	-	-	-	-	-	448,318	448,318
Subordinated bonds and loans	**-**	**3,632**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**24**	**-**	**3,656**	**3,656**
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	3,632	-	-	-	-	-	-	-	-	-	-	-	3,632	3,632
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	24	-	24	24
NET POSITION	**114,752**	**317,625**	**70,995**	**(283,881)**	**145,111**	**(55,942)**	**(85,111)**	**-**	**(119,173)**	**-**	**(29,516)**	**109**	**97,058**	**(22,089)**	**74,969**

NOTE 29: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF million)

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 following tables provide an analysis of liabilities 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**	**Total**
Amounts due to OTP Bank and other banks	198,141	98,380	-	-	296,521
Liabilities from issued securities	195,947	113,243	352,706	160,000	821,896
Other liabilities	106,261	-	-	-	106,261
Subordinated bonds and loans	26	-	3,948	-	3,974
TOTAL LIABILITIES	**500,375**	**211,623**	**356,654**	**160,000**	**1,228,652**
Receivables from derivative financial instruments classified as held for trading	31,158	-	-	-	31,158
Liabilities from derivative financial instruments classified as held for trading	(31,225)	-	-	-	(31,225)
Net notional value of financial instruments classified as held for trading	**(67)**	**-**	**-**	**-**	**(67)**
Receivables from derivative financial instruments designated as fair value hedge	-	-	125,956	-	125,956
Liabilities from derivative financial instruments designated as fair value hedge	-	-	(125,406)	-	(125,406)
Negative fair value of financial instruments designated as fair value hedge	**-**	**-**	**550**	**-**	**550**
Negative fair value of derivative financial instruments total	**(67)**	**-**	**550**	**-**	**483**
Commitments to extend credit	220	127	5,184	-	5,531
Off-balance sheet commitments	**220**	**127**	**5,184**	**-**	**5,531**

NOTE 29: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]

As at 31 December 2013	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Amounts due to OTP Bank and other banks	128,280	105,667	-	-	233,947
Liabilities from issued securities	49,912	133,740	569,206	199,250	952,108
Other liabilities	7,068	-	810	-	7,878
Subordinated bonds and loans	24	-	3,632	-	3,656
TOTAL LIABILITIES	**185,284**	**239,407**	**573,648**	**199,250**	**1,197,589**
Receivables from derivative financial instruments designated as fair value hedge	-	-	118,764	-	118,764
Liabilities from derivative financial instruments designated as fair value hedge	-	-	(119,574)	-	(119,574)
Negative fair value of financial instruments designated as fair value hedge	**-**	**-**	**(810)**	**-**	**(810)**
Negative fair value of derivative financial instruments total	**-**	**-**	**(810)**	**-**	**(810)**
Commitments to extend credit	840	141	2,426	-	3,407
Off-balance sheet commitments	**840**	**141**	**2,426**	**-**	**3,407**

NOTE 30: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)

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 31 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, Bloomberg). Cash and amounts due from banks and balances with the NBH 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.

Fair value of financial assets and liabilities

	2014		2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, due from banks and balances with the National Bank of Hungary	399	399	355	355
Placements with other banks	147,801	147,801	62,040	62,040
Securities available-for-sale	-	-	29,963	29,963
Financial assets at fair value through profit and loss	502	502	-	-
Loans, net of allowance for loan losses[1]	1,101,447	1,746,674	1,144,089	1,793,791
FINANCIAL ASSETS TOTAL	**1,250,149**	**1,895,376**	**1,236,447**	**1,886,149**
Amounts due to OTP Bank and other banks	296,909	296,909	233,947	233,947
Liabilities from issued securities	833,149	883,869	966,699	968,130
Financial liabilities at fair value through profit and loss	29	29	-	-
Derivative financial instruments designated as hedging instruments	3,666	3,666	848	848
Subordinated bonds and loans	3,975	3,975	3,656	3,656
FINANCIAL LIABILITIES TOTAL	**1,137,728**	**1,188,448**	**1,205,150**	**1,206,581**

[1] The difference between the carrying amount and the fair value derived from the interest subsidies related to housing loans.

NOTE 30: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value of derivative instruments

	Fair value		Notional value, net	
	2014	**2013**	**2014**	**2013**
Foreign exchange swaps designated as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	502	-	527	-
Negative fair value of foreign exchange swaps classified as held for trading	(29)	-	(27)	-
CCIRS designated as fair value hedge				
Positive fair value of CCIRS classified as fair value hedge	36,379	43,672	36,037	35,308
Negative fair value of CCIRS classified as fair value hedge	(3,666)	(848)	550	(810)
Derivative financial assets total	**36,881**	**43,672**	**36,564**	**35,308**
Derivative financial liabilities total	**(3,695)**	**(848)**	**523**	**(810)**
Derivative financial instruments total	**33,186**	**42,824**	**37,087**	**34,498**

Hedge accounting

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

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

As at 31 December 2014

Type of hedge	Description of the hedging instrument	Fair value of the hedging instrument	Type of the risk being hedged
1) Cash flow hedges	-	-	-
2) Fair value hedges	CCIRS	HUF 32,713 million	Interest rate, foreign exchange
3) Net investment hedge in foreign operations	-	-	-

As at 31 December 2013

Type of hedge	Description of the Hedging instrument	Fair value of the hedging instrument	Type of the risk being hedged
1) Cash flow hedges	-	-	-
2) Fair value hedges	CCIRS	HUF 42,824 million	Interest rate, foreign exchange
3) Net investment hedge in foreign operations	-	-	-

NOTE 30: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Cash-flow hedge - Issued securities

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the EUR/HUF foreign exchange rate. The FX risk arising from this type of securities was hedged by EUR-HUF CCIRS transactions, where the fixed EUR cash-flows were swapped to fixed HUF cash-flows. The critical terms of the issued securities and the swap transactions are matched (maturity, cash-flows). The hedging transactions were terminated as of 15 December 2008. The net gains on the settlement of the swap transaction were reported in the cash-flow hedging reserve in the other comprehensive income. During 2014 and 2013 HUF 507 million and HUF 531 million was recognized as income in proportion with the profit or loss impacts of the hedged item to the net income.

Cash-flow hedges	2014	2013
Amount reclassified from other comprehensive income to profit or loss for the year	507	531

Fair value hedges - Issued securities

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the EUR/CHF, CHF/HUF and JPY/HUF foreign exchange rate and the risk of change in the risk-free interest rates of EUR, HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR-CHF and HUF-JPY CCIRS transactions, where the fixed EUR or HUF cash-flows were swapped to payments linked to 3 CHF or JPY LIBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

The fair value of the hedging instruments is 32,713 HUF million and HUF 42,824 million as at 31 December 2014 and 2013 respectively.

As at 31 December 2014

Types of hedged instrument	Types of hedging items	Fair value of the hedged item	Fair value of the hedging instrument	Gain/ loss attributable to the hedged risk	
				hedging instrument	hedged item
Liabilities from issued securities	CCIRS	3,969	565,229	147	(147)
Liabilities from issued securities	CCIRS	2,300	30,385	378	(378)
Liabilities from issued securities	CCIRS	26,337	149,269	(2,372)	2,372

As at 31 December 2013

Types of hedged instrument	Types of hedging items	Fair value of the hedged item	Fair value of the hedging instrument	Gain/ loss attributable to the hedged risk	
				hedging instrument	hedged item
Liabilities from issued securities	CCIRS	74,228	8,398	(90)	90
Liabilities from issued securities	CCIRS	151,424	3,394	411	(411)
Liabilities from issued securities	CCIRS	118,764	(848)	796	(796)
Liabilities from issued securities	CCIRS	29,691	44	(56)	56
Liabilities from issued securities	CCIRS	85,380	31,836	1,648	(1,648)

NOTE 30: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value hedges – Subordinated loans

The cash-flows of the variables interest rate of subordinated loan granted to the Bank are exposed to the change in the CHF/HUF foreign exchange rate and the risk of change in the risk-free interest rates of CHF, HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with HUF-CHF CCIRS transaction, where the payments linked to 3 month BUBOR are swapped to payments linked to 3 month CHF LIBOR, resulting a decrease in the interest rate and foreign exchange exposure of subordinated loan.

As at 31 December 2014

Types of hedged instrument	**Types of hedging items**	**Fair value of the hedged item**	**Fair value of the hedging instrument**	**Gain/ loss attributable to the hedged risk**	
				hedging instrument	hedged item
Subordinated loan	CCIRS	107	3,606	20	(20)

Fair value hierarchy

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

- 1st Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2nd Level: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly;
- 3rd Level: 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**
Financial assets at fair value through profit or loss	502	-	502
Positive fair value of derivative financial instruments designated as fair value hedge	36,379	-	36,379
Financial assets measured at fair value total	**36,881**	**-**	**36,881**
Financial liabilities at fair value through profit or loss	29	-	29
Negative fair value of derivative financial instruments designated as fair value hedge	3,666	-	3,666
Financial liabilities measured at fair value total	**3,695**	**-**	**3,695**

As at 31 December 2013

	Total	**Level 1**	**Level 2**
Securities available-for-sale	29,963	29,963	-
Positive fair value of derivative financial instruments designated as fair value hedge	43,672	-	43,672
Financial assets measured at fair value total	**73,635**	**29,963**	**43,672**
Negative fair value of derivative financial instruments designated as fair value hedge	848	-	848
Financial liabilities measured at fair value total	**848**	**-**	**848**

There were no financial assets and liabilities at fair value in Level 3 respectively in 2014 and 2013.

NOTE 31: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HAS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)

	Retained Earnings and Reserves as at 1 January 2014	Net profit for the year ended 31 December 2014	Direct Movements on Reserves and fair value adjustment of Cash-flow hedges	Dividend	Retained Earnings and Reserves as at 31 December 2014
Financial Statements in accordance with HAS	**29,423**	**(63,911)**	**56,581**	**-**	**22,093**
Application of effective interest rate on direct issuance costs of securities	164	(55)	-	-	109
Effect of using effective interest rate method for loan origination fees and cost	12,974	2,342	-	-	15,316
Fair value adjustment of derivative financial instruments	-	(494)	508	-	14
Provision for adjustment of amortised cost of customers loans concerned with Curia Law	-	(4,610)	-	-	(4,610)
Provision for future losses due to derecognition of foreign currency denominated loans	-	(13,842)	-	-	(13,842)
Deferred taxation	(2,512)	2,300	(97)	-	(309)
Dividend paid in 2014	5,097	-	-	(5,097)	-
Financial Statements in accordance with IFRS	**45,146**	**(78,270)**	**56,992**	**(5,097)**	**18,771**

NOTE 32: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2014

Relevant transactions related to issued securities for the year 2014

Issued securities became due in amount of HUF 13.5 billion in February.

NOTE 33: POST BALANCE SHEET EVENTS

Act on Fair Banking

Act LXXVIII of 2014 known as Act on Fair banking was promulgated that modified the Act CLXII of 2009 on Customer 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.

NOTE 33: POST BALANCE SHEET EVENTS [continued]

The impact of CHF strengthening started in January 2015 on OTP Mortgage 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.

OTP Mortgage Bank almost fully hedged the open EUR/HUF, EUR/CHF and EUR/JPY positions were hedged with OTP Bank Plc. until the end of 2014, and thus there was no significant impact to OTP Mortgage Bank from CHF strengthening in January.

The strengthening CHF can result in credit quality deterioration in case of CHF loan portfolios, because the FX risk is born by the clients. These FX positions of retail clients are typically unhedged.

In Hungary, according to the act on FX mortgage loans' conversion (Act No. LXXVII of 2014) the CHF mortgage loans are to be converted to HUF loans at 256.47 CHF/HUF exchange rate. The conversion became legally effective on 1 February 2015. (A customer may initiate on opt-out if meeting the criteria set by the law.) Starting from 1 January 2015 the monthly instalments of the FX mortgage loans must be calculated with the fixed rates set in the law on conversion, thus clients under the scope of the conversion law did not experience any negative effect of the CHF strengthening.

NOTE 34: THE EFFECT OF THE FINANCIAL SITUATION ON THE BANK

The deepest point of the financial crisis was left behind though, but in 2014 new problems had to be solved by the concerned participants. The Government's and the bank's attention and financial resources concentrated primarily to the protection of the debtors. During the year the quality of the remaining loan portfolio denominated in foreign currency worsened. According to the NBH report in the first three quarter the ratio of FX debtors with more than 90 days delinquency increased in the category of loans for housing purposes from 13.5 % to 14.2 %, and in the category of loans for free purposes from 28.8 % to 30.4%.

For this purpose new government measures came into force in favour of the FX mortgage debtors, among others execution and cancellation moratorium came into force. Overpayments arisen from invalidity of the bid-ask exchange rate spread and unilateral amendment of contractual clauses and the exchange effect from conversion of foreign currency denominated mortgage loans – in compliance with the regulation - will be settled in the forthcoming period.

Furthermore the conditions of the interest subsidised housing loans were improved. Loan demand and disbursements have started to grow slowly.