OTP Mortgage Bank Ltd.

Separate Financial Statements
in accordance with International
Financial Reporting Standards
as adopted by the European Union
and Independent Auditors' Report

December 31, 2013

CONTENTS

Deloitte.

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

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements (pages 2 to 52) of OTP Mortgage Bank Ltd. for the year 2013, which separate financial statements comprise the statement of financial position as at December 31, 2013 and the related statement of recognized and 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 Separate Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of OTP Mortgage Bank Ltd. as of December 31, 2013, 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 25, 2014

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

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013
(in HUF million)

	Note	2013	2012
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	355	75,064
Placements with other banks	*5.*	62,040	36,182
Securities available-for-sale	*6.*	29,963	41,859
Loans, net of allowances for loan losses	*7.*	1,144,089	1,273,919
Property and equipment	*8.*	124	130
Intangible assets	*9.*	177	164
Other assets	*9.*	50,128	34,051
TOTAL ASSETS		**1,286,876**	**1,461,369**
Amounts due to OTP Bank and other banks	*10.*	233,947	225,077
Liabilities from issued securities	*11.*	966,699	1,142,728
Other liabilities	*12.*	10,428	14,313
Subordinated bonds and loans	*13.*	3,656	3,640
TOTAL LIABILITIES		**1,214,730**	**1,385,758**
Share capital	*14.*	27,000	27,000
Retained earnings and reserves	*15.*	45,146	48,611
TOTAL SHAREHOLDER'S EQUITY		**72,146**	**75,611**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,286,876**	**1,461,369**

Budapest, 25 March 2014

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Dániel Gyuris
Chief Executive Officer

OTP JELZÁLOGBANK Zrt.
otp Jelzálogbank
elnök-vezérigazgató
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OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF RECOGNIZED INCOME FOR THE YEAR ENDED 31 DECEMBER 2013 (in HUF million)

	Note	2013	2012
Interest Income:			
Loans		88,154	100,124
Placements with other banks		7,977	25,150
Amounts due from banks and balances with the National Bank of Hungary		1	51
Interest subsidy on housing loans financed by mortgage bonds		34,360	39,578
Securities available-for-sale		2,621	551
Total Interest Income		**133,113**	**165,454**
Interest Expense:			
Amounts due to OTP Bank and other banks		12,058	32,975
Deposits from customers		175	232
Liabilities from issued securities		74,744	83,338
Subordinated bonds and loans		143	145
Total Interest Expense		**87,120**	**116,690**
NET INTEREST INCOME		**45,993**	**48,764**
Provision for impairment on loan and placement losses	*7.,17.*	18,498	27,625
(Gains)/Losses on loans relating to early repayment	*17.*	-	(1,555)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**27,495**	**22,694**
Income from fees and commissions	*18.*	1,820	1,854
Expenses from fees and commissions	*18.*	(2,644)	(3,664)
Net fees and commissions		**(824)**	**(1,810)**
Foreign exchange (losses)/gains, net		(872)	(2,335)
Gains on securities, net		9	45
Other operating income	*27.*	(6)	5,728
Other operating expenses		(2,273)	(932)
Net operating income		**(3,142)**	**2,506**
Personnel expenses		635	636
Depreciation and amortization		116	125
Other administrative expenses	*19.*	15,840	14,469
Other administrative expenses		**16,591**	**15,230**
PROFIT BEFORE INCOME TAX		**6,938**	**8,160**
Income tax	*21.*	806	727
NET PROFIT FOR THE YEAR		**6,132**	**7,433**
Earnings per share (in HUF)			
Basic and diluted	*22.*	22,711	27,530

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013 (in HUF million)

	Note	2013	2012
NET PROFIT FOR THE YEAR		**6,132**	**7,433**
Fair value adjustment of securities available-for-sale	*6.*	(27)	45
Fair value adjustment of derivative financial instruments		430	430
Other comprehensive income, net of income tax		403	475
NET COMPREHENSIVE INCOME		**6,535**	**7,908**

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013
(in HUF million)

	Note	2013	2012
OPERATING ACTIVITIES			
Profit before income tax		**6,938**	**8,160**
Depreciation and amortization	*8.*	116	125
Provision for impairment on loan and placement losses	*17.*	18,498	26,070
Provision for impairment on other assets	*9.*	45	3
Unrealised losses /(gains) on fair value adjustment of derivative financial instruments		4,388	(5,442)
Net changes in assets and liabilities in operating activities:			
Net changes in financial assets through comprehensive income		-	2,028
Decrease in loans, net of allowances for loan losses	*7.;17.*	111,332	182,114
(Increase)/Decrease in other assets before provisions for losses	*9.*	(16,122)	56,679
Decrease in other liabilities		(5,218)	(10,925)
Income tax paid		(697)	(1,161)
Net cash provided by operating activities		**119,280**	**257,651**
INVESTING ACTIVITIES			
Net (increase)/decrease in placements with other banks	*5.*	(25,858)	44,470
Net decrease/(increase) in securities available-for-sale	*6.*	11,862	(39,959)
Net additions to property, equipment and intangible assets	*8.*	(123)	(110)
Net cash (used)/provided by investing activities		**(14,119)**	**4,401**
FINANCING ACTIVITIES			
Net increase /(decrease) in amounts due to OTP Bank and other banks	*10.*	8,870	(111,173)
Cash received from issuance of securities		222,698	145,084
Cash used for repurchase and redemption of issued securities		(401,454)	(203,825)
Net increase/(decrease)/ in subordinated bonds and loans	*13.*	16	(225)
Dividend paid	*15.*	(10,000)	(16,000)
Adjustment of capital contribution received from OTP Bank related to early repayment at fixed rates		-	(2,578)
Net cash used in financing activities		**(179,870)**	**(188,717)**
Net (decrease)/increase in cash and cash equivalents		**(74,709)**	**73,335**
Cash and cash equivalents at the beginning of the year		**75,064**	**1,729**
Cash and cash equivalents at the end of the year		**355**	**75,064**
Analysis of cash and cash equivalents opening and closing balance			
Cash, amounts due from banks and balances with the National Bank of Hungary		75,064	1,729
Cash and cash equivalents at the beginning of the year		**75,064**	**1,729**
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	355	75,064
Cash and cash equivalents at the end of the year		**355**	**75,064**

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013 (in HUF million)

	Note	Share Capital	Retained earnings and reserves	Total
Balance as at 1 January 2012		**27,000**	**59,281**	**86,281**
Dividend paid		-	(16,000)	(16,000)
Net profit for the year		-	7,433	7,433
Adjustment of capital contribution received from OTP Bank related to early repayment at fixed rates		-	(3,183)	(3,183)
Current tax payable recognised directly in equity relating to Adjustment of capital contribution received from OTP Bank related to early repayment at fixed rates		-	605	605
Other comprehensive income		-	475	475
Balance as at 31 December 2012		**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**

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 Bank, and also the ultimate parent of OTP Group.

These financial statements authorised for issue on 25 March 2014.

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 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. JPY loan disbursements are stopped.

The Bank employs limited staff at its head office and use approximately 382 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 26 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 16 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 2012 and 2013 the number and the average number of the employees at the Bank were 40 and 38.

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 2013

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 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS" –** Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS" –** Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 "Presentation of financial statements" –** Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 19 "Employee Benefits"** – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)"** resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

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:

- **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),

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

1.2. Accounting [continued]

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

- **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).

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

- **IFRS 9 "Financial Instruments"** and subsequent amendments (effective date was not yet determined),
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- **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 (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **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 (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

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 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 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 Statement of Recognized Income.

2.3. Securities and other financial assets

The Bank classifies its financial assets into the following categories: held for trading, 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 2013 and 2012.

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 directly in equity, 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. Interest received from available for sale securities are recognised as interest income in the Separate 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.

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. 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.3.2. Derivative financial instruments [continued]

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 Statement of Recognized Income for the period. All derivatives are carried as assets when fair value is positive and as liabilities 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 separate statement of recognized income along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective portion of the hedge is charged directly to the separate statement of recognized income.

The conditions of hedge accounting applied by the Bank are the following: formally designed as hedge, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.

Changes in fair value of derivatives that are designated and qualify as the effective portion of the cash flow hedges and that prove to be highly effective in relation to hedged risk are recognized in other comprehensive income. Amounts deferred in equity are transferred to the separate statement of recognized income and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the separate statement of recognized income for the period. The ineffective element of the hedge is charged directly to the separate statement of recognized income.

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 separate 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 2013 and in 2012.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Loans and allowance for loan losses

Loans are presented at amortized cost, net of allowance for loan losses, including accrued interest. The direct cost and revenue related to the lending, which is a part of the effective interest rate, is included in the amortized cost and amortized over the term of the loans. Interest is accounted using effective interest rate method to interest income earned on the amortized cost of the loans.

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.

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.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account “Provisions for impairment on loan and placement losses” in the Statement of Recognized Income. 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. 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%
Property	6%
Office equipment and vehicles	14.5-33.3%

Depreciation and amortization on properties, equipment and intangible assets starts on the day when such assets are placed into service. At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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 separate 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 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. 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.

2.15. Fixing of the exchange rate for calculating the monthly instalments, escrow account loan contract

According to modified terms and conditions, contract of fixed exchange rate escrow account loan can be concluded for 60 months or until the last instalment due before 30 June 2017 the latest. Closing date has been changed in 2013 to unlimited. The fixed exchange rates were modified and set at 180 HUF/CHF, 250 HUF/EUR and 2.5 HUF/JPY. For the difference between the fixed and the actual spot exchange rate, banks provide a special purpose HUF denominated mortgage loan (“escrow account loan”). Escrow account loan is paid in HUF guaranteed by the state during the fixed exchange rate period. During the fixed exchange rate period the Hungarian Government is refunding credit institutions the full proportion of monthly instalments of retail FX mortgage loans above the fixed exchange rate, but not more than the highest exchange rate (270 HUF/CHF, 340 HUF/EUR, and 3.3 HUF/JPY). Credit institutions are obliged to off-set 50% of the refunded amount – exempted receivable – for the year of 2012 by paying it back to the state as credit institutions’ contribution.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.15. Fixing of the exchange rate for calculating the monthly instalments, escrow account loan contract [continued]

The Government guarantees the escrow account in full during the fixed exchange rate period; subsequently the guarantee applies to 25% of the escrow account. In case of utilising of state guarantee credit institutions are obliged to pay contribution.

Regarding the fact that the expected number of debtors who concluded escrow account loan contract is low, OTP Bank decided not to utilise the state guarantee.

An analysis of main figures related to escrow account loan construction at OTP Mortgage Bank:

	2013	**2012**
Number of escrow account loans (number of loans)	31,165	23,817
Number of new contracts made after 1 April 2012 (number of contracts)	31,340	23,324
Gross value of escrow account loans (in HUF mn)	2,483	831
Gross amount of fixed FX loans (in HUF mn)	223,206	187,606

An analysis of the effect of escrow account loan on financial statement at OTP Mortgage Bank:

	2013	**2012**
Loss on interest from fixed exchange rate refunded by the State	4,002	824
Contribution paid to the State (50%)	2,001	412

Those debtors were not allowed to enter into the escrow account loan program who complied one of the following conditions or all of them:

a) the total value of the loan exceeded HUF 20 million at conclusion of FX loan contract
b) delinquency of debtor more than 90
c) debtor is participating in payments facilitating program.

Based on the amendment of Act approved on 5 November 2013 the conditions above were cancelled.

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.

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

	2013	**2012**
Cash on hand	-	-
Amounts due from banks and balances with the NBH:		
Within one year		
In HUF	250	101
In foreign currency	105	74,963
	355	**75,064**
Accrued interest	-	9
Total	**355**	**75,064**
From this: amounts due from OTP Bank	336	75,061
Compulsory reserve	15	20
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 336 million and HUF 75,061 million as at 31 December 2013 and 2012, 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	**2013**	**2012**
in HUF	20,000	350
in CHF	8,918	6,752
in EUR	31,232	27,381
in JPY	1,849	1,670
Total in foreign currency	41,999	35,803
	61,999	**36,153**
Accrued interest	41	29
Total	**62,040**	**36,182**
From this: amounts due from OTP Bank	61,999	36,153

Interest conditions on placements with other banks	**2013**	**2012**
in HUF	3.00%-9.00%	4.80%-9.00%
in foreign currency	0.88%-4.24%	1.90%-5.44%

Average interest of placements with other banks	**2013**	**2012**
in HUF	3.36%	7.40%
in EUR	1.17%	2.85%
in CHF	0.88%	3.22%
in JPY	1.59%	3.71%

NOTE 6: SECURITIES AVAILABLE-FOR-SALE (in HUF million)

	2013	2012
Bonds issued by the NBH	29,963	39,940
Hungarian Government bonds	-	1,773
	29,963	**41,713**
Accrued interest	-	146
Total	**29,963**	**41,859**

The whole portfolio was denominated in HUF as at 31 December 2013 and 2012. NBH bonds are 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.

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

	2013	2012
Within five years, fixed interest	29,963	41,713
Interest condition on interest-bearing securities available-for-sale	-	6.75%

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**

The valuation of the securities available-for-sale was as follows as at 31 December 2012:

	2012	
	Cost	**Fair value**
Bonds issued by the NBH	39,919	39,940
Hungarian Government bonds	1,761	1,773
Total	**41,680**	**41,713**

NOTE 7: LOANS, NET OF ALLOWANCES FOR LOAN LOSSES (in HUF million)

	2013	2012
Short-term loans (within one year)		
in HUF	44,578	48,230
in CHF	316	266
in EUR	38	-
in JPY	-	3
in foreign currency	354	269
	44,932	**48,499**
Long-term loans (over one year)		
in HUF	619,819	648,060
in CHF	398,184	475,293
in EUR	28,672	31,682
in JPY	78,408	109,298
in foreign currency	505,264	616,273
	1,125,083	**1,264,333**
Loans Gross Total	**1,170,015**	**1,312,832**
Provision for impairment	(32,977)	(44,384)
Accrued interest	7,051	5,471
Total	**1,144,089**	**1,273,919**

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.

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

	2013	2012
Loans denominated in HUF with the maturity over one year	5%-21.12%	5%-22.21%
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%	5.85%
Average interest rate of mortgage loans denominated in foreign currency for free purposes		
CHF	10.00%	10.00%
EUR	8.94%	8.94%
JPY	5.71%	5.71%
Average interest rate of real estate development loans		
HUF	10.28%	10.84%
EUR	6.69%	6.68%

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

NOTE 7: LOANS, NET OF ALLOWANCES FOR LOAN LOSSES (in HUF million) [continued]

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

	2013		2012	
Mortgage loans	1,164,007	99.49%	1,305,899	99.47%
SME loans	3,662	0.31%	4,189	0.32%
Loans to medium and large corporates	2,346	0.20%	2,744	0.21%
Total	**1,170,015**	**100.00%**	**1,312,832**	**100.00%**

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

	2013	2012
Balance as at 1 January	**44,384**	**72,913**
Provision for the year	48,977	67,540
Provision released for the year	(60,384)	(96,069)
Balance as at 31 December	**32,977**	**44,384**

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

NOTE 8: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF million)

For 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 8: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF million) [continued]

For year ended 31 December 2012

Cost	**Intangible assets**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January 2012	**1,069**	**93**	**120**	**22**	**1,304**
Additions	179	-	28	21	228
Disposals	(89)	-	(19)	(28)	(136)
Balance as at 31 December 2012	**1,159**	**93**	**129**	**15**	**1,396**
Accumulated Depreciation and Amortization					
Balance as at 1 January 2012	**886**	**5**	**104**	**-**	**995**
Charge for the year	109	2	14	-	125
Disposals	-	-	(18)	-	(18)
Balance as at 31 December 2012	**995**	**7**	**100**	**-**	**1,102**
Net book value					
Balance as at 1 January 2012	**183**	**88**	**16**	**22**	**309**
Balance as at 31 December 2012	**164**	**86**	**29**	**15**	**294**

NOTE 9: OTHER ASSETS (in HUF million)

	2013	**2012**
Derivatives qualified for hedge accounting[1]	43,672	22,776
Receivables from the Hungarian Government	3,833	7,099
Trade receivables	1,309	2,366
Current income tax receivable	736	1,442
Prepayments and other assets	637	382
	50,187	34,065
Provision for other assets	(59)	(14)
Total	**50,128**	**34,051**

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

[1] For more details (including types of derivatives) see Note 29.

NOTE 10: AMOUNTS DUE TO OTP BANK AND OTHER BANKS (in HUF million)

	2013	2012
Within one year		
In HUF	186,267	122,624
In EUR	-	74,279
In JPY	14,380	27,752
In CHF	33,076	-
Total in foreign currency	47,456	102,031
	233,723	**224,655**
Accrued interest	224	422
Total	**233,947**	**225,077**
From this: amounts due to OTP Bank	233,723	225,077

Interest conditions on amounts due to OTP Bank and other banks

	2013	2012
In HUF	2.20% - 4.59%	6.25% - 6.25%
In foreign currency	0.82% - 4.86%	2.17% - 5.42%

NOTE 11: LIABILITIES FROM ISSUED SECURITIES (in HUF million)

	2013	2012
Within one year:		
In HUF	13,790	106,248
In EUR	133,610	217,572
	147,400	**323,820**
Over one year		
In HUF	483,015	496,323
In EUR	300,033	279,557
	783,048	**775,880**
Subtotal	**930,448**	**1,099,700**
Accrued interest	36,251	43,028
Total	**966,699**	**1,142,728**
Issued mortgage bonds during the period (nominal value)	146,400	258,558
Mortgage bonds became due or repurchased during the period (nominal value)	325,523	279,525

Interest conditions on issued securities

	2013	2012
In HUF	7.50% - 11.00%	6.72% - 12.00%
In foreign currency	2.12% - 4.24%	3.19% - 5.44%

NOTE 11: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]

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

	2013	2012
Nominal value of the issued securities	915,856	1,086,299
Unamortized premiums	10,735	12,253
Fair value hedge adjustment	3,857	1,148
Amortized cost	**930,448**	**1,099,700**

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.

Issued securities denominated in HUF as at 31 December 2013 (in HUF million)

Name	Date of issue	Maturity	Nominal value in HUF million	Interest conditions (in % p.a.)		Hedged
OJB 2014/I	14/11/2003	12/02/2014	13,500	8.00%	fixed	not hedged
OJB 2014/J	17/09/2004	17/09/2014	129	8.69%	fixed	not hedged
OJB 2015/I	10/06/2005	10/06/2015	3,243	7.70%	fixed	not hedged
OJB 2015/II	17/05/2012	17/05/2015	110,000	9.00%	fixed	hedged
OJB 2015/J	28/01/2005	28/01/2015	111	8.69%	fixed	not hedged
OJB 2016/I	03/02/2006	03/02/2016	1,269	7.50%	fixed	not hedged
OJB 2016/II	31/08/2006	31/08/2016	4,692	10.00%	fixed	not hedged
OJB 2016/III	17/02/2009	17/02/2016	150,000	10.75%	fixed	not hedged
OJB 2016/J	18/04/2006	28/09/2016	173	7.59%	fixed	not hedged
OJB 2019/I	17/03/2004	18/03/2019	31,517	9.48%	fixed	not hedged
OJB 2019/II	25/05/2011	18/03/2019	7,733	9.48%	fixed	not hedged
OJB 2020/I	19/11/2004	12/11/2020	5,503	9.00%	fixed	not hedged
OJB 2020/II	25/05/2011	12/11/2020	4,497	9.00%	fixed	not hedged
OJB 2025/I	31/07/2009	31/07/2025	150,000	11.00%	fixed	not hedged
Total issued securities in HUF			**482,367**			
Unamortized premium			10,798			
Fair value hedge adjustment			3,640			
Total issued securities in HUF			**496,805**			
Accrued interest			34,782			
Total in HUF			**531,587**			

NOTE 11: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]

Issued securities denominated in foreign currency as at 31 December 2013 (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 2014/I	15/12/2004	15/12/2014	EUR	200	59,382	4.00%	fixed	not hedged
OMB 2014/II	02/08/2011	10/08/2014	EUR	250	74,228	3.23%	floating	hedged
OMB 2015/I	30/08/2012	06/03/2015	EUR	510	151,424	4.24%	floating	hedged
OMB 2016/I	25/10/2013	25/10/2016	EUR	500	148,455	2.12%	floating	hedged

Total issued securities in FX	**433,489**
Unamortized discount	(63)
Fair value hedge adjustment	217
Total issued securities in FX	**433,643**
Accrued interest	1,469
Total in FX	**435,112**
Total	**966,699**

The EUR denominated mortgage bonds are being hedged in fair value hedge relationship. See Note 29 for further details of hedge accounting.

NOTE 12: OTHER LIABILITIES (in HUF million)

	2013	2012
Accrued services	2,699	3,282
Deferred tax liabilities	2,512	2,309
Provision for impairment off-balance sheet commitments and contingent liabilities	1,625	51
Current income tax payable	1,127	212
Fair value of derivative financial instruments designated as fair value hedge[1]	848	6,646
Liabilities to customers	845	978
Accounts payable	743	802
Salaries and social security payable	26	27
Other	3	6
Total	**10,428**	**14,313**

[1] For more details (including types of derivatives) see Note 29.

NOTE 13: SUBORDINATED BONDS AND LOANS (in HUF million)

	2013	2012
With the maturity over one year denominated in CHF	3,656	3,640

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%.

NOTE 14: SHARE CAPITAL (in HUF million)

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

	2013	2012
Share capital (in HUF million)	27,000	27,000

NOTE 15: RETAINED EARNINGS AND RESERVES (in HUF million)

	2013	2012
Balance as at 1 January	**48,611**	**59,281**
Dividend paid	(10,000)	(16,000)
Net income after income taxes	6,132	7,433
Guarantee for early repayment at fixed exchange rates	-	(3,183)
Current tax receivables on early repayment	-	605
Other comprehensive income	403	475
Balance as at 31 December	**45,146**	**48,611**

The Bank's retained earnings and reserves under IFRS were HUF 45,146 million and HUF 48,611 million as at 31 December 2013 and 2012 respectively. Retained earnings contains the net income after income taxes for the year ended 31 December 2013 in HUF 6,132 million, the legal reserves and the retained earnings from previous years in HUF 29,354 million. Other reserves contain negative fair value adjustment on Cash-Flow hedges in HUF 507 million and HUF 1,038 million as at 31 December 2013 and 2012 respectively.[1]

The Bank's reserves under Hungarian Accounting Standards ("HAS") were HUF 29,423 million and HUF 28,857 million as at 31 December 2013 and 2012 respectively. These amounts include legal reserves amounting to HUF 9,988 million and HUF 9,421 million respectively. The legal reserve is not available for distribution.

Dividends are recognised for in the period which they are approved by the owners. In 2013 the Bank paid dividend of HUF 10,000 million from the profit of the year 2012. In 2014 dividend of HUF 5,097 million are expected to be proposed by the management from the profit of the year 2013.

[1] For further information about differences between the Bank's reserves under HAS and IFRS see Note 30.

NOTE 16: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

During 2012 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 1.8 million and HUF 2.1 million for the years ended 31 December 2013 and 2012.

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 2013 about HUF 7,623 million based on the conditions of 2009 and HUF 18,761 million based on conditions of 2012. Net closing amount of the loan with the conditions of 2009 was HUF 6,873 million and for the conditions of 2012 was HUF 18,132 million.

NOTE 17: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF million)

Provision for impairment on loan losses

	2013	**2012**
Provision for the year	48,977	67,540
from this: provision on impairment on loan losses related to early repayment	-	-
Release of provision	(60,384)	(96,069)
from this: release of provision on loan losses related to early repayment	-	*(31,937)*
Loan losses	29,905	54,599
from this: provision on impairment on loan losses related to early repayment	-	*30,382*
Provision for impairment on loan losses	**18,498**	**26,070**
from this: provision on impairment on loan losses related to early repayment	-	*(1,555)*
Losses from early repayment recognizing in interest income from loans	-	104
Total loss on loans related to early repayment	**18,498**	**(1,451)**

NOTE 18: NET LOSS FROM FEES AND COMMISSIONS (in HUF million)

Income from fees and commissions

	2013	**2012**
Fees and commissions relating to lending	1,496	1,563
Other	324	291
Total	**1,820**	**1,854**

Expense from fees and commissions

	2013	**2012**
Fees and commissions relating to issued securities	330	318
Fees and commissions relating to lending	2,314	3,346
Total	**2,644**	**3,664**
Net loss from fees and commissions	**(824)**	**(1,810)**

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 19: OTHER ADMINISTRATIVE EXPENSES (in HUF million)

	2013	2012
Taxes, other than income tax:		
Bank tax	8,759	8,254
Credit institution's contribution	5,174	4,030
from this: credit institution's contribution based on the escrow account loans	*2,001*	*412*
Other taxes	1,207	1,484
Total taxes, other than income tax	15,140	13,768
Services	386	391
Professional fees	201	198
Rental fees	56	55
Material type expenses	33	35
Administration expenses	21	21
Advertising	3	1
Total	**15,840**	**14,469**

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 2,001 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.
The amount of the bank tax payable in 2013 would be HUF 8,759 million and was paid in four equal instalments until 10th of the last month of every quarter of 2013 as well as in 2012.

NOTE 20: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)

	2013	2012
Key executives (Managing Director and Deputies)	30	38
Total	**30**	**38**

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

NOTE 21: 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 2013 and 2012 is as follows:

	2013	2012
Current tax expense/(benefit)	697	1,161
Deferred tax (benefit)/expense	109	(434)
Total income tax expense/(benefit)	**806**	**727**

A reconciliation of the deferred tax liability as at 31 December 2013 and 2012 is as follows:

	2013	2012
Balance as at 1 January	**(2,309)**	**(2,631)**
Recognized in other comprehensive income as tax expense	(94)	(112)
Deferred tax (expense)/benefit	(109)	434
Balance as at 31 December	**(2,512)**	**(2,309)**

A reconciliation of deferred tax liabilities as at 31 December 2013 and 2012 is as follows:

	2013	2012
Effect of applying effective interest rate method	(2,465)	(2,230)
Amortized cost of issued securities	(31)	(56)
Fixed assets	(16)	(17)
Fair value adjustment for available-for-sale financial assets	-	(6)
Deferred tax liabilities	**(2,512)**	**(2,309)**
Net deferred tax liabilities	**(2,512)**	**(2,309)**

A reconciliation of the effective tax rate as at 31 December 2013 and 2012 is as follows:

	2013	2012
Profit/Loss before income taxes	6,938	8,160
Tax at statutory income tax rate (19%)	1,318	1,551
Permanent differences due to income tax	(512)	(822)
Other permanent differences	-	(2)
Income tax expense/(benefit)	**806**	**727**
Effective tax-rate	11.62%	8.91%

NOTE 22: EARNINGS PER SHARE (in HUF million)

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.

	2013	**2012**
Net profit for the year	6,132	7,433
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	**22,711**	**27,530**

NOTE 23: 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]:

23.1. 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.

[1] The management of liquidity risk related to financial instruments are shown in Note 30.

NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

23.1. 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 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**

As at 31 December 2012

Loan type	DPD 0-90	DPD 90-360	DPD 360+	Total carrying amount /allowance
Loans to medium and large corporates	2,710	34	-	**2,744**
Placements with other banks	36,153	-	-	**36,153**
Retail loans	1,221,061	61,454	23,383	**1,305,899**
SME loans	4,150	40	-	**4,189**
Gross loan portfolio total	**1,264,073**	**61,528**	**23,383**	**1,348,985**
Allowance Total	***(19,205)***	***(18,128)***	***(7,051)***	**(44,383)**
Net loan portfolio total	**1,244,868**	**43,401**	**16,333**	**1,304,602**
Accrued interest				
Placements with other banks				29
Loans				5,471
Total accrued interest				**5,500**
Total placements with other banks				**36,182**
Total loans				**1,318,303**
Total allowance				***(44,383)***
Total				**1,310,102**

NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

23.1. Credit risk [continued]

Classification into risk classes

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

As of 31 December 2011, the classification and impairment methodology of the retail exposures – which are assessed using the collective valuation method – has changed. According to the currently applied methodology, the incurred loss of the different homogenous populations is determined using historical loss experience models instead of the old method which was using expert keys. The currently applied incurred loss percentages were determined based on these models.

Instead of the earlier used risk classes, three valuation groups have been formed based on past due days (A: 0-90 days past due - DPD, B: 91-360 DPD, C: over 365 days past due). The three new groups do not match one by one to the earlier used risk classes, the composition of the classes has changed due to the different criteria.

The consequence of the methodology change is that the loans, which has higher collateral value behind the loans are provided less than by using the previous methodology, and the loans with less collateral have in general more provision than in the previous model. The allocation of the impairment of the loans is more appropriate, the currently applied model gives a more accurate impairment amount.

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 2013

Loan type	**DPD 0-90**	**DPD 90-360**	**DPD 360+**	**Total**
Loans to medium and large corporates	2,158	5	-	**2,163**
Placements with other banks	61,999	-	-	**61,999**
Retail loans	869,052	393	48	**869,493**
SME loans	3,481	-	-	**3,481**
Total	**936,690**	**398**	**48**	**937,136**

NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

23.1. Credit risk [continued]

Not impaired loan portfolio [continued]

As at 31 December 2012

Loan type	DPD 0-90	DPD 90-360	DPD 360+	Total
Loans to medium and large corporates	2,632	-	-	**2,632**
Placements with other banks	36,153	-	-	**36,153**
Retail loans	907,869	425	49	**908,343**
SME loans	4,009	2	-	**4,011**
Total	**950,663**	**427**	**49**	**951,139**

The total off-balance sheet liabilities connected to the lending activity by risk classes are as follows:

As at 31 December 2013

Loan type	Total off-balance sheet items
Carrying value	4,851
Provision for impairment	(1,444)
Net value	**3,407**

As at 31 December 2012

Loan type	Total off-balance sheet items
Carrying value	3,515
Provision for impairment	(2)
Net value	**3,513**

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	2013	2012
Government guarantees	117,419	138,976
Mortgage	2,009,338	2,437,745
Other	-	5,044
Total	**2,126,757**	**2,581,765**

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	2013	2012
Government guarantees	116,881	138,368
Mortgage	973,775	1,104,448
Other	-	4,054
Total	**1,090,656**	**1,246,870**

NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

23.1. Credit risk [continued]

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

An analysis of the fair value of collaterals related to past due, but not impaired loans to total collateral value and to the extent of the exposures as at 31 December 2013 and 2012 is as follows:

Types of collateral (total collateral value)	2013	2012
Retail loans	111,503	137,815
Corporate loans	166	1,579
SME loans	354	2,147
Total	**112,023**	**141,541**

Types of collateral (to the extent of the exposures)	2013	2012
Retail loans	66,756	74,409
Corporate loans	65	861
SME loans	116	1,176
Total	**66,937**	**76,446**

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

Non-qualified gross loan portfolio by countries

	2013	2012
Hungary	936,984	959,215
Romania	152	191
Total	**937,136**	**959,406**

NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

23.1. Credit risk [continued]

Forborne loans

	2013		2012	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	16,483	1,784	22,642	2,597
Total	**16,483**	**1,784**	**22,642**	**2,597**

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.

Financial instruments by rating categories

Available-for-sale securities as at 31 December 2013

	Baa2		Not rated		Total
NBH bonds	29,963	100.00%	-	0.00%	29,963
Total	**29,963**	**100.00%**	**-**	**0.00%**	**29,963**
Accrued interest					-
Total					**29,963**

NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

23.2. 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.

23.2.1. 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 simulation was prepared by assuming two scenarios:
1. continuously decreasing HUF basic interest rate to 2% (probable scenario)
2. continuously decreasing HUF basic interest rate to 1.5% (alternative scenario)

The net interest income in a one year period after January 1, 2014 would be decreased by HUF 307 million (probable scenario) and HUF 460 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):

Description		**Effects to the net interest income in one year period**	
		2013	**2012**
HUF	(0.1%) parallel shift	(76)	(82)
EUR	(0.1%) parallel shift	(58)	-
EUR	0.1% parallel shift	-	(18)
Total		**(134)**	**(64)**

23.2.2. 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 2.4 billion short on 31 December 2013, which consisted of EUR, CHF and JPY exposure. Considering the volatilities estimated at the given reference date (5.5%, 5.6% and 12.0% respectively), we assumed a +/- 6.4%, 6.6% and 13.9% 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.

[1] Quantitative data on interest rate risk are shown in Note 27
[2] Quantitative data on foreign exchange rate risk are shown in Note 27

NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

23.2.3 Foreign exchange rate sensitivity analysis (in HUF million) [continued]

	2013			2012		
	Price change	-	+	Price change	-	+
EUR	6.4%	7.7	(8.2)	13.6%	(0.4)	0.4
CHF	6.6%	(132.2)	141.1	13.8%	200.5	(230.1)
JPY	13.9%	(40.4)	46.4	15.1%	49.1	(57.1)
Total		**(164.8)**	**179.3**		**249.2**	**(286.8)**

It has a negative impact on the Statement of Recognised Income of the Bank when HUF weakens against key currencies. Compared to 2012, 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.

23.3. Equity sensitivity analysis

The Bank has no equity instruments held in 2013 and 2012, therefore not exposed to equity risk.

23.4. 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.

NOTE 23: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

23.4. 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 2013 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 2012 the Mortgage Bank's solvency ratio is 11,39%. Surplus capital is 58,424; the total required regulatory capital is 41,037.

In HUF million	**2013**	**2012**
Core capital	56,422	55,856
Supplementary capital	2,179	2,893
Deductions	(177)	(164)
Regulatory capital	**58,424**	**58,585**
Credit risk capital requirement	37,528	41,965
Market risk capital requirement	203	165
Operational risk capital requirement	3,306	2,606
Total required regulatory capital	**41,037**	**44,736**
Surplus capital	**17,387**	**13,849**
Solvency ratio	**11,39%**	**10.48%**

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, Retained earnings, Profit for the year

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

Off balance sheet items

	2013	2012
Current litigations	16,040	118
Loan facilities	3,406	3,515
Other contingent and future liabilities	-	5
Contingent and future liabilities total	***19,446***	***3,638***

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 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.

NOTE 24: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF million) [continued]

Derivatives [continued]

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

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**

As at 31 December 2012

	CHF	EUR	JPY	Total
Assets	442,623	134,913	105,477	683,013
Liabilities	(6,109)	(574,822)	(28,415)	(609,346)
Off-balance sheet assets and liabilities, net	(437,562)	439,848	(77,088)	(74,802)
Net position	**(1,048)**	**(61)**	**(26)**	**(1,135)**

NOTE 26: RELATED PARTY TRANSACTIONS (in HUF million)

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

26.1.1. Outstanding balances in the Separate 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	**2013**	**2012**
Cash, amounts due from OTP Bank	336	75,061
Placements with OTP Bank	61,999	36,153
Accrued receivables	16	10
Fair value hedge derivatives – positive fair value	43,672	22,776

Liabilities	**2013**	**2012**
Amounts due to OTP Bank and other banks	233,947	225,077
Fair value hedge derivatives – negative fair value	848	6,646
Other liabilities due to OTP Bank	2,959	15,688
Issued mortgage bonds held by OTP Bank	840,057	983,954
Accrued interest payable related to mortgage bonds held by OTP Bank	31,616	38,068

26.1.2. Transactions in the Separate Statement of Recognized Income related to OTP Bank Plc.

	2013	**2012**
Interest income	7,978	10,636
Interest expense	85,721	93,514
Account handling fees paid to OTP Bank	5,808	6,106
Other fees and commissions relating to lending paid to OTP Bank	2,671	1,618
Gains from mortgage bond repurchase	-	5,683
Other operating income	-	10
One-off payments fee (0.5%)	2	2
Revenue from the value appraisal activity from OTP Bank	145	158

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

	2013	**2012**
Performing loans purchased from OTP Bank	1,351	2,260
Book value of performing loans purchased from OTP Bank	1,350	2,259

26.2. 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 473.7 million as at 31 December 2013. These loans were covered by HUF 1,165.3 million mortgage.

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

26.3.1. Transactions related to OTP Building Society Ltd.

	2013	**2012**
Issued mortgage bonds held by OTP Building Society Ltd.	5,424	17,618
Accrued interest payable related to mortgage bonds held by OTP Building Society Ltd.	185	380

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

NOTE 26: RELATED PARTY TRANSACTIONS (in HUF million) [continued]

26.3. Outstanding balances/Transactions related to other related party [continued]

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

	2013	**2012**
Book value of non-performing loans sold to OTP Factoring Ltd.	45,102	29,108
Selling price of the non-performing loans related to OTP Factoring Ltd.	36,560	22,046

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

	2013	**2012**
Accrued receivables due from other related party	53	8
Other liabilities due to other related party	983	11
Issued mortgage bonds held by OTP Fund Management Ltd.	2,581	2,596
Accrued interest payable related to mortgage bonds held by OTP Fund Management Ltd.	93	93
Other operating income from other related party	13	10
Revenue from the value appraisal activity from OTP Factoring Ltd. and from other related party	63	158

Compensation of key management personnel is shown in Note 22.

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.

NOTE 27: 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.

NOTE 27: 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 27: 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 27: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

31 December 2012	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	**101**	**74,963**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**101**	**74,963**	**75,064**
variable interest	101	74,963	-	-	-	-	-	-	-	-	-	-	101	74,963	75,064
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Placements with other banks	**350**	**35,803**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29**	**350**	**35,832**	**36,182**
fixed interest	350	35,803	-	-	-	-	-	-	-	-	-	-	350	35,803	36,153
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	29	-	29	29
Securities available-for-sale	**41,713**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**146**	**-**	**41,859**	**-**	**41,859**
fixed interest	41,713	-	-	-	-	-	-	-	-	-	-	-	41,713	-	41,713
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest bearing	-	-	-	-	-	-	-	-	-	-	146	-	146	-	146
Loans, net of allowances for loan losses	**263,691**	**577,713**	**62,915**	**-**	**135,749**	**-**	**81,632**	**-**	**146,748**	**-**	**3,335**	**2,136**	**694,070**	**579,849**	**1,273,919**
variable interest	263,691	577,713	62,915	-	135,749	-	81,632	-	146,748	-	-	-	690,735	577,713	1,268,448
non-interest bearing	-	-	-	-	-	-	-	-	-	-	3,335	2,136	3,335	2,136	5,471
Derivative financial instruments	**-**	**-**	**-**	**469,825**	**101,360**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**101,360**	**469,825**	**571,185**
fixed interest	-	-	-	-	101,360	-	-	-	-	-	-	-	101,360	-	101,360
variable interest	-	-	-	469,825	-	-	-	-	-	-	-	-	-	469,825	469,825

NOTE 27: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

31 December 2012	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	**122,624**	**102,031**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**216**	**206**	**122,840**	**102,237**	**225,077**
fixed interest	37,244	27,752	-	-	-	-	-	-	-	-	-	-	37,244	27,752	64,996
variable interest	85,380	74,279	-	-	-	-	-	-	-	-	-	-	85,380	74,279	159,659
non-interest bearing	-	-	-	-	-	-	-	-	-	-	216	206	216	206	422
Liabilities from issued securities	**8,547**	**-**	**-**	**439,005**	**97,468**	**-**	**13,378**	**58,166**	**483,136**	**-**	**40,791**	**2,237**	**643,320**	**499,408**	**1,142,728**
fixed interest	-	-	-	-	97,468	-	13,378	58,166	483,136	-	-	-	593,982	58,166	652,148
variable interest	8,547	-	-	439,005	-	-	-	-	-	-	-	-	8,547	439,005	447,552
non-interest bearing	-	-	-	-	-	-	-	-	-	-	40,791	2,237	40,791	2,237	43,028
Derivative financial instruments	**-**	**86,718**	**-**	**468,337**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**555,055**	**555,055**
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	86,718	-	468,337	-	-	-	-	-	-	-	-	-	555,055	555,055
Subordinated bonds and loans	**-**	**3,616**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**24**	**-**	**3,640**	**3,640**
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	3,616	-	-	-	-	-	-	-	-	-	-	-	3,616	3,616
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	24	-	24	24
NET POSITION	**174,684**	**496,114**	**62,915**	**(437,517)**	**139,641**	**-**	**68,254**	**(58,166)**	**(336,388)**	**-**	**(37,526)**	**(302)**	**71,580**	**129**	**71,709**

NOTE 28: 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 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 28: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]

As at 31 December 2012	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	139,519	85,558	-	-	225,077
Liabilities from issued securities	42,804	323,983	563,066	199,250	1,129,103
Other liabilities	5,359	5,718	-	-	11,077
Subordinated bonds and loans	24	-	3,616	-	3,640
TOTAL LIABILITIES	**187,706**	**415,259**	**566,682**	**199,250**	**1,368,897**
Receivables from derivative financial instruments designated as fair value hedge	218,468	-	-	-	218,468
Liabilities from derivative financial instruments designated as fair value hedge	(224,187)	-	-	-	(224,187)
Negative fair value of financial instruments designated as fair value hedge	**(5,719)**	**-**	**-**	**-**	**(5,719)**
Negative fair value of derivative financial instruments total	**(5,719)**	**-**	**-**	**-**	**(5,719)**
	-	-	-		-
Commitments to extend credit	992	292	2,231	-	3,515
Off-balance sheet commitments	**992**	**292**	**2,231**	**-**	**3,515**

NOTE 29: 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

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, due from banks and balances with the National Bank of Hungary	355	355	75,064	75,064
Placements with other banks	62,040	62,040	36,182	36,182
Securities available-for-sale	29,963	29,963	41,859	41,859
Loans, net of allowance for loan losses	1,144,089	1,793,791	1,273,919	2,058,492
FINANCIAL ASSETS TOTAL	**1,236,447**	**1,886,149**	**1,427,024**	**2,211,597**
Amounts due to OTP Bank and other banks	233,947	233,947	225,077	225,077
Liabilities from issued securities	966,699	968,130	1,142,728	1,133,831
Derivative financial instruments designated as hedging instruments	848	848	6,646	6,646
Subordinated bonds and loans	3,656	3,656	3,640	3,640
FINANCIAL LIABILITIES TOTAL	**1,205,150**	**1,206,581**	**1,378,091**	**1,369,194**

NOTE 29: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value of derivative instruments

	Fair value		Notional value, net	
	2013	**2012**	**2013**	**2012**
CCIRS designated as fair value hedge				
Positive fair value of CCIRS classified as fair value hedge	43,672	22,776	35,308	16,296
Negative fair value of CCIRS classified as fair value hedge	(848)	(6,646)	(810)	(5,718)
Derivative financial assets total	**43,672**	**22,776**	**35,308**	**16,296**
Derivative financial liabilities total	**(848)**	**(6,646)**	**(810)**	**(5,718)**
Derivative financial instruments total	**42,824**	**16,130**	**34,498**	**10,578**

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 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	-	-	-

As at 31 December 2012

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 16,130 million	Interest rate, foreign exchange
3) Net investment hedge in foreign operations	-	-	-

Cash-flow hedge

1. 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 2013 and 2012 HUF 531 million and HUF 532 million was recognized as income in proportion with the profit or loss impacts of the hedged item to the net income.

Cash-flow hedges	**2013**	**2012**
Amount reclassified from other comprehensive income to profit or loss for the year	531	532

NOTE 29: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

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 42,824 HUF million and HUF 16,130 million as at 31 December 2013 and 2012 respectively.

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)

As at 31 December 2012

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	72,822	7,368	(2,384)	2,384
Liabilities from issued securities	CCIRS	218,468	(6,646)	(828)	828
Liabilities from issued securities	CCIRS	148,558	766	(171)	171
Liabilities from issued securities	CCIRS	85,380	14,642	1,991	(1,991)

NOTE 29: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

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 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**

As at 31 December 2012

	Total	**Level 1**	**Level 2**
Securities available-for-sale	41,713	41,713	-
Positive fair value of derivative financial instruments designated as fair value hedge	22,776	-	22,776
Financial assets measured at fair value total	**64,489**	**41,713**	**22,776**
Negative fair value of derivative financial instruments designated as fair value hedge	(6,646)	-	(6,646)
Financial liabilities measured at fair value total	**(6,646)**	**-**	**(6,646)**

There were no financial assets and liabilities at fair value in Level 3 respectively in 2013 and 2012.

NOTE 30: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HAS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)

	Retained Earnings and Reserves as at 1 January 2013	Net profit for the year ended 31 December 2013	Direct Movements on Reserves	Dividend	Retained Earnings and Reserves as at 31 December 2013
Financial Statements in accordance with HAS	**28,857**	**5,663**	**-**	**(5,097)**	**29,423**
Fair value adjustment of available-for-sale financial assets	34	-	(34)	-	-
Application of effective interest rate on direct issuance costs of securities	295	(131)	-	-	164
Effect of using effective interest rate method for loan origination fees and cost	11,734	1,240	-	-	12,974
Fair value adjustment of derivative financial instruments	-	(531)	531	-	-
Deferred taxation	(2,309)	(109)	(94)	-	(2,512)
Dividend paid in 2013	10,000	-	-	(10,000)	-
Dividend payable for 2013	-	-	-	5,097	5,097
Financial Statements in accordance with IFRS	**48,611**	**6,132**	**403**	**(10,000)**	**45,146**

NOTE 31: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2013

Relevant transactions related to issued securities for the year 2013

Issued securities became due in amount of HUF 80 billion in May, HUF 17 billion in August, HUF 8.5 billion in October, and EUR 250 million in November. Issued securities were repurchased in amount of face value EUR 500 million in October. In October EUR 500 million mortgage bond was issued, which was purchased by OTP Bank Plc.

NOTE 32: POST BALANCE SHEET EVENTS

There were no significant events after the date of the balance sheet that could have effect to modify these separate financial statements.

NOTE 33: THE EFFECT OF THE FINANCIAL SITUATION ON THE BANK

The deepest point of the financial crisis was left behind though, but in 2013 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 was 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 15.0 % to 15.6 %, and in the category of loans for free purposes from 23.4 % to 27.2%.

For this purpose new government measures came into force in favour of the FX mortgage debtors. The application period for the escrow account loans modified to unlimited, however eviction moratorium came into force for the winter season.

Furthermore the conditions of the interest subsidised housing loans improved, which may contribute to the expansion of the credit demand and the credit disbursements. In the economy and in the banking system there is need for such lending activity, since new placement of the loans was the lowest in the last 10 years in February 2013.