



OTP BANK PLC.

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

FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2014

OTP BANK PLC.

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OTP BANK PLC.
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 (UNAUDITED)
(in HUF mn)

	Note	30 June 2014	31 December 2013	30 June 2013
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	151,753	140,521	158,625
Placements with other banks, net of allowance for placement losses	5.	614,635	632,899	797,608
Financial assets at fair value through profit or loss	6.	287,200	396,565	235,894
Securities available-for-sale	7.	1,882,293	1,997,491	1,754,300
Loans, net of allowance for loan losses	8.	2,084,416	2,144,701	2,262,522
Investments in subsidiaries, associates and other investments	9.	607,112	669,322	659,651
Securities held-to-maturity	10.	664,046	525,049	518,472
Property and equipment	11.	80,071	85,447	77,461
Intangible assets	11.	26,010	31,554	31,780
Other assets	12.	<u>107,601</u>	<u>49,486</u>	<u>39,827</u>
TOTAL ASSETS		<u>6,505,137</u>	<u>6,673,035</u>	<u>6,536,140</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	13.	655,697	902,744	843,772
Deposits from customers	14.	3,745,917	3,677,450	3,508,543
Liabilities from issued securities	15.	165,195	170,779	233,484
Financial liabilities at fair value through profit or loss	16.	206,962	204,517	198,453
Other liabilities	17.	401,896	242,444	254,471
Subordinated bonds and loans	18.	<u>300,395</u>	<u>278,241</u>	<u>317,403</u>
TOTAL LIABILITIES		<u>5,476,062</u>	<u>5,476,175</u>	<u>5,356,126</u>
Share capital	19.	28,000	28,000	28,000
Retained earnings and reserves	20.	1,008,612	1,175,591	1,159,390
Treasury shares	21.	<u>(7,537)</u>	<u>(6,731)</u>	<u>(7,376)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>1,029,075</u>	<u>1,196,860</u>	<u>1,180,014</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>6,505,137</u>	<u>6,673,035</u>	<u>6,536,140</u>

OTP BANK PLC.
SEPARATE STATEMENT OF RECOGNIZED INCOME FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2014 (UNAUDITED) (in HUF mn)

	Note	Six month period ended 30 June 2014	Six month period ended 30 June 2013	Year ended 31 December 2013
<i>Interest Income:</i>				
Loans		83,501	97,872	189,073
Placements with other banks, net of allowance for placement losses		81,243	153,624	246,968
Securities available-for-sale		40,103	56,262	102,376
Securities held-to-maturity		17,442	13,617	30,027
Amounts due from banks and balances with National Bank of Hungary		<u>1,257</u>	<u>2,125</u>	<u>3,720</u>
Total Interest Income		<u>223,546</u>	<u>323,500</u>	<u>572,164</u>
<i>Interest Expense:</i>				
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		78,382	157,786	237,984
Deposits from customers		26,215	57,523	96,199
Liabilities from issued securities		2,551	8,731	15,241
Subordinated bonds and loans		<u>8,318</u>	<u>8,419</u>	<u>16,922</u>
Total Interest Expense		<u>115,466</u>	<u>232,459</u>	<u>366,346</u>
NET INTEREST INCOME		<u>108,080</u>	<u>91,041</u>	<u>205,818</u>
Provision for impairment on loan and placement losses	5.,8.,22.	11,227	9,659	30,533
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		<u>96,853</u>	<u>81,382</u>	<u>175,285</u>
Income from fees and commissions	23.	82,803	70,080	157,994
Expenses from fees and commissions	23.	<u>10,393</u>	<u>11,802</u>	<u>24,053</u>
Net profit from fees and commissions		<u>72,410</u>	<u>58,278</u>	<u>133,941</u>
Foreign exchange gains		7,161	5,116	5,901
Gains on securities, net		5,281	9,349	12,423
Dividend income		42,633	38,463	47,583
Other operating income	24.	1,730	1,358	3,672
Net other operating expenses	24.	(289,303)	(14,644)	(78,663)
-from this: provision on contingent liabilities to be expected due to regulations related to consumer loans	24.	(190,202)	-	-
-from this: provision for impairment on investments in subsidiaries	9.	<u>(90,090)</u>	<u>(10,454)</u>	<u>(52,550)</u>
Net operating income		<u>(232,498)</u>	<u>39,642</u>	<u>(9,084)</u>
Personnel expenses	24.	43,110	43,974	85,760
Depreciation and amortization	24.	10,903	10,490	21,657
Other administrative expenses	24.	<u>78,233</u>	<u>84,925</u>	<u>138,392</u>
Other administrative expenses		<u>132,246</u>	<u>139,389</u>	<u>245,809</u>
(LOSS) / PROFIT BEFORE INCOME TAX		(195,481)	39,913	54,333
Income tax (benefit) / expense	25.	<u>(45,186)</u>	<u>(1,144)</u>	<u>6,442</u>
NET (LOSS) / PROFIT FOR THE PERIOD		<u>(150,295)</u>	<u>41,057</u>	<u>47,891</u>
Earnings per share (in HUF)				
Basic	35.	<u>(540)</u>	<u>148</u>	<u>172</u>
Diluted	35.	<u>(540)</u>	<u>148</u>	<u>172</u>

The accompanying notes to separate financial statements on pages 8 to 86 form an integral part of these separate financial statements.

OTP BANK PLC.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD
ENDED 30 JUNE 2014 (UNAUDITED) (in HUF mn)

	Six month period ended 30 June 2014	Six month period ended 30 June 2013	Year ended 31 December 2013
NET (LOSS) / PROFIT FOR THE PERIOD	<u>(150,295)</u>	<u>41,057</u>	<u>47,891</u>
Fair value adjustment of securities available-for-sale	<u>25,971</u>	<u>(8,094)</u>	<u>1,024</u>
NET COMPREHENSIVE INCOME	<u>(124,324)</u>	<u>32,963</u>	<u>48,915</u>

OTP BANK PLC.
SEPARATE STATEMENT OF CASH-FLOWS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2014 (UNAUDITED) (in HUF mm)

	Note	Six month period ended 30 June 2014	Six month period ended 30 June 2013	Year ended 31 December 2013
OPERATING ACTIVITIES				
(Loss) / profit before income tax		(195,481)	39,913	54,333
Depreciation and amortization		10,903	10,490	21,657
Provision for impairment on loan and placement losses	5.,8.,22	11,227	9,659	30,533
Provision for impairment on investments in subsidiaries	9.	90,090	10,454	52,550
Provision / (release of provision) for impairment on other assets	12.	2,108	(37)	281
Provision on off-balance sheet commitments and contingent liabilities	17.	188,906	209	3,021
Share-based payment	28.	2,059	2,881	5,704
(Unrealised losses) / gains on fair value adjustment of securities available-for-sale and held for trading		(325)	(21)	863
Unrealised gains on fair value adjustment of derivative financial instruments		7,924	17,630	12,629
<i>Net changes in assets and liabilities in operating activities</i>				
Changes in financial assets at fair value through profit or loss		113,757	1,307	(199,419)
Changes in financial liabilities at fair value through profit or loss		(278)	12	408
Net decrease in loans, net of allowance for loan losses		39,438	11,893	158,480
Increase in other assets, excluding advances for investments and before provisions for losses		(25,667)	(6,572)	(12,839)
Net increase in deposits from customers		68,468	7,709	176,857
(Decrease) / increase in other liabilities		(17,650)	27,755	10,694
Net (increase) / decrease in the compulsory reserve established by the National Bank of Hungary		(42,886)	1,872	3,477
Dividend income		(42,633)	(38,463)	(47,583)
Income tax paid		-	(1,992)	(5,370)
Net cash provided by operating activities		<u>209,960</u>	<u>94,699</u>	<u>266,276</u>
INVESTING ACTIVITIES				
Net decrease / (increase) in placements with other banks before allowance for placement losses		18,263	(132,214)	32,496
Increase in securities available-for-sale (gross)		(12,332,221)	(11,477,160)	(23,239,766)
Decrease in securities available-for-sale (gross)		12,475,555	11,662,323	23,193,007
Net increase in investments in subsidiaries		(27,880)	(8,753)	(60,520)
Dividend income		42,633	38,463	47,583
Increase in securities held-to-maturity (gross)		(146,129)	(156,423)	(151,139)
Decrease in securities held-to-maturity (gross)		11,387	14,402	2,097
Additions to property, equipment and intangible assets (gross)		(15,640)	(15,682)	(47,794)
Disposal to property, equipment and intangible assets (gross)		13,761	4,222	16,941
Net increase in advances for investments included in other assets		(27)	(8)	(11)
Net cash used in investing activities		<u>39,702</u>	<u>(70,830)</u>	<u>(207,106)</u>

OTP BANK PLC.
SEPARATE STATEMENT OF CASH-FLOWS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2014 (UNAUDITED) (in HUF mn) [continued]

	Note	Six month period ended 30 June 2014	Six month period ended 30 June 2013	Year ended 31 December 2013
FINANCING ACTIVITIES				
Net (decrease) / increase in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		(247,047)	16,804	75,776
Cash received from issuance of securities		23,601	43,457	72,186
Cash used for redemption of issued securities		(34,441)	(146,191)	(243,974)
Increase / (decrease) in subordinated bonds and loans		22,154	13,653	(25,509)
Payments to ICES holders ¹		(1,017)	(1,271)	(4,288)
Net change in Treasury shares		(3,966)	(1,811)	(1,316)
Dividend paid		<u>(40,600)</u>	<u>(33,561)</u>	<u>(33,595)</u>
Net cash used in financing activities		(281,316)	(108,920)	(160,720)
Net decrease in cash and cash equivalents		(31,654)	(85,051)	(101,550)
Cash and cash equivalents at the beginning of the period		<u>62,835</u>	<u>164,385</u>	<u>164,385</u>
Cash and cash equivalents at the end of the period		<u>31,181</u>	<u>79,334</u>	<u>62,835</u>
<i>Analysis of cash and cash equivalents:</i>				
Cash, amounts due from banks and balances with the National Bank of Hungary		140,521	245,548	245,548
Compulsory reserve established by the National Bank of Hungary		<u>(77,686)</u>	<u>(81,163)</u>	<u>(81,163)</u>
Cash and cash equivalents at the beginning of the period		<u>62,835</u>	<u>164,385</u>	<u>164,385</u>
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	151,753	158,625	140,521
Compulsory reserve established by the National Bank of Hungary	4.	<u>(120,572)</u>	<u>(79,291)</u>	<u>(77,686)</u>
Cash and cash equivalents at the end of the year		<u>31,181</u>	<u>79,334</u>	<u>62,835</u>

¹ See Note 20

OTP BANK PLC.

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014 (UNAUDITED) (in HUF mn)

	Note	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Total
Balance as at 1 January 2013		<u>28,000</u>	<u>52</u>	<u>10,800</u>	<u>1,202,132</u>	<u>(55,468)</u>	<u>(4,934)</u>	<u>1,180,582</u>
Net profit for the period		-	-	-	41,057	-	-	41,057
Other comprehensive income		-	-	-	(8,094)	-	-	(8,094)
Share-based payment	28.	-	-	2,881	-	-	-	2,881
Payments to ICES holders		-	-	-	(1,001)	-	-	(1,001)
Sale of treasury shares	21.	-	-	-	-	-	7,786	7,786
Loss on sale of treasury shares		-	-	-	631	-	-	631
Acquisition of treasury shares	21.	-	-	-	-	-	(10,228)	(10,228)
Dividend for the year 2012		-	-	-	(33,600)	-	-	(33,600)
Balance as at 30 June 2013		<u>28,000</u>	<u>52</u>	<u>13,681</u>	<u>1,201,125</u>	<u>(55,468)</u>	<u>(7,376)</u>	<u>1,180,014</u>
Balance as at 1 January 2014		<u>28,000</u>	<u>52</u>	<u>16,504</u>	<u>1,214,503</u>	<u>(55,468)</u>	<u>(6,731)</u>	<u>1,196,860</u>
Net loss for the period		-	-	-	(150,295)	-	-	(150,295)
Other comprehensive income		-	-	-	25,971	-	-	25,971
Share-based payment	28.	-	-	2,059	-	-	-	2,059
Payments to ICES holders		-	-	-	(954)	-	-	(954)
Sale of treasury shares	21.	-	-	-	-	-	17,472	17,472
Loss on sale of treasury shares		-	-	-	(3,160)	-	-	(3,160)
Acquisition of treasury shares	21.	-	-	-	-	-	(18,278)	(18,278)
Dividend for the year 2013		-	-	-	(40,600)	-	-	(40,600)
Balance as at 30 June 2014		<u>28,000</u>	<u>52</u>	<u>18,563</u>	<u>1,045,465</u>	<u>(55,468)</u>	<u>(7,537)</u>	<u>1,029,075</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2014 (UNAUDITED)

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. (the "Bank" or "OTP Bank") was established on 31 December 1990, when the previously State-owned company was transformed into a limited liability company. The Bank's registered office address is 16, Nádor Street, Budapest 1051.

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

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

	30 June 2014	31 December 2013
Domestic and foreign private and institutional investors	98%	97%
Employees	1%	2%
Treasury shares	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

The Bank provides a full range of commercial banking services through a nationwide network of 382 branches in Hungary.

Number of the employees of the Bank:

	30 June 2014	31 December 2013
Number of employees	7,941	8,133
Average number of employees	8,060	8,074

1.2. Accounting

The Bank maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

The presentation currency of the Bank is the Hungarian Forint ("HUF").

Some of the accounting principles prescribed for statutory purposes is different from those generally recognized in international financial markets. Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with the International Financial Reporting Standards ("IFRS"). Certain adjustments have been made to the Bank's Hungarian separate statutory accounts (see Note 38), in order to present the separate financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2014 (UNAUDITED)

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

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

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

- IFRS 10 “Consolidated Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 “Joint Arrangements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 “Disclosures of Interests in Other Entities”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) “Separate Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 (revised in 2011) “Separate Financial Statements” – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 32 “Financial instruments: presentation” – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 “Impairment of assets” - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amendments to the existing standards has not led to any changes in the 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:

- IFRIC 21 “Levies” adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016),
- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2017)
- Amendments to IFRS 10 “Consolidated Financial Statement” and IAS 28 “Investments in Associates and Joint Venture” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016)

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2014 (UNAUDITED)

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

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

- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)
- Amendments to various standards “Improvements to IFRSs (cycle 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),
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2016.)

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2014 (UNAUDITED)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying separate financial statements are summarized below:

2.1. Basis of presentation

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

The presentation of separate financial statements in conformity with IFRS requires the Management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future separate financial statements.

2.2. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into HUF that is the presentation currency, at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the separate financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded to the separate statement of recognized income.

2.3. Consolidated financial statements

These financial statements present the separate financial position and results of operations of the Bank. Consolidated financial statements are currently being prepared by the Bank and consolidated net profit for the year and shareholders' equity differs significantly from that presented in these separate financial statements. See Note 2.4 for the description of the method of accounting for investments in subsidiaries and associated companies in these separate financial statements. The consolidated financial statements and the separate financial statements will be published on the same date. As the ultimate parent, OTP Bank is preparing consolidated financial statement of OTP Group.

2.4. Investments in subsidiaries

Investments in subsidiaries comprise those investments where OTP Bank, through direct and indirect ownership interest, controls the financial and operating policies of the investee.

Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.

Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

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

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2014 (UNAUDITED)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities held-to-maturity

Investments in securities, traded in active market are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Bank has the expressed intention and ability to hold to maturity (securities held-to-maturity) are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment. Such securities comprise mainly securities issued by the Hungarian Government, mortgage bonds and Hungarian Government discounted Treasury Bills.

2.6. Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognized in profit or loss and are included in the separate statement of recognized income for the period. The Bank mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income since 31 December 2013. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, securities issued by NBH, shares in non-financial commercial companies, shares in investment funds, shares in venture capital funds and shares in financial institutions.

2.6.2. Derivative financial instruments

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost its entire open derivative transactions collateralised. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the separate statement of recognized income for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the separate statement of recognized income.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of recognized income along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the separate statement of recognized income.

The conditions of hedge accounting applied by the Bank are the following: formally designed as hedge, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective. Changes in fair value of derivatives that are designated and qualify as cash-flow hedges and that prove to be highly effective in relation to hedged risk are recognized as reserve in the shareholders' equity. Amounts deferred in equity are transferred to the separate statement of recognized income and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period. The ineffective element of the hedge is charged directly to the separate statement of recognized income.

2.8. Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be reported in the statement of financial position on a net basis. The Bank does not offset any financial assets and financial liabilities.

2.9. Embedded derivatives

Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) 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.

2.10. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale securities are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognized in other comprehensive income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realised in profit or loss for the applicable period. Securities available-for-sale consist of Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in investment funds, corporate bonds, bonds issued by NBH and foreign securities.

The provision for impairment is calculated based on discounted cash-flow methodology for debt instruments and calculated based on fair value on equity instruments, using the expected future cash-flow and original effective interest rate if there is objective evidence of impairment based on significant or prolonged decrease on fair value. Available-for-sale securities are remeasured at fair value based on quoted prices or values derived from cash-flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of the future cash-flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Interest is accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest is impaired.

According to IAS 39, initially financial asset shall be recognized at fair value which is usually equal to transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence the Bank is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values are not available on observable markets. (See Note 8., 13. and 41. for Funding for Growth Scheme)

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

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

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

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.

2.12. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the statement of financial position and the consideration received is recorded in Other liabilities or Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks, or Deposits from customers. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the statement of financial position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement.

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

2.13. 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	20-33.3%
Property rights	16.7%
Property	1-2%
Office equipments and vehicles	8-33.3%

Depreciation and amortization on properties, equipments 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.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. Property, equipment and intangible assets [continued]

If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

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

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

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

2.14. Financial liabilities

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

2.15. Leases

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

Payments made under operating leases are charged to the separate statement of recognized income on a straight-line basis over the life of the lease terms. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.16. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the separate statement of financial position at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity in the treasury shares. Derecognition of treasury shares is based on the FIFO method.

2.17. Interest income and interest expense

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.18. Fees and Commissions

Fees and commissions are recognised using effective interest method referring to provisions of IAS 39, when they relate and have to be included in the amortised cost model. Certain fees and commissions that are not involved in the amortised cost model are recognised in the separate statement of recognised income on an accrual basis based on IAS 18.

2.19. Dividend income

The Bank recognizes dividend income in the separate financial statements when its right to receive the payment is established.

2.20. Income tax

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled. Deferred tax assets are recognized by the Bank for the amounts of income tax that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

2.21. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit and transactions with financial instruments. The provision on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

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

2.22. Share-based payment and employee benefit

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

The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Bank has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in financial statements.

2.23. Separate statement of cash-flows

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.24. Segment reporting

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

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

At separate level, the Management does not separate and makes decisions based on different segments; the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the business and geographical segments.

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

2.25. Comparative figures

There were no changes in prior period data due to either prior period error or change in accounting policies. In some notes certain amounts in the separate financial statements for the year ended 31 December 2013 have been restructured within the particular note to conform to the current year presentation and these amounts are not significant.

2.26. Government measures related to consumer loan contracts

Act XXXVIII 2014 on "*Certain issues related to uniformity decision which made by the Curia of Hungary on consumer loan contracts granted by financial institutions*" was published on 18 July 2014. Based on the available information about the expected losses the following items were recorded in the separate financial statements.

OTP Bank took absolute and irrevocable obligation in a maximum amount of HUF 121 billion, to eliminate negative effects on its subsidiaries' financial situation arises from the published regulation in order to ensure continuous and unchanged operation and legal correspondence. Based on the commitment contingent receivables from OTP Bank was recorded as of 30 June 2014.

Based on the published regulation OTP Bank's reimbursement obligation related to invalidity of the bid-ask exchange rate spread will be prospectively in amount of HUF 13.5 billion. Considering provision for impairment on loan losses in the amount of HUF 332 million for the year 2013 further impairment was recognised in amount of HUF 13.2 billion as of 30 June 2014.

In relation to the obligation investments in subsidiaries have been raised by HUF 7 billion – with the expected amount caused by bid-ask exchange spread that would be paid as a compensation for the subsidiaries – as at 30 June 2014 and parallel with that provision for impairment are recognised on investments at the same amount.

Based on the unfairness of contractual clauses enabling unilateral amendment OTP Bank estimates that losses will be in amount of HUF 75.9 billion regarding the legal proceedings, therefore provision for impairment on loan losses was recognised as of 30 June 2014.

OTP Group still maintains the point of view that the group members keep completely the effective regulations during its loan activity practice. The Bank will claim through legal proceeding that contractual clauses enabling unilateral amendment of the contracts were fair.

Considering open questions related to contractual clauses enabling unilateral amendment and OTP Bank's commitment, based on the OTP Group's decision expected losses was recognised in separate financial statements of OTP Bank with the amount of 177 billion as at 30 June 2014. (See Note 17, 24 and 27)

On 24 September 2014 the Parliament has approved the Act XL 2014 on "*Certain issues related to uniformity decision which made by the Curia of Hungary on consumer loan contracts granted by financial institutions, regulation of settlement and other directions recorded in Act XXXVIII 2014*" that prescribes for financial institutions to settle with their customers because of overpayments arisen from invalidity of the bid-ask exchange rate spread and contractual clauses enabling unilateral amendment.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 3: **SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES**

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

3.1. **Impairment on loans and placements**

The Bank regularly assesses its loan portfolio for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Provisioning involves many uncertainties about the outcome of those risks and requires the Management of the Group to make many subjective judgements in estimating the loss amounts.

3.2. **Valuation of instruments without direct quotations**

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

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

3.3. **Provisions**

Provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 17.)

A provision is recognized by the Bank when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities, for commitments to extend credit, provision for warranties arising from banking activities and provision for Confirmed letter of credit.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 4: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF mn)

	30 June 2014	31 December 2013
Cash on hand:		
In HUF	74,631	67,325
In foreign currency	<u>8,381</u>	<u>5,223</u>
	<u>83,012</u>	<u>72,548</u>
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	50,148	48,235
In foreign currency	<u>18,354</u>	<u>19,529</u>
	<u>68,502</u>	<u>67,764</u>
Accrued interest	<u>239</u>	<u>209</u>
Total	<u>151,753</u>	<u>140,521</u>
Compulsory reserve	120,572	77,686
Rate of the compulsory reserve	3%	2%

NOTE 5: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn)

	30 June 2014	31 December 2013
Within one year:		
In HUF	300,800	224,619
In foreign currency	<u>214,815</u>	<u>336,912</u>
	<u>515,615</u>	<u>561,531</u>
Over one year		
In HUF	5,000	40,000
In foreign currency	<u>93,086</u>	<u>29,222</u>
	<u>98,086</u>	<u>69,222</u>
Total placements	<u>613,701</u>	<u>630,753</u>
Accrued interest	<u>957</u>	<u>2,168</u>
Provision for impairment on placement losses	<u>(23)</u>	<u>(22)</u>
Total	<u>614,635</u>	<u>632,899</u>

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

	30 June 2014	31 December 2013
Balance as at 1 January	22	-
Provision for the period	<u>1</u>	<u>22</u>
Closing balance	<u>23</u>	<u>22</u>

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 5: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn)

Interest conditions of placements with other banks (%):

	30 June 2014	31 December 2013
Placements with other banks in HUF	2.5%-6.84%	2.5%-7.49%
Placements with other banks in foreign currency	1%-11.9%	0.26%-11.9%
Average interest of placements with other banks	2.59%	3.26%

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

	30 June 2014	31 December 2013
<i>Securities held for trading:</i>		
Securities issued by the NBH	99,715	209,347
Shares	61,104	73,256
Government bonds	11,174	4,090
Hungarian government interest bearing Treasury Bills	7,054	6,466
Hungarian government discounted Treasury Bills	3,010	2,159
Mortgage bonds	224	237
Securities issued by credit institutions	147	1,162
Other securities	170	26
Subtotal	<u>182,598</u>	<u>296,743</u>
Accrued interest	437	105
Total	<u>183,035</u>	<u>296,848</u>
<i>Derivative financial instruments classified as held for trading:</i>		
Interest rate swaps classified as held for trading	42,805	53,728
CCIRS and mark-to-market CCIRS ¹ classified as held for trading	42,040	32,763
Foreign currency swaps classified as held for trading	11,325	6,637
Other derivative transactions ²	7,995	6,589
Subtotal	<u>104,165</u>	<u>99,717</u>
Total	<u>287,200</u>	<u>396,565</u>

Interest conditions and the remaining maturities of securities held for trading are as follows:

	30 June 2014	31 December 2013
Within five years:		
variable interest	1,156	357
fixed interest	117,005	222,261
	<u>118,161</u>	<u>222,618</u>
Over five years:		
fixed interest	3,310	843
	<u>3,310</u>	<u>843</u>
Non-interest bearing securities	61,127	73,282
Total	<u>182,598</u>	<u>296,743</u>

¹ CCIRS: Cross Currency Interest Rate Swap (See Note 27)

² incl.: FX, equity and index futures; FX forward; commodity and equity swap; FRA; FX option

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

	30 June 2014	31 December 2013
Securities held for trading denominated in HUF	98.39%	99.65%
Securities held for trading denominated in foreign currency	<u>1.61%</u>	<u>0.35%</u>
Securities held for trading total	<u>100%</u>	<u>100%</u>
Government securities denominated in HUF	76%	81%
Government securities denominated in foreign currency	<u>24%</u>	<u>19%</u>
Government securities total	<u>100%</u>	<u>100%</u>
Interest rates on securities held for trading	2.33%-10%	2.91%-13%
Average interest on securities held for trading	2.85%	3.67%

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

	30 June 2014	31 December 2013
Mortgage bonds	827,365	789,419
Bonds issued by NBH	795,119	1,021,825
Government bonds	169,485	90,177
Other securities	63,353	67,264
- <u>listed securities</u>	<u>31,657</u>	<u>36,883</u>
<i>in HUF</i>	-	-
<i>in foreign currency</i>	31,657	36,883
- <u>non-listed securities</u>	<u>31,696</u>	<u>30,381</u>
<i>in HUF</i>	27,091	26,589
<i>in foreign currency</i>	4,605	3,792
Subtotal	<u>1,855,322</u>	<u>1,968,685</u>
Accrued interest	<u>26,971</u>	<u>28,806</u>
Securities available-for-sale total	<u>1,882,293</u>	<u>1,997,491</u>

	30 June 2014	31 December 2013
Securities available-for-sale denominated in HUF	75%	77%
Securities available-for-sale denominated in foreign currency	<u>25%</u>	<u>23%</u>
Securities available-for-sale total	<u>100%</u>	<u>100%</u>
Interest rates on securities available-for-sale denominated in HUF	4%-11%	4.5%-11%
Interest rates on securities available-for-sale denominated in foreign currency	2.23%-7.95%	2.12%-10.5%
Average interest on securities available-for-sale denominated in HUF	4.52%	6.52%
Average interest on securities available-for-sale denominated in foreign currency	3.6%	4.6%

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn) [continued]

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

	30 June 2014	31 December 2013
Within five years:		
variable interest	379,519	358,664
fixed interest	<u>1,223,719</u>	<u>1,362,990</u>
	<u>1,603,238</u>	<u>1,721,654</u>
Over five years:		
variable interest	-	3,730
fixed interest	<u>221,292</u>	<u>213,460</u>
	<u>221,292</u>	<u>217,190</u>
Non-interest bearing securities	<u>30,792</u>	<u>29,841</u>
Total	<u>1,855,322</u>	<u>1,968,685</u>

Certain fixed-rate mortgage bonds and other securities are hedged against interest rate risk. (See Note 37.)

	30 June 2014	31 December 2013
Net loss reclassified from equity to statement of recognized income	327	(388)
Fair value of the hedged securities:		
Corporate bonds	24,749	23,648

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

	30 June 2014	31 December 2013
Short-term loans and trade bills (within one year)	791,066	941,428
Long-term loans and trade bills (over one year)	<u>1,429,902</u>	<u>1,343,444</u>
Loans gross total	<u>2,220,968</u>	<u>2,284,872</u>
Accrued interest	<u>11,929</u>	<u>10,342</u>
Provision for impairment on loan losses	<u>(148,481)</u>	<u>(150,513)</u>
Total	<u>2,084,416</u>	<u>2,144,701</u>

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

	30 June 2014	31 December 2013
In HUF	39%	40%
In foreign currency	<u>61%</u>	<u>60%</u>
Total	<u>100%</u>	<u>100%</u>

Interest rates of the loan portfolio are as follows (%):

	30 June 2014	31 December 2013
Loans denominated in HUF, with a maturity within one year	5.8%-29.4%	6.5%-25.3%
Loans denominated in HUF, with a maturity over one year	2.3%-24.8%	2.8%-24.8%
Loans denominated in foreign currency	1.8%-14%	1.8%-14%
Average interest on loans denominated in HUF	12.19%	13.14%
Average interest on loans denominated in foreign currency	3.99%	4.71%

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

	30 June 2014	31 December 2013
Gross loan portfolio on which interest to customers is not being accrued	10.76%	10.80%

An analysis of the gross loan portfolio by type, before provision for impairment on loan losses, is as follows:

	30 June 2014		31 December 2013	
Retail loans	536,460	25%	539,340	24%
Retail consumer loans	306,176	14%	309,476	14%
Retail mortgage backed loans ¹	118,345	6%	123,592	5%
SME loans	111,939	5%	106,272	5%
Corporate loans	1,684,508	75%	1,745,532	76%
Loans to medium and large corporates	1,540,266	69%	1,537,655	67%
Municipality loans	29,964	1%	105,725	5%
Municipality loans completed by the State	<u>114,278</u>	<u>5%</u>	<u>102,152</u>	<u>4%</u>
Total	<u>2,220,968</u>	<u>100%</u>	<u>2,284,872</u>	<u>100%</u>

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

	30 June 2014	31 December 2013
Balance as at 1 January	150,513	153,370
Provision for the period	26,840	83,796
Release of provision	(28,872)	(82,134)
Provision for impairment on promissory obligation	<u>-</u>	<u>(4,519)</u>
Closing balance	<u>148,481</u>	<u>150,513</u>

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

	30 June 2014	31 December 2013
Provision for impairment on placement losses	1	22
Provision for impairment on loan losses	<u>11,226</u>	<u>30,511</u>
Total	<u>11,227</u>	<u>30,533</u>

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (See Note 29.)

¹ incl. housing loans

OTP BANK PLC.
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**NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND
OTHER INVESTMENTS (in HUF mn)**

	30 June 2014	31 December 2013
Investments in subsidiaries:		
Controlling interest	1,014,065	985,892
Other investments	<u>718</u>	<u>1,011</u>
	<u>1,014,783</u>	<u>986,903</u>
 Provision for impairment	 (407,671)	 (317,581)
 Total	 <u>607,112</u>	 <u>669,322</u>

Other investments contain certain securities accounted at cost. These instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Significant subsidiaries

Investments in companies in which the Bank has a controlling interest are detailed below. All companies are incorporated in Hungary unless indicated otherwise:

	30 June 2014		31 December 2013	
	% Held (direct and indirect)	Gross book value	% Held (direct and indirect)	Gross book value
OTP Bank JSC (Ukraine)	100%	266,513	100%	266,513
OTP banka Srbija a.d. (Serbia)	97.90%	91,153	97.56%	84,727
DSK Bank EAD (Bulgaria)	100%	86,832	100%	86,832
OAO OTP Bank (Russia)	97.83%	74,307	97.81%	74,296
OTP banka Hrvatska d.d. (Croatia)	100%	72,940	100%	72,940
OTP Mortgage Bank Ltd.	100%	70,257	100%	70,257
OTP Bank Romania S.A. (Romania)	100%	61,081	100%	57,638
Crnogorska komercijalna banka a.d. (Montenegro)	100%	58,484	100%	58,484
OOO AlyansReserv (Russia)	100%	50,074	100%	50,074
OTP Factoring Ltd.	100%	40,825	100%	40,825
Balansz Real Estate Institute Fund	100%	18,520	100%	18,370
Inga Kettő Ltd.	100%	17,892	100%	17,892
Bank Center No. 1. Ltd.	100%	16,063	100%	16,063
OTP Life Annuity Ltd.	100%	15,300	100%	15,300
OTP Banka Slovensko a.s. (Slovakia)	99.21%	13,649	99.21%	13,649
Air-Invest Ltd.	100%	9,698	100%	9,698
Monicomp Ltd.	100%	9,234	100%	9,234
OTP Real Estate Ltd.	100%	8,820	100%	4,777
Merkantil Bank Ltd.	100%	8,140	100%	1,600
OTP Holding Malta Ltd.	100%	6,465	-	-
OTP Real Estate Leasing Ltd.	100%	4,766	100%	3,671
OTP Funds Servicing and Consulting Ltd.	100%	2,469	100%	2,469
OTP Holding Ltd. (Cyprus)	100%	2,000	100%	2,000
OTP Building Society Ltd.	100%	1,950	100%	1,950
OTP Fund Management Ltd.	100%	1,653	100%	1,653
OTP Real Estate Investment Fund Management Ltd.	100%	1,352	100%	1,352
CIL Babér Ltd.	100%	1,225	100%	1,225
Fordulat Venture Capital Fund	50%	1,050	50%	1,050
OTP Financing Netherlands B.V. (the Netherlands)	100%	481	100%	481
OTP Card Factory Ltd.	100%	450	100%	450
Portfolion Ltd.	100%	150	100%	150
HIF Ltd. (United Kingdom)	100%	81	100%	81
Other	-	191		191
Total		<u>1,014,065</u>		<u>985,892</u>

OTP BANK PLC.
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**NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND
OTHER INVESTMENTS (in HUF mn)**

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

	30 June 2014	31 December 2013
Balance as at 1 January	317,581	265,031
Provision for the period	<u>90,090</u>	<u>52,550</u>
Closing balance	<u>407,671</u>	<u>317,581</u>

The provision for impairment on OTP Bank JSC (Ukraine) was HUF 205,789 million, for OTP banka Srbija a.d. was HUF 63,233 million, for Crnogorska komercijalna banka a.d was HUF 26,714 million, for OTP banka Hrvatska d.d. was 9,232 million as at 30 June 2014. OTP Bank recognized provision for impairment in amount of HUF 79,886 million for OTP Bank JSC (Ukraine) and in amount of HUF 6,540 million for Merkantil Bank Ltd. in the six month period ended 30 June 2014. Provision for impairment was recognized in the total amount of HUF 90,090 million in the six month period ended 30 June 2014.

Significant associates

The main figures of the Bank's indirectly owned associates that are not consolidated using equity-method at cost:

As at 30 June 2014

	KITE Mezőgazdasági Szolgáltató és Kereskedelmi Ltd.	D-ÉG Thermoset Ltd.	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	118,101	5,862	2,172	634	126,769
Liabilities	86,309	4,676	102	3	91,090
Shareholders' equity	31,792	1,186	2,070	631	35,679
Retained earnings and reserves	28,590	(408)	-	577	28,759
Total income	125,473	2,963	514	12	128,962
Profit before tax	1,838	(222)	37	3	1,656
Net profit	1,712	(222)	37	3	1,530

As at 31 December 2013

	KITE Mezőgazdasági Szolgáltató és Kereskedelmi Ltd.	D-ÉG Thermoset Ltd.	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	48,717	5,961	2,130	636	57,444
Liabilities	18,774	4,540	83	9	23,406
Shareholders' equity	29,943	1,421	2,047	627	34,038
Retained earnings and reserves	25,127	(254)	-	567	25,440
Total income	221,461	6,412	1,017	37	228,927
Profit before tax	3,999	(156)	86	18	3,947
Net profit	3,326	(156)	86	16	3,272

OTP BANK PLC.
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**NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND
OTHER INVESTMENTS (in HUF mn) [continued]**

In accordance with the resolution adopted by the board of directors in February 2014, capital settlement package of OTP Real Estate Ltd. and its subsidiaries was approved at group level. The purpose of the capital settlement is to meet regulations applying to minimal capital criteria and to guarantee the self-supporting financing structure.

On 28 February 2014 OTP Bank increased the registered capital of OTP banka Srbija a.d. by RSD 2,311,635,480. As a consequence the registered capital of OTP banka Srbija a.d. has increased from RSD 14,389,735,180 to RSD 16,701,370,660. The ownership ratio of OTP Bank is 97.9%.

By setting the purchase price on 24 April 2014, OTP Group accomplished its Croatian acquisition.

On 31 January 2014 OTP banka Hrvatska d.d. ("OBH") signed a purchase agreement with the Croatian Banco Popolare d.d. on acquiring a 98.37% stake in the bank. Following the submission of all the relevant documents the Croatian Central Bank approved the purchase of the majority stake at its meeting on 18 April 2013; as a result OTP Bank got all the necessary approvals for completing the transaction.

As a result of the deal OBH will enhance its presence in Northern Croatia, Zagreb and Slavonia in particular, mainly in the retail segment. The purchase price was HRK 106,977,375. Following the transaction OTP Group will serve 440 thousands customers in the Croatian market, will possess more than 250 ATMs and its current network of 130 branches will expand by 33 new units.

On 30 July 2014 OTP Bank Romania signed an agreement in Bucharest with Banco Comercial Português on the purchase of its 100.0% ownership in its Romanian subsidiary. The purchase price was EUR 39 million. As a result of the acquisition the market share of OTP Bank Romania will rise to 2.1% elevating the bank into the 11th place amongst the Romanian banks.

OTP BANK PLC.
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NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn)

	30 June 2014	31 December 2013
Government bonds	644,994	506,808
Mortgage bonds	4,763	4,770
Hungarian government discounted Treasury bills	<u>347</u>	<u>341</u>
	<u>650,104</u>	<u>511,919</u>
Accrued interest	<u>13,942</u>	<u>13,130</u>
Total	<u>664,046</u>	<u>525,049</u>

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

	30 June 2014	31 December 2013
Within five years:		
variable interest	13,109	15,041
fixed interest	<u>348,936</u>	<u>174,611</u>
	<u>362,045</u>	<u>189,652</u>
Over five years:		
fixed interest	<u>288,059</u>	<u>322,267</u>
	<u>288,059</u>	<u>322,267</u>
Total	<u>650,104</u>	<u>511,919</u>

The distribution of the held-to-maturity securities by currency (%):

	30 June 2014	31 December 2013
Securities held-to-maturity denominated in HUF	<u>100%</u>	<u>100%</u>
Securities held-to-maturity total	<u>100%</u>	<u>100%</u>
Interest rates on securities held-to-maturity	3.8%-9.5%	3.9%-9.5%
Average interest on securities held-to-maturity denominated in HUF	6.05%	7.35%

In most cases, interest on variable rate securities is based on the interest rates of 90 day Hungarian government Treasury bills and is adjusted semi-annually.

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the six month period ended 30 June 2014

<u>Cost</u>	<u>Intangible assets</u>	<u>Property</u>	<u>Office equipments and vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Balance as at 1 January	137,349	69,829	73,012	16,815	297,005
Additions	15,032	861	2,807	2,300	21,000
Disposals	(15,309)	(319)	(2,919)	(7,256)	(25,803)
Closing balance	<u>137,072</u>	<u>70,371</u>	<u>72,900</u>	<u>11,859</u>	<u>292,202</u>

Depreciation and Amortization

Balance as at 1 January	105,795	17,246	56,963	-	180,004
Charge for the year	7,047	910	2,946	-	10,903
Disposals	(1,780)	(131)	(2,875)	-	(4,786)
Closing balance	<u>111,062</u>	<u>18,025</u>	<u>57,034</u>	<u>-</u>	<u>186,121</u>

Net book value

Balance as at 1 January	<u>31,554</u>	<u>52,583</u>	<u>16,049</u>	<u>16,815</u>	<u>117,001</u>
Closing balance	<u>26,010</u>	<u>52,346</u>	<u>15,866</u>	<u>11,859</u>	<u>106,081</u>

For the year ended 31 December 2013

<u>Cost</u>	<u>Intangible assets</u>	<u>Property</u>	<u>Office equipments and vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Balance as at 1 January	124,248	67,327	74,547	10,325	276,447
Additions	23,463	3,059	5,844	15,428	47,794
Disposals	(10,362)	(557)	(7,379)	(8,938)	(27,236)
Balance as at 31 December	<u>137,349</u>	<u>69,829</u>	<u>73,012</u>	<u>16,815</u>	<u>297,005</u>

Depreciation and Amortization

Balance as at 1 January	92,651	15,622	58,525	-	166,798
Charge for the year	14,000	1,776	5,881	-	21,657
Disposals	(856)	(152)	(7,443)	-	(8,451)
Balance as at 31 December	<u>105,795</u>	<u>17,246</u>	<u>56,963</u>	<u>-</u>	<u>180,004</u>

Net book value

Balance as at 1 January	<u>31,597</u>	<u>51,705</u>	<u>16,022</u>	<u>10,325</u>	<u>109,649</u>
Balance as at 31 December	<u>31,554</u>	<u>52,583</u>	<u>16,049</u>	<u>16,815</u>	<u>117,001</u>

OTP BANK PLC.
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NOTE 12: OTHER ASSETS¹ (in HUF mn)

	30 June 2014	31 December 2013
Deferred tax assets	30,278	-
Prepayments and accrued income	25,777	14,164
Fair value of derivative financial instruments designated as fair value hedge	13,770	9,734
Trade receivables	9,207	4,752
Receivables from investment services	6,389	4,814
Variation margin	4,151	3,623
Other advances	3,500	1,288
Due from Hungarian Government from interest subsidies	1,304	1,172
Inventories	773	1,060
Current income tax receivable	756	415
Advances for securities and investments	625	598
Receivables from OTP Mortgage Bank Ltd. ²	198	2,969
Loans sold under deferred payment scheme	20	21
Other	<u>14,647</u>	<u>6,543</u>
	<u>111,395</u>	<u>51,153</u>
Accrued interest	-	9
Provision for impairment on other assets ³	<u>(3,794)</u>	<u>(1,676)</u>
Total	<u>107,601</u>	<u>49,486</u>

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

	30 June 2014	31 December 2013
Interest rate swaps designated as fair value hedge	13,759	9,722
Other	<u>11</u>	<u>12</u>
Total	<u>13,770</u>	<u>9,734</u>

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

	30 June 2014	31 December 2013
Balance as at 1 January	1,676	1,641
Charge for the period	2,342	623
Release of provision	<u>(224)</u>	<u>(588)</u>
Closing balance	<u>3,794</u>	<u>1,676</u>

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

² The Bank, under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Ltd.

³ Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 13: AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	30 June 2014	31 December 2013
Within one year:		
In HUF	190,357	403,166
In foreign currency	<u>369,782</u>	<u>311,788</u>
	<u>560,139</u>	<u>714,954</u>
Over one year:		
In HUF	70,480	116,313
In foreign currency	<u>24,127</u>	<u>70,114</u>
	<u>94,607</u>	<u>186,427</u>
Subtotal	<u>654,746</u>	<u>901,381</u>
Accrued interest	<u>951</u>	<u>1,363</u>
Total¹	<u>655,697</u>	<u>902,744</u>

Interest rates on amounts due to banks and Hungarian Government, deposits from the NBH and other banks are as follows (%):

	30 June 2014	31 December 2013
Within one year:		
In HUF	0.2%-7.62%	0.22%-5.31%
In foreign currency	1.53%-7%	0.37%-7.05%
Over one year:		
In HUF	0.19%-7.62%	0.22%-5.24%
In foreign currency	0.12%-7%	0.1%-7%
Average interest on amounts due to banks in HUF	2.47%	1.45%
Average interest on amounts due to banks in foreign currency	1.14%	2.59%

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 June 2014	31 December 2013
Within one year:		
In HUF	2,940,508	2,985,237
In foreign currency	<u>773,959</u>	<u>660,166</u>
	<u>3,714,467</u>	<u>3,645,403</u>
Over one year:		
In HUF	<u>25,502</u>	<u>25,646</u>
	<u>25,502</u>	<u>25,646</u>
Subtotal	<u>3,739,969</u>	<u>3,671,049</u>
Accrued interest	<u>5,948</u>	<u>6,401</u>
Total	<u>3,745,917</u>	<u>3,677,450</u>

¹ It contains the loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 Standard. See details in Note 41.

OTP BANK PLC.
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NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]

Interest rates on deposits from customers are as follows (%):

	30 June 2014	31 December 2013
Within one year in HUF	0.01%-10.3%	0.01%-10.3%
Over one year in HUF	0.01%-3.3%	0.01%-5%
In foreign currency	0.01%-5.9%	0.01%-6.7%
Average interest on deposits from customers in HUF	1.51%	2.62%
Average interest on deposits from customers in foreign currency	0.85%	1.29%

An analysis of deposits from customers by type, not included accrued interest, is as follows:

	30 June 2014		31 December 2013	
Retail deposits	2,056,589	55%	2,069,291	57%
Household deposits	1,727,563	46%	1,748,210	48%
SME deposits	329,026	9%	321,081	9%
Corporate deposits	1,683,380	45%	1,601,758	43%
Deposits to medium and large corporates	1,394,781	37%	1,329,032	36%
Municipality deposits	288,599	8%	272,726	7%
Total	<u>3,739,969</u>	<u>100%</u>	<u>3,671,049</u>	<u>100%</u>

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

	30 June 2014	31 December 2013
Within one year:		
In HUF	25,379	35,322
In foreign currency	<u>39,334</u>	<u>33,034</u>
	<u>64,713</u>	<u>68,356</u>
Over one year:		
In HUF	91,915	93,713
In foreign currency	<u>9,381</u>	<u>8,200</u>
	<u>101,296</u>	<u>101,913</u>
Subtotal	<u>166,009</u>	<u>170,269</u>
Accrued interest	<u>(814)</u>	<u>510</u>
Total	<u>165,195</u>	<u>170,779</u>

Interest rates on liabilities from issued securities are as follows (%):

	30 June 2014	31 December 2013
Issued securities denominated in HUF	0.25%-7%	0.25%-7%
Issued securities denominated in foreign currency	1.25%-3.75%	1.7%-4%
Average interest on issued securities denominated in HUF	3.3%	5.07%
Average interest on issued securities denominated in foreign currency	2.39%	3.15%

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

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % p.a.)	Hedged
63	OTP EUR 2 2014/XIX	28/09/2012	28/09/2014	EUR	0.25	77	3.25	fixed
64	OTP EUR 2 2014/XV	03/08/2012	03/08/2014	EUR	0.22	67	3.75	fixed
65	OTP EUR 2 2014/XX	12/10/2012	12/10/2014	EUR	0.22	67	3.25	fixed
66	OTP EUR 2 2015/XII	21/06/2013	21/06/2015	EUR	0.21	65	2.5	fixed
67	OTP EUR 2 2016/VI	21/03/2014	21/03/2016	EUR	0.21	65	1.8	fixed
68	OTP EUR 2 2014/XXII	09/11/2012	09/11/2014	EUR	0.20	63	3.25	fixed
69	OTP EUR 2 2016/VIII	18/04/2014	18/04/2016	EUR	0.20	62	1.8	fixed
70	OTP EUR 2 2015/VI	22/03/2013	22/03/2015	EUR	0.20	61	2.75	fixed
71	OTP EUR 2 2014/XVI	17/08/2012	17/08/2014	EUR	0.17	52	3.5	fixed
72	OTP EUR 2 2014/XIV	13/07/2012	13/07/2014	EUR	0.17	52	3.75	fixed
73	OTP EUR 2 2015/II	25/01/2013	25/01/2015	EUR	0.17	51	2.75	fixed
74	OTP EUR 2 2015/I	11/01/2013	11/01/2015	EUR	0.16	50	3	fixed
75	OTP EUR 2 2015/III	01/02/2013	01/02/2015	EUR	0.16	49	2.75	fixed
76	OTP EUR 2 2015/IV	15/02/2013	15/02/2015	EUR	0.15	45	2.75	fixed
77	OTP EUR 2 2015/XIV	12/07/2013	12/07/2015	EUR	0.12	38	2.25	fixed
	Subtotal					864		
	Subtotal issued securities in FX					48,685		
	Unamortized premium					(38)		
	Fair value hedge adjustment					68		
	Total					48,715		

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

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

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

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

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

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

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

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

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

	Name	Date of issuance		Maturity	Nominal value in HUF million	Interest conditions (in % p.a.)		Hedged
67	OTP 2021/RF/D	21/12/2011		30/12/2021	202	indexed	floating	hedged
68	OTP 2015/Hx	28/12/2012		27/12/2015	170	indexed	floating	hedged
69	OTP TBSZ 4 2016/I	18/01/2013	15/02/2013	15/12/2016	158	5	fixed	
70	OTP 2022/RF/F	28/12/2012		28/12/2022	146	indexed	floating	hedged
71	OTP 2022/RF/D	28/06/2012		28/06/2022	136	indexed	floating	hedged
72	OTP OJK 2016/I	26/08/2011	21/12/2011	26/08/2016	136	5.75	fixed	
73	OTP 2023/RF/A	22/03/2013		24/03/2023	122	indexed	floating	hedged
74	OTP 2022/RF/C	28/06/2012		28/06/2022	109	indexed	floating	hedged
75	OTP TBSZ 4 2015/II	21/12/2012		15/12/2015	48	6	fixed	
76	OTP 2021/RF/E	21/12/2011		30/12/2021	31	indexed	floating	hedged
77	OTP OJK 2017/I	27/01/2012	13/07/2012	27/01/2017	27	7	fixed	
78	other	-	-	-	231			
	Subtotal				<u>1,516</u>			
	Subtotal issued securities in HUF				<u>105,850</u>			
	Unamortized premium				(2,088)			
	Fair value hedge adjustment				<u>13,532</u>			
	Total issued securities in HUF				<u>117,294</u>			
	Accrued interest				(814)			
	Total issued securities				<u>165,195</u>			

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

Negative fair value of financial liabilities at fair value through profit or loss classified as held for trading by deal types:

	30 June 2014	31 December 2013
CCIRS and mark-to-market CCIRS	124,175	124,556
IRS	66,019	67,854
Foreign currency swaps	10,450	5,744
Other derivative contracts ¹	<u>6,318</u>	<u>6,363</u>
Total	<u>206,962</u>	<u>204,517</u>

¹ incl.: FX, equity and index futures; FX forward; commodity and equity swap; FRA; FX option

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NOTE 17: OTHER LIABILITIES¹ (in HUF mn)

	30 June 2014	31 December 2013
Provision on contingent liabilities to be expected due to regulations related to consumer loans ²	190,202	-
Financial liabilities from OTP-MOL share swap transaction ³	59,241	71,548
Accrued expenses	35,528	30,179
Salaries and social security payable	21,711	18,330
Current income tax payable	20,996	10,431
Liabilities from investment services	17,860	53,068
Provision on off-balance sheet commitments, contingent liabilities	11,617	12,913
Giro clearing accounts	10,377	4,189
Short term liabilities due to repurchase agreement transactions	7,549	10,133
Liabilities to be expected due to regulations related to consumer loans ²	7,085	-
Accounts payable	5,506	8,641
HUF denominated liabilities from purchase of customers with cards	4,379	3,500
Suspended liabilities	2,322	2,294
Fair value of derivative financial instruments designated as fair value hedge	1,766	2,639
Liabilities connected to loans for collection	925	1,044
Liabilities related to housing loans	106	105
Deferred tax liabilities	-	9,672
Other	<u>4,726</u>	<u>3,758</u>
Total	<u>401,896</u>	<u>242,444</u>

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

	30 June 2014	31 December 2013
Interest rate swap transactions designated as fair value hedge	1,766	2,639

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

	30 June 2014	31 December 2013
Provision on contingent liabilities to be expected due to regulations related to consumer loans ²	190,202	-
Provision for losses on off-balance sheet commitments and contingent liabilities	6,956	6,989
Provision for retirement pension and severance pay	1,539	2,500
Provision for taxation	1,000	2,000
Provision for litigation	1,252	554
Provision on other liabilities	<u>870</u>	<u>870</u>
Total	<u>201,819</u>	<u>12,913</u>

¹ Other liabilities – except financial liabilities from OTP-MOL share swap transaction, deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP-MOL share swap transaction is settled in June of each year until the maturity date. The fair value of amount being settled in 2014 is HUF 408 million as at 30 June 2014. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity.

² See Note 2.26.

³ On 16 April 2009, OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. On 11 July 2012 the parties amended the final maturity of the share swap agreement for 11 July 2017 until which any party can initiate cash or physical settlement of the transaction. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the loss of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity and a recognition of a corresponding liability. As at 30 June 2014 and 31 December 2013 HUF 59,241 and HUF 71,548 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

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

Movements in the provision for losses on commitments and contingent liabilities can be summarized as follows:

	30 June 2014	31 December 2013
Balance as at 1 January	12,913	5,373
Provision for the period	194,019	13,441
Release of provision	(5,113)	(10,420)
Provision for impairment on promissory obligation	-	<u>4,519</u>
Closing balance	<u>201,819</u>	<u>12,913</u>

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

	30 June 2014	31 December 2013
Over one year:		
In foreign currency	<u>288,103</u>	<u>274,817</u>
	<u>288,103</u>	<u>274,817</u>
Accrued interest	<u>12,292</u>	<u>3,424</u>
Total	<u>300,395</u>	<u>278,241</u>

Interest rates on subordinated bonds and loans are as follows (%):

	30 June 2014	31 December 2013
Subordinated bonds and loans denominated in foreign currency	0.9%-5.9%	0.8%-5.9%
Average interest on subordinated bonds and loans denominated in foreign currency	5.45%	6.12%

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

Subordinated loans and bonds are detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 30 June 2014
Subordinated bond	EUR 93.45 million	04/03/2005	04/03/2015	100%	three-month EURIBOR + 0.55% quarterly	-
Subordinated bond	EUR 353.1 million	07/11/2006	Perpetual bond	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	-
Subordinated bond (under EMTN ¹ program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN ¹ program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%

¹ European Medium Term Note Program

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NOTE 19: SHARE CAPITAL (in HUF mn)

	30 June 2014	31 December 2013
<u>Authorized, issued and fully paid:</u>		
Ordinary shares	<u>28,000</u>	<u>28,000</u>

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

The reserves of the Bank under Hungarian Accounting Standards ("HAS"):
(The reserves under IFRS are detailed in statement of changes in shareholders' equity.)

	30 June 2014	31 December 2013
Capital reserve	52	52
General reserve	153,935	153,935
Retained earnings	915,268	870,357
Tied-up reserve	<u>9,093</u>	<u>8,287</u>
Total	<u>1,078,348</u>	<u>1,032,631</u>

The legal reserves (general reserve and tied-up reserve) are not available for distribution. Dividend was calculated on the bases of the separate annual net profit according to HAS.

In 2014 the Bank paid dividend of HUF 40,600 million from the profit of the year 2013, which means 145 HUF payable dividends by share to the shareholders.

On 19 October 2006 the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares ("ICES"). Within the transaction 10 million shares owned by OTP Bank and 4.5 million OTP shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP Bank has discretionary right to cancel the payments. The interest payable is non-cumulative.

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

NOTE 21: TREASURY SHARES (in HUF mn)

	30 June 2014	31 December 2013
Nominal value (ordinary shares)	165	140
Carrying value at acquisition cost	7,537	6,731

The changes in the carrying value of treasury shares are due to repurchase and sale transactions on market authorised by the General Assembly.

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NOTE 21: TREASURY SHARES (in HUF mn) [continued]

Change in number of shares:

	30 June 2014	31 December 2013
Number of shares as at 1 January	1,402,369	2,185,337
Additions	4,203,271	4,247,043
Disposals	<u>(3,952,541)</u>	<u>(5,030,011)</u>
Number of shares as at 31 December	<u>1,653,099</u>	<u>1,402,369</u>

Change in carrying value:

	30 June 2014	31 December 2013
Balance as at 1 January	6,731	4,934
Additions	18,278	19,740
Disposals	<u>(17,472)</u>	<u>(17,943)</u>
Closing balance	<u>7,537</u>	<u>6,731</u>

NOTE 22: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES
(in HUF mn)

	30 June 2014	31 December 2013
Provision for impairment on loan losses		
Provision for the period	26,840	83,796
Release of provision	(28,872)	(82,132)
Provision on loan losses	<u>13,258</u>	<u>28,847</u>
	<u>11,226</u>	<u>30,511</u>
Provision / release of provision for impairment on placement losses		
Provision for the period	<u>1</u>	<u>22</u>
	<u>1</u>	<u>22</u>
Provision for impairment on loan and placement losses	<u>11,227</u>	<u>30,533</u>

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NOTE 23: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

	30 June 2014	30 June 2013
Income from fees and commissions:		
Deposit and account maintenance fees and commissions	36,889	27,897
Fees and commissions related to the issued bank cards	12,788	12,107
Fees and commissions related to security trading	11,250	9,328
Fees related to the cash withdrawal	11,152	10,815
Fees and commissions received from OTP Mortgage Bank Ltd.	2,985	2,808
Fees and commissions related to lending	2,840	2,678
Net fee income related to card insurance services and loan agreements	917	854
Other	<u>3,982</u>	<u>3,593</u>
Total	<u>82,803</u>	<u>70,080</u>
	30 June 2014	30 June 2013
Expenses from fees and commissions:		
Fees and commissions related to issued bank cards	3,354	2,958
Interchange fee	1,602	2,852
Fees and commissions related to lending	1,474	1,772
Insurance fees	674	866
Cash withdrawal transaction fees	599	737
Fees and commissions relating to deposits	384	379
Money market transaction fees and commissions	331	269
Fees and commissions related to security trading	310	254
Postal fees	109	268
Other	<u>1,556</u>	<u>1,447</u>
Total	<u>10,393</u>	<u>11,802</u>
Net profit from fees and commissions	<u>72,410</u>	<u>58,278</u>

NOTE 24: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

	30 June 2014	30 June 2013
Other operating income:		
Income from non-financing services	614	528
Gains on transactions related to property activities	34	39
Other	<u>1,082</u>	<u>791</u>
Total	<u>1,730</u>	<u>1,358</u>
	30 June 2014	30 June 2013
Net other operating expenses:		
Provision on contingent liabilities to be expected due to regulations related to consumer loans ¹	190,202	-
Provision for impairment on investments in subsidiaries	90,090	10,454
Financial support for sport association and organization of public utility	5,643	2,527
Provision / (release of provision) for impairment on other assets	2,098	(37)
Provision for off-balance sheet commitments and contingent liabilities	(1,296)	209
Other	<u>2,566</u>	<u>1,491</u>
Total	<u>289,303</u>	<u>14,644</u>

¹ See Note 2.26.

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NOTE 24: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

Other administrative expenses:

	30 June 2014	30 June 2013
Personnel expenses:		
Wages	29,254	30,645
Taxes related to personnel expenses	9,592	9,545
Other personnel expenses	<u>4,264</u>	<u>3,784</u>
Subtotal	<u>43,110</u>	<u>43,974</u>
Depreciation and amortization:	<u>10,903</u>	<u>10,490</u>
Other administrative expenses:		
Taxes, other than income tax ¹	53,973	60,788
Administration expenses, including rental fees	10,666	10,303
Services	9,211	9,510
Professional fees	2,255	1,845
Advertising	<u>2,128</u>	<u>2,479</u>
Subtotal	<u>78,233</u>	<u>84,925</u>
Total	<u>132,246</u>	<u>139,389</u>

NOTE 25: INCOME TAX (in HUF mn)

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

A breakdown of the income tax expense is:

	30 June 2014	31 December 2013
Current tax expense	794	7,802
Deferred tax income	<u>(45,980)</u>	<u>(1,360)</u>
Total	<u>(45,186)</u>	<u>6,442</u>

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

	30 June 2014	31 December 2013
Balance as at 1 January	(9,672)	(11,655)
Deferred tax income	45,980	1,360
Tax effect of fair value adjustment of available-for-sale securities recognized in other comprehensive income and ICES	<u>(6,030)</u>	<u>623</u>
Closing balance	<u>30,278</u>	<u>(9,672)</u>

¹ Based on the amendment of the act on the special tax of financial institutions approved on 22 July 2010, a new special financial institution tax was paid by OTP Bank Plc. The total tax amount for the year 2014 and 2013 was HUF 24 billion recognized as an expense thus decreased the corporate tax base. Based on the 2012 approved regulation financial institutions' obligation to pay this special tax was finalized. In the six month period ended 30 June 2014 financial transaction duty was paid by the Bank in the amount of HUF 21 billion.

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NOTE 25: INCOME TAX (in HUF mn) [continued]

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

	30 June 2014	31 December 2013
Tax accrual caused by negative taxable income	40,955	1,672
Unused tax allowance ¹	5,611	459
Repurchase agreements and security lending	4,439	4,458
Banking tax	2,313	-
Amounts unenforceable by tax law	393	766
Difference in accounting for finance leases	230	285
Escrow account loan	<u>30</u>	<u>-</u>
Deferred tax assets	<u>53,971</u>	<u>7,640</u>
Fair value adjustment of held for trading and available-for-sale securities	(13,557)	(7,322)
Effect of redemption of issued securities	(2,914)	(2,934)
Effect of using effective interest rate method	(2,070)	(1,922)
Difference in depreciation and amortization	(1,968)	(1,968)
Valuation of equity instrument (ICES)	(1,849)	(1,912)
Fair value adjustment of derivative financial instruments	<u>(1,335)</u>	<u>(1,254)</u>
Deferred tax liabilities	<u>(23,693)</u>	<u>(17,312)</u>
Net deferred tax asset / (liability)	<u>30,278</u>	<u>(9,672)</u>

A reconciliation of the income tax expense is as follows:

	30 June 2014	31 December 2013
(Loss) / profit before income tax	(195,481)	54,333
Income tax at statutory tax rate (19%)	(37,141)	10,323

Income tax adjustments due to permanent differences are as follows:

Revaluation of investments denominated in foreign currency to historical cost	3,173	3,215
Share-based payment	391	1,084
Differences in carrying value of subsidiaries	105	3,267
OTP-MOL share swap transaction	(77)	(186)
Accounting of equity instrument (ICES)	(131)	49
Treasury share transaction	(741)	113
Amounts unenforceable by tax law	(5,151)	(766)
Dividend income	(8,084)	(8,984)
Amount removed from statutory general provision to retained earnings	-	5,533
Reversal of statutory general provision	-	1,198
Deferred use of tax allowance ¹	-	(459)
Tax accrual caused by negative taxable income	-	(472)
Use of tax allowance in the current year	-	(9,523)
Other	<u>2,470</u>	<u>2,050</u>
Income tax	<u>(45,186)</u>	<u>6,442</u>
Effective tax rate	23.1%	11.9%

¹ Since 2011 legal regulation has allowed to recognize the financial support for sight-team sport as extraordinary expense and tax allowance in the financial statements in accordance with the HAS. In 2012 the Bank could not apply the tax allowance in the HAS financial statements as tax base was negative. This amount was settled as deferred tax in IFRS financial statements.

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

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

26.1. Credit risk

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimit covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

26.1.1 Analysis by loan types

Classification into risk classes

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

Exposures with small amounts are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are classified into five valuation groups which have been formed based on past due days from which there classes were presented (A: 0-90 days past due - DPD, B: 91-360 DPD, C: over 360 days past due). The three new groups do not match one by one to the earlier used risk classes; the composition of the classes has changed due to the different criteria.

The Bank intends – where enough large number of items and enough long experiences are available – applying models on statistical bases. The impairment is calculated according to the possibility of listing the loan into default categories examined on the base of objective valuation criteria (delay of payment, change of exchange) and the expected recovery from the collecting. If the loss of the exposure can't be modelled reliably, the impairment is determined by expert keys.

When applying the individual evaluation method, the incurred loss of each item is determined based on the consideration of all of the following criteria:

- the credit rating of the customer or the partner: the financial position, stability and income-generating capacity affected by the financial or investment service and issuer of the security, and any changes thereto;
- compliance with the rules of repayment (delay): delays in the repayment of the loan principal and its interests;
- the country risk relating to the customer (both political and transfer risks) and any changes thereto;
- the value of collaterals, their liquidity and accessibility, and any changes therein;
- the transferability and liquidity of the exposures (the market conditions of supply and demand, the available market prices and participation in the shareholders` equity of the issuer in proportion to the investment);
- the future payment obligation recognized as a loss arising from the exposure.

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

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

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

As at 30 June 2014

Loan type	DPD 0-90	DPD 91-360	DPD 360+	Total carrying amount /allowance
Placements with other banks	<u>613,701</u>	-	-	<u>613,701</u>
Total placements with other banks	<u>613,701</u>	-	-	<u>613,701</u>
<i>Allowance on placements with other banks</i>	<i>(23)</i>	<i>-</i>	<i>-</i>	<i>(23)</i>
Consumer loans	300,422	4,306	1,448	306,176
Mortgage and housing loans	95,693	6,655	15,997	118,345
SME loans	110,224	1,268	447	111,939
Loans to medium and large corporates	1,421,319	55,105	63,842	1,540,266
Municipal loans	<u>143,971</u>	<u>129</u>	<u>142</u>	<u>144,242</u>
Gross loan portfolio total	<u>2,071,629</u>	<u>67,463</u>	<u>81,876</u>	<u>2,220,968</u>
<i>Allowance on loans</i>	<i><u>(42,451)</u></i>	<i><u>(49,368)</u></i>	<i><u>(56,662)</u></i>	<i><u>(148,481)</u></i>
Net portfolio total	<u>2,642,856</u>	<u>18,095</u>	<u>25,214</u>	<u>2,686,165</u>
Accrued interest				
Placements with other banks				957
Loans				<u>11,929</u>
Total accrued interest				<u>12,886</u>
Total placements with other banks				614,635
Total loans				<u>2,084,416</u>
Total				<u>2,699,051</u>

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

As at 31 December 2013

Loan type	DPD 0-90	DPD 91-360	DPD 360+	Total carrying amount /allowance
Placements with other banks	<u>630,753</u>	-	-	<u>630,753</u>
Total placements with other banks	<u>630,753</u>	-	-	<u>630,753</u>
<i>Allowance on placements with other banks</i>	<i>(22)</i>	<i>-</i>	<i>-</i>	<i>(22)</i>
Consumer loans	302,826	5,395	1,255	309,476
Mortgage and housing loans	101,622	7,987	13,983	123,592
SME loans	104,381	1,439	452	106,272
Loans to medium and large corporates	1,466,272	10,490	60,893	1,537,655
Municipal loans	<u>206,857</u>	<u>105</u>	<u>915</u>	<u>207,877</u>
Gross loan portfolio total	<u>2,181,958</u>	<u>25,416</u>	<u>77,498</u>	<u>2,284,872</u>
<i>Allowance on loans</i>	<i><u>(83,289)</u></i>	<i><u>(13,210)</u></i>	<i><u>(54,014)</u></i>	<i><u>(150,513)</u></i>
Net portfolio total	<u>2,729,400</u>	<u>12,206</u>	<u>23,484</u>	<u>2,765,090</u>
Accrued interest				
Placements with other banks				2,168
Loans				<u>10,342</u>
Total accrued interest				<u>12,510</u>
Total placements with other banks				632,899
Total loans				<u>2,144,701</u>
Total				<u>2,777,600</u>

The Bank's gross loan portfolio decreased by 2.78% in the six month period ended 30 June 2014. Analysing the contribution of loan types to the loan portfolio, the share of several business lines hardly changed. The ratio of the DPD090⁻ loans compared to the gross loan portfolio increased slightly from 96.74% to 94.73% as at 30 June 2014. The ratio of DPD90⁺ loans in gross loan portfolio is 5.27%.

The Bank has a prudent provisioning policy; the coverage of loans by provision for impairment on DPD90⁺ loans increased from 65.32% to 71% in the six month period ended 30 June 2014.

Not impaired loan portfolio

An analysis of the credit classification of the gross value of the loans that are not impaired, not past due and past due is as follows:

As at 30 June 2014

Loan type	Not past due	DPD 0-90	DPD 91-360	DPD 360+	Total
Placements with other banks	613,677	-	-	-	613,677
Consumer loans	223,354	46,341	3	5	269,703
Mortgage and housing loans	53,719	8,160	1,811	5,745	69,435
SME loans	104,306	1,073	-	-	105,379
Loans to medium and large corporates	1,207,273	869	41	5	1,208,188
Municipal loans	<u>143,972</u>	<u>-</u>	<u>2</u>	<u>33</u>	<u>144,007</u>
Total	<u>2,346,301</u>	<u>56,443</u>	<u>1,857</u>	<u>5,788</u>	<u>2,410,389</u>

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

As at 31 December 2013

Loan type	Not past due	DPD 0-90	DPD 91-360	DPD 360+	Total
Placements with other banks	630,731	-	-	-	630,731
Consumer loans	220,113	49,210	60	11	269,394
Mortgage and housing loans	62,298	10,028	2,097	3,783	78,206
SME loans	98,439	847	21	-	99,307
Loans to medium and large corporates	1,202,456	627	5	100	1,203,188
Municipal loans	<u>164,611</u>	<u>-</u>	<u>14</u>	<u>33</u>	<u>164,658</u>
Total	<u>2,378,648</u>	<u>60,712</u>	<u>2,197</u>	<u>3,927</u>	<u>2,445,484</u>

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 81.58% to 82.77% as at 30 June 2014 compared to 31 December 2013. The loans that are neither past due nor impaired are concentrated in the corporate business line. The ratio of the gross value of the loans past due not impaired compared to the whole portfolio decreased from 2.29% to 2.26%. The loans that are past due but not impaired are concentrated in the retail business line. During collective valuation method the Bank recognizes provision for impairment on loans over a 30 day delay. Those loans which are guaranteed by state and are past due 30 days not impaired due to the state guarantee. The level of corporate loans past due but not impaired is possible because of endorsing collaterals considering during the individual evaluation. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank. Among the past due loans, the share of certain loan types changed insignificantly as at 30 June 2014 compared to 31 December 2013.

Loans individually assessed for provision

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

As at 30 June 2014

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off balance sheet contingent liabilities
Delay of repayment	82,682	61,562	25,559	48	31
Regularity of payment	463	157	181	-	-
Legal proceedings	44,500	37,128	13,232	67	52
Decrease of client classification	91,094	18,842	49,218	12,383	385
Loan characteristics	47,094	5,084	14,041	-	-
Business lines risks	39,528	4,320	5,253	10,950	275
Refinancing of subsidiaries portfolio	-	-	-	124,870	3,765
Cross default	1,963	1,091	1,209	445	59
Other	<u>15,782</u>	<u>2,515</u>	<u>20,715</u>	<u>4,424</u>	<u>175</u>
Corporate total	<u>323,106</u>	<u>130,699</u>	<u>129,408</u>	<u>153,187</u>	<u>4,742</u>
Delay of repayment	93	93	4	-	-
Regularity of payment	-	-	-	-	-
Legal proceedings	4	4	-	59	59
Decrease of client classification	-	-	-	-	-
Cross default	123	61	-	-	-
Other	<u>3</u>	<u>-</u>	<u>-</u>	<u>1,544</u>	<u>15</u>
Municipal total	<u>223</u>	<u>158</u>	<u>4</u>	<u>1,603</u>	<u>74</u>
Placements with other banks	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>323,329</u>	<u>130,857</u>	<u>129,412</u>	<u>154,790</u>	<u>4,816</u>

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

As at 31 December 2013

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off-balance sheet contingent liabilities
Delay of repayment	67,281	55,433	18,675	-	-
Regularity of payment	472	196	222	-	-
Legal proceedings	41,367	33,931	12,611	190	94
Decrease of client classification	96,873	19,359	59,442	8,046	290
Loan characteristics	54,200	7,448	19,775	-	-
Business lines risks	41,479	6,781	4,645	7,014	203
Refinancing of subsidiaries portfolio	-	-	-	124,517	4,040
Cross default	4,118	1,337	2,313	1,372	219
Other	<u>18,075</u>	<u>4,394</u>	<u>15,049</u>	<u>6,205</u>	<u>401</u>
Corporate total	<u>323,865</u>	<u>128,879</u>	<u>132,732</u>	<u>147,344</u>	<u>5,247</u>
Delay of repayment	70	70	-	-	-
Regularity of payment	1,221	12	-	-	-
Legal proceedings	334	334	-	-	-
Decrease of client classification	2,937	129	7	99	1
Cross default	882	124	-	-	-
Other	<u>14,583</u>	<u>456</u>	<u>298</u>	<u>1,044</u>	<u>10</u>
Municipal total	<u>20,027</u>	<u>1,125</u>	<u>305</u>	<u>1,143</u>	<u>11</u>
Placements with other banks	-	-	-	-	-
Total	<u>343,892</u>	<u>130,004</u>	<u>133,037</u>	<u>148,487</u>	<u>5,258</u>

Regarding corporate business line in the individually rated portfolio the ratio of the carrying value of loans classified due to "delay of repayment" increased by 22.89% due as at 30 June 2014 compared to 31 December 2013.

Refinancing of retail loans at the subsidiaries:

The gross value was HUF 124.9 billion as at 30 June 2014, the actual exposure of non-performing, past due loans is HUF 14.3 billion.

Transactions with high level of risk:

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

Business lines risks:

Transactions are classified by using this category name, if the client works in the branch which had been accused by the financial crisis (vehicle industry, building industry, real estate services, metal processing and financial services).

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.1 Analysis by loan types [continued]

Loan portfolio by countries

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

Country	30 June 2014		31 December 2013	
	Gross loan and placement with other banks portfolio	Allowance	Gross loan and placement with other banks portfolio	Allowance
Hungary	1,979,493	92,158	2,044,718	96,890
Belgium	16,953	-	11,418	-
Bulgaria	55,779	740	53,455	730
Croatia	29,137	200	24,831	190
Cyprus	44,767	10,311	46,109	10,381
Egypt	717	502	685	480
France	8,003	-	14,741	-
Germany	21,493	-	23,127	5
Luxembourg	-	-	3	2
Montenegro	65,517	31,802	62,773	30,477
the Netherlands	5,365	-	5,510	-
Norway	-	-	1,205	-
Poland	1,400	-	1,199	-
Romania	227,605	6,408	221,346	6,156
Russia	43,298	2,833	37,023	2,699
Serbia	18,781	-	23,757	1
Seychelles	4,768	3,338	4,624	2,317
Slovakia	44,281	151	37,854	150
Switzerland	2,595	-	1,946	2
Ukraine	220,114	38	242,449	2
United Kingdom	39,373	-	49,186	14
United States of America	1,773	23	2,971	33
Other	3,457 ¹	-	4,695 ¹	6
Total	<u>2,834,669</u>	<u>148,504</u>	<u>2,915,625</u>	<u>150,535</u>

The non-performing loans connected to the OTP Financing Solutions B.V. (The Netherlands) are related to the refinancing of retail loans at the subsidiaries, the actual exposure of non-performing loans is HUF 14.3 billion as at 30 June 2014, from that HUF 3.9 billion is related to non-performing corporate loans and HUF 10.4 billion to retail ones.

¹ Czech Republic, Denmark, Italy, Sweden, Turkey and other

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.2 The total off-balance sheet liabilities connected to the lending activity

	30 June 2014	31 December 2013
Carrying value	1,208,749	1,069,284
<i>Provision</i>	<u>(2,870)</u>	<u>(1,433)</u>
Net value	<u>1,205,879</u>	<u>1,067,851</u>

The off-balance sheet liabilities connected to the lending activity increased by 12.93%.

26.1.3 Collaterals

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

Types of collateral	30 June 2014	31 December 2013
Mortgages	659,005	701,682
Guarantees and warranties	223,400	203,324
Deposit	50,602	54,609
<i>from this:</i> <i>Cash</i>	<i>43,160</i>	<i>48,076</i>
<i>Securities</i>	<i>5,961</i>	<i>5,144</i>
<i>Other</i>	<i>1,481</i>	<i>1,389</i>
Assignment	2,453	3,643
Other	<u>821</u>	<u>815</u>
Total	<u>936,281</u>	<u>964,073</u>

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

Types of collateral	30 June 2014	31 December 2013
Mortgage	278,696	298,493
Guarantees and warranties	130,724	133,005
Deposit	25,040	25,760
<i>from this:</i> <i>Cash</i>	<i>21,288</i>	<i>22,364</i>
<i>Securities</i>	<i>2,646</i>	<i>2,455</i>
<i>Other</i>	<i>1,106</i>	<i>941</i>
Assignment	1,089	1,400
Other	<u>749</u>	<u>638</u>
Total	<u>436,298</u>	<u>459,296</u>

The coverage level of loan portfolio to the extent of the exposures decreased from 15.75% to 15.39% as at 30 June 2014, as well as coverage to the total collateral value diminished slightly from 33.07% to 33.03%.

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.3 Collaterals [continued]

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

An analysis of the fair value of collaterals related to past due, but not impaired loans to total collateral value and to the extent of the exposures as at 30 June 2014 and 31 December 2013 is as follows:

Types of collateral (total collateral value)	30 June 2014	31 December 2013
Mortgage and housing loans	25,966	28,717
Loans to medium and large corporates	843	1,163
SME loans	846	773
Municipal loans	-	64
Consumer loans	<u>690</u>	<u>31</u>
Total	<u>28,345</u>	<u>30,748</u>

Types of collateral (to the extent of the exposures)	30 June 2014	31 December 2013
Mortgage and housing loans	12,658	12,334
SME loans	779	604
Loans to medium and large corporates	302	544
Municipal loans	-	32
Consumer loans	<u>41</u>	<u>29</u>
Total	<u>13,780</u>	<u>13,543</u>

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

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

26.1.4 Restructured loans

	30 June 2014		31 December 2013	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	18,242	2,028	18,895	2,394
Loans to medium and large corporates ¹	97,237	24,009	143,207	56,960
SME loans	3,113	434	4,186	660
Municipality loans	<u>13</u>	<u>-</u>	<u>1,374</u>	<u>21</u>
Total	<u>118,605</u>	<u>26,471</u>	<u>167,662</u>	<u>60,035</u>

Restructured portfolio definition

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

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

Hungarian FX mortgage loans in the fixed exchange rate scheme are not included.

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

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

- independently from the date of the restructuring the following restructuring tool was applied:
 - o cancellation of principal outstanding (cancelled or partially cancelled principal receivables);
- it was restructured in the last 12 months or the loan was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months, and any of the following restructuring tools were applied:
 - o cancellation of interest rate (final or temporary reduction of the interest margin, cancellation of due interest), or
 - o restructuring of interest payments (postponement of the interest payment, capitalisation of the interest), or
 - o restructuring of principal repayment (partial or full postponement of repayment of a given instalment, rescheduling one or more instalments within the original term or with extension of the term simultaneously).

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

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

¹ incl.: project and syndicated loans

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

Financial instruments by rating categories¹

Held-for-trading securities as at 30 June 2014

	A1	A2	A3	Aa3	Ba1	Ba3	Baa1	Baa2	Baa3	Not rated	Total
Shares	16	9	40	12	-	-	21	-	-	61,006 ²	61,104
Securities issued by the NBH	-	-	-	-	-	-	-	99,715	-	-	99,715
Government bonds	-	-	-	-	11,174	-	-	-	-	-	11,174
Mortgage bonds	-	-	-	-	-	114	-	-	110	-	224
Hungarian government discounted Treasury Bills	-	-	-	-	3,010	-	-	-	-	-	3,010
Hungarian government interest bearing Treasury Bills	-	-	-	-	7,054	-	-	-	-	-	7,054
Securities issued by credit institutions	-	-	-	-	75	21	-	-	-	51	147
Other securities	-	-	-	-	-	-	-	-	-	170	170
Total	<u>16</u>	<u>9</u>	<u>40</u>	<u>12</u>	<u>21,313</u>	<u>135</u>	<u>21</u>	<u>99,715</u>	<u>110</u>	<u>61,227</u>	<u>182,598</u>
Accrued interest											437
Total											<u>183,035</u>

Available-for-sale securities as at 30 June 2014

	Ba1	Ba2	Baa2	Baa3	Not rated	Total
Mortgage bonds	-	-	-	816,392 ³	10,973	827,365
Government bonds	169,485	-	-	-	-	169,485
Bonds issued by NBH	-	-	759,119	-	-	795,119
Other securities	-	267	-	-	63,086	63,353
Total	<u>169,485</u>	<u>267</u>	<u>759,119</u>	<u>816,392</u>	<u>74,059</u>	<u>1,855,322</u>
Accrued interest						26,971
Total						<u>1,882,293</u>

¹ Moody's ratings

² Corporate shares listed on Budapest Stock Exchange

³ The whole portfolio was issued by OTP Mortgage Bank Ltd.

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.1. Credit risk [continued]

Held-to-maturity securities as at 30 June 2014

	Ba1	Baa3	Total
Government bonds	644,994	-	644,994
Mortgage bonds	-	4,763	4,763
Hungarian government discounted Treasury bills	<u>347</u>	<u>-</u>	<u>347</u>
Total	<u>645,341</u>	<u>4,763</u>	<u>650,104</u>
Accrued interest			<u>13,942</u>
Total			<u>664,046</u>

An analysis of securities (held for trading, available-for-sale and held-to-maturity) in a country breakdown is as follows:

Country	30 June 2014	31 December 2013
Hungary	2,665,131	2,744,702
Slovakia	10,973	15,077
Austria	6,902	6,408
Luxembourg	4,605	3,792
Russia	267	7,217
Germany	146	138
United States of America	<u>-</u>	<u>13</u>
Total	<u>2,688,024</u>	<u>2,777,347</u>

26.2. Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a Value-at-Risk ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk is detailed in Note 32.)

26.2.1 Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Bank reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are applied to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

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

Historical VaR (99%, one-day) by risk type	Average	
	30 June 2014	30 June 2013
Foreign exchange	176	422
Interest rate	97	483
Equity instruments	10	22
Diversification	<u>(64)</u>	<u>(267)</u>
Total VaR exposure	<u>219</u>	<u>660</u>

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.2. Market risk [continued]

While VaR captures the Bank's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Bank to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 26.2.2 below and, for interest rate risk, in Note 26.2.3 below.

26.2.2. Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to an increase and decrease in the HUF exchange rate against EUR, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was short, amounted to EUR 310 million as of 30 June 2014. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries, and so FX risk affects the Bank's other comprehensive income and not its income. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the P&L in 3 months period	
	30 June 2014 In HUF billion	30 June 2013 In HUF billion
1%	(11.6)	(13.2)
5%	(8.7)	(9.0)
25%	(3.5)	(3.7)
50%	(0.6)	(0.4)
25%	2.3	2.9
5%	6.2	7.3
1%	8.9	10.3

Notes:

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

26.2.3. Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date were outstanding for the whole year. The analysis was prepared by assuming only the adverting 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. HUF base rate decreases gradually to 1.5% (probable scenario)
2. HUF base rate decreases gradually to 1% (alternative scenario)

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.2. Market risk [continued]

The net interest income in a one year period beginning with 1 July 2014 would be decreased by HUF 967 million (probable scenario) and HUF 1,650 million (alternative scenario) as a result of these simulations. This effect is counterbalanced by capital gains (HUF 1,321 million for probable scenario, HUF 2,297 million for alternative scenario) on the government bond portfolio held for hedging.

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

Description	30 June 2014		30 June 2013	
	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(297)	345	(596)	592
EUR (0.1%) parallel shift	52	-	(175)	-
EUR 0.1% parallel shift	(59)	-	251	-
USD 0.1% parallel shift	<u>(203)</u>	<u>-</u>	<u>(20)</u>	<u>-</u>
Total	<u>(507)</u>	<u>345</u>	<u>(540)</u>	<u>592</u>

26.2.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Bank uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

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

Description	30 June 2014	30 June 2013
VaR (99%, one day, million HUF)	10	22
Stress test (million HUF)	(53)	(77)

26.2.5. Capital management

Capital management

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

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

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

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

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NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

26.2. Market risk [continued]

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) which transposes the new global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The new rules will be applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework will make institutions in the EU more solid and will strengthen their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business. The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with HAS applying the current directives, rulings and indicators from 1 January 2014.

The Bank has entirely complied with the regulatory capital requirements in six month period ended 30 June 2014 as well as in 2013.

The capital adequacy calculations of the Bank in accordance with HAS are prepared based on the Basel II for the year ended 31 December 2013 and based on Basel III as at 30 June 2014 due to modification of the regulation. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA) is applied since 31 December 2012.

The calculation of the Capital Adequacy ratio as at 30 June 2014 and 31 December 2013 is as follows:

	30 June 2014		31 December 2013
	Basel III		Basel II
Tier 1 capital	486,132	Core capital	994,715
<i>Common equity Tier 1 capital (CET1)</i>	<i>486,132</i>	Supplementary capital	215,902
<i>Additional Tier 1 capital (AT1)</i>	<i>-</i>	Deductions	(460,870)
Tier 2 capital	141,549	<i>Deductions due to PIBB¹ investments</i>	<i>(413,220)</i>
		<i>Deductions due to limit breaches</i>	<i><u>(47,650)</u></i>
Regulatory capital	<u>627,681</u>	Regulatory capital	<u>749,747</u>
Credit risk capital requirement	215,468	Credit risk capital requirement	201,729
Market risk capital requirement	34,558	Market risk capital requirement	32,942
Operational risk capital requirement	<u>24,888</u>	Operational risk capital requirement	<u>25,972</u>
Total requirement regulatory capital	<u>274,913</u>	Total requirement regulatory capital	<u>260,643</u>
Surplus capital	<u>352,768</u>	Surplus capital	<u>489,104</u>
CET 1 ratio	14.15%	Tier 1 ratio	23.01%
Capital adequacy ratio	<u>18.3%</u>	Capital adequacy ratio	<u>23%</u>

Basel II: The positive components of the Core capital are: Issued capital, Capital reserve, Tied-up reserve, General reserve, Profit reserve, Profit for the year, General risk reserve.

The negative components of the Core capital are: Treasury shares, Intangible assets.

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

Deductions: PIBB investments, limit breaches.

Basel III: Common equity Tier 1 capital (CET1): Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due to investments, adjustments due to temporary disposals

Tier 2 capital: Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals

¹ PIBB: Financial Institutions, Investing Entreprises, Insurance Companies

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 27: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS
(in HUF mn)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities and commitments

	30 June 2014	31 December 2013
Commitments to extend credit	755,768	650,300
Guarantees arising from banking activities	452,981	420,166
<i>from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank</i>	<i>171,563</i>	<i>115,328</i>
Contingent liabilities ordered by law related to consumer loans ¹	210,415	-
Promissory obligation to OTP Financing Solutions B.V.	124,870	124,517
Legal disputes (disputed value)	53,627	49,944
Confirmed letters of credit	83	470
Other	<u>33,190</u>	<u>26,995</u>
Total	<u>1,630,934</u>	<u>1,272,392</u>

Legal disputes

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

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

Provision due to legal disputes was HUF 1,252 million and HUF 554 million as at 30 June 2014 and 31 December 2013, respectively. (See Note 17.)

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

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

Commitments to extend credit, guarantees and letter of credit

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

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

¹ See Note 2.26.

OTP BANK PLC.
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NOTE 27: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS
(in HUF mn) [continued]

Commitments to extend credit, guarantees and letter of credit [continued]

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

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

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount and until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank. A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

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

Contingent liabilities related to OTP Mortgage Bank Ltd.

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank had guaranteed, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. The repurchase guarantee contract of non-performing loans between OTP Mortgage Bank Ltd. and OTP Bank Plc. was modified in 2010. According to the new arrangement the repurchase guarantee was cancelled and OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

Derivatives

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

Foreign currency contracts

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

Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge the exchange rate fluctuations of loans and deposits denominated in foreign currency.

OTP BANK PLC.
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NOTE 27: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Derivatives [continued]

Foreign exchange swaps and interest rate swaps

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

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

Foreign exchange options

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

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NOTE 28: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises.

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

OTP Bank ensures the share-based payment part for the management personnel of OTP group members.

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

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

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

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

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

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

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NOTE 28: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT [continued]

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

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

Based on parameters accepted by Board of Directors, relating to the year **2010** effective pieces are follows as at 30 June 2014:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2014
Share-purchasing period started in 2012	-	735,722	735,722
Share-purchasing period started in 2013	387,690	419,479	31,789
Share-purchasing period started in 2014	497,451	497,451	-

Effective pieces are follows in exercise periods of each year relating to the year **2011** as at 30 June 2014:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2014
Share-purchasing period started in 2012	-	471,240	471,240
Share-purchasing period started in 2013	13,082	1,264,173	1,251,091
Share-purchasing period started in 2014	287,881	609,137	321,256
Share-purchasing period starting in 2015	724,886	-	-

Effective pieces are follows in exercise periods of each year relating to the year **2012** as at 30 June 2014:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2014
Share-purchasing period started in 2013	177,162	450,861	273,699
Share-purchasing period started in 2014	795,215	1,152,976	357,761
Share-purchasing period starting in 2015	649,653	-	-
Share-purchasing period starting in 2016	688,990	-	-

Effective pieces are follows in exercise periods of each year relating to the year **2013** as at 30 June 2014:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2014
Share-purchasing period started in 2014	174,315	406,078	231,763
Share-purchasing period starting in 2015	843,340	-	-
Share-purchasing period starting in 2016	495,340	-	-
Share-purchasing period starting in 2017	549,909	-	-

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

In connection with shares as a part of the Bank Group Policy on Payments modified by 7/2013 resolution of Annual General Meeting and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 2,059 million was recognized as expense as at 30 June 2014.

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NOTE 29: RELATED PARTY TRANSACTIONS

The Bank provides loans to related parties, and collects deposits.

Transactions with related parties, other than increases in share capital or dividend received, are summarized below:

a) Loans provided to related parties

	30 June 2014	31 December 2013
OTP Mortgage Bank Ltd.	240,200	237,163
OTP Holding Ltd./ OTP Financing Cyprus Co. Ltd. (Cyprus)	202,961	215,101
OTP Factoring Ltd.	172,101	165,310
Merkantil Bank Ltd.	168,637	176,993
OTP Financing Solutions B.V. (the Netherlands)	124,834	124,478
OTP Financing Netherlands B.V. (the Netherlands)	106,917	100,714
OTP Real Estate Leasing Ltd.	27,223	25,706
OTP Leasing d.d. (Croatia)	24,910	20,914
OAo OTP Bank (Russia)	22,853	14,735
OTP Banka Slovensko a.s. (Slovakia)	17,103	-
DSK Leasing AD (Bulgaria)	17,060	15,142
OTP Leasing Ukraine	15,964	15,256
Merkantil Lease Ltd.	14,678	16,625
OTP Factoring Slovensko a.s. (Slovakia)	10,349	-
Inga Kettő Ltd.	10,281	19,281
Bank Center Ltd.	6,000	10,000
OTP banka Hrvatska Group (Croatia)	3,659	3,504
Merkantil Car Ltd.	2,908	8,721
D-ÉG Thermoset Ltd.	2,906	2,925
Other	<u>1,734</u>	<u>7,115</u>
Total	<u>1,193,278</u>	<u>1,179,683</u>

b) Deposits from related parties

	30 June 2014	31 December 2013
DSK Bank EAD (Bulgaria)	106,333	127,443
OTP Mortgage Bank Ltd.	71,248	62,335
OTP Funds Servicing and Consulting Ltd.	33,473	25,094
OAo OTP Bank (Russia)	17,999	51,894
Crnogorska komercijalna banka a.d (Montenegro)	14,903	11,894
OTP Building Society Ltd.	14,699	29,333
Merkantil Bank Ltd.	11,560	11,386
OTP Factoring Ltd.	7,271	5,598
Bank Center Ltd.	4,168	4,014
OTP banka Hrvatska d.d. (Croatia)	3,810	1,793
OTP Life Annuity Ltd.	3,270	-
OTP banka Srbija a.d. (Serbia)	3,245	626
Banco Popolare d.d. (member of OTP banka Hrvatska d.d. group)	2,636	-
OTP Banka Slovensko a.s. (Slovakia)	2,448	3,833
Balansz Real Estate Institute Fund	1,628	1,930
OTP Financing Netherlands B. V. (the Netherlands)	1,398	1,724
OTP Bank Romania S.A. (Romania)	207	7,840
Other	<u>4,007</u>	<u>3,053</u>
Total	<u>304,303</u>	<u>349,790</u>

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NOTE 29: RELATED PARTY TRANSACTIONS [continued]

c) Interests received by the Bank¹

	30 June 2014	30 June 2013
OTP Holding Ltd. (Cyprus)	4,621	4,854
OTP Mortgage Bank Ltd.	2,994	5,314
OTP Financing Solutions B.V. (the Netherlands)	2,847	2,880
Merkantil Bank Ltd.	2,632	2,530
OTP Factoring Ltd.	2,140	2,586
OTP Financing Netherlands B.V. (the Netherlands)	1,141	3,788
OAQ OTP Bank (Russia)	756	1,212
OTP Leasing Ukraine	447	-
Merkantil Lease Ltd.	406	627
Inga Kettő Ltd.	256	-
OTP Leasing d.d. (Croatia)	255	338
OTP Real Estate Leasing Ltd.	214	250
DSK Leasing AD (Bulgaria)	178	307
OTP banka Slovensko a.s. (Slovakia)	163	-
OTP Faktoring Slovensko a.s. (Slovakia)	156	-
Bank Center Ltd.	148	-
OTP banka Hrvatska Group (Croatia)	94	-
D-ÉG Thermoset Ltd.	79	-
Merkantil Car Ltd.	69	181
Other	<u>431</u>	<u>394</u>
Total	<u>20,027</u>	<u>25,261</u>

d) Interests paid by the Bank¹

	30 June 2014	30 June 2013
DSK Bank EAD (Bulgaria)	1,115	1,273
OTP Mortgage Bank Ltd.	763	414
Merkantil Lease Ltd.	668	883
OTP Funds Servicing and Consulting Ltd.	417	802
OTP Building Society Ltd.	316	504
OAQ OTP Bank (Russia)	253	1,310
OTP Faktoring Slovensko a.s. (Slovakia)	156	-
Crnogorska komercijalna banka a.d (Montenegro)	129	1,562
OTP Bank Romania S.A. (Romania)	94	438
OTP Life Annuity Ltd.	56	-
Bank Center Ltd.	50	-
Merkantil Bank Ltd.	48	97
OTP Factoring Ltd.	41	-
OTP Banka Slovensko a.s. (Slovakia)	29	88
OTP banka Srbija a.d. (Serbia)	12	69
Balansz Real Estate Institute Fund	-	103
OTP Real Estate Leasing Ltd.	-	74
Other	<u>5</u>	<u>70</u>
Total	<u>4,152</u>	<u>7,687</u>

¹ Derivatives and interest on securities are not included.

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NOTE 29: RELATED PARTY TRANSACTIONS [continued]

e) Commissions received by the Bank

	30 June 2014	30 June 2013
From OTP Fund Management Ltd. in relation to trading activity	4,821	3,809
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	1,453	1,095
From OTP Bank JSC (Ukraine) in relation to lending activity	686	198
From OTP Fund Management Ltd. in relation to custody activity	<u>177</u>	<u>230</u>
Total	<u>7,137</u>	<u>5,332</u>

f) Commissions paid by the Bank

	30 June 2014	30 June 2013
OTP Bank Romania S.A. (Romania) related to loan portfolio handling	124	142
Crnogorska komercijalna banka a.d. (Montenegro) related to loan portfolio handling	<u>63</u>	<u>86</u>
Total	<u>187</u>	<u>228</u>

g) Transactions related to OTP Mortgage Bank Ltd.:

	30 June 2014	30 June 2013
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	3,022	2,605
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	675	860
The gross book value of the loans sold	675	859

h) Transactions related to OTP Factoring Ltd.:

	30 June 2014	30 June 2013
The gross book value of the loans	17,040	21,055
Provision for loan losses on the loans sold	8,823	9,806
Loans sold to OTP Factoring Ltd. without recourse (including interest)	4,894	7,307
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	3,323	3,942

The underlying mortgage rights were also transferred to OTP Factoring Ltd.

i) Transactions related OTP Banka Slovensko a.s. (Slovakia)

	30 June 2014	30 June 2013
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	10,859	14,758

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 29: RELATED PARTY TRANSACTIONS [continued]

j) Related party transactions with key management

The compensation of key management, such as the members of the Board of Directors, the members of the Supervisory Board and the employees involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

Compensations	30 June 2014	31 December 2013
Short-term employee benefits	3,606	4,658
Share-based payment	1,264	3,297
Long-term employee benefits (on the basis of IAS 19)	<u>241</u>	<u>701</u>
Total	<u>5,111</u>	<u>8,656</u>

	30 June 2014	31 December 2013
Loans provided to companies owned by the Management (in the normal course of business)	39,700	38,538
Commitments to extend credit and bank guarantees	736	1,030
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	136	131

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned credit line "A" in the amount of HUF 137.8 and 133.3 million as at 30 June 2014 and 31 December 2013.

An analysis of credit limit related to MasterCard Gold is as follows (in HUF mn):

	30 June 2014	31 December 2013
Members of Board of Directors and their close family members	18	18
Members of Supervisory Board	4	4
Chief executive	2	-

The family member of a member of the Board of Directors owned AMEX Blue credit card loan in the amount of HUF 0.6 million as at 30 June 2014 as well as 31 December 2013.

Chief executive owned AMEX Gold loading card loan in the amount of HUF 3.5 million as at 30 June 2014 as well as 31 December 2013.

Member of Board of Directors, members of Supervisory Board and chief executives with their close family members owned AMEX Platinum credit card loan in the amount of HUF 57 and 10.5 million, respectively as at 30 June 2014 and 31 December 2013.

An analysis of payment to chief executives related to their activity in Board of Directors and Supervisory Board is as follows (in HUF mn):

	30 June 2014	31 December 2013
Members of Board of Directors	403	545
Members of Supervisory Board	<u>36</u>	<u>71</u>
Total	<u>439</u>	<u>616</u>

In the normal course of business, OTP Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these financial statements taken as a whole.

OTP BANK PLC.
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NOTE 30: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying separate statement of financial position.

	30 June 2014	31 December 2013
Loans managed by the Bank as a trustee	40,548	42,280

NOTE 31: CONCENTRATION OF ASSETS AND LIABILITIES

	30 June 2014	31 December 2013
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	29%	30%
Securities issued by the OTP Mortgage Bank Ltd.	12.62%	11.68%

There were no other significant concentrations of the assets or liabilities of the Bank as at 30 June 2014 or 31 December 2013.

OTP Bank continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards OTP Bank.

Further to this obligatory reporting to the Authority, OTP Bank pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

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

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 32: MATURITY ANALYSIS LIABILITIES AND LIQUIDITY RISK
(in HUF mn)

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is in all-time record highs. In 2013 there were no material changes in liquidity risk management process.

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

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

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

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 32: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK
(in HUF mn) [continued]

As at 30 June 2014	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	470,930	90,356	83,749	21,021	-	666,056
Deposits from customers	3,503,782	222,072	12,456	13,046	-	3,751,356
Liabilities from issued securities	28,335	45,000	28,137	58,590	-	160,062
Other liabilities ¹	393,812	7,165	483	-	-	401,460
Subordinated bonds and loans	<u>12,292</u>	<u>-</u>	<u>184,082</u>	<u>-</u>	<u>120,908</u> ²	<u>317,282</u>
TOTAL LIABILITIES	<u>4,409,151</u>	<u>364,593</u>	<u>308,907</u>	<u>92,657</u>	<u>120,908</u>	<u>5,296,216</u>
Receivables from derivative financial instruments classified as held for trading	737,920	946,621	772,920	6,592	-	2,464,053
Liabilities from derivative financial instruments classified as held for trading	<u>(755,342)</u>	<u>(1,017,768)</u>	<u>(871,590)</u>	<u>(21,251)</u>	<u>-</u>	<u>(2,665,951)</u>
Net notional value of financial instruments classified as held for trading	<u>(17,422)</u>	<u>(71,147)</u>	<u>(98,670)</u>	<u>(14,659)</u>	<u>-</u>	<u>(201,898)</u>
Receivables from derivative financial instruments designated as fair value hedge	2	7	2,390	-	-	2,399
Liabilities from derivative financial instruments designated as fair value hedge	<u>(3)</u>	<u>(8)</u>	<u>(3,421)</u>	<u>-</u>	<u>-</u>	<u>(3,432)</u>
Net notional value of financial instruments designated as fair value hedge	<u>(1)</u>	<u>(1)</u>	<u>(1,031)</u>	<u>-</u>	<u>-</u>	<u>(1,033)</u>
Net notional value of derivative financial instruments total	<u>(17,423)</u>	<u>(71,148)</u>	<u>(99,701)</u>	<u>(14,659)</u>	<u>-</u>	<u>(202,931)</u>
Commitments to extend credit	140,984	531,663	81,711	1,410	-	755,768
Bank guarantees	<u>57,270</u>	<u>65,945</u>	<u>147,079</u>	<u>182,687</u>	<u>-</u>	<u>452,981</u>
Off-balance sheet commitments	<u>198,254</u>	<u>597,608</u>	<u>228,790</u>	<u>184,097</u>	<u>-</u>	<u>1,208,749</u>

¹ Derivative financial instruments designated as fair value hedge are not included.

² See Note 18.

OTP BANK PLC.
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2014 (UNAUDITED)

NOTE 32: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK
(in HUF mn) [continued]

As at 31 December 2013	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	674,084	42,185	146,937	48,804	-	912,010
Deposits from customers	3,427,471	224,959	21,461	10,870	-	3,684,761
Liabilities from issued securities	20,423	48,476	79,890	26,357	-	175,146
Other liabilities ¹	234,546	145	-	-	-	234,691
Subordinated bonds and loans	<u>3,424</u>	<u>-</u>	<u>187,091</u>	<u>-</u>	<u>104,842²</u>	<u>295,357</u>
TOTAL LIABILITIES	<u>4,359,948</u>	<u>315,765</u>	<u>435,379</u>	<u>86,031</u>	<u>104,842</u>	<u>5,301,965</u>
Receivables from derivative financial instruments classified as held for trading	1,106,691	418,829	1,078,210	14,337	-	2,618,067
Liabilities from derivative financial instruments classified as held for trading	<u>(1,148,354)</u>	<u>(452,579)</u>	<u>(1,200,157)</u>	<u>(31,459)</u>	<u>-</u>	<u>(2,832,549)</u>
Net notional value of financial instruments classified as held for trading	<u>(41,663)</u>	<u>(33,750)</u>	<u>(121,947)</u>	<u>(17,122)</u>	<u>-</u>	<u>(214,482)</u>
Receivables from derivative financial instruments designated as fair value hedge	1	19	2,680	3,942	-	6,642
Liabilities from derivative financial instruments designated as fair value hedge	<u>(1)</u>	<u>(24)</u>	<u>(3,355)</u>	<u>(2,579)</u>	<u>-</u>	<u>(5,959)</u>
Net notional value of financial instruments designated as fair value hedge	<u>-</u>	<u>(5)</u>	<u>(675)</u>	<u>1,363</u>	<u>-</u>	<u>683</u>
Net notional value of derivative financial instruments total	<u>(41,663)</u>	<u>(33,755)</u>	<u>(122,622)</u>	<u>(15,759)</u>	<u>-</u>	<u>(213,799)</u>
Commitments to extend credit	72,976	410,673	115,809	50,842	-	650,300
Bank guarantees	<u>26,657</u>	<u>56,408</u>	<u>134,827</u>	<u>202,274</u>	<u>-</u>	<u>420,166</u>
Off-balance sheet commitments	<u>99,633</u>	<u>467,081</u>	<u>250,636</u>	<u>253,116</u>	<u>-</u>	<u>1,070,466</u>

¹ Derivative financial instruments designated as fair value hedge are not included.

² See Note 18.

OTP BANK PLC.
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NOTE 33: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK
(in HUF mn)

As at 30 June 2014

	USD	EUR	CHF	Others	Total
Assets ¹	277,295	1,269,191	463,863	67,913	2,078,262
Liabilities	(224,621)	(1,305,675)	(75,964)	(34,086)	(1,640,346)
Off-balance sheet assets and liabilities, net	<u>(8,098)</u>	<u>(140,894)</u>	<u>(393,848)</u>	<u>(34,333)</u>	<u>(577,173)</u>
Net position	<u>44,576</u>	<u>(177,378)</u>	<u>(5,949)</u>	<u>(506)</u>	<u>(139,257)</u>

As at 31 December 2013

	USD	EUR	CHF	Others	Total
Assets ¹	293,385	1,219,825	527,580	76,540	2,117,330
Liabilities	(279,143)	(1,043,770)	(117,690)	(36,259)	(1,476,862)
Off-balance sheet assets and liabilities, net	<u>49,057</u>	<u>(391,718)</u>	<u>(409,898)</u>	<u>(38,855)</u>	<u>(791,414)</u>
Net position	<u>63,299</u>	<u>(215,663)</u>	<u>(8)</u>	<u>1,426</u>	<u>(150,946)</u>

The table above provides an analysis of the Bank's main foreign currency exposures. The remaining foreign currencies are shown within 'Others'. Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

NOTE 34: INTEREST RATE RISK MANAGEMENT

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.

¹ The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

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NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 30 June 2014	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	50,387	18,354	-	-	-	-	-	-	-	-	74,631	8,381	125,018	26,735	151,753
<i>fixed interest</i>	50,387	18,354	-	-	-	-	-	-	-	-	-	-	50,387	18,354	68,741
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	74,631	8,381	74,631	8,381	83,012
Placements with other banks	265,800	149,750	5,000	135,894	35,000	21,466	-	768	-	-	558	399	306,358	308,277	614,635
<i>fixed interest</i>	50,420	146,671	-	3,650	35,000	21,466	-	768	-	-	-	-	85,420	172,555	257,975
<i>variable interest</i>	215,380	3,079	5,000	132,244	-	-	-	-	-	-	-	-	220,380	135,323	355,703
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	558	399	558	399	957
Securities held for trading	102,793	253	3,183	-	4,746	636	258	31	7,710	1,861	61,361	203	180,051	2,984	183,035
<i>fixed interest</i>	102,793	253	2,643	-	4,697	69	258	31	7,710	1,861	-	-	118,101	2,214	120,315
<i>variable interest</i>	-	-	540	-	49	567	-	-	-	-	-	-	589	567	1,156
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	61,361	203	61,361	203	61,564
Securities available-for-sale	795,119	172,695	-	224,205	80,313	4,019	164,067	21,450	327,056	35,606	46,559	11,204	1,413,114	469,179	1,882,293
<i>fixed interest</i>	795,119	21,884	-	-	80,313	4,019	164,067	21,450	327,056	35,606	-	-	1,366,555	82,959	1,449,514
<i>variable interest</i>	-	150,811	-	224,205	-	-	-	-	-	-	-	-	-	375,016	375,016
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	46,559	11,204	46,559	11,204	57,763
Loans, net of allowance for loan losses	610,730	389,171	124,586	788,437	24,593	19,627	16,394	32,267	53,977	12,705	5,209	6,720	835,489	1,248,927	2,084,416
<i>fixed interest</i>	991	361	2,986	5,490	21,521	7,320	16,394	32,267	53,977	9,514	-	-	95,869	54,952	150,821
<i>variable interest</i>	609,739	388,810	121,600	782,947	3,072	12,307	-	-	-	3,191	-	-	734,411	1,187,255	1,921,666
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	5,209	6,720	5,209	6,720	11,929
Securities held-to-maturity	-	-	8,346	-	57,540	-	12,551	-	571,667	-	13,942	-	664,046	-	664,046
<i>fixed interest</i>	-	-	-	-	57,540	-	12,551	-	571,667	-	-	-	641,758	-	641,758
<i>variable interest</i>	-	-	8,346	-	-	-	-	-	-	-	-	-	8,346	-	8,346
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	13,942	-	13,942	-	13,942
Derivative financial instruments	542,006	1,179,467	622,211	1,137,271	80,039	713,692	7,145	29,533	34,273	56,251	-	811	1,285,674	3,117,025	4,402,699
<i>fixed interest</i>	188,410	776,610	149,207	342,740	79,101	713,692	7,145	29,533	34,273	56,251	-	-	458,136	1,918,826	2,376,962
<i>variable interest</i>	353,596	402,857	473,004	794,531	938	-	-	-	-	-	-	-	827,538	1,197,388	2,024,926
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	811	-	811	811

OTP BANK PLC.
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NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 30 June 2014	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	168,995	348,259	10,829	30,420	10,798	2,955	3,554	6,082	66,661	6,193	317	634	261,154	394,543	655,697
<i>fixed interest</i>	143,976	317,946	10,601	13,828	10,798	2,914	3,554	6,082	66,661	6,193	-	-	235,590	346,963	582,553
<i>variable interest</i>	25,019	30,313	228	16,592	-	41	-	-	-	-	-	-	25,247	46,946	72,193
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	317	634	317	634	951
Deposits from customers	1,452,057	321,672	463,558	263,410	109,536	41,252	11,648	-	929,211	147,625	4,941	1,007	2,970,951	774,966	3,745,917
<i>fixed interest</i>	1,057,709	306,832	454,034	263,314	109,536	41,252	11,648	-	5,200	-	-	-	1,638,127	611,398	2,249,525
<i>variable interest</i>	394,348	14,840	9,524	96	-	-	-	-	924,011	147,625	-	-	1,327,883	162,561	1,490,444
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	4,941	1,007	4,941	1,007	5,948
Liabilities from issued securities	6	2,568	1,242	16,067	19,405	23,949	7,491	5,312	87,923	819	413	-	116,480	48,715	165,195
<i>fixed interest</i>	6	2,568	1,242	16,067	19,405	23,949	7,491	5,312	87,923	819	-	-	116,067	48,715	164,782
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	413	-	413	-	413
Derivative financial instruments	363,280	1,367,339	219,033	1,516,615	180,658	727,419	7,569	30,399	23,101	55,945	4	2,131	793,645	3,699,848	4,493,493
<i>fixed interest</i>	360,254	604,037	219,033	269,724	180,374	727,419	7,569	30,399	23,101	55,945	-	-	790,331	1,687,524	2,477,855
<i>variable interest</i>	3,026	763,302	-	1,246,891	284	-	-	-	-	-	-	-	3,310	2,010,193	2,013,503
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	4	2,131	4	2,131	2,135
Subordinated bonds and loans	-	-	-	28,659	-	-	-	-	-	259,444	-	12,292	-	300,395	300,395
<i>fixed interest</i>	-	-	-	-	-	-	-	-	-	259,444	-	-	-	259,444	259,444
<i>variable interest</i>	-	-	-	28,659	-	-	-	-	-	-	-	-	-	28,659	28,659
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	12,292	-	12,292	12,292
NET POSITION	382,497	(130,148)	68,664	430,636	(38,166)	(36,135)	170,153	42,256	(112,213)	(363,603)	196,585	11,654	667,520	(45,340)	622,180

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NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 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	48,235	19,529	-	-	-	-	-	-	-	-	67,534	5,223	115,769	24,752	140,521
<i>fixed interest</i>	48,235	19,529	-	-	-	-	-	-	-	-	-	-	48,235	19,529	67,764
<i>variable interest</i>	-	-	-	-	-	-	-	-	-	-	67,534	5,223	67,534	5,223	72,757
Placements with other banks	222,029	182,597	6,910	150,096	680	32,646	35,000	773	-	-	1,532	636	266,151	366,748	632,899
<i>fixed interest</i>	36,049	182,597	1,910	1,960	680	32,646	35,000	773	-	-	-	-	73,639	217,976	291,615
<i>variable interest</i>	185,980	-	5,000	148,136	-	-	-	-	-	-	-	-	190,980	148,136	339,116
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	1,532	636	1,532	636	2,168
Securities held for trading	211,318	81	2,344	-	4,658	436	638	34	3,607	345	73,215	172	295,780	1,068	296,848
<i>fixed interest</i>	211,318	81	2,344	-	4,513	225	638	34	3,607	345	-	-	222,420	685	223,105
<i>variable interest</i>	-	-	-	-	145	211	-	-	-	-	-	-	145	211	356
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	73,215	172	73,215	172	73,387
Securities available-for-sale	1,021,825	150,238	-	217,824	-	21,994	80,925	30,711	382,525	32,802	48,852	9,795	1,534,127	463,364	1,997,491
<i>fixed interest</i>	1,021,825	9,397	-	-	-	21,994	80,925	30,711	382,525	32,802	-	-	1,485,275	94,904	1,580,179
<i>variable interest</i>	-	140,841	-	217,824	-	-	-	-	-	-	-	-	-	358,665	358,665
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	48,852	9,795	48,852	9,795	58,647
Loans, net of allowance for loan losses	670,550	423,095	169,397	671,680	13,680	103,065	8,303	30,396	32,702	11,491	4,879	5,463	899,511	1,245,190	2,144,701
<i>fixed interest</i>	430	69	1,268	14,943	6,907	11,196	8,303	30,396	32,702	8,748	-	-	49,610	65,352	114,962
<i>variable interest</i>	670,120	423,026	168,129	656,737	6,773	91,869	-	-	-	2,743	-	-	845,022	1,174,375	2,019,397
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	4,879	5,463	4,879	5,463	10,342
Securities held-to-maturity	-	-	10,014	-	5,368	-	57,681	-	438,856	-	13,130	-	525,049	-	525,049
<i>fixed interest</i>	-	-	-	-	341	-	57,681	-	438,856	-	-	-	496,878	-	496,878
<i>variable interest</i>	-	-	10,014	-	5,027	-	-	-	-	-	-	-	15,041	-	15,041
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	13,130	-	13,130	-	13,130
Derivative financial instruments	612,614	1,368,827	600,760	1,124,073	74,466	105,302	12,228	28,316	30,284	22,587	-	660	1,330,352	2,649,765	3,980,117
<i>fixed interest</i>	259,204	791,521	30,759	190,769	50,842	102,317	12,149	28,316	30,284	22,587	-	-	383,238	1,135,510	1,518,748
<i>variable interest</i>	353,410	577,306	570,001	933,304	23,624	2,985	79	-	-	-	-	-	947,114	1,513,595	2,460,709
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	660	-	660	660

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NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 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
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	376,793	308,524	10,417	59,271	69,975	3,028	798	5,669	61,496	5,410	618	745	520,097	382,647	902,744
<i>fixed interest</i>	365,718	260,785	6,658	23,225	1,041	2,969	798	5,669	61,496	5,410	-	-	435,711	298,058	733,769
<i>variable interest</i>	11,075	47,739	3,759	36,046	68,934	59	-	-	-	-	-	-	83,768	83,844	167,612
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	618	745	618	745	1,363
Deposits from customers	1,499,986	293,191	463,072	180,222	156,755	53,170	4,284	-	886,786	133,583	5,406	995	3,016,289	661,161	3,677,450
<i>fixed interest</i>	1,129,330	288,725	440,204	180,222	156,755	53,170	4,284	-	2,667	-	-	-	1,733,240	522,117	2,255,357
<i>variable interest</i>	370,656	4,466	22,868	-	-	-	-	-	884,119	133,583	-	-	1,277,643	138,049	1,415,692
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	5,406	995	5,406	995	6,401
Liabilities from issued securities	6,674	1,872	4,245	4,407	20,739	26,663	18,079	7,046	79,298	1,246	495	15	129,530	41,249	170,779
<i>fixed interest</i>	6,436	1,872	4,245	4,407	20,739	26,663	18,079	7,046	79,298	1,246	-	-	128,797	41,234	170,031
<i>variable interest</i>	238	-	-	-	-	-	-	-	-	-	-	-	238	-	238
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	495	15	495	15	510
Derivative financial instruments	423,640	1,575,964	64,868	1,635,778	44,510	132,077	126,788	28,595	22,221	22,757	-	624	682,027	3,395,795	4,077,822
<i>fixed interest</i>	423,111	629,717	63,836	155,154	40,519	109,502	126,788	28,595	22,221	22,757	-	-	676,475	945,725	1,622,200
<i>variable interest</i>	529	946,247	1,032	1,480,624	3,991	22,575	-	-	-	-	-	-	5,552	2,449,446	2,454,998
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	624	-	624	624
Subordinated bonds and loans	-	-	-	27,746	-	-	-	-	-	247,071	-	3,424	-	278,241	278,241
<i>fixed interest</i>	-	-	-	-	-	-	-	-	-	247,071	-	-	-	247,071	247,071
<i>variable interest</i>	-	-	-	27,746	-	-	-	-	-	-	-	-	-	27,746	27,746
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	3,424	-	3,424	3,424
NET POSITION	479,478	(35,184)	246,823	256,249	(193,127)	48,505	44,826	48,920	(161,827)	(342,842)	202,623	16,146	618,796	(8,206)	610,590

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NOTE 35: EARNINGS PER SHARE

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

	30 June 2014	31 December 2013
Net (loss) / profit for the year attributable to ordinary shareholders (in HUF mn)	(150,295)	47,891
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	278,337,959	278,235,026
Basic Earnings per share (in HUF)	<u>(540)</u>	<u>172</u>
Separate net profit for the year attributable to ordinary shareholders (in HUF mn)	(150,295)	47,891
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	278,533,339	278,468,896
Diluted Earnings per share (in HUF)	<u>(540)</u>	<u>172</u>
	30 June 2014	31 December 2013
	number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(1,662,051)	(1,764,984)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	278,337,959	278,235,026
Dilutive effect of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares ¹	195,380	233,870
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	278,533,339	278,468,896

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

¹ In 2013 dilutive effect is in connection with the Remuneration Policy.

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 36: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS
(in HUF mn)

As at 30 June 2014	Net interest income and expense	Net non- interest gain and loss	Provision for impairment	Other comprehensi ve income
Cash, amounts due from banks and balances with the National Bank of Hungary	1,257	-	-	-
Placements with other banks, net of allowance for placement losses	7,992	-	(1)	-
Securities held for trading	-	367	-	-
Securities available-for-sale	40,103	2,561	-	64,599
Loans, net of allowance for loan losses	80,776	4,351	2,022	-
Securities held-to-maturity	17,442	-	-	-
Derivative financial instruments	3,726	374	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(6,938)	-	-	-
Deposits from customers	(25,409)	54,890	-	-
Liabilities from issued securities	(2,551)	-	-	-
Subordinated bonds and loans	<u>(8,318)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>108,080</u>	<u>62,543</u>	<u>2,021</u>	<u>64,599</u>

As at 31 December 2013	Net interest income and expense	Net non- interest gain and loss	Provision for impairment	Other comprehensi ve income
Cash, amounts due from banks and balances with the National Bank of Hungary	3,720	-	-	-
Placements with other banks, net of allowance for placement losses	20,583	-	(22)	-
Securities held for trading	-	313	-	-
Securities available-for-sale	102,376	9,769	-	38,199
Loans, net of allowance for loan losses	181,341	10,258	(1,533)	-
Securities held-to-maturity	30,027	(87)	-	-
Derivative financial instruments	4,664	(1,099)	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(17,388)	-	-	-
Deposits from customers	(87,342)	101,329	-	-
Liabilities from issued securities	(15,241)	-	-	-
Subordinated bonds and loans	<u>(16,922)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>205,818</u>	<u>120,483</u>	<u>(1,555)</u>	<u>38,199</u>

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 37. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amortised cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

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

a) **Fair value of financial assets and liabilities**

	30 June 2014		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Bank of Hungary	151,753	151,753	140,521	140,521
Placements with other banks, net of allowance for placement losses	614,635	624,845	632,899	640,404
Financial assets at fair value through profit or loss	287,200	287,200	396,565	396,565
<i>Held for trading securities</i>	<i>183,035</i>	<i>183,035</i>	<i>296,848</i>	<i>296,848</i>
<i>Derivative financial instruments classified as held for trading</i>	<i>104,165</i>	<i>104,165</i>	<i>99,717</i>	<i>99,717</i>
Securities available-for-sale	1,882,293	1,882,293	1,997,491	1,997,491
Loans, net of allowance for loan losses	2,084,416	2,492,580	2,144,701	2,466,835
Securities held-to-maturity	664,046	712,945	525,049	533,609
Derivative financial instruments designated as hedging instruments	<u>13,770</u>	<u>13,770</u>	<u>9,734</u>	<u>9,734</u>
FINANCIAL ASSETS TOTAL	<u>5,698,113</u>	<u>6,165,386</u>	<u>5,846,960</u>	<u>6,185,159</u>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	655,697	642,876	902,744	883,999
Deposits from customers	3,745,917	3,746,061	3,677,450	3,681,927
Liabilities from issued securities	165,195	188,634	170,779	187,925
Derivative financial instruments designated as hedging instruments	1,766	1,766	2,639	2,639
Financial liabilities at fair value through profit or loss	206,962	206,962	204,517	204,517
Financial liabilities from OTP-MOL transaction	59,241	59,241	71,548	71,548
Subordinated bonds and loans	<u>300,395</u>	<u>284,638</u>	<u>278,241</u>	<u>258,684</u>
FINANCIAL LIABILITIES TOTAL	<u>5,135,173</u>	<u>5,130,178</u>	<u>5,307,918</u>	<u>5,291,239</u>

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NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) *Fair value of derivative instruments*

	Fair value		Notional value, net	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	42,805	53,728	44,676	59,680
Negative fair value of interest rate swaps classified as held for trading	(66,019)	(67,854)	(68,699)	(74,699)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	11,325	6,637	13,453	6,876
Negative fair value of foreign exchange swaps classified as held for trading	(10,450)	(5,744)	(11,830)	(5,917)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated in fair value hedge	13,759	9,722	7,796	4,491
Negative fair value of interest rate swaps designated in fair value hedge	(1,766)	(2,639)	(1,035)	682
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	41,940	30,914	38,826	33,067
Negative fair value of CCIRS classified as held for trading	(118,037)	(121,786)	(112,988)	(117,113)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	100	1,849	(186)	1,466
Negative fair value of mark-to-market CCIRS classified as held for trading	(6,138)	(2,770)	(6,710)	(3,339)
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	7,995	6,589	6,362	2,849
Negative fair value of other derivative contracts classified as held for trading	(6,318)	(6,363)	(5,171)	(13,575)
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated in fair value hedge	11	12	(38)	(37)
Negative fair value of other derivative contracts designated in fair value hedge	-	-	-	-
Derivative financial assets total	<u>117,935</u>	<u>109,451</u>	<u>110,889</u>	<u>108,392</u>
Derivative financial liabilities total	<u>(208,728)</u>	<u>(207,156)</u>	<u>(206,433)</u>	<u>(213,961)</u>
Derivative financial instruments total	<u>(90,793)</u>	<u>(97,705)</u>	<u>(95,544)</u>	<u>(105,569)</u>

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NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting

OTP 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. Net investment hedge in foreign operations is not applicable in separate financial statements.

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

As at 30 June 2014

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Cash-flow hedges	-	-	-
2) Fair value hedges	IRS/ Index option	HUF 12,004 million	Interest rate

As at 31 December 2013

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Cash-flow hedges	-	-	-
2) Fair value hedges	IRS/ Index option	HUF 7,095 million	Interest rate

d) Fair value hedges

1. Deposits from customers

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

	30 June 2014	31 December 2013
Fair value of the hedging instruments	99	101

2. Securities available-for-sale

OTP Bank holds fixed interest rate securities denominated in foreign currencies within the available-for-sale portfolio. These fixed interest rate securities are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order to hedge the interest rate risk of the cash-flows OTP Bank entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 12 month EURIBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

	30 June 2014	31 December 2013
Fair value of the hedging instruments	(1,206)	(879)

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NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
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NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

3. Loans to customers

OTP Bank has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows OTP Bank entered into pay-fixed, receive-floater interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 month EURIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.

	30 June 2014	31 December 2013
Fair value of the hedging instruments	(537)	(518)

4. Issued securities

The cash-flows of the fixed rate securities issued by OTP Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS and index option transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulted a decrease in the interest rate and foreign exchange exposure of issued securities.

Certain structured bonds are hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond.

	30 June 2014	31 December 2013
Fair value of the hedging IRS instruments	13,637	8,379
Fair value of the hedging index option instruments	11	12

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NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

As at 30 June 2014

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 23,811 million	HUF (1,206) million	HUF 327 million	HUF (327) million
Loans to customers	IRS	HUF 13,818 million	HUF (537) million	HUF 19 million	HUF (19) million
Deposits from customers	IRS	HUF 1,620 million	HUF 99 million	HUF 2 million	HUF (2) million
Liabilities from issued securities	IRS	HUF 90,523 million	HUF 13,637 million	HUF (5,258) million	HUF 5,258 million
Liabilities from issued securities	Index option	HUF 662 million	HUF 11 million	HUF 1 million	HUF (1) million

As at 31 December 2013

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

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NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

e) Fair value classes

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

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

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

As at 30 June 2014	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	286,763	172,921	113,842	-
<i>from this: securities held for trading</i>	182,598	172,884	9,714	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	104,165	37	104,128	-
Securities available-for-sale	1,855,322	911,448	943,874	-
Positive fair value of derivative financial instruments designated as fair value hedge	<u>13,770</u>	<u>-</u>	<u>13,770</u>	<u>=</u>
Financial assets measured at fair value total	<u>2,155,855</u>	<u>1,084,369</u>	<u>1,071,486</u>	<u>=</u>
Negative fair value of derivative financial instruments classified as held for trading	206,962	14	206,948	-
Negative fair value of derivative financial instruments designated as fair value hedge	<u>1,766</u>	<u>-</u>	<u>1,766</u>	<u>=</u>
Financial liabilities measured at fair value total	<u>208,728</u>	<u>14</u>	<u>208,714</u>	<u>=</u>
As at 31 December 2013	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	396,460	289,558	106,902	-
<i>from this: securities held for trading</i>	296,743	289,497	7,246	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	99,717	61	99,656	-
Securities available-for-sale	1,968,685	1,051,818	916,867	-
Positive fair value of derivative financial instruments designated as fair value hedge	<u>9,734</u>	<u>-</u>	<u>9,734</u>	<u>=</u>
Financial assets measured at fair value total	<u>2,374,879</u>	<u>1,341,376</u>	<u>1,033,503</u>	<u>=</u>
Negative fair value of derivative financial instruments classified as held for trading	204,517	9	204,508	-
Negative fair value of derivative financial instruments designated as fair value hedge	<u>2,639</u>	<u>-</u>	<u>2,639</u>	<u>=</u>
Financial liabilities measured at fair value total	<u>207,156</u>	<u>9</u>	<u>207,147</u>	<u>=</u>

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NOTE 38: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HAS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF mn)

	Retained Earnings and Reserves 1 January 2014	Net loss for the year ended 30 June 2014	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves as at 30 June 2014
Financial Statements in accordance with HAS	1,101,998	(170,825)	(23,100)	(550)	907,523
Premium and discount amortization of financial instruments measured at amortised cost	3,640	15	-	(430)	3,225
Effect of redemption of issued securities	15,442	(105)	-	-	15,337
Differences in carrying value of subsidiaries	34,115	(550)	-	550	34,115
Difference in accounting for finance leases	(1,499)	289	-	-	(1,210)
Effects of using effective interest rate method	6,475	1,193	-	-	7,668
Fair value adjustment of held for trading and available-for-sale financial assets	38,532	325	-	32,494	71,351
Fair value adjustment of derivative financial instruments	6,599	428	-	-	7,027
Reversal of statutory goodwill	40,596	-	-	-	40,596
Revaluation of investments denominated in foreign currency to historical cost	(33,647)	(16,702)	-	-	(50,349)
Difference in accounting of security lending	(23,460)	96	-	-	(23,364)
Treasury share transaction	-	3,160	-	(3,160)	-
Share-based payment	-	(2,059)	-	2,059	-
Payments to ICES holders	10,061	688	-	(1,017)	9,732
OTP-MOL share swap transaction	(54,489)	407	-	-	(54,082)
Escrow account loan	-	(160)	-	-	(160)
Banking tax	-	(12,175)	-	-	(12,175)
Deferred taxation	(9,672)	45,980	-	(6,030)	30,278
Dividend paid by Monicomp in advance	300	(300)	-	-	-
Dividend paid for 2013	40,600	-	(40,600)	-	-
Dividend payable in 2014	-	-	<u>23,100</u>	-	<u>23,100</u>
Financial Statements in accordance with IFRS	<u>1,175,591</u>	<u>(150,295)</u>	<u>(40,600)</u>	<u>23,916</u>	<u>1,008,612</u>

OTP BANK PLC.
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NOTE 39: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2014

1) Capital settlement package of OTP Real Estate Ltd. and its subsidiaries

See details in Note 9.

2) Capital increase in OTP banka Srbija

See details in Note 9.

3) Acquisition in Croatia

See details in Note 9.

4) Term Note Program

See details in Note 15.

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

See details in Note 27.

6) Legal dispute in Montenegro

See details in Note 27.

NOTE 40: POST BALANCE SHEET EVENTS

1) Acquisition in Romania

See details in Note 9.

2) Government measures related to consumer loan contracts

See details in Note 2.26.

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NOTE 41: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn)

According to the preliminary GDP data the Hungarian economy grew by 3.7% in the six month period ended 30 June 2014, beating the market consensus and suggesting that GDP growth may exceed 3% in 2014 as a whole. Nevertheless, the strong growth was partly explained by some temporary factors such as the significantly increasing public investments, wage hikes in public sector in last autumn, utility tariff cuts' impact on the real wage and gradually increasing production of new capacities in the automotive industry. On the expenditure side the gross fixed capital formation significantly increased due mainly to the boosting public investments, but there are some signs suggesting a bottoming out of households' fixed capital formation and turnaround of the real estate market in the six month period ended 30 June 2014. The household consumption growth remained subdued, particularly if we take into the account real income growth. Households' behaviour remained strong: however the budget deficit in 2013 was somewhat higher than in 2012, but it remained well below 3%. The surprisingly strong disinflation in the six month period ended 30 June 2014 and the supportive external environment paved the way for the National Bank of Hungary to cut the base rate to 2.1%.

Funding for Growth Scheme

On 11 September 2013 the NBH decided on extending the Funding for Growth Scheme with a second phase that is to be open from 1 October 2013 till 31 December 2014. The total amount of refinancing available for banks in the second phase was originally set at HUF 500 billion, while this limit may be increased to a maximum of HUF 2.000 billion by the Monetary Council. Similarly to the first phase, the central bank refinancing carries zero interest rate, a maximum 10-year tenor and can be lend over to SMEs by applying a maximum interest margin of 2.5%. The goal of the first pillar is to originate new loans, whereas the second pillar is for refinancing forint or foreign currency denominated liabilities of SMEs. The share of loan contracts concluded under the second pillar must not surpass 10% of the total amount of contracts concluded under the two pillars. The maximum available amount of loans for SMEs is limited at HUF 10 billion in each pillar.

Under the second phase of the Programme OTP Group already contracted in the amount of more than HUF 61 billion until the beginning of August 2014, moreover loan applications in the pipeline exceeded HUF 41 billion.