Annual Report

OTP Bank

Annual Report

2012

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Message from the Chairman & CEO

DEAR SHAREHOLDERS,

In recent years I have begun almost every one of these missives by saying that although we have put a difficult year behind us, the next will hopefully be better. Then, at the close of the financial year concerned, we were disappointed to conclude yet again that the problems in the eurozone had eased up at best, but still no permanent solution had been found to the structural problems that have surfaced in relation to the financial crisis, and the domestic economic and regulatory environment had been more of a hindrance than a help to us in our work. So 2012 was a difficult year. Owing to the lack of a predictable economic policy, the ability of the Hungarian economy to attract capital diminished, and investments and consumption dropped off. These factors, accompanied by a worsening of prospects in foreign markets, resulted in the weakest economic performance in the region: Hungary's GDP contracted by 1.7%, which suggests that 2013 will be another difficult year.

Global investor sentiment developed favourably, however, partly due to the continuous efforts of the world's major central banks to boost liquidity, and to an increased appetite for risk on the part of investors; but the Hungarian government's consistent adherence to a budget deficit target of below 3%, and some of the adjustment measures implemented for this purpose, also bolstered the market's confidence in Hungarian assets. Internationally, the forint was one of the best-performing currencies, similarly to Hungarian government securities, as the state securely financed its maturing debts without the need to procure funds from the external capital market, and without a new IMF/EU agreement. The necessary fiscal adjustments also led to a slowing of growth in the other countries where the Bank Group does business; but with the exception of Croatia and Serbia GDP growth remained in the positive range.

In the weak economic performance was accompanied by a regulatory environment that also developed unfavourably for banks. In 2011 the estimated loss resulting from the prepayment of foreign currency mortgage loans, sustained by credit institutions, amounted to HUF 266 billion (after the special banking tax refund but before the corporate tax effect). Besides this, the sector's business operations suffered as a result of the special tax on banks, introduced in 2010 and payable in an unchanged amount thereafter, and by the losses and provisioning obligations incurred on the deteriorating loan portfolios. As a result of these factors, in 2012 the banking sector realised a HUF 151 billion loss, its third negative result in as many years. I'm afraid that the sector overall will still be loss-making in 2013 and, in response to the regulatory measures with a negative impact on profitability, many of the foreign parent banks will rein in their lending activity more tightly in Hungary than in other countries of the region.

Notwithstanding these difficulties, I am proud to report that the OTP Bank Group concluded another successful year in 2012: its profitability indicators continue to significantly outstrip those of its regional competitors, its capital strength remains outstanding, and its liquidity is secure and continuously improving. Our regional acquisition strategy, which originally targeted markets that offer better growth prospects than the domestic one, has proven an unqualified success: thanks to the diversification and continuous developments, the contribution of the foreign subsidiaries to profit is growing, and this went a long way towards compensating for the fall in profits from the Hungarian operation, burdened as it is by various sector-specific regulatory items. The consumer lending that has proven so successful and yielded such outstanding results in Russia is increasingly living up to expectations in Ukraine too, and we have seen a significant upturn in activity in this segment in the Slovak, Romanian and Serbian markets in recent years.

Overview of financial performance in 2012

In 2012 the OTP Group achieved an adjusted after-tax profit of HUF 150 billion, which, although 7% short of the previous year's figure, I would say is a fair result given the challenges of the unsupportive operating and regulatory environment mentioned in my introduction. The accounting profit, which includes one-off items (here I'm thinking specifically of the HUF 29.2 billion in special tax on financial institutions and last year's HUF 1.8 billion negative profit impact resulting from the redemption of foreign currency loans at a fixed exchange rate) was HUF 122.6 billion, which represents a 46% improvement in comparison to 2011. Within the consolidated, group-level profit figure, at annual level the profitability of banking operations in Hungary dropped by 19%; however, the foreign subsidiary banks' contribution to profit increased by almost HUF 10 billion. The Bank Group's profitability indicators remain excellent even by international standards; the return on assets was 1.5%, while the return on equity exceeded 10%. The Bank Group's operating profit excluding one-offs was HUF 450 billion, which is 3% higher than that of the previous year. The success of the Bank's operation is demonstrated by the fact that its operating profit remained stable, and indeed improved, during the crisis years, which was primarily due to the net interest income from core banking activity, and to the balanced development of net fee and commission income. It is extremely positive development that the consolidated income margin, despite its high base figure (8.31%), improved further (+19 basis points), and within this figure the net interest margin (6.40%) rose by 9 basis points at annual level. Nominal operating costs increased by 5% at annual level, which is on a par with the average rate of inflation observed at the companies in the group; and what is more, the increase in costs occurred principally in markets where the growth in lending gave rise to a need for additional sales capacity. As a consequence of all these factors, the operating costs/average assets ratio was 3.89%, which is only minimally higher than in 2011. As part of the rationalisation of the branch network, significant branch closures only took place in Romania in 2012; but the dynamic consumer lending in Russia and Ukraine led to a further expansion in the network of agents, and we are also devoting particular attention to improving the effectiveness of collection and factoring operations. One of the consequences of the crisis is forced adaptation, a phenomenon that is affecting all participants in the economy. The more cautious consumption habits of households and the restrained investment activity of companies have visibly dampened demand for credit. The Bank Group's loan portfolio, adjusted for exchange rates, shrank by 1% in the past year, though it stabilised in the last quarter. The remaining portfolio was further reduced by the redemption of foreign currency mortgage loans in Hungary – of the overall HUF 217 billion in loan redemptions, HUF 177 billion affected the 2012 balance sheet – and the takeover by the state of HUF 29 billion in loans from Hungarian municipalities. In a favourable development, however, the portfolio of consumer loans grew by 14% at group level. The volume of deposits, adjusted for exchange rates, rose 6%, and as a consequence of all these factors, by the end of 2012 the Bank Group's net loans/deposits + retail bonds) ratio had fallen to 95%.
Meanwhile, the Bank's capital and liquidity positions improved further: its capital adequacy ratio increased to 19.7%, and within this figure Tier1 capital was 16.2%, while the Core Tier1 ratio was 14.7%. Its liquidity reserves, equivalent to EUR 6 billion, would provide ample cover for the immediate repayment of its entire outstanding external debt. Thus, as far as OTP Bank is concerned, its capital and liquidity position would certainly allow for more active lending, but in terms of demand, there are significant differences in the market.

Profitability falls in Hungary due to sector-specific items, but this is accompanied by stable – and even improving – market share, ongoing development of services, and an improving foreign contribution to profits

Within the Bank Group, in 2012, the adjusted profit of the **Hungarian operation** was HUF 94.6 billion, which fell short of the previous year's figure by more than HUF 19 billion. The fall in profit was primarily a consequence of the decline in operating profit; the interest margin decreased and, as a result of the foreign currency loan redemptions, so did the size of the interest-bearing portfolio. This was offset to a certain extent by the fact that, after 2011, impairment fell again in 2012. Although quality of the portfolio continued to worsen, with the proportion of non-performing loans rising to 16.1%, the rate of deterioration slowed discernibly in the second half of the year due to the stabilisation of the forint and to the 'exchange rate cap' scheme, available from April onwards, which fixed monthly repayment instalments for five years.

It is a welcome development that while the bank sector's corporate loan placements declined by 9% in 2012, loans granted by OTP Bank to Hungarian companies increased by 5%. The Bank, in keeping with the management's objective, increased its loans to micro and small business customers, and to agricultural enterprises, by 6% and 13% respectively, which is an outstanding achievement. Besides this, the contribution of the Bank's retail lending activity continues to be decisive; its share of disbursements was 34% in the mortgage loans market and 52% in the personal loans market in the fourth quarter.

As one of the most important strategic objectives of recent years, we focused on continuously improving the standard of service, and developing differentiated service models for the various customer groups. Here I'm referring to initiatives such as the roll-out of the 'Simple' brand for young people at the start of their careers, the introduction of PayPass technology, or the launch of mobile banking services optimised for smart phones.

In recognition of our efforts and developments, besides the usual professional accolades (Bank of the Year award from the trade magazines The Banker and Global Finance), in 2012 OTP Bank earned the titles of Best in Mobile Banking in Central and Eastern Europe and Best in Social Media in Central and Eastern Europe from Global Finance.

Among the key members of the Bank Group in Hungary, the annual after-tax profit of **OTP Fund Management,** before the bank tax, exceeded HUF 2 billion (–39% y/y). The fall is indicative of the fact that, along with the rest of the industry, the company was hit hard by the state takeover of private pension fund assets in 2011, and by the statutory reduction in asset management fees. The **Merkantil Group** produced a HUF 501 million after-tax profit in 2012; the loan portfolio continued to decrease, but the pace of growth in new loans is showing an improvement.

Given that the macroeconomic environment of the foreign subsidiaries developed more favourably than that of Hungary, and that the Bank Group successfully made inroads into the more profitable retail consumer lending sector in these foreign markets, the annual contribution of the foreign subsidiaries to profit rose from the 2011 figure of 32% to 41%, and its HUF 61 billion volume came close to the pre-crisis peak level (HUF 66 billion).

Within these figures, the performance of the **Russian** subsidiary stands out, as it increased its after-tax profit by 15%, to HUF 47.2 billion. The Russian bank boasts excellent profitability indicators (ROE: 28%, net interest margin: 18%) and high levels of capital, while its market position is stable. These factors all serve as a good foundation for the bank, against the backdrop of tighter national legislation on consumer lending that takes effect in 2013, to continue its successful strategy and make a growing contribution to the Bank Group's overall profit.

The **Bulgarian** subsidiary almost doubled its after-tax profit in 2012 (to HUF 24.2 billion); its cost-efficiency remains excellent, and it maintains a stable position in the most important market segments. The **Ukrainian** subsidiary's HUF 0.5 billion profit which, given the doubling in the cost of risk, was a major achievement. The dynamic growth in consumer lending that began in the second quarter of 2011 continued, as the portfolio grew by 282%; so it appears that we have succeeded in adapting, for the Ukrainian market, the model that has already proved so successful in Russia.

These three subsidiary banks represent 29% of the Bank Group's total asset portfolio, and the bulk of the profit generated by the subsidiaries originates from here; so for the OTP Group, the future performance of the Russian, Bulgarian and Ukrainian subsidiary banks is of particular importance.

In addition to the three main international operations, the **Croatian** subsidiary bank also made a substantive contribution to the group's results, with its HUF 3.7 billion after-tax profit. The other foreign subsidiary banks made a loss in 2012: among these, the negative profit of the **Montenegrin** and **Serbian** operations continued to decrease, while the losses of the **Slovak** and **Romanian** subsidiary banks grew, primarily due to the increase in the cost of risk.

Our business policy objectives undertaken for 2012 were essentially fulfilled: in the Russian and Ukrainian consumer lending segments, we managed to maintain a stable rate of credit growth, while in other countries there was a gradual shift of emphasis in retail lending, towards the provision of consumer loans. The dynamic growth in deposits served as the source of funding for the lending activity, and the procurement of funds from the capital market only took place at the Russian subsidiary. Although the original objective at group level had been to maintain the existing operating margin, thanks to the improvements in the Russian and Ukrainian operating margins we succeeded in surpassing it, which made up for the decline in the Hungarian margin. In line with our original expectations, the rate of deterioration in the consolidated loan portfolio eased up, and at the same time we succeeded in substantially improving – by more than 3 percentage points – the coverage of problem loans.

As we have seen in previous years, the movements in OTP's share price closely followed the development of the Hungarian risk (CDS) premium and the forint/euro exchange rate. The market price ended the year 2012 at HUF 4,150, which represents a 29% improvement year on year. In the first two months of 2013, the price rose. I believe that if, besides our stable fundamentals, the markets take more notice of our diversified operation and income-generating capacity, and if this is accompanied by a more predictable Hungarian operating environment, the market price and liquidity of OTP's stock could improve further.

As Hungary's market-leading financial institution, we are committed to providing our domestic retail, corporate and municipality customers with a high standard of service. We actively participate in every initiative to assist those of our customers who have run into difficulties due to the crisis: our branch network is making concerted efforts to contact the highest possible number of customers with home or mortgage loans that are in arrears or at risk, and who may be in need of the scheme, to inform them about the opportunity to fix their repayment instalments for a period of five years; and we are also playing an active part in the disbursement of the supported home loans that have been available since August 2012. As the biggest lender to municipalities, we are engaged in continuous negotiations regarding the technical implementation of the partial takeover of our customers' debts by the state. We believe that the government and the Banking Association will succeed in reaching an agreement that could, by linking a reduction in the extent of the bank tax to the rate of increase in lending activity, make a substantive contribution to sustained and well-founded economic growth.

The challenges of recent years have constantly motivated the Bank's management, while retaining the key values espoused to date, to seek opportunities to ensure that company's operation is stable and predictable, as well as efficient and profitable, even in comparison with our regional competitors. No acquisitions have been made in the past few years, but the search for acquisition targets that would increase shareholder value and fit in with our business strategy continues; in the meantime, the Bank's capital strength complies with the strictest regulatory requirements, including those that will be introduced in the near future. We believe that our Core Tier1 ratio of around 15% warrants the payment of an increasing dividend: in 2010 we paid out HUF 20 billion, in 2011 we out paid HUF 28 billion, and in respect of the 2012 financial year we intend to pay out dividends that exceed this by more than 20%.

With the exception of a few banks in developing countries, financial institutions are not necessarily favoured by investors at the moment, and in many countries there is a general feeling that the sector is responsible for the crisis that has been under way since 2008. But allow me to strike a note of optimism: economic growth is inconceivable without the active participation of the financial intermediation sector, naturally within the framework of clearly defined roles and responsibilities. And lasting trust is primarily what guarantees our ability to successfully perform our work.

Looking back at the Bank Group's performance during the crisis, I am proud to say that thanks to the persistent work of our colleagues, we await the challenges that lie ahead of us armed with stable fundamentals. With respect to 2013, for me the greatest achievement would be if our exchange rate-adjusted consolidated loan portfolio were to grow again, and OTP Bank could claim the largest share of the improvement in lending activity.

I would ask for your continued support and confidence in the fulfilment of the objectives we have set ourselves.

Dr. Sándor Csányi

Chairman & CEO

Macroeconomic and financial environment in 2012

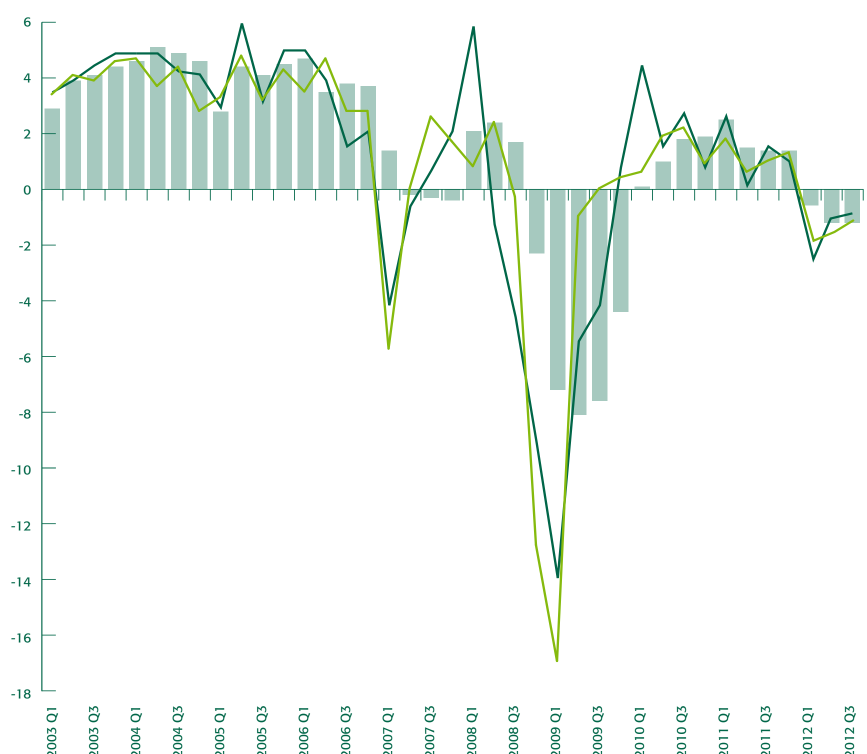
MACROECONOMIC AND FINANCIAL TRENDS IN HUNGARY

In 2012, in addition to the debt crises of the countries on the periphery of the eurozone, the economic trends were also determined by the liquidity boosting measures implemented by the major central banks in the interest of averting an economic downturn. Due to the massive excess of liquidity, the quantity of capital flowing into the region rose steeply, but even this was insufficient to shore up the trends in the real economy. The slowing of activity in the developed markets had a negative impact on the performance of export-driven economies, and in all the region's countries growth slowed in comparison to 2011.

In 2012 the Hungarian economy shrank by around 1.7%; and on the consumption side net exports were the only item that was able to mitigate the downturn. Although the rate of export growth decreased from 8.4% in 2011 to 2.2%, this was accompanied by a fall in the rate of expansion in imports, to 0.1% (from 6.3%). All the other items contributed negatively to the development of real GDP; household consumption fell by 2.3%, while community consumption decreased by 1.5%. Investments slumped by 4.9%.

Following the budgetary loosening of 2011, which was offset by the takeover of private pension fund assets, since spring 2011 the government has announced numerous budgetary adjustments (the Széll Kálmán Plan in spring

Changes in real GDP



2011, the 2011 and 2012 convergence programs, the tax increases of autumn 2011), which together amounted to over 6% of GDP. There is a good chance that the target deficit, approximating to 2.7% of GDP, was met in 2012. The absence of an upturn in the growth figures led to more adjustments in autumn 2012; and if these are fully implemented the 3% target deficit will be achievable in 2013 too, although the risks are substantial.

In 2012 the income position of households deteriorated. Although the number of employed grew by 1.3% in comparison to 2011, the unemployment rate rose by 0.5% to 11.2% (due to an increase in the overall number of the economically active). The disposable income of households increased by 2.5%, but with inflation at 5.7% this translated into a 3.0% decrease in real terms.

Annual average inflation accelerated to 5.7% in 2011, from 3.9%; in other words, despite the persistently weak domestic demand, inflation remained well above the central bank's target again last year. A factor contributing to this may have been the cycle of interest rate cuts that started in August, during which the central bank reduced the base rate in 5 stages, by 25 basis points at a time, to 5.75% by the end of the year. The improvement in global sentiment, which was partly due to the liquidity expansion ensured by the major central banks, also gave a boost to the forint's exchange rate with the euro, which went from HUF 320 at the beginning of the year to dip below HUF 280 mid-year, before closing the 12-month period at around HUF 290.

Bank activity weakened further in 2012, in terms of both corporate and retail lending. The special tax on banks and the losses resulting from the

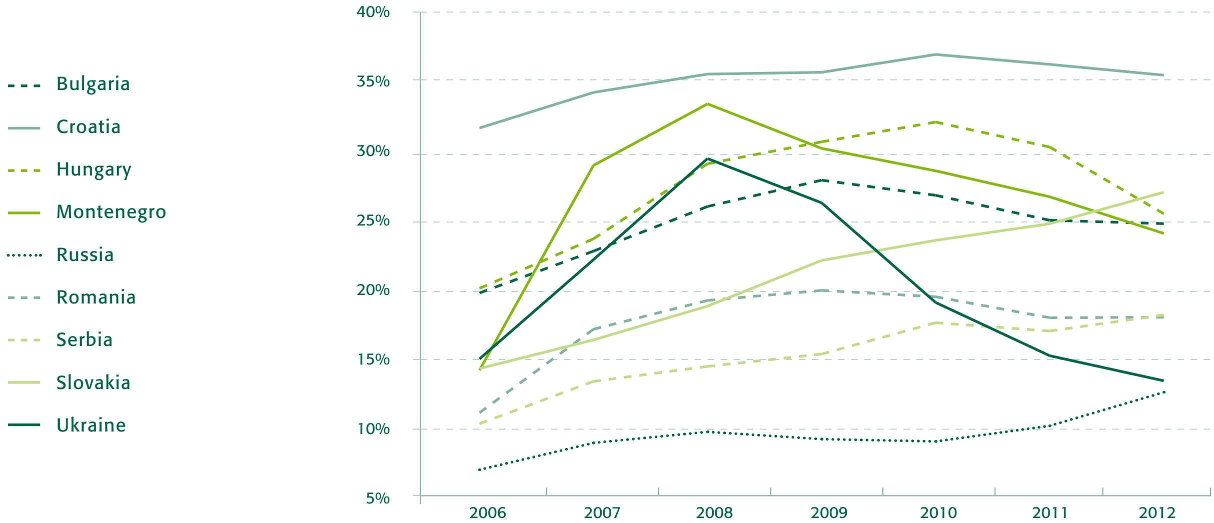
redemption of foreign currency loans continue to represent a considerable burden for the sector. In addition to the problems on the supply side, however, demand was also lacklustre owing to the restrained corporate and household investment activity.

Macroeconomic and financial trends in the countries of OTP Bank's foreign subsidiaries

As a consequence of the slowing of activity in developed markets, with the exception of Russia, in every country where OTP has a subsidiary the rate of export growth dropped off significantly, and the rate of expansion in household consumption also decreased – indeed, in half of the countries it was negative. Due to the above factors, every country where OTP has a subsidiary saw a slowing of the economy, and in Hungary, Croatia and Serbia the volume of GDP actually decreased. In several countries, high budget deficits represent a problem; however, steps have been taken everywhere to rein in these deficits.

In terms of the banking markets, there is considerable variation between the countries of the region. While in Russia and Serbia both the retail and corporate loan portfolios grew, in the case of Croatia and Montenegro net lending was negative in both sectors. In the other countries, net lending to the corporate sector was positive, while the retail sector repaid more credit than it took out.

Bank sector retail loans as a percentage of GDP



OTP Bank

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Management's Analysis

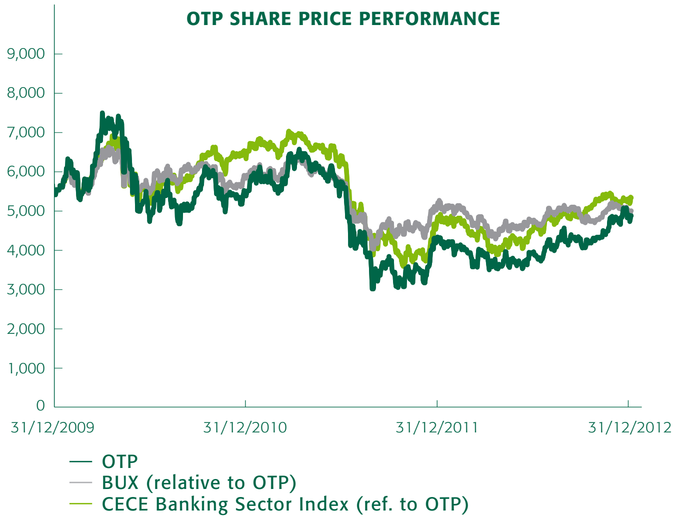
Management's analysis of the 2012 results of the OTP Group*

CONSOLIDATED FINANCIAL HIGHLIGHTS AND SHARE DATA[1]

Main components of the Statement of recognised income	**2011 HUF million**	**2012 HUF million**	**Change %**
Consolidated after tax profit	83,800	122,586	46
Adjustments (total)	(77,605)	(27,363)	(65)
Consolidated adjusted after tax profit without the effect of adjustments	161,405	149,948	(7)
Pre-tax profit	221,086	192,191	(13)
Operating profit	435,579	449,662	3
Total income	811,589	844,552	4
Net interest income	630,892	650,319	3
Net fees and commissions	143,278	151,569	6
Other net non-interest income	37,419	42,664	14
Operating expenses	(376,012)	(394,890)	5
Total risk costs	(234,037)	(253,692)	8
One off items	19,546	(3,779)	(119)
Corporate taxes	(59,682)	(42,243)	(29)
Main components of balance sheet closing balances	**2011**	**2012**	**%**
Total assets	10,200,527	10,113,466	(1)
Total customer loans (net, FX adjusted)	6,718,225	6,464,191	(4)
Total customer loans (gross, FX adjusted)	7,724,416	7,618,367	(1)
Allowances for possible loan losses (FX adjusted)	(1,006,190)	(1,154,176)	15
Total customer deposits (FX adjusted)	6,186,842	6,550,708	6
Issued securities	812,863	643,123	(21)
Subordinated loans	316,447	291,495	(8)
Total shareholders' equity	1,418,310	1,514,553	7
Indicators based on one-off adjusted earnings	**2011**	**2012**	**ppts**
ROE	11.8%	10.2%	(1.6)
ROA	1.6%	1.5%	(0.1)
Operating profit margin	4.36%	4.43%	0.07
Total income margin	8.12%	8.31%	0.19
Net interest margin	6.31%	6.40%	0.09
Cost-to-asset ratio	3.76%	3.89%	0.13
Cost/income ratio	46.3%	46.8%	0.5
Risk cost to average gross loans	2.95%	3.11%	0.16
Total risk cost-to-asset ratio	2.34%	2.50%	0.16
Effective tax rate	27.0%	22.0%	(5.0)
Net loan/(deposit+retail bond) ratio (FX adjusted)	102%	95%	(8)
Capital adequacy ratio (consolidated, IFRS) – Basel2	17.3%	19.7%	2.4
Core Tier1 ratio – Basel2	12.0%	14.7%	2.7
Share Data	**2011**	**2012**	**%**
EPS diluted (HUF) (from unadjusted net earnings)	312	457	46
EPS diluted (HUF) (from adjusted net earnings)	606	563	(7)
Closing price (HUF)	3.218	4.150	29
Highest closing price (HUF)	6.450	4.391	(32)
Lowest closing price (HUF)	2.798	2.960	6
Market Capitalization (EUR billion)	2,9	4,0	38
Book Value Per Share (HUF)	5.065	5.409	7
Tangible Book Value Per Share (HUF)	4.173	4.561	9
Price/Book Value	0,6	0,8	33
Price/Tangible Book Value	0,8	0,9	13
P/E (trailing, from accounting net earnings)	10,8	9,5	(12)
P/E (trailing, from adjusted net earnings)	5,6	7,7	38
Average daily turnover (EUR million)	34	22	(35)
Average daily turnover (million share)	2,1	1,7	(19)

* Figures presented in the statements are not consistent with the audited data because they were originated according to controlling reports.

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



MOODY'S RATINGS	
OTP Bank	
Foreign currency long term deposits	Ba1
Financial strength	D
OTP Mortgage Bank	
Covered mortgage bond	Baa3
DSK Bank	
Foreign currency long term deposits	Ba1
Financial strength	D
OTP Bank Russia	
Foreign currency long term deposits	Ba2
Financial strength	D
Long term national rating	Aa2.ru
STANDARD & POOR'S RATING	
OTP Bank and OTP Mortgage Bank	
Long term credit rating	BB

MANAGEMENT'S ANALYSIS OF THE 2012 RESULTS OF OTP GROUP

Below 3% budget deficit, successful public debt refinancing, negative GDP dynamics in Hungary; fiscal consolidation and moderating loan demand in other group member economies

Apart from January, the rest of 2012 turned to be more supportive for Hungary from capital markets perspectives compared to 2011.
The significant turnaround in market sentiment on one hand was fuelled by the major central banks' further liquidity enhancing measures, but the firm commitment of the Hungarian government to keep the fiscal deficit below 3% and some of the adjustment measures introduced for achieving this target also improved the generally positive attitude towards Hungarian assets. The Hungarian forint was one of the best-performing currencies, similar to Hungarian government bonds and foreign investors' holding in local government papers reached all-time highs with over HUF 5 trillion. The State safely financed its maturing debts without turning to external markets. At the same time, the preliminary GDP-statistics published on 14 February 2013 painted a dire picture about the Hungarian economy: with the GDP performance was one of the weakest in the region. It is quite alarming that the investment ratio was the lowest in the European Union, whereas household consumption was fairly benign.
The consecutive rate cuts of the Central Bank resumed from August 2012 may have a positive impact on the cost of debt financing in medium term, however for the time being it could not revitalize the economic growth.
The total gross loan volume of the credit institution sector (excluding Hungarian Development Bank, Eximbank and KELER) contracted by 15% in 2012, and according to Hungarian Accounting Standards the sector posted HUF 151 billion total loss, whereas in

2011 the sector recognized HUF 241 billion negative earnings (adjusted for the dividend income the losses were HUF 204 billion and HUF 331 billion, respectively).
While the fiscal consolidation in the countries of OTP Group has taken its toll through lower GDP growth, in most of the countries but Hungary, Croatia and Serbia economic activity remained in the positive territory. As a result of adjustments external positions (current account) in general improved, unemployment however stagnated at high levels which may halt back loan demand.

Consolidated earnings: HUF 150 billion adjusted net results in 2012 with y-o-y improving margins, moderating portfolio deterioration from 2H 2012, substantial DPD90+ coverage pick up

In 2012 OTP Group posted HUF 122.6 billion accounting profit versus HUF 83.8 billion a year earlier. The main reason behind the significant y-o-y improvement was the drop in the amount of adjustments: there were no goodwill impairment charges in 2012; bulk of the net impact of early repayment of FX mortgages was booked in 2011, whereas the yearly net amount of special tax on financial institutions basically remained the same. The adjusted profit was at HUF 150 billion versus HUF 161.4 billion a year earlier. The y-o-y 7% drop was mainly related to the weaker performance at OTP Core in Hungary. The Hungarian profit contracted by 17%. At the same time the profit contribution of foreign subsidiaries advanced from HUF 51.3 billion (32% of consolidated profits) in 2011 to HUF 61.0 billion (41%) in 2012.
As a positive development, the total income without one-off items further increased, its amount at HUF 845 billion underpins a 4% growth y-o-y. Out of core revenues, net interest income advanced by 3% supported by the growth of high margin consumer lending in Russia and the Ukraine. On the opposite, the net interest income at OTP Core contracted by 11% due to lower net interest margin and smaller interest earning assets. The consolidated net fee income grew by 6% y-o-y.
Group-level operating expenses shaped according to the original expectations of the management. Out of the 5% y-o-y nominal growth around 2% is reasoned by the weaker average rate of the forint. Expenses advanced mainly at subsidiaries (in Russia and in the Ukraine) where growing business activity required additional sales channels. Furthermore, in Serbia the bank recognised a one-timer expense in relation to litigations pertaining to loans originated prior to the acquisition of the subsidiary.
FX-adjusted consolidated loan volumes declined by 1% y-o-y but already grew slightly in 4Q 2012 (+0.4% q-o-q). The yearly drop is mainly related to the 7% decline of Hungarian loans. The Ukrainian and Montenegrin portfolio also suffered meaningful contraction (–7% and –5%, respectively). On the positive side, consumer loans advanced nicely in Russia and the Ukraine (+31% and 282%, respectively) and in line with the management's aspiration this product segment grew substantially in Romania, Slovakia and Serbia, too. As a result, the consolidated consumer loan book grew by 14% y-o-y.
Deposit volumes increased by 6% y-o-y with Romania, Russia, Slovakia and Serbia achieving double digit growth, and only CKB suffered a deposit decline. Given their big absolute volumes, the 3% deposit volume growth both in Hungary and Bulgaria was meaningful.
As a result, the consolidated net loan-to-deposit ratio dropped by 9 ppts to 95% y-o-y.
The strong liquidity positions of the Group did not require foreign currency denominated wholesale funding, on the contrary, through the excess liquidity generated by on-going FX loan repayments the Bank managed to reduce its outstanding net swap position. By the end of 2012 the gross liquidity reserves of the Group reached almost EUR 6 billion equivalent and by the end of the year OTP had already managed to renew all its 2013 swap roll-over needs.
One of the positive momentums of 2012 was

that while the DPD90+ ratio further increased – partly due to the decline of overall loan volumes – from the second half of the year there was a definite deceleration in portfolio deterioration (DPD90+ ratio growth in %-points: 1Q 2012: 0.8, 2Q: 1.4, 3Q: 0.2, 4Q: 0.1). By end-2012 the DPD90+ ratio reached 19.1%. Since the beginning of the crisis the 4Q deterioration was the smallest: the ratio stagnated at OTP Core and grew by only 0.2 ppt at DSK.

The annual amount of risk costs grew by roughly HUF 20 billion and represented HUF 254 billion. The provision coverage of non-performing loans advanced significantly by 3.3 ppts to 80.0% y-o-y.

The consolidated capital adequacy ratio of OTP Group under IFRS increased to 19.7% in December (+2.4 ppts y-o-y) with the Tier1 ratio climbing to 16.1% and Core Tier1 to 14.7%. The significant quarterly growth was due to several reasons: on one hand OTP introduced the Advanced Measurement Approach for the calculation of the capital requirement of operational risk. This method reflects more properly the Group's operational risks and resulted in a HUF 27 billion savings in capital needs for operational risk y-o-y. Furthermore, the regulatory capital was boosted by annual accounting profits and gains on the AFS security portfolio resulted by the lower yield environment (booked against the equity). The stand-alone capital adequacy ratio of OTP Bank stood at 20.5% (+2.6 ppts y-o-y).

OTP Core: the net result dropped by 17% y-o-y, margins and loan volumes contracted, lower annual risk costs, moderating portfolio deterioration

The adjusted after tax profit of **OTP Core** (basic activity in Hungary) in 2012 represented HUF 94.6 billion. The y-o-y 17% decline was mainly due to weaker operating profit. Risk costs fell short of 2011 by HUF 5 billion. Total income contracted by 6% y-o-y as a result of an 11% decline in net interest income. The net interest margin moderated by 44 basis points and interest earning assets also dropped in the wake of the early FX mortgage repayment. The weaker net interest income was partially offset by a modest increase in net fees, doubling other net non-interest income and cost management. The portfolio deterioration, however slowed down getting support from the stabilizing forint and the growing participation of clients in FX mortgage fixing scheme during the second half of the year. Despite y-o-y lower risk costs the provision coverage of non-performing loans advanced significantly.

Loan volumes dropped by 7% y-o-y (FX-adjusted), within that retail mortgages contracted by 9%, while the corporate book decreased by 6%, latter partly due to non-performing portfolio write-offs and sale. The volume of consumer loans stagnated. Municipal loans contracted, too, however the 13% drop was mainly due to the debt consolidation of municipalities with less than 5,000 inhabitants. Loans to micro and small enterprises were the only ones realizing growth, +8% y-o-y. Amid the weak loan demand across the whole sector, OTP managed to improve its market position: out of newly disbursed mortgages OTP grabbed 34% in 4Q, whereas in case of cash loans its share represented 52%.

Deposits and retail bonds stagnated y-o-y. Retail deposit and bonds contracted by 7% y-o-y as a result of the crowding out effect of household targeted government bond sales. The drop was off-set however, by the increase in corporate and municipality deposits (+16% and +21% respectively). The net loan-to-deposit ratio declined to 73% (–7 ppts y-o-y).

Without banking tax **Merkantil Group** (the Hungarian car financing and leasing business) posted HUF 501 million net profit in 2012 which was one fourth of the net earnings pocketed a year ago. The key reason behind was the y-o-y 20% decline in operating profit. On a yearly base DPD90+ ratio remained flat at 19.2%, as well as its provision coverage. The FX-adjusted loan book further shrank (–9% y-o-y), but new loan disbursement showed an improving trend.

OTP Fund Management posted more than HUF 2 billion after tax profit in 2012 (without banking tax). This result fell short of 2011 earnings by 39%. Annual net fee income dropped by 11%. The volume of total assets under management reached HUF 1,077 billion underpinning an increase of 8% y-o-y. The company retained its dominant position in the investment fund market; its market share represented 25.9%.

Performance of the non-Hungarian business

In 2012 the trend of growing profit contribution by foreign subsidiaries continued, they posted altogether HUF 61 billion versus HUF 51.3 billion a year ago. Bulk of the net result was produced by the Russian and Bulgarian subsidiaries, HUF 71 billion in total, while the Ukrainian unit posted HUF 0.5 billion profit. The Croatian operation not only remained profitable, but managed to substantially improve its result without one-offs. Losses in Serbia and Montenegro moderated a lot, while the Slovakian bank remained in red. The substantial loss at the Romanian entity is partly related to the 54% increase of risk costs, but the operating profit also suffered a setback.
Similar to the previous year **OTP Bank Russia** posted strong earnings in 2012 (at HUF 47.2 billion). The key driver of the 15% y-o-y profit growth was the strong operating profit underpinning a 50% improvement. Net interest income grew nicely (+37%). The annual net interest margin almost reached 18% (+1.75 ppts y-o-y) supported by the good dynamism of high margin consumer lending (+31% y-o-y, +15% q-o-q). Parallel with the lending growth operational expenses advanced by 18%, while risk costs doubled. The DPD90+ ratio reached 16.6% by the end of 2012. As a result of higher risk costs, provision coverage improved by 2.7 ppts y-o-y to 92.3%.
The **Bulgarian DSK Group** realized HUF 24.2 billion after tax profit in 2012, almost twice as much as in 2011. Since the operational profit remained practically flat, the key reason behind the improving profitability was the lower risk costs. The lower net interest income was due to lower net interest margins (–17 bps y-o-y), interest earning assets stagnated. The 4Q increase of operating expenses was induced mainly by seasonality, but a few bigger projects also generated higher advisory costs. As a result the cost-to-income ratio increased by 2.7 ppts y-o-y. It was highly positive that the portfolio deterioration showed strong signals of further moderation from 2H. Despite the lower annual risk costs, the bank managed to improve its DPD90+ coverage by 5.6 ppts y-o-y.
While the annual HUF 0.5 billion net profit of **OTP Bank Ukraine** is only fraction of the net earning a year ago. The significant y-o-y drop was due to doubling risk costs. At the same time operating profit advanced by 25%. Out of core earnings both net interest income and net fees had a decent growth (+19% and +39% respectively), whereas the annual net interest margin reached almost 7% (4Q 2012: 8.89%). The dynamic expansion of consumer loans kept its momentum throughout the whole year (+282% y-o-y). The meaningful growth of retail deposits (+21%) was the key funding source of such spectacular increase. Corporate loans, on the other hand, representing around half of the total loan book, contracted by 9%. The DPD90+ ratio grew substantially (+6.4 ppts y-o-y) and reached 36.4%, provision coverage was at 79% by end-2012.
OTP Bank Romania posted a significant loss of HUF 5.5 billion versus a profit of HUF 763 million in 2011. Such a turn-around was due to a 28% decline in operating profit, but risk costs also advanced by 54%. Within core earnings the net interest income dropped by 15% as a result of on-going deposit campaigns aimed at improving the net loan-to-deposit ratio of the bank (the ratio decreased by 81 ppts). Higher risk costs aimed at increasing the provision coverage on DPD90+ volumes. As for balance sheet dynamism, consumer loans grew by 74% (FX-adjusted), while the y-o-y increase of deposits was the highest across the group (+40%).
OTP banka Hrvatska (Croatia) continued its profitable operation posting HUF 3.7 billion

after tax earnings in 2012. Despite risk costs declining by more than half, the provision coverage of non-performing loans improved further (61%). Amid the moderate increase of mortgages and the consumer portfolio, the loan book shrank by 1% y-o-y. At the same time deposits increased by 4%, thus the net loan-to-deposit ratio dropped to 80%.

The **Slovakian subsidiary** at the end failed to turn into profit making and similar to 2011 it had another loss making year (–HUF 1.2 billion). The negative result was due to higher risk costs aimed at improving the provision coverage. The operating profit of the bank improved, its net interest income grew by 10% y-o-y with stringent cost management in place. The consumer loan portfolio advanced by 78%, whereas the mortgage book grew by 8%.

The **Serbian subsidiary** posted HUF 4.9 billion loss underpinning a 21% decrease y-o-y. On the back of improving net interest margin and the resumed growth of FX-adjusted loan book, the net interest income more than doubled. Still, the operating profit remained in red. The portfolio quality kept improving; the DPD90+ ratio dropped by 8 ppts y-o-y and provision coverage grew by 8.2 ppts.

The operating profit of **CKB Montenegro** improved significantly, by 42% y-o-y. Out of total income the net interest income advanced by 30% as a result of better margins. Cost management performed nicely, too. While the high risk costs still pushed the bank into red, its annual loss of HUF 3.9 billion fell short of 2011 loss by 14%. The DPD90+ ratio increased by 4.4 ppts y-o-y and reached 40.8%, its coverage was 77%, similar to that of a year ago.

Credit ratings, shareholder structure

In the previous few months ratings at OTP Group changed as follows: following the downgrade of the Republic of Hungary, on 23 November 2012 Standard & Poor's also lowered the ratings of OTP Bank and OTP Mortgage Bank; both ratings were changed from 'BB+' onto 'BB' with stable outlook.

On 14 February 2013 Moody's Investors Services completed the rating review process started in December 2012. As a result while it confirmed the rating of OTP Bank and OTP Mortgage Bank at 'Ba1' with negative outlook, it downgraded both entities' BFSR rating from 'D+/ba1' into 'D/ba2'. Following that rating action on 15 February 2013 Moody's downgraded DSK Bank from 'Baa3' into 'Ba1' (negative outlook), whereas it left unchanged OTP Bank Russia's 'Ba2' rating (negative outlook).

As for the ownership structure of the Bank, there were no major changes: by the end of December 2012 four investors had more than 5% influence (beneficial ownership) in the Company, namely the Rahimkulov family (9.02%), MOL (The Hungarian Oil and Gas Company) (8.70%), Groupama Group (8.43%), and the Lazard Group (5.73%).

KEY POST BALANCE SHEET EVENTS

Hungary

- On 9 January 2013 Fitch Ratings has affirmed OTP Bank Plc's Support Rating at '3' following the upgrade of the outlook from negative to stable on the Hungarian sovereign on 20 December 2012.
- On 28 January 2013 IMF released an assessment after its Article IV review, and the European Commission published a report, too. They emphasized that the Hungarian government had to keep the budget deficit under 3% by implementing sustainable measures.
- On 29 January 2013 the National Bank of Hungary lowered the base rate by 25 basis points to 5.5%. According to the unanimous opinion of the members of the Monetary Council, 'the monetary policy instruments currently available allow enough manoeuvring room to maintain a monetary policy consistent with the current outlook for inflation and the real economy, expanding the range of unconventional policy tools may provide effective support only during times of acute financial market stress.' On 26 February the base rate was cut by another 25 basis points to 5.25%.
- On 8 February 2013 Moody's Investors Service affirmed Hungary's 'Ba1' government bond rating and maintained the negative outlook.
- On 12 February 2013 Hungary successfully returned to the international bond market by issuing USD bonds. The Government Debt Management Agency sold USD 1.25 billion with five year tenor at a spread of 335 basis points above Treasuries and USD 2 billion of 10-year bonds with 345 basis points premium above benchmark.
- According to preliminary data published by the Central Statistical Office on 14 February 2013 the Hungarian GDP contracted by 1.7% in 2012. In the fourth quarter the economic output declined by 2.7% compared to a year ago and 0.9% compared to the previous quarter.
- On 14 February 2013, Moody's Investors Service concluded the review for downgrade of the standalone credit assessments and the debt and deposit ratings of OTP Bank Plc and OTP Mortgage Bank. According to Moody's decision both banks' local and foreign currency long term deposit rating was confirmed at 'Ba1' and 'Ba2' respectively. OTP Bank's foreign currency long-term senior unsecured debt rating was confirmed at 'Ba1'. The foreign currency long-term subordinated debt rating (Lower Tier2) was downgraded to 'Ba3' from 'Ba2' and the foreign currency long-term junior subordinated debt rating (Upper Tier2) was downgraded to 'B1(hyb)' from 'Ba3(hyb)'. Both banks' BFSR was downgraded to 'D/ba2' from 'D+/ba1'. All the ratings are on negative outlook.
- On 15 February Moody's Investors Service concluded the review process of covered bonds issued by OTP Mortgage Bank and confirmed their rating at 'Baa3'.
- On 17 February 2013 Mr Gyula Pleschinger, state secretary at the Economy Ministry stated that the government had informal talks with commercial banks on how to stimulate lending in Hungary. As part of the deal, the government may offer banks a tax refund from the special tax on financial institutions or to write off bank tax in case commercial banks will boost their lending activity. Mr Pleschinger claimed that the agreement is likely to be struck by the end of this spring and may provide more aggressive incentives than the ones offered earlier.
- On 3 March 2013 the mandate of Mr Andras Simor, central bank governor has expired. His office was taken over by Mr György Matolcsy on 4 March 2013. The Prime Minister also nominated Mr Mihály Varga for Minister of the National Economy.

Russia

- On 9 January 2013 Fitch Ratings simultaneously with the affirmation of OTP Bank Plc's Support rating at '3' has affirmed its Russian subsidiary OJSC OTP Bank's (OTPR) Long-term Issuer Default Ratings (IDRs) at 'BB' and National Rating at 'AA-(rus)' and revised the Outlooks to Stable from Negative. The agency has also upgraded OTPR's Viability Rating to 'bb–' from 'b+'.
- On 15 February 2012 Moody's Investors Service confirmed the long-term local- and foreign-currency deposit ratings of OTP Bank (Russia) OJSC (OTP Russia) at 'Ba2' with a negative outlook. National Scale Rating of the Bank has also been confirmed at 'Aa2.ru'.

Ukraine

- On 12 February 2013 the IMF said that after a two-week visit in Ukraine, the representatives of IMF will resume talks with Ukraine in March, as important policy issues (mainly state subsidies on gas and heating for households) remained on the agenda. The IMF credit line approved in July 2010 has expired in December 2012.

Bulgaria

- On 31 January 2013 the Parliament approved the Public Finances Law, which will take effect with the 2014 budget. The law includes a budget deficit cap of 2% of the GDP. On 1 February 2013 the Finance Ministry announced that the 2012 budget shortfall reached 0.45%, below the 1.3% deficit target.
- On 15 February 15 Moody's Investors Service downgraded the local and foreign currency deposit ratings of DSK Bank EAD to 'Ba1/NP' from 'Baa3+/Prime–3'. All the ratings are on negative outlook.
- On 20 February 2013 the Bulgarian government led by Mr. Boiko Borisov resigned.

Croatia

- On 1 February 2013 Moody's Investors Service downgraded Croatia's government bond rating to 'Ba1' from 'Baa3'. Simultaneously the outlook has been changed from negative to stable.

CONSOLIDATED NET PROFIT BREAKDOWN BY MAIN SUBSIDIARIES (IFRS)[2]

	2011 HUF million	2012 HUF million	Change %/ppts
Consolidated after tax profit	**83,800**	**122,586**	**46**
Adjustments (total)	**(77,605)**	**(27,363)**	**(65)**
Dividend and total net cash transfers (consolidated)	663	(391)	(159)
Goodwill/investment impairment charges (after tax)	(17,701)	3,977	(122)
Special tax on financial institutions (after corporate income tax)	(28,965)	(29,174)	1
Impact of early repayment of FX mortgage loans in Hungary (after corporate income tax)	(31,601)	(1,775)	(94)
Consolidated adjusted after tax profit without the effect of adjustments	**161,405**	**149,948**	**(7)**
Banks total without one-off items[1]	155,864	147,615	(5)
OTP CORE (Hungary)[2]	114,056	94,587	(17)
Corporate Centre (after tax)[3]	(6,727)	(7,089)	5
OTP Bank Russia	41,042	47,158	15
CJSC OTP Bank (Ukraine)[4]	5,091	528	(90)
DSK Bank (Bulgaria)[5]	12,744	24,214	90
OBR adj. (Romania)[6]	763	(5,530)	(825)
OTP Banka Srbija (Serbia)[7]	(6,283)	(4,934)	(21)
OBH (Croatia)	3,552	3,714	5
OBH, adj.	112	3,714	
OBH one-off items[8]	3,440	–	0
OBS (Slovakia)[9]	(409)	(1,161)	184
CKB (Montenegro)	(4,525)	(3,872)	(14)
Leasing	1,890	2,050	8
Merkantil Bank + Car, adj. (Hungary)[10]	2,206	501	(77)
Foreign leasing companies (Slovakia, Croatia, Bulgaria, Romania)[11]	(316)	1,549	(590)
Asset Management	3,265	2,042	(37)
OTP Asset Management (Hungary)	3,321	2,040	(39)
Foreign Asset Management Companies (Ukraine, Romania)[12]	(56)	2	(104)
Other Hungarian Subsidiaries	(4,268)	(934)	(78)
Other Foreign Subsidiaries (Slovakia, United Kingdom, Cyprus, Romania, Belize)[13]	(305)	(756)	148
Eliminations	1,520	(65)	(104)
Total after tax profit of HUNGARIAN subsidiaries[14]	110,107	89,040	(19)
Total after tax profit of FOREIGN subsidiaries[15]	51,298	60,912	19
Share of foreign profit contribution, %	32%	41%	9

[2] Belonging footnotes are in the Supplementary data section of the Management's analysis.

THE OTP GROUP'S CONSOLIDATED STATEMENT OF RECOGNIZED INCOME[3]

Main components of the Statement of recognized profit and loss	2011 HUF million	2012 HUF million	Change %
Consolidated after tax profit	83,800	122,586	46
Adjustments (total)	(77,605)	(27,363)	(65)
Dividends and net cash transfers (after tax)	663	(391)	(159)
Goodwill/investment impairment charges (after tax)	(17,701)	3,977	(122)
Special tax on financial institutions (after corporate income tax)	(28,965)	(29,174)	1
Impact of early repayment of FX mortgage loans in Hungary (after corporate income tax)	(31,601)	(1,775)	(94)
Total impact of early repayment of FX mortgage loans in Hungary (after corporate income tax), final fact, recognized from 3Q 2011 to 1Q 2012		(33,376)	
o/w Loss from early repayment of FX mortgage loans in Hungary (before corporate income tax)		(65,053)	
Corporate income taxes due to losses from early repayments		12,360	
Special banking tax refund (after corporate income tax)		16,048	
Revaluation result on FX purchased from the National Bank of Hungary to cover the FX need of early repayments (after corporate income tax)		3,269	
Consolidated adjusted after tax profit without the effect of adjustments	161,405	149,948	(7)
Before tax profit	221,086	192,191	(13)
Operating profit	435,579	449,662	3
Total income	811,589	844,552	4
Net interest income	630,892	650,319	3
Net fees and commissions	143,278	151,569	6
Other net non-interest income	37,419	42,664	14
Foreign exchange result, net	19,042	19,863	4
Gain/loss on securities, net	3,419	4,697	37
Net other non-interest result	14,959	18,105	21
Operating expenses	(376,012)	(394,890)	5
Personnel expenses	(169,098)	(188,953)	12
Depreciation	(49,454)	(47,420)	(4)
Other expenses	(157,461)	(158,517)	1
Total risk costs	(234,037)	(253,692)	8
Provision for loan losses	(228,432)	(242,694)	6
Other provision	(5,607)	(10,997)	96
Total one-off items	19,546	(3,779)	(119)
Revaluation result of FX swaps at OTP Core	3,169	(2,528)	(180)
Gain on the repurchase of own Upper and Lower Tier2 Capital at OTP Core	2,580	1,415	(45)
Gain on Croatian government bonds at OTP Croatia	4,300	0	(100)
Result of the treasury share swap at OTP Core	5,572	(2,667)	(148)
Corporate taxes	(59,682)	(42,243)	(29)
Performance Indicators	**2011**	**2012**	**%/ppts**
ROE (adjusted)	11.8%	10.2%	(1.6)
ROA (adjusted)	1.6%	1.5%	(0.1)
Operating profit margin	4.36%	4.43%	0.07
Total income margin	8.12%	8.31%	0.19
Net interest margin	6.31%	6.40%	0.09
Net fee and commission margin	1.43%	1.49%	0.06
Net other non-interest income margin	0.37%	0.42%	0.05
Cost-to-asset ratio	3.76%	3.89%	0.13
Cost/income ratio	46.3%	46.8%	0.5
Risk cost for loan losses-to-average gross loans	2.95%	3.11%	0.16
Risk cost for loan losses-to-average FX adjusted gross loans	2.96%	3.19%	0.23
Total risk cost-to-asset ratio	2.34%	2.50%	0.16
Effective tax rate	27.0%	22.0%	(5.0)
Non-interest income/total income	22%	23%	1
EPS base (HUF) (from unadjusted net earnings)	312	457	46
EPS diluted (HUF) (from unadjusted net earnings)	312	457	46
EPS base (HUF) (from adjusted net earnings)	606	563	(7)
EPS diluted (HUF) (from adjusted net earnings)	606	563	(7)
Comprehensive Income Statement	**2011**	**2012**	**ppts**
Consolidated after tax profit	83,800	122,586	46
Fair value adjustment of securities available-for-sale (recognised directly through equity)	(22,732)	48,180	(312)
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	378	532	41
Fair value adjustment of strategic open FX position hedging net investment in foreign operations	(7,993)	4,978	(162)
Foreign currency translation difference	78,968	(53,390)	(168)
Net comprehensive income	132,421	122,886	(7)
of which Net comprehensive income attributable to non-controlling interest	1,109	619	(44)
Net comprehensive income attributable to equity holders	131,312	122,267	(7)

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

Average exchange rate of the HUF	2011 HUF	2012 HUF	Change %
HUF/EUR	279	289	4
HUF/CHF	227	240	6
HUF/USD	201	225	12
100HUF/JPY	253	283	12

- HUF 150 billion adjusted net earnings underpins a y-o-y 7% decline as a result of improving operating profit and higher risk costs
- The 3% improvement in operating profit y-o-y to a large extent was a result of higher Russian and Ukrainian operating profits (+HUF 40 billion, +48% and +HUF 7 billion, +25% respectively)
- Improving consolidated total revenue- and net interest margin
- Increasing risk costs 3.3 ppts lifting the provision coverage of non-performing loans to 80.0%

In 2012 **OTP Group** posted HUF 150 billion adjusted after tax profit (excluding the special banking levy, the impact of early repayment of FX mortgages, dividends and positive tax shield of investment impairment charges[4]) underpinning a 7% decline y-o-y. The accounting profit including all the adjustments represented HUF 122.6 billion, which is by 46% higher than in 2011. The key reason behind the improvement was the base effect of the early FX prepayment and goodwill impairment.
The 7% y-o-y decline in the annual adjusted profit was partly caused by one-off items (revaluation of FX swaps and the result of the treasury share swap), but also by the 6% increase in provisioning for loan losses – mostly related to the loan books of OTP Russia, OTP Ukraine and OTP Romania.
The operating profit of the Group improved, however, by 3% y-o-y due to the rapid growth of the Russian net interest income (+37%, +HUF 46 billion) which offset the weaker Hungarian net interest result (–35 HUF billion y-o-y). Operating expenses expanded by 5% y-o-y (+HUF 19 billion), of which HUF 8 billion increase was due to the weaker forint y-o-y. The FX-adjusted cost increase was only 3% (+HUF 11 billion). Bulk of the FX-adjusted change was related to the Russian and Ukrainian subsidiaries (+HUF 7.2 and HUF 1.5 billion y-o-y respectively), where higher costs were triggered by enhanced business activity. Furthermore, Serbian operational expenses increased substantially, too (+HUF 2 billion FX-adjusted, +33% y-o-y) (please see further details in the section of OTP banka Srbija).
The effective tax burden decreased in 2012: the stronger forint generated a positive tax shield of HUF 5.7 billion on the investments in foreign subsidiaries at OTP Core. In 2011, on the contrary, the weaker forint generated an additional tax burden of HUF 8.4 billion.

[4] In 2012, impairment charges were recognised at OTP Bank on the investments into the Serbian and Montenegrin subsidiaries (under local accounting standards: HUF 15 billion and HUF 5.9 billion respectively). Though under IFRS these impairments had direct effect neither on the consolidated balance sheet nor on the P&L, there was a positive tax shield of HUF 4.0 billion that added to the Group's IFRS accounting profit. This profit is recognised as an adjustment item in the adjusted P&L of OTP Group.

ASSET-LIABILITY MANAGEMENT

In 2012 the asset-liability management of OTP Group focused on maintaining the safe liquidity reserves of the Group…

The primary objective of OTP Group in terms of asset-liability management has been to ensure that the Group's liquidity reserves are maintained at a suitably safe level. The refinancing sources of European Central Bank were continuously available for the Bank, easing the renewal risk of maturing mortgage bonds. Thanks to the high level of the Bank's liquidity reserves, no significant need of capital market funding emerged. The total issued amount at a Group-level was about EUR 160 million in 2012 and and mainly it respresents the Rubel-denominated bond issuances financing the consumer lending activity of the Russian subsidiary (at March in RUB 6 billion).

Despite the significant repayment of maturing debts in 2012, the liquidity reserves of OTP Group remained permanently above the safety level. By the end of 2012 the liquidity reserves of the Group amounted to 5.9 billion EUR-equivalent, which is more than sufficient to provide coverage not just for the redemptions within one year but for the coverage of potential liquidity shocks too.

The swiss franc and US dollar liquidity need of the Group stemming from its FX lending operation is declining gradually due to the FX-liquidity generated in course of the business. The renewal of half of the maturing foreign exchange swaps was sufficient to keep the safe level of the foreign exchange liquidity reserve (at end 2012: EUR 1.6 billion).

…and keeping interest-rate risk exposures low.

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

The Bank maintained a closed interest-rate position in euro and swiss franc, consequently the yield volatility of the previous period did not cause significant changes in the FX interest income.

Market risk exposure of OTP Group

At the end of 2012 the consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure represented HUF 48.6 billion, primarily due to the capital requirement of the FX risk exposure at HUF 36.2 billion.

OTP Group is an active participant of the international FX and derivative markets. Exposure of the various Group members' FX positions is restricted by individual and global limits (both overnight and intraday) for net open positions, and by stop-loss limits. The open positions of the non-Hungarian group members were negligible measured either against their balance sheet total or regulatory capital (the EUR/BGN exposure of DSK under the current exchange rate regime does not represent real risk), because of that the consolidated FX exposure was concentrated at OTP Bank (Hungary).

In line with previous years' practice, the main part of this FX exposure was the strategic open FX position (in the amount of EUR 310 million) kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries in the next 2 years.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE OTP GROUP

Main components of balance sheet closing balances	2011 HUF million	2012 HUF million	Change %
TOTAL ASSETS	**10,200,527**	**10,113,466**	**(1)**
Cash amount due from banks and balances with the National Banks	595,986	602,521	1
Placements with other banks, net of allowance for placement losses	422,777	356,866	(16)
Financial assets at fair value through profit or loss	241,282	222,874	(8)
Securities available-for-sale	1,125,855	1,411,177	25
Loans, net of allowance for loan losses	7,047,179	6,464,191	(8)
Loans, net of allowance for loan losses (FX adjusted)	6,718,225	6,464,191	(4)
Gross customer loans	8,108,631	7,618,367	(6)
Gross customer loans (FX adjusted)	7,724,416	7,618,367	(1)
o/w Retail loans	5,033,552	5,086,233	1
Retail mortgage loans (incl. home equity)	2,988,786	2,797,094	(6)
Retail consumer loans	1,600,909	1,831,297	14
SME loans	443,907	457,841	3
Corporate loans	2,281,663	2,168,134	(5)
Loans to medium and large corporates	1,939,505	1,863,469	(4)
Municipal loans	342,153	304,666	(11)
Car financing loans	346,309	289,655	(16)
Bills and accrued interest receivables related to loans	62,865	74,346	18
Allowances for loan losses	(1,061,452)	(1,154,176)	9
Allowances for loan losses (FX adjusted)	(1,006,190)	(1,154,176)	15
Equity investments	10,342	7,936	(23)
Securities held-to-maturity	124,887	429,303	244
Premises, equipment and intangible assets, net	491,666	489,142	(1)
o/w Goodwill, net	198,896	189,619	(5)
Premises, equipment and other intangible assets, net	292,770	299,523	2
Other assets	140,553	129,456	(8)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**10,200,527**	**10,113,466**	**(1)**
Amounts due the banks, the Hungarian Government, deposits from the National Banks and other banks	646,968	534,324	(17)
Deposits from customers	6,398,853	6,550,708	2
Deposits from customers (FX adjusted)	6,186,842	6,550,708	6
o/w Retail deposits	4,629,164	4,755,210	3
Household deposits	4,064,029	4,141,305	2
SME deposits	565,070	613,905	9
Corporate deposits	1,523,249	1,754,489	15
Deposits to medium and large corporates	1,272,216	1,464,702	15
Municipal deposits	251,039	289,786	15
Accrued interest payable related to customer deposits	34,403	41,009	19
Issued securities	812,863	643,123	(21)
o/w Retail bonds	344,510	230,626	(33)
Issued securities without retail bonds	468,353	412,497	(12)
Other liabilities	607,086	579,263	(5)
Subordinated bonds and loans	316,447	291,495	(8)
Total shareholders' equity	1,418,310	1,514,553	7

Indicators	2011	2012	ppts
Loan/deposit ratio (FX adjusted)	125%	116%	(9)
Net loan/(deposit + retail bond) ratio (FX adjusted)	102%	95%	(7)
90+ days past due loan volume	1,335,917	1,442,646	8
90+ days past due loans/gross customer loans	16.6%	19.1%	2.5
Total provisions/90+ days past due loans*	76.7%	80.0%	3.3

* Excluding provisions related to the early repayment of FX mortgage loans.

Consolidated capital adequacy – Basel2	2011	2012	%/ppts
Capital adequacy ratio (consolidated, IFRS)	17.3%	19.7%	2.4
Tier1 ratio	13.3%	16.1%	2.8
Core Tier1 ratio	12.0%	14.7%	2.7
Leverage (Total Assets/Shareholder's Equity)	7.2x	6.7x	
Regulatory capital (consolidated)	1,433,086	1,473,525	3
o/w Tier1 Capital	1,105,876	1,203,019	9
o/w Core Tier1 Capital	997,583	1,098,882	10
Hybrid Tier1 Capital	108,293	104,137	(4)
Tier2 Capital	327,587	270,849	(17)
Deductions from the regulatory capital	(377)	(343)	(9)
Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk)	8,297,547	7,485,293	(10)
o/w RWA (Credit risk)	6,397,182	6,004,147	(6)
RWA (Market & Operational risk)	1,900,365	1,481,146	(22)

Closing exchange rate of the HUF	2011	2012	Change
	HUF	HUF	%
HUF/EUR	311	291	(6)
HUF/CHF	256	241	(6)
HUF/USD	241	221	(8)
100HUF/JPY	311	257	(17)

- Further increase in consumer loan volumes in Russia (+31%), the Ukraine (+282%), Slovakia (+78%), Romania (+74%) and Serbia (+26%) q-o-q
- In the mortgage segment only the Slovakian book increased (+8% y-o-y), the Hungarian one further contracted (–9% y-o-y)
- Double digit deposit growth in Romania, Russia, Slovakia and Serbia, meaningful increase in absolute terms in Hungary and Bulgaria (+3% each)
- Consolidated net loan-to-deposit ratio sank to 95% (–9 ppts y-o-y, FX-adjusted)

Methodological note: in 2012 at OTP Bank Romania large- and medium sized corporate portfolio elements were reclassified into the SME segment – in case of loans and deposits in the amount of HUF 15.5 billion and HUF 12.3 billion, respectively.

The consolidated FX-adjusted loan portfolio increased contracted by 1% y-o-y, but increased in 4Q by 0.4% q-o-q. In 2012 on Group-level only the consumer segment could grow (+14% y-o-y) with the Russian and Ukrainian portfolios remaining the engines of growth. From the beginning of 2012 the sales of Slovakian, Romanian and Serbian cash loans also gained spectacular strength.

As for consumer lending, due to seasonality the Russian growth accelerated in the last quarter of 2012 and the annual dynamism remained strong (+31%). The increase of the Ukrainian consumer lending remained steady, 2012 closing volumes represented HUF 41 billion, up by HUF 30 billion y-o-y. As for POS loans, the dynamic expansion of the selling network continued, by the end of December the bank used almost 2,600 agents. The expansion of the agent- and partner retail chain network is continuous (end-2012 POS loan portfolio: HUF 25 billion). In order to capitalize on cross sale potentials starting from end-2011 the Bank entered the market with new credit card products and cash loan sale was intensified through branches. By the end of December credit card loan volumes represented HUF 9 billion with cash loans standing at HUF 7 billion.

Regarding other consolidated loan segments the Group-level portfolio decreased y-o-y (this would have been the situation in the SME segment, too if financials were adjusted for the effect of the corporate loan reclassification in Romania). The quarterly decline of the consolidated mortgage portfolio moderated meaningfully as the Hungarian FX-mortgage prepayment came to end in February 2012[5]. Beside Hungary mortgage loans declined continuously in the Ukraine and in Russia, too (–9%, –12% and -22% y-o-y, respectively). On the contrary the Slovakian mortgage volumes could increase in 2012 (y-o-y +8%). The Bulgarian, Romanian, Croatian and Serbian mortgage books remained stable during the year (–2%, +2%, +1% and +0.3% respectively).

The decline in municipal loans (–11% y-o-y) is primarily due to the debt consolidation of Hungarian municipalities with less than 5 thousand inhabitants in December 2012 (for details please see the section of OTP Core).

FX-adjusted deposit volumes increased by 6% y-o-y. Significant quarterly growth was registered in Russia, Romania, Serbia, Slovakia, Hungary and Bulgaria (25%, 40%, 15%, 10%, 3% and 3%, respectively). In Hungary mainly corporate deposits expanded (+16% y-o-y), whereas retail deposit and bond volumes together were down by 7% primarily due to the intensified competition triggered by the sales of government bonds.

The volume of issued securities dropped by 21% y-o-y. The decline is mostly due to the volume drop of Hungarian retail bonds (down by HUF 114 billion y-o-y), partly due to maturing HUF denominated mortgage bonds (in the amount of HUF 59 billion), maturing of Slovakian mortgage bonds (in the amount of HUF 9 billion) and the redemption of Russian bonds. In the latter case most of the investors executed the put option related to a RUB 4 billion (about HUF 28 billion) bond series of the Russian subsidiary. Furthermore, senior bonds issued by OTP Bank with face value of CHF 100 million matured on 24 February 2012. The volume decrease was partly offset by the issuance of forint denominated bonds to Hungarian institutional investors (their volume increased by HUF 22 billion to HUF 125 billion y-o-y), and the Russian subsidiary issued a senior bond in order to finance its consumer lending business (in the amount of HUF 44 billion equivalent).

The FX-adjusted volume of Lower and Upper Tier2 capital ('LT2', 'UT2') shrank a bit y-o-y. The yearly change is partly resulted from the repurchase of EUR 14.1 million from the LT2 maturing on 4 March 2015 and EUR 2.4 million from the perpetual UT2 bonds. Since the beginning of the crisis OTP Group accumulated a significant liquidity buffer[6]. By end-December 2012, the volume of liquid reserves reached EUR 5.9 billion equivalent, which is by EUR 4.4 billion higher than all the external FX obligations of the Group.

[5] The early repayment of Hungarian mortgage loans resulted altogether a HUF 217 billion decrease in the gross loan portfolio (in 2011 approx. HUF 110 billion, while in 1Q 2012 another HUF 107 billion). The negative effect of the declining FX loan portfolio was partially offset by forint denominated mortgage loan disbursements amounting to HUF 64 billion, originated by OTP Bank to remortgaging clients. (From this amount a HUF 41 billion was disbursed to own customers.)

[6] The Group's operating liquidity reserve consists of bonds of the National Bank of Hungary, government bonds, liquid asset surplus within one month and repoable covered bonds and municipal bonds.

CONSOLIDATED CAPITAL ADEQUACY RATIO (IN ACCORDANCE WITH BASEL II)

At the end of 2012 the regulatory capital of OTP Group represented HUF 1,474 billion, while the risk-weighted-assets, taking into account the capital needs for credit-, market- and operational risks, stood at HUF 7,485 billion. The capital adequacy ratio stood at 19.7% with the Tier1 ratio (after deducting goodwill and intangible assets) at 16.1% and the Core Tier1 ratio (further deducting hybrid instruments) at 14.7%. The improvement of the consolidated capital adequacy ratio was supported by the continuous profit generation of the Group, furthermore the regulatory capital was also boosted by a revaluation gain on the available-for-sale security portfolio in the wake of the lower yield environment (recognised against the equity). Furthermore, from end-2012 the Group calculates its capital requirement for operational risk according to the Advanced Measurement Approach, which allows the Group to determine the capital requirement with the use of mathematical-statistical models based on empirical data and expert assessment, rather than with the use of gross income and volume data. Due to the methodology change the capital requirement related to operational risk decreased by HUF 27 billion y-o-y, which resulted in a HUF 346 billion decrease in risk weighted assets related to operational risk. The methodology change approved by the Hungarian Financial Supervisory Authority reduced the capital requirement for 2012, but also means that capital requirement for operational risk might get more volatile going forward.

OTP BANK'S HUNGARIAN CORE BUSINESS[7]

OTP Core Statement of recognised income (segmented):

Main components of P&L account	2011 HUF million	2012 HUF million	Change %
After-tax profit without the banking levy, dividends and net cash transfer	114,056	94,587	(17)
Corporate income tax	(40,682)	(22,933)	(44)
Pre-tax profit	154,738	117,520	(24)
Operating profit	235,000	211,355	(10)
Total income	419,401	394,243	(6)
Net interest income	327,081	292,570	(11)
Net fees and commissions	84,687	85,820	1
Other net non-interest income	7,633	15,853	108
Operating expenses	(184,401)	(182,888)	(1)
Total risk costs	(95,508)	(90,056)	(6)
Provisions for possible loan losses	(99,209)	(86,986)	(12)
Other provisions	3,701	(3,070)	(183)
Total one-off items	15,246	(3,779)	(125)
Revaluation result of FX swaps	3,169	(2,528)	(180)
Gain on the repurchase of own Upper and Lower Tier2 Capital	2,580	1,415	(45)
Revaluation result of the treasury share swap agreement	5,572	(2,667)	(148)
Revenues by Business Lines	**2011**	**2012**	**%**
RETAIL			
Total income	320,228	307,118	(4)
Net interest income	242,576	229,237	(5)
Net fees and commissions	73,427	74,692	2
Other net non-interest income	4,225	3,189	(25)
CORPORATE			
Total income	37,466	33,182	(11)
Net interest income	25,794	21,527	(17)
Net fees and commissions	10,437	10,723	3
Other net non-interest income	1,235	932	(25)
Treasury ALM			
Total income	58,984	49,061	(17)
Net interest income	58,710	41,806	(29)
Net fees and commissions	714	(63)	(109)
Other net non-interest income	(440)	7,317	
Performance Indicators	**2011**	**2012**	**ppts**
ROE	9.5%	7.1%	(2.4)
ROA	1.7%	1.5%	(0.2)
Operating profit margin (operating profit/avg. total assets)	3.6%	3.3%	(0.3)
Total income margin	6.43%	6.17%	(0.26)
Net interest margin	5.01%	4.58%	(0.43)
Net fee and commission margin	1.3%	1.3%	0.0
Net other non-interest income margin	0.1%	0.2%	0.1
Operating costs to total assets ratio	2.8%	2.9%	0.1
Cost/income ratio	44.0%	46.4%	2.4
Cost of risk/average gross loans	2.77%	2.55%	(0.22)
Cost of risk/average gross loans (FX adjusted)	2.76%	2.60%	(0.16)
Effective tax rate	26.3%	19.5%	(6.8)

[7] OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in OTP Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Buildig Society Ltd., OTP Factoring Ltd., OTP Financing Netherlands Ltd. and OTP Holding Ltd. The consolidated accounting result of these companies are segmented into OTP Core and Corporate Centre, the latter being a virtual entity responsible for rendering debt and capital market related services to the subsidiaries across OTP Group.

- After tax profit declined by 17% as a result of diminishing operating income and negative one-off effects
- 11% drop of net interest income is mainly due to declining loan volumes and eroding net interest margin
- Total loans, within that mortgage loans declined by 7% and 9% respectively, deposits remained stable, as a result loan-to-deposit ratio sank further (2012: 73%).
- Retail activity remained market leading: in mortgage and cash loan origination market share reached 34% and 52% in 4Q 2012, respectively

P&L developments

Without the effect of banking tax and FX mortgage loan prepayments **OTP Core** posted a net profit of HUF 94.6 billion in 2012, by 17% lower than a year ago. 2012 profit decreased by HUF 3.8 billion due to one-off items such as the revaluation of FX swaps and the profit impact of the treasury share-swap transaction. Furthermore, operating income also declined by 10% primarily driven by the 6% drop of total income. Net interest income generation was by 11% lower y-o-y, on one hand due to narrowing deposit margins and the shrinking portfolio on the other, partially as a result of early repayment of FX mortgage loans. The fixed exchange rate scheme available for FX mortgage borrowers had an additional negative impact (approx. HUF 0.4 billion less interest income in 4Q 2012)[8]. By end-2012 almost 32 thousand clients, representing 26.5% of eligible borrowers applied for the facility.
Annual operating expenses declined by 1%. The latter is the result of several factors: personnel expenses grew fundamentally due to higher number of employees aimed at strengthening the collection processes, moreover technical effects emerged from bringing the management compensation system in line with regulatory requirements of CRD III in 2010. Administrative expenses shrank significantly (–8% y-o-y), partially due to declining marketing and advisory costs as a result of stringent cost management. Furthermore, the changed recognition of tax deductible transfers caused a technical effect[9].
Risk cost lagged behind its 2011 level by 6%. Portfolio deterioration decelerated somewhat y-o-y (FX-adjusted non-performing loan formation in HUF billion 2011: 83, 2012: 75), whereas deterioration slowed down remarkably after the second quarter of 2012, thanks to the stronger forint and to the fixed exchange rate scheme available for FX borrowers. At the same time, the provision coverage of non-performing loans increased significantly to 81.9% (up by 0.9 ppt and 2.8 ppts in 2011 and 2012, respectively). The share of non-performing loans ('DPD90+ rate') ascended to 16.1%. Loans to large companies improved y-o-y (DPD90+ ratio 2011: 15.4%, 2012: 13.1%) – partly due to write-offs and sale of receivables. Besides, the FX mortgage portfolio deterioration slowed down especially in the second half of the year (DPD90+ ratio of mortgages 2011: 12.6%, 2012: 17.6%). The consumer loan book deteriorated steadily (DPD90+ 2011: 22.7% 2012: 24.8%), while the municipality portfolio remained good (DPD90+ ratio 2011: 0.4%, 2012: 0.6%).
The conversion of non-performing FX mortgage loans and the subsequent 25% debt forgiveness did not have a material P&L impact in 2012, since the effect of the debt forgiveness was mainly off-set by release of previously accumulated provisions. Altogether HUF 2.2 billion of loans was forgiven (together with exposures of OTP Flat Lease Ltd.) resulting banking tax re-fund in the amount of HUF 0.6 billion. The latter was recognised as an adjustment item in the consolidated P&L in 2012, its total after tax effect was at +HUF 0.5 billion.
The annual tax burden declined significantly (effective tax rate dropped from 26% to 20%). The main reason was the HUF 5.7 billion positive

[8] The 2012 annual estimated after tax profit effect of the fixed exchange rate scheme was recognised in OTP Core's P&L as other risk cost in 2Q 2012. From 2Q 2012 credit institutions' contribution tax started to be recognised in the P&L of OTP Core as OTP Core's burden share in the fixed exchange rate scheme. Simultaneously the formerly set aside other provisions were released. In the adjusted financial statements of this report the tax is reclassified from other expenses (administrative expenses) to net interest income.

[9] Tax deductible transfers paid by Hungarian group members in 2H 2012 were reclassified from other expenses to corporate income tax. Thus the paid transfer and the amount of related corporate tax allowance were recognised jointly on the corporate income tax line of the adjusted P&L (in a net way). In 2011 HUF 4.7 billion paid transfer was booked among other administrative expenses at OTP Core.

tax shield stemming from the revaluation of subsidiary investments in 2012 thanks to the appreciation of the forint. In 2011 on the contrary, HUF 8.4 billion additional tax was generated because of forint depreciation.

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

Main components of balance sheet closing balances	2011 HUF million	2012 HUF million	Change %
Total Assets	6,548,167	6,229,359	(5)
Loans, net of allowance for loan losses	3,194,835	2,807,565	(12)
Loans, net of allowance for loan losses (FX adjusted)	3,095,396	2,807,565	(9)
Gross customer loans	3,581,382	3,234,344	(10)
Gross customer loans (FX adjusted)	3,468,346	3,234,344	(7)
Retail loans	2,328,619	2,180,189	(6)
Retail mortgage loans (incl. home equity)	1,779,009	1,620,985	(9)
Retail consumer loans	437,415	438,497	0
SME loans	112,195	120,707	8
Corporate loans	1,139,727	1,054,155	(8)
Loans to medium and large corporates	833,523	786,761	(6)
Municipal loans	306,204	267,394	(13)
Allowance for loan losses[1]	(386,547)	(426,779)	10
Allowance for loan losses (FX adjusted)[1]	(372,951)	(426,779)	14
Deposits from customers + retail bonds	3,913,977	3,863,322	(1)
Deposits from customers + retail bonds (FX adjusted)	3,875,003	3,863,322	0
Retail deposits + retail bonds	2,768,090	2,567,595	(7)
Household deposits + retail bonds	2,466,088	2,257,203	(8)
o/w: Retail bonds	344,510	230,626	(33)
SME deposits	302,002	310,392	3
Corporate deposits	1,106,913	1,295,727	17
Deposits of medium and large corporates	909,456	1,056,244	16
Municipal deposits	197,457	239,483	21
Amounts due to banks, goverments, deposits from the National Banks and other banks	572,721	403,947	(29)
Issued securities	628,704	479,637	(24)
o/w retail bonds	344,510	230,626	(33)
Liabilities from issued securities without retail bonds	284,194	249,012	(12)
Total shareholders' equity	1,278,409	1,396,132	9
Loan Quality	**2011**	**2012**	**%/ppts**
90+ days past due loan volume	488,668	521,062	7
90+ days past due loans/gross customer loans	13.6%	16.1%	2.5
Total allowance for loan losses/90+ days past due loans*	79.1%	81.9%	2.8
Market Share	**2011**	**2012**	**ppts**
Loans	18.2%	19.0%	0.8
Deposits	22.7%	23.0%	0.3
Total Assets	25.4%	26.6%	1.2
Performance Indicators	**2011**	**2012**	**ppts**
Net loans to (deposits + retail bonds) (FX adjusted)	80%	73%	(7)
Leverage (Shareholder's Equity/Total Assets)	19.5%	22.4%	2.9
Leverage (Total Assets/Shareholder's Equity)	5.1x	4.5x	
Capital adequacy ratio (OTP Bank, non-consolidated, HAS)	17.9%	20.5%	2.6
Core Tier1 ratio (OTP Bank, non-consolidated, HAS)	15.8%	19.4%	3.6

Balance sheet trends

In 2012 FX-adjusted gross loan portfolio decreased by 7% as a result of a 6% contraction of retail volumes and an 8% decline in the corporate segment. The deposit book together with retail bonds stagnated. As a result, the 'net loan-to-deposit+retail bond' ratio declined (2012: 73%, –7ppts y-o-y, –4% y-o-y FX-adjusted).

Loan demand in the retail segment is still missing momentum. The FX-adjusted decrease of the mortgage portfolio continued after closing the early repayment scheme, though at more moderate pace (2012: –9% y-o-y). After the closure of early repayments OTP's market share in mortgage loan sales exceeded 30% again (4Q 2012: 34%, thus in 3–12M: 32%). However, the overall loan disbursement dropped during the

* Excluding provisions related to the early repayment of FX mortgage loans.

year as temporary demand for refinancing forint loans boosted by the early repayments run out of steam (2012 annual disbursement: HUF 87 billion, –6% y-o-y). Going forward the interest subsidy scheme on forint mortgages launched by the Government may result in a stronger customer demand. OTP was the first bank offering this product from early August 2012. Thanks to the regulatory modifications, from January 2013 the conditions of the subsidised loans became more favourable for clients. Accordingly, instead of the decreasing amount of subsidy under the old scheme it will remain flat for 5 years period and the available loan amount was also increased (in case of building or purchase a new flat from HUF 10 million to HUF 15 million, in case of purchase or renovation of a used flat from HUF 6 million to HUF 10 million). The value limit of the used real estate to be purchased was raised from HUF 15 million to HUF 20 million. Under the scheme the mortgage borrower can enjoy a forint interest rate of around 6-7% in the first 5 years provided all relevant requirements are met.

Apart from outstanding market share in new sales (2011: 50%, 2012: 57%) no material expansion was experienced in cash loans: due to sluggish demand the newly disbursed personal loan portfolio lagged behind that of the previous year (in HUF billion: 2011: 48, 2012: 46) and the loan book decreased. However the portfolio of overdrafts increased in 2012, thus the total consumer loan book stagnated.

Loan volumes to middle and large companies decreased by 6% in 2012. Thus only loans to micro and small enterprises could expand by 8% y-o-y.

The decline of municipal loan portfolio (–13% y-o-y) is due to the debt consolidation of municipalities with less than 5 thousands inhabitants taking place in December 2012. In the consolidation process the State gave a non-refundable subsidy to the relevant municipalities for the total repayment of their outstanding obligations (loans, bonds, bills of exchange) as at 12 December 2012. In case of OTP Bank HUF 28,8 billion total debt of 957 municipalities has been repaid (calculated with 27 December 2012 exchange rate the FX-composition of the debt in HUF equivalent was the following: HUF-denominated: HUF 24.2 billion, CHF-denominated: HUF 4.4 billion and EUR-denominated: HUF 0.1 billion). Simultaneously the Bank transferred a HUF 75.5 million bail-deposit, related to the loan accounts, to the state treasury.

Take-over of the debts of municipalities with more than 5 thousands inhabitants by the State is expected in 1H 2013. The measure of the debt take-over will be 40%, 50%, 60% or 70%, based on the income generating capacity of the municipality compared to the average income generating capacity of the municipality's settlement category. However, the central administration has the opportunity to deviate from these rates upwards, based on individual agreement with local governments. At OTP Bank total loan amount of municipal debt to the 192 municipalities with more than 5 thousands inhabitants represented HUF 245 billion at the end of 2012. Accordingly, part of this loan amount becomes receivables from the State during 2Q 2013 in the balance sheet of OTP Bank.

The deposit base of OTP Core (together with retail bonds) remained stable y-o-y. It was supported by corporate flows, within that especially by deposits of large companies. As for retail deposits, y-o-y volume development was determined by the fact that clients could use their savings for early repayment of FX mortgage loans. Furthermore, since the beginning of 2012 the state offers attractive interest rates on the government bonds and conducts intensive promotional campaign. As a result, the structure of retail savings realigned at the expense of term deposits and bank bonds in favour of government bonds.

The portfolio of issued securities (without retail bonds) declined by 12% y-o-y. The decrease was caused by repayments of forint denominated mortgage bonds (in the amount of HUF 59 billion). There was no bond issuance on the international capital markets in 2012[10]. Thus, the decline of the outstanding portfolio due to maturities was offset only by HUF denominated senior unsecured notes issued for Hungarian institutional investors (2012 closing volume: HUF 125 billion, +22 billion y-o-y).

[10] Major part of the EUR 510 million mortgage bond issued by OTP Mortgage Bank on 6 September 2012 was purchased by OTP Bank, while third party investors bought EUR 5 million notional of the tranche.

OTP FUND MANAGEMENT (HUNGARY)

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

Main components of P&L account	2011 HUF million	2012 HUF million	Change %
After tax profit w/o dividends, net cash transfer and banking tax	3,321	2,040	(39)
Corporate income tax	(745)	(257)	66
Profit before income tax	4,066	2,297	(44)
Total income	5,913	4,633	(22)
Net interest income	65	55	(16)
Net fee and commission income	5,047	4,516	(11)
Other net non-interest income	801	62	(92)
Operating expenses	(1,744)	(2,370)	36
Personnel expenses	(745)	(870)	17
Operating expenses	(982)	(1,462)	49
Depreciation	(17)	(38)	124
Other provisions	(103)	35	(134)
Main components of balance sheet closing balances	**2011**	**2012**	**%**
Total assets	8,595	6,617	(23)
Total shareholders' equity	7,095	5,092	(28)
Asset under management (HUF billion)	**2011**	**2012**	**%**
Assets under management, total (w/o duplicates)	**993**	**1,077**	**8**
Retail investment funds (closing, w/o duplicates)	594	672	13
Volume of managed assets (closing, w/o duplicates)	400	405	1
Volume of investment funds (with duplicates)	796	771	(3)
money market	375	388	3
bond	112	139	24
mixed	11	11	0
security	196	94	(52)
guaranteed	81	89	9
other	21	50	138

OTP Fund Management posted HUF 2 billion after tax profit in 2012 excluding the special banking tax on financial institutions.

The series of rate cuts started by the central bank from August 2012 channelled savings from deposits into investment funds. Assets under management gradually grew from the second half of the year, as well as the fee income from asset management. The wealth management fee income however dropped significantly on the back of the redemption of investment fund units held in the portfolios of private pension funds. Consequently, total fees declined by 11% y-o-y. Operating costs expanded by 36% y-o-y due to a one-off item. The Hungarian Financial Supervisory Authority ('HFSA') reviewed the practice of local fund managers as to how much fees they charged directly and indirectly for handling private pension investments. As a result the HFSA obliged OTP Fund Management to refund HUF 597 million to OTP Private Pension Fund. This expense item was recognised as administrative cost in 2012. The 17% increase in personnel expenses y-o-y was partly related to success fees booked under the remuneration scheme.

Assets under management without duplication represented HUF 1,077 billion underpinning a y-o-y 84 billion increase. Investment funds in general had a good performance in 2012, especially in 4Q. Within that bond funds and derivative funds enjoyed the strongest inflows, whereas money market funds suffered capital outflow.

As a result the securities portfolio funds increased by 13% y-o-y, however the company's market share shrank to 25.9% (–25 bps y-o-y).

The other two consolidated fund management companies within the Group (in the Ukraine and in Romania) posted HUF 2 billion profits in 2012 versus a HUF 56 million loss in the previous year.

MERKANTIL GROUP (HUNGARY)

Performance of Merkantil Bank and Car:

Main components of P&L account	2011 HUF million	2012 HUF million	Change %
After tax profit w/o dividends, net cash transfers and one-offs	2,206	501	(77)
Income tax	0	(11)	
Profit before income tax	2,206	512	(77)
Operating profit	9,956	7,956	(20)
Total income	15,497	13,994	(10)
Net interest income	15,527	15,346	(1)
Net fees and commissions	(3,369)	(3,106)	(8)
Other net non-interest income without the effect of revaluation of FX provisions	3,338	1,755	(47)
Operating expenses	(5,542)	(6,038)	9
Total risk costs	(7,749)	(7,444)	(4)
Provision for possible loan losses without the effect of revaluation of FX provisions	(7,497)	(7,710)	3
Other provision	(253)	267	(206)
Main components of balance sheet closing balances	**2011**	**2012**	**%**
Total assets	270,894	242,982	(10)
Gross customer loans	305,445	267,744	(12)
Gross customer loans (FX-adjusted)	292,788	267,744	(9)
Retail loans	2,293	4,038	76
Corporate loans	30,352	39,755	31
Car financing loans	260,143	223,951	(14)
Allowances for possible loan losses	(54,563)	(47,891)	(12)
Allowances for possible loan losses (FX-adjusted)	(54,038)	(47,891)	(11)
Deposits from customers	4,673	4,276	(8)
Deposits from customers (FX-adjusted)	4,672	4,276	(8)
Retail deposits	1,673	1,321	(21)
Corporate deposits	2,998	2,955	(1)
Liabilities to credit institutions	211,429	172,987	(18)
Total shareholders' equity	25,332	26,293	4
Loan Quality	**2011**	**2012**	**%/ppts**
90+ days past due loan volume (in HUF million)	58,509	51,414	(12.1)
90+ days past due loans/gross customer loans (%)	19.2%	19.2%	0.0
Cost of risk/average gross loans (%)	2.44%	2.69%	0.25
Cost of risk/average gross loans (FX-adjusted) (%)	2.42%	2.75%	0.33
Total provisions/90+ days past due loans (%)	93.3%	93.1%	(0.2)
Performance Indicators	**2011**	**2012**	**ppts**
ROA	0.8%	0.2%	(0.6)
ROE	9.3%	1.9%	(7.4)
Net interest margin	5.58%	5.97%	0.39
Cost/income ratio	35.8%	43.2%	7.4

Merkantil Bank and Car's aggregated 2012 after tax result amounted to HUF 501 million, representing a 77% decline compared to the previous year.

The annual operating result declined by 20% y-o-y, owing to the 10% drop in total income, while operating costs rose by 9%. Net interest income showed a 1% decline. Intragroup funding spreads widened, however, this was offset by the weakening average exchange rate of the forint against the swiss franc (+6% y-o-y). The decline in other net non-interest income was mainly attributable to a base effect (ie. in 2011 significant FX gain was realised).

The share of loans with more than 90 days of delinquency remained unchanged at 19.2%. In 2012 non-performing loans in the gross amount of HUF 12 billion with provision coverage at 100% were sold to OTP Factoring. The provision coverage ratio remained stable at a satisfactorily high level of 93.1%.

The FX-adjusted car financing loan book continued to erode: it contracted by 14% y-o-y, partly because of the sale of loans to Factoring. In 2012 new car loan sales developed favourably, they jumped by 44% y-o-y, while in case of big ticket leasing new sales volumes doubled.

Performance of OTP Bank's foreign subsidiaries*

OTP BANK RUSSIA

Performance of OTP Bank Russia:

Main components of P&L account	2011 HUF million	2012 HUF million	Change %
After tax profit w/o dividends, net cash transfers and one-offs	41,042	47,158	15
Income tax	(12,064)	(13,690)	13
Profit before income tax	53,107	60,849	15
Operating profit	82,007	121,541	48
Total income	142,796	193,273	35
Net interest income	123,990	170,001	37
Net fees and commissions	17,610	20,998	19
Other net non-interest income	1,196	2,273	90
Operating expenses	(60,789)	(71,732)	18
Total risk costs	(28,900)	(60,692)	110
Provision for possible loan losses	(28,714)	(59,567)	107
Other provision	(186)	(1,126)	606
Main components of balance sheet closing balances	**2011**	**2012**	**%**
Total assets	868,231	1,027,763	18
Gross customer loans	729,910	843,424	16
Gross customer loans (FX-adjusted)	706,163	843,424	19
Retail and SME loans	640,875	806,805	26
Corporate loans	52,761	30,013	(43)
Car financing loans	12,526	6,606	(47)
Allowances for possible loan losses	(72,332)	(129,491)	79
Allowances for possible loan losses (FX-adjusted)	(70,109)	(129,491)	85
Deposits from customers	488,582	590,958	21
Deposits from customer (FX-adjusted)	470,961	590,958	25
Retail and SME deposits	387,059	471,325	22
Corporate deposits	83,902	119,633	43
Liabilities to credit institutions	91,738	75,112	(18)
Issued securities	105,490	118,063	12
Subordinated debt	17,567	16,399	(7)
Total shareholders' equity	144,838	191,883	32
Loan Quality	**2011**	**2012**	**%/ppts**
90+ days past due loan volume (in HUF million)	80,705	140,239	73.8
90+ days past due loans/gross customer loans (%)	11.1%	16.6%	5.5
Cost of risk/average gross loans (%)	4.64%	7.57%	2.93
Cost of risk/average (FX-adjusted) gross loans (%)	4.61%	7.69%	3.08
Total provisions/90+ days past due loans (%)	89.6%	92.3%	2.7
Performance Indicators	**2011**	**2012**	**ppts**
ROA	5.4%	5.0%	(0.4)
ROE	33.8%	28.0%	(5.8)
Total income margin	18.63%	20.39%	1.76
Net interest margin	16.18%	17.93%	1.75
Cost/income ratio	42.6%	37.1%	(5.5)
Net loans to deposits (FX-adjusted)	135%	121%	(14)
FX rates	**2011 HUF**	**2012 HUF**	**Change %**
HUF/RUB (closing)	7.47	7.26	(3)
HUF/RUB (average)	6.87	7.25	6

* Figures presented in the statements are not consistent with the audited data because they were orginated according to controlling methodology.

- HUF 47 billion profit for 2012 exceeded 2011 results by 15%
- Operating profit surged by 48% y-o-y
- Leaping risk cost, y-o-y improving provision coverage (2012: 92.3%)
- Still robust consumer loan disbursement
- Cost efficiency is further improving (2012 cost/income ratio at 37.1%, -5.5 ppts y-o-y)

After tax profit of **OTP Bank Russia** for 2012 amounted to HUF 47.2 billion, by 15% higher than the net profit for 2011.

Total income in 2012 showed dynamic increase, net interest income and net fees grew by 37% and 19% y-o-y, respectively. Besides swelling loan volumes (FX-adjusted 19% increase) higher interest margin (2012: 17.9%, +1.8 ppts y-o-y) also fuelled the increase of income. Although net fee margin was stable y-o-y in 2012, net fees increased by 19% y-o-y, mainly driven by the still outstandingly strong dynamics of the credit card business and the growing amount of loans sold with insurance. In 2012 about HUF 2.3 billion other net non-interest income beefed up the results, mainly owing to the FX gains due to revaluation of open positions in 2Q and 4Q.

Operating expenses grew 18% y-o-y due to the stronger business activity: cost areas linked to business volumes like administrative cost (+28%) and personnel expenses (+18%) grew, while depreciation decreased by 17% y-o-y. Despite higher operating costs 2012 operating profit showed an outstanding performance and surged by 48% y-o-y. As a result, cost/income ratio of the bank improved significantly (2012: 37.1%, –5.5 ppts y-o-y).

Risk cost grew substantially in 2012, by 110% y-o-y. The increase in risk cost is due to portfolio deterioration, DPD90+ portfolio grew by 16.7% q-o-q and by 73.8% y-o-y. As a result of the total loan book growth, increase of DPD90+ ratio was milder, it grew to 16.6% by the end of the year (+5.5 ppts y-o-y). Owing to the high provisioning, the provision coverage of DPD90+ loans further improved (2012: 92.3%, +2.7 ppts y-o-y).

The Russian bank remained very successful in selling consumer loans; in 2012 the gross FX-adjusted consumer loan portfolio increased by 31% y-o-y. In case of the flagship POS-loan product, with record disbursement in 4Q 2012 the y-o-y portfolio expansion reached 29%. This achievement was supported by a larger agent network but also average loan volume grew by about 9% compared to the previous year, and the average term of POS loans lengthened by about 1 month to 13 months. The bank kept its No. 2 position in this market segment. Notwithstanding the strengthening market competition, the credit card segment showed robust growth in 2012 (+61% y-o-y). Currently the bank is the seventh largest player in this segment. Personal loans disbursement, which excelled in 2011 with high growth, was scaled back according to a management decision in the first half of 2012 as more emphasis was put on products with higher profitability. From 3Q 2012 on this segment showed growth again (2012: +3% y-o-y), despite the higher pricing.

Other retail lending products (car loans –47% y-o-y, mortgage loans -22% y-o-y) as well as corporate loans portfolio continued to contract in 2012: the latter shrank by 43% y-o-y. This typically low margin segment is dominated by state owned banks; OTP Bank Russia has rather started to improve the letter of credit and corporate treasury business from 2Q 2012 on.

In 2012 total deposits grew by 25% y-o-y, FX-adjusted. Due to slightly higher interest rates the retail portfolio volume (especially that of the term deposits) grew by 24% y-o-y. SME deposits also increased (+14% y-o-y), and corporate deposit base grew back to levels seen in the beginning of 2011 (+43% y-o-y). As a result of the increasing deposit base, FX-adjusted net loan-to-deposit ratio decreased to 121% in 2012, –14 ppts y-o-y.

With the aim of diversifying the funding base, the Bank already tapped 4 times the rouble bond market in 2011 and 2012, issuing a total of RUB 17.5 billion bonds. Out of which

RUB 6 billion was printed in 1Q 2012. In November 2012 in case of a puttable bond with face value of RUB 4 billion, 97% of the investors executed their put option, thus the outstanding obligation decreased.

The number of employees increased to 5,177 by the end of 2012, at the same time the number of branches decreased by one to 146. The number of active points of sale grew by 18% in 2012 and almost reached 29 thousand.

DSK GROUP (BULGARIA)

Performance of DSK Group:

Main components of P&L account	2011 HUF million	2012 HUF million	Change %
After tax profit w/o dividends, net cash transfers and one-offs	12,744	24,214	90
Income tax	(1,587)	(3,329)	110
Profit before income tax	14,331	27,543	92
Operating profit	59,878	58,928	(2)
Total income	93,104	95,732	3
Net interest income	74,731	74,671	(0.1)
Net fees and commissions	15,867	16,875	6
Other net non-interest income	2,505	4,186	67
Operating expenses	(33,226)	(36,804)	11
Total provisions	(45,547)	(31,383)	(31)
Provision for possible loan losses	(45,713)	(31,153)	(32)
Other provision	166	(230)	(239)
Main components of balance sheet closing balances	**2011**	**2012**	**%**
Total assets	1,360,510	1,292,031	(5)
Gross customer loans	1,221,517	1,143,861	(6)
Gross customer loans (FX-adjusted)	1,143,653	1,143,861	0.01
Retail loans	903,468	891,331	(1)
Corporate loans	240,185	252,530	5
Allowances for possible loan losses	(158,490)	(178,538)	13
Allowances for possible loan losses (FX-adjusted)	(148,390)	(178,538)	20
Deposits from customers	1,013,310	979,054	(3)
Deposits from customer (FX-adjusted)	948,140	979,054	3
Retail deposits	834,837	861,722	3
Corporate deposits	113,303	117,332	4
Liabilities to credit institutions	12,223	36,356	197
Subordinated debt	109,262	43,901	(60)
Total shareholders' equity	209,484	209,187	(0.1)
Saját tőke	144.838	191.883	32
Loan Quality	**2011**	**2012**	**%/ppts**
90+ days past due loan volume (in HUF million)	200,154	210,664	5.3
90+ days past due loans/gross customer loans (%)	16.4%	18.4%	2.0
Cost of risk/average gross loans (%)	3.99%	2.63%	(1.36)
Cost of risk/average (FX-adjusted) gross loans	4.04%	2.72%	(1.32)
Total provisions/90+ days past due loans (%)	79.2%	84.8%	5.6
Performance Indicators	**2011**	**2012**	**ppts**
ROA	1.0%	1.8%	0.8
ROE	6.0%	11.6%	5.6
Total income margin	7.22%	7.22%	0.00
Net interest margin	5.80%	5.63%	(0.17)
Cost/income ratio	35.7%	38.4%	2.7
Net loan to deposit ratio (FX-adjusted)	105%	99%	(6)
FX rates	**2011 HUF**	**2012 HUF**	**Change %**
HUF/BGN (closing)	159.1	148.9	(6)
HUF/BGN (average)	142.8	148.0	4

- 2012 after tax profit almost doubled mainly as a result of significantly moderating risk costs (down by 31% y-o-y)
- Declining FX-adjusted net loans and increasing deposit book resulted declining net-loan-to-deposit ratio (99%, -6 ppts y-o-y)
- Slightly narrowing net interest margin (5.63%, –16 bps y-o-y) due to change of methodology and moderating lending rates
- Decelerating portfolio deterioration, significantly growing coverage ratio (84.8%, +5.6 ppts y-o-y)

DSK Group reached HUF 24.2 billion of after tax profit in 2012, almost twice as high as in 2011 (+90% y-o-y). The performance of the Bulgarian bank in 2012 proved its henceforward robust income generating capability and efficient cost control. Beside the practically stagnating operating income (–2% y-o-y) the outstanding profit growth is basically due to lower provisioning (down by 31% y-o-y).

Total income increased by 3% y-o-y due to exchange rate movements (in local currency it stagnated). This is primarily the result of increasing net fee income (+6% y-o-y) and the outstanding increase (+67% y-o-y) of other non-interest income from gains realized on government securities and on FX transactions.

Net interest income remained flat in HUF terms. In 2012 net interest income was primarily driven by two factors. On one hand from the middle of October 2012 the Bank does not accrue interest on DPD180+ loans and also terminated the related provisioning in accordance with its modified interest recognition methodology. On the other hand the basically stagnating portfolio together with the slightly eroding interest margin (2012: 5.63%, –17 bps) also had a negative effect on interest income.

Growth of operating expenses was mainly driven by advisory costs related to some bigger projects (+11% y-o-y). Consequently, the cost/income ratio increased. Thus significant y-o-y improvement of net profit is due to the moderate provisioning. HUF 31.4 billion amount underpins a y-o-y 31% drop. As a result of moderating portfolio deterioration, the provision coverage of DPD90+ loans grew to 84.8% (+5.6 ppts y-o-y).

In 2012 portfolio deterioration slowed down quarter by quarter (DPD90+ ratio: 1Q: 17.4%, 2Q: 18.0%, 3Q: 18.2%, 4Q: 18.4%). Regarding the composition the deterioration: by the end of the year the DPD90+ ratio of mortgage and consumer loans increased to 21.7% and 15.7%, respectively, while the ratio of SME and corporate loans went up to 41.2% and 11.1%, respectively.

The loan portfolio remained flat y-o-y (FX-adjusted), only the corporate loan book increased (+5% y-o-y). Retail loan market share was 29% and decreased slightly (–1.2 ppts y-o-y) as a result of loan transfers to OTP Faktoring Bulgaria, while corporate loan market share was stable at 6%. Market share of DSK in loans was at 12.8% by end-2012 (–1.3 ppts y-o-y).

In spite of the continuously below-market average deposit interest rates the deposit base increased by 3% y-o-y (FX-adjusted). Regarding the segments: the retail portfolio advanced by 3% y-o-y, while the SME sector grew by 2%. The 4% decline of large corporate deposits was partially balanced by the y-o-y 40% increase of municipal deposit portfolio. As a result of that DSK's overall deposit market share shrank to 11.4%, within that the retail segment decreased to 16.1% (y-o-y –1.3 ppts) while the corporate segment was stable at 5.1%.

Due to stagnating gross loan portfolio, higher provisioning and slightly increasing deposit base the net-loan-to-deposit ratio declined to 99% (–6 ppts y-o-y).

The capital position of DSK remained very strong, though in 2012 the Bank repaid a subordinated debt with face value of EUR 200 million to its mother company. The capital adequacy ratio is more than 1.5 times higher than the regulatory minimum (2012: 18.9% vs. 12%; Tier1 ratio: 15.8% vs. 10%).

OTP BANK JSC (UKRAINE)

Performance of OTP Bank JSC:

Main components of P&L account	2011 HUF million	2012 HUF million	Change %
After tax profit w/o dividends and net cash transfer	5,091	528	(90)
Corporate income tax	(6,120)	(2,180)	(64)
Profit before income tax	11,211	2,708	(76)
Operating profit	26,829	33,511	25
Total income	53,585	64,509	20
Net interest income	41,784	49,586	19
Net fees and commissions	9,063	12,634	39
Other net non-interest income	2,738	2,289	(16)
Operating expenses	(26,756)	(30,998)	16
Total risk costs	(15,618)	(30,804)	97
Provision for possible loan losses	(15,209)	(30,597)	101
Other provision	(409)	(207)	(49)
Main components of balance sheet closing balances	**2011**	**2012**	**%**
Total assets	778,198	653,603	(16)
Gross customer loans	799,117	683,478	(14)
Gross customer loans (FX-adjusted)	734,051	683,478	(7)
Retail loans	316,950	309,441	(2)
Corporate loans	372,726	337,595	(9)
Car financing loans	44,375	36,441	(18)
Allowances for possible loan losses	(193,587)	(196,132)	1
Allowances for possible loan losses (FX-adjusted)	(177,923)	(196,132)	10
Deposits from customers	251,176	243,132	(3)
Deposits from customer (FX-adjusted)	230,963	243,132	5
Retail and SME deposits	138,441	167,488	21
Corporate deposits	92,522	75,644	(18)
Liabilities to credit institutions	350,556	242,571	(31)
Subordinated debt	47,971	42,925	(11)
Total shareholders' equity	120,149	112,464	(6)
Loan Quality	**2011**	**2012**	**%/ppts**
90+ days past due loan volume (in HUF million)	239,893	248,671	4
90+ days past due loans/gross customer loans (%)	30.0%	36.4%	6.4
Cost of risk/average gross loans (%)	2.04%	4.13%	2.09
Cost of risk/average (FX-adjusted) gross loans (%)	2.07%	4.32%	2.25
Total provisions/90+ days past due loans (%)	80.7%	78.9%	(1.8)
Performance Indicators	**2011**	**2012**	**ppts**
ROA	0.7%	0.1%	(0.6)
ROE	4.4%	0.5%	(3.9)
Total income margin	7.17%	9.01%	1.84
Net interest margin	5.59%	6.93%	1.34
Cost/income ratio	49.9%	48.1%	(1.8)
Net loans to deposits (FX-adjusted)	241%	200%	(41)
FX rates	**2011 HUF**	**2012 HUF**	**Change %**
HUF/UAH (closing)	29.92	27.38	(8)
HUF/UAH (average)	25.16	27.88	11

- HUF 528 million after tax profit in 2012 as a result of operating profit improving by 25% and doubling risk costs
- Strong POS loan origination with cross sale of credit cards catching up
- Retail deposits advanced by 21% y-o-y providing hryvnia liquidity for consumer lending
- With the further erosion of gross loans the DPD90+ ratio grew to 36.4%, the cash coverage remained stable at 78.9% (–1.8 ppts y-o-y)

In 2012 **OTP Bank Ukraine** posted HUF 528 million of profits which significantly fell short of 2011 net earnings at HUF 5 billion. The annual operating profit (in hryvnia terms) increased by 14% supported by 9% growth in total income: the net interest income advanced by 8% as a result of successful consumer lending activity and higher net interest margin (2012: 6.93%, +1.34 ppts). Net fees in hryvnia terms grew by 28%: not only deposit and transaction fees performed nicely, but revenues also from payment protection policies sold with consumer loans increased, too.
Operating expenses grew only moderately (+5% y-o-y, FX-adjusted) driven mainly by the 8.1% increase in personnel expenses on the back of stronger POS and cash loan sales. In that segment agent-related selling activity gained ground against the traditional branch-based business. The agency network showed a dynamic expansion and grew to 2,591 by year end, whereas 3 branches were closed. Annual cost dynamics reflected both strong cost management and a relatively low inflation environment. As a result, FX-adjusted administrative expenses moderated by 0.3% y-o-y. The cost-to-income ratio declined by a further 1.8 ppts to 48.1%.
Risk costs doubled y-o-y, in case of consumer loans a new scoring system has been implemented together with a new verification system, as a result the quality of newly disbursed loans was better around the end of the year compared to that of in summer, true, in the overall portfolio those results are not yet meaningful. Despite growing risk costs the DPD90+ coverage declined slightly (–1.8 ppts y-o-y) and reached 78.9% by end-2012 as DPD90+ loan volumes in hryvnia terms increased by 14% y-o-y.
Since the launch of consumer lending in March 2011 newly disbursed volumes have been growing. The outstanding POS loan portfolio doubled y-o-y, and the Bank entered federal retail chains with its products. The cross sale of credit cards continued to be successful, too, in 4Q 2012 volumes advanced by 61%. Cash loan disbursement, however was scaled back somewhat in 2H due to more stringent scoring.
Similar to the meltdown of retail mortgage portfolio (–2% y-o-y, FX-adjusted), corporate volumes contracted, too as a result of repayments and write-offs (–9%). Corporate loans showed a slight recovery in 4Q as part of the loans written-off earlier was brought back into the balance sheet again as the management expects resuming payment service.
In order to provide hryvnia liquidity for the growing need of consumer lending, the bank launched deposit campaigns focusing on household clients. As a result of attractive offered rates, retail term deposits advanced by 21% y-o-y (FX-adjusted) and part of the existing deposits was repriced, too (the share of lower yielding deposits shrank). As a result, the net loan-to-deposit ratio decreased further (2012: 200%, –41 ppts y-o-y).
Due to a regulation of the Ukrainian National Bank, the capital position of OTP Ukraine lowered from 20.3% in September 2012 to 13.8% in December (the regulatory minimum is at 10%). However from 1 January 2013 new accounting standards for provisioning were introduced according to which the capital adequacy ratio would have been higher than 18% by end-2012.

OTP BANK ROMANIA (ROMANIA)

Performance of OTP Bank Romania:

Main components of P&L account	2011 HUF million	2012 HUF million	Change %
After tax profit w/o dividends, net cash transfers and one-offs	763	(5,530)	(825)
Income tax	7	579	
Profit before income tax	757	(6,109)	(907)
Operating profit	8,961	6,494	(28)
Total income	22,207	19,811	(11)
Net interest income	18,658	15,916	(15)
Net fees and commissions	2,428	1,677	(31)
Other net non-interest income without the effect of revaluation of FX provisions	1,121	2,218	98
Operating expenses	(13,246)	(13,317)	1
Total risk costs	(8,204)	(12,604)	54
Provision for possible loan losses without the effect of revaluation of FX provisions	(8,187)	(12,440)	52
Other provision	(17)	(164)	865
Main components of balance sheet closing balances	**2011**	**2012**	**%**
Total assets	460,623	461,458	0.1
Gross customer loans	394,188	392,608	(0.5)
Gross customer loans (FX-adjusted)	369,032	392,608	6
Retail loans	275,167	306,019	11
Corporate loans	93,865	86,589	(8)
Allowances for possible loan losses	(33,266)	(45,583)	37
Allowances for possible loan losses (FX-adjusted)	(31,082)	(45,583)	47
Deposits from customers	120,822	155,348	29
Deposits from customers (FX-adjusted)	111,271	155,348	40
Retail deposits	89,181	128,704	44
Corporate deposits	22,090	26,644	21
Liabilities to credit institutions	280,966	239,464	(15)
Total shareholders' equity	28,353	32,581	15
Loan Quality	**2011**	**2012**	**%/ppts**
90+ days past due loan volume (in HUF million)	47,584	62,388	31
90+ days past due loans/gross customer loans (%)	12.1%	15.9%	3.8
Cost of risk/average gross loans (%)	2.26%	3.16%	0.90
Cost of risk/average gross loans (FX-adjusted) (%)	2.28%	3.27%	0.99
Total provisions/90+ days past due loans (%)	69.9%	73.1%	3.2
Performance Indicators	**2011**	**2012**	**ppts**
ROA	0.2%	(1.2%)	(1.4)
ROE	2.9%	(18.2%)	(21.1)
Total income margin	5.02%	4.30%	(0.72)
Net interest margin	4.22%	3.45%	(0.77)
Cost/income ratio	59.6%	67.2%	7.6
Net loans to deposits (FX-adjusted)	304%	223%	(81)
FX rates	**2011 HUF**	**2012 HUF**	**Change %**
HUF/RON (closing)	72	66	(8)
HUF/RON (average)	66	65	(2)

OTP Bank Romania realized HUF 5.5 billion loss in 2012, while in 2011 HUF 763 million profit was reached.

The annual operating result declined by 28%, reflecting mainly the diminishing revenues. The net interest margin narrowed by 77 basis points, entailing a 15% drop in net interest income. The setback can be mainly reasoned by the elevated interest expenses due to the successful deposit collection in a competitive market. The 31% decline in net fees y-o-y was attributable to the reclassification of some items from fees into net interest income from 2012 onwards. In 2012 operating expenses went up by 1% which reflects strong cost control, considering the inflationary environment.

The DPD90+ ratio increased to 15.9%, although in 4Q 2012 the ratio remained flat. In 2012 bulk of the portfolio deterioration came from the mortgage loan segment. However, due to the increasing risk cost the provision coverage ratio improved.

The total gross loans grew by 6% y-o-y adjusted for the FX-effect. In 2012 the launch and upswing of local currency denominated consumer lending was the key milestone. Consumer loan volumes leaped by 74% y-o-y. The success of the deposit collection was marked by the increasing market share in 2012, supported by the 40% volume expansion. The net loan to deposit ratio declined. In 2012 the mother company increased the capital of OTP Bank Romania twice, altogether by HUF 12 billion equivalent.

OTP BANKA HRVATSKA (CROATIA)

Performance of OTP banka Hrvatska:

Main components of P&L account	2011 HUF million	2012 HUF million	Change %
After tax profit w/o dividends and net cash transfer	3,552	3,714	5
One-off items, after-tax	3,440	0	(100)
After tax profit w/o dividends, net cash transfers and one-offs	112	3,714	
Income tax	(50)	(1,039)	
Profit before income tax	162	4,754	
Operating profit	8,222	8,498	3
Total income	21,784	22,550	4
Net interest income	15,383	16,220	5
Net fees and commissions	4,094	4,660	14
Other net non-interest income	2,307	1,670	(28)
Operating expenses	(13,563)	(14,052)	4
Total risk costs	(8,059)	(3,744)	(54)
Provision for possible loan losses	(6,694)	(2,988)	(55)
Other provision	(1,365)	(756)	(45)
Main components of balance sheet closing balances	**2011**	**2012**	**%**
Total assets	529,853	519,570	(2)
Gross customer loans	377,592	351,410	(7)
Gross customer loans (FX-adjusted)	353,538	351,410	(1)
Retail loans	221,746	225,851	2
Corporate loans	130,466	124,757	(4)
Car financing loans	1,327	802	(40)
Allowances for possible loan losses	(22,013)	(23,740)	8
Allowances for possible loan losses (FX-adjusted)	(20,592)	(23,740)	15
Deposits from customers	421,618	407,754	(3)
Deposits from customer (FX-adjusted)	393,807	407,754	4
Retail deposits	351,240	361,426	3
Corporate deposits	42,566	46,329	9
Liabilities to credit institutions	36,041	37,832	5
Subordinated debt	1,589	1,489	(6)
Total shareholders' equity	58,485	59,813	2
Loan Quality	**2011**	**2012**	**%/ppts**
90+ days past due loan volume (in HUF million)	38,260	38,892	1.7
90+ days past due loans/gross customer loans (%)	10.1%	11.1%	0.9
Cost of risk/average gross loans	1.88%	0.82%	(1.06)
Cost of risk/average (FX-adjusted) gross loans	1.90%	0.85%	(1.05)
Total provisions/90+ days past due loans (%)	57.5%	61.0%	3.5
Performance Indicators	**2011**	**2012**	**ppts**
ROA	0.0%	0.7%	0.7
ROE	0.2%	6.3%	6.1
Total income margin	4.29%	4.30%	0.01
Net interest margin	3.03%	3.09%	0.06
Cost/income ratio	62.3%	62.3%	0.0
Net loans to deposits (FX-adjusted)	85%	80%	(5)
FX rates	**2011 HUF**	**2012 HUF**	**Change %**
HUF/HRK (closing)	41.27	38.59	(6)
HUF/HRK (average)	37.53	38.47	3

OTP banka Hrvatska posted HUF 3.7 billion after tax profit in 2012 (+5% y-o-y). The annual profit formation mainly reflected the 54% drop in risk costs as operating income remained stable. Total income of the Croatian subsidiary was stagnant in 2012 in HUF terms. Net interest income grew by 5% y-o-y as a result of stable net interest margin (2012: 3.09%, +0.06 ppt y-o-y) and portfolio formation. 14% increase of net fees was driven by the significantly improving card- and POS-terminal revenues in the summer tourist season and loan prepayment fees, while other net non-interest income dropped by 28%.
The cost/income ratio in 2012 was improving continuously (1Q 2012: 65.6%, 2Q: 62.9%, 3Q: 60.8%; 4Q: 60.0%).
After an improvement in the first half of the year, in 2H the portfolio deterioration accelerated, thus the DPD90+ ratio grew by 0.9 ppt to 11.1% y-o-y. With regards to different segments, the quality of consumer loans stagnated at 10.1%, while DPD90+ ratio of mortgage loans elevated to 8.0%. DPD90+ ratio of SME loans improved 1.7% to 19.0%, while the ratio of car- and corporate loans went up to 15.2% and 17.2%, respectively. Coverage ratio of DPD90+ loan portfolio at year-end 2012 was 61% (+3.5 ppts y-o-y).
Due to shrinking economy and high level of unemployment the loan demand remained subdued. In 2012 the loan portfolio declined by 1% due to 2% increase of retail and 4% decline of corporate loan portfolio (FX-adjusted). Within the retail book mortgage and consumer loans grew by 1% and 3%, respectively. As the contraction in loan portfolio is typical on the Croatian market, the market share of the bank in loans was stable at 3.2%.
In 2012 the FX-adjusted deposit book expanded in all segments, altogether by 4% y-o-y. The annual growth of retail and SME portfolio was 3%, while the corporate book developed by 9%. As a result, the market share practically remained unchanged at 4.3%. In the wake of decreasing loans but increasing deposits, the net-loan-to-deposit rate dropped by 4 ppts to 80% in 2012.
Capital adequacy ratio of the Bank increased by 1.4 ppts y-o-y to 14.9% (regulatory minimum: 12%).

OTP BANKA SLOVENSKO (SLOVAKIA)

Performance OTP Banka Slovensko:

Main components of P&L account	2011 HUF million	2012 HUF million	Change %
After tax profit w/o dividends, net cash transfers and one-offs	(409)	(1,161)	184
Income tax	(72)	(182)	153
Profit before income tax	(336)	(979)	191
Operating profit	3,328	3,441	3
Total income	13,640	13,932	2
Net interest income	10,968	12,019	10
Net fees and commissions	2,499	2,930	17
Other net non-interest income	172	(1,017)	(691)
Operating expenses	(10,311)	(10,491)	2
Total risk costs	(3,665)	(4,419)	21
Provision for possible loan losses	(3,624)	(4,420)	22
Other provision	(40)	1	(102)
Main components of balance sheet closing balances	**2011**	**2012**	**%**
Total assets	386,313	374,224	(3)
Gross customer loans	300,970	291,991	(3)
Gross customer loans (FX-adjusted)	281,754	291,991	4
Retail and SME loans	205,486	222,326	8
Corporate loans	75,725	69,144	(9)
Car financing loans	543	520	(4)
Allowances for possible loan losses	(18,992)	(21,042)	11
Allowances for possible loan losses (FX-adjusted)	(17,781)	(21,042)	18
Deposits from customers	290,157	299,014	3
Deposits from customer (FX-adjusted)	271,599	299,014	10
Retail and SME deposits	250,186	274,855	10
Corporate deposits	21,412	24,159	13

Main components of balance sheet closing balances	2011 HUF million	2012 HUF million	Change %
Liabilities to credit institutions	7,596	6,074	(20)
Issued securities	42,250	28,296	(33)
Subordinated debt	9,057	8,464	(7)
Total shareholders' equity	30,421	26,993	(11)
Loan Quality	**2011**	**2012**	**%/ppts**
90+ days past due loan volume (in HUF million)	34,650	34,823	0.5
90+ days past due loans/gross customer loans (%)	11.5%	11.9%	0.4
Cost of risk/average gross loans (%)	1.26%	1.49%	0.23
Cost of risk/average (FX-adjusted) gross loans (%)	1.28%	1.54%	0.26
Total provisions/90+ days past due loans (%)	54.8%	60.4%	5.6
Performance Indicators	**2011**	**2012**	**ppts**
ROA	(0.1%)	(0.3%)	(0.2)
ROE	(1.5%)	(4.0%)	(2.5)
Total income margin	3.71%	3.66%	(0.05)
Net interest margin	2.98%	3.16%	0.18
Cost/income ratio	75.6%	75.3%	(0.3)
Net loans to deposits (FX-adjusted)	97%	91%	(6)
FX rates	**2011 HUF**	**2012 HUF**	**Change %**
HUF/EUR (closing)	311	291	(6)
HUF/EUR (average)	279	289	4

In 2012 **OTP Banka Slovensko** posted HUF 1,161 million after tax loss without the banking tax, compared to the loss of HUF 409 million in 2011, mainly as a result of growing risk cost. The total burden of banking tax in 2012 was HUF 951 million for the Slovakian bank. According to the decision of the Slovakian parliament the base of the banking tax broadened from 2H 2012, and there is an extraordinary banking tax due since October 2012. The total burden of banking taxes is expected to reach EUR 5.1 million (HUF 1.5 billion) in 2013 for the Slovakian subsidiary.

Due to the FX-adjusted total loan growth and the stable margins (2012 total income margin: 3.66%, –5 bps y-o-y) total income shaped well in 2012. Y-o-y net interest income grew by 10% and net fees by 17%. The strong income generation was somewhat off-set by the HUF 1 billion other net non-interest income loss, mainly stemming from swap revaluation. Operating expenses grew by 2% y-o-y, which, taking into consideration the higher average HUF/EUR exchange rate (+4% y-o-y), demonstrates a stringent cost control. In 2H 2012 operating expenses (within that the administrative expenses) declined as the contribution to the deposit protection fund was abolished to compensate for the higher banking tax payable. The total effect was HUF 217 million before tax in 2H. Cost/income ratio improved a bit in HUF terms to 75.3% in 2012, although in local currency it showed a slight increase.

In 2012 HUF 4.4 billion of provisions was set aside (+21% y-o-y) out of which more than half was made in 4Q (HUF 2.4 billion). The outstandingly high risk cost was made in order to improve provision coverage of non-performing loans (2012: 60.4%, +5.6 ppts y-o-y). Mainly mature uncovered fast loans in the SME segment was affected by the coverage enhancement. By the end of 2012 the volume of 90 days past due loans increased by only half of a percentage point, while DPD90+ ratio increased by only 40 bps y-o-y (2012: 11.9%).

The yearly development of loan and deposit volumes was in line with the intention of the management to strengthen the retail focus of the Bank. In yearly comparison total loans grew by 4%, within that retail and SME loan growth was +8%, while corporate and municipal loan portfolio dropped by 9%. Within the retail portfolio the increase of mortgage loans was meaningful (+8%), while the consumer loan portfolio surged by 78% y-o-y. FX-adjusted deposit base surged by 10% y-o-y. Net loans-to-deposits ratio stood at 91% at the end of 2012 (–6 ppts y-o-y).

In 2012 altogether 4 branches were closed so the bank ended the year with 70 branches.

OTP BANKA SRBIJA (SERBIA)

Performance of OTP banka Srbija:

Main components of P&L account	2011 HUF million	2012 HUF million	Change %
After tax profit w/o dividends, net cash transfers and one-offs	(6,283)	(4,934)	(21)
Income tax	(134)	3	(102)
Profit before income tax	(6,149)	(4,937)	(20)
Operating profit	(1,316)	(1,708)	30
Total income	5,220	6,323	21
Net interest income	1,460	3,071	110
Net fees and commissions	1,872	1,604	(14)
Other net non-interest income without the effect of revaluation of FX provisions	1,888	1,648	(13)
Operating expenses	(6,536)	(8,030)	23
Total risk costs	(4,833)	(3,228)	(33)
Provision for possible loan losses without the effect of revaluation of FX provisions	(4,960)	(3,159)	(36)
Other provision	127	(69)	(154)
Main components of balance sheet closing balances	**2011**	**2012**	**%**
Total assets	121,475	122,994	1
Gross customer loans	90,523	90,026	(1)
Gross customer loans (FX-adjusted)	82,313	90,026	9
Retail loans	34,999	38,397	10
Corporate loans	47,313	51,629	9
Allowances for possible loan losses	(26,078)	(26,404)	1
Allowances for possible loan losses (FX-adjusted)	(23,373)	(26,404)	13
Deposits from customers	36,476	38,267	5
Deposits from customers (FX-adjusted)	33,309	38,267	15
Retail deposits	27,069	29,692	10
Corporate deposits	6,239	8,575	37
Liabilities to credit institutions	6,602	17,088	159
Subordinated debt	45,967	37,561	(18)
Total shareholders' equity	27,706	25,171	(9)
Loan Quality	**2011**	**2012**	**%/ppts**
90+ days past due loan volume (in HUF million)	54,836	47,329	(13.7)
90+ days past due loans/gross customer loans (%)	60.6%	52.6%	(8.0)
Cost of risk/average gross loans (%)	5.53%	3.50%	(2.03)
Cost of risk/average gross loans (FX-adjusted) (%)	5.72%	3.67%	(2.05)
Total provisions/90+ days past due loans (%)	47.6%	55.8%	8.2
Performance Indicators	**2011**	**2012**	**ppts**
ROA	(5.3%)	(4.0%)	1.3
ROE	(27.5%)	(18.7%)	8.8
Total income margin	4.42%	5.17%	0.75
Net interest margin	1.24%	2.51%	1.27
Cost/income ratio	125.2%	127.0%	1.8
Net loans to deposits (FX-adjusted)	177%	166%	(11)
FX rates	**2011 HUF**	**2012 HUF**	**Change %**
HUF/RSD (closing)	3.0	2.6	(14)
HUF/RSD (average)	2.7	2.6	(4)

OTP banka Srbija posted HUF 4.9 billion net loss in 2012 against the negative result of HUF 6.3 billion in the previous year.

The operating result did not break even yet. Total revenues grew by 21% y-o-y, within that net interest income jumped more than two-fold. This is partly attributable to a base effect: in 2011 both rapid portfolio deterioration and high interest expenses on deposits were a drag on net interest income.

In the fourth quarter of 2012 one-off expenses were recognised in the amount of HUF 1.3 billion, which emerged due to litigations in relation to loans disbursed by Zepter banka before the acquisition in 2006. The annual operating costs jumped by 23% due to this one-off expense, adjusting for this item operating costs would have increased by a mere 3%.

The total risk cost declined by 33%, as portfolio quality developed favourably during 2012 and the downtrend of the DPD90+ ratio started from end-2011 continued. The Bank was deliberately lifting the provision coverage ratio (up by 8.2 ppts y-o-y).

Adjusted for the FX-effect, total gross loan portfolio expanded by 9% y-o-y. The Bank focused its lending activity on dinar denominated personal loans, which resulted in remarkable volume growth in this segment (+50% y-o-y). In the second half of the year corporate lending gained momentum, too and strong new disbursements underpinned a remarkable 9% volume growth in the course of 2012. Deposit volumes showed a 15% expansion y-o-y FX-adjusted, the net loan-to-deposit ratio kept on declining.

In 2Q 2012 OTP Bank (Hungary) raised the capital of the Serbian bank by RSD 2.2 billion through converting subordinated debt into ordinary shares. OTP Bank also increased the capital of its Serbian bank by RSD 4.5 billion in December 2012, which was registered on 17 January 2013 by the Serbian Court of Registration.

CRNOGORSKA KOMERCIJALNA BANKA (MONTENEGRO)

Performance of CKB:

Main components of P&L account	2011 HUF million	2012 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(4,525)	(3,872)	(14)
Corporate income tax	0	7	
Pre-tax profit	(4,525)	(3,865)	(15)
Operating profit	1,998	2,829	42
Total income	8,339	10,046	20
Net interest income	5,587	7,238	30
Net fees and commissions	2,692	2,489	(8)
Other net non-interest income	60	319	432
Operating expenses	(6,341)	(7,217)	14
Total risk costs	(6,523)	(6,694)	3
Provision for possible loan losses	(4,020)	(2,655)	(34)
Other provision	(2,503)	(4,039)	61
Main components of balance sheet closing balances	**2011**	**2012**	**%**
Total assets	232,750	208,633	(10)
Gross customer loans	165,708	147,243	(11)
Gross customer loans (FX-adjusted)	155,142	147,243	(5)
Retail loans	68,042	65,277	(4)
Corporate loans	87,099	81,966	(6)
Allowances for possible loan losses	(46,536)	(46,252)	(1)
Allowances for possible loan losses (FX-adjusted)	(43,526)	(46,252)	6
Deposits from customers	171,982	157,925	(8)
Deposits from customers (FX-adjusted)	160,912	157,925	(2)
Retail deposits	125,896	121,708	(3)
Corporate deposits	35,016	36,217	3
Liabilities to credit institutions	22,287	21,671	(3)
Subordinated debt	8,408	2,041	(76)
Total shareholders' equity	16,231	17,048	5
Loan Quality	**2011**	**2012**	**%/ppts**
90+ days past due loan volume (in HUF million)	60,296	60,034	(0.4)
90+ days past due loans/gross customer loans (%)	36.4%	40.8%	4.4
Cost of risk/average gross loans (%)	2.48%	1.70%	(0.78)
Cost of risk/average (FX-adjusted) gross loans (%)	2.51%	1.76%	(0.75)
Total provisions/90+ days past due loans (%)	77.2%	77.0%	(0.2)
Performance Indicators	**2011**	**2012**	**ppts**
ROA	(2.0%)	(1.8%)	0.2
ROE	(27.9%)	(23.3%)	4.6
Total income margin	3.75%	4.55%	0.80
Net interest margin	2.51%	3.28%	0.77
Cost/income ratio	76.0%	71.8%	(4.2)
Net loans to deposits (FX-adjusted)	69%	64%	(5)
FX rates	**2011 HUF**	**2012 HUF**	**Change %**
HUF/EUR (closing)	311.1	291.3	(6)
HUF/EUR (average)	279.3	289.3	4

In 2012 the **Montenegrin CKB** Bank posted HUF 3.9 billion loss against the negative result of HUF 4.5 billion a year before. The operating profit improved substantially (+42% y-o-y), mainly as a result of higher total income (+20%). Net interest income improved by 30% y-o-y. The good performance on one hand was supported by the favourable liquidity position which enabled the Bank to increase its interbank loan portfolio and realize higher interest income on those assets. At the same time interest rates on retail term deposits were lowered, too.
The 14% increase of operating expenses y-o-y (FX-adjusted) was mainly reasoned by higher personnel expenses. Administrative expenses grew by 2.9% (FX-adjusted) y-o-y reflecting stronger marketing activities and higher advisory fees.
Risk costs for possible loan losses decreased by 34% y-o-y with the portfolio deterioration slowing down, while the provision coverage remained stable at 77%. The y-o-y 6% increase in DPD90+ volumes in local currency was due to corporate exposure that had been restructured earlier, but became non-performing. The 4.4 ppts increase in the DPD90+ ratio (40.8%) y-o-y was partly reasoned by the 5% contraction of gross loans, too.
The Bank's 2012 profitability to a large extent was affected by the hefty amount of other risk costs related to malpractices before 2009. Those costs were booked in December 2012.
The demand for retail loans remained sluggish: the FX-adjusted retail book decreased by 4%, the lower mortgage disbursement was partly off-set by a pickup in consumer lending. As a result of active promotional campaigns the FX-adjusted volume of cash loans advanced by 4%. The corporate book started decreasing from April 2012 however in 4Q a slight pickup was experienced, but closing volumes dropped by 6% y-o-y.
As a result of lower deposit rates, retail deposits shrank by –3%, while corporate deposits grew in the same magnitude mainly as a consequence of new deposit placements of large companies even though the rates decreased. The trend-like decrease of the net loan-to-deposit ratio continued (end-2012: 64%, –5 ppts y-o-y).
At the end of 2012 CKB's capital adequacy ratio stood at 12.4% (the regulatory minimum is 10%) as a result of a partial conversion of subordinated loans from its mother company into share capital.

STAFF LEVEL AND OTHER INFORMATION*

The closing staff number of OTP Group (including the number of employed selling agents) was 36,432 as at 31 December 2012 (+2,605 people y-o-y). During 2012 there was a staff increase in Russia and Ukraine the headcount of people employed in consumer lending increased further in the wake of partnering up with new retail chains. OTP Group provides services through more than 1,400 branches in 9 countries of the CEE-region. In Hungary, OTP Bank has an extensive distribution network, which includes around 380 branches and 1,956 ATM terminals. The Bank has more than 49,000 POS-units at the same time.

	31 December 2012				31 December 2011			
	Branches	ATM	POS	Headcount (closing)	*Branches*	*ATM*	*POS*	*Headcount (closing)*
OTP Core	380	1,956	49,385	8,507	*377*	*2,028*	*42,122*	*8,470*
OTP Bank Russia (w/o employed agents)	146	255	2,697	5,177	*148*	*215*	*2,697*	*5,108*
DSK Group	381	878	4,196	4,736	*386*	*890*	*4,178*	*4,477*
OTP Bank Ukraine (w/o employed agents)	150	164	358	3,052	*152*	*165*	*406*	*3,003*
OTP Bank Romania	89	122	1,323	970	*100*	*136*	*1,302*	*957*
OTP banka Hrvatska	103	222	1,261	984	*103*	*218*	*1,139*	*971*
OTP Banka Slovenko	70	113	193	639	*74*	*115*	*202*	*609*
OTP banka Srbija	51	151	2,959	660	*52*	*162*	*3,557*	*649*
CKB	31	79	4,272	422	*32*	*84*	*4,010*	*450*
Foreign subsidiaries, total	1,021	1,984	17,259	16,640	*1,047*	*1,985*	*17,491*	*16,224*
Other Hungarian and foreign subsidiaries				840				*782*
OTP Group total (w/o employed agents)				25,986				*25,476*
OTP Bank Russia – employed agents				8,339				6,940
OTP Bank Ukraine – employed agents				2,107				1,410
OTP Group total (aggregated)	1,401	3,940	66,644	36,432	*1,424*	*4,013*	*59,613*	*33,826*

*Figures presented in the statements are not consistent with the audited data because they were originated according to controlling reports.

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

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

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

(2) OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in OTP Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financing Netherlands Ltd. and OTP Holding Ltd. The consolidated accounting result of these companies are segmented into OTP Core and Corporate Centre, the latter being a virtual entity responsible for rendering debt and capital market related services to the subsidiaries across OTP Group.

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

(4) From 4Q 2008 figures are based on the aggregated financial statements of OTP Bank JSC and LLC OTP Leasing Ukraine, from 4Q 2009 the result of LLC OTP Factoring Ukraine was also aggregated, while in 4Q 2010 the financial statement and balance sheet of LLC OTP Credit was also added.

(5) From 3Q 2010, statements are based on the aggregated financials of DSK Group and the newly established Bulgarian collection company, OTP Factoring Bulgaria LLC. DSK Group balance sheet contains the loans sold to the factoring company at before sale gross value and the related provisions as well.

(6) Net earnings are adjusted with the result of CIRS swap transactions executed with OTP Bank in relation to interbank financing. Before transfer balance sheet numbers are displayed.

(7) Including the financial performance of OTP Factoring Serbia d.o.o from 4Q 2010.

(8) In 3Q 2011 a one-timer gain from securities in the amount of HUF 4.3 billion was recognised (after corporate income tax HUF 3.4 billion).

(9) From 2011 on Balance Sheet contains consolidated data of OTP Banka Slovensko and OTP Faktor Slovensko s.r.o., adjusted for loans sold to OTP Bank Plc. and OTP Factoring Ltd., and the related interbank financing in the net amount of the sold loans. The recoveries of sold loans to OTP Faktoring are recognised in the P&L accounts as risk cost decreasing elements since 2011. From 2012 on P&L data and related indices are adjusted for the special banking tax.

(10) Aggregated after tax profit of Merkantil Bank and Merkantil Car without dividends, net

cash transfer and provisioning for investments in subsidiaries.
(11) From 4Q 2009: OTP Leasing Romania IFN S.A. (Romania), Z plus d.o.o. (Croatia), OTP Leasing d.d. (Croatia), DSK Leasing AD (Bulgaria).
(12) LLC AMC OTP Capitol (Ukraine) and OTP Asset Management SAI S.A. (Romania).
(13) HIF Ltd. (United Kingdom), OTP Faktoring Slovensko s.r.o. (Slovakia) (until 1Q 2011), OTP Buildings (Slovakia), OTP Real Slovensko (Slovakia), OTP Holding Limited (Cyprus), Velvin Ventures Ltd. (Belize), OTP Faktoring SRL (Romania).
(14) Total Hungarian subsidiaries: sum of the after tax results of Hungarian group members including (Corporate Centre) and related eliminations.
(15) Total Foreign subsidiaries: sum of the after tax profits of foreign subsidiaries.

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

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

- As non-recurring results, the after tax effect of the following items are shown separately on the Statement of Recognised Income: received dividends, received and paid cash transfers, goodwill write-offs, special tax on financial institutions, the loss from early repayment of FX mortgage loans in Hungary, the revaluation result on FX purchased from the National Bank of Hungary to cover the FX need of early repayments and the special banking tax refund related to the early repayments.
- Other non-interest income elements stemming from provisioning release in connection with loans originated before the acquisitions of the subsidiaries have been reclassified to and deducted from the volume of provisions for possible loan losses in the income statement.
- Other non-interest income is shown together with gains/losses on real estate transactions, but without the above mentioned income from the release of pre-acquisition provisions and without received cash transfers. However other non-interest expenses stemming from non-financial activities are added to the adjusted net other non-interest income line, therefore the latter incorporates the net amount of other non-interest income from non-financial activities.
- Out of other expenses, other provisions are deducted and shown separately as other risk costs in the adjusted income statement. Other provisions contain provisioning on off-balance sheet liabilities and on legal contests, provisioning on securities, shares and other investments as well as provisioning on other assets.
- Other administrative expenses have been adjusted in the following way in order to create a category comprising material cost items exclusively. Other costs and expenses and other non-interest expenses were included into the adjusted Other non-interest expenses. At the same time, the following cost items were excluded from adjusted other non-interest expenses: paid cash transfers – except for movie subsidies and cash transfers to public benefit organisations, which are quasi marketing expenses but kept as paid cash transfer on the P&L –, Other non-interest expenses and Special tax on financial institutions.
- In 1Q 2010, parallel losses on sale of securities and release of other provisions for these securities were netted and are shown together on line 'Gain/loss on securities, net' both at OTP Group consolidated and at OTP Core stand-alone level. The negative P&L effect stemming from the deteriorated value of these securities was suffered in previous quarters – at the time of emerging of the above mentioned other provisions.

- From 4Q 2010 onwards, the fee expenses paid by Merkantil Group to car dealers ('dealer fees') were registered as interest expense on the accounting income statement. Earlier this item had been booked as fee expense. In order to create a comparable time series, since 4Q 2010 dealer fees have been reclassified from net interest income to net fees and commissions – both on the consolidated and on a standalone level.
- Within the aggregated income statement of Merkantil Bank and Car, other risk cost related to leasing companies – as investments of the Merkantil Group – is eliminated. The reason behind is that this provisioning is eliminated in the consolidated income statement of OTP Group, and only the net result of the leasing companies is making part of OTP Group's consolidated net earnings.
- Cost/income ratio, net interest margin, risk cost to average gross loans as well as ROA and ROE ratios are calculated on the basis of the adjusted profit and loss statement, excluding adjustment items such as received dividends and net cash transfers, the after tax effect of the goodwill write-downs, the effect of special banking tax, the loss from early repayment of FX mortgage loans in Hungary and the revaluation result on FX purchased from the National Bank of Hungary to cover the FX need of early repayments. Cost/income ratio is calculated from operating costs, excluding other risk costs.
- OTP Group is hedging the revaluation result of the FX provisions on its FX loans by keeping hedging open FX positions. In its accounting statement of income, the revaluation of FX provisions is part of the risk costs (within line 'Provision for loan losses'), whereas the revaluation of the hedging open FX positions is made through other non-interest income (within line 'Foreign exchange result, net'). The two items have the same absolute amount but an opposite sign. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L. By modifying only the structure of the income statement, this correction does not have any impact on the bottom line net profits.
- In 3Q 2012, four subsidiaries of OTP Real Estate Ltd. were for the first time consolidated into OTP Group. The cumulated loss of the four companies' previous operation was recognised as Other expenses in the accounting P&L, while loan loss and other provisioning earlier made by OTP Bank and OTP Real Estate in relation to these companies were released. By influencing only the structure of the income statement, the net effect of these two entries was neutral to consolidated net earnings. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L.
- Tax deductible transfers paid by Hungarian group members in 2H 2012 were reclassified from Other non-interest expenses to Corporate income tax. As a result, the net P&L effect of the transfers (ie. the paid transfer less the related tax allowances) is recognised in the corporate income tax line of the adjusted P&L. Thus these transfers had no material P&L effect in the adjusted P&L in 2H 2012.
- From 2012 credit institutions' contribution tax started to be recognised in the accounting P&L of OTP Group and OTP Core as OTP Core's burden share in the fixed exchange rate scheme provided to FX mortgage debtors. The paid contribution tax equals 50% of the forgiveness provided on the interest payments of the clients. In the adjusted P&L the tax is reclassified from other expenses (administrative expenses) to net interest income. Since only the 4Q's tax payment was material in its amount financials for the previous quarters were not adjusted retrospectively.
- Within the report, FX-adjusted statistics for business volumes are disclosed. For FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods. Thus the FX adjusted volumes will be different from those published earlier.

ADJUSTMENTS ON THE CONSOLIDATED STATEMENT OF RECOGNIZED INCOME (IFRS)

in HUF million	2011	2012
Net interest income	**630,816**	**645,465**
(–) Agent fees paid to car dealers by Merkantil Group	(3,242)	(2,768)
(+) Credit institutions' contribution tax paid in relation to the fixed exchange rate scheme		(442)
Net interest income (adj.) with one-offs	**634,061**	**647,791**
(–) Revaluation result of FX swaps at OTP Core (booked within net interest income)	3,169	(2,528)
Net interest income (adj.) without one-offs	**630,892**	**650,319**
Net fees and commissions	**146,522**	**154,337**
(+) Agent fees paid to car dealers by Merkantil Group	(3,242)	(2,768)
Net fees and commissions (adj.)	**143,280**	**151,569**
Foreign exchange result on Consolidated IFRS P&L	**50,031**	**3,171**
(–) Revaluation result of FX positions hedging the revaluation of FX provisions	27,063	(16,692)
Foreign exchange result (adj.) with one-offs	**22,968**	**19,863**
(–) Non-recurring FX-gains and losses (booked within Foreign exchange gains, net at OTP Core)	3,926	0
Foreign exchange result (adj.) without one-offs	**19,042**	**19,863**
Gain/loss on securities, net (adj.) with one-offs	**13,290**	**(235)**
(–) Gain on Croatian government bonds (booked as Gain on securities, net (adj.) at OBH Croatia)	4,300	0
(–) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net (adj.) at OTP Core)	5,571	(4,932)
Gain/loss on securities, net (adj.) without one-offs	**3,419**	**4,697**
Gains and losses on real estate transactions	**1,002**	**1,131**
(+) Other non-interest income	**27,252**	**23,987**
(–) Received cash transfers	37	14
(–) Non-interest income from the release of pre-acquisition provisions	1,030	416
(+) Other non-interest expenses	(9,648)	(7,132)
(+) Release of loan loss provisioning related to the consolidation of the subsidiaries of OTP Real Estate Ltd.		307
(+) Release of other provisioning related to the consolidation of the subsidiaries of OTP Real Estate Ltd.		1,657
Net other non-interest result (adj.) with one-offs	**17,539**	**19,520**
(–) Gain on the repurchase of own Upper and Lower Tier2 Capital (booked as Net other non-interest result (adj.) at OTP Core)	2,580	1,415
Net other non-interest result (adj.) without one-offs	**14,959**	**18,105**
(+) Provision for impairment on loan and placement losses	(249,364)	(229,470)
(+) Gains/Losses on loans related to early repayment	(67,309)	2,490
Provision for possible loan losses	**(316,673)**	**(226,980)**
(+) Non-interest income from the release of pre-acquisition provisions	1,030	416
(–) Revaluation result of FX provisions	(27,063)	16,692
(–) Loss from early repayment of FX mortgage loans in Hungary	(69,463)	4,409
(–) Revaluation result on FX purchased from the National Bank of Hungary to cover the FX need of early repayments	9,315	(5,278)
(–) Release of loan loss provisioning related to the consolidation of the subsidiaries of OTP Real Estate Ltd.		307
Provision for possible loan losses (adj.)	**(228,432)**	**(242,694)**
After tax dividends and net cash transfers	**(5,603)**	**(7,963)**
(–) Sponsorships, subsidies and cash transfers to public benefit organisations	(6,266)	(9,837)
(–) Dividend income of swap counterparty shares kept under the treasury share swap agreement		2,265
After tax dividends and net cash transfers	**663**	**(391)**
Depreciation	**(73,432)**	**(47,420)**
(–) Goodwill impairment charges (OTP banka Srbija [Serbia], OTP Bank JSC [Ukraine], OTP banka Hrvatska [Croatia], CKB [Montenegro])	(23,978)	0
Depreciation (adj.)	**(49,454)**	**(47,420)**
Income taxes	**(39,196)**	**(23,088)**
(–) Corporate tax impact of goodwill/investment impairment charges	6,278	3,977
(–) Corporate tax impact of the special tax on financial institutions	6,498	6,580
(–) Corporate tax impact of the loss from early repayment of FX mortgage loans in Hungary	13,198	(838)
(–) Corporate tax impact of the special banking tax refund	(3,719)	251
(–) Corporate tax impact of the revaluation of FX purchased from the National Bank of Hungary to cover the FX need of early repayments	(1,770)	1,003
(+) Tax deductible transfers		(8,182)
Corporate income tax (adj.)	**(59,682)**	**(42,243)**

in HUF million	2011	2012
Other operating expense, net	**(26,571)**	**(35,033)**
(+) Provision on securities available-for-sale and securities held-to-maturity	**(945)**	**505**
(–) Other costs and expenses	(5,674)	(7,276)
(–) Other non-interest expenses	(16,235)	(17,912)
(–) Release of other provisioning related to the consolidation of the subsidiaries of OTP Real Estate Ltd.		1,657
Other provisions (adj.)	**(5,607)**	**(10,997)**

Other administrative expenses	**(160,145)**	**(187,105)**
(+) Other costs and expenses	(5,674)	(7,276)
(+) Other non-interest expenses	(16,235)	(17,912)
(–) Paid cash transfers	(6,587)	(10,780)
(+) Film subsidies and cash transfers to public benefit organisations	(6,266)	(9,837)
(–) Other other non-interest expenses	(9,648)	(7,132)
(–) Special tax on financial institutions	(35,463)	(35,754)
(–) Special banking tax refund	20,839	(1,323)
(–) Tax deductible transfers		(8,182)
(–) Credit institutions' contribution tax paid in relation to the fixed exchange rate scheme		(442)
Other non-interest expenses (adj.)	**(157,461)**	**(158,517)**

METHODOLOGICAL NOTE ON THE DISCLOSURE OF THE REVALUATION OF FX PROVISIONS AND THE REVALUATION RESULT REALISED ON HEDGING OPEN FX PROVISONS WITHIN THE HALF YEAR FINANCIAL REPORT

Representing a methodological change compared to the previous reporting structure, the following adjustment is implemented on the financials shown within the financial reports and interim management reports published since 2Q 2011. OTP Group is hedging the revaluation result of the FX provisions on its FX loans by keeping hedging open FX positions. In its accounting statement of income, the revaluation of FX provisions is part of the risk costs (within line 'Provision for loan losses'), whereas the revaluation of the hedging open FX positions is made through other non-interest income (within line 'Foreign exchange result, net'). The two items have the same absolute amount but an opposite sign. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L. By modifying only the structure of the income statement, this correction does not have any impact on the bottom line net profits. In order to prepare and present comparable time series, this adjustment was implemented retrospectively back to the first quarter of 2010. Therefore statistics for the base periods in the affected P&L lines of this report are differing from the disclosure published before 2Q 2011. As a result of the adjustment the sum of the affected lines did not change (ie. the sum of 'Provision for loan losses' and 'Other net non-interest income'), the modification is only influencing the profit split between these lines. Financial indicators calculated from these lines changed as well.
The FX result reached on the hedging open FX positions is included in the table following this paragraph.

FX result from the revaluation of open FX position hegding the revaluation of FX provisions (this item is compensated by the revaluation of FX provisions through the risk cost line of the accounting income statement)

HUF million	2011	2012
OTP Group Total	27,063	(16,692)
of which OTP Core (Hungary)	26,464	(17,498)
of which OTP Bank	12,663	(7,791)
OTP Mortgage Bank	4,725	(3,920)
OTP Factoring	9,075	(5,787)
OTP Bank Russia	(357)	(214)
CJSC OTP Bank (Ukraine)	262	398
OBR adj. (Romania)	580	698
OBH (Croatia)	119	15
OTP banka Srbija (Serbia)	(196)	947
Merkantil Bank + Car (Hungary)	192	(1,038)

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

HUF million	2011	2012	Change %
Net interest income	**233,920**	**240,915**	**3**
Interest received and similar income	618,704	716,972	16
Interest paid and similar charges	(384,784)	(476,057)	24
Net fee and commission income	**96,814**	**91,433**	**(6)**
Commissions and fees received or due	121,819	117,844	(3)
Commissions and fees paid or payable	(25,005)	(26,411)	6
Other income	**184,248**	**43,870**	**(76)**
Income from securities	78,831	43,098	(45)
Net profit or net loss on financial operations	51,092	(44,488)	(187)
Other operating income	54,325	45,260	(17)
General administrative expenses	**(133,037)**	**(127,323)**	**(4)**
Depreciation	**(14,003)**	**(14,410)**	**3**
Other operating charges	**(160,836)**	**(164,750)**	**2**
Value adjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	**(102,201)**	**(63,342)**	**(38)**
Value readjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	**63,716**	**96,592**	**52**
Difference between formation and utilization of general risk provisions	**(1,082)**	**5,810**	**(637)**
Value adjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests	**(9,606)**	**(21,625)**	**125**
Value readjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests	**2,861**	**1,117**	**(61)**
Profit or loss on ordinary activities	**160,794**	**88,287**	**(45)**
Extraordinary profit or loss	(6,329)	(10,457)	(65)
Profit or loss before tax	**154,465**	**77,830**	**(50)**
Taxes on income	(17,858)	(25,257)	41
Profit or loss after tax	**136,607**	**52,573**	**(62)**
General reserve	(13,661)	(5,257)	(62)
Profit reserves used for dividends and profit-sharing	0	0	
Dividend and profit-sharing payable	(28,000)	(33,600)	20
Profit or loss for the financial year	**94,946**	**13,716**	**(86)**

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

HUF million	2011	2012	Change %
Total assets	**6,717,325**	**6,471,393**	**(4)**
1. Liquid assets	226,490	245,099	8
2. Treasury bills and similar securities	876,777	1,233,169	41
3. Loans and advances to credit institutions	896,314	664,267	(26)
4. Loans and advances to customers	**2,651,279**	**2,283,207**	**(14)**
5. Debt securities, including fixed-income securities	1,098,722	1,091,490	(1)
6. Shares and other variable-yield securities	103,367	118,666	15
7. Shares and participations in corporations held as financial fixed assets	975	935	(4)

HUF million	2011	2012	Change %
8. Shares and participating interests in affiliated companies	514,090	493,600	(4)
9. Intangible assets	119,088	121,278	2
10. Tangible assets	67,859	70,140	3
11. Own shares	5,519	4,934	(11)
12. Other assets	46,280	32,261	(30)
13. Prepayments and accrued income	110,565	112,347	2
Total liabilities	**6,717,325**	**6,471,393**	**(4)**
1. Amounts owed to credit institutions	866,716	823,633	(5)
2. Amounts owed to customers	**3,429,980**	**3,537,044**	**3**
3. Debts evidenced by certificates	509,584	380,218	(25)
4. Other liabilities	96,376	70,890	(26)
5. Accruals and deferred income	330,362	204,727	(38)
6. Provisions for liabilities and charges	102,580	91,245	(11)
7. Subordinated liabilities	353,466	327,152	(7)
8. Shareholders' equity	1,028,261	1,036,484	1
Performance Indicators			**ppts**
Loans and advances to customers/amounts owed to customers	77%	65%	(12)

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

HUF million	2012	2011	Change %
Interest Income:			
Loans	795,475	758,679	5
Placements with other banks	341,071	266,870	28
Securities available-for-sale	78,624	73,941	6
Securities held-to-maturity	20,204	7,719	162
Amounts due from banks and balances with the National Banks	6,749	6,504	4
Securities held for trading	1,827	1,725	6
Total Interest Income	1,243,950	1,115,438	12
Interest Expense:			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	294,631	209,289	41
Deposits from customers	237,898	212,439	12
Liabilities from issued securities	54,033	50,936	6
Subordinated bonds and loans	11,923	11,958	0
Total Interest Expense	598,485	484,622	23
NET INTEREST INCOME	**645,465**	**630,816**	**2**
Provision for impairment on loan and placement losses	229,470	249,364	(8)
(Gains)/Loss on loans related to early repayment	(2,490)	67,309	(104)
Net interest income after provision for impairment on loan and placement losses	**418,485**	**314,143**	**33**
Income from fees and commissions	203,499	184,089	11
Expense from fees and commissions	49,162	37,567	31
Net profit from fees and commissions	**154,337**	**146,522**	**5**
Foreign exchange gains, net	3,171	50,031	(94)
Net (losses)/gains on securities	(235)	13,290	(102)
Gains on real estate transactions	1,131	1,002	13
Dividend income	2,803	947	196
Release of provision (provision for impairment) on securities available-for-sale and securities held-to-maturity	505	(945)	(153)
Other operating income	23,987	27,252	(12)
Other operating expense	(35,033)	(26,571)	32
Net operating income	(3,671)	65,006	(106)
Personnel expenses	188,952	169,098	12
Depreciation and amortization	47,420	73,432	(35)
Other administrative expenses	187,105	160,145	17
Other administrative expenses	**423,477**	**402,675**	**5**
PROFIT BEFORE INCOME TAX	**145,674**	**122,996**	**18**
Income tax	(23,088)	(39,196)	(41)
NET PROFIT FOR THE YEAR	**122,586**	**83,800**	**46**
From this, attributable to:			
Non-controlling interest	896	653	37
Owners of the company	121,690	83,147	46
Consolidated earnings per share (in HUF)			
Basic	457	312	46
Diluted	457	312	46

Balance sheet of OTP Bank Plc., according to IFRS standards (consolidated, audited)

HUF million	2012	2011	Change %
Cash, amounts due from banks and balances with the National Banks	602,521	595,986	1
Placements with other banks, net of allowance for placement losses	356,866	422,777	(16)
Financial assets at fair value through profit or loss	222,874	241,282	(8)
Securities available-for-sale	1,411,177	1,125,855	25
Loans, net of allowance for loan losses	6,464,191	7,047,179	(8)
Associates and other investments	7,936	10,342	(23)
Securities held-to-maturity	429,303	124,887	244
Property and equipment	251,393	241,797	4
Intangible assets	237,749	249,869	(5)
Other assets	129,456	140,553	(8)
TOTAL ASSETS	**10,113,466**	**10,200,527**	**(1)**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	534,324	646,968	(17)
Deposits from customers	6,550,708	6,398,853	2
Liabilities from issued securities	643,123	812,863	(21)
Financial liabilities at fair value through profit or loss	122,032	230,149	(47)
Other liabilities	457,231	376,937	21
Subordinated bonds and loans	291,495	316,447	(8)
TOTAL LIABILITIES	**8,598,913**	**8,782,217**	**(2)**
Share capital	28,000	28,000	0
Retained earnings and reserves	1,534,572	1,439,095	7
Treasury shares	(53,802)	(54,386)	(1)
Non-controlling interest	5,783	5,601	3
TOTAL SHAREHOLDERS' EQUITY	**1,514,553**	**1,418,310**	**7**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**10,113,466**	**10,200,527**	**(1)**

OTP Bank

Annual Report

2012

Financial Statements

Deloitte.

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Company Registration Number: 01-09-071057

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries for the year 2012, which financial statements comprise the consolidated statement of financial position as at December 31, 2012 - which shows total assets of 10,113,466 million HUF, - and the related consolidated statement of recognized and consolidated statement of comprehensive income – which shows a net profit for the year of 122,586 million HUF -, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 62 to 147 of this Annual Report.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Member of Deloitte Touche Tohmatsu Limited

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of OTP Bank Plc. and its subsidiaries as at December 31, 2012, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Reporting Obligation: Report on the Consolidated Business Report

We have examined the accompanying consolidated business report of OTP Bank Plc. for the year 2012.

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

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

In our opinion, the consolidated business report of OTP Bank Plc. for the year 2012. corresponds to the figures included in the consolidated financial statements of OTP Bank Plc. for the year 2012.

Budapest, March 29, 2013

Gión Gábor
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000083

Nagyváradiné Szépfalvi Zsuzsanna
registered statutory auditor
005313

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Statement of financial position

(consolidated, based on IFRS, as at 31 December 2012, in HUF million)

	Note	2012	2011
Cash, amounts due from banks and balances with the National Banks	4.	602,521	595,986
Placements with other banks, net of allowance for placement losses	5.	356,866	422,777
Financial assets at fair value through profit or loss	6.	222,874	241,282
Securities available-for-sale	7.	1,411,177	1,125,855
Loans, net of allowance for loan losses	8.	6,464,191	7,047,179
Associates and other investments	9.	7,936	10,342
Securities held-to-maturity	10.	429,303	124,887
Property and equipment	11.	251,393	241,797
Intangible assets	11.	237,749	249,869
Other assets	12.	129,456	140,553
TOTAL ASSETS		**10,113,466**	**10,200,527**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	13.	534,324	646,968
Deposits from customers	14.	6,550,708	6,398,853
Liabilities from issued securities	15.	643,123	812,863
Financial liabilities at fair value through profit or loss	16.	122,032	230,149
Other liabilities	17.	457,231	376,937
Subordinated bonds and loans	18.	291,495	316,447
TOTAL LIABILITIES		**8,598,913**	**8,782,217**
Share capital	19.	28,000	28,000
Retained earnings and reserves		1,534,572	1,439,095
Treasury shares	21.	(53,802)	(54,386)
Non-controlling interest	22.	5,783	5,601
TOTAL SHAREHOLDERS' EQUITY		**1,514,553**	**1,418,310**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,113,466**	**10,200,527**

Budapest, 29 March 2013

The accompanying notes to consolidated financial statements on pages 66 to 147 form an integral part of these consolidated financial statements.

Statement of recognized income

(consolidated, based on IFRS, for the year ended 31 December 2012, in HUF million)

	Note	2012	2011
Interest Income:			
Loans		795,475	758,679
Placements with other banks		341,071	266,870
Securities available-for-sale		78,624	73,941
Securities held-to-maturity		20,204	7,719
Amounts due from banks and balances with the National Banks		6,749	6,504
Securities held for trading		1,827	1,725
Total Interest Income		1,243,950	1,115,438
Interest Expense:			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		294,631	209,289
Deposits from customers		237,898	212,439
Liabilities from issued securities		54,033	50,936
Subordinated bonds and loans		11,923	11,958
Total Interest Expense		598,485	484,622
NET INTEREST INCOME		**645,465**	**630,816**
Provision for impairment on loan and placement losses	5., 8., 23.	229,470	249,364
(Gains)/Losses on loans related to early repayment	23.	(2,490)	67,309
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**418,485**	**314,143**
Income from fees and commissions		203,499	184,089
Expense from fees and commissions		49,162	37,567
NET PROFIT FROM FEES AND COMMISSIONS	**24.**	**154,337**	**146,522**
Foreign exchange gains, net		3,171	50,031
Net (losses)/gains on securities		(235)	13,290
Gains on real estate transactions		1,131	1,002
Dividend income		2,803	947
Release of provision (provision for impairment) on securities available-for-sale and securities held-to-maturity		505	(945)
Other operating income	25.	23,987	27,252
Other operating expense	25.	(35,033)	(26,571)
Net operating result		**(3,671)**	**65,006**
Personnel expenses		188,952	169,098
Depreciation and amortization	11.	47,420	73,432
Other administrative expenses		187,105	160,145
Other administrative expenses	**25.**	**423,477**	**402,675**
PROFIT BEFORE INCOME TAX		**145,674**	**122,996**
Income tax	26.	(23,088)	(39,196)
NET PROFIT FOR THE YEAR		**122,586**	**83,800**
From this, attributable to:			
Non-controlling interest		896	653
Owners of the company		121,690	83,147
Consolidated earnings per share (in HUF)			
Basic	37.	457	312
Diluted	37.	457	312

Statement of comprehensive income

(consolidated, based on IFRS, for the year ended 31 December 2012, in HUF million)

	2012	2011
NET PROFIT FOR THE YEAR	**122,586**	**83,800**
Fair value adjustment of securities available-for-sale	48,180	(22,732)
Derivative financial instruments designated as Cash-flow hedge	532	378
Net investment hedge in foreign operations	4,978	(7,993)
Foreign currency translation difference	(53,390)	78,968
NET COMPREHENSIVE INCOME	**122,886**	**132,421**
From this, attributable to:		
Non-controlling interest	619	1,109
Owners of the company	122,267	131,312

The accompanying notes to consolidated financial statements on pages 66 to 147 form an integral part of these consolidated financial statements.

Statement of cash flows

(consolidated, based on IFRS, for the year ended 31 December 2012, in HUF million)

OPERATING ACTIVITIES	Note	2012	2011
Profit before income tax		**145,674**	**122,996**
Goodwill impairment	11.	–	23,979
Depreciation and amortization	11.	47,420	49,453
(Release of provision)/Provision for impairment on securities	7., 10.	(505)	945
Provision for impairment on loan and placement losses	5., 8.	226,980	316,673
Provision for impairment on permanent diminution in value of investments	9.	1,335	3,304
Provision for impairment on other assets	12.	6,375	3,221
Provision for impairment/(Release of provision) on off-balance sheet commitments and contingent liabilities	17.	2,135	(1,863)
Share-based payment	2., 29.	4,584	6,188
Unrealized (losses)/gains on fair value adjustment of securities held for trading		(1,938)	1,655
Unrealized losses on fair value adjustment of derivative financial instruments		(8,829)	(105,272)
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		20,512	19,018
Net decrease/(increase) in loans, net of allowance for loan losses		278,246	(593,565)
Decrease/(increase) in other assets before provisions for impairment		1,585	(33,401)
Net increase in deposits from customers		151,855	577,364
Increase in other liabilities		42,657	121,493
Net decrease /(increase) in compulsory reserves at the National Banks		10,217	(22,816)
Dividend income		(2,803)	(947)
Income tax paid		(25,259)	(37,368)
Net Cash Provided by Operating Activities		**900,241**	**451,057**
INVESTING ACTIVITIES			
Net decrease in placement with other banks before allowance for placements losses		65,870	89,063
Net increase in securities available-for-sale		(216,170)	(147,517)
Net decrease/(increase) in investments in subsidiaries		1,071	(2,092)
Dividend income		2,803	947
Net (increase)/decrease in securities held-to-maturity		(304,401)	46,783
Additions to property, equipment and intangible assets		(63,127)	(110,417)
Disposals of property, equipment and intangible assets		18,430	26,346
Net decrease/(increase) in advances for investments included in other assets		1,434	(1,464)
Net Cash Used in Investing Activities		**(494,090)**	**(98,351)**
FINANCING ACTIVITIES			
Net decrease in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(112,644)	(34,980)
Cash used for redemption of issued securities		(169,740)	(335,556)
(Decrease)/increase in subordinated bonds and loans		(24,952)	25,817
Increase/(decrease) in non-controlling interest		182	(287)
Foreign currency translation		(53,391)	78,969
Payments to ICES holders		(4,144)	(4,518)
Net change in Treasury shares		430	(1,815)
Dividend paid		(25,140)	(20,204)
Net Cash Used in Financing Activities		**(389,399)**	**(292,574)**
Net increase in cash and cash equivalents		**16,752**	**60,132**
Cash and cash equivalents at the beginning of the period		**315,177**	**255,045**
Cash and cash equivalents at the end of the period		**331,929**	**315,177**
Analysis of cash and cash equivalents			
Cash, amounts due from banks and balances with the National Banks		595,986	513,038
Compulsory reserve established by the National Banks		(280,809)	(257,993)
Cash and cash equivalents at the beginning of the period		**315,177**	**255,045**
Cash, amounts due from banks and balances with the National Banks	4.	602,521	595,986
Compulsory reserve established by the National Banks	4.	(270,592)	(280,809)
Cash and cash equivalents at the end of the period		**331,929**	**315,177**

The accompanying notes to consolidated financial statements on pages 66 to 147 form an integral part of these consolidated financial statements.

Statement of changes in equity

(consolidated, based on IFRS, for the year ended 31 December 2012, in HUF million)

	Note	Share capital	Capital reserve	Share-based Payment reserve	Retained earnings and reserves	Put option reserve	Treasury shares	Non-controlling interest	Total
Balance as at 1 January 2011		**28,000**	**52**	**28**	**1,383,026**	**(55,468)**	**(52,597)**	**5,888**	**1,308,929**
Net profit for the year		–	–	–	83,147	–	–	–	83,147
Other comprehensive income		–	–	–	48,621	–	–	–	48,621
Share-based payment	29.	–	–	6,188	–	–	–	–	6,188
Dividend for the year 2010		–	–	–	(20,160)	–	–	–	(20,160)
Sale of Treasury shares		–	–	–	–	–	2,963	–	2,963
Treasury shares									
– loss on sale		–	–	–	(25)	–	–	–	(25)
– acquisition		–	–	–	–	–	(4,753)	–	(4,753)
Payments to ICES holders	20.	–	–	–	(6,313)	–	–	–	(6,313)
Non-controlling interest		–	–	–	–	–	–	(287)	(287)
Balance as at 31 December 2011		**28,000**	**52**	**6,216**	**1,488,296**	**(55,468)**	**(54,387)**	**5,601**	**1,418,310**
Net profit for the year		–	–	–	121,690	–	–	–	121,690
Other comprehensive income		–	–	–	300	–	–	–	300
Share-based payment	29.	–	–	4,584	–	–	–	–	4,584
Dividend for the year 2011		–	–	–	(28,000)	–	–	–	(28,000)
Sale of Treasury shares		–	–	–	–	–	6,342	–	6,342
Treasury shares									
– loss on sale		–	–	–	(155)	–	–	–	(155)
– acquisition		–	–	–	–	–	(5,757)	–	(5,757)
Payments to ICES holders	20.	–	–	–	(2,943)	–	–	–	(2,943)
Non-controlling interest		–	–	–	–	–	–	182	182
Balance as at 31 December 2012		**28,000**	**52**	**10,800**	**1,579,188**	**(55,468)**	**(53,802)**	**5,783**	**1,514,553**

The accompanying notes to consolidated financial statements on pages 66 to 147 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

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

These financial statements were approved by the Board of Directors and authorised for issue on 29 March 2013.

	2012	2011
The structure of the Share capital by shareholders (%):		
Domestic and foreign private and institutional investors	97%	96%
Employees	2%	2%
Treasury shares	1%	2%
Total	**100%**	**100%**

The Bank and its subsidiaries ('Entities of the Group', together the 'Group') provide a full range of commercial banking services through a wide network of 1,398 branches. The Group has operations in Hungary, Bulgaria, Croatia, Slovakia, Romania, Ukraine, Serbia, Russia and Montenegro.

	2012	2011
The number of employees at the Group:		
The number of employees at the Group	36,366	33,826
The average number of employees at the Group	35,076	32,180

1.2. Base of Accounting

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

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

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

Certain adjustments have been made to the entities' statutory accounts in order to present the Consolidated Financial Position and Statement of Recognized and Comprehensive Income of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ('IASB'), which are referred to as IFRS.

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

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2012

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

- IFRS 7 (Amendment) 'Financial Instruments: Disclosures' – Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The adoption of the above presented Amendments had no significant impact on the Consolidated Financial Statements of the Group.

1.2.1.1. Amendments and new Standards and Interpretations to IFRSs effective on or after 1 January 2013, which are adopted by the EU

At the balance sheet date of these financial statements, the following Standards and Interpretations were issued but not yet effective:

- IFRS 10 'Consolidated Financial Statements', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- IFRS 11 'Joint Arrangements', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- IFRS 12 'Disclosures of Interests in Other Entities', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- IFRS 13 'Fair Value Measurement', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- 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),

- IFRS 1 (Amendment) 'First-time Adoption of IFRS' – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- IFRS 1 (Amendment) 'First-time Adoption of IFRS' – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),

- IFRS 7 (Amendment) 'Financial Instruments: Disclosures' – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- IAS 1 (Amendment) 'Presentation of Financial Statements' – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- IAS 12 (Amendment) 'Income Taxes' – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- IAS 19 (Amendment) 'Employee Benefits' – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- IAS 32 (Amendment) '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),
- IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the Consolidated Financial Statements of the Group.

1.2.1.2. Amendments and new Standards and Interpretations to IFRSs effective on or after 1 January 2013, which are not yet endorsed by EU, not yet adopted

- IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2015),
- IFRS 9 (Amendment) 'Financial Instruments' and IFRS 7 (Amendment) 'Financial Instruments: Disclosures' – Mandatory Effective Date and Transition Disclosures,
- IFRS 10 (Amendment) 'Consolidated Financial Statements', IFRS 11 (Amendment) 'Joint Arrangements' and IFRS 12 (Amendment) 'Disclosures of Interests in Other Entities' – Transition Guidance (effective for annual periods beginning on or after 1 January 2013),
- IFRS 10 (Amendment) 'Consolidated Financial Statements', IFRS 12 (Amendment) 'Disclosures of Interests in Other Entities' and IAS 27 (Amendment) 'Separate Financial Statements' – Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to various standards 'Improvements to IFRSs (2012)' resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013).

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the Consolidated Financial Statements of the Group, except of the application of IFRS 9 and IFRS 10 which might have significant impact on the Group consolidated financial statements, the Group will analyse the impact after the adoption of the standards by EU.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

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

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

2.2. Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's presentation currency (HUF) are translated into HUF are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates quoted by the National Bank of Hungary ('NBH'), or if there is no official rate, at exchange rates quoted by OTP as at the date of the Consolidated Financial Statements. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:
– exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
– exchange differences on transactions entered into in order to hedge certain foreign currency risks (see note 2.7 below for hedging accounting policies); and
– exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

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

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

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

2.3. Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank exercises control. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 31. However, certain subsidiaries in which the Bank holds a significant interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.11.).

As the ultimate parent, the Bank is preparing consolidated financial statement of the Group.

2.4. Accounting for acquisitions

Subsidiaries are accounted for using purchase method of accounting. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.
The acquisition date is the date on which the acquirer effectively obtains control over the acquiree. Before this date, it should be presented as Advance for investments within Other assets.
Goodwill, which represents the residual cost of the acquisition after obtaining the control over the acquiree in the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements.

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Recognized Income.
Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.
The Group calculates the value in use a discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.
The Group, in its strategic plan, has taken into consideration the effects of the present global economic situation, the probable economic decline and their possible influence on the

financial sector as well as the limited external refinancing funds, the lower possibility of the expansion and the prospective effects of all these above mentioned factors.

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

2.5. Securities held-to-maturity

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

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

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

2.6.2. Derivative financial instruments

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Group both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.
Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. The Group adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as the Group has almost all of its open derivative transactions collateralised. There is no other credit value (CVA), debit value (DVA) or funding value (FVA) adjustment applied.
Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Consolidated Statement of Recognized Income for the period. 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 the risk management policy of the Group, do not qualify for hedge accounting under the specific rules of

IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Consolidated Statement of Recognized Income.

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

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

Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognized as reserve in the shareholders' equity. Amounts deferred in equity are transferred to the Consolidated Statement of Recognized Income and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the Consolidated Statement of Recognized Income for the period. The ineffective element of the hedge is charged directly to the Consolidated Statement of Recognized Income.

2.8. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities available-for-sale are measured at subsequent reporting dates at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized directly in Other Comprehensive Income, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Recognized Income for the applicable period.

Such securities consist of Hungarian and foreign government bonds, bonds issued by NBH, corporate bonds, discounted Treasury bills and other securities. Other securities include shares in investment funds and shares in non-financing companies. The provision for impairment is calculated based on discounted cash flow methodology for debt instruments and calculated based on fair valuation on equity instruments, using the expected future cash flow and original effective interest rate if there is objective evidence of and impairment.

Securities available-for-sale are remeasured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

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

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

Loans and placements with other banks are amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amount outstanding. 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.

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

Allowance for loan and placement losses with other banks represent management assessment for potential losses in relation to these activities. The allowances for loan and placement losses are maintained to cover losses that have been specifically identified and for potential losses which may be present based on portfolio performance.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account 'Provision for impairment on loan and placement losses' in the Consolidated Statement of Recognized Income. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into net operating income.

The Group classifies the previously performing loans that have been renegotiated automatically to the to-be-monitored risk class for a certain period and records at least 1 per cent provision for impairment on them.

2.10. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement. In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.11. Associates and other investments

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

Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a significant interest are recorded according to IAS 39, when appropriate.

Gains and losses on the sale of investments are determined on the basis of the specific identification of the cost of each investment.

2.12. Property and equipment, Intangible assets

Property and equipment and Intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The

depreciable amount (book value less residual value) of the non-current assets must be allocated over the useful lives.
Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Intangible assets	
Software	3.33–50%
Property rights	5–50%
Property	1–50%
Office equipments and vehicles	2.5–50%

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

At each balance sheet date, the Group reviews the carrying value of its Property and equipment and Intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

2.13. Financial liabilities

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

2.14. Leases

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

The Group as a lessor

Amounts due from lessees under finance leases are recorded as other receivables at the amount of the net investment in the lease of the Group. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the net investment outstanding of the Group in respect of the leases. Direct costs such as commissions are included in the initial measurement of the finance lease receivables. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as a lessee

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The principal element of each future lease obligation is recorded as a liability, while the interest elements are charged to the

Consolidated Statement of Recognized Income over the period of the leases to produce a constant rate of charge on the balance of principal payments outstanding.

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

2.15. Treasury shares

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

2.16. Interest income and interest expense

The interest income and expense are recognized in the Consolidated Statement of Recognized Income on an accrual basis based on the IAS 18 Revenue, referring to provision of IAS 39. The Group recognizes interest income when assumes that the interest associated with the transaction will flow to the Group and the amount of the revenue can reasonably be measured. All interest income and expense recognized are arising from loans, placements with other banks, securities held for trading, securities available-for-sale, securities held-to-maturity and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines.

2.17. Fees and Commissions

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

2.18. Dividend income

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

2.19. Income tax

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

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

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

2.20. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group enters into off-balance sheet commitments such as guarantees, letters of credit, commitments to extend credit and transactions with financial instruments. The provision for impairment on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb future cash outflows which are probable and relate to present obligations.

Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

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

2.21. Share-based payment

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

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

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2.22. Consolidated Statement of Cash Flows

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

2.23. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Based on the above, the segments identified by the Group are the business and geographical segments.
The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

2.24. Comparative figures

There were no changes in prior period data due to either prior period error or change in accounting policies. In some notes certain amounts in the Consolidated Financial Statements for the year ended 31 December 2011 have been restructured within the particular note to conform with the current year presentation and these amounts are not significant.

2.25. Events in accordance with early repayment at fixed exchange rates

The Hungarian Government announced the Country Protection Action Plan on 12 September

2011. The most significant arrangement, which directly affected the Bank, was the opportunity of early repayment at fixed exchange rates. If certain conditions completed by the borrowers FX based mortgage loans could be repaid in one amount at fixed conversion rate ('early repayment') determined in the Law on Credit Institutions (Swiss Franc 180 HUF/CHF, Euro 250 HUF/EUR, Japanese Yen 2 HUF/JPY). Act CXXI of 2011 ('On the amendment of the acts in connection with the protection of homes') on early repayment was acted on 29 September 2011. Under the law the Bank was not allowed to charge any fees or other commissions for early repayment. Furthermore banks carried the loss derived from the difference between the book value recorded on market price and the paid amount calculated at fixed exchange rate as an early repayment. If the borrower had met the conditions determined by the law, the lender would not have been allowed to refuse the early repayment, and should have prepared the settlement of the contract in 60 days. The final closing date of the opportunity of early repayment was 28 February 2012.

On 10 October 2011 the Bank and OTP Mortgage Bank Ltd. ('OTP Mortgage Bank') made a guarantee contract about a facility in the amount of HUF 200 billion. Based on this agreement the Bank compensated the loss of OTP Mortgage Bank on early repayment of FX based mortgage loans. The fee for guarantee was determined in the amount of HUF 5 billion. On 26 October 2011 the Bank and OTP Flat Lease Ltd. ('OTP Flat Lease') made a guarantee contract about a facility in the amount of HUF 2 billion. Based on this agreement the Bank compensated the loss of OTP Flat Lease on early repayment of FX based mortgage loans. The fee for guarantee was determined in the amount of HUF 25 million. In accordance with the guarantee contract OTP compensated the losses derived from the early repayment of OTP Mortgage Bank and OTP Flat Lease.

Up to 31 December 2011 – together at the Bank, OTP Mortgage Bank and OTP Flat Lease – 21,146 customers paid back their FX mortgage loans. Therefore provision for impairment on loan losses in the amount of HUF 32,152 million was recognized at the Group. Provision for impairment on loan losses in the amount of HUF 2,962 million was recognized at OTP relating to early repayment of the Bank's own customers.

In the year of 2012 – together at the Bank, OTP Mortgage Bank and OTP Flat Lease – additional 14,934 customers paid back their FX mortgage loans. Therefore provision for impairment on loan losses in the amount of HUF 32,901 million was recognized at the Group. Provision for impairment on loan losses in the amount of HUF 2,101 million was recognized at OTP relating to early repayment of OTP Bank's own customers.

OTP recognized as provision for impairment in financial statements for the year of 2011 the calculated effect of the early repayment claimed and paid till 30 January 2012. Whole amount of the expected loss relating to the transactions claimed but not yet paid up to 30 January 2012 was impaired by OTP as the customers could have presented the collateral or the collateral certificate relating to the repayment till this date – according to Act CXII of 1996 on Credit Institutions Section 200/B paragraph 2 to take effect on 29 December 2011. As a consequence of guarantee contract the Bank recognized provision on expected loss of OTP Mortgage Bank and OTP Flat Lease.

In the period from 1 till 30 January 2012 – together at the Bank and above subsidiaries – 14,854 customers paid back their FX mortgage loans and presented collateral certificate relating to early repayment on mortgage loan that in connection with provision in the amount of HUF 34,489 million (tax adjusted HUF 35,264 million) was recognized in the Group. Provision in the amount of HUF 2,164 million was recognized at the Bank relating to early repayment of the Bank's own customers. This amount of provision was released in 2012 parallel to recognizing of realised loan loss.

	2012	2011
Provision for impairment on loan losses relating to early repayment at the Group	32,901	32,152
(Release of provision)/provision recognized at the Group relating to early repayment	(35,264)	35,264
(Release of provision)/provision for impairment on loan losses relating to early repayment at the Group	**(2,363)**	**67,416**

Investments in subsidiaries were raised with HUF 47,027 million – with the amount paid as compensation for OTP Mortgage Bank and OTP Flat Lease within the frames of guarantee contracts – as at 31 December 2011 and parallel with that provision for impairment was recognized on investments at the same amount. In 2012 correction occurred based on final realised loss related to early repayment as investments in subsidiaries were lowered with HUF 3,257 million and parallel with that provision for impairment was released at the same amount.

	2012	2011
(Release of provision)/provision for impairment on loan losses relating to early repayment at OTP Mortgage Bank and OTP Flat Lease	(1,534)	61,515
Loan losses recognized as provision are deducted at OTP Mortgage Bank as according to contract this loss is not refunded by OTP	(1,723)	(588)
Tax refund at OTP Mortgage Bank and OTP Flat Lease – loss is not refunded by OTP	–	(8,875)
Refundable (gain)/loss for OTP Mortgage Bank and OTP Flat Lease recognizing at OTP in connection with the guarantee	**(3,257)**	**52,052**
Fee for guarantee paid by OTP Mortgage Bank and OTP Flat Lease	–	(5,025)
Refundable (gain)/loss for OTP Mortgage Bank and OTP Flat Lease recognizing at OTP in connection with the guarantee – Recognizing as increasing of Investments in subsidiaries	**(3,257)**	**47,027**

In case of loans related to early repayment, interest was recognized at fixed exchange rate in interest income.

During calculating the loss arising from the early repayment, loss falling to share of interest was taken into account which was recognized on the line of Interest income from loans (See Note 23.).

Regarding to 2011 amendment of Act LIX of 2006 the financial institution reduced the 2011 amount of the payable bank tax as a tax refund with 30% of the loss from paid FX based mortgage loans. If the tax refund had exceeded the bank tax determined for the year 2011, the difference could have been claimed at tax determination for 2011 by the related parties (one or more financial institution or insurance company) ('tax refund beneficiary') of the financial institution.

Based on the arising losses at the Bank, OTP Mortgage Bank and OTP Flat Lease, Merkantil Bank Ltd. ('Merkantil Bank') and Merkantil Car Ltd. ('Merkantil Car') total HUF 20,606 million tax refund was carried out at the Group's level from the bank tax paid and recognized in 2011.

The Bank recognized HUF 10,467 million as tax refund in the separate financial statements. The difference was asserted as tax refund by the other subsidiaries of the Group.

The amount of the difference was rectified by HUF 1,090 million based on final realised loss related to early repayment.

	Total	2012	2011
Total expenditure at the Group affected by early repayment	65,053	(1,588)	66,641
During calculation of amount deductible from bank tax, provision for impairment owing to classification is taken into consideration	–	(2,047)	2,047
Consolidation effect	–	(775)	775
Total expenditure at the Group affected by early repayment considered at calculation of bank tax	**65,053**	**(4,410)**	**69,463**
30% of total expenditure at the Group affected by early repayment refundable from bank tax paid in 2011	19,516	(1,090)	20,606
Consolidation effect	–	(232)	232
30% of total expenditure at the Group affected by early repayment refundable from bank tax paid in 2011	**19,516**	**(1,322)**	**20,838**
Claim for bank tax refund at subsidiaries of the Group			
OTP Bank	9,377	(1,090)	10,467
OTP Mortgage Bank	8,759	–	8,759
OTP Flat Lease	116	–	116
Merkantil Bank	1,120	–	1,120
Merkantil Car	144	–	144
Bank tax effect of NBH tender	–	(232)	232
Total	**19,516**	**(1,322)**	**20,838**

The NBH invited tenders for selling euro from 3 October 2011 what was announced regularly till 29 February 2012, above all weekly if necessary more frequently. Credit institution was obliged to utilize the same sum of foreign exchange as the amount published in information related to realized early repayment – according to Act on Credit Institutions 200/B – by the credit bank or the corresponding one. Credit institutions were obliged to exchange for HUF the unutilized part of EUR stock at original rate between 1 and 14 March 2012.

The Bank participated in three tenders on account of hedging the loss incurred as a consequence of early repayment at the Group.

	Tender I.	Tender II.	Tender III.
Trade date of tender	14/09/2011	03/10/2011	02/01/2012
Foreign exchange rate	287.05	294.45	315.5
EUR stock	350,000,000	200,000,000	189,000,000

EUR stock was recognized in the Group's Consolidated Financial Statements, in connection with that foreign exchange losses in the amount of HUF 5,278 million and gains in the amount of HUF 9,313 million were realised in the Consolidated Financial Statements as at 31 December 2012 and 2011. This sum is reducing the loss incurred related to early repayment at the level of the Group.

2.26. The agreement on 15 December 2011 between the Hungarian Government and the Hungarian Banking Association

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

On 28 June 2011, Act LXXV 2011 on fixing the exchange rate for calculating the monthly installments of retail FX mortgage loans and on the foreclosure order of residential real estates was announced. Accordingly, in favour of performing FX mortgage debtors with up to 90 days of delinquency, the natural person FX mortgage debtor could initiate in writing between 12 August and 31 December 2011 the fixing of the exchange rate used to specify his monthly installments for 36 months or until 31 December 2014 the latest. The fixed exchange rates were set at 180 HUF/CHF, 250 HUF/EUR and 2 HUF/JPY. For the difference between the fixed and the exceeding actual spot exchange rate, banks provided a special purpose HUF denominated mortgage loan ('escrow account loan'), granting of which is not regulated by the rules of prudent lending. Escrow account loan is an appropriation established by the Hungarian Government to help FX mortgage debtors during the repayment of FX mortgage loans to finance the installment-proportion non-paid by debtors arising from the difference between the fixed and the exceeding actual spot exchange rate. During the time of fixing, the Bank was entitled to charge not more than the 3-months BUBOR interest rate on the HUF obligations on the escrow account which could be capitalized in every three months. Following the fixed exchange rate period debtors are obliged to pay installments of both the original mortgage and the escrow account loans. From that time the interest rate charged on the escrow account must not surpass the market rate applicable for HUF denominated mortgages provided for the same purpose as the original FX mortgage loan.

Based on the amendment of Act LXXV 2011 approved on 19 March 2012, escrow account loan with transformed terms could have been employed in 2012. Consequently terms and conditions of the new construction have become valid for all clients owning escrow account loan.

According to modified terms and conditions, contract of fixed exchange rate escrow account loan can be concluded for 60 months or until the last installment due before 30 June 2017 the latest. Closing date has been prolonged until 29 March 2013 in consequence of 22 December 2012 amendment of the Act. The fixed exchange rates were modified and set at 180 HUF/CHF, 250 HUF/EUR and 2.5 HUF/JPY. For the difference between the fixed and the exceeding actual spot exchange rate, banks provide a special purpose HUF denominated mortgage loan ('escrow account loan'), granting of which is not regulated by the rules of prudent lending. Escrow account loan is paid in HUF backing joint and several state guarantee during the fixed exchange rate period. During the fixed exchange rate period the Hungarian Government is refunding credit institutions the full proportion of monthly installments of retail FX mortgage loans above the fixed exchange rate, but not more than the highest exchange rate (270 HUF/CHF, 340 HUF/EUR, 3.3 HUF/JPY). Credit institutions are obliged to off-set 50% of the refunded amount – exempted receivable – for the year of 2012 by paying it back to the central budget as credit institutions' contribution.

The Government backs the escrow account in full through a State Guarantee during the fixed exchange rate period, subsequently the guarantee applies to 25% of the escrow account. In case of utilising of state guarantee credit institutions are obliged to pay contribution. Regarding the fact that the expected number of debtors who concluded escrow account loan contract is low, the Bank decided not to employ the state guarantee.

An analysis of main figures related to escrow account loan construction:

	OTP	OTP Mortgage Bank	OTP Flat Lease	Group
Number of escrow account loans as at 31 December 2012 (number of loans)	3,060	23,817	380	27,257
Number of new contracts made after 1 April 2012 (number of contracts)	2,988	23,324	386	26,698
Gross value of escrow account loans as at 31 December 2012 (in HUF mn)	79	831	3	913
Gross amount of fixed FX loans as at 31 December 2012 (in HUF mn)	13,444	187,606	5,346	206,396

An analysis of the effect of escrow account loan on financial statement as at 31 December 2012 at Group level:

	OTP	OTP Mortgage Bank	OTP Flat Lease	Group
Loss on interest from fixed exchange rate refunded by the State	60	824	–	884
Contribution paid for the State (50%)	30	412	–	442

2. Conversion of FX mortgage loan into HUF denominated one in case of FX mortgage debtors with more than 90 days of delinquency

Financial institution qualified as provider of FX loan was obliged to convert whole receivable of uncancelled FX loan into HUF denominated loan at average middle FX rate published by NBH between 15 May and 15 June 2012 until 31 August 2012 if:

a) no conversion into HUF denominated loan occurred yet
b) the total market value of real estate serving as collateral did not exceed HUF 20 million at conclusion of FX loan contract
c) at least HUF 78 thousand is the amount from debt which is due and delinquency of debtor more than 90 days as at 30 September 2011 and since then it is continuous
d) right of legal enforcement is not recorded on real estate included in FX mortgage loan contract
e) debtor made a statement in writing until 15 May 2012 that its delinquency was caused by significant and justifiable deterioration of ability to pay.

Financial institutions were obliged to cancel 25% of their receivable at the date of conversion into HUF loan. Financial institutions were not allowed to charge any fees or other commissions in connection with the conversion and the 25% cancellation of receivable.

Main figures of conversion into HUF denominated loans:

	OTP	OTP Mortgage Bank	Group
Number of DPD* 90+ loans (number of loans)	11	90	101
Loan losses (in HUF mn)	10	155	165

* DPD: day past due

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

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

3.1. Impairment on loans and placements

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

3.2. Valuation of instruments without direct quotations

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

3.3. Provisions

Provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 17)
A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

3.4. Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 'Impairment of assets'.
The Group calculates the value in use a discounted cash-flow model. The 5 year period

explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

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

	2012	2011
Cash on hand		
In HUF	59,693	53,713
In foreign currency	127,126	124,737
	186,819	**178,450**
Amounts due from banks and balances with the National Banks		
Within one year:		
In HUF	134,828	138,915
In foreign currency	279,755	277,315
	414,583	**416,230**
Over one year:		
In HUF	–	–
In foreign currency	659	796
	659	**796**
Accrued interest	460	510
	415,702	**417,536**
Total	**602,521**	**595,986**
Compulsory reserve set by the National Banks	**270,592**	**280,809**

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

	2012	2011
Within one year		
In HUF	40,882	16,442
In foreign currency	294,509	403,346
	335,391	**419,788**
Over one year		
In HUF	15,000	–
In foreign currency	7,183	3,633
	22,183	**3,633**
Accrued interest	403	521
Provision for impairment on placement losses	(1,111)	(1,165)
Total	**356,866**	**422,777**

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

	2012	2011
Balance as at 1 January	1,165	1,981
Provision for the period	1,479	166
Release of provision for the period	(1,375)	(1,091)
Foreign currency translation difference	(158)	109
Closing balance	**1,111**	**1,165**

Interest conditions of placements with other banks:

	2012	2011
In HUF	0.1%–9.4%	1.6%–15.2%
In foreign currency	0.002%–10.09%	0.01%–18.5%
Average interest rates on placements with other banks	**2.28%**	**1.91%**

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

	2012	2011
Securities held for trading		
Corporate shares	90,779	88,138
Government bonds	12,476	33,068
Hungarian government discounted treasury bills	2,098	4,146
Securities issued by the NBH	1,333	1,715
Other securities	7,741	3,388
Other non-interest bearing securities	6,913	7,938
	121,340	**138,393**
Accrued interest	480	937
Total	**121,820**	**139,330**

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

	2012	2011
Interest rate swaps classified as held for trading	73,183	39,370
CCIRS* and mark-to-market CCIRS* classified as held for trading	10,298	27,448
Foreign exchange swaps classified as held for trading	7,173	18,596
Other transactions classified as held for trading	10,400	16,538
	101,054	101,952
Total	**222,874**	**241,282**

An analysis of securities held for trading portfolio by currency:

	2012	2011
Denominated in HUF (%)	80.2%	81.8%
Denominated in foreign currency (%)	19.8%	18.2%
Total	**100.0%**	**100.0%**

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

An analysis of government bond portfolio by currency:

	2012	2011
Denominated in HUF (%)	9.9%	58.3%
Denominated in foreign currency (%)	90.1%	41.7%
Total	**100.0%**	**100.0%**
Interest rates on securities held for trading	1.2%–12.0%	1.2%–12.0%
Average interest rates on securities held for trading	**5.54%**	**3.70%**

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

	2012	2011
Within five years		
With variable interest	2	1,042
With fixed interest	21,587	26,090
	21,589	**27,132**
Over five years		
With variable interest	–	919
With fixed interest	2,059	14,266
	2,059	**15,185**
Non-interest bearing securities	97,692	96,076
Total	**121,340**	**138,393**

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

	2012	2011
Securities available-for-sale		
Bonds issued by NBH	860,081	509,667
Government bonds	370,329	477,917
Corporate bonds	51,527	33,828
From this:		
Listed securities:		
In HUF	–	–
In foreign currency	45,966	26,643
	45,966	26,643
Non-listed securities:		
In HUF	–	–
In foreign currency	5,561	7,185
	5,561	7,185
Other non-interest bearing securities	39,810	34,223
From this:		
Listed securities:		
In HUF	–	273
In foreign currency	6,829	7,225
	6,829	7,498
Non-listed securities:		
In HUF	28,647	23,322
In foreign currency	4,334	3,403
	32,981	26,725
Discounted treasury bills	34,853	35,388
Mortgage bonds	151	163
Other securities	44,022	17,902
	1,400,773	**1,109,088**
Accrued interest	11,630	18,697
Provision for impairment on securities available-for-sale	(1,226)	(1,930)
Total	**1,411,177**	**1,125,855**

An analysis of securities available-for sale by currency:

	2012	2011
Denominated in HUF (%)	81.4%	81.7%
Denominated in foreign currency (%)	18.6%	18.3%
Total	**100.0%**	**100.0%**

An analysis of government bonds by currency:

	2012	2011
Denominated in HUF (%)	64.1%	75.8%
Denominated in foreign currency (%)	35.9%	24.2%
Total	**100.0%**	**100.0%**

	2012	2011
Interest rates on securities available-for-sale denominated in HUF	6.0%–8.0%	5.3%–8.0%
Interest rates on securities available-for-sale denominated in foreign currency	0.8%–20.0%	0.4%–20.0%
Average interest rates on securities available-for-sale denominated in HUF	8.27%	9.75%
Average interest rates on securities available-for-sale denominated in foreign currency	3.39%	5.95%

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

	2012	2011
Within five years		
With variable interest	9,518	1,890
With fixed interest	1,282,459	909,946
	1,291,977	911,836
Over five years		
With variable interest	2,521	1,897
With fixed interest	66,465	161,132
	68,986	163,029
Non-interest bearing securities	39,810	34,223
Total	**1,400,773**	**1,109,088**

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

	2012	2011
Balance as at 1 January	1,930	1,689
Provision for the period	61	332
Release of provision	(551)	(19)
Use of provision	(83)	(291)
Foreign currency translation difference	(131)	219
Closing balance	**1,226**	**1,930**

Certain securities are hedged against interest rate risk. See Note 39.

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

	2012	2011
Short-term loans and promissory notes (within one year)	2,573,893	2,394,200
Long-term loans and promissory notes (over one year)	4,973,154	5,653,270
	7,547,047	**8,047,470**
Accrued interest	71,320	61,161
Provision for impairment on loan losses	(1,154,176)	(1,061,452)
Total	**6,464,191**	**7,047,179**

An analysis of the loan portfolio by currency:

	2012	2011
In HUF	26%	24%
In foreign currency	74%	76%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2012	2011
Short-term loans denominated in HUF	4.5%–43%	5%–38.1%
Long-term loans denominated in HUF	2.7%–43%	3%–38.1%
Short-term loans denominated in foreign currency	1%–66%	1%–66%
Long-term loans denominated in foreign currency	0.1%–58.6%	0.4%–57.8%
Average interest rates on loans denominated in HUF	5.27%	4.56%
Average interest rates on loans denominated in foreign currency	15.44%	14.41%
Gross loan portfolio on which interest to customers is not being accrued	18.2%	15.2%

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

	2012		2011	
Retail loans	2,673,929	35%	2,677,482	33%
Corporate loans	2,319,618	31%	2,547,123	32%
Housing loans	2,248,435	30%	2,471,184	31%
Municipality loans	305,065	4%	351,681	4%
Total	**7,547,047**	**100%**	**8,047,470**	**100%**

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

	2012	2011
Balance as at 1 January	1,061,452	761,272
Provision for the period	602,194	596,734
Release of provision	(472,154)	(357,824)
Use of provision	2,111	2,793
Foreign currency translation difference	(39,427)	58,477
Closing balance	**1,154,176**	**1,061,452**

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

	2012	2011
Provision/(Release of provision) for impairment on placement losses	41	(596)
Provision for impairment on loan losses	226,939	317,269
Total	**226,980**	**316,673**

NOTE 9: ASSOCIATES AND OTHER INVESTMENTS (in HUF million)

	2012	2011
Investments		
Unconsolidated subsidiaries	7,159	8,278
Associated companies (non-listed)	337	383
Other investments (non-listed)	3,408	3,335
	10,904	11,996
Provision for impairment on investments	(2,968)	(1,654)
Total	**7,936**	**10,342**

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

	2012	2011
Balance as at 1 January	1,654	1,320
Provision for the period	1,335	3,304
Use of provision	(22)	(2,969)
Foreign currency translation difference	1	(1)
Closing balance	**2,968**	**1,654**

NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF million)

	2012	2011
Government bonds	407,853	117,242
Discounted Treasury bills	6,432	1,611
Mortgage bonds	2,142	2,300
Foreign bonds	1,236	1,754
	417,663	**122,907**
Accrued interest	12,410	2,869
Provision for impairment on securities held-to-maturity	(770)	(889)
Total	**429,303**	**124,887**

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

	2012	2011
Within five years		
With variable interest	32,619	46,900
With fixed interest	230,287	66,212
	262,906	113,112
Over five years		
With variable interest	252	372
With fixed interest	154,505	9,423
	154,757	9,795
Total	**417,663**	**122,907**

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

	2012	2011
Denominated in HUF (%)	85.7%	46.7%
Denominated in foreign currency (%)	14.3%	53.3%
Total	**100%**	**100%**

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

	2012	2011
Interest rates of securities held-to-maturity with fixed interest	3.5%–30%	1.6%–30%
Interest rates of securities held-to-maturity with variable interest	0.3%–7.1%	0.2%–5.9%
Average interest rates on securities held-to-maturity	7.47%	5.28%

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

	2012	2011
Balance as at 1 January	889	154
Provision for the period	15	689
Release of provision	(30)	(57)
Use of provision	(34)	–
Foreign currency translation difference	(70)	103
Closing balance	**770**	**889**

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

For the year ended 31 December 2012

	Intangible assets and goodwill	Property	Office equipments and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	381,658	199,654	187,460	16,343	785,115
Additions	30,937	16,753	24,635	27,309	99,634
Foreign currency translation differences	(12,047)	(7,311)	(6,465)	(571)	(26,394)
Disposals	(37,048)	(2,871)	(18,117)	(24,155)	(82,191)
Change in consolidation scope	24	8,511	105	2	8,642
Balance as at 31 December	**363,524**	**214,736**	**187,618**	**18,928**	**784,806**
Depreciation and Amortization					
Balance as at 1 January	131,789	40,102	121,558	–	293,449
Charge for the period	22,372	6,140	18,908	–	47,420
Foreign currency translation differences	(1,557)	(1,532)	(3,815)	–	(6,904)
Disposals	(26,838)	(1,076)	(11,692)	–	(39,606)
Change in consolidation scope	9	1,233	63	–	1,305
Balance as at 31 December	**125,775**	**44,867**	**125,022**	**–**	**295,664**
Net book value					
Balance as at 1 January	249,869	159,552	65,902	16,343	491,666
Balance as at 31 December	**237,749**	**169,869**	**62,596**	**18,928**	**489,142**

An analysis of the changes in the goodwill for the year ended 31 December 2012 is as follows:

Cost	Goodwill
Balance as at 1 January	198,896
Additions	–
Foreign currency translation difference	(9,277)
Current year impairment	–
Balance as at 31 December	**189,619**
Net book value	
Balance as at 1 January	198,896
Balance as at 31 December	**189,619**

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

List of units	HUF mn
OAO OTP Bank	68,205
OTP Bank JSC	64,003
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	16,910
OTP Bank Romania S.A.	5,788
Other*	6,172
Total	**189,619**

* Other category includes: Monicomp Ltd., OTP Flat Lease Ltd., Nimo 2002 Ltd., OTP Banka Slovensko a.s., POK DSK-Rodina a.d.

The Bank prepared the IFRS goodwill impairment tests of the subsidiaries based on two different net present value calculation methods that shows the same result; however they represent different economical logics. On one hand is the discount cash-flow method (DCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future.

The Bank applied a cash-flow model with an explicit period between 2013–2017 where for 2013 the actual, accepted annual financial plans are included and the actual financial strategic plans were used as forecasts for the period between 2014 and 2017.

Present value calculation with the DCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor it was considered the base rates of the national banks in the actual macro forecasts as risk free rates and the Group calculated risk premiums by modifying the country risk premiums that are published on damodaran.com with the CDS of the different countries spread as of 31 December 2012.

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

Present value calculation with the EVA method

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

Summary of the 2012 year end impairment test

Based on the valuations of the subsidiaries there wasn't recorded any consolidated IFRS goodwill impairment.

For the year ended 31 December 2011

	Intangible assets and goodwill	Property	Office equipments and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	373,120	172,003	172,422	11,798	729,343
Additions	33,528	17,218	22,087	24,934	97,767
Foreign currency translation differences	19,225	10,458	9,141	695	39,519
Disposals	(44,239)	(9,133)	(16,246)	(21,084)	(90,702)
Change in consolidation scope	24	9,108	56	–	9,188
Balance as at 31 December	**381,658**	**199,654**	**187,460**	**16,343**	**785,115**
Depreciation and Amortization					
Balance as at 1 January	109,907	29,809	108,799	–	248,515
Charge for the year (except for Goodwill impairment)	25,000	5,931	18,522	–	49,453
Goodwill impairment	23,979	–	–	–	23,979
Foreign currency translation differences	3,483	2,503	5,534	–	11,520
Disposals	(30,580)	(1,363)	(11,329)	–	(43,272)
Change in consolidation scope	–	3,222	32	–	3,254
Balance as at 31 December	**131,789**	**40,102**	**121,558**	**–**	**293,449**
Net book value					
Balance as at 1 January	263,213	142,194	63,623	11,798	480,828
Balance as at 31 December	**249,869**	**159,552**	**65,902**	**16,343**	**491,666**

An analysis of the changes in the goodwill for the year ended 31 December 2011 is as follows:

Cost	Goodwill
Balance as at 1 January	209,320
Additions	–
Foreign currency translation difference	13,555
Current year impairment	(23,979)
Balance as at 31 December	**198,896**
Net book value	
Balance as at 1 January	209,320
Balance as at 31 December	**198,896**

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

List of units	HUF mn
OAO OTP Bank	70,205
OTP Bank JSC	69,725
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,062
OTP Bank Romania S.A.	6,182
Other	6,181
Total*	**198,896**

Summary of the 2011 year end impairment test

Based on the valuations of the subsidiaries HUF 21,642 million and HUF 2,337 million consolidated IFRS goodwill impairment was recorded for OTP banka Hrvatska d.d. (Croatian subsidiary) and for Crnogorska komercijalna banka a.d. (Montenegrin subsidiary).

NOTE 12: OTHER ASSETS (in HUF million)

	2012	2011
Inventories	50,752	42,788
Fair value of derivative financial instrument designated as fair value hedge	13,694	13,137
Current income tax receivable	13,313	38,409
Trade receivables	12,465	13,300
Prepayments and accrued income	10,100	9,609
Other receivables from Hungarian Government	8,752	2,362
Other advances	5,838	4,187
Receivables due from pension funds and investment funds	1,544	1,310
Receivables from investment services	1,431	1,539
Receivables from leasing activities	1,108	959
Advances for securities and investments	635	2,069
Deferred tax receivables	159	2,419
Other*	**30,930**	**25,023**
	150,721	157,111
Provision for impairment on other assets**	(21,265)	(16,558)
Total	**129,456**	**140,553**

* Other category includes: Monicomp Ltd., OTP Flat Lease Ltd., Nimo 2002 Ltd., OTP Banka Slovensko a.s., POK DSK-Rodina a.d., OTP Leasing d.d.

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

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

	2012	2011
CCIRS and mark-to-market CCIRS designated as fair value hedge	9,318	10,486
Interest rate swaps designated as fair value hedge	4,224	2,329
Foreign exchange swaps designated as fair value hedge	136	53
Forward security agreements designated as fair value hedge	6	126
Foreign exchange forward contracts designated as fair value hedge	–	50
Other transactions designated as fair value hedge	10	93
Total	**13,694**	**13,137**

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

	2012	2011
Balance as at 1 January	16,558	13,111
Provision for the period	6,375	3,221
Use of provision	(1,300)	(814)
Foreign currency translation difference	(368)	1,040
Closing balance	**21,265**	**16,558**

NOTE 13: AMOUNTS DUE TO BANKS, THE HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF million)

	2012	2011
Within one year		
In HUF	78,602	47,682
In foreign currency	200,599	255,537
	279,201	**303,219**
Over one year		
In HUF	110,267	124,882
In foreign currency	142,424	216,271
	252,691	**341,153**
Accrued interest	2,432	2,596
Total	**534,324**	**646,968**

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

	2012	2011
Within one year		
In HUF	0.2%–7.6%	2.5%–7.1%
In foreign currency	0.01%–10.1%	0.1%–9.9%
Over one year		
In HUF	0.2%–8.1 %	2.5%–7.6%
In foreign currency	0.1%–9%	0.5%–9.5%

	2012	2011
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	0.86%	3.06%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency	1.74%	2.99%

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF million)

	2012	2011
Within one year		
In HUF	2,864,536	2,781,780
In foreign currency	3,381,095	3,253,215
	6,245,631	**6,034,995**
Over one year		
In HUF	131,023	214,366
In foreign currency	133,045	115,089
	264,068	**329,455**
Accrued interest	41,009	34,403
Total	**6,550,708**	**6,398,853**

Interest rates on deposits from customers are as follows:

	2012	2011
Within one year		
In HUF	0.1%–11%	0.1%–11%
In foreign currency	0.01%–25.5%	0.01%–24%
Over one year		
In HUF	0.2%–7.8%	0.2%–9%
In foreign currency	0.01%–20%	0.01%–19.0%
Average interest rates on deposits from customers denominated in HUF	2.57%	2.41%
Average interest rates on deposits from customers denominated in foreign currency	6.94%	6.11%

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

	2012		2011	
Retail deposits	4,286,153	66%	4,343,496	68%
Corporate deposits	1,961,543	30%	1,799,732	28%
Municipality deposits	262,003	4%	221,222	4%
Total	**6,509,699**	**100%**	**6,364,450**	**100%**

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

	2012	2011
With original maturity		
Within one year		
In HUF	207,826	374,200
In foreign currency	59,632	77,218
	267,458	**451,418**
Over one year		
In HUF	185,893	169,918
In foreign currency	169,564	168,662
	355,457	**338,580**
Accrued interest	20,208	22,865
Total	**643,123**	**812,863**

Interest rates on liabilities from issued securities are as follows:

	2012	2011
Issued securities denominated in HUF	0.25%–12.0%	0.25%–10.5%
Issued securities denominated in foreign currency	0.3%–10.9%	1.5%–10.9%
Average interest rates on issued securities denominated in HUF	15.66%	12.09%
Average interest rates on issued securities denominated in foreign currency	3.87%	4.89%

Issued securities denominated in HUF as at 31 December 2012 (in HUF million):

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
1.	OTP 2013/I	06/01/2012–13/01/2012	05/01/2013	8,716	6.5	fixed	
2.	OTP 2013/II	20/01/2012–27/01/2012	19/01/2013	21,453	7	fixed	
3.	OTP 2013/III	03/02/2012–10/02/2012	02/02/2013	12,535	7	fixed	
4.	OTP 2013/IV	17/02/2012–24/02/2012	16/02/2013	17,134	7	fixed	
5.	OTP 2013/V	02/03/2012–09/03/2012	02/03/2013	9,001	7	fixed	
6.	OTP 2013/VI	23/03/2012–30/03/2012	23/03/2013	8,171	7	fixed	
7.	OTP 2013/VII	06/04/2012–13/04/2012	06/04/2013	10,102	7	fixed	
8.	OTP 2013/VIII	21/04/2012–27/04/2012	21/04/2013	10,605	7	fixed	
9.	OTP 2013/IX	11/05/2012–18/05/2012	11/05/2013	10,651	7	fixed	
10.	OTP 2013/X	25/05/2012–01/06/2012	25/05/2013	4,997	7	fixed	
11.	OTP 2013/XI	08/06/2012–15/06/2012	08/06/2013	5,547	7	fixed	
12.	OTP 2013/XII	22/06/2012–29/06/2012	22/06/2013	4,453	7	fixed	
13.	OTP 2013/XIII	06/07/2012–13/07/2012	06/07/2013	5,747	7	fixed	
14.	OTP 2013/XIV	20/07/2012–03/08/2012	20/07/2013	9,508	7	fixed	
15.	OTP 2013/XV	10/08/2012–17/08/2012	10/08/2013	5,862	6.5	fixed	
16.	OTP 2013/XVI	24/08/2012–31/08/2012	24/08/2013	3,635	6.5	fixed	
17.	OTP 2013/XVII	07/09/2012–14/09/2012	07/09/2013	4,130	6.5	fixed	
18.	OTP 2013/XVIII	21/09/2012–28/09/2012	21/09/2013	3,655	6.5	fixed	
19.	OTP 2013/XIX	05/10/2012–12/10/2012	05/10/2013	2,439	6	fixed	
20.	OTP 2013/XX	19/10/2012–31/10/2012	19/10/2013	2,304	6	fixed	
21.	OTP 2013/XXI	12/11/2012–16/11/2012	12/11/2013	4,147	6	fixed	
22.	OTP 2013/XXII	23/11/2012–03/12/2012	23/11/2013	3,022	5.5	fixed	
23.	OTP 2013/XXIII	07/12/2012–17/12/2012	07/12/2013	1,860	5.5	fixed	
24.	OTP 2013/XXIV	21/12/2012	21/12/2013	1,581	5.5	fixed	
25.	TBSZ 2013/I	26/02/2010–28/12/2010	30/12/2013	6,018	5.5	fixed	
26.	TBSZ 2014/I	14/01/2011–05/08/2011	15/12/2014	1,952	5.5	fixed	
27.	TBSZ 2014/II	26/08/2011–29/12/2011	15/12/2014	735	5.5	fixed	
28.	TBSZ 2015/I	26/02/2010–28/12/2010	30/12/2015	5,649	5.5	fixed	
29.	TBSZ 2016/I	14/01/2011–05/08/2011	15/12/2016	1,221	5.5	fixed	
30.	TBSZ 2016/II	26/08/2011–29/12/2011	15/12/2016	654	5.5	fixed	
31.	TBSZ 4 2015/I	13/01/2012–22/06/2012	15/12/2015	483	6.5	fixed	
32.	TBSZ 4 2015/II	21/12/2012	15/12/2015	49	6	fixed	
33.	TBSZ 6 2017/I	13/01/2012–22/06/2012	15/12/2017	236	6.5	fixed	
34.	2013/Ax	28/06/2010	08/07/2013	428	indexed	floating	hedged
35.	2013/Bx	11/11/2010	06/11/2013	785	indexed	floating	hedged
36.	2013/Cx	16/12/2010	19/12/2013	420	indexed	floating	hedged
37.	2014/Ax	25/06/2009	30/06/2014	2,816	indexed	floating	hedged
38.	2014/Bx	05/10/2009	13/10/2014	3,734	indexed	floating	hedged
39.	2014/Cx	14/12/2009	19/12/2014	3,728	indexed	floating	hedged
40.	2014/Dx	01/04/2011	03/04/2014	526	indexed	floating	hedged
41.	2014/Ex	17/06/2011	20/06/2014	1,188	indexed	floating	hedged
42.	2014/Fx	20/10/2011	21/10/2014	391	indexed	floating	hedged
43.	2014/Gx	21/12/2011	30/12/2014	320	indexed	floating	hedged
44.	2015/Ax	25/03/2010	30/03/2015	5,074	indexed	floating	hedged
45.	2015/Bx	28/06/2010	09/07/2015	4,490	indexed	floating	hedged
46.	2015/Dx	22/03/2012	23/03/2015	470	indexed	floating	hedged
47.	2015/Ex	18/07/2012	20/07/2015	390	indexed	floating	hedged
48.	2015/Gx	08/11/2012	16/11/2015	435	indexed	floating	hedged
49.	2015/Hx	28/12/2012	27/12/2015	170	indexed	floating	hedged
50.	2016/Ax	11/11/2010	03/11/2016	4,206	indexed	floating	hedged
51.	2016/Bx	16/12/2010	19/12/2016	3,138	indexed	floating	hedged
52.	2016/Ex	28/12/2012	27/12/2016	395	indexed	floating	hedged
53.	2017/Ax	01/04/2011	31/03/2017	4,985	indexed	floating	hedged
54.	2017/Bx	17/06/2011	20/06/2017	4,670	indexed	floating	hedged
55.	2017/Cx	19/09/2011	25/09/2017	3,654	indexed	floating	hedged
56.	2017/Dx	20/10/2011	19/10/2017	540	indexed	floating	hedged
57.	2017/Ex	21/12/2011	28/12/2017	4,000	indexed	floating	hedged
58.	2018/Ax	03/01/2012	09/01/2018	1,200	indexed	floating	hedged
59.	2018/Bx	22/03/2012	22/03/2018	4,490	indexed	floating	hedged
60.	2018/Cx	16/07/2012	18/07/2018	3,990	indexed	floating	hedged
61.	2018/Dx	29/10/2012	26/10/2018	3,250	indexed	floating	hedged
62.	2018/Ex	28/12/2012	28/12/2018	3,250	indexed	floating	hedged
63.	2019/Ax	25/06/2009	01/07/2019	284	indexed	floating	hedged
64.	2019/Bx	05/10/2009–05/02/2010	14/10/2019	442	indexed	floating	hedged

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
65.	2019/Cx	14/12/2009	20/12/2019	379	indexed	floating	hedged
66.	2020/Ax	25/03/2010	30/03/2020	380	indexed	floating	hedged
67.	2020/Bx	28/06/2010	09/07/2020	415	indexed	floating	hedged
68.	2020/Cx	11/11/2010	05/11/2020	259	indexed	floating	hedged
69.	2020/Dx	16/12/2010	18/12/2020	235	indexed	floating	hedged
70.	2021/Ax	01/04/2011	01/04/2021	335	indexed	floating	hedged
71.	2021/Bx	17/06/2011	21/06/2021	370	indexed	floating	hedged
72.	2021/Cx	19/09/2011	21/06/2021	320	indexed	floating	hedged
73.	2021/Dx	21/12/2011	27/12/2021	425	indexed	floating	hedged
74.	2022/Ax	22/03/2012	23/03/2022	280	indexed	floating	hedged
75.	2022/Bx	18/07/2012	18/07/2022	295	indexed	floating	hedged
76.	2022/Cx	29/10/2012	28/10/2022	325	indexed	floating	hedged
77.	2022/Dx	28/12/2012	27/12/2022	350	indexed	floating	hedged
78.	2013/RA/Bx	26/11/2010	03/12/2013	3,193	indexed	floating	hedged
79.	2014/RA/Bx	16/09/2011–23/09/2011	15/09/2014	1,126	indexed	floating	hedged
80.	RA 2014A	25/03/2011	24/03/2014	950	indexed	floating	hedged
81.	2020/RF/A	12/07/2010	20/07/2020	1,211	indexed	floating	hedged
82.	2020/RF/B	12/07/2010	20/07/2020	929	indexed	floating	hedged
83.	2020/RF/C	11/11/2010	05/11/2020	1,272	indexed	floating	hedged
84.	2021/RF/A	05/07/2011	13/07/2021	456	indexed	floating	hedged
85.	2021/RF/B	20/10/2011	25/10/2021	490	indexed	floating	hedged
86.	2021/RF/C	21/12/2011	30/12/2021	41	indexed	floating	hedged
87.	2021/RF/D	21/12/2011	30/12/2021	35	indexed	floating	hedged
88.	2021/RF/E	21/12/2011	30/12/2021	18	indexed	floating	hedged
89.	2022/RF/A	22/03/2012	23/03/2022	135	indexed	floating	hedged
90.	2022/RF/B	22/03/2012	23/03/2022	46	indexed	floating	hedged
91.	2022/RF/C	28/06/2012	28/06/2022	73	indexed	floating	hedged
92.	2022/RF/D	28/06/2012	28/06/2022	92	indexed	floating	hedged
93.	2022/RF/E	29/10/2012	31/10/2022	17	indexed	floating	hedged
94.	2022/RF/F	28/12/2012	28/12/2022	14	indexed	floating	hedged
95.	3Y EURHUF	25/06/2010	25/06/2013	2,097	indexed	floating	hedged
96.	DNT HUF 130508 9%	15/11/2012	08/05/2013	2,334	indexed	floating	hedged
97.	DNT HUF 2013A	27/09/2012	25/03/2013	3,753	indexed	floating	hedged
98.	OVK 2013/I	26/08/2011–28/12/2011	26/08/2013	1,254	5.75	fixed	
99.	OVK 2014/I	31/01/2012–03/07/2012	27/01/2014	237	6.75	fixed	
100.	OJK 2016/I	26/08/2011–21/12/2011	26/08/2016	211	6.14	fixed	
101.	OJK 2017/I	27/01/2012–13/07/2012	27/01/2017	41	7	fixed	
102.	OJB2013_II	20/12/2002	31/08/2013	13,433	8.25	fixed	
103.	OJB2014_I	14/11/2003	12/02/2014	13,483	8	fixed	
104.	OJB2014_J	17/09/2004	17/09/2014	233	8.69	fixed	
105.	OJB2015_I	10/06/2005	10/06/2015	3,231	7.7	fixed	
106.	OJB2015_J	28/01/2005	28/01/2015	140	8.69	fixed	
107.	OJB2016_I	03/02/2006	03/02/2016	1,259	7.5	fixed	
108.	OJB2016_II	31/08/2006	31/08/2016	4,663	10	fixed	
109.	OJB2016_J	18/04/2006	28/09/2016	227	7.59	fixed	
110.	OJB2019_I	17/03/2004	18/03/2019	31,503	9.48	fixed	
111.	OJB2019_II	25/05/2011	18/03/2019	1,059	9.48	fixed	
112.	OJB2020_I	19/11/2004	12/11/2020	5,503	9	fixed	
113.	OJB2020_II	25/05/2011	12/11/2020	1,486	9	fixed	
114.	Other*			35,342			
	Subtotal issued securities in HUF			**143,181**			
	Unamortized premium			**(40)**			
	Fair value adjustment			**1,693**			
	Total issued securities in HUF			**393,719**			

* From the total amount HUF 35,087 million is mobil deposits of Merkantil Bank.

Issued securities denominated in foreign currency as at 31 December 2012 (in HUF million):

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	Nominal value (HUF mn)	Interest conditions (in % p.a.)		Hedged
1.	DC EUR 130108 4.5%	27/09/2012	08/01/2013	EUR	10.55	3,073	4.5	fixed	
2.	DC USD 130207 5%	15/11/2012	07/02/2013	USD	13.75	3,038	5	fixed	
3.	EUR 2013/I	05/08/2011	05/08/2013	EUR	0.45	131	3	fixed	
4.	EUR 2013/II	12/08/2011	12/08/2013	EUR	0.44	127	3	fixed	
5.	EUR 2013/III	26/08/2011	26/08/2013	EUR	0.91	265	3	fixed	
6.	EUR 2013/IV	09/09/2011	09/09/2013	EUR	0.77	223	3	fixed	
7.	EUR 2013/V	23/09/2011	23/09/2013	EUR	0.49	144	3	fixed	
8.	EUR 2013/VI	07/10/2011	07/10/2013	EUR	0.55	161	3	fixed	
9.	EUR 2013/VII	21/10/2011	21/10/2013	EUR	0.51	148	3	fixed	
10.	EUR 2013/VIII	07/11/2011	07/11/2013	EUR	0.26	77	3	fixed	
11.	EUR 2013/IX	18/11/2011	18/11/2013	EUR	0.42	122	3	fixed	
12.	EUR 2013/X	25/11/2011	25/11/2013	EUR	0.14	41	3	fixed	
13.	EUR 2013/XI	02/12/2011	02/12/2013	EUR	0.18	53	3.5	fixed	
14.	EUR 2013/XII	16/12/2011	16/12/2013	EUR	0.08	25	3.5	fixed	
15.	EUR 2013/XIII	29/12/2011	29/12/2013	EUR	0.15	44	4	fixed	
16.	EUR 1 2013/I	13/01/2012	12/01/2013	EUR	1.11	322	3.5	fixed	
17.	EUR 1 2013/II	27/01/2012	26/01/2013	EUR	1.82	529	3.75	fixed	
18.	EUR 1 2013/III	10/02/2012	09/02/2013	EUR	1.02	297	3.75	fixed	
19.	EUR 1 2013/IV	24/02/2012	23/02/2013	EUR	1.08	315	3.75	fixed	
20.	EUR 1 2013/V	09/03/2012	09/03/2013	EUR	0.82	238	3.75	fixed	
21.	EUR 1 2013/VI	23/03/2012	23/03/2013	EUR	0.76	220	3.75	fixed	
22.	EUR 1 2013/VII	06/04/2012	06/04/2013	EUR	1.16	339	3.75	fixed	
23.	EUR 1 2013/VIII	20/04/2012	20/04/2013	EUR	2.31	673	3.75	fixed	
24.	EUR 1 2013/IX	04/05/2012	04/05/2013	EUR	2.84	827	3.75	fixed	
25.	EUR 1 2013/X	11/05/2012	11/05/2013	EUR	0.52	151	3.5	fixed	
26.	EUR 1 2013/XI	25/05/2012	25/05/2013	EUR	0.87	254	3.5	fixed	
27.	EUR 1 2013/XII	08/06/2012	08/06/2013	EUR	1.07	311	3.5	fixed	
28.	EUR 1 2013/XIII	22/06/2012	22/06/2013	EUR	2.30	671	3.5	fixed	
29.	EUR 1 2013/XIV	13/07/2012	13/07/2013	EUR	4.90	1,426	3.5	fixed	
30.	EUR 1 2013/XV	03/08/2012	03/08/2013	EUR	13.33	3,883	3.5	fixed	
31.	EUR 1 2013/XVI	17/08/2012	17/08/2013	EUR	7.78	2,267	3.25	fixed	
32.	EUR 1 2013/XVII	31/08/2012	31/08/2013	EUR	9.08	2,646	3.25	fixed	
33.	EUR 1 2013/XVIII	14/09/2012	14/09/2013	EUR	8.54	2,489	3	fixed	
34.	EUR 1 2013/XIX	28/09/2012	28/09/2013	EUR	4.67	1,361	3	fixed	
35.	EUR 1 2013/XX	12/10/2012	12/10/2013	EUR	7.41	2,158	3	fixed	
36.	EUR 1 2013/XXI	26/10/2012	26/10/2013	EUR	5.86	1,707	3	fixed	
37.	EUR 1 2013/XXII	09/11/2012	09/11/2013	EUR	5.36	1,560	3	fixed	
38.	EUR 1 2013/XXIII	23/11/2012	23/11/2013	EUR	9.29	2,706	3	fixed	
39.	EUR 1 2013/XXIV	07/12/2012	07/12/2013	EUR	10.46	3,048	3	fixed	
40.	EUR 1 2013/XXV	21/12/2012	21/12/2013	EUR	4.28	1,247	2.75	fixed	
41.	EUR 2 2014/I	13/01/2012	13/01/2014	EUR	0.06	17	4	fixed	
42.	EUR 2 2014/II	27/01/2012	27/01/2014	EUR	0.19	56	4	fixed	
43.	EUR 2 2014/III	10/02/2012	10/02/2014	EUR	0.24	71	4	fixed	
44.	EUR 2 2014/IV	24/02/2012	24/02/2014	EUR	0.44	129	4	fixed	
45.	EUR 2 2014/V	09/03/2012	09/03/2014	EUR	0.10	28	4	fixed	
46.	EUR 2 2014/VI	23/03/2012	23/03/2014	EUR	0.10	30	4	fixed	
47.	EUR 2 2014/VII	06/04/2012	06/04/2014	EUR	0.15	43	4	fixed	
48.	EUR 2 2014/VIII	20/04/2012	20/04/2014	EUR	0.25	73	4	fixed	
49.	EUR 2 2014/IX	04/05/2012	04/05/2014	EUR	0.34	99	4	fixed	
50.	EUR 2 2014/X	11/05/2012	11/05/2014	EUR	0.05	15	3.75	fixed	
51.	EUR 2 2014/XI	25/05/2012	25/05/2014	EUR	0.10	30	3.75	fixed	
52.	EUR 2 2014/XII	08/06/2012	08/06/2014	EUR	0.13	37	3.75	fixed	
53.	EUR 2 2014/XIII	22/06/2012	22/06/2014	EUR	0.20	58	3.75	fixed	
54.	EUR 2 2014/XIV	13/07/2012	13/07/2014	EUR	0.18	54	3.75	fixed	
55.	EUR 2 2014/XV	03/08/2012	03/08/2014	EUR	0.23	67	3.75	fixed	
56.	EUR 2 2014/XVI	17/08/2012	17/08/2014	EUR	0.22	64	3.5	fixed	
57.	EUR 2 2014/XVII	31/08/2012	31/08/2014	EUR	0.46	135	3.5	fixed	
58.	EUR 2 2014/XVIII	14/09/2012	14/09/2014	EUR	0.31	90	3.25	fixed	
59.	EUR 2 2014/XIX	28/09/2012	28/09/2014	EUR	0.29	83	3.25	fixed	
60.	EUR 2 2014/XX	12/10/2012	12/10/2014	EUR	0.22	63	3.25	fixed	
61.	EUR 2 2014/XXI	26/10/2012	26/10/2014	EUR	0.47	138	3.25	fixed	
62.	EUR 2 2014/XXII	09/11/2012	09/11/2014	EUR	0.20	60	3.25	fixed	
63.	EUR 2 2014/XXIII	23/11/2012	23/11/2014	EUR	0.37	109	3.25	fixed	
64.	EUR 2 2014/XXIV	07/12/2012	07/12/2014	EUR	0.41	119	3.25	fixed	
65.	EUR 2 2014/XXV	21/12/2012	21/12/2014	EUR	0.37	108	3	fixed	
66.	2015/Cx	27/12/2010	29/12/2015	EUR	0.97	283	indexed	floating	hedged
67.	2015/Fx	21/12/2012	23/12/2015	EUR	2.07	604	indexed	floating	hedged

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	(HUF mn)	Interest conditions (in % p.a.)		Hedged
68.	2016/Cx	22/04/2011	22/04/2016	EUR	1.56	454	indexed	floating	hedged
69.	2016/Dx	22/12/2011	29/12/2016	EUR	1.25	363	indexed	floating	hedged
70.	2017/Fx	14/06/2012	16/06/2017	EUR	0.78	226	indexed	floating	hedged
71.	OMB2013_I	11/11/2011	18/11/2013	EUR	3.5	1,020	5.44	floating	hedged
72.	OMB2014_I	15/12/2004	15/12/2014	EUR	198.25	57,748	4	fixed	
73.	OMB2014_II	02/08/2011	10/08/2014	EUR	15.5	4,515	3.19	floating	hedged
74.	OMB2015_I	30/08/2012	06/03/2015	EUR	5	1,456	4.19	floating	hedged
75.	Mortgage bonds OTP VII	21/12/2005	21/12/2015	EUR	22.47	6,546	0.33	floating	
76.	Mortgage bonds OTP XIX	02/11/2009	02/11/2012	EUR	9.76	2,844	4.0	fixed	
77.	Mortgage bonds OTP XXI	20/05/2010	20/05/2013	EUR	9.86	2,871	3.5	fixed	
78.	Mortgage bonds OTP XXIV	23/11/2010	23/11/2013	EUR	7.88	2,294	3.3	fixed	
79.	Mortgage bonds OTP XXV	28/09/2012	28/09/2016	EUR	5.6	1,631	4.0	fixed	
80.	OTPRU 14/03	29/03/2011	25/03/2014	RUR	2,500	18,150	8.55	fixed	
81.	OTPRU 14/07	02/08/2011	29/07/2014	RUR	5,000	36,300	8.21	fixed	
82.	OTPRU 14/10	03/11/2011	30/10/2014	RUR	4,000	29,040	10.88	fixed	
83.	OTPRU 15/03	06/03/2012	03/03/2015	RUR	4,940	35,864	10.84	fixed	
84.	Other*					16,923			
	Subtotal issued securities in FX					**220,168**			
	Unamortized premium					**(31,075)**			
	Fair value adjustment					**46**			
	Total issued securities in FX					**229,196**			
	Total accrued interest					**20,208**			
	Total issued securities					**643,123**			

2012 update of the Bank's EUR 5 billion EMTN Programme

On 13 November 2012 the Commission de Surveillance du Secteur Financier (CSSF) approved the Base Prospectus relating to EUR 5 billion Euro Medium Term Note Programme of the Bank.

On 11 December 2012 the Commission de Surveillance du Secteur Financier approved the 1st Supplement to the Base Prospectus relating to EUR 5 billion EMTN Programme.

Term Note Program in the value of HUF 500 billion for the year of 2012/2013

On 5 July 2012 the Bank initiated term note program in the value of HUF 500 billion with the intention of issuing registered dematerialized bonds in public. The Hungarian Financial Supervisory Authority ('HFSA') approved the prospectus of Term Note Program and the disclosure on 1 August 2012. On 31 August, 28 September, 23 November, 7 and 21 December 2012, the HFSA approved the 1st, 2nd, 3rd, 4th and 5th addition of the prospectus of the program. The 6th addition of the prospectus was approved on January 23 2013 by the HFSA. 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 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. 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, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

* Other category includes promissory notes issued by OTP banka Slovensko a.s. in the amount of HUF 306 million and by OAO OTP Bank in the amount of HUF 16,617 million.

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

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

	2012	2011
Interest rate swaps classified as held for trading	75,332	40,542
CCIRS and mark-to-market CCIRS classified as held for trading	31,594	125,014
Foreign exchange swaps classified as held for trading	6,388	50,204
Forward rate agreements classified as held for trading (FRA)	4,857	8,366
Option contracts classified as held for trading	1,954	2,401
Foreign exchange forward contracts classified as held for trading	1,350	3,585
Forward security agreements classified as held for trading	219	–
Other transactions classified as held for trading	338	37
Total	**122,032**	**230,149**

NOTE 17: OTHER LIABILITIES (in HUF million)

	2012	2011
Fair value of derivative financial instruments designated as fair value hedge	119,027	98,415
Financial liabilities from OTP-MOL share swap transaction*	89,308	82,347
Salaries and social security payable	29,835	28,131
Liabilities from investment services	26,264	12,065
Liabilities connected to Cafeteria benefits	23,696	2,268
Accrued expenses	20,048	17,601
Provision for impairment on off-balance sheet commitments and contingent liabilities	19,727	18,434
Deferred tax liabilities	17,454	4,559
Accounts payable	16,474	14,948
Current income tax payable	15,982	13,626
Clearing, settlement and pending accounts	14,595	10,635
Giro clearing accounts	11,725	31,048
Loans from government	3,008	4,152
Advances received from customers	2,904	2,277
Liabilities connected to leasing activities	1,212	1,013
Liabilities connected to loans for collection	1,006	1,117
Liabilities related to housing loans	177	470
Dividend payable	127	280
Liabilities from specific repo deals	–	321
Other	43,804	32,302
	456,373	**376,009**
Accrued interest	858	928
Total	**457,231**	**376,937**

* 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 lost 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 31 December 2012 HUF 89,308 and as at 31 December 2011 HUF 82,347 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

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

	2012	2011
Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending	9,080	11,443
Provision for other liabilities	5,421	2,022
Provision for litigation	4,089	3,697
Provision for expected pension commitments	1,137	1,272
Total	**19,727**	**18,434**

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

	2012	2011
Balance as at 1 January	18,434	19,650
Provision/(Release) for the period	2,135	(1,863)
Use of provision	(223)	(251)
Foreign currency translation differences	(619)	898
Closing balance	**19,727**	**18,434**

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

	2012	2011
CCIRS and mark-to-market CCIRS designated as fair value hedge	113,915	85,845
Interest rate swaps designated as fair value hedge	5,033	12,563
Forward security agreements designated as fair value hedge	78	–
Other transactions designated as fair value hedge	1	7
Total	**119,027**	**98,415**

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

	2012	2011
Within one year:		
In HUF	5,000	–
In foreign currency	8	325
	5,008	**325**
Over one year:		
In HUF	–	5,000
In foreign currency	283,397	307,617
	283,397	**312,617**
Accrued interest	3,090	3,505
Total	**291,495**	**316,447**

Interest rates on subordinated bonds and loans are as follows:

	2012	2011
Denominated in HUF	3.3%	3.0%
Denominated in foreign currency	0.7%–8.0%	1.99%–8.0%
Average interest rates on subordinated bonds and loans	3.97%	3.98%

Partial cancellation of EUR 125 million subordinated notes

On 26 August 2011 the Bank purchased on the secondary market Notes from the EUR 125 million subordinated Notes series maturing 04/03/2015, in the total notional amount of EUR 1.15 million. On 7 September 2011, and on 8 September 2011 the Bank purchased additional EUR 1 and 1 million notional amount from the same Note series. The Bank initiated the cancellation of the Notes on 26 August 2011, on 7 September 2011 and on 8 September 2011. On 21 October 2011 the Bank purchased EUR 1.85 million from the EUR 125 million subordinated Notes series. After the cancellation of these bonds the outstanding amount of the notes decreased to EUR 120 million. On 27 January 2012 the Bank purchased on the secondary market Notes from the EUR 125 million subordinated Notes series maturing 04/03/2015, in the total notional amount of EUR 12 million. On 1 February 2012 the Bank purchased additional EUR 2.05 million from the same Note series. After the cancellation of these bonds the outstanding amount of the notes decreased to EUR 105,950,000.

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 31 December 2012
Subordinated bond	HUF 5 billion	20/12/1993	20/12/2013	100%	Frequency of payment is based on the condition of interest of 2013/C credit consolidation government bonds	6.0%
Subordinated bond	EUR 105.95 million	04/03/2005	04/03/2015	100%	Three-month EURIBOR + 0.55% quarterly	–
Subordinated bond	EUR 473.2 million	07/11/2006	Perpetual, but callable after 10 years	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	–
Subordinated bond (under EMTN* program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN* program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond	USD 65 million	21/04/2008	13/10/2015	100%	Variable, six-month LIBOR + 1.4%	2.0%
Subordinated bond	RUB 16.7 million	30/12/2003	21/06/2015	100%	Variable, based on the Russian National Bank's interest rate	8.25%
Subordinated bond	EUR 5,113 million	23/12/1997	15/11/2014	100%	Variable, six-month EURIBOR + 1.3%	1.66%

*European Medium Term Note Program

NOTE 19: SHARE CAPITAL (in HUF million)

	2012	2011
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000
Total	**28,000**	**28,000**

On 21 April 2007, the law on abolishment of 'Aranyrészvény' (special share assigning voting rights to the Hungarian State) came into force (Act XXVI of 2007). Consequently, this special voting share was transformed into 10 ordinary shares with a face value of HUF 100. Therefore the registered capital of the Bank consists of 280,000,010 ordinary shares with a face value of HUF 100.

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

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

	2012	2011
Capital reserve	52	52
General reserve	141,717	134,460
Retained earnings	845,614	760,785
Tied-up reserve	7,385	8,018
Total	**994,768**	**903,315**

The legal reserves (general reserve and tied-up reserve) are not available for distribution. The dividend has been determined on the basis of the net profit for the year determined in the separate financial statements in accordance with the HAS.

These Financial Statements subject to approval by the Board of Directors in the Annual General Meeting in April 2013. In 2012 the Bank paid dividend of HUF 28,000 million from the profit of the year 2011. In 2013 dividend of HUF 33,600 million are expected to be proposed by the management from the profit of the year 2012, which means 120 HUF payable dividend by share to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 701,935 million and HUF 697,946 million) and reserves (HUF 832,637 million and HUF 741,149 million). The reserves include mainly net profit for the year attributable to the owners of the company, the fair value adjustment of securities available-for-sale, additional reserves of Income Certificates Exchangeable for Shares ('ICES'), changes in equity accumulated in the previous year at the subsidiaries, changes due to consolidation and exchange differences.

In the Consolidated Financial Statement the Group presents the difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, among the shareholders' equity as difference of translation. The accumulated amounts of exchange differences were HUF 17,889 million and HUF 71,280 million in year 2012 and 2011 respectively.

On 19 October 2006, the Bank sold 14.5 million Treasury shares owned by the Group through an issue of ICES. Within the transaction 10 million shares owned by OTP, and further 4.5 million shares owned by OTP Group were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ('OPUS'), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years, thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP has discretional right to cancel the interest payments. The interest payable is non-cumulative. Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

NOTE 21: TREASURY SHARES (in HUF million)

	2012	2011
Nominal value (Ordinary shares)	1,876	1,921
Carrying value at acquisition cost	53,802	54,386

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

Change in number of shares:	2012	2011
Number of shares as at 1 January	19,218,344	18,731,231
Additions	1,490,134	1,085,521
Disposals	(1,953,105)	(598,408)
Closing number of shares	**18,755,373**	**19,218,344**

Change in carrying value:	2012	2011
Balance as at 1 January	54,386	52,597
Additions	5,758	4,753
Disposals	(6,342)	(2,964)
Closing balance	**53,802**	**54,386**

NOTE 22: NON-CONTROLLING INTEREST (in HUF million)

	2012	2011
Balance as at 1 January	5,601	5,888
Non-controlling interest included in net profit for the period	896	653
Foreign currency translation difference	70	1,147
Changes due to ownership structure	(784)	(2,087)
Closing balance	**5,783**	**5,601**

NOTE 23: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF million)

	2012	2011
Provision for impairment on loan losses		
Provision for the period	602,194	596,734
from this:(release of provision)/provision for impairment on loan losses related to early repayment	(35,264)	35,264
Release of provision	(472,154)	(357,824)
Provision for impairment on loan losses	96,899	78,359
from this: provision on loan losses related to early repayment	32,774	32,045
	226,939	**317,269**

	2012	2011
Provision for impairment on placement losses		
Provision for the period	1,479	166
Release of provision	(1,375)	(1,091)
(Release of provision)/Provision for impairment on placement losses	(63)	329
	41	**(596)**

	2012	2011
Provision for impairment on loan and placement losses	**226,980**	**316,673**
(Gains)/Losses on loans related to early repayment	(2,490)	67,309
Losses from early repayment recognizing in interest income from loans	127	107
Total (gains)/losses related to early repayment	**(2,363)**	**67,416**

NOTE 24: NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)

Income from fees and commissions

	2012	2011
Deposit and account maintenance fees and commissions	76,622	72,707
Fees and commissions related to the issued bank cards	43,880	36,613
Fees related to cash withdrawal	24,488	24,200
Fees and commissions related to lending	19,056	16,629
Fees and commissions related to fund management	10,842	11,816
Fees and commissions related to security trading	7,412	5,636
Other	21,199	16,488
Total	**203,499**	**184,089**

Expense from fees and commissions

	2012	2011
Fees and commissions paid on loans	12,104	4,798
Interchange fees	9,157	8,381
Fees and commissions related to issued bank cards	7,523	7,322
Fees and commissions related to lending	5,112	2,082
Fees and commissions related to deposits	2,618	2,524
Cash withdrawal transaction fees	2,552	2,263
Insurance fees	1,741	1,996
Money market transaction fees and commissions	1,293	1,300
Fees and commissions related to security trading	810	977
Postal fees	779	835
Other	5,473	5,089
Total	**49,162**	**37,567**
Net profit from fees and commissions	**154,337**	**146,522**

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

Other operating income	**2012**	**2011**
Other income from non-financial activities	23,987	27,252
Total	**23,987**	**27,252**

Other operating expenses	**2012**	**2011**
Provision for impairment on other assets	6,375	3,221
Provision/(Release of provision) for off-balance sheet commitments and contingent liabilities	2,135	(1,863)
Provision for impairment on investments*	1,335	3,304
Other expense from non-financial activities	17,912	16,235
Other operating costs	7,276	5,674
Total	**35,033**	**26,571**

* See details in Note 9.

Other administrative expenses	2012	2011
Personnel expenses		
Wages	139,386	124,996
Taxes related to personnel expenses	36,881	32,595
Other personnel expenses	12,685	11,507
Subtotal	**188,952**	**169,098**
Depreciation and amortization	**47,420**	**73,432**

Other administrative expenses	2012	2011
Taxes, other than income tax*	69,858	45,364
Administration expenses, including rental fees	48,245	45,069
Services	37,069	38,805
Professional fees	18,949	18,467
Advertising	12,984	12,440
Subtotal	**187,105**	**160,145**
Total	**423,477**	**402,675**

NOTE 26: INCOME TAX (in HUF million)

The Group is presently liable for income tax at rates between 9% and 24.5% of taxable income. Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria, Serbia and Cyprus, 16% in Romania, 19% in Hungary and Slovakia, 20% in Croatia and Russia, 21% in Ukraine and 24.5% in the United Kingdom.

The breakdown of the income tax expense is:

	2012	2011
Current tax expense	20,527	25,216
Deferred tax expense	2,561	13,980
Total	**23,088**	**39,196**

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

	2012	2011
Balance as at 1 January	**(2,140)**	**3,217**
Deferred tax expense	(2,561)	(13,980)
Deferred tax related to items recognized directly in equity and in Other Comprehensive Income	(12,894)	8,699
Difference arising on consolidation	–	10
Foreign currency translation difference	300	(86)
Closing balance	**(17,295)**	**(2,140)**

* 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 the Group. The total tax amount for the year 2012 and 2011 HUF 37.1 billion and HUF 14.6 billion was 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.

A reconciliation of the income tax expense is as follows:

	2012	2011
Profit before income tax	145,674	122,996
Income tax at statutory tax rates	33,073	27,353

Income tax adjustments due to permanent differences are as follows:

	2012	2011
Differences in carrying value of subsidiaries	2,110	2,765
Reversal of statutory general provision	1,150	(206)
OTP–MOL share swap transaction	871	(871)
Share-based payment	871	1,176
Difference of accounting of equity instrument (ICES)	370	(711)
Tax effect of amortization of statutory goodwill	–	(5,327)
Effect of change of income tax rate	–	1,927
Treasury share transactions	(36)	–
Reclassification of direct charges to reserves (self-revision)	(96)	(1,639)
Revaluation of investments denominated in foreign currency to historical cost	(4,325)	11,443
Deferred use of tax allowance	(5,945)	–
Other	(4,955)	3,286
Income tax expense	**23,088**	**39,196**
Effective tax rate	**15.85%**	**31.9%**

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

	2012	2011
Fair value adjustment of securities held for trading and securities available-for-sale	6,285	8,970
Repurchase agreement and security lending	4,192	3,336
Tax loss carry forward	2,935	3,852
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	427	76
Difference in accounting for leases	423	483
Difference in depreciation and amortization	18	20
Provision for impairment on investments	–	4,407
Adjustment from effective interest rate method	–	2,401
Premium and discount amortization on bonds	–	472
Fair value adjustment of derivative financial instruments	–	18
Other	9,630	3,441
Deferred tax asset	**23,910**	**27,476**

	2012	2011
Fair value adjustment of securities held for trading and securities available-for-sale	(8,905)	(1,225)
Difference in depreciation and amortization	(6,223)	(5,052)
Fair value adjustment of derivative financial instruments	(6,071)	(8,155)
Net effect of treasury share transactions	(3,824)	(4,706)
Adjustment from effective interest rate method	(2,869)	(2,444)
Accounting of equity instrument (ICES)	(2,775)	(3,977)
Temporary differences arising on consolidation	(1,636)	(1,129)
Premium and discount amortization on bonds	(1,161)	(243)
Difference in accounting for leases	(67)	(72)
Repurchase agreement and security lending	(2)	–
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	–	(19)
Other	(7,672)	(2,594)
Deferred tax liabilities	**(41,205)**	**(29,616)**
Net deferred tax liability	**(17,295)**	**(2,140)**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

27.1. Credit risk

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

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

Analysis by loan types and risk classes

An analysis of the gross loan portfolio by loan types and financial risk classes is as follows:

As at 31 December 2012

Loan type	Performing	To-be monitored	Below average	Doubtful	Bad	Total carrying amount/ allowance
Retail loans	2,972,929	853,100	226,310	222,402	647,623	4,922,364
Corporate loans	1,152,177	469,093	130,965	154,969	412,414	2,319,618
Placement with other banks	341,171	15,610	–	6	787	357,574
Municipal loans	212,504	73,026	8,782	9,738	1,015	305,065
Total gross portfolio	**4,678,781**	**1,410,829**	**366,057**	**387,115**	**1,061,839**	**7,904,621**
Allowance for loans	(24,597)	(55,395)	(97,934)	(213,653)	(762,597)	(1,154,176)
Allowance for placements	–	(324)	–	–	(787)	(1,111)
Total allowance	**(24,597)**	**(55,719)**	**(97,934)**	**(213,653)**	**(763,384)**	**(1,155,287)**
Total net portfolio	**4,654,184**	**1,355,110**	**268,123**	**173,462**	**298,455**	**6,749,334**

Accrued interest	
for loans	71,320
for placements	403
Total accrued interest	**71,723**
Total net loans	6,464,191
Total net placements	356,866
Total net exposures	**6,821,057**

As at 31 December 2011

Loan type	Performing	To-be monitored	Below average	Doubtful	Bad	Total carrying amount/ allowance
Retail loans	3,072,883	1,194,682	155,854	242,301	482,946	5,148,666
Corporate loans	1,206,613	560,963	187,089	227,745	364,713	2,547,123
Placement with other banks	415,242	7,034	12	262	871	423,421
Municipal loans	265,294	64,348	8,927	11,919	1,193	351,681
Total gross portfolio	**4,960,032**	**1,827,027**	**351,882**	**482,227**	**849,723**	**8,470,891**
Allowance for loans	(30,127)	(93,985)	(74,005)	(245,661)	(617,674)	(1,061,452)
Allowance for placements	(2)	(172)	(2)	(113)	(876)	(1,165)
Total allowance	**(30,129)**	**(94,157)**	**(74,007)**	**(245,774)**	**(618,550)**	**(1,062,617)**
Total net portfolio	**4,929,903**	**1,732,870**	**277,875**	**236,453**	**231,173**	**7,408,274**

Accrued interest	
for loans	61,161
for placements	521
Total accrued interest	**61,682**
Total net loans	7,047,179
Total net placements	422,777
Total net exposures	**7,469,956**

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

Qualification categories	2012	2011
Performing	1,426,968	1,039,188
To-be monitored	41,450	47,996
Below average	4,203	194,370
Doubtful	1,395	4,774
Bad	1,294	1,513
Total	**1,475,310**	**1,287,841**

The Group's loan portfolio decreased by 6.7% in the year 2012. Analysing the contribution of loan types to the loan portfolio, the share of the retail loan type slightly increased while the other types of loan portfolios slightly decreased. As a consequence of the economic situation, the qualification of the loan portfolio deteriorated, the ratio of the non-performing (doubtful and bad) loans compared to the gross loan portfolio increased from 15.7% to 17.4%. Among the qualified loan portfolio, the loans classified to the risk class of 'below average' expanded at the fastest level.

The Group has a prudent provisioning policy, the coverage of loans by provision for impairment on loans classified as doubtful or bad, the indicator was 67.4% and 64.9% as at 31 December 2012 and 31 December 2011 respectively.

The off-balance sheet liabilities connected to the lending activity increased by 14.6% and 16.9% as at 31 December 2012 and 31 December 2011 respectively.
The qualified loan portfolio decreased by 8.4% in the year ended 31 December 2012.

Classification into risk classes

Exposures with small amounts (retail sector) are subject to collective valuation method, which is a simplified assessment. The exposures subject to collective valuation method are classified to five risk classes (performing, to-be monitored, below average, doubtful, bad). Depending on the days of delay, a specific percentage is assigned to each risk class, and the provision for impairment is calculated on all exposures based on previously determined rates.

When applying the individual assessment 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.

Loan portfolio by countries

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

	2012		2011	
Country	**Carrying amount of the qualified gross loan portfolio**	**Allowance**	**Carrying amount of the qualified gross loan portfolio**	**Allowance**
Hungary	1,348,023	434,216	1,652,321	421,616
Ukraine	636,576	197,099	771,398	196,537
Romania	312,453	48,861	160,413	44,162
Bulgaria	304,997	165,177	318,961	148,292
Russia	264,877	128,911	204,577	68,904
Montenegro	141,855	82,135	143,986	70,640
Serbia	51,759	26,318	69,811	26,082
Croatia	50,578	21,824	53,119	22,004
Slovakia	47,234	20,323	59,008	17,626
Cyprus	45,985	1,854	65,331	13,931
United States of America	12,724	131	1,097	6
Seychelles	4,912	1,473	5,268	806
United Kingdom	2,346	1,801	2,275	1,125
Egypt	664	332	640	327
Germany	217	75	15	4
Ireland	111	52	81	72
Kazakhstan	82	34	2,209	150
Latvia	38	26	37	31
Netherlands	2	1	–	–
Macedonia	–	–	116	76
Other*	407	47	196	97
Total	**3,225,840**	**1,130,690**	**3,510,859**	**1,032,488**

The qualified loan portfolio decreased mostly in Cyprus, Serbia, Slovakia, Hungary and Ukraine and increased in Russia, but there were no significant changes in the other countries. Their stock of provision increased mostly in Russia and decreased in Cyprus.

* Other category in year 2012 includes e.g.: Island, Greece, Sweden, Moldova, United Arab Emirates, Switzerland, Austria, Spain, Georgia, South Korea, Turkey, Israel, Luxembourg, China, Canada, Libya, France, Vietnam.

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

	2012		2011	
Country	Carrying amount of the non-qualified gross loan portfolio	Allowance	Carrying amount of the non-qualified gross loan portfolio	Allowance
Hungary	2,009,007	24	1,930,312	2,711
Bulgaria	890,478	14,367	979,000	12,742
Russia	624,285	3,331	589,273	4,121
Croatia	334,942	3,468	360,747	3,817
Slovakia	244,647	1,325	246,160	736
Romania	137,390	463	308,304	307
United Kingdom	87,509	–	96,790	28
Serbia	65,358	117	43,807	32
Germany	63,387	–	61,913	1
Montenegro	63,102	1,502	149,789	5,629
Ukraine	60,345	–	49,382	–
France	29,485	–	60,355	–
United States of America	19,852	–	14,536	2
Luxembourg	11,361	–	–	–
Switzerland	11,210	–	8,867	–
Austria	10,264	–	3,982	–
Belgium	4,154	–	16,547	–
Czech Republic	4,062	–	540	–
Norway	2,204	–	6,617	–
Turkey	1,708	–	403	–
Japan	1,417	–	128	–
Cyprus	470	–	9,048	–
Canada	429	–	273	–
Poland	290	–	2,813	–
Denmark	276	–	133	–
Sweden	212	–	1,747	–
Netherlands	147	–	13,972	–
Kazakhstan	142	–	271	–
Italy	118	–	3,235	1
Ireland	105	–	261	–
Spain	25	–	19	–
Azerbaijan	–	–	602	–
Other*	400	–	206	2
Total	**4,678,781**	**24,597**	**4,960,032**	**30,129**

The non-qualified loan portfolio decreased mostly in Netherlands, Cyprus, Montenegro and Romania. In some countries the stock of provision increased due to local regulations on the base of which it is compulsory to account fix rate of provision on the non-qualified portfolio.

Collaterals

The values of collaterals held by the Group by types are as follows: (total collaterals). The collaterals cover loans as well as off-balance sheet exposures.

Types of collaterals	2012	2011
Mortgages	6,790,472	6,957,343
Assignments (revenue or other receivables)	247,449	209,013
Guarantees and warranties	191,789	297,856
Guarantees of state or organizations owned by state	171,547	162,516
Cash deposits	154,956	158,457
Securities	132,965	105,950
Other	1,186,995	970,760
Total	**8,876,173**	**8,861,895**

The values of collaterals held by the Group by types are as follows: (to the extent of the exposures). The collaterals cover loans as well as off-balance sheet exposures.

* Other category in 2012 includes e.g.: Australia, Hong-Kong, Island, United Arab Emirates, Greece, Slovenia, Macedonia, Brasilia, Latvia, Finland, Bosnia and Herzegovina, Israel, Estonia, Grenada.

Types of collaterals	2012	2011
Mortgages	3,045,238	3,625,631
Assignments (revenue or other receivables)	312,839	325,310
Guarantees and warranties	165,399	273,286
Cash deposits	117,778	103,771
Guarantees of state or organizations owned by state	117,308	135,969
Securities	65,864	31,848
Other	585,852	598,993
Total	**4,410,278**	**5,094,808**

The coverage level of the loan portfolio (total collaterals) increased by 4.2%, as well as the coverage level to the extent of the exposures decreased by 9.9% as at 31 December 2012.

Loans, neither past due, nor impaired

The loan portfolio analysis of the gross values of the loans that are neither past due nor impaired is as follows:

Loan type	2012	2011
Retail loans	1,854,274	2,224,077
Corporate loans	917,619	997,115
Placement with other banks	319,095	396,298
Municipal loans	149,558	175,452
Total	**3,240,546**	**3,792,942**

Qualification categories	2012	2011
Performing	3,061,957	3,723,990
To-be monitored	149,670	40,569
Below average	19,840	13,538
Doubtful	4,481	3,187
Bad	4,598	11,658
Total	**3,240,546**	**3,792,942**

Loans neither past due, nor impaired cover only balance sheet items.

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio decreased from 44.8% to 41% as at 31 December 2012 compared to the end of the prior year. The ratio of the corporate and interbank placements compared to the portfolio of loans neither past due nor impaired increased during the year ended 31 December 2012 while the ratio of the retail and municipal loans decreased.

Renegotiated loans

An analysis of the gross value of the loans that would otherwise be past due or impaired and whose terms have been renegotiated as at 31 December 2012 and 31 December 2011 is as follows:

Loan type	2012	2011
Retail loans	232,305	421,898
Corporate loans	203,295	404,796
Municipal loans	9,452	11,197
Placement with other banks	–	–
Total	**445,052**	**837,891**

The gross amount of renegotiated loans decreased considerably by 31 December 2012, which is connected mainly to the retail and corporate loans. There were no renegotiated loans neither in the year 2012 nor in 2011 among the Placements with other banks.

Past due, but not impaired loans

The aging of gross loans that are past due but not impaired as at 31 December 2012 and 31 December 2011 is as follows:

As at 31 December 2012

Loan type	Up to 90 days	91-180 days	181-365 days	Above 365 days	Total
Retail loans	283,443	7,061	4,321	13,975	308,800
Corporate loans	72,271	940	1,369	7,373	81,953
Municipality loans	56,358	–	–	54	56,412
Total	**412,072**	**8,001**	**5,690**	**21,402**	**447,165**

As at 31 December 2011

Loan type	Up to 90 days	91-180 days	181-365 days	Above 365 days	Total
Retail loans	289,802	15,738	13,047	29,678	348,265
Corporate loans	71,503	8,610	1,997	7,846	89,956
Municipality loans	82,422	–	–	–	82,422
Total	**443,727**	**24,348**	**15,044**	**37,524**	**520,643**

The loans that are past due but not impaired are concentrated mainly in the retail loan type. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Group.

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

An analysis of the fair value of collaterals related to past due, but not impaired loans, total collaterals and to the extent of the exposures as at 31 December 2012 and 31 December 2011 is as follows:

Fair value of the collaterals (total collaterals)	2012	2011
Retail loans	491,038	530,063
Corporate loans	293,976	284,137
Municipality loans	8,243	6,491
Total	**793,257**	**820,691**

Fair value of the collaterals (to the extent of the exposures)	2012	2011
Retail loans	213,113	256,388
Corporate loans	42,458	51,059
Municipality loans	68	807
Total	**255,639**	**308,254**

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

Loans individually assessed for provision

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 31 December 2012 and 31 December 2011 is as follows. The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.

As at 31 December 2012

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	251,530	146,552	154,392	22	1
Regularity of payment	530	246	39	–	–
Renegotiation	39,884	6,908	25,924	38	19
Legal proceedings	114,549	75,976	56,381	52	47
Decrease of client classification	173,809	56,133	41,440	6,090	475
Loan characteristics	52,392	3,138	–	–	–
Business lines risks	6,836	2,929	339	3,489	142
Cross default	24,462	9,145	4,357	878	120
Other	29,251	4,152	1,978	3,838	458
Corporate total	**693,243**	**305,179**	**284,850**	**14,407**	**1,262**
Delay of payment	6,657	474	4,049	–	–
Renegotiation	7,310	193	–	4	–
Legal proceedings	1,082	709	–	–	–
Decrease of client classification	18,288	1,381	–	433	68
Cross default	300	27	–	–	–
Other	24,445	2,714	–	6,283	402
Municipal total	**58,082**	**5,498**	**4,049**	**6,720**	**470**
Placements with other banks	**761**	**761**	**–**	**–**	**–**
Total	**752,086**	**311,438**	**288,899**	**21,127**	**1,732**

As at 31 December 2011

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	230,955	118,157	154,959	284	1
Regularity of payment	1,711	158	739	–	–
Renegotiation	49,024	4,607	9,563	2,183	19
Legal proceedings	84,327	56,452	36,275	81	76
Decrease of client classification	177,735	50,137	79,574	7,533	1,294
Loan characteristics	41,895	2,993	–	–	–
Business lines risks	25,294	7,923	1,127	4,608	437
Cross default	30,644	19,277	427	392	120
Other	20,101	2,818	1,622	6,631	793
Corporate total	**661,686**	**262,522**	**284,286**	**21,712**	**2,740**
Delay of payment	1,253	433	3,502	–	–
Renegotiation	7,324	540	–	113	53
Legal proceedings	327	287	40	–	–
Decrease of client classification	20,216	1,911	–	260	91
Cross default	552	201	2	109	35
Other	26,383	2,496	19	6,473	404
Municipal total	**56,055**	**5,868**	**3,563**	**6,955**	**583**
Placements with other banks	**4,878**	**1,246**	**–**	**–**	**–**
Total	**722,619**	**269,636**	**287,849**	**28,667**	**3,323**

By 31 December 2012 the volume of the individually rated portfolio slightly increased in the corporate loan type. Among the rating factors of the corporate loan type, the increase is mostly based on the legal proceedings and loan characteristics.

Loan characteristics:

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 grievously accused by the financial crisis (vehicle industry, building industry, real estate services, metal processing, financial services).

Forborne loans

Forbearance measures occur in situations in which the contract – receivable is originated from – is modified on the debtor's or the Group's initiative, basically based on the fact that the borrower is considered to be unable to service the debt or refinance the contract according to the original terms and conditions because of the debtor's financial difficulties and significant deterioration of ability to pay. Furthermore escrow account loans granted based on law of FX loans are qualified as forborne loans as well as ones concerning to the escrow account loan has been paid.

In comparison with the original terms and conditions, essentially more favourable conditions are arising for clients by modification of the contract. Modification of the terms and conditions of the contract may affect:

- temporary payment holidays (interest and/or principal payments)
- payment by instalments
- modifying the level of interest (e.g. reductions on interest),
- capitalisation of interests
- modification of foreign exchange
- extension of the loan term
- rescheduling the payments
- reducing the level of required collaterals, guarantees and replacing them with other ones
- forbearing from collaterals
- amendment or lack of enforcement of covenants, establishment of new contractual terms

Rating of forborne loans

Forborne loan (applying the individual or collective evaluation method) is forbidden to be classified during rating period following forbearance as better than its previous rating category was before forbearance.

1. Individual evaluation method

Individually evaluated, forborne loan (receivable) is allowed to be classified as 'to-be-monitored' (in retail business line 'B') if:

- as a result of forbearance, debts in default have been paid off or outstanding debts are 100% collateral loans (value of collateral equals or exceeds one of outstanding debts at the rating date),
- following the forbearance, default in paying with more than 15 days of delinquency did not arise during 180 days without a break and
- borrower's prospective ability to service the debt with new terms and conditions is adequate.

Individually evaluated, forborne loan (receivable) is allowed to be classified as 'performing' (in retail business line 'A') if:

- as a result of forbearance, debts in default have been paid off or outstanding debts are 100% collateral loans (value of collateral equals or exceeds one of outstanding debts at the rating date),
- following the forbearance, default in paying with more than 15 days of delinquency did not arise during 365 days without a break and
- borrower's prospective ability to service the debt with new terms and conditions is adequate.

2. Collective evaluation method

Collective evaluated, forborne loan (receivable) is allowed to be classified as 'to-be-monitored' (in retail business line 'B') if:

- following the forbearance, default in paying with more than 15, in case of retail loan 30 days of delinquency did not arise during 180 days without a break.

Collective evaluated, forborne loan (receivable) is allowed to be classified as 'performing' (in retail business line 'A') if:

• following the forbearance, default in paying with more than 15, in case of retail loan 30 days of delinquency did not arise during 365 days without a break.

These loans are recorded classified as forborne until they are recognized in the financial statements.

An analysis of forborne gross loan portfolio by loan types as at 31 December 2012 and 2011 is as follows:

Loan type	2012	2011
Retail loans	621,824	539,954
Corporate loans	393,058	514,309
Municipal loans	14,314	11,197
Total	**1,029,196**	**1,065,460**

Gross value of the forborne loans that would otherwise be past due or impaired by loans types as at 31 December 2012 and 2011 is as follows:

Loan type	2012	2011
Retail loans	367,620	295,845
Corporate loans	161,580	168,433
Municipal loans	13,783	9,659
Total	**542,983**	**473,937**

An analysis of gross value of forborne loans for the year ended 31 December 2012:

Loan type	Balance as at 1 January 2012	Additions	Sale	Decrease (expiring, repayment)	FX difference	Balance as at 31 December 2012
Retail loans	539,954	206,253	39,712	68,024	(16,647)	621,824
Allowance	126,874	52,647	10,636	2,222	(3,536)	163,127
Corporate loans	514,309	96,786	2,330	185,140	(30,567)	393,058
Allowance	106,884	29,122	774	14,566	(6,566)	114,100
Municipal loans	11,197	6,893	–	3,539	(237)	14,314
Allowance	708	221	–	501	(9)	419
Gross loan portfolio total	**1,065,460**	**309,932**	**42,042**	**256,703**	**(47,451)**	**1,029,196**
Allowance Total	**234,466**	**81,990**	**11,410**	**17,289**	**(10,111)**	**277,646**
Net loan portfolio total	**830,994**	**227,942**	**30,632**	**239,414**	**(37,340)**	**751,550**

An analysis of forborne gross loan by loan types and risk classes as at 31 December 2012 is as follows:

Loan type	Not past due	1–30 DPD	31–60 DPD	61–90 DPD	91–360 DPD	360+ DPD	Total carrying amount/ allowance
Retail loans	269,838	81,874	28,636	18,645	54,210	168,621	621,824
Allowance	11,707	6,641	3,701	3,543	21,768	115,767	163,127
Corporate loans	220,804	39,598	10,219	6,529	38,870	77,038	393,058
Allowance	23,703	9,167	1,277	1,873	20,655	57,425	114,100
Municipal loans	13,786	309	–	11	105	103	14,314
Allowance	266	11	–	1	104	37	419
Gross loan portfolio total	**504,428**	**121,781**	**38,855**	**25,185**	**93,185**	**245,762**	**1,029,196**
Allowance Total	**35,676**	**15,819**	**4,978**	**5,417**	**42,527**	**173,229**	**277,646**
Net loan portfolio total	**468,752**	**105,962**	**33,877**	**19,768**	**50,658**	**72,533**	**751,550**

An analysis of forborne gross loan by loan types and risk classes as at 31 December 2011 is as follows:

Loan type	Not past due	1–30 DPD	31–60 DPD	61–90 DPD	91–360 DPD	360+ DPD	Total carrying amount/ allowance
Retail loans	211,762	92,341	30,026	22,806	67,969	115,050	539,954
Allowance	8,802	5,754	2,744	3,252	29,507	76,815	126,874
Corporate loans	362,489	37,787	9,961	8,338	44,489	51,245	514,309
Allowance	37,739	9,901	1,980	3,421	22,935	30,908	106,884
Municipal loans	10,404	570	–	–	32	191	11,197
Allowance	563	1	–	–	12	132	708
Gross loan portfolio total	**584,655**	**130,698**	**39,987**	**31,144**	**112,490**	**166,486**	**1,065,460**
Allowance Total	**47,104**	**15,656**	**4,724**	**6,673**	**52,454**	**107,855**	**234,466**
Net loan portfolio total	**537,551**	**115,042**	**35,263**	**24,471**	**60,036**	**58,631**	**830,994**

An analysis of forborne gross loan portfolio impaired and not impaired by loan types as at 31 December 2012 is as follows:

	Not past due			Past due		
Loan type	**Not impaired**	**Impaired**	**Total**	**Not impaired**	**Impaired**	**Total**
Retail loans	112,009	157,829	269,838	43,755	308,231	351,986
Allowance	–	11,707	11,707	–	151,420	151,420
Collateral	125,681	155,918	281,599	34,090	138,627	172,717
Corporate loans	46,446	174,358	220,804	10,990	161,264	172,254
Allowance	–	23,703	23,703	–	90,397	90,397
Collateral	112,060	147,234	259,294	29,755	94,120	123,875
Municipal loans	15	13,771	13,786	–	528	528
Allowance	–	266	266	–	153	153
Collateral	–	2,670	2,670	–	329	329
Gross loan portfolio total	**158,470**	**345,958**	**504,428**	**54,745**	**470,023**	**524,768**
Allowance Total	**–**	**35,676**	**35,676**	**–**	**241,970**	**241,970**
Net loan portfolio total	**158,470**	**310,282**	**468,752**	**54,745**	**228,053**	**282,798**
Collateral Total	**237,741**	**305,822**	**543,563**	**63,845**	**233,076**	**296,921**

An analysis of forborne gross loan portfolio impaired and not impaired by loan types as at 31 December 2011 is as follows:

	Not past due			Past due		
Loan type	**Not impaired**	**Impaired**	**Total**	**Not impaired**	**Impaired**	**Total**
Retail loans	48,353	163,409	211,762	41,418	286,774	328,192
Allowance	–	8,802	8,802	–	118,072	118,072
Collateral	48,877	147,915	196,792	29,072	135,898	164,970
Corporate loans	71,239	291,250	362,489	12,189	139,631	151,820
Allowance	–	37,739	37,739	–	69,145	69,145
Collateral	117,118	199,340	316,458	21,634	86,385	108,019
Municipal loans	–	10,404	10,404	–	793	793
Allowance	–	563	563	–	145	145
Collateral	–	3,208	3,208	–	544	544
Gross loan portfolio total	**119,592**	**465,063**	**584,655**	**53,607**	**427,198**	**480,805**
Allowance Total	**–**	**47,104**	**47,104**	**–**	**187,362**	**187,362**
Net loan portfolio total	**119,592**	**417,959**	**537,551**	**53,607**	**239,836**	**293,443**
Collateral Total	**165,995**	**350,463**	**516,458**	**50,706**	**222,827**	**273,533**

An analysis of forborne retail loans by type of forbearance as at 31 December 2012 and 2011 is as follows:

Type of forbearance	Retail loans 2012	Retail loans 2011
Suspension of repayment	234,827	280,342
Combined	35,714	35,528
Debt re-arrangement	30,064	28,908
Prolongation	20,223	20,850
Other	300,996	174,326
Total	**621,824**	**539,954**

27.2. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk is detailed in Note 34.)

27.2.1. Market Risk sensitivity analysis

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

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

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

Historical VaR (99%, one-day) by risk type	Average	
	2012	2011
Foreign exchange	335	1,474
Interest rate	217	524
Equity instruments	26	18
Diversification	(171)	(440)
Total VaR exposure	**407**	**1,576**

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

27.2.2. Foreign currency sensitivity analysis

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

includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was short, amounted to EUR 310 million as at 31 December 2012. High portion of strategic positions is considered as effective hedge of future profit inflows of investment of foreign subsidiaries, and so FX risk affects the Group capital and not its earnings.
A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the Consolidated Statement of Recognized Income in 3 months period	
	2012 In HUF billion	2011 In HUF billion
1%	(12.7)	(11.4)
5%	(8.8)	(7.8)
25%	(3.6)	(3.1)
50%	(0.3)	(0.1)
25%	2.8	2.7
5%	7.2	6.6
1%	10.2	9.3

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 decreased slightly in 2012 but the FX rate was stronger than the theoretic middle-rate, so the probability of losses increased and the probability of further gains decreased.
(3) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2012.

27.2.3. Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date will be outstanding for the whole year. The analysis was prepared by assuming only adverse interest rate changes. The main assumptions were as follows:

- Floating rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- Assets and liabilities with an interest rate lower than 0.3% were assumed to be unchanged for the whole period.

The simulations were prepared by assuming two scenarios:

- 0.50%–0.75% decrease in average HUF yields (probable scenario)
- 1%–1.50% decrease in average HUF yields (alternative scenario)

The net interest income in a one year period after 31 December 2012 would be decreased by HUF 2,076 million (probable scenario) and HUF 9,847 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,512 million (probable scenario) and HUF 7,132 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2011.
This effect is counterbalanced by capital gains (HUF 3,867 million for probable scenario, HUF 5,284 million for alternative scenario) as at 31 December 2012 and (HUF 7,710 million for probable scenario, HUF 10,303 million for alternative scenario) as at 31 December 2011 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 (in HUF million):

Description	2012 Effects to the net interest income (one-year period)	2012 Effects to capital (Price change of AFS government bonds)	2011 Effects to the net interest income (one-year period)	2011 Effects to capital (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(638)	592	(476)	1,008
EUR (0.1%) parallel shift	(576)	–	(795)	–
USD 0.1% parallel shift	–	–	(33)	–
USD (0.1%) parallel shift	(42)	–	–	–
Total	**(1,256)**	**592**	**(1,304)**	**1,008**

27.2.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.
The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2012	2011
VaR (99%, one day, HUF million)	26	18
Stress test (HUF million)	(14)	(5)

27.2.5. Capital management

Capital management

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

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

Capital adequacy

The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with the HAS applying the directives, rulings and indicators defined by the Basel Committee, that has been adopted in Hungary in 2008.

The Group has entirely complied with the regulatory capital requirements.

The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the advanced method (AMA) in case of the operational risk. The consolidated Capital adequacy ratio of the Group was 18.9% and 17.8% as at 31 December 2012 and 31 December 2011 respectively. The Regulatory capital was HUF 1,416,291 million and HUF 1,476,777 million, the Total eligible regulatory capital was HUF 598,823 million and HUF 663,804 million as at 31 December 2012 and 31 December 2011 respectively.

Calculation on HAS basis

	2012	2011
Core capital	1,180,389	1,182,822
Supplementary capital	236,245	294,332
Deductions	(343)	(377)
due to investments	(343)	(377)
Regulatory capital	**1,416,291**	**1,476,777**
Credit risk capital requirement	480,331	511,775
Market risk capital requirement	38,090	43,911
Operational risk capital requirement	80,402	108,118
Total requirement regulatory capital	**598,823**	**663,804**
Surplus capital	**817,468**	**812,973**
Tier1 ratio	15.8%	14.3%
Capital adequacy ratio	**18.9%**	**17.8%**

The positive components of the Core capital are the following: Issued capital, Capital reserve, Tied-up reserve, General reserve, Profit reserve, Changes in the equity, Changes due to consolidation, Non-controlling interest, Profit for the year, General risk reserve, Core loan capital. The negative components of the Core capital are the following: Treasury shares, Intangible assets.

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

The negative components of the Supplementary capital are the following: Changes due to consolidation of equity.

The components of the Deductions: deductions due to investments.

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

Subsidiary bank	Country	Minimum prescribed CAR	2012	2011
OAO OTP Bank	Russia	11%	16.3%	16.2%
OTP Bank JSC	Ukraine	10%	13.8%	20.2%
DSK Bank EAD	Bulgaria	12%	18.9%	20.6%
OTP Bank Romania S.A.	Romania	10%	15.6%	13.4%
OTP banka Srbija a.d.	Serbia	12%	16.5%	18.1%
OTP banka Hrvatska d.d.	Croatia	12%	14.9%	14.8%
OTP Banka Slovensko a. s.	Slovakia	8%	12.8%	13.1%
Crnogorska komercijalna banka a.d.	Montenegro	10%	12.4%	13.4%

For international comparison purposes, the Group calculates the Regulatory capital in accordance with the Basel II directive based on IFRS data, and the consolidated Capital adequacy ratio based on this. The Capital adequacy ratio of the Group was 19.7% as at 31 December 2012 and 17.3 % as at 31 December 2011. The Regulatory capital was HUF 1,473,525 million and HUF 1,433,086 million, the Total regulatory capital requirement was HUF 598,823 million and HUF 663,804 million as at 31 December 2012 and 31 December 2011 respectively.

Calculation on IFRS basis

	2012	2011
Core capital (Tier1)	1,203,019	1,105,876
Positive components	1,494,427	1,410,131
Issued capital	28,000	28,000
Reserves	1,362,290	1,273,838
Other issued capital components	104,137	108,293
Negative components	(291,408)	(304,255)
Treasury shares	(53,802)	(54,386)
Goodwill and other intangible assets	(237,606)	(249,869)
Supplementary capital (Tier 2)	**270,849**	**327,587**
Fair value corrections	13,688	(35,190)
Subordinated bonds and loans	257,161	362,777
Deductions	**(343)**	**(377)**
Regulatory capital	**1,473,525**	**1,433,086**
Credit risk capital requirement	480,331	511,775
Market risk capital requirement	38,090	43,911
Operational risk capital requirement	80,402	108,118
Total requirement regulatory capital	**598,823**	**663,804**
Surplus capital	**874,702**	**769,282**
Tier1 ratio	16.1%	13.3%
Capital adequacy ratio	**19.7%**	**17.3%**

The positive components of the Core capital are the following: Issued capital, Profit reserve, Other reserves, Changes in the equity of subsidiaries, Profit for the year, Changes due to consolidation, Other issued capital components. The negative components of the Core capital are the following: Treasury shares, Goodwill and other intangible assets, dividend.

The components of the Supplementary capital are the following: Revaluation reserve, Fair value adjustments, Share-based payment, Cash-flow hedge, Hedges of net investments in foreign operations, Other issued capital (in the Supplementary capital), Subordinated loan capital, Supplementary loan capital.
The components of the Deductions: deductions due to investments.

NOTE 28: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF million)

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the Consolidated Statement of Financial Position and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities

	2012	2011
Commitments to extend credit	1,159,026	1,000,043
Guarantees arising from banking activities	316,159	287,513
Legal disputes (disputed value)	49,916	11,067,643
Confirmed letters of credit	13,721	5,483
Other	115,166	139,500
Total	**1,653,988**	**12,500,182**

Legal disputes

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

The Victims of Hungarian Holocaust initiated a class action against, amongst others, OTP before the United States District Court Northern District of Illinois. The Bank emphasises that 'Országos Takarékpénztár Nemzeti Vállalat' was established on 1 March 1949 with no predecessor. The Bank considers the claim against it entirely unfounded.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 4,089 million and HUF 3,697 million as at 31 December 2012 and 31 December 2011, respectively. (See Note 17.)

On 23 August the Bank announced that the United States Court of Appeals granted the petition for writs of mandamus submitted by OTP and ordered the district court to dismiss the plaintiffs' claims against the Bank for lack of personal jurisdiction in the class action. OTP maintains that plaintiffs' claim against it has been unfounded in its entirety.

On 19 November 2012 the Bank announced that the court of first instance (the United States District Court Northern District of Illinois) has, by virtue of the order of the United States Court of Appeals, dismissed the suit in respect of OTP on the ground of lack of jurisdiction and competence concerning the litigation 'Holocaust Victims of Bank Theft' initiated by the plaintiffs against the Bank. This order for dismissal of the suit of the court of first instance is final and binding.

The civil lawsuit filed at the Municipal Court of Budapest in 2009 by Nitrogénművek Chemicals Private Company Limited by Shares Nitrogénművek Co., Ltd. for damages in the amount of HUF 25,247,527,000 against the Bank has ended. In its final judgment the Municipal Court of Budapest has dismissed the claim of Nitrogénművek Chemicals Private Company Limited by Shares Nitrogénművek Co., Ltd.

Commitments to extend credit, guarantees and letters of credit

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

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

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

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

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group. A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal. If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Derivatives

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

Foreign currency contracts

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

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

Foreign exchange swaps and interest rate swaps

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

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

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

Cross-currency interest rate swaps

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

Forward rate agreements (FRA)

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

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

Foreign exchange options

A foreign exchange option is a derivative financial instrument that gives the owner the right but not the obligation 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. The option does not obligate the buyer to deliver a currency on the settlement date unless the buyer chooses to. These options protect against unfavourable currency movements while preserving the ability to participate in favourable movements.

NOTE 29: SHARE-BASED PAYMENT

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

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

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

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

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

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

Year	Exercise price per share	Maximum earnings per share
2011	3,946	2,500
2012	3,946	3,000
2013	4,446	3,500
2014	4,946	3,500

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

Based on parameters accepted by Board of Directors cancellation, risk evaluation and personal changes effective pieces are follows as at 31 December 2012:

Year	Price
2012	735,722
2013	421,734
2014	512,095

Maturity of exercise period was settled in 31 December 2013 by the Board of Directors.

Board of Directors determined the parameters for the share-based payment relating to the year 2011 as follows:

Year	Exercise price per share	Maximum earnings per share
2012	1,370	3,000
2013	1,870	3,000
2014	1,870	4,000
2015	1,870	4,000

Based on cancellation, effective performance assessment and exercise during the year effective pieces are follows in exercise periods of each year as at 31 December 2012:

Year	Price
2012	10,370*
2013	1,284,731
2014	654,064
2015	724,886

In connection with programs accounted as equity-settled share based transactions, HUF 4,584 million was recognized as an expense during the year ended 31 December 2012.

* The approved pieces of shares are 471,240 from which 460,870 have been exercised until 31 December 2012.

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF million)

The compensation of key management personnel, such as the members of the Board of Directors, members of the Supervisory Board, key employees of the Bank and its major subsidiaries involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related party disclosures, is summarised below:

Compensations	2012	2011
Short-term employee benefits	8,720	8,484
Share-based payment	2,711	2,343
Other long-term employee benefits	1,050	886
Termination benefits	218	37
Redundancy payments	10	–
Total	**12,709**	**11,750**

	2012	2011
Loans provided to companies owned by the management (normal course of business)	35,792	42,806
Commitments to extend credit and guarantees	518	6
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions)	112	117

	2012	2011
Loans provided to unconsolidated subsidiaries	1,526	17,523

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 131.8 million as at 31 December 2012 and 2011.

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

	2012	2011
Members of Board of Directors and their close family members	15	19
Members of Supervisory Board	4	2

One member of the Board of Directors and its family member owned AMEX Blue credit card loan in the amount of HUF 0.6 million and HUF 1.2 million as at 31 December 2012 and 2011, respectively. Chief executive owned AMEX Gold loading card loan in the amount of HUF 1 million as at 31 December 2012 and 2011.

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

	2012	2011
Members of Board of Directors	1,363	791
Members of Supervisory Board	377	286
Total	**1,740**	**1,077**

NOTE 31: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES

Investments in companies in which the Bank has a significant interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

Significant subsidiaries

Name	2012 Ownership (Direct and Indirect)	2011 Ownership (Direct and Indirect)	Activity
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
OAO OTP Bank (Russia)	97.78%	97.75%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	96.79%	92.60%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	98.94%	98.94%	commercial banking services
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	flat finance and reconstruction
OTP Fund Management Ltd.	100.00%	100.00%	fund management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)/OTP Financing Cyprus	100.00%	100,00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Two Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd.	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services
OTP Factoring Ukraine LLC	100.00%	100.00%	work-out

Significant associates

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

As at 31 December 2012

	Company for Cash Services Ltd.	Suzuki Pénzügyi Szolgáltató Ltd.	Agóra-Kapos Ltd.	Total
Total assets	1,924	629	73	2,626
Total liabilities	82	12	53	147
Shareholders' equity	1,842	617	20	2,479
Reserves	(59)	552	18	511
Total revenues	869	46	4	919
Profit before income tax	44	27	1	72
Profit after income tax	39	25	1	65

As at 31 December 2011

	Moneta Ltd.	Company for Cash Services Ltd.	Suzuki Pénzügyi Szolgáltató Ltd.	Agóra-Kapos Ltd.	Total
Total assets	436	2,132	611	157	3,336
Total liabilities	336	204	9	108	657
Shareholders' equity	100	1,928	602	49	2,679
Reserves	(58)	–	544	17	503
Total revenues	304	892	44	934	2,174
Profit before income tax	59	27	16	36	138
Profit after income tax	59	27	14	32	132

NOTE 32: TRUST ACTIVITIES (in HUF million)

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

	2012	2011
The amount of loans managed by the Group as a trustee	43,260	43,196

NOTE 33: CONCENTRATION OF ASSETS AND LIABILITIES

	2012	2011
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	15.9%	11.2%

There were no other significant concentrations of the assets or liabilities of the Group as at 31 December 2012 or as at 31 December 2011.

The Group continuously provides the HFSA with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Group. Further to this obligatory reporting to the HFSA, the Group 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 the Group in charge of partner-risk management analyses the biggest partners on a constant basis and sets limits on the Bank's and the Group's exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas.

NOTE 34: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations prescribed by the NBH. The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the period end to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at 31 December 2012	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	584,085	17,777	350	309	–	602,521
Placements with other banks, net of allowance for placements losses	258,165	76,563	21,947	191	–	356,866
Financial assets at fair value through profit or loss	21,155	24,252	63,820	22,550	91,097	222,874
Securities available-for-sale	930,583	111,229	260,593	68,986	39,786	1,411,177
Loans, net of allowance for loan losses	957,743	1,111,844	1,905,677	2,488,927	–	6,464,191
Associates and other investments	–	–	–	–	7,936	7,936
Securities held-to-maturity	39,366	122,784	112,622	154,531	–	429,303
Property and equipment, Intangible assets	–	–	–	–	489,142	489,142
Other assets	54,231	55,819	16,761	2,645	–	129,456
TOTAL ASSETS	**2,845,328**	**1,520,268**	**2,381,770**	**2,738,139**	**627,961**	**10,113,466**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	131,509	150,124	126,352	126,339	–	534,324
Deposits from customers	5,167,850	1,110,672	249,774	22,412	–	6,550,708
Liabilities from issued securities	118,337	167,445	285,279	72,062	–	643,123
Financial liabilities at fair value through profit or loss	26,415	22,657	54,166	18,794	–	122,032
Other liabilities	341,264	28,250	77,979	9,738	–	457,231
Subordinated bonds and loans	3,421	4,677	161,870	–	121,527	291,495
TOTAL LIABILITIES	**5,788,796**	**1,483,825**	**955,420**	**249,345**	**121,527**	**8,598,913**
Share capital	–	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	–	1,534,572	1,534,572
Treasury shares	–	–	–	–	(53,802)	(53,802)
Non–controlling interest	–	–	–	–	5,783	5,783
TOTAL SHAREHOLDERS' EQUITY	**–**	**–**	**–**	**–**	**1,514,553**	**1,514,553**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5,788,796**	**1,483,825**	**955,420**	**249,345**	**1,636,080**	**10,113,466**
LIQUIDITY (DEFICIENCY)/EXCESS	**(2,943,468)**	**36,443**	**1,426,350**	**2,488,794**	**(1,008,119)**	**–**

As at 31 December 2011	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	576,135	19,058	392	401	–	595,986
Placements with other banks, net of allowance for placements losses	405,347	13,843	3,379	208	–	422,777
Financial assets at fair value through profit or loss	30,593	43,480	56,315	14,818	96,076	241,282
Securities available-for-sale	570,434	106,279	253,140	190,307	5,695	1,125,855
Loans, net of allowance for loan losses	815,385	1,293,540	2,543,488	2,390,972	3,794	7,047,179
Associates and other investments	–	–	–	–	10,342	10,342
Securities held-to-maturity	7,174	15,350	92,298	9,761	304	124,887
Property and equipment, Intangible assets	–	–	–	–	491,666	491,666
Other assets	46,023	71,595	19,551	1,684	1,700	140,553
TOTAL ASSETS	**2,451,091**	**1,563,145**	**2,968,563**	**2,608,151**	**609,577**	**10,200,527**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	180,859	124,850	172,273	168,986	–	646,968
Deposits from customers	4,563,198	1,501,196	311,084	23,375	–	6,398,853
Liabilities from issued securities	169,619	304,329	239,298	99,617	–	812,863
Financial liabilities at fair value through profit or loss	31,753	77,407	112,633	8,356	–	230,149
Other liabilities	246,660	31,024	86,234	12,584	435	376,937
Subordinated bonds and loans	3,412	419	184,539	–	128,077	316,447
TOTAL LIABILITIES	**5,195,501**	**2,039,225**	**1,106,061**	**312,918**	**128,512**	**8,782,217**
Share capital	–	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	–	1,439,095	1,439,095
Treasury shares	–	–	–	–	(54,386)	(54,386)
Non-controlling interest	–	–	–	–	5,601	5,601
TOTAL SHAREHOLDERS' EQUITY	**–**	**–**	**–**	**–**	**1,418,310**	**1,418,310**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5,195,501**	**2,039,225**	**1,106,061**	**312,918**	**1,546,822**	**10,200,527**
LIQUIDITY (DEFICIENCY)/EXCESS	**(2,744,410)**	**(476,080)**	**1,862,502**	**2,295,233**	**(937,245)**	**–**

NOTE 35: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at 31 December 2012	USD	EUR	CHF	Others	Total
Assets	570,169	1,603,605	1,060,445	2,591,153	5,825,372
Liabilities	(429,247)	(1,732,041)	(124,747)	(2,160,224)	(4,446,259)
Off-balance sheet assets and liabilities, net	(49,684)	206,904	(971,435)	(152,508)	(966,723)
Net position	**91,238**	**78,468**	**(35,737)**	**278,421**	**412,390**

As at 31 December 2011	USD	EUR	CHF	Egyéb	Összesen
Assets	627,984	2,368,051	1,400,243	2,527,272	6,923,550
Liabilities	(333,291)	(2,482,507)	(134,814)	(1,880,933)	(4,831,545)
Off-balance sheet assets and liabilities, net	(255,664)	189,971	(1,327,578)	(193,256)	(1,586,527)
Net position	**39,029**	**75,515**	**(62,149)**	**453,083**	**505,478**

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within 'Others'. 'Others' category contains mainly foreign currencies in RON, UAH, RUB and BGN. Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Banks and own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the 'Value-at-Risk' ('VaR') limit on the foreign exchange exposure of the Group.

NOTE 36: INTEREST RATE RISK MANAGEMENT (in HUF million)

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

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

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

As at 31 December 2012

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	133,502	81,269	1,461	310	2	90	–	58	–	–	60,026	325,803	194,991	407,530	602,521
fixed rate	128,672	45,128	1,460	96	2	90	–	58	–	–	–	–	130,134	45,372	175,506
variable rate	4,830	36,141	1	214	–	–	–	–	–	–	–	–	4,831	36,355	41,186
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	60,026	325,803	60,026	325,803	385,829
Placements with other banks, net of allowance for placements losses	55,842	87,510	–	165,347	–	12,810	–	12,631	–	8,319	319	14,088	56,161	300,705	356,866
fixed rate	38,564	76,734	–	108	–	12,652	–	12,631	–	7,507	–	–	38,564	109,632	148,196
variable rate	17,278	10,776	–	165,239	–	158	–	–	–	812	–	–	17,278	176,985	194,263
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	319	14,088	319	14,088	14,407
Securities held for trading	1,635	208	1,731	10	2,839	68	458	5,542	288	10,863	90,473	7,705	97,424	24,396	121,820
fixed rate	1,635	208	1,731	10	2,838	67	458	5,542	288	10,863	–	–	6,950	16,690	23,640
variable rate	–	–	–	–	1	1	–	–	–	–	–	–	1	1	2
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	90,473	7,705	90,473	7,705	98,178
Securities available-for-sale	861,854	16,876	17,746	32,433	25,402	85,054	23,502	48,912	180,843	65,667	35,426	17,462	1,144,773	266,404	1,411,177
fixed rate	861,854	14,316	17,746	25,850	25,402	84,506	23,502	48,912	180,843	65,667	–	–	1,109,347	239,251	1,348,598
variable rate	–	2,560	–	6,583	–	548	–	–	–	–	–	–	–	9,691	9,691
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	35,426	17,462	35,426	17,462	52,888
Loans, net of allowance for loan losses	992,970	2,763,790	230,159	807,943	85,808	364,470	97,393	263,170	174,702	389,931	34,193	259,661	1,615,225	4,848,965	6,464,191
fixed rate	10,735	317,510	2,122	120,045	1,104	339,519	3,266	241,134	5,058	276,050	–	–	22,285	1,294,258	1,316,543
variable rate	982,235	2,446,281	228,037	687,898	84,704	24,951	94,127	22,036	169,644	113,881	–	–	1,558,747	3,295,046	4,853,794
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	34,193	259,661	34,193	259,661	293,854
Securities held-to-maturity	19,297	1,231	9,888	15,916	54,888	7,890	675	22,786	278,539	5,783	10,966	1,444	374,253	55,050	429,303
fixed rate	5,947	967	2,677	15,433	44,764	7,854	675	22,786	278,539	5,783	–	–	332,602	52,823	385,425
variable rate	13,350	264	7,211	483	10,124	36	–	–	–	–	–	–	30,685	783	31,468
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	10,966	1,444	10,966	1,444	12,410
Derivative financial instruments	919,552	1,047,446	768,810	1,407,927	31,161	188,345	27,230	15,442	29,813	33,488	80	1,819	1,776,646	2,694,467	4,471,113
fixed rate	390,418	339,102	72,075	173,000	31,133	180,283	27,230	15,442	29,813	33,488	–	–	550,669	741,315	1,291,984
variable rate	529,134	708,344	696,735	1,234,927	28	8,062	–	–	–	–	–	–	1,225,897	1,951,333	3,177,230
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	80	1,819	80	1,819	1,899

As at 31 December 2012

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	59,636	127,333	10,609	83,053	118,696	22,358	73	103,082	478	3,331	96	5,579	189,588	344,736	534,324
fixed rate	51,596	102,663	2,730	5,732	542	15,258	23	101,444	397	3,331	–	–	55,288	228,428	283,716
variable rate	8,040	24,670	7,879	77,321	118,154	7,100	50	1,638	81	–	–	–	134,204	110,729	244,933
non-interest-bearing	–	–	–	–	–	—	–	–	–	–	96	5,579	96	5,579	5,675
Deposits from customers	1,435,223	1,930,614	649,539	478,089	172,472	711,795	102,808	87,577	633,666	146,083	13,412	189,430	3,07,120	3,543,588	6,550,708
fixed rate	1,042,679	825,021	633,649	478,089	172,472	604,827	102,808	87,577	14,392	26,670	–	–	1,966,000	2,022,184	3,988,184
variable rate	392,544	1,105,593	15,890	–	–	106,968	–	–	619,274	119,413	–	–	1,027,708	1,331,974	2,359,682
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	13,412	189,430	13,412	189,430	202,842
Liabilities from issued securities	30,498	7,229	52,031	17,900	85,478	36,609	52,604	160,111	175,857	3,857	17,077	3,872	413,545	229,578	643,123
fixed rate	30,169	7,229	50,595	6,524	84,653	36,609	30,779	160,111	164,395	3,857	–	–	360,591	214,330	574,921
variable rate	329	–	1,436	11,376	825	–	21,825	–	11,462	–	–	–	35,877	11,376	47,253
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	17,077	3,872	17,077	3,872	20,949
Derivative financial instruments	103,114	1,924,409	43,868	2,099,382	33,570	152,268	14,961	18,715	125,471	35,659	1,679	1,408	322,663	4,231,841	4,554,504
fixed rate	102,630	640,675	42,109	202,255	33,565	144,147	14,961	18,470	125,471	34,688	–	–	318,736	1,040,235	1,358,971
variable rate	484	1,283,734	1,759	1,897,127	5	8,121	–	245	–	971	–	–	2,248	3,190,198	3,192,446
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,679	1,408	1,679	1,408	3,087
Subordinated bonds and loans	–	–	5,000	26,009	–	15,706	–	80	–	241,673	–	3,027	5,000	286,495	291,495
fixed rate	–	–	–	–	–	–	–	–	–	241,632	–	–	–	241,632	241,632
variable rate	–	–	5,000	26,009	–	15,706	–	80	–	41	–	–	5,000	41,836	46,836
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	3,027	–	3,027	3,027
Net position	1,356,181	8,746	268,748	(274,547)	(210,116)	(280,009)	(21,188)	(1,024)	(271,287)	83,448	199,219	424,666	1,321,557	(38,721)	1,282,837

As at 31 December 2011

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	138,940	89,472	25	2,049	–	385	–	–	–	1	54,065	311,049	193,030	402,956	595,986
fixed rate	137,789	31,302	20	215	–	385	–	–	–	1	–	–	137,809	31,903	169,712
variable rate	1,151	58,170	5	1,834	–	–	–	–	–	–	–	–	1,156	60,004	61,160
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	54,065	311,049	54,065	311,049	365,114
Placements with other banks, net of allowance for placements losses	14,979	343,423	–	25,956	1,463	6,973	–	14,322	–	3,023	28	12,610	16,470	406,307	422,777
fixed rate	14,914	332,645	–	24,778	1,463	583	–	14,322	–	3,023	–	–	16,377	375,351	391,728
variable rate	65	10,778	–	1,178	–	6,390	–	–	–	–	–	–	65	18,346	18,411
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	28	12,610	28	12,610	12,638
Securities held for trading	1,872	997	439	485	4,670	2,797	2,842	426	15,444	12,274	88,511	8,573	113,778	25,552	139,330
fixed rate	1,872	78	430	–	4,123	2,797	2,842	426	15,444	12,274	–	–	24,711	15,575	40,286
variable rate	–	919	9	485	547	–	–	–	–	–	–	–	556	1,404	1,960
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	88,511	8,573	88,511	8,573	97,084
Securities available-for-sale	515,203	8,575	2,956	26,676	46,531	58,499	73,063	24,412	244,993	73,128	35,432	16,387	918,178	207,677	1,125,855
fixed rate	515,203	6,678	2,956	26,676	46,531	58,499	71,323	24,412	244,993	72,024	–	–	881,006	188,289	1,069,295
variable rate	–	1,897	–	–	–	–	1,740	–	–	1,104	–	–	1,740	3,001	4,741
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	35,432	16,387	35,432	16,387	51,819
Loans, net of allowance for loan losses	958,820	2,957,397	56,874	524,697	200,464	1,239,811	180,771	216,696	189,240	346,566	1,409	174,434	1,587,578	5,459,601	7,047,179
fixed rate	11,519	92,683	9,980	100,065	39,131	449,515	2,862	197,256	14,312	327,846	–	–	77,804	1,167,365	1,245,169
variable rate	947,301	2,864,714	46,894	424,632	161,333	790,296	177,909	19,440	174,928	18,720	–	–	1,508,365	4,117,802	5,626,167
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,409	174,434	1,409	174,434	175,843
Securities held-to-maturity	–	1,707	17,765	2,828	18,075	13,291	1,949	16,274	19,221	30,911	1,220	1646	58,230	66,657	124,887
fixed rate	–	1,380	346	2,164	–	13,240	1,949	16,274	19,221	30,911	–	–	21,516	63,969	85,485
variable rate	–	327	17,419	664	18,075	51	–	–	–	–	–	–	35,494	1,042	36,536
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,220	1,646	1,220	1,646	2,866
Derivative financial instruments	568,770	717,566	971,534	1,546,567	442,972	146,951	44,653	9,762	20,735	6,860	–	–	2,048,664	2,427,706	4,476,370
fixed rate	165,811	571,464	165,240	247,387	365,126	96,381	22,655	7,676	20,735	5,298	–	–	739,567	928,206	1,667,773
variable rate	402,959	146,102	806,294	1,299,180	77,846	50,570	21,998	2,086	–	1,562	–	–	1,309,097	1,499,500	2,808,597

As at 31 December 2011

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	33,799	238,092	5,824	144,385	134,168	47,060	711	11,019	877	30,073	410	550	175,789	471,179	646,968
fixed rate	32,740	180,619	3,033	13,606	3	17,206	711	5,911	263	29,486	–	–	36,750	246,828	283,578
variable rate	1,059	57,473	2,791	130,779	134,165	29,854	–	5,108	614	587	–	–	138,629	223,801	362,430
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	410	550	410	550	960
Deposits from customers	1,191,900	1,608,710	452,772	472,915	602,281	940,467	87,339	68,568	660,254	140,932	14,739	157,976	3,009,285	3,389,568	6,398,853
fixed rate	755,534	780,249	444,261	391,674	602,281	591,082	87,339	64,741	14,312	28,385	–	–	1,903,727	1,856,131	3,759,858
variable rate	436,366	828,461	8,511	81,241	–	349,385	–	3,827	645,942	112,547	–	–	1,090,819	1,375,461	2,466,280
non-interest-bearing	–	–	––	–	–	–	–	–	–	–	14,739	157,976	14,739	157,976	172,715
Liabilities from issued securities	29,589	8,727	92,830	46,521	246,245	53,073	27,002	7,228	150,083	128,089	20,331	3,145	566,080	246,783	812,863
fixed rate	21,455	8,727	75,268	23,219	246,245	53,073	27,002	7,228	150,083	128,089	–	–	520,053	220,336	740,389
variable rate	8,134	–	17,562	23,302	–	–	–	–	–	–	–	–	25,696	23,302	48,998
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	20,331	3,145	20,331	3,145	23,476
Derivative financial instruments	335,972	999,677	78,128	2,548,062	141,246	492,635	51,593	8,953	14,138	19,441	–	–	621,077	4,068,768	4,689,845
fixed rate	330,662	464,667	63,663	359,821	59,854	417,951	20,740	6,943	14,138	18,309	–	–	489,057	1,267,691	1,756,748
variable rate	5,310	535,010	14,465	2,188,241	81,392	74,684	30,853	2,010	–	1,132	–	–	132,020	2,801,077	2,933,097
Subordinated bonds and loans	–	–	5,000	29,518	–	17,135	–	76	–	261,323	–	3,395	5,000	311,447	316,447
fixed rate	–	–	–	–	–	–	–	–	–	261,198	–	–	–	261,198	261,198
variable rate	–	–	5,000	29,518	–	17,135	–	76	–	125	–	–	5,000	46,854	51,854
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	3,395	–	3,395	3,395
Net position	607,324	1,263,931	415,039	(1,112,143)	(409,765)	(81,663)	136,633	186,048	(335,719)	(107,095)	145,185	359,633	558,697	508,711	1,067,408

NOTE 37: CONSOLIDATED EARNINGS PER SHARE (in HUF million)

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

	2012	2011
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	121,690	83,147
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	266,239,227	266,373,139
Basic Earnings per share (in HUF)	**457**	**312**
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	121,690	83,147
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	266,307,792	266,438,959
Diluted Earnings per share (in HUF)	**457**	**312**

	2012	2011
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	13,760,783	13,626,871
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**266,239,227**	**266,373,139**
Dilutive effects of options issued in accordance with the Remuneration Policy/Management Option Program and convertible into ordinary shares	68,565	65,820
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**266,307,792**	**266,438,959**

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

NOTE 38: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF million)

As at 31 December 2012

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Banks	6,749	–	–	–
Placements with other banks, net of allowance for placements losses	9,457	–	(40)	–
Securities held for trading	1,827	(3,546)	–	–
Securities available-for-sale	78,624	2,798	490	59,481
Loans, net of allowance for loan losses	787,646	6,952	(226,940)	–
From this: Consumer loans	372,603			
Housing loans	178,050			
Corporate loans	153,448			
Mortgage backed loans	65,687			
Municipality loans	17,858			
Securities held-to-maturity	20,204	(87)	15	–
Derivative financial instruments	56,302	(7,376)	–	–
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(18,814)	–	–	–
Deposits from customers	(230,574)	123,141	–	–
Liabilities from issued securities	(54,033)	–	–	–
Subordinated bonds and loans	(11,923)	–	–	–
	645,465	**121,882**	**(226,475)**	**59,481**

As at 31 December 2011

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Banks	6,504	–	–	–
Placements with other banks, net of allowance for placements losses	9,570	–	594	–
Securities held for trading	1,725	5,224	–	–
Securities available-for-sale	73,941	574	(313)	(28,064)
Loans, net of allowance for loan losses	741,605	11,832	(317,270)	–
From this: Consumer loans	307,524			
Housing loans	191,684			
Corporate loans	154,235			
Mortgage backed loans	68,812			
Municipality loans	19,350			
Securities held-to-maturity	7,719	67	(632)	–
Derivative financial instruments	71,475	10,016	–	–
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(18,112)	–	–	–
Deposits from customers	(200,717)	113,032	–	–
Liabilities from issued securities	(50,936)	–	–	–
Subordinated bonds and loans	(11,958)	–	–	–
	630,816	**140,745**	**(317,621)**	**(28,064)**

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 39. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

Cash and amounts due from banks and balances with the National Banks represent amounts available immediately thus the fair value equals to the cost.

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

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

a) Fair value of financial assets and liabilities

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Banks	602,521	602,521	595,986	595,986
Placements with other banks, net of allowance for placements losses	356,866	359,463	422,777	427,427
Financial assets at fair value through profit or loss	222,874	222,874	241,282	241,282
Securities held for trading	121,820	121,820	139,330	139,330
Fair value of derivative financial instruments classified as held for trading	101,054	101,054	101,952	101,952
Securities available-for-sale	1,411,177	1,411,177	1,125,855	1,125,855
Loans, net of allowance for loan losses	6,464,191	7,490,502	7,047,179	8,250,983
Securities held-to-maturity	429,303	154,517	124,887	151,604
Fair value of derivative financial instruments designated as fair value hedge	13,694	13,694	13,137	13,137
Financial assets total	**9,500,626**	**10,254,748**	**9,571,103**	**10,806,274**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	534,324	495,497	646,968	758,719
Deposits from customers	6,550,708	6,548,734	6,398,853	6,510,444
Liabilities from issued securities	643,123	614,156	812,863	664,422
Fair value of derivative financial instruments designated as fair value hedge	119,027	119,027	98,415	98,415
Fair value of derivative financial instruments classified as held for trading	122,032	122,032	230,149	230,149
Subordinated bonds and loans	291,495	241,268	316,447	225,511
Financial liabilities total	**8,260,709**	**8,140,714**	**8,503,695**	**8,487,660**

b) Fair value of derivative instruments

	2012	2011	2012	2011
	Fair value		Notional value, net	
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	73,183	39,370	49,524	33,995
Negative fair value of interest rate swaps classified as held for trading	(75,332)	(40,542)	(56,534)	(37,495)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	7,173	18,596	7,147	22,832
Negative fair value of foreign exchange swaps classified as held for trading	(6,388)	(50,204)	(6,025)	(45,725)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated as fair value hedge	4,224	2,329	(4,488)	3,526
Negative fair value of interest rate swaps designated as fair value hedge	(5,033)	(12,563)	140	(10,980)
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	9,674	25,149	9,808	23,641
Negative fair value of CCIRS classified as held for trading	(30,948)	(119,933)	(31,625)	(129,254)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	624	2,299	376	(1,187)
Negative fair value of mark-to-market CCIRS classified as held for trading	(646)	(5,081)	(320)	(9,531)
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated as fair value hedge	9,035	2,816	9,099	2,496
Negative fair value of CCIRS designated as fair value hedge	(103,845)	(85,349)	(106,792)	(104,207)
Mark-to-market CCIRS designated as fair value hedge				
Positive fair value of mark-to-market CCIRS designated as fair value hedge	283	7,670	(577)	(6,738)
Negative fair value of mark-to-market CCIRS designated as fair value hedge	(10,070)	(496)	(12,275)	(1,419)
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated as fair value hedge	152	322	41,073	3,062
Negative fair value of other derivative contracts designated as fair value hedge	(79)	(7)	(1)	(7)
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	10,400	16,538	7,205	14,694
Negative fair value of other derivative contracts classified as held for trading	(8,718)	(14,389)	(5,810)	(14,027)
Derivative financial assets total	**114,748**	**115,089**	**119,167**	**96,321**
Derivative financial liabilities total	**(241,059)**	**(328,564)**	**(219,242)**	**(352,645)**
Derivative financial instruments total	**(126,311)**	**(213,475)**	**(100,075)**	**(256,324)**

c) Hedge accounting

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

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

As at 31 December 2012

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash flow hedges	–	–	–
Fair value hedges	IRS /Index option	HUF (284) million	Interest rate
Net investment hedge in foreign operations	CCIRS and issued securities	HUF 3,737 million	Foreign exchange

As at 31 December 2011

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash flow hedges	–	–	–
Fair value hedges	IRS	HUF (10,234) million	Interest rate
Net investment hedge in foreign operations	CCIRS	HUF (6,362) million	Foreign exchange

d) Fair value hedges

1. Deposits from customers

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

	2012	2011
Fair value of the hedging instruments	298	70

2. Securities available-for-sale

The Group 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 the 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.

	2012	2011
Fair value of the hedging instruments	(1,267)	(715)

3. Loans to customers

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

	2012	2011
Fair value of the hedging instruments	(1,058)	(21)

4. Issued securities

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

	2012	2011
Fair value of the hedging IRS instruments	1,739	(9,568)
Fair value of the hedging index option instruments	4	–

As at 31 December 2012

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/ Losses on the hedged items	Gains/ Losses on hedging instruments
Securities available-for-sale	IRS	HUF 19,662 million	HUF (1,267) million	HUF 552 million	HUF (552) million
Loans to customers	IRS	HUF 14,861 million	HUF (1,058) million	HUF 1,037 million	HUF (1,037) million
Deposits from customers	IRS	HUF 17,490 million	HUF 298 million	HUF (228) million	HUF 228 million
Liabilities from issued securities	IRS	HUF 134,992 million	HUF 1,739 million	HUF (11,307) million	HUF 11,307 million
Liabilities from issued securities	Index option	HUF 604 million	HUF 4 million	HUF (1) million	HUF 1 million

As at 31 December 2011

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/ Losses on the hedged items	Gains/ Losses on hedging instruments
Securities available-for-sale	IRS	HUF 17,694 million	HUF (715) million	HUF 587 million	HUF (587) million
Loans to customers	IRS	HUF 23,495 million	HUF (21) million	HUF (1,217) million	HUF 1,217 million
Deposits from customers	IRS	HUF 26,935 million	HUF 70 million	HUF (131) million	HUF 131 million
Liabilities from issued securities	IRS	HUF 130,429 million	HUF (9,568) million	HUF 12,329 million	HUF (12,329) million

e) Fair value classes

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly;
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December 2012	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	222,394	107,840	114,554	–
from this: securities held for trading	121,340	107,450	13,890	–
from this: positive fair value of derivative financial instruments classified as held for trading	101,054	390	100,664	–
Securities available-for-sale	1,399,547	1,319,425	80,094	28
Positive fair value of derivative financial instruments designated as fair value hedge	13,694	11	13,683	–
Financial assets measured at fair value total	**1,635,635**	**1,427,276**	**208,331**	**28**
Negative fair value of derivative financial instruments classified as held for trading	122,032	1,110	120,922	–
Negative fair value of derivative financial instruments designated as fair value hedge	119,027	83	118,944	–
Financial liabilities measured at fair value total	**241,059**	**1,193**	**239,866**	**–**

As at 31 December 2011	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	240,345	129,104	106,686	4,555
from this: securities held for trading	138,393	127,372	11,021	–
from this: positive fair value of derivative financial instruments classified as held for trading	101,952	1,732	95,665	4,555
Securities available-for-sale	1,107,158	284,381	821,695	1,082
Positive fair value of derivative financial instruments designated as fair value hedge	13,137	144	10,177	2,816
Financial assets measured at fair value total	**1,360,640**	**413,629**	**938,558**	**8,453**
Negative fair value of derivative financial instruments classified as held for trading	230,149	99	207,967	22,083
Negative fair value of derivative financial instruments designated as fair value hedge	98,415	6	92,479	5,930
Financial liabilities measured at fair value total	**328,564**	**105**	**300,446**	**28,013**

Movements in Level 3 financial instruments measured at fair value

EUR/CHF cross currency swap (CCIRS) portfolio

According to the risk management policies the Bank holds EUR/CHF cross currency swap portfolio with a notional totaling CHF 3,698 million (HUF 946,435 million equivalent as at 31 December 2011) classified as held for trading and CHF 807 million (HUF 206,556 million equivalent as at 31 December 2011) designated as hedging deals, in order to hedge its foreign currency denominated mortgage loan portfolio's FX risk.

In the second half of the year 2011 the EUR/CHF cross currency swap spreads speculation has previously unexpected volatility, which significantly differed from spreads on which the Bank could execute deals and therefore market quotations can not be used for estimating the fair value of the Bank's CCIRS portfolio.

For the above mentioned reasons, the Bank has classified these deals to Level 3 in the valuation of financial instruments in IFRS and applied non-market observable inputs, which resulted a more reliable valuation compared to valuation based on market observable inputs.

The CCIRS deals have been reclassified from Level 3 to Level 2 as at 31 March 2012 because the above described unexpected volatility of CCIRS spreads have not obtained in the market as at the transfer date.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

Movements of the year 2012	Opening balance as at 31 December 2011	Transfer out as at 31 March 2012	Other disposal*	Closing balance as at 31 December 2012	Total (loss)/gain as at 31 December 2012
Positive fair value of derivative financial instruments classified as held for trading	4,555	165	–	–	4,390
Positive fair value of derivative financial instruments designated as hedge accounting relationship	2,816	3,659	–	–	(843)
Securities available-for-sale	1,082	1,054	–	28	–
Financial assets measured at fair value total	**8,453**	**4,878**	**–**	**28**	**3,547**
Negative fair value of derivative financial instruments classified as held for trading	(22,083)	(6,983)	(2,005)	–	(13,095)
Negative fair value of derivative financial instruments designated as hedge accounting relationship	(5,930)	(22,581)	–	–	16,651
Financial liabilities measured at fair value total	**(28,013)**	**(29,564)**	**(2,005)**	**–**	**3,556**

* Other disposal consists of early liquidation of several CCIRS deals.

NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF million)

The Group distinguishes business and geographical segments. The report on the base of the business and geographical segments is reported bellow.
The reportable segments of the Group on the base of IFRS 8 are the following:
OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries and Corporate Centre.
OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in OTP Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financing Netherlands Ltd. and OTP Holding Ltd.
Corporate Centre: it is separated from OTP Core consolidated financial statements, this is a virtual entity responsible for rendering debt and capital market related to services to the subsidiaries across the Group, mainly in the form of capital and credit financing.
The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., OTP Factoring Montenegro d.o.o. and OTP Faktor Slovensko s.r.o. are included into the foreign banks segment.
The activities of the other subsidiaries are out of the leasing and fund management activity, like: OTP Real Estate Ltd., OTP Life Annuity Ltd., OTP Funds Servicing and Consulting Ltd., Monicomp Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

The reportable business and geographical segments of the Group are those components where:
– separated incomes and expenses, assets and liabilities can be identified and assignable to the segments,
– transactions between the different segments were eliminated,
– the main decisive board of the Group regularly controls the operating results,
– separated financial information is available.

Goodwill impairment

The effect of goodwill impairment after tax in 2011 is HUF 17,701 million.
There wasn't any effect of goodwill impairment after tax in the year 2012, only tax saving effect of investment impairment in the amount of HUF 3,977 million, in relation with investment impairment of OTP banka Hrvatska d.d. and OTP banka Srbija a.d.

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

As at 31 December 2012

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	OAO OTP Bank (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)
	a	b	1=a+b 1=2+3+12+16+17	2	3=4+..+11	4	5	6
Net profit for the year	**122,586**		**122,586**					
Adjustments (total)		(27,363)	(27,363)					
Dividends and net cash transfers (after income tax)		(391)	(391)					
Goodwill /investment impairment (after income tax)		3,977	3,977					
Bank tax on financial institutions (after income tax)		(29,174)	(29,174)					
Total impact of early repayment (after income tax)		(1,775)	(1,775)					
Consolidated adjusted net profit for the year	**122,586**	**27,362**	**149,948**	**94,587**	**60,119**	**47,156**	**527**	**24,216**
Profit before income tax	**145,674**	**46,517**	**192,191**	**117,520**	**79,965**	**60,847**	**2,707**	**27,545**
Adjusted operating profit	**372,654**	**77,008**	**449,662**	**211,355**	**233,534**	**121,540**	**33,511**	**58,928**
Adjusted total income	796,131	48,421	844,552	394,243	426,175	193,272	64,509	95,732
Adjusted net interest income	645,465	4,854	650,319	292,570	348,722	170,001	49,586	74,671
Adjusted net profit from fees and commissions	154,337	(2,768)	151,569	85,820	63,867	20,998	12,634	16,875
Adjusted other net non-interest income	(3,671)	46,335	42,664	15,853	13,586	2,273	2,289	4,186
Adjusted other administrative expenses	(423,477)	28,587	(394,890)	(182,888)	(192,641)	(71,732)	(30,998)	(36,804)
Total risk costs	**(226,980)**	**(26,712)**	**(253,692)**	**(90,056)**	**(153,569)**	**(60,693)**	**(30,804)**	**(31,383)**
Adjusted provision for impairment on loan and placement losses (with the effect of early repayment)	(226,980)	(15,715)	(242,695)	(86,986)	(146,979)	(59,567)	(30,597)	(31,153)
Other provision (adjustment)	0	(10,997)	(10,997)	(3,070)	(6,590)	(1,126)	(207)	(230)
Total other adjustments (one-off items)*	**0**	**(3,779)**	**(3,779)**	**(3,779)**	**0**	**0**	**0**	**0**
Income tax	**(23,088)**	**(19,155)**	**(42,243)**	**(22,933)**	**(19,846)**	**(13,691)**	**(2,180)**	**(3,329)**
Total Assets	10,113,466	0	10,113,466	6,229,359	4,660,276	1,027,763	653,603	1,292,031
Total Liabilities	8,598,913	0	8,598,913	4,833,227	3,985,137	835,880	541,139	1,082,845

As at 31 December 2011

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	OAO OTP Bank (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)
	a	b	1=a+b 1=2+3+12+16+17	2	3=4+..+11	4	5	6
Net profit for the year	**83,800**		**83,800**					
Adjustments (total)		**(77,605)**	**(77,605)**					
Dividends and net cash transfers (after income tax)		663	663					
Goodwill impairment (after income tax)		(17,701)	(17,701)					
Bank tax on financial institutions (after income tax)		(28,965)	(28,965)					
Total impact of early repayment (after income tax)		**(31,602)**	**(31,602)**					
Consolidated adjusted net profit for the year	**83,800**	**77,605**	**161,405**	**114,056**	**48,536**	**41,042**	**5,091**	**12,743**
Profit before income tax	**122,996**	**98,090**	**221,086**	**154,738**	**68,558**	**53,107**	**11,211**	**14,330**
Adjusted operating profit	439,669	(4,090)	435,579	235,000	189,906	82,007	26,829	59,877
Adjusted total income	842,344	(30,753)	811,591	419,401	360,674	142,796	53,585	93,103
Adjusted net interest income	630,816	76	630,892	327,081	292,561	123,990	41,784	74,731
Adjusted net profit from fees and commissions	146,522	(3,242)	143,280	84,687	56,125	17,610	9,063	15,867
Adjusted other net non-interest income	65,006	(27,587)	37,419	7,633	11,988	1,196	2,738	2,505
Adjusted other administrative expenses	**(402,675)**	**26,663**	**(376,012)**	**(184,401)**	**(170,768)**	**(60,789)**	**(26,756)**	**(33,226)**
Total risk costs	(316,673)	82,634	(234,039)	(95,508)	(121,348)	(28,900)	(15,618)	(45,547)
Adjusted provision for impairment on loan and placement losses (with the effect of early repayment)	(316,673)	88,241	(228,432)	(99,209)	(117,121)	(28,714)	(15,209)	(45,713)
Other provision (adjustment)	**0**	**(5,607)**	**(5,607)**	**3,701**	**(4,227)**	**(186)**	**(409)**	**166**
Total other adjustments (one-off items)*	**0**	**19,546**	**19,546**	**15,246**	**0**	**0**	**0**	**0**
Income tax	(39,196)	(20,485)	(59,681)	(40,682)	(20,022)	(12,065)	(6,120)	(1,587)
Total Assets	10,200,527	0	10,200,527	6,548,167	4,737,953	868,231	778,198	1,360,510
Total Liabilities	8,782,217	0	8,782,217	5,269,759	4,102,286	723,393	658,049	1,151,026

( ) used at: provisions, impairment and expenses

* One-off items consist of: revaluation result of FX swap at OTP Core in the amount of HUF (2,556) million; gain on the repurchase of own upper and lower Tier 2 capital in the amount of HUF 1,124 million; result of the treasury share swap agreement in the amount of HUF (2,920) million.

OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
7	8	9	10	11	12=13+14+15	13	14	15	16	17
(5,531)	**(4,932)**	**3,715**	**(1,160)**	**(3,872)**	**2,401**	**2,050**	**2,042**	**(1,691)**	**(7,089)**	**(70)**
(6,110)	**(4,935)**	**4,754**	**(978)**	**(3,865)**	**3,028**	**2,189**	**2,299**	**(1,460)**	**(8,752)**	**430**
6,494	**(1,707)**	**8,498**	**3,441**	**2,829**	**13,841**	**9,619**	**2,267**	**1,955**	**(8,752)**	**(316)**
19,811	6,323	22,550	13,932	10,046	43,841	20,049	4,913	18,879	(8,610)	(11,097)
15,916	3,071	16,220	12,019	7,238	19,500	16,900	101	2,499	(8,610)	(1,863)
1,677	1,604	4,660	2,930	2,489	1,974	(2,616)	4,728	(138)	0	(92)
2,218	1,648	1,670	(1,017)	319	22,367	5,765	84	16,518	0	(9,142)
(13,317)	(8,030)	(14,052)	(10,491)	(7,217)	(30,000)	(10,430)	(2,646)	(16,924)	(142)	10,781
(12,604)	**(3,228)**	**(3,744)**	**(4,419)**	**(6,694)**	**(10,813)**	**(7,430)**	**32**	**(3,415)**	**0**	**746**
(12,440)	(3,159)	(2,988)	(4,420)	(2,655)	(8,449)	(7,194)	0	(1,255)	0	(281)
(164)	(69)	(756)	1	(4,039)	(2,364)	(236)	32	(2,160)	0	1,027
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
579	**3**	**(1,039)**	**(182)**	**(7)**	**(627)**	**(139)**	**(257)**	**(231)**	**1,663**	**(500)**
461,458	122,994	519,570	374,224	208,633	481,262	287,527	7,245	186,490	1,636,529	(2,893,960)
428,877	97,823	459,757	347,231	191,585	394,960	258,229	1,585	135,146	980,395	(1,594,806)

OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
7	8	9	10	11	12=13+14+15	13	14	15	16	17
764	**(6,284)**	**112**	**(408)**	**(4,524)**	**585**	**1,891**	**3,266**	**(4,572)**	**(6,728)**	**4,956**
757	**(6,149)**	**162**	**(336)**	**(4,524)**	**1,754**	**1,991**	**4,011**	**(4,248)**	**(8,305)**	**4,341**
8,961	(1,316)	8,221	3,328	1,999	16,710	13,485	4,114	(889)	(8,305)	2,268
22,207	5,220	21,784	13,639	8,340	46,039	23,438	6,140	16,461	(8,194)	(6,329)
18,658	1,460	15,383	10,968	5,587	20,056	18,600	104	1,352	(8,194)	(612)
2,428	1,872	4,094	2,499	2,692	2,277	(2,730)	5,246	(239)	0	191
1,121	1,888	2,307	172	61	23,706	7,568	790	15,348	0	(5,908)
(13,246)	**(6,536)**	**(13,563)**	**(10,311)**	**(6,341)**	**(29,329)**	**(9,953)**	**(2,026)**	**(17,350)**	**(111)**	**8,597**
(8,204)	(4,833)	(8,059)	(3,664)	(6,523)	(14,956)	(11,494)	(103)	(3,359)	0	(2,227)
(8,187)	(4,960)	(6,694)	(3,624)	(4,020)	(11,981)	(7,855)	0	(4,126)	0	(121)
(17)	**127**	**(1,365)**	**(40)**	**(2,503)**	**(2,975)**	**(3,639)**	**(103)**	**767**	**0**	**(2,106)**
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4,300**
7	(135)	(50)	(72)	0	(1,169)	(100)	(745)	(324)	1,577	615
460,623	121,475	529,853	386,313	232,750	482,841	324,888	9,318	148,635	1,962,390	(3,530,824)
432,271	93,769	471,368	355,891	216,519	402,567	297,979	1,584	103,004	1,299,920	(2,292,315)

NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2012

Term Note Program and EMTN Programme

See details in Note 15.

Partial cancellation of EUR 125 million subordinated notes

See details in Note 18.

NOTE 42: STATEMENT OF THE GLOBAL, THE EUROPEAN AND THE HUNGARIAN ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF million)

In 2012 the operating environment remained weak, although the risk assessment of the CEE region and especially that of Hungary improved. In 2012 the Hungarian economy contracted by 1.7% comparing to the previous year.
On the production side, the manufacturing industry that used to be a significant positive contributor to the economic growth showed signs of exhaustion, despite the Mercedes plant that started production last year. On the consumption side, both households' consumption and investments declined, and dynamics of export moderated significantly. Although export growth decelerated, the net export's growth contribution increased, since the weak internal demand exerted a negative impact on import dynamics. Owing to the measures improving budget balance in 2012, the budget was kept below 3%, and the public debt to GDP ratio showed a decline in yearly comparison.
The deteriorating economic performance was a widespread phenomenon in the second half of 2012 among countries in the CEE region where OTP is present, even in case of those countries that could reach strong growth rates in 2011 (Russia, Slovakia, Ukraine).
The Hungarian forint strengthened both against the euro and the Swiss franc by 6%. The forint showed a strengthening against currencies of the foreign subsidiaries, too (against the Russian rouble by 3%, the Bulgarian lev 6%, the Ukrainian hryvnia 8%, the Romanian leu 9%). Compared to the end of year 2011 Hungarian government securities benchmark yields came down significantly: in case of short maturities yields declined by 220-260 bps, in case of maturities beyond 1 year by 350-380 bps. The sovereign CDS spread narrowed noticeably during 2012 and declined to around 280 bps. The CDS spreads of countries of foreign subsidiaries narrowed, too. Taking a look at the foreign exchange rate changes, the Ukrainian hryvnia remained stable against USD, but the Romanian ley depreciated by 3% against CHF.
In 2012 the Group continued to focus its activity on stable operation by maintaining robust capital position and significant liquidity reserves as well as implementing prudent risk management and monitoring practices in line with the deteriorating loan portfolio. At the same time, some Group member banks could exploit the business opportunities and post loan and deposit volume growth during 2012.

Countries	Gross loans and interbank placements with other banks	Securities	Total
Hungary	3,357,030	1,765,243	5,122,273
Bulgaria	1,195,475	17,189	1,212,664
Russia	889,162	35,624	924,786
Ukraine	696,921	50,517	747,438
Romania	449,843	12,894	462,737
Croatia	385,520	21,886	407,406
Slovakia	291,881	21,545	313,426
Montenegro	204,957	5,680	210,637
Serbia	117,117	–	117,117
United Kingdom	89,855	–	89,855
Germany	63,604	107	63,711
Cyprus	46,455	–	46,455
United States of America	32,576	726	33,302
France	29,486	–	29,486
Luxembourg	11,362	291	11,653
Switzerland	11,223	–	11,223
Austria	10,272	6,223	16,495
Other*	21,882	1,851	23,733
Total	**7,904,621**	**1,939,776**	**9,844,397**

* Other category includes: Belgium, Czech Republic, Norway, Turkey etc.

- One of the direct consequences of the crisis started late 2008 was the generally weak **loan demand** in most of the relevant markets except for the consumer lending business. The consolidated loan book declined by 2% in 2012 (adjusted for FX rate movements). Only the consumer segment could grow during 2012 by 14%. As for the consumer lending, those were the Russian and Ukrainian portfolios remaining the engines of growth. The Russian consumer book grew by 31%, however the yearly dynamism lagged behind that of the previous year (61%). The Ukrainian consumer lending remained vibrant, due to the relatively low base the annual growth was high at 282%. In the Ukraine the selling network expanded rapidly, the bank used almost 2,600 agents by the end of 2012 and increased the network of partner retail chains. POS loan volumes stood at HUF 25 billion in December. In order to capitalize on cross sale potentials the Bank entered the market with new credit card products late 2011 and cash loan sale was intensified, too. By the end of the year credit card loan volumes represented HUF 9 billion with cash loans standing at HUF 7 billion.

  Regarding other consolidated loan book segments, all categories suffered a decline: mortgages, car loans and corporate exposures shrank further (by 6%, 16% and 5% respectively). The 6% decline in the consolidated mortgage loan portfolio was chiefly the result of the Hungarian early repayment program for FX mortgage borrowers. On the positive side the Slovakian, Romanian and Croatian mortgage volumes could increase by 8%, 2% and 1%, respectively.

- Based on the Country Protection Action Plan of the Hungarian Government announced on 12 September 2011, FX mortgage loans of Hungarian households could get repaid at off-market rates in the period between 29 September 2011 and 28 February 2012, provided that certain eligibility criteria were met. The **early repayment program** had a total negative impact on consolidated net earnings of HUF 33.4 billion. In accordance with accounting standards, out of the total impact HUF 31.6 billion was recognised in 2011 and HUF 1.8 billon in the first quarter of 2012.

The total prepayment-related HUF 33.4 billion loss consisted of four items. On one hand HUF 65.1 billion credit loss was stemming from the difference between the book value and the fixed exchange rate implied value of prepaid loans. The corporate income tax effect of that loss was a saving of HUF 12.4 billion. Furthermore, a HUF 3.3 billion after tax revaluation gain was realised on the FX position purchased from the National Bank of Hungary for hedging purposes. Finally, the bank realised a prepayment related 30% banking tax refund of HUF 16.0 billion (after corporate income tax).

By the end of February 2012 deadline around 36 thousands clients of OTP Core* and OTP Flat Lease made use of the early repayment option, which represents 19.7% of the total 184 thousand FX loan contracts outstanding at the beginning of the programme. The total prepaid loan book amounted to HUF 217 billion (in 2011 by HUF 110 billion, in the first quarter of 2012 by HUF 107 billion) representing 19.9% of the FX mortgage books of the two companies (at FX rates of 30 September 2011). The volume decline of FX mortgages was counterbalanced to some extent by newly sold forint refinancing loans. By 28 February 2012, their total amount reached HUF 64 billion, out of which HUF 41 billion was disbursed to own clients; the remaining part was sold to clients of other banks.

- As for the **deposit collection,** the FX-adjusted consolidated deposit base expanded by 6% in 2012. Regarding the net loan to deposit ratios, subsidiaries with the highest ratios in Romania, the Ukraine and Serbia demonstrated the most remarkable adjustment on a yearly base. Retail deposits of OTP Core dropped by 4% in 2012. The volume development was determined by the fact that clients used their savings for early repayment of FX mortgage loans. Furthermore, since the beginning of 2012 the Hungarian State has offered attractive interest rates on government bonds and conducts intensive promotional campaigns. As a result, the structure of retail savings realigned at the expense of term deposits and bank bonds in favour of government bonds.

- The strong **liquidity positions** of the Group did not require foreign currency denominated wholesale funding, on the contrary, through the excess liquidity generated by on-going FX loan repayments the Bank managed to reduce its outstanding net swap position. By the end of 2012 the gross liquidity reserves of the group reached almost EUR 6 billion equivalent and by the end of the year OTP had already managed to renew all its 2013 swap roll-over needs.

- Another side effect of the crisis was the deterioration in the financial position of the clients, which led to worsening **loan quality** and materially increasing risk costs compared to levels witnessed before 2008. In 2012 the ratio of consolidated loans in more than 90 days of delinquency ('DPD90+ ratio') increased further to 19.1% from 16.6% at the end of 2011. The pace of deterioration decelerated remarkably in the second half of 2012. This positive development reflects the delayed effect of stronger and less volatile HUF after the peak at the beginning of 2012, the benefit of the fixed instalment scheme in Hungary and the slowdown of loan quality deterioration in Bulgaria. At the same time the Russian new DPD90+ volume formation remained at relatively high levels. Thanks to the prudent provisioning, the provision coverage of the DPD90+ loan book improved gradually in 2012 to 80.0% and significantly exceeded the level as at the end of 2011 (+3.3 ppts).

- The further enhancement of the strong **capital position** still remained a top priority for the Group in 2012. The Basel 2 capital

* OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in OTP Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc, OTP Mortgage Bank Ltd, OTP Building Society Ltd, OTP Factoring Ltd, OTP Financing Netherlands Ltd and OTP Holding Ltd. The consolidated accounting result of these companies are segmented into OTP Core and Corporate Centre, the latter being a virtual entity responsible for rendering debt and capital market related services to the subsidiaries across OTP Group.

adequacy ratio of the Group reached 19.7% at the end of 2012 (+2.4 ppts comparing to the previous year), which is significantly higher than the ratios at its regional competitors. The Tier1 ratio (after deducting goodwill and intangible assets from the capital base) stood at 16.1% and the Core Tier1 ratio (further deducting hybrid capital) at 14.7%. The capital adequacy ratio of the Bank (under local accounting standards) stood at 20.5%, compared to 17.9% at the end of 2011.
During the period dividend income from subsidiaries contributed to the capital of the Bank in the amount of HUF 43 billion. In 2012 OTP Bank Romania received two capital injections from the mother company in the amount of altogether HUF 12 billion equivalent. The capital of the Serbian subsidiary was increased by HUF 6 billion through converting subordinated debt provided by OTP into ordinary shares. On the top of that OTP banka Srbija received a capital injection of HUF 12 billion equivalent in 2012. The capital of CKB Bank, the Montenegrin subsidiary was increased twice: by HUF 3 billion and HUF 2 billion, both through converting subordinated debt provided by OTP into ordinary shares. The capital adequacy ratios of the foreign subsidiaries are comfortably above the local regulatory minimums.
On 3 October 2012 the European Banking Authority (EBA) and the HFSA disclosed the final assessment of the capital exercise and fulfilment of the EBA December 2011 Recommendation, which shows that OTP Bank Plc. meets the 9% Core Tier1 ratio including the sovereign buffer as stated in the EBA December 2011 Recommendation.

- The Hungarian and Slovakian members of OTP Group paid **special bank tax** in the gross amount of HUF 37.1 billion in 2012. Taking into account the corporate tax shield effect, the net negative impact reached HUF 30.2 billion.

The conversion of non-performing FX mortgage loans and the subsequent 25% debt forgiveness (in accordance with the agreement between the Government and Banking Association in December 2011) did not have a material P&L impact in 2012, since the effect of the debt forgiveness was mainly off-set by release of previously accumulated provisions. At OTP Core, altogether loans in the amount of HUF 2.2 billion were forgiven (together with exposures of OTP Flat Lease Ltd) resulting banking tax re-fund in the amount of HUF 0.6 billion.
As part of the second budget balance improving package in autumn 2012, on 17 October the Ministry for National Economy unveiled that the bank tax won't be halved in 2013, but paid in full amount. On 16 November 2012 the Ministry for National Economy announced that the special tax on financial institutions will be kept indefinitely at its 2013 level, even after 2014.

- The **fixed instalment scheme** was launched in 2012 based on the agreement between the Government and Banking Association in December 2011, in order to provide relief to performing Hungarian FX mortgage debtors. The fixing is provided for 5 years. Originally the scheme was available from April until 31 December 2012, but the government extended the application period to 29 March 2013. By 31 December 32 thousand clients, representing 26.5% of the eligible 120 thousand FX borrowers filed their applications at OTP.
The 2012 annual estimated after tax profit effect of the fixed exchange rate scheme was recognised in OTP Core's P&L as other risk cost in the second quarter of 2012. From the second quarter of 2012 credit institutions' contribution tax started to be recognised in the P&L of OTP Core as OTP Core's burden share in the fixed exchange rate scheme. In the last quarter the fixed exchange rate scheme for FX mortgage borrowers resulted a HUF 0.4 billion contribution tax payment,

while in previous quarters the impact of the tax was insignificant. In parallel with the tax payment of the fourth quarter the formerly set aside other provisions were released.

- On 27 October 2012 the Prime Minister announced that the central government will **consolidate the debt of local governments** in Hungary. As for municipalities with less than 5,000 inhabitants the State provided a non-refundable subsidy for the repayment of outstanding debts (including loans, bonds and bills of exchange) as at 12 December 2012.
  At OTP Bank a total debt of HUF 28.7 billion was repaid (calculated with FX rates as of 27 December 2012), out of this forint denominated debt reached HUF 24.2 billion. The debt assumption from bigger municipalities is expected to take place in the first half of 2013. At the Bank the total exposure to municipalities with more than 5 thousands inhabitants represented HUF 245 billion at the end of December 2012 (including loans and bonds as well). After the expected debt-consolidation in the second quarter of 2013 part of this loan amount becomes loans to the central government in the balance sheet of the Bank.

- In 2012 a one-off positive tax shield impact emerged in relation to the impairment of the investments into the Serbian and Montenegrin subsidiaries recognised on the balance sheet of OTP. The impairments under local accounting standards amounted to HUF 15 billion and HUF 5.9 billion, respectively. Though on the consolidated level these impairments had no direct effect either on the balance sheet or on the P&L, there was a positive tax shield of HUF 4.0 billion that added to the Group's IFRS accounting profit.

- Concerning OTP Group members, the following rating actions were taken by international rating agencies in 2012:

– On 12 January 2012 OTP's Support Rating '3' was affirmed by Fitch Ratings.

– On 13 January 2012 Fitch Ratings affirmed long term foreign currency Issuer Default Rating ('IDR') of OTP Bank Russia at 'BB', the rating outlook has been changed from 'stable' to 'negative'.

– On 17 May 2012 Moody's Investors Service placed on review for possible downgrade DSK Bank's ratings. On 31 July 2012, however, Moody's confirmed DSK Bank's long- and short term local currency deposit rating at Baa3/Prime-3. This rating action concluded the review initiated in May 2012.

– On 30 July 2012 Moody's Investors Service confirmed DSK Bank's long and short-term local and foreign currency deposit ratings at Baa3/Prime-3 and lowered by one notch its standalone bank financial strength rating (BFSR) to D from D+. All ratings carry a negative outlook.

– On 27 November 2012 S&P lowered the long term counterparty credit ratings of the Bank and OTP Mortgage Bank to 'BB' from 'BB+'. The short term counterparty credit rating has been confirmed at level 'B'. The outlooks on both banks are stable.

– On 7 December 2012 following the downgrade of the Ukrainian sovereign, Moody's downgraded OTP Bank Ukraine long-term foreign currency deposit rating to 'Caa1' from 'B3', outlook is negative.

– On 12 December 2012 Moody's Investors Service placed on review for downgrade the standalone bank financial strength ratings (BFSR) and the debt and deposit ratings of seven Hungarian banks, including the Bank and OTP Mortgage Bank.

– On 13 December 2012 following the placement on review for downgrade of the mother bank's ratings, Moody's placed on review for downgrade the long-term deposit ratings of OTP Bank Russia and the short- and long-term deposit ratings of DSK Bank.

– On 14 December 2012 Moody's Investors Service placed on review for downgrade the ratings of covered bonds issued by OTP Mortgage Bank.

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Company Registration Number: 01-09-071057

INDEPENDENT AUDITORS' REPORT

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

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of OTP Bank Plc for the year 2012, which financial statements comprise the statement of financial position as at December 31, 2012 and the related statement of recognized and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 150-229 of this Annual Report.

Management's Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of OTP Bank Plc. as at December 31, 2012, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

We draw attention to Note 2.3 of the separate financial statements which states that the consolidated financial statements of OTP Bank Plc. prepared in accordance with International Financial Reporting Standards have been published separately. The consolidated financial statements of OTP Bank Plc. as of and for the year ended December 31, 2012 were audited by us and our report dated March 29, 2013 expressed an unqualified opinion. Our opinion is not modified in respect of this matter.

Budapest, March 29, 2013

Gion Gábor
Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
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Statement of financial position

(separate, based on IFRS, as at 31 December 2012, in HUF million)

	Note	2012	2011
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	245,548	226,976
Placements with other banks, net of allowance for placement losses	5.	665,417	897,980
Financial assets at fair value through profit or loss	6.	243,015	272,577
Securities available-for-sale	7.	1,953,871	1,711,418
Loans, net of allowance for loan losses	8.	2,356,291	2,741,827
Investments in subsidiaries	9.	661,352	651,709
Securities held-to-maturity	10.	371,992	120,467
Property and equipment	11.	78,052	73,161
Intangible assets	11.	31,597	31,171
Other assets	12.	32,686	57,404
TOTAL ASSETS		**6,639,821**	**6,784,690**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	13.	826,968	871,770
Deposits from customers	14.	3,500,790	3,416,221
Liabilities from issued securities	15.	335,963	453,423
Financial liabilities at fair value through profit or loss	16.	259,211	345,955
Other liabilities	17.	232,557	267,184
Subordinated bonds and loans	18.	303,750	325,997
TOTAL LIABILITIES		**5,459,239**	**5,680,550**
Share capital	19.	28,000	28,000
Retained earnings and reserves	20.	1,157,516	1,081,659
Treasury shares	21.	(4,934)	(5,519)
TOTAL SHAREHOLDERS' EQUITY		**1,180,582**	**1,104,140**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**6,639,821**	**6,784,690**

Budapest, 29 March 2013

The accompanying notes to separate financial statements on pages 154 to 229 form an integral part of these separate financial statements.

Statement of recognized income

(separate, based on IFRS, for the year ended 31 December 2012, in HUF million)

	Note	2012	2011
Interest Income:			
Loans		216,154	230,529
Placements with other banks, net of allowance for placement losses		364,039	268,998
Securities available-for-sale		117,914	115,841
Securities held-to-maturity		19,625	9,637
Amounts due from banks and balances with National Bank of Hungary		6,523	6,274
Securities held for trading		1,443	2,076
Total Interest Income		725,698	633,355
Interest Expense:			
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government		350,521	214,376
Deposits from customers		138,808	128,253
Liabilities from issued securities		27,330	28,370
Subordinated bonds and loans		16,872	16,538
Total Interest Expense		533,531	387,537
NET INTEREST INCOME		**192,167**	**245,818**
Provision for impairment on loan and placement losses	5., 8., 22.	53,394	71,327
(Gains)/Losses on loans related to early repayment	22.	(86)	5,112
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**138,859**	**169,379**
Income from fees and commissions	23.	117,566	116,969
Expenses from fees and commissions	23.	22,493	21,613
NET PROFIT FROM FEES AND COMMISSIONS		**95,073**	**95,356**
Foreign exchange (losses)/gains		(3,769)	36,668
(Losses)/gains on securities, net		(6,872)	5,331
Dividend income		43,098	78,831
Other operating income	24.	5,087	4,941
Net other operating expenses	24.	(46,766)	(84,723)
-from this: provision for impairment on investments in subsidiaries	9.	(35,584)	(83,531)
Net operating income		**(9,222)**	**41,048**
Personnel expenses	24.	80,456	73,555
Depreciation and amortization	24.	20,959	23,767
Other administrative expenses	24.	90,272	82,718
Other administrative expenses		**191,687**	**180,040**
PROFIT BEFORE INCOME TAX		**33,023**	**125,743**
Income tax	25.	(5,379)	14,995
NET PROFIT FOR THE YEAR		**38,402**	**110,748**
Earnings per share (in HUF)			
Basic	35.	138	399
Diluted	35.	138	399

Statement of comprehensive income

(separate, based on IFRS, for the year ended 31 December 2012, in HUF million)

	2012	2011
NET PROFIT FOR THE YEAR	**38,402**	**110,748**
Fair value adjustment of securities available-for-sale	64,202	(22,606)
NET COMPREHENSIVE INCOME	**102,604**	**88,142**

The accompanying notes to separate financial statements on pages 154 to 229 form an integral part of these separate financial statements.

Statement of cash flows

(separate, based on IFRS, for the year ended 31 December 2012, in HUF million)

OPERATING ACTIVITIES	Note	2012	2011
Profit before income tax		**33,023**	**125,743**
Depreciation and amortization		20,959	23,767
Provision for impairment on loan and placement losses	5., 8., 22,	53,308	76,439
Provision for impairment on investments in subsidiaries	9.	35,584	83,531
Provision for impairment/(release of provision) on other assets	12.	483	(472)
Provision/(release of provision) on off-balance sheet commitments and contingent liabilities	17.	495	(3,583)
Share-based payment	28.	4,584	6,188
Unrealised (losses)/gains on fair value adjustment of securities available-for-sale and held for trading		(2,012)	1,757
Unrealised gains/(losses) on fair value adjustment of derivative financial instruments		2,735	(5,570)
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		29,158	19,536
Changes in financial liabilities at fair value through profit or loss		(377)	(431)
Net decrease/(increase) in loans, net of allowance for loan losses		245,786	(47,435)
Decrease/(increase) in other assets, excluding advances for investments and before provisions for losses		25,815	(22,164)
Net increase in deposits from customers		84,341	136,517
(Decrease)/increase in other liabilities		(28,675)	45,154
Net (increase)/decrease in the compulsory reserve established by the National Bank of Hungary		(395)	2,712
Dividend income		(43,098)	(78,831)
Income tax paid		(4,391)	(11,557)
Net cash provided by operating activities		**457,323**	**351,301**
INVESTING ACTIVITIES			
Net decrease/(increase) in placements with other banks before allowance for placement losses		232,701	(99,807)
Net increase in securities available-for-sale		(166,690)	(261,740)
Net increase in investments in subsidiaries		(45,227)	(97,421)
Dividend income		43,098	78,831
Net (increase)/decrease in securities held-to-maturity		(247,461)	33,766
Additions to property, equipment and intangible assets		(27,704)	(44,662)
Disposals of property, equipment and intangible assets		–	12,890
Net decrease/(increase) in advances for investments included in other assets		40	(66)
Net cash used in investing activities		**(211,243)**	**(378,209)**
FINANCING ACTIVITIES			
Net (decrease)/increase in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		(44,802)	129,925
Cash received from issuance of securities		274,329	480,103
Cash used for redemption of issued securities		(403,096)	(526,817)
(Decrease)/increase in subordinated bonds and loans		(22,247)	28,359
Payments to ICES holders		(4,377)	(4,632)
Net change in Treasury shares		430	(1,815)
Dividend paid		(28,140)	(20,204)
Net cash (used in)/provided by financing activities		**(227,903)**	**84,919**
Net increase in cash and cash equivalents		**18,177**	**58,011**
Cash and cash equivalents at the beginning of the year		**146,208**	**88,197**
Cash and cash equivalents at the end of the year		**164,385**	**146,208**
ANALYSIS OF CASH AND CASH EQUIVALENTS:			
Cash, amounts due from banks and balances with the National Bank of Hungary		226,976	171,677
Compulsory reserve established by the National Bank of Hungary		(80,768)	(83,480)
Cash and cash equivalents at the beginning of the year		**146,208**	**88,197**
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	245,548	226,976
Compulsory reserve established by the National Bank of Hungary	4.	(81,163)	(80,768)
Cash and cash equivalents at the end of the year		**164,385**	**146,208**

The accompanying notes to separate financial statements on pages 154 to 229 form an integral part of these separate financial statements.

Statement of changes in shareholders' equity

(separate, based on IFRS, for the year ended 31 December 2011, in HUF million)

	Note	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Total
Balance as at 1 January 2011		**28,000**	**52**	**28**	**1,069,329**	**(55,468)**	**(3,729)**	**1,038,212**
Net profit for the year		–	–	–	110,748	–	–	110,748
Other comprehensive income		–	–	–	(22,606)	–	–	(22,606)
Share-based payment	28.	–	–	6,188	–	–	–	6,188
Payments to ICES holders		–	–	–	(6,427)	–	–	(6,427)
Sale of treasury shares	21.	–	–	–	–	–	2,963	2,963
Loss on sale of treasury shares		–	–	–	(25)	–	–	(25)
Acquisition of treasury shares	21.	–	–	–	–	–	(4,753)	(4,753)
Dividend for the year 2010		**–**	**–**	**–**	**(20,160)**	**–**	**–**	**(20,160)**
Balance as at 31 December 2011		28,000	52	6,216	1,130,859	(55,468)	(5,519)	1,104,140
Net profit for the year		–	–	–	38,402	–	–	38,402
Other comprehensive income		–	–	–	64,202	–	–	64,202
Share-based payment	28.	–	–	4,584	–	–	–	4,584
Payments to ICES holders		–	–	–	(3,176)	–	–	(3,176)
Sale of treasury shares	21.	–	–	–	–	–	6,342	6,342
Loss on sale of treasury shares		–	–	–	(155)	–	–	(155)
Acquisition of treasury shares	21.	–	–	–	–	–	(5,757)	(5,757)
Dividend for the year 2011		–	–	–	(28,000)	–	–	(28,000)
Balance as at 31 December 2012		**28,000**	**52**	**10,800**	**1,202,132**	**(55,468)**	**(4,934)**	**1,180,582**

The accompanying notes to separate financial statements on pages 154 to 229 form an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 H–1051.

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

These financial statements were approved by the board of directors and authorised for issue on 29 March 2013.

	2012	2011
The structure of the Share capital by shareholders (%):		
Domestic and foreign private and institutional investors	97%	96%
Employees	2%	2%
Treasury shares	1%	2%
Total	**100%**	**100%**

The Bank provides a full range of commercial banking services through a nationwide network of 380 branches in Hungary.

	2012	2011
Number of the employees of the Bank:		
Number of employees	8,070	7,957
Average number of employees	8,012	7,857

1.2. Accounting

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

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

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial 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'), which are referred to as IFRS.

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

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2012

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- IFRS 7 (Amendment) 'Financial Instruments: Disclosures' – Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The adoption of the above presented Amendment had no significant impact on the separate financial statements of the Bank.

1.2.2. Amendments and new Standards and Interpretations to IFRS effective on or after 1 January 2013, which are adopted by EU

At the balance sheet date of these financial statements, the following Standards and Interpretations were issued but not yet effective:

- IFRS 10 'Consolidated Financial Statements', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 'Joint Arrangements', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 'Disclosures of Interests in Other Entities', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 13 'Fair Value Measurement', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- 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),
- IFRS 1 (Amendment) 'First-time Adoption of IFRS' – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- IFRS 1 (Amendment) 'First-time Adoption of IFRS' – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- IFRS 7 (Amendment) 'Financial Instruments: Disclosures' – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- IAS 1 (Amendment) 'Presentation of Financial Statements' – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- IAS 12 (Amendment) 'Income Taxes' – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- IAS 19 (Amendment) 'Employee Benefits' – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- IAS 32 (Amendment) '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),

– IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements.

1.2.3. Amendments and new Standards and Interpretations to IFRS effective on or after 1 January 2013, which are not yet endorsed by EU, not yet adopted

– IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2015),

– IFRS 9 (Amendment) 'Financial Instruments' and IFRS 7 (Amendment) 'Financial Instruments: Disclosures' – Mandatory Effective Date and Transition Disclosures,

– IFRS 10 (Amendment) 'Consolidated Financial Statements', IFRS 11 (Amendment) 'Joint Arrangements' and IFRS 12 (Amendment) 'Disclosures of Interests in Other Entities' – Transition Guidance (effective for annual periods beginning on or after 1 January 2013),

– IFRS 10 (Amendment) 'Consolidated Financial Statements', IFRS 12 (Amendment) 'Disclosures of Interests in Other Entities' and IAS 27 (Amendment) 'Separate Financial Statements' – Investment Entities (effective for annual periods beginning on or after 1 January 2014),

– Amendments to various standards 'Improvements to IFRSs (2012)' resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013).

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements except of the application of IFRS 9 and IFRS 10 which might have significant impact on the Bank separate financial statements, the Bank will analyse the impact after the adoption of the standards by EU.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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

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

2.2. Foreign currency translation

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

2.3. Consolidated financial statements

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

2.4. Investments in subsidiaries

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

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

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

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

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

2.5. Securities held-to-maturity

Investments in securities 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. 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 and shares in financial institutions.

2.6.2. Derivative financial instruments

In the normal course of business, the Bank is a party to contract 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 all of its open derivative transactions collateralised. There is no other credit value (CVA), debit value (DVA) or funding value (FVA) adjustment applied. 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.

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. 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, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realised in profit and 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, bonds issued by NBH and other 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.

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.

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

Loans and placements with other banks are amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amounts outstanding. 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.

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 and for potential losses which may be present based on portfolio performance.

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.

The Bank classifies the previously performing loans that have been renegotiated automatically to the to-be-monitored risk class for a certain period and records at least 1 per cent provision for impairment on them.

2.10. 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.

2.11. 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. 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.

2.12. 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.

2.13. 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.

2.14. 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.

2.15. Interest income and interest expense

The interest income and expense are recognized on the accrual basis and based on the IAS 18 Revenue, referring to provisions of IAS 39. 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.

2.16. 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.

2.17. Dividend income

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

2.18. 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.

2.19. 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.

2.20. Share-based payment

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.

2.21. Separate statement of cash flows

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

2.22. 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 Center.

2.23. 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 2011 have been restructured within the particular note to conform with the current year presentation and these amounts are not significant.

2.24. Events in accordance with early repayment at fixed exchange rates

The Hungarian Government announced the Country Protection Action Plan on 12 September 2011. The most significant arrangement, which directly affected OTP Bank, was the opportunity of early repayment at fixed exchange rates.

If certain conditions completed by the borrowers FX based mortgage loans could be repaid in one amount at fixed conversion rate ('early repayment') determined in the Law on Credit Institutions (Swiss Franc 180 HUF/CHF,
Euro 250 HUF/EUR, Japanese Yen 2 HUF/JPY). Act CXXI of 2011 ('On the amendment of the acts in connection with the protection of homes') on early repayment was acted on 29 September 2011.
Under the law the bank was not allowed to charge any fees or other commissions for early repayment. Furthermore banks carried the loss derived from the difference between the book value recorded on market price and the paid amount calculated at fixed exchange rate as an early repayment. If the borrower had met the conditions determined by the law, the lender would not have been allowed to refuse the early repayment, and should have prepared the settlement of the contract in 60 days.

The final closing date of the opportunity of early repayment was 28 February 2012.

On 10 October 2011 OTP Bank and OTP Mortgage Bank Ltd. ('OTP Mortgage Bank') made a guarantee contract about a facility in the amount of HUF 200 billion. Based on this agreement OTP Bank compensated the loss of OTP Mortgage Bank on early repayment of FX based mortgage loans. The fee for guarantee was determined in the amount of HUF 5 billion.
On 26 October 2011 OTP Bank and OTP Flat Lease Ltd. ('OTP Flat Lease') made a guarantee contract about a facility in the amount of HUF 2 billion. Based on this agreement OTP Bank compensated the loss of OTP Flat Lease on early repayment of FX based mortgage loans. The fee for guarantee was determined in the amount of HUF 25 million.

In accordance with the guarantee contract OTP Bank compensated the losses derived from the early repayment of OTP Mortgage Bank and OTP Flat Lease.

Up to 31 December 2011 – together at OTP Bank, OTP Mortgage Bank and OTP Flat Lease – 21,146 customers paid back their FX mortgage loans. Therefore provision for impairment on loan losses in the amount of HUF 32,152 million was recognized at OTP Group. Provision for impairment on loan losses in the amount of HUF 2,962 million was recognized at OTP Bank relating to early repayment of OTP Bank's own customers.
In the year of 2012 – together at OTP Bank, OTP Mortgage Bank and OTP Flat Lease – additional 14,934 customers paid back their FX mortgage loans. Therefore provision for impairment on loan losses in the amount of HUF 32,901 million was recognized at OTP Group. Provision for impairment on loan losses in the amount of HUF 2,101 million was recognized at OTP Bank relating to early repayment of OTP Bank's own customers.

OTP Bank recognized as provision for impairment in financial statements for the year of 2011 the calculated effect of the early repayment claimed and paid till 30 January 2012. Whole amount of the expected loss relating to the transactions claimed but not yet paid up to 30 January 2012 was impaired by OTP Bank as the customers could have presented the collateral or the collateral certificate relating to the repayment till this date – according to Act CXII of 1996 on Credit Institutions Section 200/B paragraph 2 to take effect on 29 December 2011.
As a consequence of guarantee contract OTP Bank recognized provision on this expected loss of above mentioned subsidiaries in the separated financial statements.

In the period from 1 till 30 January 2012 – together at OTP Bank and above subsidiaries – 14,854 customers paid back their FX mortgage loans or presented collateral certificate relating to early repayment on mortgage loan that in connection with provision in the amount of HUF 34,489 million (tax-adjusted HUF 35,264 million) was recognized for 2011 in OTP Group. Provision in the amount of HUF 2,164 million was recognized at OTP Bank relating to early repayment of OTP Bank's own customers. This amount of provision was released in 2012 parallel to recognizing of realised loan loss.

	2012	2011
Provision for impairment on loan losses relating to early repayment at OTP Bank	2,101	2,962
(Release of provision)/provision recognized at OTP Bank relating to early repayment	(2,164)	2,164
(Release of provision)/provision for impairment on loan losses relating to early repayment at OTP Bank	**(63)**	**5,126**

Investments in subsidiaries were raised with HUF 47,027 million – with the amount paid as compensation for OTP Mortgage Bank and OTP Flat Lease within the frames of guarantee contracts – as at 31 December 2011 and parallel with that provision for impairment was recognized on investments at the same amount. In 2012 correction occurred based on final realised loss related to early repayment as investments in subsidiaries were lowered with HUF 3,257 million and parallel with that provision for impairment was released at the same amount.

	2012	2011
(Release of provision)/provision for impairment on loan losses relating to early repayment at OTP Mortgage Bank and OTP Flat Lease	(1,534)	61,515
Loan losses recognized as provision are deducted at OTP Mortgage Bank as according to contract this loss is not refunded by OTP Bank	(1,723)	(588)
Tax refund at OTP Mortgage Bank and OTP Flat Lease – loss is not refunded by OTP Bank	–	(8,875)
Refundable (gains)/losses for OTP Mortgage Bank and OTP Flat Lease recognizing at OTP Bank in connection with the guarantee	**(3,257)**	**52,052**
Fee for guarantee paid by OTP Mortgage Bank and OTP Flat Lease	–	(5,025)
Refundable (gains)/losses for OTP Mortgage Bank and OTP Flat Lease recognizing at OTP Bank in connection with the guarantee – Recognizing as increasing of Investments in subsidiaries	**(3,257)**	**47,027**

In case of loans related to early repayment, interest was recognized at fixed exchange rate in interest income.

During calculating the loss arising from the early repayment, loss falling to share of interest was taken into account which was recognized on the line of Interest income from loans (See Note 22.). Regarding to 2011 amendment of Act LIX of 2006 the financial institution reduced the 2011 amount of the payable bank tax as a tax refund with 30% of the loss from paid FX based mortgage loans. If the tax refund had exceeded the bank tax determined for the year 2011, the difference could have been claimed at tax determination for 2011 by the related parties (one or more financial institution or insurance company) ('tax refund beneficiary') of the financial institution.

Based on the arising losses at OTP Bank, OTP Mortgage Bank, OTP Flat Lease, Merkantil Bank Ltd. ('Merkantil Bank') and Merkantil Car Ltd. ('Merkantil Car') total HUF 20,606 million bank tax refund was carried out at the Group's level from the bank tax paid and recognized in 2011. The Bank recognized HUF 10,467 million as tax refund in the separate financial statements. The difference was asserted as tax refund by the other subsidiaries of the Group. The amount of the difference was rectified by HUF 1,090 million based on final realised loss related to early repayment.

	Total	2012	2011
Total expenditure at OTP Group	65,053	(1,588)	66,641
During calculation of amount deductible from bank tax, provision for impairment owing to classification is taken into consideration	–	(2,047)	2,047
Total expenditure at OTP Group considered at calculation of bank tax	65,053	(3,635)	68,688
30% of total expenditure at OTP Group refundable from bank tax paid in 2011	**19,516**	**(1,090)**	**20,606**
Claim for bank tax refund at subsidiaries of OTP Group			
OTP Bank	9,377	(1,090)	10,467
OTP Mortgage Bank	8,759	–	8,759
OTP Flat Lease	116	–	116
Merkantil Bank	1,120	–	1,120
Merkantil Car	144	–	144
	19,516	**(1,090)**	**20,606**

NBH invited tenders for selling euro from 3 October 2011 what was announced regularly till 29 February 2012, above all weekly if necessary more frequently. Credit institution was obliged to utilize the same sum of foreign exchange as the amount published in information related to realised early repayment – according to Act on Credit Institutions 200/B – by the credit bank or the corresponding one. Credit institutions were obliged to exchange for HUF the unutilized part of EUR stock at original rate between 1 and 14 March 2012.

OTP Bank participated in three tenders on account of hedging the loss incurred as a consequence of early repayment at OTP Group.

	Tender I.	Tender II.	Tender III.
Trade date of tender	14/09/2011	03/10/2011	02/01/2012
Foreign exchange rate	287.05	294.45	315.5
EUR stock	350,000,000	200,000,000	189,000,000

EUR stock was recognized in OTP Bank's separate financial statements, in connection with that foreign exchange losses in the amount of HUF 5,278 million and gains in the amount of HUF 9,313 million were realised in the separate financial statements as at 31 December 2012 and 2011. This sum is reducing the loss incurred related to early repayment at the level of OTP Group.

2.25. The agreement on 15 December 2011 between the Hungarian Government and the Hungarian Banking Association

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

On 28 June 2011, Act LXXV 2011 on fixing the exchange rate for calculating the monthly instalments of retail FX mortgage loans and on the foreclosure order of residential real estates was announced. Accordingly, in favour of performing FX mortgage debtors with up to 90 days of delinquency, the natural person FX mortgage debtor could initiate in writing between 12 August and 31 December 2011 the fixing of the exchange rate used to specify his monthly instalments for 36 months or until 31 December 2014 the latest. The fixed exchange rates were set at 180 HUF/CHF, 250 HUF/EUR and 2 HUF/JPY. For the difference between the fixed and the exceeding actual spot exchange rate, banks provided a special purpose HUF denominated mortgage loan ('escrow account loan'), granting of which is not regulated by the rules of prudent lending. Escrow account loan is an appropriation established by the Hungarian Government to help FX mortgage debtors during the repayment of FX mortgage loans to finance the instalment-proportion non-paid by debtors arising from the difference between the fixed and the exceeding actual spot exchange rate. During the time of fixing, the Bank was entitled to charge not more than the 3-months BUBOR interest rate on the HUF obligations on the escrow account which could be capitalised in every three months. Following the fixed exchange rate period debtors are obliged to pay instalments of both the original mortgage and the escrow account loans. From that time the interest rate charged on the escrow account must not surpass the market rate applicable for HUF denominated mortgages provided for the same purpose as the original FX mortgage loan.

Based on the amendment of Act LXXV 2011 approved on 19 March 2012, escrow account loan with transformed terms could have been employed in 2012. Consequently terms and conditions of the new construction have become valid for all clients owning escrow account loan.

According to modified terms and conditions, contract of fixed exchange rate escrow account loan can be concluded for 60 months or until the last instalment due before 30 June 2017 the latest. Closing date has been prolonged until 29 March 2013 in consequence of 22 December 2012 amendment of the Act. The fixed exchange rates were modified and set at 180 HUF/CHF, 250 HUF/EUR and 2.5 HUF/JPY. For the difference between the fixed and the exceeding actual spot exchange rate, banks provide a special purpose HUF denominated mortgage loan ('escrow account loan'), granting of which is not regulated by the rules of prudent lending. Escrow account loan is paid in HUF backing joint and several state guarantee during the fixed exchange rate period. During the fixed exchange rate period the Hungarian Government is refunding credit institutions the full proportion of monthly instalments of retail FX mortgage loans above the fixed exchange rate, but not more than the highest exchange rate (270 HUF/CHF, 340 HUF/EUR, 3.3 HUF/JPY). Credit institutions are obliged to off-set 50% of the refunded amount – exempted receivable – for the year of 2012 by paying it back to the central budget as credit institutions' contribution.

The Government backs the escrow account in full through a State Guarantee during the fixed exchange rate period, subsequently the guarantee applies to 25% of the escrow account. In case of utilising of state guarantee credit institutions are obliged to pay contribution.

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

An analysis of main figures related to escrow account loan construction: Number of loans includes contracts which were made until 31 December 2012 but no gross amount belongs to them.

	OTP Bank
Number of escrow account loans as at 31 December 2012 (number of loans)	3,060
Number of new contracts made after 1 April 2012 (number of contracts)	2,988
Gross value of escrow account loans as at 31 December 2012 (in HUF mn)	79
Gross amount of fixed FX loans as at 31 December 2012 (in HUF mn)	13,444

An analysis of the effect of escrow account loan on financial statement as at 31 December 2012:

	OTP Bank
Loss on interest from fixed exchange rate refunded by the State	60
Contribution paid for the State (50%)	30

2. Conversion of FX mortgage loan into HUF denominated one in case of FX mortgage debtors with more than 90 days of delinquency

Financial institution qualified as provider of FX loan was obliged to convert whole receivable of uncancelled FX loan into HUF denominated loan at average middle FX rate published by NBH between 15 May and 15 June 2012 until 31 August 2012 if:

a) no conversion into HUF denominated loan occurred yet
b) the total market value of real estate serving as collateral did not exceed HUF 20 million at conclusion of FX loan contract
c) at least HUF 78 thousand is the amount from debt which is due and delinquency of debtor more than 90 days as at 30 September 2011 and since then it is continuous.
d) right of legal enforcement is not recorded on real estate included in FX mortgage loan contract
e) debtor made a statement in writing until 15 May 2012 that its delinquency was caused by significant and justifiable deterioration of ability to pay.

Financial institutions were obliged to cancel 25% of their receivable at the date of conversion into HUF loan. Financial institutions were not allowed to charge any fees or other commisions in connection with the conversion and the 25% cancellation of receivable.

Main figures of conversion into HUF denominated loans:

	OTP Bank
Number of DPD* 90+ loans (number of loans)	11
Loan losses (in HUF mn)	10

* DPD: day past due

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 ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

3.1. Impairment on loans and placements

The 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 (eg. for correlations, volatilities, etc). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.

3.3. Provisions

Provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 17.)
A provision is recognized by the Bank when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

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

	2012	2011
Cash on hand:		
In HUF	58,713	52,527
In foreign currency	13,044	11,569
	71,757	**64,096**
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	128,210	137,412
In foreign currency	45,131	24,982
	173,341	**162,394**
Accrued interest	450	486
Total	**245,548**	**226,976**
Compulsory reserve	**81,163**	**80,768**
Rate of the compulsory reserve	**2%**	**2%**

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

	2012	2011
Within one year:		
In HUF	165,452	17,230
In foreign currency	369,171	640,438
	534,623	**657,668**
Over one year		
In HUF	15,000	300
In foreign currency	114,013	238,004
	129,013	**238,304**
Total placements	663,636	895,972
Accrued interest	1,781	2,146
Provision for impairment on placement losses	–	(138)
Total	**665,417**	**897,980**

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

	2012	2011
Balance as at 1 January	138	950
Provision for the period	–	132
Release of provision	(138)	(944)
Balance as at 31 December	**–**	**138**

Interest conditions of placements with other banks:

	2012	2011
Placements with other banks in HUF	4.8%–6.5%	7.56%–15.23%
Placements with other banks in foreign currency	0.002%–10.09%	0.73%–11.9%
Average interest of placements with other banks	3.34%	2.25%

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

Securities held for trading:

	2012	2011
Corporate shares	90,431	87,871
Hungarian government interest bearing Treasury Bills	2,111	115
Hungarian government discounted Treasury Bills	2,098	4,146
Securities issued by the NBH	1,333	1,715
Government bonds	1,331	22,846
Mortgage bonds	408	5,776
Securities issued by credit institutions	49	2,093
Other securities	10	314
	97,771	124,876
Accrued interest	164	1,083
Subtotal	**97,935**	**125,959**

Derivative financial instruments classified as held for trading:

	2012	2011
Interest rate swaps classified as held for trading	73,199	39,442
CCIRS and mark-to-market CCIRS* classified as held for trading	54,480	66,281
Foreign currency swaps classified as held for trading	7,107	24,329
Other derivative transactions**	10,294	16,566
Subtotal	**145,080**	**146,618**
Total	**243,015**	**272,577**

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

	2012	2011
Within five years:		
variable interest	2	1,042
fixed interest	7,072	23,845
	7,074	**24,887**
Over five years:		
fixed interest	257	12,104
	257	**12,104**
Non-interest bearing securities	90,440	87,885
Total	**97,771**	**124,876**

	2011	2010
Securities held for trading denominated in HUF	100%	95%
Securities held for trading denominated in foreign currency	0%	5%
Securities held for trading total	**100%**	**100%**
Government securities denominated in HUF	92%	84%
Government securities denominated in foreign currency	8%	16%
Government securities total	**100%**	**100%**
Interest rates on securities held for trading	3.5%–13%	1.6%–11.9%
Average interest on securities held for trading	6.51%	5.27%

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

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

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

	2012	2011
Mortgage bonds	968,048	863,422
Bonds issued by NBH	742,989	497,198
Government bonds	134,034	260,681
Other securities	70,401	49,623
listed securities	36,689	27,414
in HUF	–	–
in foreign currency	36,689	27,414
non-listed securities	33,712	22,209
in HUF	31,632	20,387
in foreign currency	2,080	1,822
	1,915,472	1,670,924
Accrued interest	38,399	40,494
Securities available-for-sale total	**1,953,871**	**1,711,418**

	2012	2011
Securities available-for-sale denominated in HUF	75%	70%
Securities available-for-sale denominated in foreign currency	25%	30%
Securities available-for-sale total	**100%**	**100%**
Interest rates on securities available-for-sale denominated in HUF	6.8%–12%	5.5%–12%
Interest rates on securities available-for-sale denominated in foreign currency	2.7%–10.5%	3.9%–10.5%
Average interest on securities available-for-sale denominated in HUF	7.42%	8.54%
Average interest on securities available-for-sale denominated in foreign currency	4.77%	5.18%

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

	2012	2011
Within five years:		
variable interest	427,295	460,285
fixed interest	1,222,305	894,934
	1,649,600	**1,355,219**
Over five years:		
fixed interest	228,018	288,769
	228,018	**288,769**
Non-interest bearing securities	37,854	26,936
Total	**1,915,472**	**1,670,924**

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

	2012	2011
Net loss reclassified from equity to statement of recognized income	552	585
Fair value of the hedged securities		
Corporate bonds	19,969	16,383
Total	**19,969**	**16,383**

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

	2012	2011
Short-term loans and trade bills (within one year)	941,215	995,053
Long-term loans and trade bills (over one year)	1,554,375	1,891,447
Loans gross total	**2,495,590**	**2,886,500**
Accrued interest	14,071	15,651
Provision of impairment on loan losses	(153,370)	(160,324)
Total	**2,356,291**	**2,741,827**

An analisys of the loan portfolio by currency:

	2012	2011
In HUF	38%	32%
In foreign currency	62%	68%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2012	2011
Loans denominated in HUF, with a maturity within one year	7.7%–32.4%	8.2%–29%
Loans denominated in HUF, with a maturity over one year	2.7%–24.8%	3%–24.8%
Loans denominated in foreign currency	1.8%–22.8%	1.8%–28%
Average interest on loans denominated in HUF	14.56%	13.82%
Average interest on loans denominated in foreign currency	4.14%	4.35%
Gross loan portfolio on which interest to customers is not being accrued	10.04%	9.35%

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

	2012		2011	
Corporate loans	1,753,015	71%	2,044,081	71%
Consumer loans	335,407	13%	350,256	12%
Municipality loans	263,519	11%	308,334	11%
Housing loans	86,624	3%	115,044	4%
Mortgage backed loans	57,025	2%	68,785	2%
Total	**2,495,590**	**100%**	**2,886,500**	**100%**

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

	2012	2011
Balance as at 1 January	160,324	134,621
Provision for the period	93,834	129,912
Release of provision	(100,788)	(104,209)
Balance as at 31 December	**153,370**	**160,324**

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

	2012	2011
Release of provision for impairment on placement losses	(138)	(656)
Provision for impairment on loan losses	53,446	77,095
Total	**53,308**	**76,439**

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

NOTE 9: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF million)

	2012	2011
Investments in subsidiaries:		
Controlling interest	925,362	880,136
Other	1,021	1,021
	926,383	881,157
Provision for impairment	(265,031)	(229,448)
Total	**661,352**	**651,709**

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:

	2012		2011	
	% Held (direct and indirect)	**Gross book value**	**% Held (direct and indirect)**	**Gross book value**
OTP Bank JSC (Ukraine)	100%	266,513	100%	266,513
DSK Bank EAD (Bulgaria)	100%	86,832	100%	86,832
OTP banka Srbija a.d. (Serbia)	96.79%	84,433	92.60%	66,984
OAO OTP Bank (Russia)	97.78%	74,280	97.75%	74,263
OTP banka Hrvatska d.d. (Croatia)	100%	72,940	100%	72,940
OTP Mortgage Bank Ltd.	100%	70,257	100%	73,440
OTP Bank Romania S.A. (Romania)	100%	57,638	100%	45,204
Crnogorska komercijalna banka a.d. (Montenegro)	100%	55,439	100%	49,657
OOO AlyansReserv (Russia)	100%	50,074	100%	50,074
OTP Factoring Ltd.	100%	24,925	100%	14,775
OTP Life Annuity Ltd.	100%	15,300	100%	15,300
OTP Banka Slovensko a.s. (Slovakia)	98.94%	13,611	98.94%	13,611
Bank Center No. 1. Ltd.	100%	10,063	100%	7,330
Monicomp Ltd.	100%	9,234	100%	9,234
Air-Invest Ltd.	100%	8,898	100%	8,898
Inga Two Ltd.	100%	5,892	100%	5,892
OTP Real Estate Leasing Ltd.	100%	3,178	100%	2,499
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
Merkantil Bank Ltd.	100%	1,600	100%	1,600
OTP Real Estate Ltd.	100%	2,318	100%	1,420
OTP Real Estate Investment Fund Management Ltd.	100%	1,352	100%	1,352
CIL Babér Ltd.	100%	1,225	100%	1,025
OTP Financing Netherlands B.V. (Netherlands)	100%	481	100%	481
OTP Card Factory Ltd.	100%	450	100%	450
Portfolion Ltd.	100%	150	100%	150
HIF Ltd. (United Kingdom)	100%	81	100%	81
OTP Hungaro-Projekt Ltd.	100%	81	100%	81
TradeNova Ltd. "u.l."	100%	30	100%	30
OTP Facility Management Ltd.	100%	15	100%	15
Bajor-Polár Center Ltd.		–	100%	1,933
Total		**925,362**		**880,136**

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

	2012	2011
Balance as at 1 January	**229,448**	**147,228**
Provision for the period	35,583	83,531
Release of provision	–	(1,311)
Balance as at 31 December	**265,031**	**229,448**

The provision for impairment on OTP Bank JSC (Ukraine) was HUF 97,526 million, for OTP banka Srbija a.d. was HUF 56,803 million, for Crnogorska komercijalna banka a.d was HUF 26,714 million as at 31 December 2012.

OTP Bank recognized provision for impairment in amount of HUF 9,232 million for OTP banka Hrvatska d.d., HUF 36,967 million for OTP banka Srbija a.d. and HUF 18,519 million for Crnogorska komercijalna banka a.d in 2012.

Significant associates

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

As at 31 December 2012

	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Agóra-Kapos Ltd.	Total
Assets	1,924	629	73	2,626
Liabilities	82	12	53	147
Shareholders' equity	1,842	617	20	2,479
Retained earnings and reserves	(59)	552	18	511
Total income	869	46	4	919
Profit before tax	44	27	1	72
Net profit	39	25	1	65

As at 31 December 2011

	Moneta a.d.*	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Agóra-Kapos Ltd.	Total
Assets	436	2,132	611	157	3,336
Liabilities	336	204	9	108	657
Shareholders' equity	100	1,928	602	49	2,679
Retained earnings and reserves	(58)	–	544	17	503
Total income	304	892	44	934	2,174
Profit before tax	59	27	16	36	138
Net profit	59	27	14	32	132

The Montenegrin Court of Registration registered a capital increase at the Montenegrin subsidiary of OTP Bank. The extraordinary general meeting at Crnogorska komercijalna banka a.d. ('CKB') on 17 January 2012 passed a resolution about a EUR 11,999,509.6 capital increase by converting the subordinated debt provided by OTP Bank into ordinary shares. The registered capital of the Montenegrin subsidiary grew to EUR 118,875,878.04 after the capital increase. On 10 September 2012 the Securities Commission of Montenegro approved the conversion of the Lower Tier2 Capital provided by OTP Bank to CKB into ordinary shares. The principal amount of the Lower Tier2 Capital was EUR 7,999,673. The registered capital of CKB changed to EUR 126,875,551 as verified by the Central Custodian in its certificate issued on 12 September 2012.

On 18 January 2012 the Slovakian Court of Registration registered a capital increase at the Slovakian subsidiary of OTP Bank. The registered capital of OTP Banka Slovensko a.s. was increased by EUR 10,019,496 from EUR 68,488,401.84 to EUR 78,507,897.84 based on the share subscription closed on 16 December 2011. Accordingly, the ownership ratio of OTP Bank grew from 98.82% to 98.94%.

On 19 April 2012 OTP Bank sold its investment in Bajor-Polár Center Property Management Private Limited Company to Bank Center No. 1. Ltd.

The Romanian Court of Registration registered a capital increase at the Romanian subsidiary of OTP Bank. According the the resolution passed by the general meeting of OTP Bank Romania S.A. held on 29 February 2012, the capital of OTP Bank Romania was increased by its majority shareholder, OTP Bank. The registered capital was raised from RON 542,909,040 by RON 139,999,920 to RON 682,908,960.
On 26 November 2012 the general meeting of OTP Bank Romania S.A. passed a resolution about a

* Moneta a.d. was sold in October 2012.

capital increase by issuing ordinary shares. The registered capital of the Romanian subsidiary was raised from RON 682,908,960 to RON 732,908,880 by its majority owner, OTP Bank.

The registered capital of OTP banka Srbija a.d. was increased by RSD 2,219,986,480 through conversion of the subordinated debt to ordinary shares. As a result, the registered capital of the Serbian subsidiary grew from RSD 7,643,774,300 to RSD 9,863,760,780. Following the capital increase, the ownership ratio of OTP Bank reached 95.31%. The Serbian Court of Registration registered the capital increase on 22 June 2012. An additional capital increase in the amount of RSD 4,525,974,400 occurred by 31 December 2012, as a result the ownership ratio of the Bank represents 96.79% as at 31 December 2012. The capital increase was registered by the Serbian Court of Registration on 17 January 2013 and the registered capital of OTP banka Srbija was increased to RSD 14,389,735,180.

The share capital increase including share premium was carried out by OTP Bank, one of the owners of OTP Real Estate Ltd., and made effective 20 December 2012. As a consequence, the registered capital of OTP Real Estate Ltd. has increased to HUF 2,145,000,000 from 2,136,000,000. While the ownership ratios in OTP Real Estate Ltd. were modified as follows: OTP Bank (22.15%), OTP Holding Ltd. (57.25%), Bank Center No. 1 Ltd. (20.60%). The Court of Budapest Municipality acting as a Court of Registration registered the capital increase in OTP Real Estate Ltd., a subsidiary owned by OTP Bank.

During January 2013 further capital increase occurred. As a consequence the shareholder ratios have been modified as follows: OTP Bank (49.89%), OTP Holding Ltd. (36.85%), Bank Center No. 1 Ltd. (13.26%).

In accordance with the resolution adopted by the board of directors in February 2013, capital settlement package of OTP Real Estate Ltd. and its subsidiaries was approved at group level. The purpose of the capital settlement is

1. to meet regulations applying to minimal capital criteria,
2. to guarantee the self-supporting financing structure,
3. to eliminate the subsidiaries' liabilities to the owners by theirs capital conversion
4. and to reduce unjustified high level of share capital by operation and size of the company

NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF million)

	2012	2011
Government bonds	355,595	55,260
Mortgage bonds	4,783	59,887
Hungarian government discounted Treasury bills	343	346
	360,721	**115,493**
Accrued interest	11,271	4,974
Total	**371,992**	**120,467**

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

	2012	2011
Within five years:		
variable interest	30,685	34,092
fixed interest	171,623	69,543
	202,308	**103,635**
Over five years:		
fixed interest	158,413	11,858
	158,413	**11,858**
Total	**360,721**	**115,493**

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

	2012	2011
Securities held-to-maturity denominated in HUF	100%	100%
Securities held-to-maturity denominated in foreign currency	0%	0%
Securities held-to-maturity total	**100%**	**100%**
Interest rates on securities held-to-maturity	5.5%–9.5%	5.5%–11.9%
Average interest on securities held-to-maturity denominated in HUF	8.24%	7.30%

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

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

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

For the year ended 31 December 2012

	Intangible assets	Property	Office equipments and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	110,219	64,804	72,566	7,304	254,893
Additions	23,846	3,236	6,385	12,670	46,137
Disposals	(9,817)	(713)	(4,404)	(9,649)	(24,583)
Balance as at 31 December	**124,248**	**67,327**	**74,547**	**10,325**	**276,447**
Depreciation and Amortization					
Balance as at 1 January	79,048	14,290	57,223	–	150,561
Charge for the year	13,731	1,681	5,547	–	20,959
Disposals	(128)	(349)	(4,245)	–	(4,722)
Balance as at 31 December	**92,651**	**15,622**	**58,525**	**–**	**166,798**
Net book value					
Balance as at 1 January	31,171	50,514	15,343	7,304	104,332
Balance as at 31 December	**31,597**	**51,705**	**16,022**	**10,325**	**109,649**

For the year ended 31 December 2011

	Intangible assets	Property	Office equipments and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	98,415	62,011	73,266	4,968	238,660
Additions	24,493	3,333	5,678	11,424	44,928
Disposals	(12,689)	(540)	(6,378)	(9,088)	(28,695)
Balance as at 31 December	**110,219**	**64,804**	**72,566**	**7,304**	**254,893**
Depreciation and Amortization					
Balance as at 1 January	63,270	12,834	57,407	–	133,511
Charge for the year	16,121	1,598	6,048	–	23,767
Disposals	(343)	(142)	(6,232)	–	(6,717)
Balance as at 31 December	**79,048**	**14,290**	**57,223**	**–**	**150,561**
Net book value					
Balance as at 1 January	35,145	49,177	15,859	4,968	105,149
Balance as at 31 December	**31,171**	**50,514**	**15,343**	**7,304**	**104,332**

NOTE 12: OTHER ASSETS (in HUF million)

	2012	2011
Trade receivables	7,956	8,659
Prepayments and accrued income	5,540	3,980
Current income tax receivable	5,488	18,345
Fair value of derivative financial instruments designated as fair value hedge	4,228	2,329
Due from Hungarian Government from interest subsidies	1,615	1,943
Receivables from investment services	1,604	2,690
Inventories	980	840
Receivables from OTP Mortgage Bank Ltd.*	761	775
Other advances	665	398
Advances for securities and investments	587	627
Loans sold under deferred payment scheme	315	2,092
Amounts due from guarantee contract related to early repayment	–	8,875
Receivables from decreasing share capital of OTP Holding Ltd.	–	1,800
Other	4,578	5,849
	34,317	59,202
Accrued interest	**10**	**9**
Provision for impairment on other assets**	(1,641)	(1,807)
Total	**32,686**	**57,404**

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

	2012	2011
Interest rate swaps designated as fair value hedge	4,224	2,329
Other	4	–
Total	**4,228**	**2,329**

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

	2012	2011
Balance as at 1 January	1,807	2,407
Charge for the period	519	415
Release of provision	(682)	(954)
Use of provision	(3)	(61)
Balance as at 31 December	**1,641**	**1,807**

NOTE 13: AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF million)

	2012	2011
Within one year:		
In HUF	99,771	112,067
In foreign currency	528,749	460,654
	628,520	**572,721**
Over one year:		
In HUF	110,134	124,786
In foreign currency	85,632	171,584
	195,766	**296,370**
Subtotal	**824,286**	**869,091**
Accrued interest	2,682	2,679
Total	**826,968**	**871,770**

* The Bank, under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Ltd.
** Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.

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

	2012	2011
Within one year:		
In HUF	0.17%–7.62%	2.54%–7.1%
In foreign currency	2.39%–4.73%	0.25%–4%
Over one year:		
In HUF	0.22%–7.12%	2.54%–7.6%
In foreign currency	0.12%–5.88%	1.75%–5.88%
Average interest on amounts due to banks in HUF	4.30%	3.86%
Average interest on amounts due to banks in foreign currency	3.22%	2.34%

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF million)

	2012	2011
Within one year:		
In HUF	2,811,316	2,791,891
In foreign currency	652,393	582,330
	3,463,709	**3,374,221**
Over one year:		
In HUF	26,551	25,397
In foreign currency	30	4,645
	26,581	**30,042**
Subtotal	**3,490,290**	**3,404,263**
Accrued interest	10,500	11,958
Total	**3,500,790**	**3,416,221**

Interest rates on deposits from customers are as follows:

	2012	2011
Within one year in HUF	0.1%–11%	0.1%–11%
Over one year in HUF	0.2%–7.8%	0.2%–9%
In foreign currency	0.01%–3.5%	0.01%–8.1%
Average interest on deposits from customers in HUF	4.31%	3.91%
Average interest on deposits from customers in foreign currency	1.53%	1.65%

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

	2012		2011	
Retail deposits	1,855,388	53%	1,978,914	58%
Corporate deposits	1,423,202	41%	1,260,824	37%
Municipality deposits	211,700	6%	164,525	5%
Total	**3,490,290**	**100%**	**3,404,263**	**100%**

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

	2012	2011
Within one year:		
In HUF	192,316	312,155
In foreign currency	39,289	54,820
	231,605	**366,975**
Over one year:		
In HUF	89,654	74,279
In foreign currency	5,120	2,245
	94,774	**76,524**
Subtotal	**326,379**	**443,499**
Accrued interest	9,584	9,924
Total	**335,963**	**453,423**

Interest rates on liabilities from issued securities are as follows:

	2012	2011
Issued securities denominated in HUF	0.25%–7%	0.25%–6.75%
Issued securities denominated in foreign currency	2.8%–5%	1.5%–8%
Average interest on issued securities denominated in HUF	5.38%	5.86%
Average interest on issued securities denominated in foreign currency	3.50%	6.40%

Issued securities denominated in foreign currency as at 31 December 2012 (in HUF million):

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % p.a.)		Hedged
1.	EUR 1 2013/XV	03/08/2012	03/08/2013	EUR	13.33	3,883	3.5	fixed	
2.	DC EUR 130108 4.5%	27/09/2012	08/01/2013	EUR	10.55	3,073	4.5	fixed	
3.	EUR 1 2013/XXIV	07/12/2012	07/12/2013	EUR	10.46	3,048	3	fixed	
4.	DC USD 130207 5%	15/11/2012	07/02/2013	USD	13.75	3,038	5	fixed	
5.	EUR 1 2013/XXIII	23/11/2012	23/11/2013	EUR	9.29	2,706	3	fixed	
6.	EUR 1 2013/XVII	31/08/2012	31/08/2013	EUR	9.08	2,646	3.25	fixed	
7.	EUR 1 2013/XVIII	14/09/2012	14/09/2013	EUR	8.54	2,489	3	fixed	
8.	EUR 1 2013/XVI	17/08/2012	17/08/2013	EUR	7.78	2,267	3.25	fixed	
9.	EUR 1 2013/XX	12/10/2012	12/10/2013	EUR	7.41	2,158	3	fixed	
10.	EUR 1 2013/XXI	26/10/2012	26/10/2013	EUR	5.86	1,707	3	fixed	
11.	EUR 1 2013/XXII	09/11/2012	09/11/2013	EUR	5.36	1,560	3	fixed	
12.	EUR 1 2013/XIV	13/07/2012	13/07/2013	EUR	4.90	1,426	3.5	fixed	
13.	EUR 1 2013/XIX	28/09/2012	28/09/2013	EUR	4.67	1,361	3	fixed	
14.	EUR 1 2013/XXV	21/12/2012	21/12/2013	EUR	4.28	1,247	2.75	fixed	
15.	EUR 1 2013/IX	04/05/2012	04/05/2013	EUR	2.84	827	3.75	fixed	
16.	EUR 1 2013/VIII	20/04/2012	20/04/2013	EUR	2.31	673	3.75	fixed	
17.	EUR 1 2013/XIII	22/06/2012	22/06/2013	EUR	2.30	671	3.5	fixed	
18.	2015/Fx	21/12/2012	23/12/2015	EUR	2.07	604	indexed	floating	hedged
19.	EUR 1 2013/II	27/01/2012	26/01/2013	EUR	1.82	529	3.75	fixed	
20.	2016/Cx	22/04/2011	22/04/2016	EUR	1.56	454	indexed	floating	hedged
21.	2016/Dx	22/12/2011	29/12/2016	EUR	1.25	363	indexed	floating	hedged
22.	EUR 1 2013/VII	06/04/2012	06/04/2013	EUR	1.16	339	3.75	fixed	
23.	EUR 1 2013/I	13/01/2012	12/01/2013	EUR	1.11	322	3.5	fixed	
24.	EUR 1 2013/IV	24/02/2012	23/02/2013	EUR	1.08	315	3.75	fixed	
25.	EUR 1 2013/XII	08/06/2012	08/06/2013	EUR	1.07	311	3.5	fixed	
26.	EUR 1 2013/III	10/02/2012	09/02/2013	EUR	1.02	297	3.75	fixed	
27.	2015/Cx	27/12/2010	29/12/2015	EUR	0.97	283	indexed	floating	hedged
28.	EUR 2013/III	26/08/2011	26/08/2013	EUR	0.91	265	3	fixed	
29.	EUR 1 2013/XI	25/05/2012	25/05/2013	EUR	0.87	254	3.5	fixed	
30.	EUR 1 2013/V	09/03/2012	09/03/2013	EUR	0.82	238	3.75	fixed	
31.	2017/Fx	14/06/2012	16/06/2017	EUR	0.78	226	indexed	floating	hedged
32.	EUR 2013/IV	09/09/2011	09/09/2013	EUR	0.77	223	3	fixed	
33.	EUR 1 2013/VI	23/03/2012	23/03/2013	EUR	0.76	220	3.75	fixed	
34.	EUR 2013/VI	07/10/2011	07/10/2013	EUR	0.55	161	3	fixed	
35.	EUR 1 2013/X	11/05/2012	11/05/2013	EUR	0.52	151	3.5	fixed	
36.	EUR 2013/VII	21/10/2011	21/10/2013	EUR	0.51	148	3	fixed	
37.	EUR 2013/V	23/09/2011	23/09/2013	EUR	0.49	144	3	fixed	
38.	EUR 2 2014/XXI	26/10/2012	26/10/2014	EUR	0.47	138	3.25	fixed	
39.	EUR 2 2014/XVII	31/08/2012	31/08/2014	EUR	0.46	135	3.5	fixed	
40.	EUR 2013/I	05/08/2011	05/08/2013	EUR	0.45	131	3	fixed	
41.	EUR 2 2014/IV	24/02/2012	24/02/2014	EUR	0.44	129	4	fixed	
42.	EUR 2013/II	12/08/2011	12/08/2013	EUR	0.44	127	3	fixed	
43.	EUR 2013/IX	18/11/2011	18/11/2013	EUR	0.42	122	3	fixed	
44.	EUR 2 2014/XXIV	07/12/2012	07/12/2014	EUR	0.41	119	3.25	fixed	
45.	EUR 2 2014/XXIII	23/11/2012	23/11/2014	EUR	0.37	109	3.25	fixed	
46.	EUR 2 2014/XXV	21/12/2012	21/12/2014	EUR	0.37	108	3	fixed	
47.	EUR 2 2014/IX	04/05/2012	04/05/2014	EUR	0.34	99	4	fixed	
48.	EUR 2 2014/XVIII	14/09/2012	14/09/2014	EUR	0.31	90	3.25	fixed	
49.	EUR 2 2014/XIX	28/09/2012	28/09/2014	EUR	0.29	83	3.25	fixed	
50.	EUR 2013/VIII	07/11/2011	07/11/2013	EUR	0.26	77	3	fixed	

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % p.a.)		Hedged
51.	EUR 2 2014/VIII	20/04/2012	20/04/2014	EUR	0.25	73	4	fixed	
52.	EUR 2 2014/III	10/02/2012	10/02/2014	EUR	0.24	71	4	fixed	
53.	EUR 2 2014/XV	03/08/2012	03/08/2014	EUR	0.23	67	3.75	fixed	
54.	EUR 2 2014/XVI	17/08/2012	17/08/2014	EUR	0.22	64	3.5	fixed	
55.	EUR 2 2014/XX	12/10/2012	12/10/2014	EUR	0.22	63	3.25	fixed	
56.	EUR 2 2014/XXII	09/11/2012	09/11/2014	EUR	0.20	60	3.25	fixed	
57.	EUR 2 2014/XIII	22/06/2012	22/06/2014	EUR	0.20	58	3.75	fixed	
58.	EUR 2 2014/II	27/01/2012	27/01/2014	EUR	0.19	56	4	fixed	
59.	EUR 2 2014/XIV	13/07/2012	13/07/2014	EUR	0.18	54	3.75	fixed	
60.	EUR 2013/XI	02/12/2011	02/12/2013	EUR	0.18	53	3.5	fixed	
61.	EUR 2013/XIII	29/12/2011	29/12/2013	EUR	0.15	44	4	fixed	
62.	EUR 2 2014/VII	06/04/2012	06/04/2014	EUR	0.15	43	4	fixed	
63.	EUR 2013/X	25/11/2011	25/11/2013	EUR	0.14	41	3	fixed	
64.	EUR 2 2014/XII	08/06/2012	08/06/2014	EUR	0.13	37	3.75	fixed	
65.	EUR 2 2014/VI	23/03/2012	23/03/2014	EUR	0.10	30	4	fixed	
66.	EUR 2 2014/XI	25/05/2012	25/05/2014	EUR	0.10	30	3.75	fixed	
67.	EUR 2 2014/V	09/03/2012	09/03/2014	EUR	0.10	28	4	fixed	
68.	EUR 2013/XII	16/12/2011	16/12/2013	EUR	0.08	25	3.5	fixed	
69.	EUR 2 2014/I	13/01/2012	13/01/2014	EUR	0.06	17	4	fixed	
70.	EUR 2 2014/X	11/05/2012	11/05/2014	EUR	0.05	15	3.75	fixed	
	Subtotal issued securities in FX					**43,023**			
	Unamortized premium					1,340			
	Fair value hedge adjustment					46			
	Total					**44,409**			

2012 update of the OTP Bank's EUR 5 billion EMTN Programme

On 13 November 2012 the Commission de Surveillance du Secteur Financier (CSSF) approved the Base Prospectus relating to EUR 5 billion Euro Medium Term Note Programme of OTP Bank.

On 11 December 2012 the Commission de Surveillance du Secteur Financier approved the 1st Supplement to the Base Prospectus relating to EUR 5 billion EMTN Programme.

Term Note Program in the value of HUF 500 billion for the year of 2012/2013

On 5 July 2012 OTP Bank initiated term note program in the value of HUF 500 billion with the intention of issuing registered dematerialized bonds in public. The Hungarian Financial Supervisory Authority ('HFSA') approved the prospectus of Term Note Program and the disclosure on 1 August 2012. On 31 August, 28 September, 23 November, 7 and 21 December 2012, the HFSA approved the 1st, 2nd, 3rd, 4th and 5th addition of the prospectus of the program. The 6th addition of the prospectus was approved on 23 January 2013 by the HFSA. 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. 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, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

Issued securities denominated in HUF as at 31 December 2012 (in HUF million)

	Name	Date of issuance		Maturity	Nominal value in HUF million	Interest conditions (in % p.a.)		Hedged
1.	2013/II	20/01/2012	27/01/2012	19/01/2013	21,453	7	fixed	
2.	2013/IV	17/02/2012	24/02/2012	16/02/2013	17,134	7	fixed	
3.	2013/III	03/02/2012	10/02/2012	02/02/2013	12,535	7	fixed	
4.	2013/IX	11/05/2012	18/05/2012	11/05/2013	10,651	7	fixed	
5.	2013/VIII	21/04/2012	27/04/2012	21/04/2013	10,605	7	fixed	
6.	2013/VII	06/04/2012	13/04/2012	06/04/2013	10,102	7	fixed	
7.	2013/XIV	20/07/2012	03/08/2012	20/07/2013	9,508	7	fixed	
8.	2013/V	02/03/2012	09/03/2012	02/03/2013	9,001	7	fixed	
9.	2013/I	06/01/2012	13/01/2012	05/01/2013	8,716	6.5	fixed	
10.	2013/VI	23/03/2012	30/03/2012	23/03/2013	8,171	7	fixed	
11.	TBSZ2013/I	26/02/2010	28/12/2010	30/12/2013	6,018	5.5	fixed	
12.	2013/XV	10/08/2012	17/08/2012	10/08/2013	5,862	6.5	fixed	
13.	2013/XIII	06/07/2012	13/07/2012	06/07/2013	5,747	7	fixed	
14.	TBSZ2015/I	26/02/2010	28/12/2010	30/12/2015	5,649	5.5	fixed	
15.	2013/XI	08/06/2012	15/06/2012	08/06/2013	5,547	7	fixed	
16.	2015/Ax	25/03/2010		30/03/2015	5,074	indexed	floating	hedged
17.	2013/X	25/05/2012	01/06/2012	25/05/2013	4,997	7	fixed	
18.	2017/Ax	01/04/2011		31/03/2017	4,985	indexed	floating	hedged
19.	2017/Bx	17/06/2011		20/06/2017	4,670	indexed	floating	hedged
20.	2015/Bx	28/06/2010		09/07/2015	4,490	indexed	floating	hedged
21.	2018/Bx	22/03/2012		22/03/2018	4,490	indexed	floating	hedged
22.	2013/XII	22/06/2012	29/06/2012	22/06/2013	4,453	7	fixed	
23.	2016/Ax	11/11/2010		03/11/2016	4,206	indexed	floating	hedged
24.	2013/XXI	12/11/2012	16/11/2012	12/11/2013	4,147	6	fixed	
25.	2013/XVII	07/09/2012	14/09/2012	07/09/2013	4,130	6.5	fixed	
26.	2017/Ex	21/12/2011		28/12/2017	4,000	indexed	floating	hedged
27.	2018/Cx	16/07/2012		18/07/2018	3,990	indexed	floating	hedged
28.	DNT HUF 2013A	27/09/2012		25/03/2013	3,753	indexed	floating	hedged
29.	2014/Bx	05/10/2009		13/10/2014	3,734	indexed	floating	hedged
30.	2014/Cx	14/12/2009		19/12/2014	3,728	indexed	floating	hedged
31.	2013/XVIII	21/09/2012	28/09/2012	21/09/2013	3,655	6.5	fixed	
32.	2017/Cx	19/09/2011		25/09/2017	3,654	indexed	floating	hedged
33.	2013/XVI	24/08/2012	31/08/2012	24/08/2013	3,635	6.5	fixed	
34.	2018/Dx	29/10/2012		26/10/2018	3,250	indexed	floating	hedged
35.	2018/Ex	28/12/2012		28/12/2018	3,250	indexed	floating	hedged
36.	2013/RA/Bx	26/11/2010		03/12/2013	3,193	indexed	floating	hedged
37.	2016/Bx	16/12/2010		19/12/2016	3,138	indexed	floating	hedged
38.	2013/XXII	23/11/2012	03/12/2012	23/11/2013	3,022	5.5	fixed	
39.	2014/Ax	25/06/2009		30/06/2014	2,816	indexed	floating	hedged
40.	2013/XIX	05/10/2012	12/10/2012	05/10/2013	2,439	6	fixed	
41.	DNT HUF 130508 9%	15/11/2012		08/05/2013	2,334	indexed	floating	hedged
42.	2013/XX	19/10/2012	31/10/2012	19/10/2013	2,304	6	fixed	
43.	3Y EURHUF	25/06/2010		25/06/2013	2,097	indexed	floating	hedged
44.	TBSZ2014/I	14/01/2011	05/08/2011	15/12/2014	1,952	5.5	fixed	
45.	2013/XXIII	07/12/2012	17/12/2012	07/12/2013	1,860	5.5	fixed	
46.	2013/XXIV	21/12/2012		21/12/2013	1,581	5.5	fixed	
47.	2020/RF/C	11/11/2010		05/11/2020	1,272	indexed	floating	hedged
48.	OVK 2013/I	26/08/2011	28/12/2011	26/08/2013	1,254	5.75	fixed	
49.	TBSZ2016/I	14/01/2011	05/08/2011	15/12/2016	1,221	5.5	fixed	
50.	2020/RF/A	12/07/2010		20/07/2020	1,211	indexed	floating	hedged
51.	2018/Ax	03/01/2012		09/01/2018	1,200	indexed	floating	hedged
52.	2014/Ex	17/06/2011		20/06/2014	1,188	indexed	floating	hedged
53.	2014/RA/Bx	16/09/2011	23/09/2011	15/09/2014	1,126	indexed	floating	hedged
54.	RA 2014A	25/03/2011		24/03/2014	950	indexed	floating	hedged
55.	2020/RF/B	12/07/2010		20/07/2020	929	indexed	floating	hedged
56.	2013/Bx	11/11/2010		06/11/2013	785	indexed	floating	hedged
57.	TBSZ2014/II	26/08/2011	29/12/2011	15/12/2014	735	5.5	fixed	
58.	TBSZ2016/II	26/08/2011	29/12/2011	15/12/2016	654	5.5	fixed	
59.	2017/Dx	20/10/2011		19/10/2017	540	indexed	floating	hedged
60.	2014/Dx	01/04/2011		03/04/2014	526	indexed	floating	hedged
61.	2021/RF/B	20/10/2011		25/10/2021	490	indexed	floating	hedged
62.	TBSZ 4 2015/I	13/01/2012	22/06/2012	15/12/2015	483	6.5	fixed	
63.	2015/Dx	22/03/2012		23/03/2015	470	indexed	floating	hedged
64.	2021/RF/A	05/07/2011		13/07/2021	456	indexed	floating	hedged

	Name	Date of issuance		Maturity	Nominal value in HUF million	Interest conditions (in % p.a.)		Hedged
65.	2019/Bx	05/10/2009	05/02/2010	14/10/2019	442	indexed	floating	hedged
66.	2015/Gx	08/11/2012		16/11/2015	435	indexed	floating	hedged
67.	2013/Ax	28/06/2010		08/07/2013	428	indexed	floating	hedged
68.	2021/Dx	21/12/2011		27/12/2021	425	indexed	floating	hedged
69.	2013/Cx	16/12/2010		19/12/2013	420	indexed	floating	hedged
70.	2020/Bx	28/06/2010		09/07/2020	415	indexed	floating	hedged
71.	2016/Ex	28/12/2012		27/12/2016	395	indexed	floating	hedged
72.	2014/Fx	20/10/2011		21/10/2014	391	indexed	floating	hedged
73.	2015/Ex	18/07/2012		20/07/2015	390	indexed	floating	hedged
74.	2020/Ax	25/03/2010		30/03/2020	380	indexed	floating	hedged
75.	2019/Cx	14/12/2009		20/12/2019	379	indexed	floating	hedged
76.	2021/Bx	17/06/2011		21/06/2021	370	indexed	floating	hedged
77.	2022/Dx	28/12/2012		27/12/2022	350	indexed	floating	hedged
78.	2021/Ax	01/04/2011		01/04/2021	335	indexed	floating	hedged
79.	2022/Cx	29/10/2012		28/10/2022	325	indexed	floating	hedged
80.	2021/Cx	19/09/2011		21/09/2021	320	indexed	floating	hedged
81.	2014/Gx	21/12/2011		30/12/2014	320	indexed	floating	hedged
82.	2022/Bx	18/07/2012		18/07/2022	295	indexed	floating	hedged
83.	2019/Ax	25/06/2009		01/07/2019	284	indexed	floating	hedged
84.	2022/Ax	22/03/2012		23/03/2022	280	indexed	floating	hedged
85.	2020/Cx	11/11/2010		05/11/2020	259	indexed	floating	hedged
86.	OVK 2014/I	31/01/2012	03/07/2012	27/01/2014	237	6.75	fixed	
87.	TBSZ6 2017/I	13/01/2012	22/06/2012	15/12/2017	236	6.5	fixed	
88.	2020/Dx	16/12/2010		18/12/2020	235	indexed	floating	hedged
89.	OJK 2016/I	26/08/2011	21/12/2011	26/08/2016	211	6.14	fixed	
90.	2015/Hx	28/12/2012		27/12/2015	170	indexed	floating	hedged
91.	2022/RF/A	22/03/2012		23/03/2022	135	indexed	floating	hedged
92.	2022/RF/D	28/06/2012		28/06/2022	92	indexed	floating	hedged
93.	2022/RF/C	28/06/2012		28/06/2022	73	indexed	floating	hedged
94.	TBSZ 4 2015/II	21/12/2012		15/12/2015	49	6	fixed	
95.	2022/RF/B	22/03/2012		23/03/2022	46	indexed	floating	hedged
96.	2021/RF/C	21/12/2011		30/12/2021	41	indexed	floating	hedged
97.	OJK 2017/I	27/01/2012	13/07/2012	27/01/2017	41	7	fixed	
98.	2021/RF/D	21/12/2011		30/12/2021	35	indexed	floating	hedged
99.	2021/RF/E	21/12/2011		30/12/2021	18	indexed	floating	hedged
100.	2022/RF/E	29/10/2012		31/10/2022	17	indexed	floating	hedged
101.	2022/RF/F	28/12/2012		28/12/2022	14	indexed	floating	hedged
102.	other	–	–	–	255			
	Subtotal issued securities in HUF				**280,759**			
	Unamortized premium				(482)			
	Fair value hedge adjustment				1,693			
	Total issued securities in HUF				**281,970**			
	Accrued interest				9,584			
	Total issued securities				**335,963**			

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

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

	2012	2011
CCIRS and mark-to-market CCIRS	168,702	238,141
IRS	75,835	40,577
Foreign currency swaps	5,884	52,810
Other derivative contracts*	8,790	14,427
Total	**259,211**	**345,955**

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

NOTE 17: OTHER LIABILITIES (in HUF million)

	2012	2011
Financial liabilities from OTP-MOL share swap transaction*	89,308	82,347
Liabilities from investment services	26,263	12,056
Accrued expenses	22,299	24,236
Salaries and social security payable	21,023	19,586
HUF denominated liabilities from purchase of customers with cards	15,357	7,582
Deferred tax liabilities	11,655	3,355
Contingent liabilities	10,754	7,642
Accounts payable	8,422	9,335
Giro clearing accounts	5,753	28,005
Current income tax payable	5,502	4,065
Provision on off-balance sheet commitments, contingent liabilities	5,373	4,878
Fair value of derivative financial instruments designated as fair value hedge	4,512	12,563
Liabilities connected to loans for collection	1,006	1,117
Liabilities related to housing loans	177	390
Dividend payable	10	149
Amounts due from guarantee contract related to early repayment	–	45,279
Short term liabilities due to repurchase agreement transactions	–	321
Other	5,143	4,278
Total	**232,557**	**267,184**

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

	2012	2011
Interest rate swap transactions designated as fair value hedge	4,512	12,563

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

	2012	2011
Provision for losses on off-balance sheet commitments and contingent liabilities related to lending	2,367	3,908
Provision for taxation	1,500	247
Provision for losses from software failure	500	–
Provision for litigation	469	408
Provision on other liabilities	537	315
Total	**5,373**	**4,878**

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

	2012	2011
Balance as at 1 January	4,878	8,461
Provision for the period	9,283	12,637
Release of provision	(8,788)	(16,220)
Balance as at 31 December	**5,373**	**4,878**

* 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 31 December 2012 and 2011 HUF 89,308 and HUF 82,347 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.

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

	2012	2011
In one year:		
In HUF	5,000	–
	5,000	–
Over one year:		
In HUF	–	5,000
In foreign currency	295,337	317,172
	295,337	**322,172**
	300,337	**322,172**
Accrued interest	3,413	3,825
Total	**303,750**	**325,997**

Interest rates on subordinated bonds and loans are as follows:

	2012	2011
Subordinated bonds and loans denominated in HUF	3.3%	3%
Subordinated bonds and loans denominated in foreign currency	0.7%–5.9%	2%–5.9%
Average interest on subordinated bonds and loans denominated in HUF	1.49%	1.34%
Average interest on subordinated bonds and loans denominated in foreign currency	4.95%	4.93%

Partial cancellation of EUR 125 million subordinated notes

On 26 August 2011 the Bank purchased on the secondary market Notes from the EUR 125 million subordinated Notes series maturing 04/03/2015, in the total notional amount of EUR 1.15 million. On 7 September 2011, and on 8 September 2011 the Bank purchased additional EUR 1 and 1 million notional amount from the same Note series. The Bank initiated the cancellation of the Notes on 26 August 2011, on 7 September 2011 and on 8 September 2011. On 21 October 2011 the Bank purchased EUR 1.85 million from the EUR 125 million subordinated Notes series. After the cancellation of these bonds the outstanding amount of the notes decreased to EUR 120 million.

On 27 January 2012 the Bank purchased on the secondary market Notes from the EUR 125 million subordinated Notes series maturing 04/03/2015, in the total notional amount of EUR 12 million. On 1 February 2012 the Bank purchased additional EUR 2.05 million from the same Note series. After the cancellation of these bonds the outstanding amount of the notes decreased to EUR 105,950,000.

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 31 December 2012
Subordinated bond	HUF 5 billion	20/12/1993	20/12/2013	100%	frequency of payment is based on the condition of interest of 2013/C credit consolidation government bonds	6%
Subordinated bond	EUR 105.95 million	04/03/2005	04/03/2015	100%	three-month EURIBOR +0.55% quarterly	–
Subordinated bond	EUR 473.2 million	07/11/2006	Perpetual bond callable after 10 years	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR +3%, variable after year 10 (payable quarterly)	–
Subordinated bond (under EMTN* program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN* program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%

* European Medium Term Note Program

NOTE 19: SHARE CAPITAL (in HUF million)

	2012	2011
Authorized, issued and fully paid:		
Ordinary shares	28.000	28.000

On 21 April 2007, the law on abolishment of 'aranyrészvény' (special share assigning voting rights to the Hungarian State) came into force (Act XXVI of 2007). As a result of this, this special voting share with a face value of HUF 1,000 was transformed into 10 ordinary shares with a face value of HUF 100. Therefore, the registered capital of the Bank consists of 280,000,010 ordinary shares with a face value of HUF 100.

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

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

	2012	2011
Capital reserve	52	52
General reserve	141,717	134,460
Retained earnings	845,614	760,785
Tied-up reserve	7,385	8,018
Total	**994,768**	**903,315**

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

These Financial Statements subject to approval by the Board of Directors in the Annual General Meeting in April 2013. In 2012 the Bank paid dividend of HUF 28,000 million from the profit of the year 2011. In 2013 dividend of HUF 33,600 million are expected to be proposed by the management from the profit of the year 2012, which means 120 HUF payable dividend 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 discretional 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 million)

	2012	2011
Nominal value (ordinary shares)	219	264
Carrying value at aquisition cost	4,934	5,519

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

Change in number of shares:

	2012	2011
Number of shares as at 1 January	2,644,784	2,157,671
Additions	1,490,134	1,085,521
Disposals	(1,949,581)	(598,408)
Number of shares as at 31 December	**2,185,337**	**2,644,784**

Change in carrying value:

	2012	2011
Balance as at 1 January	5,519	3,729
Additions	5,757	4,753
Disposals	(6,342)	(2,963)
Balance as at 31 December	**4,934**	**5,519**

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

	2012	2011
Provision for impairment on loan losses		
Provision for the period	93,834	129,912
from this: (release of provision)/provision for impairment on loan losses related to early repayment	(2,164)	2,164
Release of provision	(100,788)	(104,209)
Provision on loan losses	60,400	51,392
from this: provision on loan losses related to early repayment	2,078	2,948
	53,446	**77,095**

	2012	2011
Release of provision for impairment on placement losses		
Provision for the period	–	132
Release of provision	(138)	(944)
Provision on placement losses	–	156
	(138)	**(656)**

	2012	2011
Provision for impairment on loan and placement losses	**53,308**	**76,439**
(Gains)/Losses on loans related to early repayment	**(86)**	**5,112**
Losses from early repayment recognizing in interest income from loans	23	14
Total loss on loans related to the early repayment	**(63)**	**5,126**

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

Income from fees and commissions:

	2012	2011
Deposit and account maintenance fees and commissions	42,794	42,645
Fees and commission related to the issued bank cards	22,303	21,732
Fees related to the cash withdrawal	17,489	18,764
Fees and commissions related to security trading	13,560	12,288
Fees and commissions received from OTP Mortgage Bank Ltd.	8,106	10,306
Fees and commissions related to lending	5,038	3,608
Net fee income related to card insurance services and loan agreements	1,987	1,990
Other	6,289	5,636
Total	**117,566**	**116,969**

Expenses from fees and commissions:

	2012	2011
Fees and commissions related to issued bank cards	5,608	5,005
Interchange fee	5,423	5,681
Fees and commissions related to lending	2,946	1,338
Insurance fees	1,705	1,990
Cash withdrawal transaction fees	1,532	1,561
Money market transaction fees and commissions	799	1,152
Fees and commissions relating to deposits	751	746
Fees and commissions related to security trading	571	618
Postal fees	534	574
Other	2,624	2,948
Total	**22,493**	**21,613**
Net profit from fees and commissions	**95,073**	**95,356**

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

Other operating income:	2012	2011
Gains/(losses) on transactions related to property activities	64	(21)
Other	5,023	4,962
Total	**5,087**	**4,941**

Net other operating expenses:	2012	2011
Provision for impairment on investments in subsidiaries	35,584	83,531
Financial aid for sport association and organization of public utility	7,055	3,539
Provision/(release of provision) for off-balance sheet commitments and contingent liabilities	495	(3,583)
Provision/(release of provision) for impairment on other assets	483	(472)
Other	3,149	1,708
Total	**46,766**	**84,723**

Other administrative expenses:	2012	2011
Personnel expenses:		
Wages	55,688	51,063
Taxes related to personnel expenses	17,249	15,416
Other personnel expenses	7,519	7,076
Subtotal	**80,456**	**73,555**
Depreciation and amortization:	**20,959**	**23,767**

Other administrative expenses:	2012	2011
Taxes, other than income tax*	40,821	29,641
Administration expenses, including rental fees	20,169	20,328
Services	19,737	22,156
Advertising	5,849	6,811
Professional fees	3,696	3,782
Subtotal	**90,272**	**82,718**
Total	**191,687**	**180,040**

NOTE 25: INCOME TAX (in HUF million)

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

A breakdown of the income tax expense is:

	2012	2011
Current tax expense	179	5,646
Deferred tax (income) /expense	(5,558)	9,349
Total	**(5,379)**	**14,995**

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

	2012	2011
Balance as at 1 January	(3,355)	1,887
Deferred tax income /(expense)	5,558	(9,349)
Tax effect of fair value adjustment of available-for-sale securities recognized in other comprehensive income and ICES	(13,858)	4,107
Balance as at 31 December	**(11,655)**	**(3,355)**

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

	2012	2011
Unused tax allowance	5,945	–
Repurchase agreements and security lending	4,191	3,336
Tax accrual caused by negative taxable income	1,200	–
Difference in accounting for finance leases	412	483
Fair value adjustment of held for trading and available-for-sale securities	–	7,499
Provision for impairment on investments in subsidiaries	–	4,407
Deferred tax assets	**11,748**	**15,725**

	2012	2011
Fair value adjustment of held for trading and available-for-sale securities	(7,113)	–
Fair value adjustment of derivative financial instruments	(5,853)	(7,565)
Effect of redemption of issued securities	(3,824)	(4,706)
Valuation of equity instrument (ICES)	(2,775)	(3,977)
Effect of using effective interest rate method	(1,976)	(985)
Difference in depreciation and amortization	(1,862)	(1,847)
Deferred tax liabilities	**(23,403)**	**(19,080)**
Net deferred tax asset	**(11,655)**	**(3,355)**

* 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 2012 and 2011 was HUF 25 billion and HUF 14 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.

A reconciliation of the income tax expense is as follows:

	2012	2011
Profit before income tax	33,023	125,743
Income tax at statutory tax rate (19%)	6,274	23,891

Income tax adjustments due to permanent differencies are as follows:

	2012	2011
Differences in carrying value of subsidiaries	2,110	2,765
Reversal of statutory general provision	1,104	(206)
Share-based payment	871	1,176
OTP-MOL share swap transaction	871	(871)
Accounting of equity instrument (ICES)	370	(711)
Treasury share transaction	(36)	–
Reclassification of direct charges to reserves (self-revision)	(96)	(1,639)
Revaluation of investments denominated in foreign currency to historical cost	(4,316)	11,443
Deferred use of tax allowance	(5,945)	–
Dividend income	(8,189)	(14,978)
Effect of change of income tax rate	–	912
Tax effect of amortisation of statutory goodwill and negative goodwill	–	(5,327)
Other	1,603	(1,460)
Income tax	**(5,379)**	**14,995**
Effective tax rate	(16.3%)	11.9%

Effective tax rate is negative because income tax and income tax adjustments are altogether negative in 2012.

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF million)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

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 sublimits 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.

Analysis by loan types and risk classes

An analysis of the gross loan portfolio by loan types and financial risk classes is as follows:

As at 31 December 2012

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total carrying amount/allowance
Corporate loans	**1,139,446**	**333,455**	**39,272**	**57,767**	**80,282**	**1,650,222**
Allowance	–	(11,898)	(10,985)	(35,897)	(66,419)	(125,199)
Placements with other banks	663,636	–	–	–	–	663,636
Allowance	–	–	–	–	–	–
Retail loans	378,081	50,181	34,535	15,839	420	479,056
Allowance	–	(2,980)	(8,795)	(8,254)	(403)	(20,432)
Municipal loans	176,118	68,135	8,759	9,734	773	263,519
Allowance	–	(765)	(1,212)	(2,973)	(773)	(5,723)
SME loans	92,731	6,813	842	1,596	811	102,793
Allowance	–	(83)	(104)	(1,018)	(811)	(2,016)
Gross loan portfolio total	**2,450,012**	**458,584**	**83,408**	**84,936**	**82,286**	**3,159,226**
Allowance Total	**–**	**(15,726)**	**(21,096)**	**(48,142)**	**(68,406)**	**(153,370)**
Net loan portfolio total	**2,450,012**	**442,858**	**62,312**	**36,794**	**13,880**	**3,005,856**
Accrued interest						
Placements with other banks						1,781
Loans						14,071
Total accrued interest						**15,852**
Total placements with other banks						**665,417**
Total loans						**2,356,291**
Total						**3,021,708**

As at 31 December 2011

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total carrying amount/allowance
Corporate loans	**1,359,492**	**387,153**	**33,785**	**116,590**	**49,787**	**1,946,807**
Allowance	–	(13,696)	(8,640)	(67,851)	(39,939)	(130,126)
Placements with other banks	893,205	2,767	–	–	–	895,972
Allowance	–	(138)	–	–	–	(138)
Retail loans	427,518	63,316	23,283	19,628	340	534,085
Allowance	–	(2,939)	(7,339)	(10,275)	(351)	(20,904)
Municipal loans	222,460	64,291	8,904	11,919	760	308,334
Allowance	–	(773)	(899)	(4,029)	(683)	(6,384)
SME loans	85,148	7,310	985	2,987	844	97,274
Allowance	–	(81)	(131)	(1,865)	(833)	(2,910)
Gross loan portfolio total	**2,987,823**	**524,837**	**66,957**	**151,124**	**51,731**	**3,782,472**
Allowance Total	**–**	**(17,627)**	**(17,009)**	**(84,020)**	**(41,806)**	**(160,462)**
Net loan portfolio total	**2,987,823**	**507,210**	**49,948**	**67,104**	**9,925**	**3,622,010**
Accrued interest						
Placements with other banks						2,146
Loans						15,651
Total accrued interest						**17,797**
Total placements with other banks						**897,980**
Total loans						**2,741,827**
Total						**3,639,807**

The Bank's loan portfolio decreased by 16.48% in 2012. The FX-adjusted ratio of decrease is 12.55%. Analysing the contribution of loan types to the loan portfolio, the share of placements with other banks business line decreased while the share of other business lines increased. The qualification of the loan portfolio improved to a certain extent, the ratio of the non-performing (doubtful and bad) loans compared to the gross loan portfolio decreased from 5.36% to 5.29%. Among the qualified gross loan portfolio, the loans classified to the risk class of 'doubtful' lowered at the greatest level, by 43.79%.

The Bank has a prudent provisioning policy, the coverage of loans by provision for impairment on loans classified as doubtful or bad, the coverage was 91.72% in 2012.

Loans, neither past due, nor impaired

An analysis of the credit classification of the gross value of the loans that are neither past due nor impaired is as follows:

Loan type	2012	2011
Corporate loans	1,101,481	1,329,982
Placements with other banks	663,636	893,205
Retail loans	307,628	338,605
Municipal loans	119,766	140,051
SME loans	80,433	73,265
Total	**2,272,944**	**2,775,108**

These loans are classified by the Bank as performing loans.

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio decreased from 73.37% to 71.95% as at 31 December 2012 compared to prior year. The ratio of corporate loans and placements with other banks business lines compared to the portfolio decreased as at 31 December 2012, while one of the other lines increased.

Past due, but not impaired loans

The aging of gross loans that are past due but not impaired as at 31 December 2012 and 2011 is as follows:

As at 31 December 2012	Up to 90 days	91–180 days	181–365 days	Above 365 days	Total
Corporate loans	37,777	63	73	52	37,965
Retail loans	63,211	1,308	2,082	3,852	70,453
Municipal loans	56,352	–	–	–	56,352
SME loans	12,275	22	–	1	12,298
Total	**169,615**	**1,393**	**2,155**	**3,905**	**177,068**

As at 31 December 2011	Up to 90 days	91–180 days	181–365 days	Above 365 days	Total
Corporate loans	29,279	53	40	138	29,510
Retail loans	79,171	1,306	1,175	7,261	88,913
Municipal loans	82,409	–	–	–	82,409
SME loans	11,877	5	1	–	11,883
Total	**202,736**	**1,364**	**1,216**	**7,399**	**212,715**

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. Loans past due over 30 days are considerably state guaranteed housing loans which are not impaired due to the 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.

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

As at 31 December 2012

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total off balance sheet items
Corporate loans	**757,487**	**14,315**	**495**	**803**	**425**	**773,525**
Placements with other banks	25,817	–	–	–	–	25,817
Retail loans	247,105	866	86	106	14	248,177
Municipal loans	43,627	6,254	1,452	200	–	51,533
SME loans	26,082	202	–	12	1	26,297
Total	**1,100,118**	**21,637**	**2,033**	**1,121**	**440**	**1,125,349**

As at 31 December 2011

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total off balance sheet items
Corporate loans	**755,674**	**19,294**	**4,175**	**3,065**	**433**	**782,641**
Placements with other banks	25,701	–	–	–	–	25,701
Retail loans	228,149	1,202	186,444*	66	5	415,866
Municipal loans	81,619	5,175	1,230	598	–	88,622
SME loans	26,489	273	–	–	1	26,763
Total	**1,117,632**	**25,944**	**191,849**	**3,729**	**439**	**1,339,593**

The off-balance sheet liabilities connected to the lending activity decreased by 15.99%, while the qualified gross loan portfolio increased by 6.86% in 2012.

Classification into risk classes

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

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

Instead of the earlier used risk classes, five valuation groups have been formed based on past due days (A: 0–30 days past due – DPD, B: 31–60 DPD, C: 61–90 DPD, D: 91–365 DPD, E: over 365 days past due). The five 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. Further regrouping is caused in provision for impairment that according to the new methodology the Bank takes into account the collateral at the collective valuation as well.
The consequence of the methodology change is that the loans, which has higher collateral value behind the loans are provided less than by using the previous methodology, and the loans with less collateral have in general more provision than in the previous model. The allocation of the impairment of the loans is more appropriate, the new model gives a more accurate impairment amount.
Every exposure with small amounts are subject to collective valuation method according to general rules. Exposures are classified into five risk classes (performing, to-be-monitored, below average, doubtful, bad).
A certain % degree belongs to these valuation groups based on past due days and based on this degree, provision for impairment is recognised on exposures classified into above risk classes.

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

* From this HUF 186,352 million is related to the early repayment.

• 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.

Loan portfolio by countries

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

	2012		2011	
Country	**Carrying amount of the qualified gross loan portfolio**	**Allowance**	**Carrying amount of the qualified gross loan portfolio**	**Allowance**
Hungary	439,070	97,564	445,537*	81,702**
Netherlands	128,921	4,520	157,788	5,831
Montenegro	56,743	37,385	63,093	37,303
Cyprus	45,939	1,825	65,331	13,931
Romania	15,202	7,090	37,628	14,990
Slovakia	7,415	159	8,245	180
Bulgaria	6,943	69	4	–
Seychelles	4,912	1,473	5,268	806
Russia	3,043	2,737	937	623
Egypt	664	332	640	327
Croatia	314	190	3,909	2,567
Ukraine	3	1	4,030	2,059
Kazakhstan	–	–	2,170	111
Other	45***	25	69****	32
Total	**709,214**	**153,370**	**794,649**	**160,462**

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 16 billion as at 31 December 2012, from that HUF 4.3 billion is related to non-performing corporate loans and HUF 11.7 billion to retail ones.

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.

* From this HUF 5,131 million is related to the early repayment.
** From this HUF 2,164 million is related to the early repayment.
*** Australia, Austria, Canada, China, France, Germany, Israel, Libia, Luxembourg, Serbia, Sweden, Switzerland, United Kingdom, United States of America
**** Australia, Austria, Canada, China, Germany, Israel, Italy, Libia, Serbia, Sweden, Switzerland, United Kingdom, United States of America

Types of collateral	2012	2011
Mortgages	599,253	868,102
Guarantees and warranties	206,917	222,971
Deposit	54,235	53,512
from this: Cash	46,478	47,079
Securities	7,022	6,433
Other	735	–
Assignment	4,141	1,958
Other	256,154	140,329
Total	**1,120,700**	**1,286,872**

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	2012	2011
Mortgage	268,384	399,906
Guarantees and warranties	130,480	180,082
Deposit	29,029	40,833
from this: Cash	24,576	36,365
Securities	4,090	4,468
Other	363	–
Assignment	1,103	1,134
Other	48,961	15,057
Total	**477,957**	**637,012**

The coverage level of loan portfolio to the extent of the exposures increased from 25.12% to 26.16% as at 31 December 2012, while coverage to the extent of the receivables decreased from 12.44% to 11.16%.

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

An analysis of the fair value of collaterals related to past due, but not impaired loans to total collateral value and to the extent of the exposures as at 31 December 2012 and 2011 is as follows:

Types of collateral (total collateral value)	2012	2011
Retail loans	31,358	44,232
Corporate loans	11,315	13,501
SME loans	18,280	20,381
Municipal loans	16	1,019
Total	**60,969**	**79,133**

Types of collateral (to the extent of the exposures)	2012	2011
Retail loans	13,677	19,114
Corporate loans	8,591	9,188
SME loans	6,218	7,656
Municipal loans	8	794
Total	**28,494**	**36,752**

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

Loans individually assessed for provision

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 31 December 2012 and 2011 is as follows. The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.

As at 31 December 2012

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	66,216	49,105	1,938	–	–
Regularity of payment	530	246	39	–	–
Renegotiation	28,329	6,239	2,093	38	19
Legal proceedings	6,716	5,540	777	52	47
Decrease of client classification	140,458	38,595	647	6,678	438
Loan characteristics	52,392	3,138	–	–	–
Business lines risks	45,243	5,149	339	4,542	177
Country risk	–	–	–	–	–
Refinancing of subsidiaries portfolio	128,921	4,519	–	–	–
Cross default	8,935	6,356	5	746	120
Other	16,131	1,865	790	3,977	473
Corporate total	**493,871**	**120,752**	**6,628**	**16,033**	**1,274**
Delay of repayment	70	70	–	–	–
Regularity of payment	–	–	–	–	–
Renegotiation	7,310	193	–	4	–
Legal proceedings	639	639	–	–	–
Decrease of client classification	18,288	1,381	–	433	68
Cross default	24,445	2,714	–	6,283	402
Other	52	1	–	–	–
Municipal total	**50,804**	**4,998**	**–**	**6,720**	**470**
Placements with other banks	**–**	**–**	**–**	**–**	**–**
Total	**544,675**	**125,750**	**6,628**	**22,753**	**1,744**

As at 31 December 2011

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	74,887	48,732	3,238	–	–
Regularity of payment	1,711	158	739	–	–
Renegotiation	43,410	4,132	2,307	2,183	19
Legal proceedings	11,998	8,816	2,841	81	76
Decrease of client classification	124,215	26,717	1,977	9,544	1,270
Loan characteristics	41,895	2,993	–	–	–
Business lines risks	65,928	7,952	1,127	8,681	610
Country risk	–	–	–	–	–
Refinancing of subsidiaries portfolio	157,484	5,694	–	–	–
Cross default	29,332	18,638	332	392	120
Other	17,937	1,625	405	6,831	815
Corporate total	**568,797**	**125,457**	**12,966**	**27,712**	**2,910**
Delay of repayment	559	278	–	–	–
Regularity of payment	–	–	–	–	–
Renegotiation	7,324	540	–	113	53
Legal proceedings	327	287	40	–	–
Decrease of client classification	20,216	1,911	–	260	91
Cross default	552	201	2	109	35
Other	26,383	2,496	19	6,473	404
Municipal total	**55,361**	**5,713**	**61**	**6,955**	**583**
Placements with other banks	**4,035**	**403**	**–**	**–**	**–**
Total	**628,193**	**131,573**	**13,027**	**34,667**	**3,493**

Regarding corporate business line in the individually rated portfolio the ratio of the carrying value of loans classified due to 'decrease of client classification' increased from 21.84% to 28.44% as at 31 December 2012.

Refinancing of retail loans at the subsidiaries:

The gross value was HUF 136.1 billion as at 31 December 2012, the actual exposure of non-performing, past due loans is HUF 16 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 grievously accused by the financial crisis (vehicle industry, building industry, real estate services, metal processing and financial services).

Non-qualified gross loan portfolio by countries

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

Country	2012	2011
Hungary	1,563,126	1,783,858
Cyprus	273,710	397,541
Netherlands	195,733	291,419
Russia	86,288	131,826
United Kingdom	85,570	94,732
Bulgaria	49,022	64,854
Germany	48,041	36,084
Romania	38,700	45,557
France	29,460	57,217
Croatia	24,727	26,806
Luxembourg	11,361	–
Serbia	10,155	6,031
Slovakia	9,925	11,498
United States of America	8,076	4,468
Switzerland	4,636	7,947
Ukraine	4,064	4,710
Norway	1,970	3,929
Turkey	1,704	389
Japan	1,264	–
Austria	1,160	423
Czech Republic	549	65
Montenegro	49	3,734
Sweden	36	1,541
Poland	13	607
Belgium	–	11,823
Azerbaijan	–	602
Other	673*	162**
Total	**2,450,012**	**2,987,823**

Forborne loans

Forbearance measures occur in situations in which the contract – receivable is originated from – is modified on the debtor's or the Bank's initiative, basically based on the fact that the borrower is considered to be unable to service the debt or refinance the contract according to the original terms and conditions because of the debtor's financial difficulties and significant deterioration of ability to pay. Furthermore escrow account loans granted based on law of FX loans are qualified as forborne loans as well as ones concerning to the escrow account loan has been paid.

In comparison with the original terms and conditions, essentially more favourable conditions are arising for clients by modification of the contract. Modification of the terms and conditions of the contract may affect:

- temporary payment holidays (interest and/or principal payments)
- payment by instalments
- modifying the level of interest (e.g. reductions on interest),
- capitalisation of interests
- modification of foreign exchange
- extension of the loan term

* Australia, Canada, Denmark, Estonia, Hongkong, Israel
** Australia, Canada, Chile, China, Denmark, Egypt, Estonia, Ireland, Israel, Mongolia

- rescheduling the payments
- reducing the level of required collaterals, guarantees and replacing them with other ones
- forbearing from collaterals
- amendment or lack of enforcement of covenants, establishment of new contractual terms

Rating of forborne loans

Forborne loan (applying the individual or collective evaluation method) is forbidden to be classified during rating period following forbearance as better than its previous rating category was before forbearance.

1. Individual evaluation method
Individually evaluated, forborne loan (receivable) is allowed to be classified as 'to-be-monitored' (in retail business line 'B') if:
- as a result of forbearance, debts in default have been paid off or outstanding debts are 100% collateral loans (value of collateral equals or exceeds one of outstanding debts at the rating date),
- following the forbearance, default in paying with more than 15 days of delinquency did not arise during 180 days without a break and
- borrower's prospective ability to service the debt with new terms and conditions is adequate.

Individually evaluated, forborne loan (receivable) is allowed to be classified as 'performing' (in retail business line 'A') if:
- as a result of forbearance, debts in default have been paid off or outstanding debts are 100% collateral loans (value of collateral equals or exceeds one of outstanding debts at the rating date),
- following the forbearance, default in paying with more than 15 days of delinquency did not arise during 365 days without a break and
- borrower's prospective ability to service the debt with new terms and conditions is adequate.

2. Collective evaluation method
Collective evaluated, forborne loan (receivable) is allowed to be classified as 'to-be-monitored' (in retail business line 'B') if:
- following the forbearance, default in paying with more than 15, in case of retail loan 30 days of delinquency did not arise during 180 days without a break.

Collective evaluated, forborne loan (receivable) is allowed to be classified as 'performing' (in retail business line 'A') if:
- following the forbearance, default in paying with more than 15, in case of retail loan 30 days of delinquency did not arise during 365 days without a break.

These loans are recorded classified as forborne until they are recognized in the financial statements.

An analysis of forborne gross loan portfolio by loan types as at 31 December 2012 and 2011 is as follows:

Loan type	2012	2011
Corporate loans	98,571	124,888
Retail loans	74,159	76,058
from this: Escrow account loans/early repayment at fixed exchange rate	10,216	491
Municipal loans	8,132	7,499
SME loans	6,290	1,326
Total	**187,152**	**209,771**

Gross value of the forborne loans that would otherwise be past due or impaired by loans types as at 31 December 2012 and 2011 is as follows:

Loan type	2012	2011
Corporate loans	87,035	92,436
Retail loans	56,191	60,768
from this: Escrow account loans/early repayment at fixed exchange rate	6,004	329
Municipal loans	8,071	6,618
SME loans	4,467	1,153
Total	**155,764**	**160,975**

An analysis of gross value of forborne loans for the year ended 31 December 2012:

Loan type	Balance as at 1 January 2012	Additions	Sale	Decrease (expiring, repayment)	Balance as at 31 December 2012
Corporate loans	124,888	3,700	219	29,798	98,571
Allowance	25,354	9,056	195	1,406	32,809
Retail loans	76,058	16,680	12,253	6,326*	74,159
Allowance	6,705	4,271	2,706	972	7,298
Municipal loans	7,499	1,977	–	1,344	8,132
Allowance	564	53	–	396	221
SME loans	1,326	5,249	92	193	6,290
Allowance	33	485	11	2	505
Gross loan portfolio total	**209,771**	**27,606**	**12,564**	**37,661**	**187,152**
Allowance Total	**32,656**	**13,865**	**2,912**	**2,776**	**40,833**
Net loan portfolio total	**177,115**	**13,741**	**9,652**	**34,885**	**146,319**

An analysis of forborne gross loan by loan types and risk classes as at 31 December 2012 is as follows:

Loan type	Not past due	1–30 DPD	31–60 DPD	61–90 DPD	91–360 DPD	360+ DPD	Total carrying amount/allowance
Corporate loans	57,387	13,392	14	10	2,173	25,595	98,571
Allowance	3,973	5,479	4	1	1,430	21,922	32,809
Retail loans	36,753	20,425	3,926	2,918	7,724	2,413	74,159
Allowance	1,335	1,106	455	864	2,787	751	7,298
Municipal loans	8,075	43	–	–	12	2	8,132
Allowance	209	3	–	–	7	2	221
SME loans	2,902	2,091	406	287	504	100	6,290
Allowance	31	41	9	31	293	100	505
Gross loan portfolio total	**105,117**	**35,951**	**4,346**	**3,215**	**10,413**	**28,110**	**187,152**
Allowance Total	**5,548**	**6,629**	**468**	**896**	**4,517**	**22,775**	**40,833**
Net loan portfolio total	**99,569**	**29,322**	**3,878**	**2,319**	**5,896**	**5,335**	**146,319**

An analysis of forborne gross loan by loan types and risk classes as at 31 December 2011 is as follows:

Loan type	Not past due	1–30 DPD	31–60 DPD	61–90 DPD	91–360 DPD	360+ DPD	Total carrying amount/allowance
Corporate loans	88,905	4,879	88	412	26,459	4,145	124,888
Allowance	3,744	1,865	8	267	17,024	2,446	25,354
Retail loans	33,034	23,510	4,297	3,803	9,044	2,370	76,058
Allowance	964	1,007	336	704	2,980	714	6,705
Municipal loans	7,363	134	–	–	2	–	7,499
Allowance	561	1	–	–	2	–	564
SME loans	825	392	70	7	32	–	1,326
Allowance	9	12	3	1	8	–	33
Gross loan portfolio total	**130,127**	**28,915**	**4,455**	**4,222**	**35,537**	**6,515**	**209,771**
Allowance Total	**5,278**	**2,885**	**347**	**972**	**20,014**	**3,160**	**32,656**
Net loan portfolio total	**124,849**	**26,030**	**4,108**	**3,250**	**15,523**	**3,355**	**177,115**

* From this HUF 364 million is related to early repayment.

An analysis of forborne gross loan portfolio impaired and not impaired by loan types as at 31 December 2012 is as follows:

	Not past due			Past due		
Loan type	**Not impaired**	**Impaired**	**Total**	**Not impaired**	**Impaired**	**Total**
Corporate loans	4,595	52,795	57,390	–	41,182	41,182
Allowance	–	3,974	3,974	–	28,836	28,836
Collateral	4,233	11,891	16,124	–	13,520	13,520
Retail loans	23,109	13,643	36,752	11,730	25,676	37,406
Allowance	–	1,335	1,335	–	5,962	5,962
Collateral	13,210	5,406	18,616	4,922	11,250	16,172
Municipal loans	–	8,074	8,074	–	58	58
Allowance	–	208	208	–	12	12
Collateral	–	1,870	1,870	–	–	–
SME loans	–	2,901	2,901	–	3,389	3,389
Allowance	–	31	31	–	475	475
Collateral	–	3,576	3,576	–	4,622	4,622
Gross loan portfolio total	**27,704**	**77,413**	**105,117**	**11,730**	**70,305**	**82,035**
Allowance Total	**–**	**5,548**	**5,548**	**–**	**35,285**	**35,285**
Net loan portfolio total	**27,704**	**71,865**	**99,569**	**11,730**	**35,020**	**46,750**
Collateral Total	**17,443**	**22,743**	**40,186**	**4,922**	**29,392**	**34,314**

An analysis of forborne gross loan portfolio impaired and not impaired by loan types as at 31 December 2011 is as follows:

	Not past due			Past due		
Loan type	**Not impaired**	**Impaired**	**Total**	**Not impaired**	**Impaired**	**Total**
Corporate loans	23,161	65,746	88,907	–	35,981	35,981
Allowance	–	3,744	3,744	–	21,609	21,609
Collateral	4,646	22,268	26,914	–	15,533	15,533
Retail loans	18,769	14,264	33,033	11,726	31,299	43,025
Allowance	–	964	964	–	5,742	5,742
Collateral	10,832	2,551	13,383	6,716	12,883	19,599
Municipal loans	–	7,362	7,362	–	137	137
Allowance	–	561	561	–	4	4
Collateral	–	168	168	–	30	30
SME loans	–	825	825	–	501	501
Allowance	–	9	9	–	23	23
Collateral	–	682	682	–	519	519
Gross loan portfolio total	**41,930**	**88,197**	**130,127**	**11,726**	**67,918**	**79,644**
Allowance Total	**–**	**5,278**	**5,278**	**–**	**27,378**	**27,378**
Net loan portfolio total	**41,930**	**82,919**	**124,849**	**11,726**	**40,540**	**52,266**
Collateral Total	**15,478**	**25,669**	**41,147**	**6,716**	**28,965**	**35,681**

An analysis of forborne retail loans by type of forbearance as at 31 December 2012 and 2011 is as follows:

Type of forbearance	**Retail loans 2012**	**Retail loans 2011**
Stay of execution	25,863	33,203
Debt re-arrangement	14,712	18,288
Combined	9,181	10,953
Prolongation	3,544	4,400
Other	20,859	9,214
Total	**74,159**	**76,058**

Financial instruments by rating categories*

Held-for-trading securities as at 31 December 2012

	A1		A3		Aa3		Ba1		Ba3		Not rated		Total
Corporate shares	12	100.0%	40	100.0%	10	100.0%	–	0.0%	1	0.55%	90,376**	99.73%	90,439
Securities issued by the NBH	–	0.0%	–	0.0%	–	0.0%	1,333	19.30%	–	0.0%	–	0.0%	1,333
Government bonds	–	0.0%	–	0.0%	–	0.0%	1,331	19.27%	–	0.0%	–	0.0%	1,331
Mortgage bonds	–	0.0%	–	0.0%	–	0.0%	–	0.0%	166	91.21%	242	0.27%	408
Hungarian government discounted Treasury Bills	–	0.0%	–	0.0%	–	0.0%	2,098	30.38%	–	0.0%	–	0.0%	2,098
Hungarian government interest bearing Treasury Bills	–	0.0%	–	0.0%	–	0.0%	2,111	30.56%	–	0.0%	–	0.0%	2,111
Other securities	–	0.0%	–	0.0%	–	0.0%	34	0.49%	15	8.24%	2	0.0%	51
Total	**12**	**100.0%**	**40**	**100.0%**	**10**	**100.0%**	**6,907**	**100.0%**	**182**	**100.0%**	**90,620**	**100.0%**	**97,771**
Accrued interest													164
Total													**97,935**

Available-for-sale securities as at 31 December 2012

	Ba1		Not rated		Total
Mortgage bonds	412,921	32.01%	555,127***	88.75%	968,048
Government bonds	134,034	10.39%	–	0.0%	134,034
Bonds issued by NBH	742,989	57.6%	–	0.0%	742,989
Hungarian government discounted Treasury Bills	–	0.0%	–	0.0%	–
Other securities	–	0.0%	70,401	11.25%	70,401
Total	1,289,944	100.0%	625,528	100.0%	1,915,472
Accrued interest					38,399
Total					**1,953,871**

Held-to-maturity securities as at 31 December 2012

	Ba1		Not rated		Total
Government bonds	355,595	99.9%	–	0.0%	355,595
Mortgage bonds	–	0.0%	4,783	100.0%	4,783
Hungarian government discounted Treasury bills	343	0.1%	–	0.0%	343
Bonds issued by NBH	–	0.0%	–	0.0%	–
Other securities	–	0.0%	–	0.0%	–
Total	355,938	100.0%	4,783	100.0%	360,721
Accrued interest					11,271
Total					**371,992**

* Moody's ratings
** Corporate shares listed on Budapest Stock Exchange
*** From this HUF 772,444 million represents mortgage bonds issued by OTP Mortgage Bank Ltd. denominated in HUF

According to the press release published on 27 November 2012, as a consequence of the lowering of the long term Hungarian sovereign ratings to 'BB' on 23 November 2012, Standard and Poor's Ratings Services lowered the long term counterparty credit ratings of OTP Bank and OTP Mortgage Bank Ltd. to 'BB' from 'BB+'. The short term counterparty credit ratings have been confirmed at level 'B'. The outlooks on both banks are stable.
According to the announcement published on 12 December 2012, Moody's Investors Service placed on review for downgrade the standalone bank financial strength ratings ('BFSR') and the debt and deposit ratings of seven Hungarian banks.
According to Moody's decision
– the D+ standalone BFSR
– the Ba1 local currency long-term deposit ratings
– the Ba2 foreign currency long-term deposit ratings
– the Ba1 senior unsecured foreign currency long-term debt rating
– the Ba2 foreign currency long-term subordinated debt (Lower Tier2) rating
– the Ba3 foreign currency junior subordinated debt (Upper Tier2) rating
of OTP Bank was placed on review for downgrade.

On 14 February 2013 Moody's Investors Service concluded the review for downgrade of the standalone credit assessments and the debt and deposit ratings of the Bank. The local and foreign currency long term deposit rating was confirmed at Ba1 and Ba2 respectively, while foreign currency long-term senior unsecured debt rating was confirmed at Ba1. Lower Tier 2 was downgraded to Ba3 from Ba2 and the Upper Tier 2 was downgraded to B1 from Ba3. The Bank's BFSR was downgraded to D from D+.

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' 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 million):

Historical VaR (99%, one-day) by risk type	Average	
	2012	2011
Foreign exchange	335	1,442
Interest rate	226	378
Equity instruments	26	18
Diversification	(165)	(364)
Total VaR exposure	**422**	**1,474**

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

26.2.2. Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to an increase and decrease in the HUF exchange rate against EUR, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was short, amounted to EUR 310 million as of 31 December 2012. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries, and so FX risk affects the Bank's other comprehensive income and not its income. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the P&L in 3 months period In HUF billion	
	2012	2011
1%	(12.7)	(11.4)
5%	(8.8)	(7.8)
25%	(3.6)	(3.1)
50%	(0.3)	(0.1)
25%	2.8	2.7
5%	7.2	6.6
1%	10.2	9.3

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 decreased slightly in 2012, but the FX rate was stronger than the theoretic middle-rate, so the probability of losses increased and the probability of further gains decreased.

(3) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2012.

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 were prepared by assuming only the adversing 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:

- 0.50%–0.75% decrease in average HUF yields (probable scenario)
- 1%–1.50% decrease in average HUF yields (alternative scenario)

The net interest income in a one year period beginning with 1 January 2013 would be decreased by HUF 1,563 million (probable scenario) and HUF 7,093 million (alternative scenario) as a result of these simulations. This effect is counterbalanced by capital gains (HUF 3,867 million for probable scenario, HUF 5,284 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):

	2012		2011	
Description	**Effects to the net interest income (one-year period)**	**Effects to equity (Price change of AFS government bonds)**	**Effects to the net interest income (one-year period)**	**Effects to equity (Price change of AFS government bonds)**
HUF (0.1%) parallel shift	(455)	592	(261)	1,008
EUR (0.1%) parallel shift	(356)	–	(578)	–
USD 0.1% parallel shift	(12)	–	(54)	–
Total	**(823)**	**592**	**(893)**	**1,008**

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	2012	2011
VaR (99%, one day, million HUF)	26	18
Stress test (million HUF)	(14)	(5)

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 continous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.

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

Capital adequacy

The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with HAS applying the directives, rulings and indicators defined by the Basel Committee, that has been adopted in Hungary in 2008.

The Bank has entirely complied with the regulatory capital requirements in 2012 as well as in 2011.

The capital adequacy calculations of the Bank for the year ended 31 December 2012 are prepared based on the data of the audited financial statements prepared in accordance with HAS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA) is applied since 31 December 2012.

The calculation of the Capital Adequacy ratio as at 31 December 2012 and 2011 is as follows:

	2012	2011
Core capital	938,969	937,057
Supplementary capital	276,700	338,111
Deductions	(466,563)	(485,834)
Deductions due to PIBB* investments	(425,016)	(442,385)
Deductions due to limit breaches	(41,547)	(43,449)
Regulatory capital	**749,106**	**789,334**
Credit risk capital requirement	228,434	263,919
Market risk capital requirement	37,483	42,080
Operational risk capital requirement	27,134	46,319
Total requirement regulatory capital	**293,051**	**352,318**
Surplus capital	**456,055**	**437,016**
Tier1 ratio	19,3%	15.8%
Capital adequacy ratio	**20.5%**	**17.92%**

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

* PIBB: Financial Institutions, Investing Entreprises, Insurance Companies

NOTE 27: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF million)

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	2012	2011
Commitments to extend credit	711,078	697,144
Guarantees arising from banking activities	414,146	642,165
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	93,254	163,294
Legal disputes (disputed value)	49,044	11,066,974
Confirmed letters of credit	443	189
Other	3,541	1,081
Total	**1,178,252**	**12,407,553**

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 Victims of Hungarian Holocaust initiated a class action against, amongst others, OTP Bank Plc. before the United States District Court Northern District of Illinois. OTP Bank Plc. emphasises that 'Országos Takarékpénztár Nemzeti Vállalat' was established on 1 March 1949 with no predecessor. OTP Bank Plc. considers the claim against it entirely unfounded. 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 were HUF 469 million and HUF 408 million as at 31 December 2012 and 2011 respectively. (See Note 17.) On 23 August 2012 OTP Bank announced that the United States Court of Appeals granted the petition for writs of mandamus submitted by OTP Bank and ordered the district court to dismiss the plaintiffs' claims against OTP Bank for lack of personal jurisdiction in the class action. OTP Bank maintains that plaintiffs' claim against it has been unfounded in its entirety. On 19 November 2012 OTP Bank announced that the court of first instance (the United States District Court Northern District of Illinois) has, by virtue of the order of the United States Court of Appeals, dismissed the suit in respect of OTP Bank on the ground of lack of jurisdiction and competence concerning the litigation 'Holocaust Victims of Bank Theft' initiated by the plaintiffs against OTP Bank. This order for dismissal of the suit of the court of first instance is final and binding.

The civil lawsuit filed at the Municipal Court of Budapest in 2009 by Nitrogénművek Chemicals Private Company Limited by Shares Nitrogénművek Co., Ltd. for damages in the amount of HUF 25,247,527,000 against OTP Bank has ended. In its final judgment the Municipal Court of Budapest has dismissed the claim of Nitrogénművek Vegyipari Zrt.

Commitments to extend credit, guarantees and letter of credit

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

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

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

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

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount and until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank. A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.
If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Contingent liabilities related to OTP Mortgage Bank Ltd.

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

Derivatives

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

Foreign currency contracts

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

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

Foreign exchange swaps and interest rate swaps

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

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

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 but not the obligation 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. The option does not obligate the buyer to deliver a currency on the settlement date unless the buyer chooses to. These options protect against unfavourable currency movements while preserving the ability to participate in favourable movements.

NOTE 28: SHARE-BASED PAYMENT

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

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

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.

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

Year	exercise price per share	maximum earnings per share
2011	3,946	2,500
2012	3,946	3,000
2013	4,446	3,500
2014	4,946	3,500

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 refferred countries.

Based on parameters accepted by Board of Directors, cancellation, risk assessment and personal changes effective pieces are follows as at 31 December 2012:

Year	Price
2012	735,722
2013	421,734
2014	512,095

Maturity of exercise period was settled in 31 December 2013 by the Board of Directors.

Board of Directors determined the parameters for the share-based payment relating to the year 2011 as follows:

Year	exercise price per share	maximum earnings per share
2012	1,370	3,000
2013	1,870	3,000
2014	1,870	4,000
2015	1,870	4,000

Based on cancellation, effective performance assessment and exercise during the year effective pieces are follows in exercise periods of each year as at 31 December 2012:

In connection with programs accounted as equity-settled share based transactions, HUF 4,584 million was recognized as an expense during the year ended 31 December 2012.

Year	Price
2012	10,370*
2013	1,284,731
2014	654,064
2015	724,886

NOTE 29: RELATED PARTY TRANSACTIONS

The Bank provides loans to subsidiaries, and collects deposits.

Transactions with related parties, other than increases in share capital, are summarized below: a) Loans provided to subsidiaries

	2012	2011
OTP Holding Ltd./ OTP Financing Cyprus Co. Ltd. (Cyprus)	273,241	388,492
OTP Mortgage Bank Ltd.	228,216	339,849
OTP Financing Netherlands B.V. (The Netherlands)	188,525	281,148
Merkantil Bank Ltd.	164,745	202,087
OTP Factoring Ltd.	146,463	118,996
OTP Financing Solutions B.V. (The Netherlands)	136,127	163,136
OAO OTP Bank (Russia)	59,087	98,450
OTP Real Estate Leasing Ltd.	33,376	39,664
OTP Leasing d.d. (Croatia)	21,272	24,366
Merkantil Lease Ltd.	19,299	18,790
DSK Leasing AD (Bulgaria)	15,147	18,106
Merkantil Car Ltd.	9,078	10,105
OTP Real Estate Ltd.	4,007	3,181
OTP banka Hrvatska Group (Croatia)	3,436	–
Szalamandra Real Estate Trading Ltd.	2,909	–
OTP Ingatlanpont Ltd. (previously OTP Factoring Trustee Ltd.)	2,049	723
Project 3. Commercial Real Estate Ltd.	1,714	2,469
Project 2003. Ltd.	1,180	–
Sasad-Beregszász Ltd.	1,045	–
OTP banka Srbija a.d. (Serbia)	121	18
Crnogorska komercijalna banka a.d (Montenegro)	–	3,734
OTP Factoring Asset Management Ltd.	–	266
OTP Banka Slovensko a.s. (Slovakia)	–	55
Total	**1,311,037**	**1,713,635**

* The approved pieces of shares are 471,240 from which 460,870 have been exercised until 31 December 2012.

b) Deposits from subsidiaries

	2012	2011
DSK Bank EAD (Bulgaria)	93,300	67,671
OAO OTP Bank (Russia)	77,248	13,509
OTP Mortgage Bank Ltd.	75,062	621
Crnogorska komercijalna banka a.d (Montenegro)	62,817	69,454
OTP Funds Servicing and Consulting Ltd.	24,901	3,493
OTP Building Society Ltd.	19,318	30,247
OTP Bank Romania S.A. (Romania)	15,901	3,531
Merkantil Bank Ltd.	12,030	9,131
OTP banka Srbija a.d. (Serbia)	9,173	143
OTP Banka Slovensko a.s. (Slovakia)	8,796	12,710
OTP banka Hrvatska d.d. (Croatia)	6,391	7,559
OTP Real Estate Leasing Ltd.	3,120	3,422
Merkantil Lease Ltd.	2,069	50
OTP Holding Ltd./ OTP Financing Cyprus Co. Ltd. (Cyprus)	1,521	3,335
OTP Financing Netherlands B. V. (The Netherlands)	989	1,247
OTP Factoring Ltd.	966	3,061
OTP Real Estate Ltd.	832	588
Sasad-Beregszász Ltd.	51	–
OTP Bank JSC (Ukraine)	37	–
Air Invest Ltd.	–	302
Total	**414,522**	**230,074**

c) Interests received by the Bank*

	2012	2011
OTP Mortgage Bank Ltd.	14,679	5,295
OTP Holding Ltd. (Cyprus)	10,459	8,933
OTP Financing Netherlands B.V. (The Netherlands)	9,054	10,166
OTP Factoring Ltd.	7,169	5,764
OTP Financing Solutions B.V. (The Netherlands)	6,740	6,653
Merkantil Bank Ltd.	5,379	5,373
OAO OTP Bank (Russia)	2,972	3,875
Merkantil Lease Ltd.	1,476	1,554
OTP Leasing d.d. (Croatia)	608	574
OTP Real Estate Leasing Ltd.	572	522
DSK Leasing AD (Bulgaria)	499	544
Merkantil Car Ltd.	445	412
OTP Bank JSC (Ukraine)	–	343
Other	945	684
Total	**60,997**	**50,692**

d) Interests paid by the Bank*

	2012	2011
DSK Bank EAD (Bulgaria)	4,094	760
Crnogorska komercijalna banka a.d (Montenegro)	3,521	1,772
OAO OTP Bank (Russia)	2,706	740
OTP Mortgage Bank Ltd.	2,303	1,417
Merkantil Lease Ltd.	2,079	2,325
OTP Funds Servicing and Consulting Ltd.	1,492	95
Merkantil Bank Ltd.	479	540
OTP Bank Romania S.A. (Romania)	456	72
OTP Banka Slovensko a.s. (Slovakia)	435	384
OTP Real Estate Leasing Ltd.	255	119
OTP banka Srbija a.d. (Serbia)	220	281
Other	353	260
Total	**18,393**	**8,765**

* Derivatives and interest on securities are not included.

e) Commissions received by the Bank

	2012	2011
From OTP Fund Management Ltd. in relation to trading activity	5,950	6,307
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	2,143	2,075
From OTP Bank JSC (Ukraine) in relation to lending activity	530	211
From OTP Fund Management Ltd. in relation to custody activity	414	546
Other	361	357
Total	**9,398**	**9,496**

f) Commissions paid by the Bank

	2012	2011
OTP Bank Romania S.A. (Romania) related to loan portfolio handling	375	577
Crnogorska komercijalna banka a.d. (Montenegro) related to loan portfolio handling	188	304
Total	**563**	**881**

g) Transactions related to OTP Mortgage Bank Ltd.:

	2012	2011
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	7,724	7,323
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	2,260	5,381
The gross book value of the loans sold	2,259	5,379

h) Transactions related to OTP Factoring Ltd.:

	2012	2011
The gross book value of the loans	59,682	73,214
Provision for loan losses on the loans sold	32,231	31,141
Loans sold to OTP Factoring Ltd. without recourse (including interest)	18,622	31,552
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	8,829	10,521

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

i) Transactions related to Crnogorska komercijalna banka a.d (Montenegro)

	2012	2011
The gross book value of the loans sold to Crnogorska komercijalna banka a.d.	483	98
The gross book value of the loans bought from Crnogorska komercijalna banka a.d.	–	1,829

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

	2012	2011
Securities issued by OTP Banka Slovensko a.s. (Slovakia) ('OBS') held by OTP Bank (nominal value in HUF million)	14,565	15,557

k) 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	2012	2011
Short-term employee benefits	3,232	2,782
Share-based payment	2,711	2,343
Long-term employee benefits	766	653
Total	**6,709**	**5,778**

	2012	2011
Loans provided to companies owned by the management (in the normal course of business)	35,792	42,806
Commitments to extend credit and bank guarantees	518	6
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	112	117

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 131.8 million as at 31 December 2012 and 2011.

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

	2012	2011
Members of Board of Directors and their close family members	15	19
Members of Supervisory Board	4	4

One member of the Board of Directors and its family member owned AMEX Blue credit card loan in the amount of HUF 0.6 million and HUF 1.2 million as at 31 December 2012 and 2011, respectively.

Chief executive owned AMEX Gold loading card loan in the amount of HUF 1 million as at 31 December 2012 and 2011.

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

	2012	2011
Members of Board of Directors	1,363	791
Members of Supervisory Board	377	286
Total	**1,740**	**1,077**

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

NOTE 30: TRUST ACTIVITIES

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.

	2012	2011
Loans managed by the Bank as a trustee	43,191	43,009

NOTE 31: CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2012	2011
Receivables from, or securities issued by the Hungarian Government or the NBH	21%	14%
Securities issued by the OTP Mortgage Bank Ltd.	14.43%	13.46%

There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2012 or as at 31 December 2011. OTP Bank continuously provides the HFSA 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 HFSA, 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.

NOTE 32: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the NBH. The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at 31 December 2012	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	245,548	–	–	–	–	245,548
Placements with other banks, net of allowance for placement losses	344,944	191,460	129,013	–	–	665,417
Financial assets at fair value through profit or loss	22,054	58,594	51,179	20,748	90,440	243,015
Securities available-for-sale	789,405	306,471	592,123	228,018	37,854	1,953,871
Loans, net of allowance for loan losses	217,700	701,625	877,651	559,315	–	2,356,291
Investments in subsidiaries	–	–	–	–	661,352	661,352
Securities held-to-maturity	21,267	52,366	139,946	158,413	–	371,992
Property and equipment	–	–	–	–	78,052	78,052
Intangible assets	–	–	–	–	31,597	31,597
Other assets	11,474	17,344	2,653	1,215	–	32,686
TOTAL ASSETS	**1,652,392**	**1,327,860**	**1,792,565**	**967,709**	**899,295**	**6,639,821**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	447,227	183,975	92,048	103,718	–	826,968
Deposits from customers	3,274,757	198,063	18,307	9,663	–	3,500,790
Liabilities from issued securities	96,700	144,488	67,863	26,912	–	335,963
Financial liabilities at fair value through profit or loss	65,025	38,599	136,793	18,794	–	259,211
Other liabilities	216,018	400	13,709	2,430	–	232,557
Subordinated bonds and loans	3,413	5,000	173,810	–	121,527	303,750
TOTAL LIABILITIES	**4,103,140**	**570,525**	**502,530**	**161,517**	**121,527**	**5,459,239**
Share capital	–	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	–	1,157,516	1,157,516
Treasury shares	–	–	–	–	(4,934)	(4,934)
TOTAL SHAREHOLDERS' EQUITY	–	–	–	–	1,180,582	1,180,582
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,103,140**	**570,525**	**502,530**	**161,517**	**1,302,109**	**6,639,821**
LIQUIDITY (DEFICIENCY)/EXCESS	**(2,450,748)**	**757,335**	**1,290,035**	**806,192**	**(402,814)**	**–**

As at 31 December 2011	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	226,976	–	–	–	–	226,976
Placements with other banks, net of allowance for placement losses	640,797	18,879	234,465	3,839	–	897,980
Financial assets at fair value through profit or loss	33,191	42,110	86,319	23,072	87,885	272,577
Securities available-for-sale	537,693	15,261	842,759	315,705	–	1,711,418
Loans, net of allowance for loan losses	138,685	797,739	836,916	968,487	–	2,741,827
Investments in subsidiaries	–	–	–	–	651,709	651,709
Securities held-to-maturity	6,155	57,594	44,860	11,858	–	120,467
Property and equipment	–	–	–	–	73,161	73,161
Intangible assets	–	–	–	–	31,171	31,171
Other assets	26,049	30,545	548	262	–	57,404
TOTAL ASSETS	**1,609,546**	**962,128**	**2,045,867**	**1,323,223**	**843,926**	**6,784,690**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	424,626	150,774	162,411	133,959	–	871,770
Deposits from customers	2,679,261	705,493	23,673	7,794	–	3,416,221
Liabilities from issued securities	130,345	246,546	17,617	58,915	–	453,423
Financial liabilities at fair value through profit or loss	34,679	90,609	212,311	8,356	–	345,955
Other liabilities	250,512	818	8,706	7,148	–	267,184
Subordinated bonds and loans	3,825	–	194,096	–	128,076	325,997
TOTAL LIABILITIES	**3,523,248**	**1,194,240**	**618,814**	**216,172**	**128,076**	**5,680,550**
Share capital	–	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	–	1,081,659	1,081,659
Treasury shares	–	–	–	–	(5,519)	(5,519)
TOTAL SHAREHOLDERS' EQUITY	–	–	–	–	1,104,140	1,104,140
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,523,248**	**1,194,240**	**618,814**	**216,172**	**1,232,216**	**6,784,690**
LIQUIDITY (DEFICIENCY)/EXCESS	**(1,913,702)**	**(232,112)**	**1,427,053**	**1,107,051**	**(388,290)**	**–**

NOTE 33: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at 31 December 2012	USD	EUR	CHF	Others	Total
Assets*	365,750	1,315,222	653,627	148,044	2,482,643
Liabilities	(256,441)	(1,253,275)	(129,033)	(28,804)	(1,667,553)
Off-balance sheet assets and liabilities, net	(39,502)	(198,174)	(533,891)	(106,181)	(877,748)
Net position	**69,807**	**(136,227)**	**(9,297)**	**13,059**	**(62,658)**

As at 31 December 2011	USD	EUR	CHF	Others	Total
Assets*	520,016	1,516,208	1,084,663	193,196	3,314,083
Liabilities	(174,191)	(1,285,574)	(165,393)	(38,523)	(1,663,681)
Off-balance sheet assets and liabilities, net	(278,802)	(255,527)	(941,448)	(153,691)	(1,629,468)
Net position	**67,023**	**(24,893)**	**(22,178)**	**982**	**20,934**

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 'Value-at-Risk' limit on the foreign exchange exposure of the Bank.

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

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.

As at 31 December 2012

	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
	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	128,210	45,131	–	–	–	–	–	–	–	–	59,163	13,044	187,373	58,175	245,548
fixed interest	128,210	45,131	–	–	–	–	–	–	–	–	–	–	128,210	45,131	173,341
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	59,163	13,044	59,163	13,044	72,207
Placements with other banks	180,452	296,100	–	161,515	–	12,384	–	10,315	–	2,870	559	1,222	181,011	484,406	665,417
fixed interest	77,494	178,436	–	4,028	–	12,384	–	10,315	–	2,870	–	–	77,494	208,033	285,527
variable interest	102,958	117,664	–	157,487	–	–	–	–	–	–	–	–	102,958	275,151	378,109
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	559	1,222	559	1,222	1,781
Securities held for trading	1,635	–	1,731	10	2,839	52	536	43	452	34	90,493	110	97,686	249	97,935
fixed interest	1,635	–	1,731	10	2,838	51	536	43	452	34	–	–	7,192	138	7,330
variable interest	–	–	–	–	1	1	–	–	–	–	–	–	1	1	2
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	90,493	110	90,493	110	90,603
Securities available-for-sale	742,989	–	8,016	427,295	88,674	–	–	9,690	568,407	32,547	67,239	9,014	1,475,325	478,546	1,953,871
fixed interest	742,989	–	8,016	–	88,674	–	–	9,690	568,407	32,547	–	–	1,408,086	42,237	1,450,323
variable interest	–	–	–	427,295	–	–	–	–	–	–	–	–	–	427,295	427,295
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	67,239	9,014	67,239	9,014	76,253
Loans, net of allowance for loan losses	728,123	568,419	162,453	680,831	8,043	77,166	1,875	92,096	11,480	11,734	5,651	8,420	917,625	1,438,666	2,356,291
fixed interest	9,534	327	47	1,720	1,432	2,723	1,875	92,096	11,480	11,734	–	–	24,368	108,600	132,968
variable interest	718,589	568,092	162,406	679,111	6,611	74,443	–	–	–	–	–	–	887,606	1,321,646	2,209,252
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	5,651	8,420	5,651	8,420	14,071
Securities held-to-maturity	13,350	–	9,161	–	54,888	–	–	–	283,322	–	11,271	–	371,992	–	371,992
fixed interest	–	–	1,950	–	44,764	–	–	–	283,322	–	–	–	330,036	–	330,036
variable interest	13,350	–	7,211	–	10,124	–	–	–	–	–	–	–	30,685	–	30,685
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	11,271	–	11,271	–	11,271
Derivative financial instruments	919,552	1,065,690	768,810	1,417,272	31,161	159,798	27,230	8,192	29,813	33,488	80	1,677	1,776,646	2,686,117	4,462,763
fixed interest	390,418	357,346	72,075	175,699	31,133	151,736	27,230	8,192	29,813	33,488	–	–	550,669	726,461	1,277,130
variable interest	529,134	708,344	696,735	1,241,573	28	8,062	–	–	–	–	–	–	1,225,897	1,957,979	3,183,876
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	80	1,677	80	1,677	1,757

As at 31 December 2012

	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
	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	80,255	329,693	10,604	187,321	118,626	19,331	23	211	397	77,825	727	1,955	210,632	616,336	826,968
fixed interest	79,619	281,656	2,730	48	542	18,642	23	211	397	77,825	–	–	83,311	378,382	461,693
variable interest	636	48,037	7,874	187,273	118,084	689	–	–	–	–	–	–	126,594	235,999	362,593
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	727	1,955	727	1,955	2,682
Deposits from customers	1,458,124	239,026	626,381	241,869	123,769	52,031	4,968	84	624,625	119,413	9,697	803	2,847,564	653,226	3,500,790
fixed interest	1,062,703	231,825	609,344	241,869	123,769	52,031	4,968	84	5,351	–	–	–	1,806,135	525,809	2,331,944
variable interest	395,421	7,201	17,037	–	–	–	–	–	619,274	119,413	–	–	1,031,732	126,614	1,158,346
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	9,697	803	9,697	803	10,500
Liabilities from issued securities	30,406	3,924	51,849	4,107	71,226	30,928	17,466	1,775	112,768	1,930	9,120	464	292,835	43,128	335,963
fixed interest	30,169	3,924	50,595	4,107	71,226	30,928	17,466	1,775	112,768	1,930	–	–	282,224	42,664	324,888
variable interest	237	–	1,254	–	–	–	–	–	–	–	–	–	1,491	–	1,491
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	9,120	464	9,120	464	9,584
Derivative financial instruments	103,114	1,925,289	43,868	2,107,516	33,570	152,279	14,961	18,691	140,113	34,688	1,679	1,408	337,305	4,239,871	4,577,176
fixed interest	102,630	640,256	42,109	202,255	33,565	144,158	14,961	18,470	140,113	34,688	–	–	333,378	1,039,827	1,373,205
variable interest	484	1,285,033	1,759	1,905,261	5	8,121	–	221	–	–	–	–	2,248	3,198,636	3,200,884
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,679	1,408	1,679	1,408	3,087
Subordinated bonds and loans	–	–	5,000	26,001	–	–	–	–	–	269,336	–	3,413	5,000	298,750	303,750
fixed interest	–	–	–	–	–	–	–	–	–	269,336	–	–	–	269,336	269,336
variable interest	–	–	5,000	26,001	–	–	–	–	–	–	–	–	5,000	26,001	31,001
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	3,413	–	3,413	3,413
NET POSITION	1,042,412	(522,592)	212,469	120,109	(161,586)	(5,169)	(7,777)	99,575	15,571	(422,519)	213,233	25,444	1,314,322	(705,152)	609,170

As at 31 December 2011

	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	137,412	24,982	–	–	–	–	–	–	–	–	53,013	11,569	190,425	36,551	226,976
fixed interest	137,412	24,982	–	–	–	–	–	–	–	–	–	–	137,412	24,982	162,394
variable interest	–	–	–	–	–	–	–	–	–	–	53,013	11,569	53,013	11,569	64,582
Placements with other banks	16,067	602,880	–	204,508	1,463	40,221	–	14,322	–	16,373	33	2,113	17,563	880,417	897,980
fixed interest	15,773	562,859	–	24,793	1,463	235	–	14,322	–	16,373	–	–	17,236	618,582	635,818
variable interest	294	40,021	–	179,715	–	39,986	–	–	–	–	–	–	294	259,722	260,016
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	33	2,113	33	2,113	2,146
Securities held for trading	1,872	–	439	485	9,665	303	2,842	225	15,675	5,485	88,756	212	119,249	6,710	125,959
fixed interest	1,872	–	430	–	9,118	303	2,842	225	15,675	5,485	–	–	29,937	6,013	35,950
variable interest	–	–	9	485	547	–	–	–	–	–	–	–	556	485	1,041
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	88,756	212	88,756	212	88,968
Securities available-for-sale	497,197	–	–	460,285	15,261	–	140,105	–	499,210	31,930	56,948	10,482	1,208,721	502,697	1,711,418
fixed interest	497,197	–	–	–	15,261	–	140,105	–	499,210	31,930	–	–	1,151,773	31,930	1,183,703
variable interest	–	–	–	460,285	–	–	–	–	–	–	–	–	–	460,285	460,285
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	56,948	10,482	56,948	10,482	67,430
Loans, net of allowance for loan losses	725,735	621,334	23,232	334,454	115,621	782,138	1,377	4,043	11,914	106,328	4,955	10,696	882,834	1,858,993	2,741,827
fixed interest	8,636	782	40	30	729	615	1,377	4,043	11,914	106,328	–	–	22,696	111,798	134,494
variable interest	717,099	620,552	23,192	334,424	114,892	781,523	–	–	–	–	–	–	855,183	1,736,499	2,591,682
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	4,955	10,696	4,955	10,696	15,651
Securities held-to-maturity	–	–	17,030	–	72,497	–	1,949	–	24,017	–	4,974	–	120,467	–	120,467
fixed interest	–	–	346	–	55,090	–	1,949	–	24,017	–	–	–	81,402	–	81,402
variable interest	–	–	16,684	–	17,407	–	–	–	–	–	–	–	34,091	–	34,091
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	4,974	–	4,974	–	4,974
Derivative financial instruments	624,957	1,298,127	971,534	1,546,567	442,972	171,006	44,653	9,724	20,735	6,805	–	–	2,104,851	3,032,229	5,137,080
fixed interest	221,998	662,890	165,240	247,387	365,126	96,381	22,655	7,676	20,735	5,298	–	–	795,754	1,019,632	1,815,386
variable interest	402,959	635,237	806,294	1,299,180	77,846	74,625	21,998	2,048	–	1,507	–	–	1,309,097	2,012,597	3,321,694

As at 31 December 2011

	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	100,198	461,309	8,293	153,036	127,388	13,055	711	1,446	263	3,392	1,090	1,589	237,943	633,827	871,770
fixed interest	99,534	304,198	3,033	3,971	3	12,650	711	1,446	263	3,392	–	–	103,544	325,657	429,201
variable interest	664	157,111	5,260	149,065	127,385	405	–	–	–	–	–	–	133,309	306,581	439,890
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,090	1,589	1,090	1,589	2,679
Deposits from customers	1,197,991	176,795	411,095	158,842	550,626	143,282	6,554	4,749	651,022	103,307	10,617	1,341	2,827,905	588,316	3,416,221
fixed interest	759,856	163,110	402,537	158,842	550,626	143,282	6,554	4,749	5,080	–	–	–	1,724,653	469,983	2,194,636
variable interest	438,135	13,685	8,558	–	–	–	–	–	645,942	103,307	–	–	1,092,635	116,992	1,209,627
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	10,617	1,341	10,617	1,341	11,958
Liabilities from issued securities	21,455	5,205	58,313	20,673	200,604	28,450	12,399	1,666	93,663	1,071	9,816	108	396,250	57,173	453,423
fixed interest	21,455	5,205	57,132	20,673	200,604	28,450	12,399	1,666	93,663	1,071	–	–	385,253	57,065	442,318
variable interest	–	–	1,181	–	–	–	–	–	–	–	–	–	1,181	–	1,181
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	9,816	108	9,816	108	9,924
Derivative financial instruments	422,162	1,570,353	78,128	2,548,062	141,246	492,575	51,593	8,953	14,138	19,441	–	–	707,267	4,639,384	5,346,651
fixed interest	416,852	465,133	63,663	359,821	59,854	417,951	20,740	6,943	14,138	18,309	–	–	575,247	1,268,157	1,843,404
variable interest	5,310	1,105,220	14,465	2,188,241	81,392	74,624	30,853	2,010	–	1,132	–	–	132,020	3,371,227	3,503,247
Subordinated bonds and loans	–	–	5,000	29,518	–	–	–	–	–	287,654	–	3,825	5,000	320,997	325,997
fixed interest	–	–	–	–	–	–	–	–	–	287,654	–	–	–	287,654	287,654
variable interest	–	–	5,000	29,158	–	–	–	–	–	–	–	–	5,000	29,518	34,518
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	3,825	–	3,825	3,825
NET POSITION	261,434	333,661	451,406	(363,832)	(362,385)	316,306	119,669	11,500	(187,535)	(247,944)	187,156	28,209	469,745	77,900	547,645

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. Delutive potential ordinary shares are deemed to have been converted into ordinary shares.

	2012	2011
Net profit for the year attributable to ordinary shareholders (in HUF mn)	38,402	110,748
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	277,560,437	277,696,699
Basic Earnings per share (in HUF)	**138**	**399**
Separate net profit for the year attributable to ordinary shareholders (in HUF mn)	38,402	110,748
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	277,629,003	277,762,519
Diluted Earnings per share (in HUF)	**138**	**399**

	2012	2011
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(2,439,573)	(2,303,311)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**277,560,437**	**277,696,699**
Dilutive effect of options issued in accordance with the Remuneration Policy/Management Option Program and convertible into ordinary shares*	68,566	65,820
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**277,629,003**	**277,762,519**

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

NOTE 36: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF million)

As at 31 December 2012

	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	6,523	–	–	–
Placements with other banks, net of allowance for placement losses	26,059	–	138	–
Securities held for trading	1,443	(3,546)	–	–
Securities available-for-sale	117,914	(2,996)	–	37,439
Loans, net of allowance for loan losses	208,336	9,136	6,973	–
from this: Corporate loans	92,044			
Consumer loans	85,656			
Housing loans	9,550			
Municipality loans	15,376			
Mortgage backed loans	5,710			
Securities held-to-maturity	19,625	(87)	–	–
Derivative financial instruments	17,228	(614)	–	–
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(29,276)	–	–	–
Deposits from customers	(131,483)	69,081	–	–
Liabilities from issued securities	(27,330)	–	–	–
Subordinated bonds and loans	(16,872)	–	–	–
Total	**192,167**	**70,974**	**7,111**	**37,439**

* In 2012 dilutive effect is in connection with the Remuneration Policy.

As at 31 December 2011

	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	6,274	–	–	–
Placements with other banks, net of allowance for placement losses	19,054	–	812	–
Securities held for trading	2,076	5,224	–	–
Securities available-for-sale	115,841	574	–	23,834
Loans, net of allowance for loan losses	213,455	12,581	(25,715)	–
from this: Corporate loans	96,151			
Consumer loans	85,813			
Housing loans	7,722			
Municipality loans	17,024			
Mortgage backed loans	6,745			
Securities held-to-maturity	9,637	67	–	–
Derivative financial instruments	63,296	72	–	–
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(22,376)	–	–	–
Deposits from customers	(116,531)	70,147	–	–
Liabilities from issued securities	(28,370)	–	–	–
Subordinated bonds and loans	(16,538)	–	–	–
Total	**245,818**	**88,665**	**(24,903)**	**23,834**

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

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

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

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

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amorised 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.

a) Fair value of financial assets and liabilities

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Bank of Hungary	245,548	245,548	226,976	226,976
Placements with other banks, net of allowance for placement losses	665,417	668,014	897,980	902,630
Financial assets at fair value through profit or loss	243,015	243,015	272,577	272,577
Held for trading securities	97,935	97,935	125,959	125,959
Derivative financial instruments classified as held for trading	145,080	145,080	146,618	146,618
Securities available-for-sale	1,953,871	1,953,871	1,711,418	1,711,418
Loans, net of allowance for loan losses	2,356,291	2,594,948	2,741,827	3,020,257
Securities held-to-maturity	371,992	366,718	120,467	112,463
Derivative financial instruments designated as hedging instruments	4,228	4,228	2,329	2,329
FINANCIAL ASSETS TOTAL	**5,840,362**	**6,076,342**	**5,973,574**	**6,248,650**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	826,968	788,141	871,770	853,596
Deposits from customers	3,500,790	3,492,666	3,416,221	3,390,649
Liabilities from issued securities	335,963	316,668	453,423	420,585
Derivative financial instruments designated as hedging instruments	4,512	4,512	12,563	12,563
Financial liabilities at fair value through profit or loss	259,211	259,211	345,955	345,955
Financial liabilities from OTP-MOL transaction	89,308	89,308	82,347	82,347
Subordinated bonds and loans	303,750	253,523	325,997	206,699
FINANCIAL LIABILITIES TOTAL	**5,320,502**	**5,204,029**	**5,508,276**	**5,312,394**

b) Fair value of derivative instruments

	2012	2011	2012	2011
	Fair value		Notional value, net	
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	73,199	39,442	49,566	34,064
Negative fair value of interest rate swaps classified as held for trading	(75,835)	(40,577)	(56,965)	(37,496)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	7,107	24,329	6,260	28,486
Negative fair value of foreign exchange swaps classified as held for trading	(5,884)	(52,810)	(5,874)	(48,163)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated in fair value hedge	4,224	2,329	(4,488)	3,526
Negative fair value of interest rate swaps designated in fair value hedge	(4,512)	(12,563)	589	(10,980)
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	53,573	56,312	51,875	57,825
Negative fair value of CCIRS classified as held for trading	(157,986)	(232,564)	(154,474)	(257,590)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	907	9,969	(201)	(7,925)
Negative fair value of mark-to-market CCIRS classified as held for trading	(10,716)	(5,577)	(12,595)	(10,950)
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	10,294	16,566	7,175	14,742
Negative fair value of other derivative contracts classified as held for trading	(8,790)	(14,428)	(5,897)	(12,670)
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated in fair value hedge	4	–	(1)	–
Negative fair value of other derivative contracts designated in fair value hedge	–	–	–	–
Derivative financial assets total	**149,308**	**148,947**	**110,186**	**130,718**
Derivative financial liabilities total	**(263,723)**	**(358,519)**	**(235,216)**	**(377,849)**
Derivative financial instruments total	**(114,415)**	**(209,572)**	**(125,030)**	**(247,131)**

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.

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

As at 31 December 2012

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash flow hedges	–	–	–
Fair value hedges	IRS/ Index option	HUF (284) million	Interest rate
Net investment hedge in foreign operations	–	–	–

As at 31 December 2011

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash flow hedges	–	–	–
Fair value hedges	IRS	HUF (10,234) million	Interest rate
Net investment hedge in foreign operations	–	–	–

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 EUR/HUF 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.

	2012	2011
Fair value of the hedging instruments	298	70

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.

	2012	2011
Fair value of the hedging instruments	(1,267)	(715)

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.

	2012	2011
Fair value of the hedging instruments	(1,058)	(21)

4. Issued securities

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

	2012	2011
Fair value of the hedging IRS instruments	1,739	(9,568)
Fair value of the hedging index option instruments	4	–

As at 31 December 2012

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 19,662 million	HUF (1,267) million	HUF 552 million	HUF (552) million
Loans to customers	IRS	HUF 14,861 million	HUF (1,058) million	HUF 1,037 million	HUF (1,037) million
Deposits from customers	IRS	HUF 17,490 million	HUF 298 million	HUF (228) million	HUF 228 million
Liabilities from issued securities	IRS	HUF 134,992 million	HUF 1,739 million	HUF (11,307) million	HUF 11,307 million
Liabilities from issued securities	Index option	HUF 604 million	HUF 4 million	HUF (1) million	HUF 1 million

As at 31 December 2011

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 17,694 million	HUF (715) million	HUF 587 million	HUF (587) million
Loans to customers	IRS	HUF 23,495 million	HUF (21) million	HUF (1,217) million	HUF 1,217 million
Deposits from customers	IRS	HUF 26,935 million	HUF 70 million	HUF (131) million	HUF 131 million
Liabilities from issued securities	IRS	HUF 130,429 million	HUF (9,568) million	HUF 12,329 million	HUF (12,329) million

e) Fair value classes

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly;
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December 2012	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	242,851	95,583	147,268	–
from this: securities held for trading	97,771	95,556	2,215	–
from this: positive fair value of derivative financial instruments classified as held for trading	145,080	27	145,053	–
Securities available-for-sale	1,915,472	867,828	1,047,644	–
Positive fair value of derivative financial instruments designated as fair value hedge	4,228	–	4,228	–
Financial assets measured at fair value total	**2,162,551**	**963,411**	**1,199,140**	**–**
Negative fair value of derivative financial instruments classified as held for trading	259,211	19	259,192	–
Negative fair value of derivative financial instruments designated as fair value hedge	4,512	–	4,512	–
Financial liabilities measured at fair value total	**263,723**	**19**	**263,704**	**–**

As at 31 December 2011	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	271,494	121,245	138,493	11,756
from this: securities held for trading	124,876	121,192	3,684	–
from this: positive fair value of derivative financial instruments classified as held for trading	146,618	53	134,809	11,756
Securities available-for-sale	1,670,924	749,151	921,773	–
Positive fair value of derivative financial instruments designated as fair value hedge	2,329	–	2,329	–
Financial assets measured at fair value total	**1,944,747**	**870,396**	**1,062,595**	**11,756**
Negative fair value of derivative financial instruments classified as held for trading	345,955	4	290,727	55,224
Negative fair value of derivative financial instruments designated as fair value hedge	12,563	–	12,563	–
Financial liabilities measured at fair value total	**358,518**	**4**	**303,290**	**55,224**

Movements in level 3 financial instruments measured at fair value

EUR/CHF cross currency swap (CCIRS) portfolio

According to the risk management policies the Bank holds EUR/CHF cross currency swap portfolio with a notional totaling CHF 2,756 million (HUF 705,673 million equivalent as at 31 December 2011), in order to hedge its foreign currency denominated mortgage loan portfolio's fx risk. These deals do not fulfill the IFRS requirements of hedge accounting, and so they are classified as held for trading.

In the second half of the year 2011 the EUR/CHF cross currency swap spreads speculation had previously unexpected volatility, which significantly differed from spreads on which the Bank could have executed deals and therefore market quotations could not be used for estimating the fair value of the Bank's CCIRS portfolio.

For the above mentioned reasons, the Bank classified these deals to Level 3 in the valuation of financial instruments in IFRS, and applied non-market observable inputs, which resulted a more reliable valuation compared to valuation based on market observable inputs.

The CCIRS deals have been reclassified from Level 3 to Level 2 as at 31 March 2012 because the above described unexpected volatility of CCIRS spreads have not obtained in the market as at the transfer date.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

Movements for the year 2012	Opening balance as at 31 December 2011	Transfer out as at 31 March 2012	Other disposal*	Closing balance as at 31 December 2012	Total gain/loss as at 31 December 2012
Positive fair value of derivative financial instruments classified as held for trading	11,756	10,369	–	–	1,387
Financial assets measured at fair value total	**11,756**	**10,369**	**–**	**–**	**1,387**
Negative fair value of derivative financial instruments classified as held for trading	(55,224)	(53,169)	(2,005)	–	(50)
Financial liabilities measured at fair value total	**(55,224)**	**(53,169)**	**(2,005)**	**–**	**(50)**

* Other disposal consists of early liquidation of several CCIRS deals.

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

	Retained Earnings and Reserves 1 January 2012	Net profit for the year ended 31 December 2012	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves as at 31 December 2012
Financial Statements in accordance with HAS	**1,000,261**	**52,573**	**(33,600)**	**(10,750)**	**1,008,484**
Reversal of statutory general provision	41,238	(5,810)	–	–	35,428
Premium and discount amortization of financial instruments measured at amortised cost	(419)	501	–	4,365	4,447
Effect of redemption of issued securities	24,770	(4,646)	–	–	20,124
Differences in carrying value of subsidiaries	34,115	(11,104)	–	11,104	34,115
Difference in accounting for finance leases	(2,542)	374	–	–	(2,168)
Effects of using effective interest rate method	5,606	349	–	–	5,955
Fair value adjustment of held for trading and available-for-sale financial assets	(39,470)	2,012	–	74,897	37,439
Fair value adjustment of derivative financial instruments	39,814	(9,009)	–	–	30,805
Reversal of statutory goodwill	40,596	–	–	–	40,596
Revaluation of investments denominated in foreign currency to historical cost	(39,442)	22,716	–	–	(16,726)
Difference in accounting of security lending	(17,559)	(4,506)	–	–	(22,065)
Treasury share transaction	–	155	–	(155)	–
Reclassification of direct charges to reserves (self-revision)	–	354	–	(354)	–
Share-based payment	–	(4,584)	–	4,584	–
Payments to ICES holders	20,929	(1,946)	–	(4,378)	14,605
OTP-MOL share swap transaction	(50,883)	(4,585)	–	–	(55,468)
Deferred taxation	(3,355)	5,558	–	(13,858)	(11,655)
Dividend paid for 2011	28,000	–	(28,000)	–	–
Dividend payable in 2012	–	–	33,600	–	33,600
Financial Statements in accordance with IFRS	**1,081,659**	**38,402**	**(28,000)**	**65,455**	**1,157,516**

NOTE 39: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2012

Term Note Program and EMTN Programme

See details in Note 15.

Partial cancellation of EUR 125 million subordinated notes

See details in Note 18.

NOTE 40: POST BALANCE SHEET EVENTS

Capital increase in OTP Real Estate Ltd.

See details in Note 9.

NOTE 41: STATEMENT OF THE GLOBAL, THE EUROPEAN AND THE HUNGARIAN ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF million)

In 2012 the operating environment remained weak, although Hungary's risk assessment improved.

In 2012 the Hungarian economy contracted by 1.7% from 2011 fo 2012. On the production side, the manufacturing industry that used to be a significant positive contributor to the economic growth showed signs of exhaustion, despite the Mercedes plant that started production last year. On the consumption side, both households' consumption and investments declined, and dynamics of export moderated significantly. Although export growth decelerated, the net export's growth contribution increased, since the weak internal demand exerted a negative impact on import dynamics. Owing to the measures improving budget balance in 2012, the budget was kept below 3%, and the public debt to GDP ratio showed a decline in yearly comparison.

The HUF strengthened both against the EUR and the CHF by 6%. The HUF showed a strengthening against currencies of the foreign subsidiaries, too (against the RUB by 3%, the BGN 6%, the UAH 8%, the RON 9%).

Compared to 31 December 2011 the Hungarian Government securities benchmark yields came down significantly. In case of short maturities yields declined by 220–260 bps, in case of maturities beyond 1 year by 350–380 bps.

The sovereign CDS spread narrowed noticeably during 2012 and declined to around 280 bps.

In 2012 the OTP Bank continued to focus its activity on stable operation by maintaining robust capital position and significant liquidity reserves as well as implementing prudent risk management and monitoring practices in line with the deteriorating loan portfolio.

- One of the direct consequences of the crisis started late 2008 was the generally weak **loan demand** in most of the relevant markets in Hungary. Gross loans of OTP Core* declined by 7% in 2012 (adjusted for FX-effect). The decline of the mortgage loan book (by 9% from 2011 to 2012) to a great extent reflects the negative impact of the early repayment of FX mortgage loans in Hungary. Consumer loans stagnated. Corporate loans eroded by 6% in 2012, while municipal loans went down by 13%, partly explained by the debt consolidation of local governments. The only part of the portfolio which showed remarkable growth was the SME segment, where 8% annual expansion was reached.

- Based on the Country Protection Action Plan of the Hungarian Government announced on 12 September 2011, FX mortgage loans of Hungarian households could get repaid at off-market rates in the period between 29 September 2011 and 28 February 2012, provided that certain eligibility criteria were met. The **early repayment program** had a total negative impact on consolidated net earnings of HUF 33.4 billion. In accordance

* OTP Group reports its Hungarian core banking business activity under the brand „OTP Core'. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in OTP Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Buildig Society Ltd., OTP Factoring Ltd., OTP Financing Netherlands B.V. and OTP Holding Ltd. The consolidated accounting result of these companies are segmented into OTP Core and Corporate Centre, the latter being a virtual entity responsible for rendering debt and capital market related services to the subsidiaries across OTP Group.

with accounting standards, out of the total impact HUF 31.6 billion was recognised in 2011 and HUF 1.8 billon in the first quarter of 2012.
The total prepayment-related HUF 33.4 billion loss consisted of four items. On one hand HUF 65.1 billion credit loss was stemming from the difference between the book value and the fixed exchange rate implied value of prepaid loans. The corporate income tax effect of that loss was a saving of HUF 12.4 billion. Furthermore, a HUF 3.3 billion after tax revaluation gain was realised on the FX position purchased from the National Bank of Hungary for hedging purposes. Finally, the Group realised a prepayment related 30% banking tax refund of HUF 16.0 billion (after corporate income tax).

By the end of February 2012 around 36 thousands clients of OTP Core and OTP Flat Lease made use of the early repayment option, which represents 19.7% of the total 184 thousand FX loan contracts outstanding at the beginning of the programme. The total prepaid loan book amounted to HUF 217 billion (in 2011 by HUF 110 billion, in first quarter of 2012 by HUF 107 billion) representing 19.9% of the FX mortgage books of the two companies (at FX rates of 30 September 2011). The volume decline of FX mortgages was counterbalanced to some extent by newly sold forint refinancing loans. By 28 February 2012, their total amount reached HUF 64 billion, out of which HUF 41 billion was disbursed to own clients and the remaining part was sold to clients of other banks.

Countries	Gross loans	Securities	Interbank placements	Total
Hungary	1,527,196	2,342,970	475,000	4,345,166
Netherlands	324,654	–	–	324,654
Montenegro	56,792	–	–	56,792
Bulgaria	55,965	–	–	55,965
Romania	53,902	–	–	53,902
Russia	42,157	7,715	47,174	97,046
Croatia	25,041	–	–	25,041
Germany	24,358	107	23,683	48,148
Slovakia	17,278	14,869	62	32,209
Serbia	10,155	–	–	10,155
Ukraine	4,067	–	–	4,067
Switzerland	4,030	–	606	4,636
United Kingdom	1,099	–	84,471	85,570
France	179	–	29,281	29,460
Turkey	162	–	1,542	1,704
Czech Republik	39	–	510	549
Norway	36	–	1,934	1,970
Austria	9	6,223	1,151	7,383
Ireland	–	–	3	3
Other*	346,690	2,080	–	348,770
Total	**2,493,809**	**2,373,964**	**665,417**	**5,533,190**

- Retail **deposits** of OTP Core dropped by 4% in 2012. The volume development was determined by the fact that clients used their savings for early repayment of FX mortgage loans. Furthermore, since the beginning of 2012 the Hungarian State has offered attractive interest rates on government bonds and conducts intensive promotional campaigns. As a result, the structure of retail savings realigned at the expense of term deposits and bank bonds in favour of government bonds.
- The strong **liquidity positions** of OTP Bank did not require foreign currency denominated wholesale funding, on the contrary, through the excess liquidity generated by on-going FX loan repayments OTP Bank managed to reduce its outstanding net swap position. By the end of 2012 the gross liquidity reserves of OTP Bank reached almost EUR 6 billion equivalent and by the end of the year OTP Bank had already managed to renew all its 2013 swap roll-over needs.

- Another side effect of the crisis was the deterioration in the financial position of the clients, which led to worsening **loan quality** and materially increasing risk costs compared to levels witnessed before 2008. In 2012 the ratio of consolidated loans in more than 90 days of delinquency ('DPD90+ ratio') at OTP Core increased further to 16.1% from 13.6% at the end of 2011. The pace of deterioration decelerated remarkably in the second half of 2012. This positive development reflects the delayed effect of stronger and less volatile HUF after the peak at the beginning of 2012, and the benefit of the fixed instalment scheme in Hungary. Thanks to the prudent provisioning, the provision coverage of the DPD90+ loan book improved in 2012 to 81.9% and significantly exceeded the level as at 31 December 2011 (+2.8 ppts).

- The further enhancement of the strong **capital position** still remained a top priority for OTP Bank in 2012. The capital adequacy ratio of OTP Bank (under local accounting standards) stood at 20.5%, compared to 17.9% at the end of 2011. During the period dividend income from subsidiaries contributed to the capital of OTP Bank in the amount of HUF 43 billion. In 2012 OTP Bank Romania received two capital injections from the mother company in the amount of altogether HUF 12 billion equivalent. The capital of the Serbian subsidiary was increased by HUF 6 billion through converting subordinated debt provided by OTP Bank into ordinary shares. On the top of that OTP banka Srbija received a capital injection of HUF 12 billion equivalent in 2012. The capital of CKB Bank, the Montenegrin subsidiary was increased twice: by HUF 3 billion and HUF 2 billion, both through converting subordinated debt provided by OTP Bank into ordinary shares.
On 3 October 2012 the European Banking Authority (EBA) and the HFSA disclosed the final assessment of the capital exercise and fulfilment of the EBA December 2011 Recommendation, which shows that OTP Bank meets the 9% Core Tier1 ratio including the sovereign buffer as stated in the EBA December 2011 Recommendation.

- The net negative impact of the special tax on financial institutions paid by OTP Core in 2012 reached HUF 27.7 billion taking into account the corporate tax shield effect, the tax refund related to early repayment and to conversion of FX loan or leasing into HUF denominated one.
The conversion of non-performing FX mortgage loans and the subsequent 25% debt forgiveness (in accordance with the agreement between the Government and Banking Association in December 2011) did not have a material impact on profit or loss in 2012, since the effect of the debt forgiveness was mainly off-set by release of previously accumulated provisions. At OTP Core, altogether loans in the amount of HUF 2.2 billion were forgiven (together with exposures of OTP Flat Lease Ltd.) resulting banking tax re-fund in the amount of HUF 0.6 billion.
As part of the second budget balance improving package in autumn 2012, on 17 October the Ministry for National Economy unveiled that the bank tax won't be halved in 2013, but paid in full amount. On 16 November 2012 the Ministry for National Economy announced that the special tax on financial institutions will be kept indefinitely at its 2013 level, even after 2014.

- The **fixed instalment scheme** was launched in 2012 based on the agreement between the Hungarian Government and Banking Association in December 2011, in order to provide relief to performing Hungarian FX mortgage debtors. The fixing is provided for 5 years. Originally the scheme was available from April until 31 December 2012, but the government extended the application period to 29 March 2013. By 31 December 32 thousand clients, representing 26.5% of the eligible 120 thousand FX borrowers filed their applications at OTP Bank.
The 2012 annual estimated after tax profit effect of the fixed exchange rate scheme was

* Other category includes the PIGS countries but in Portugal, Italy, Greece and Spain the Bank had no exposure as at 31 December 2012.

recognised in OTP Core's profit or loss as other risk cost in second quarter of 2012. From second quarter of 2012 credit institutions' contribution tax started to be recognised in the profit or loss of OTP Core as OTP Core's burden share in the fixed exchange rate scheme. In the last quarter of 2012 the fixed exchange rate scheme for FX mortgage borrowers resulted a HUF 0.4 billion contribution tax payment, while in previous quarters the impact of the tax was insignificant. In parallel with the tax payment in the fourth quarter the formerly set aside other provisions were released.

- On 27 October 2012 the Prime Minister announced that the Central Government will **consolidate the debt of local governments** in Hungary. As for municipalities with less than 5,000 inhabitants the State provided a non-refundable subsidy for the repayment of outstanding debts (including loans, bonds and bills of exchange) as at 12 December 2012. At OTP Bank a total debt of HUF 28.7 billion was repaid (calculated with FX rates as of 27 December 2012), out of this forint denominated debt reached HUF 24.2 billion. The debt assumption from bigger municipalities is expected to take place in the first half of 2013. At OTP Bank the total exposure to municipalities with more than 5 thousands inhabitants represented HUF 245 billion at the end of December 2012 (including loans and bonds as well). After the expected debt-consolidation in second quarter of 2013 part of this loan amount becomes loans to the Central Government in the balance sheet of OTP Bank.

- In 2012 a one-off positive tax shield impact emerged in relation to the impairment of the investments into the Serbian and Montenegrin subsidiaries recognised on the balance sheet of OTP Bank. The impairments under local accounting standards amounted to HUF 15 billion and HUF 5.9 billion, respectively. Though on the consolidated level these impairments had no direct effect either on the balance sheet or on the P&L, there was a positive tax shield of HUF 4.0 billion that added to OTP Bank's IFRS accounting profit.

- Concerning the Hungarian members of OTP Group, the following **rating actions** were taken by international rating agencies in 2012:

  – On 12 January 2012 OTP's Support Rating '3' was affirmed by Fitch Ratings.
  – On 27 November 2012 S&P lowered the long term counterparty credit ratings of OTP Bank and OTP Mortgage Bank to 'BB' from 'BB+'. The short term counterparty credit rating has been confirmed at level 'B'. The outlooks on both banks are stable.
  – On 12 December 2012 Moody's Investors Service placed on review for downgrade the standalone bank financial strength ratings (BFSR) and the debt and deposit ratings of seven Hungarian banks, including OTP Bank and OTP Mortgage Bank.
  – On 14 December 2012 Moody's Investors Service placed on review for downgrade the ratings of covered bonds issued by OTP Mortgage Bank.

OTP Bank

Annual Report

2012

Corporate Governance

Senior management of OTP Bank and executive members of the Board of Directors

Dr. Sándor Csányi

Chairman & CEO

Dr. Sándor Csányi (60) graduated from the College of Finance and Accountancy in 1974 with a bachelor's degree in business administration and in 1980 from the Budapest University of Economic Sciences with a degree in economics. He is an economist with a specialisation in finance, and is also a qualified pricing specialist and certified auditor. After graduation he worked at the Revenue Directorate and then at the Secretariat of the Ministry of Finance, after which, between 1983 and 1986, he was a departmental head at the Ministry of Agriculture and Food Industry. From 1986 to 1989 he worked as a head of department at Magyar Hitel Bank. He was deputy CEO of K&H Bank from 1989 to 1992. Since 1992 he has been Chairman & CEO of OTP Bank Plc, where he is responsible for the Bank's strategy and overall operation. He is a member of the European Board of Directors for MasterCard, one of the world's leading payment card companies, and is Vice Chairman of the Board of Directors of MOL Plc, Co-Chairman of the National Association of Entrepreneurs and Employers (VOSZ), and until April 2011 was a member of the Board of Directors of the Hungarian Banking Association. He has been Chairman of the Hungarian Football Association (MLSZ) since July 2010.
As of 31 December 2012 he held 243,500 ordinary OTP shares (while the total number of OTP shares held by him directly and indirectly was 2,743,500).

Dr. Antal Pongrácz

Deputy Chairman, Deputy CEO
Staff Division

Dr. Antal Pongrácz (67) graduated from the Budapest University of Economic Sciences and earned a PhD in 1971. From 1969 he worked as an analyst at the Petrochemical Investment Company, then as a group manager at the Revenue Directorate until 1975. From 1976 he held various executive positions at the Ministry of Finance. After that, he was the first Deputy Chairman of the State Office for Youth and Sports. Between 1988 and 1990 he was the first Deputy CEO of OTP Bank. Between 1991 and 1994 he was CEO, and then Chairman & CEO, of the European Commercial Bank Rt. Between 1994 and 1998 he was Chairman & CEO of Szerencsejáték Rt, then in 1998-99 he served as CEO of Hungarian flagship carrier, Malév. Since 2001 he has been executive director of OTP Bank's Staff Division and more recently, Deputy CEO. He has been a member of OTP Bank's Board of Directors since 2002 and Deputy Chairman since 9 June 2009.
As of 31 December 2012 he held 203,600 ordinary OTP shares.

Dr. István Gresa

member of the Board of Directors, Deputy CEO
Credit Approval and Risk Management Division

Dr. István Gresa (60) graduated from the College of Finance and Accountancy in 1974 and received a degree in economics from the Budapest University of Economic Sciences in 1980. He earned a PhD from the same establishment in 1983. He has worked in the banking sector since 1989. Between 1989 and 1993 he was branch manager of Budapest Bank's Zalaegerszeg branch. From 1993 he was director of OTP Bank's Zala County Directorate, and from 1998 he served as the executive director of the bank's West Transdanubian Region. Since 1 March 2006 he has been Deputy CEO of OTP Bank and the head of the Credit Approval and Risk Management Division and chairman of the Board of Directors at OTP Factoring Ltd.
As of 31 December 2012 he held 64,564 ordinary OTP shares.

László Bencsik

Chief Financial and Strategic Officer, Deputy CEO
Strategy and Finance Division

Mr. László Bencsik (43) has been deputy CEO of OTP Bank Plc, and head of the Strategy and Finance Division, since August 2009.
He joined OTP Bank in September 2003, when he became executive director of the Bank Operations Management Directorate, and the manager with overall responsibility for controlling and planning.
Between 2000 and 2003 he was a project manager at consulting firm McKinsey & Company. Between 1996 and 2000 he worked as a consultant at Andersen Consulting (now Accenture).
In 1996 he graduated from the Faculty of Business Administration at the Budapest University of Economic Sciences, and in 1999 he obtained a Masters in Business Administration (MBA) from INSEAD Business School in France.
As of 31 December 2012 he held 2,800 ordinary OTP shares.

Dániel Gyuris

Deputy CEO
Real Estate, Small Enterprises and Agriculture Division

Mr. Dániel Gyuris (54) obtained a post-graduate degree in agricultural engineering from Gödöllő University of Agricultural Sciences in 1998. Two years earlier he graduated in economics from the Budapest University of Economic Sciences, where he majored in bank management. In the same year he obtained a post-graduate diploma from the College of Finance and Accountancy. He is a certified accountant and property valuation specialist. He began his career as an agricultural engineer at an industrial cooperative, where as deputy production manager he was responsible for the overall management of the production processes.

In 1989 he was appointed a head of department at Agrobank Ltd., and then from 1991 he held a similar position at Inter-Europe Bank Ltd. From 1999 he was CEO of FHB Land Credit and Mortgage Bank Plc., and was the executive director responsible for the operation of the bank group. Since 1 November 2010 he has been deputy CEO of OTP Bank Plc., and is also the head of the Real Estate, Small Enterprises and Agriculture Division, as well as Chairman & CEO of OTP Mortgage Bank Ltd. and OTP Building Society Ltd.

As of 31 December 2012 he did not hold any ordinary OTP shares.

Antal Kovács

member of Supervisory Board
Deputy CEO
Retail Division

Mr. Antal Kovács (60) graduated from the Budapest University of Economics with a degree in economics in 1985. He began his professional career in 1990 at the Nagyatád branch of K&H Bank, where he worked as a branch manager between 1993 and 1995. He has been working at OTP Bank Plc. since 1995, first as a county director and from 1998 as the executive director of OTP Bank's South Transdanubian Region. Since 1 July 2007 he has served as OTP Bank's Deputy CEO. He has received additional training at the International Training Centre for Bankers and on various courses held by the World Trade Institute. He has been a member of OTP Bank's Supervisory Board since 2004.

As of 31 December 2012 he held 23,000 ordinary OTP shares.

Ákos Takáts

Deputy CEO
IT and Bank Operations Division

Ákos Takáts (53) graduated from the University of Horticulture and Food Industry in 1982 and earned a degree in engineering in 1985. He has worked in the banking sector since 1987. From 1993 he served as a deputy head of department at OTP Bank Plc., then, from 1995, he was managing director of the Bank's IT Development Directorate. Since 1 October 2006 he has served as OTP Bank's Deputy CEO and the head of the IT and Logistics Division.

As of 31 December 2012 he held 153,347 ordinary OTP shares.

László Wolf

Deputy CEO
Commercial Banking Division

László Wolf (53) graduated from the Budapest University of Economic Sciences in 1983. After graduation, he worked at the Bank Relations Department of the National Bank of Hungary for 8 years, and then served as head of Treasury at BNP-KH-Dresdner Bank between 1991 and 1993. From April 1993 he was executive director of OTP Bank's Treasury Directorate, and since 1994 he has been Deputy CEO of the Commercial Banking Division.

As of 31 December 2012 he held 638,800 ordinary OTP shares.

Non-executive members of the Board of Directors of OTP Bank

Mihály Baumstark
Agricultural engineer, economist

Mr. Mihály Baumstark (64) holds degrees in agricultural engineering and agricultural economics. He was employed by the Ministry of Agriculture and Food Industry between 1978 and 1989. When he left the Ministry he was deputy head of the Investment Policy Department. After this he was managing director of Hubertus Rt., and from 1999 to 2012 he was deputy CEO and then Chairman & CEO of Villányi Winery Ltd. (now Csányi Winery Ltd.). He was a member of OTP Bank's Supervisory Board from 1992 to 1999, and has been a non-executive member of OTP Bank's Board of Directors since 1999. As of 31 December 2012 he held 6,400 ordinary OTP shares.

Dr. Tibor Bíró
Head of Department
Budapest Business School

Dr. Tibor Bíró (61) graduated from the Budapest University of Economic Sciences with a degree in business administration. He is a certified auditor and chartered accountant. He was the Head of the Financial Department of the City Council of Tatabánya from 1978–82. He began teaching at the College of Finance and Accountancy in 1982 and has been head of department since 1992. He is a member of the Educational Committee of the Chamber of Hungarian Auditors.
He has been a non-executive member of OTP Bank's Board of Directors since 1992.
As of 31 December 2012 he held 37,240 ordinary OTP shares.

Péter Braun
Electrical Engineer
Former Deputy CEO, OTP Bank Plc.

Péter Braun (77) earned a degree in electrical engineering from the Technical University of Budapest. Between 1954 and 1989 he worked for the Research Institute for Electrical Energy, with his last position there being head of department. After that, he was the managing director of K&H Bank Rt., working in its Computer and Information Centre. He is a member of GIRO Rt.'s Board of Directors, and was Deputy CEO of OTP Bank Plc. from 1993 until his retirement in 2001. Since the second half of 2009 he has been the chairman of the Chief Information Officers' Association (VISZ). He has been a member of OTP Bank's Board of Directors since 1997.
As of 31 December 2012 he held 534,305 ordinary OTP shares.

Tamás Erdei

Mr. Tamás Erdei (59) graduated at the College of Finance and Accountancy in 1978. He commenced his career path at OTP Bank, where he held various management positions (finally he served as a Bank Branch Manager). Afterwards, he worked at the Ministry of Finance for two years, where he was responsible for the banking supervision. He has been employed at the Hungarian Foreign Trade Bank Ltd since 1983, and he has gradually worked his way up the scale. He served as a Managing Director from 1985; he was a Deputy CEO between 1990 and 1994 and then, in 1994 he became the Chief Executive Officer. From 1997 till the end of March 2012, he was acting as a Chairman and CEO.
Between 1997 and 2008 he was elected Chairman of the Hungarian Banking Association. He is also the Chairman of the Supervisory Board of International Children's Safety Service.
He has been a member of OTP Bank's Board of Directors since 27 April 2012.
As of 31 December 2012 he held no ordinary OTP shares.

Zsolt Hernádi

Chairman & CEO
MOL Plc.

Zsolt Hernádi (53) graduated in 1986 from the department of industrial design at the Karl Marx University of Economic Science. Between 1989 and 1994 he held a number of positions at Kereskedelmi és Hitelbank Rt., where from 1992 to 1994 he was deputy CEO of the financial institution. Between 1994 and 2001 he was CEO and a member of the Board of Directors at Magyar Takarékszövetkezeti Bank Rt. He has been a member of MOL's Board of Directors since 1994, and its Chairman since 2000, while since 11 June 2001 he has been the company's Chairman and CEO. He is also a member of the Corporate Governance and Remuneration Committee of MOL's Board of Directors. He has been a member of OTP Bank's Board of Directors since 29 April 2011. As of 31 December 2012 he held 6,400 ordinary OTP shares.

Dr. István Kocsis

Managing Director
Merkantil Bank Zrt.

Dr. István Kocsis (61) obtained his degree in mechanical engineering from the Mechanical Engineering Faculty of the Technical University of Budapest in 1976, and earned his PhD in 1985. Career highlights: 2002–2005 Paks Nuclear Power Plant, CEO; 2005-2008 Hungarian Power Companies Ltd. (MVM Zrt.), CEO; 2008–2011, CEO of Budapest Transport Corporation (BKV Zrt.); since 2011 Managing Director of Merkantil Bank Zrt. Offices held: Chairman of the Ányos Jedlik Society; chairman of the Scientific Society For Measurement, Automation and Informatics; member of the Social Senate of the University of Pecs; member of the national Presidium of the Hungarian Chamber of Commerce and Industry; chairman of the endowment advisory board of the Duna-Mecsek Regional Development Foundation.
Non-executive member of OTP Bank's Board of Directors since 1997
As of 31 December 2012 he held 6,400 ordinary OTP shares.

Dr. László Utassy

Chairman & CEO
Merkantil Bank Ltd.

Dr. László Utassy (61) graduated from the Faculty of Law of ELTE University in Budapest in 1978. He held various positions at the State Insurance Company between 1978 and 1995 and then went on to work at ÁB-Aegon Rt. He was Chairman & CEO of OTP Garancia Insurance from 1996 to 2008. He was managing director of OTP Bank Plc. between 2009 and 2010. Since 1 January 2011 he has been Chairman & CEO of Merkantil Bank Ltd. He has been a member of OTP Bank's Board of Directors since 2001.
As of 31 December 2012 he held 271,400 ordinary OTP shares.

Dr. József Vörös

Professor, Head of Institute
University of Pécs

Dr. József Vörös (62) earned a degree in economics from the Budapest University of Economic Sciences in 1974. In 1984 he earned a PhD in economics from the Hungarian Academy of Sciences, and a Doctor of Science degree in 1993. Between 1990 and 1993 he was the dean of the Faculty of Business and Economics, Janus Pannonius University (JPTE). In 1993 he attended the Advanced Management Program (AMP) at Harvard Business School. Since 1994 he has been a professor at JPTE, and was the senior Vice Rector of the University from 2004–2007, between 2007 and 2011 he was chairman of the Board of Trustees, and in 2009 he took up the post of Head of Institute. He has been a non-executive member of OTP Bank's Board of Directors since 1992.
As of 31 December 2012 he held 123,600 ordinary OTP shares.

Members of OTP Bank Supervisory Board*

Tibor Tolnay

Chairman of the Supervisory Board
Chairman & CEO
Magyar Építő Zrt.

Tibor Tolnay (62) graduated from the Budapest University of Technology with a degree in civil engineering and then in economic engineering, and subsequently received a degree in economics from the Budapest University of Economics. In 1994 he was appointed Chairman & CEO of Magyar Építő Rt. He has been Chairman of OTP Bank's Supervisory Board since 1999. He was a member of the Audit Committee between 27 April 2007 and 29 April 2011. As of 31 December 2012 he held 54 ordinary OTP shares.

Dr. Gábor Horváth

Deputy Chairman of the Supervisory Board
Lawyer

Dr. Gábor Horváth (57) earned a degree in law from ELTE University in Budapest. From 1983 he worked for the Hungarian State Development Bank. He has been a lawyer since 1986, and since 1990 has run his own law firm, which specialises in corporate finance and corporate governance. He has been a member of OTP Bank Plc.'s Supervisory Board since 1995, and a member of the Board of Directors of MOL Plc. since 1999. Since 27 April 2007 he has been deputy chairman of OTP Bank's Supervisory Board, and between 27 April 2007 and 29 April 2011 he was chairman of the Audit Committee.
As of 31 December 2012 he held 10,000 ordinary OTP shares.

András Michnai

Executive Director,
Compliance Directorate
OTP Bank Plc

András Michnai (58), who represents the employees of OTP Bank, graduated from the College of Finance and Accounting with a degree in business economics.
He has been an employee of the Bank since 1974, and until 1981 held a variety of posts in the branch network. From 1981 he held a management position in the central network coordination department and then in the network. From 1994, as deputy management director, he participated in the central coordination of the branch network. Since 2005 he has headed the Bank's independent Compliance Department (since 2011 a Directorate) as executive director. He further expanded his professional skills, earning a masters degree at the College of Finance and Accounting, and is a registered tax advisor. He has been a member of OTP Bank's Supervisory Board since 25 April 2008.
He has been a member of OTP Bank's Supervisory Board since 25 April 2008.
As of 31 December 2012 he held 16,000 ordinary OTP shares.

* Mr. Antal Kovács has been a member of OTP Bank's Supervisory Board since 2004

Pierre Lefévre*

CEO
Groupama International SA

Pierre Lefèvre (56) has a degree in general engineering and industrial management. He began his career in 1980 at the internal audit department of Unilever Benelux.
In 1984 he joined the AXA Group where he held various management positions, first in Belgium (management control, life and asset insurance), and then from 1994 in the United Kingdom – it was here that he first worked in the position of CEO, and later as CEO & Chairman. Following his appointment in 1998 he worked as Chairman of the Board of Directors of AXA Nederland BV, and from 2002 onwards as Chairman & CEO of the UK company Groupama Insurances. On 1 November 2007 Pierre Lefèvre was appointed CEO of the Italian Groupama subsidiaries. Since 1 January 2011 he has been head of Groupama's international division, and since 29 April 2011 a member of OTP's Supervisory Board.
As of 26 September 2012 he held no ordinary OTP shares.

Dr. Márton Gellért Vági

General Secretary
Hungarian Football Association

Dr. Márton Gellért Vági (51) graduated in 1987 from the Karl Marx University of Economic Science with a degree in Foreign Economics, and in 1994 obtained his doctorate from the same institution.
Between 2001 and 2006 he worked at the State Holding and Privatisation Co. (ÁPV Zrt.), as managing director, deputy CEO and then CEO. Between 2006 and 2010 he was Chairman of the National Development Agency. From July 2002 until 1 January 2011 he was a member of the Board of Directors of FHB Nyrt., during which period he also spent four years as Chairman of the Board. Since 2010 he has been general secretary of the Hungarian Football Association.
He has authored or co-authored more than 80 research papers, essays and books. He has been a member of OTP's Supervisory Board since 29 April 2011.
As of 31 December 2012 he held no ordinary OTP shares.

* Mr. Pierre Lefévre resigned from his title as member of the Supervisory Board effective from 26 September 2012

Information for Shareholders

General company data

Date of foundation:
31 December 1990, registered by the Metropolitan Court of Budapest as Court of Registration on 28 October 1991 under company registration number 01-10-041585. The latest Bylaws may be requested from the company or may be downloaded from the Bank's website.

Legal predecessor:
Országos Takarékpénztár, founded 1 March1949

Registered head office of OTP Bank Plc.
H-1051 Budapest, Nádor utca 16.
Telephone: (+36-1) 473-5000
Fax: (+36-1) 473-5955

Share capital:
OTP Bank's share capital as at 31 December 2012 was HUF 28,000,001,000, consisting of 280,000,010 ordinary shares of nominal value HUF 100 each.

Ownership structure as at 31 December 2012:

Shareholder	Ownership (%)	Voting rights (%)
Treasury shares	1.5%	0.0%
Government held owner*	4.9%	5.0%
Foreign institutions**	51.2%	51.9%
Foreign individuals	1.1%	1.1%
Domestic institutions	10.9%	11.1%
Domestic individuals	11.8%	12.0%
Other***	18.6%	18.9%
Total	**100.0%**	**100.0%**

Stock exchange listing

The ordinary shares of OTP Bank Plc. are listed on the Budapest Stock Exchange under category 'A', and the global depository receipts (GDRs) representing the ordinary shares that are traded abroad are listed on the Luxemburg Stock Exchange. (2 GDR represents 1 ordinary shares) Regulation S GDRs are traded on the London SEAQ International, and Rule 144A GDRs are traded in the PORTAL system. The custodian bank for OTP GDRs is the Bank of New York, and the safekeeping bank is OTP Bank Plc. (Stock exchange symbol for OTP Bank shares: OTP, Reuters: OTP.BU)

Participation and voting rights at the General Meeting

The General Meeting is going to be performed with the personal participation of the authorised persons. Shareholders may participate in the General Meeting in person or through their authorised representatives. The Company is entitled to check the identification of the shareholders and their representatives in accordance with the concerning documents prior to admission to the General Meeting.

* E.g.: State Privatization Holding Co. Ltd., Social Security, Municipality, 100% state-owned companies etc.
** Foreign institutions, and International Development Institutions (E.g.: EBRD, EIB, etc.)
*** Non-identified shareholders

The authorisations regarding the representation at the General Meeting shall comply with the concerning effective Hungarian laws The authorisation must include a clear and explicit statement of authorisation for the proxy, the shareholder as principal and the representative as proxy agent and any possible limitations of the authorisation. Authorisations must be issued in the form of a notarised deed or a private document with full validity as evidence.

A single representative may represent several shareholders, however he/she shall posses authorizations from every shareholder as principal either in the form of a notarised deed or a private document with full validity as evidence.

In case an authorisation would include several representatives it shall be indicated that each representative is entitled to exercise its right for representation independently as a shareholder is entitled to authorize just one representative.

The authorisation shall be valid only for a General Meeting or for a specified period not exceeding twelve months. The authorisation shall also be valid for the continuation of a suspended General Meeting and for re-convened General Meetings by reason of the quorum.

In case the shareholder is represented at the General Meeting by its legal representative (e.g. director, managing director, mayor etc.), – the original authorization or the one verified by a public notary cannot be older than 30 days – the deed issued by the court or court of registration concerning the representation, or a certificate concerning the election of the mayor must be presented at the venue of the General Meeting. In case of verifying the existence of companies (and other organisations) registered outside Hungary and the representation right of those persons entitled to represent the company, it is essential that the foreign document shall be issued by a certified public record body or these facts shall be witnessed by a notary public.

In case the authorisation or any document submitted to verify the representation right was issued outside Hungary, its formal requirements must satisfy the statutes of law concerning the certification and/or legalisation of documents issued outside Hungary. Accordingly, unless otherwise specified by bilateral international agreements, (i) the certification and/or legalisation of the document is needed, or (ii) if the given country is a party to the relevant international convention, the document will require an apostille. Information on the subject may be obtained from the foreign representations of Hungary. If the document is written neither in English nor in Hungarian, the presentation of its certified Hungarian translation is also required.

Authorizations shall be handed over till 23th of April 2013 at any of the OTP branches as specified in Article X or at the Corporate Secretariat of the Company if the authorised representative represents more than one shareholder by virtue of foreign-issued document.

The participation in the General Meeting and exercising the voting right are subject to the following:

a) the shareholder verification effectively verifies the possession of shares at the date of the shareholder verification;
b) the shareholder should be effectively entered into the Company's Share Register by the deadline set in point III of the present Announcement;
c) the authorized representative should identify the shareholders being represented according to point III of the present Announcement;
d) the ownership of the shares or the voting right relating to the ownership of the shares shall not violate legal provisions or the By-Laws of the Company, which circumstance shall be verified through monitoring by the Company.

Dividend

On 26 April 2013 OTP Bank Plc.'s General Meeting decided to pay dividend after fiscal year 2012. Dividends will be HUF 120 per share, representing 120% of the face value of each share.

The actual amount of dividends to be paid to the individual shareholders will be calculated and disbursed in accordance with the Company's Bylaws, that is, the Company will distribute the dividend calculated in respect of all the shares qualifying as treasury shares among the shareholders entitled to receive dividends. Dividends will be disbursed from 10 June 2013, in accordance with the procedural order set forth in the Bylaws.

Announcements

OTP Bank Plc. fulfils its disclosure obligations related to corporate events and prescribed in Act CXX of 2001 on the website of the OTP Bank Plc. (www.otpbank.hu), on the website of the Budapest Stock Exchange (www.bet.hu), and on the website operated by HFSA (www.kozzetetelek.hu).

Investor relations

Institutional shareholders of OTP Bank Plc. should contact the following address if they require further information:

OTP Bank Plc. Investor Relations & DCM
16 Nádor Street, Budapest, H–1051
Telephone: (+36-1) 473-5460
Fax: (+36-1) 473-5951
email: investor.relations@otpbank.hu

Declaration on Corporate Governance Practice

OTP Bank Plc.'s operation is in full compliance with the applicable statutory provisions, supervisory authority requirements and the regulations of the Budapest Stock Exchange (BSE). The Company's structure and the conditions for its operation are set out in the Company's Bylaws, which have been approved by the General Meeting.

Executive bodies

The executive body of the Company is the Board of Directors. The scope of the Board of Directors' authority is determined in the effective laws, the Bank's Bylaws, General Meeting resolutions, and the procedural rules of the Board of Directors. The procedural rules set out the composition of the Board of Directors, the tasks relating to the preparation, implementation and drafting of resolutions at its meetings, as well as all other issues pertaining to the operation of the Board of Directors. The members of the Board of Directors are elected by the General Meeting for a term of five years. All the obligations and prohibitions specified for executive officers under Act CXII of 1996 on Credit Institutions and Financial Enterprises (Credit Institutions Act) apply to the members of the Board of Directors.

The Supervisory Board oversees the management and business operations of the Company. The Supervisory Board establishes its own procedural rules, which are approved by the General Meeting. Supervisory Board members are elected by the General Meeting with a mandate of three years. The proportion of independent Supervisory Board members (3 persons) within the entire Supervisory Board (5 persons) is 60%.
In order to avoid any conflicts of interest, the General Meeting may not elect members of the Board of Directors or their close relatives to the Supervisory Board. The rules applicable to the appointment and recall of the employee member of the Board of Directors are defined by the Works Council operating at the Company, and the Company does not consider such a member to be independent.

The Supervisory Board is responsible for managing the internal audit function of the Company within the framework set by the Credit Institutions Act. The Supervisory Board exercises a preliminary right of consent in respect of decisions relating to the establishment and termination of the employment of the managers and employees of the internal audit department, and the determination of their remuneration.
In 2012 seven Board meetings, seven Supervisory Board meetings were held.

Meetings of the Board of Directors are convened by the Chairman & CEO with a written invitation in accordance with the prevailing work schedule. The Chairman & CEO is also obliged to call a meeting of the Board of Directors if

– the Board of Directors has passed a resolution calling for an extraordinary meeting of the Board of Directors;
– at least three Board members request it in writing, indicating the reason for the meeting and its objectives, specifying the items on the agenda, and making available a written proposal regarding the decision to be made;
– it is requested, in writing, by the Supervisory Board or the auditor;
– he is obliged to do so by the Hungarian Financial Supervisory Authority;
– pursuant to the statutory provisions a decision must be made regarding the convening of an Extraordinary General Meeting.

Meetings of the Supervisory Board are called by the chairman. A meeting must also be called if a member of the Supervisory Board or at least two members of the Board of Directors, or the auditor, requests it in writing indicating the objectives and reasons for the meeting.

Minutes are taken of the meetings of the Board of Directors, the Supervisory Board and its resolutions are documented.
The employer's rights towards the executive officers of the Company are exercised by the Board of Directors through the Chairman & CEO, with the proviso that the Board of Directors must be notified in advance for the appointment or dismissal of deputy CEOs.
The remuneration of the members of the Board of Directors and the Supervisory Board is determined by the General Meeting, the supreme body of the Company. The guidelines and framework of the long-term remuneration and incentives of executives and senior office-holders are also determined by the General Meeting. Accordingly – based on the relevant provisions of the Credit Institutions Act pertaining to a remuneration policy, and in accordance with the relevant EU guidelines – the Bank's 2012 General Meeting, in resolution 7/2012, approved the guidelines and regulations of the remuneration policy of OTP Bank Plc. and the Bank Group, and the Board of Directors issued the necessary internal rules and procedures in the interest of its implementation. The Board of Directors, at the annual ordinary General Meeting, provides information on the annual and medium-term objectives and their fulfilment, which constitutes the basis of evaluation in relation to performance-based remuneration.
The Company has separate committees for the maintenance of the Board of Directors and the Supervisory Board: Management Committee, Subsidiary Integration and Management Committee, Management Coordination Committee and Remuneration Committee. In addition, there are other permanent and special committees that perform various specified tasks at the Company: Asset Liability Committee, Credit and Limit Committee, Product Development, Sales and Pricing Committee, Work-Out Committee, Information Management Committee, Investment Committee, Group-Level Risk Management Committee, Ethics Committee and the Communications Advisory Committee.

Audit

The most important function of internal audit is to safeguard the assets of the customers and the Company, and to protect the interests of shareholders.
To ensure effective auditing the Company's internal control system is structured vertically and horizontally. The system is implemented at three interrelated, modular control levels, as well as being subdivided along departmental lines. The system of internal checks and balances comprises a combination of process-integrated, management and independent internal audit functions.

The independent internal audit organisation promotes the use of safe business procedures, efficient operation and the minimising of risks, and also – together with the Compliance department – monitors compliance with the statutory provisions. Its most important characteristic is that it functions as an independent, professional, impartial organisation, which conducts its audits at all control levels. Professional oversight of the organisation is performed, within the framework defined by the Credit Institutions Act, by the Supervisory Board. The independent internal audit department works to an annual audit schedule, which is approved by the Supervisory Board. The annual schedule is prepared in accordance with a risk-based methodology, and besides focusing on areas that carry a regulatory, business or operational risk, and on other key exposures, it also takes into account the latest changes in the economic situation.
The internal audit system includes the owner's audits conducted at the foreign and Hungarian subsidiaries, as well as the own internal audit units of the subsidiaries falling under consolidated supervision as defined in the Credit Institutions Act. To this end, standardised internal auditing protocols pertaining to the operation and activities of group members' internal audit departments are developed, enhanced and applied on a continuous basis.
The internal audit department regularly prepares objective and impartial reports for the executive bodies at quarterly and annual intervals. As a part of its quarterly report, in a group-level summary report, it gives an account of the audits conducted in the given quarter, the risks identified by its own, as well as the official audits, and performance of the measures implemented for their elimination. The audit department reports annually on the performance of tasks specified in the annual group-level schedule, the audits performed and its other activities, the operational circumstances, as well as any changes that are made to the internal auditing system.
Each year the compliance unit prepares an objective and independent report for the Supervisory Board on the operation of risk management, internal control mechanisms and corporate governance functions.
In exceptional cases requiring immediate intervention, the audit department has the authority to summarily perform unscheduled audits.

The General Meeting has the right to elect the business entity auditing the Company, and to approve the member of the audit company who will be responsible for the audit.

Compliance

In keeping with the regulations of the European Union and the applicable Hungarian laws, an independent organisational unit (Compliance Directorate) operates at the Company for the purpose of identifying and managing compliance risks. The function possesses the appropriate regulatory documents: a compliance policy, a strategy and a work plan. The purpose of the compliance policy is to determine the framework for compliance activity for the entire OTP Group, and to set forth the definition, objectives, tasks and powers of the function. Another important document of the compliance policy is OTP Bank Group's compliance strategy. The compliance policy is approved by the Board of Directors of OTP Bank Plc. The Compliance Directorate prepares a comprehensive report once a year on the Bank Group's activities and position with regard to compliance, which is approved by the Bank's Board of Directors. The management of the Group is responsible for implementation of the compliance policy.

Disclosure

The Company discloses its information in strict compliance with the provisions of the Capital Market Act, the Credit Institutions Act, the Investment Services Act, the Companies Act and the applicable regulations of the Budapest Stock Exchange. The Company also has an effective internal disclosure policy for ensuring fulfilment of its public disclosure obligations.
The regulations referred to above assure full, accurate and timely disclosure of all important information that may affect the Company or the price of the Company's shares and other securities. The Board of Directors discloses the Company's business and strategic targets for the current year, and its medium-term strategic plan, at each Annual General Meeting. The company discloses the proposals prepared for the General Meeting in compliance with the rules applicable to disclosure

as posted on the Budapest Stock Exchange website, and with the provisions of the relevant regulations of the BSE.
The Company discloses information about the professional careers of the members of the Board of Directors, the Supervisory Board and the management on its website and in its annual report, in compliance with the effective legislation.
The proposal for the remuneration of the chairman and members of the Board of Directors and chairman and members of the Supervisory Board is also a part of the proposals prepared for the General Meeting.
The Company has detailed risk management regulations applicable to all types of risks (liquidity, market and credit risks), which are in compliance with the legal regulations on prudential banking operations. The annual report contains information on the risk management practices of the Company, the applied limits and compliance with them.
The Company has a detailed internal policy pertaining to persons that qualify as insiders and potential insiders, which is in full compliance with the limits and prohibitions regulated in detail under the effective provisions of the Capital Market Act.
The Company discloses the transactions of the members of the Board of Directors, Supervisory Board and management involving the Company's shares, in compliance with the disclosure regulations, and indicates the holding of these individuals in the Company (number of shares) in its annual report.
The Board of Directors has assessed the effectiveness of the disclosure procedures for 2012, and found them to be satisfactory.

Anti-money laundering measures

Money laundering is where criminals or their accomplices attempt to conceal the origins of money acquired from criminal acts by, for example, using the services of financial institutions.

In order to prevent the use of our bank for money-laundering purposes, we will do our best to ascertain the true identities of those who use our services, and OTP Bank will refuse to execute orders made by clients who fail to give evidence of their true identities in accordance with the relevant legal stipulations.

In keeping with the provisions of Act CXXXVI of 2007 on the prevention and impeding of money laundering and the financing of terrorism (hereinafter: Act on Money Laundering), OTP Bank has introduced, and applies, the following measures and rules:

- It operates an internal control and information system designed to prevent banking or financial operations that might enable, or in themselves constitute, money laundering.
- It has internal regulations, in accordance with Ministry of Finance Decree 35/2007. (XII. 29.) and the recommendations of the Hungarian Financial Supervisory Authority, that all employees of the bank must observe.
- The employees of the bank must fulfill their customer due diligence and reporting obligations.
- Compliance with the reporting obligations are not construed as a breach of bank, securities, insurance or trade secrets.
- Failure to fulfill the reporting obligation may result in prosecution under criminal law.
- OTP Bank cooperates with the criminal investigation authorities in the investigation of all circumstances suggestive of money laundering.

OTP Bank discloses the customer identification procedure applied by the bank in an Announcement posted in all rooms open for serving customers.

With trust and responsibility for each other

OTP Bank's social participation in 2012

OTP Bank devotes considerable attention to its social and natural environment, as well as to the values that are important to communities. The bank conducts its corporate social responsibility (CSR) activities within a planned and carefully considered framework. In full awareness of its responsibilities, its aims are primary to launch long-term programmes that have an impact on sustainability, to provide for responsible operation on a continuous basis, and to support worthy causes by taking the opinions and needs of its stakeholders into account.

For the OTP Group, responsible operation means stable economic management, responsible employment practices and taking an active role in society. In its CSR strategy – besides determining its core values – the company specifies the three key areas whose continuous development will ensure that the guiding principles of sustainable, genuinely responsible operation are incorporated into all levels of the company's operations.

The bank's strategy and activities in this regard are presented comprehensively on the **updated CSR section of its website,** as well as in its CSR reports that are published on the Reports page of that section. As a part of its efforts to ensure continuous development, the bank produces a consolidated sustainability report that presents the sustainability-related performance of every member of the group. The CSR web pages of OTP Bank now present an entirely new image and more extensive content than before. Not only do the recent changes that have been made help users navigate the site more easily, they also reflect the special importance of corporate social responsibility for the bank. Furthermore, the new, improved web pages provide a comprehensive picture of the bank's CSR-related objectives, results and activities.

Internal programmes

Reducing the burden on the environment

A significant portion of OTP Bank's programmes support internal operations. Some of these are geared towards reducing the burden on the environment. The internal campaign to promote energy savings continued in 2012, a reduction in paper consumption is being achieved by encouraging the usage of electronic channels, and the capacity utilisation of video conferencing rooms continues to grow year by year at group level. The goal in 2013 is to broaden the opportunities for using recycled, environment-friendly paper.

Recognition, training and involvement of employees

The successful realisation of OTP Bank's CSR goals and programmes greatly depends on the commitment and degree of motivation of our staff. For this reason, the bank continued to make significant efforts in 2012 to ensure its employees are suitably informed (via the intranet and internal events, etc) of the fact that their performance is recognised, and that their involvement is sought in various projects and programmes. Within OTP Bank the **system for recognising good conduct has been renewed** and expanded to include numerous new elements: recognising employees and managers who set an example through their professional work, their role in the community and their human values, and recognising teams that through their creative ideas and proposals have developed new products or technologies, or have set a unique and positive example in terms of developing staff, teamwork or responsibility, whether towards each other or towards society at large.

OTP Bank places particular emphasis on the social, environmental and economic impact of its activities. It also considers it important to ensure that the social responsibility approach is strengthened within the bank and among its employees. With this aim in mind, it carries out numerous activities and organises various programmes that employees can join.

Through its internal **Volunteer Tender Programme,** the bank sponsors initiatives that come from below – initiatives that are elaborated and implemented by employees working in teams. The purpose of the regularly announced tender is for the bank to encourage and support voluntary activities conducted by its employees in their own communities. The nature of the voluntary activities is not stipulated; the tender is open to any initiatives that are compatible with the bank's CSR principles and that do not contravene its Code of Ethics. The programme has proved highly successful: in 2012 a total of 40 projects were awarded a HUF 100,000 grant from head office. In the course of the implementation of these projects, more than 500 employees took up several causes nationwide, covering diverse areas ranging from financial education through environmentally aware schooling to helping disadvantaged children, assisting nearly 3,600 individuals in the process.
The Volunteer Tender Programme contributes to creating a more cohesive community among the almost 8,000 employees of OTP Bank, while developing a more trusting, stronger relationship with the supported institutions and local communities. Last but not least, it helps draw attention to the importance of voluntary work and provides an opportunity for employees to experience the joy of charitable work.

The Bank's social investments in various areas

Financial education
The OTP Fáy András Foundation has carried out world-class and exemplary work in the field of financial and economic education through its educational activities of recent years, the teacher training programme implemented jointly with ELTE University this year, and the **establishment of the National Financial and Economic Training Centre for Secondary School Pupils (known as O.K. for short).**
In its own training rooms, unparalleled in terms of facilities, not just in Hungary but in the Central European region as a whole, the bank welcomes students from various places in the country to participate in lectures and training programmes supported by the most modern audiovisual aids. Besides teaching students, O.K. also trains experts and teachers of financial and economic literacy. The scholarly centre carries out public research relating to education, and based on these studies it prepares professional recommendations and implements advances in methodology.

Creating opportunities
Providing assistance for disadvantaged children remains an important part of OTP Bank's corporate social responsibility activity. The volunteer medical team of the **International Children's Safety Service,** which has enjoyed the priority support of OTP Bank for

close to two decades, travels twice yearly to Harghita County in Romania, where it provides screenings, examinations and medical treatment for children in need – in hospitals, schools and nurseries. It also assists local health institutions by providing medicines and therapeutic equipment, as well as with professional training. During the May trip, doctors carried out nearly 5,000 examinations, bringing the priceless gift of good health to these children. Similarly to previous years, on the autumn trip the team was joined by the **mobile dentistry bus** bought for and donated to the Service, while for the first time it was also joined by a truck housing the organisation's touring **gynaecological clinic.** Volunteer doctors working in the mobile clinic carried out screenings and provided advice.

For the second year running, our bank provided a donation of HUF 25 million to the **mobile playground programme of the Hungarian Maltese Charity Service,** with which it is able to bring the pleasure of play to the most disadvantaged regions of the country. The project enjoys the priority support of our bank, which initially purchased the vehicles and has subsequently ensured their continued operation as its ongoing contribution to the realisation of the programme. Over the years, the mobile playgrounds have brought memorable entertainment to the lives of small communities on more than 200 occasions, in which a total of 9,545 children and more than a thousand parents and teachers have taken part.
In tandem with the exciting horse-riding competitions and show elements of the

OTP Bank Equestrian World Cup, OTP Bank considers it important to draw attention each year to a social cause – namely, the achievements and importance of therapeutic horseback riding. By supporting this event, the bank not only sustains a noble sport but also contributes – in the spirit of one of the founding pillars of its sponsorship philosophy, the creation of opportunities – to popularising equestrian therapy as a valuable therapeutic tool in the healing, rehabilitation and preservation of the health of physically and mentally disabled children. With its special end-of-year charity drive, it provided a further HUF 1 million in support for the work of the Hungarian Equestrian Therapy Association.

Culture – preserving our values

Through its activities, OTP Bank pays particular attention to promoting the preservation of community values and traditions, as well as the safeguarding of national values. It was thus delighted to support the **'Fölszállott a páva'** talent-spotting show for folk singers and musicians and the **National Táncház Festival and Fair,** as well as helping to popularise the now 40-year-old **dance house ('táncház') movement.** In 2012, the Hungarian táncház method was accepted onto UNESCO's intangible cultural heritage list. In collaboration with the Táncház Association, OTP Bank **established the Táncház Award** to help the movement develop further. Each year the award will be presented in recognition of the work of a folk musician or dancer who has achieved significant results as an active performer or instructor. The first award was presented to the folk dance teacher Norbert Busai.

Sport – recruiting and teaching

Sports sponsorship is a traditional part of OTP Bank's CSR activities. The financial institution supports numerous prestigious domestic and international events, public sporting events and leading associations and teams.

The launch of the **OTP-MOL Bozsik Programme** was of fundamental importance in helping to develop a recognised European-standard system of recruiting and nurturing footballing talent in Hungary once again. The main objectives of the Bozsik Programme are to encourage mass participation, and to seek out and develop new talent. To achieve this, the Hungarian Football Federation has developed a consistent and transparent system that includes an up-to-date, accurate and traceable database of football players involved in the programme. As a result, the circle of those participating in the institutional programme has expanded significantly, and the range of age groups involved has been extended to include 5 to 14-year-olds.

You can read more about OTP Bank's CSR activities and its latest programmes on our website, at www.otpbank.hu/csr/en/main

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