



OTP Bank Plc.

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on disclosure requirements

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A large, stylized green wave graphic that starts from the left, curves upwards, and then levels out towards the right, spanning the bottom of the page.

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1. OTP GROUP

1.1. Risk management objectives and policies

Traditionally, OTP Bank has been characterized by conservative risk assumption. Its fundamental objective is to implement its strategic plan through maintaining the equilibrium between risk and return. In order to be able to do so, it has established an independent risk management organizational unit and a uniform and consistent risk management system. The Bank operates a risk management process, which guarantees that the Bank complies, at all times, with the Basel accords, the applicable statutory regulations and supervisory authority requirements in all of the countries where the Bank operates, and at a group level as well.

The Bank has prepared a Risk Management Strategy, which covers all major types of risks (credit, operational, market and liquidity risks) that arise in connection with the banking business.

The independent risk management organizational unit performs the following:

- In order to identify potential risks, it analyses the Bank's activities, identifies the major risk factors to which these activities and the positions generated by them are exposed, and indicates the correlations between these positions.
- In order to measure risks, it collects historical data on the major risk factors, the losses stemming from them and the variables that can predict them.
- Monitors the results of the risk measures continuously, and prepares regular and up-to-the minute reports on them in a transparent manner for the various operative and executive levels.

In order to manage risks each organizational unit applies risk mitigation techniques (client/transaction ratings, limits, securities, hedging transactions, control points embedded in processes and risk transfers).

The Bank strictly regulates the method of risk management and ensures that it is uniformly applied at a group level.

In its regulations on risk mitigation and the use of credit risk collateral, the Bank determines:

- the risk management process and methods, including decision-making powers and tasks linked to risk assumption as well as the requirements for the control of risk assumption;
- the types of eligible collateral in connection with contracts entailing bank exposures and the conditions for their acceptance;
- the criteria for the appraisal of the financial position and future solvency of current and future debtors, internal regulations related to debtor rating, and the manner in which the findings of the rating procedure are used.

The Bank's market risk management strategy is to realize benefit from exchange rate and yield curve movements, by matching legal requirements, taking the risk exposure the loss from which does not damage jeopardize profitability and operation safety of the Group. Aim of market risk management is to restrict potential loss arising from unfavourable exchange rate and/or yield curve movements.

- Treasury is responsible for market risk management and keeping risk within the frames approved by the Board.
- Continuous monitoring of market risk exposure, its reporting to the management, and development of risk measurement methods belong to organizational unit in separate division from Treasury.
- The Board approves the market risk measurement methodologies and the limit system which defines the acceptable risk.

The bank applies a risk management system for risk measuring and internal reporting based on but independent from the front office system so that it makes possible the efficient IT implementing of the developing risk measure techniques. All the concerned organizational areas have access to the risk management system but the competence varies with the different users. The internal risk management system complies with the EU directives and it is based on the methodological principles of the program checked by the Authority which is used for reporting risk exposure of the trading book.

Main principles of market risk management regulation:

- The bank is allowed to run market risks within the limits set by the Board of Directors. The bank can open ALM positions to hedge strategic risks appearing in the profit plan, but it needs the decision of the Board of Directors based on an ALCO proposal in every case. For the sake of the risk management,

positions originating from other organizational units (for example home loan payments) are forwarded without delay to the Treasury in compliance with the internal reporting process.

- The bank divides the positions exposed to market risk into underlying risk factors (interest rates, foreign exchange rates, stock prices, volatility) and manages them in accordance with the positions calculated in the manner stated above.
- The bank continuously monitors the exposure originating from portfolios exposed to market risk, the value-at-risk of the portfolio and the changes in the values of the portfolio and it sets a limit system in connection with them. The bank attaches an internal action plan concerning limit breach to avoid losses incompatible with the risk-taking policy of the bank.
- Decision-makers of the bank get information about the bank's risk exposure and the regarding portfolios' profit-and-loss effects with pre-defined regularity.
- The profit-and-loss effect of ALM deals which intend to hedge the profit plan-driven market risk exposure and the profit-and-loss effect of the core portfolio in the plan are regularly reported to the management of the bank, so making the transparent control of hedging effectiveness possible.
- The bank allocates capital to the portfolios exposed to market risk in order to cover the possible losses.

1.2. Application of prudential requirements

List of fully consolidated entities under the rules of Consolidation Accounting (IFRS) and Consolidated Based Supervision as at 31 December 2012:

Fully consolidated entities as at 31 December 2012			
	Name of the company	Consolidation Accounting (IFRS)	Consolidated Based Supervision
1.	OTP Bank Nyrt.	X	X
2.	OTP Ingatlan Zrt.	X	X
3.	Merkantil Bank Zrt.	X	X
4.	Merkantil Car Zrt.	X	X
5.	Merkantil Bérlet Kft.	X	X
6.	OTP Lakástakarék Zrt.	X	X
7.	Bank Center No. 1. Kft.	X	X
8.	OTP Faktoring Vagyongkezelő Kft.	X	X
9.	OTP Faktoring Zrt.	X	X
10.	OTP Alapkezelő Zrt.	X	X
11.	INGA KETTŐ Kft.	X	X
12.	OTP Jelzálogbank Zrt.	X	X
13.	OTP Pénztárszolgáltató Zrt.	X	
14.	HIF Ltd.	X	X
15.	OTP Banka Slovensko, a. s.	X	X
16.	DSK Bank EAD	X	X
17.	DSK Trans security EOOD	X	
18.	DSK Tours EOOD	X	
19.	POK DSK-Rodina AD	X	
20.	NIMO 2002 Kft.	X	X
21.	OTP Kártyagyártó Kft.	X	X
22.	OTP Bank Romania S. A.	X	X
23.	OTP banka Hrvatska d.d.	X	X
24.	OTP invest d.o.o.	X	X
25.	OTP nekretnine d.o.o.	X	X
26.	Merkantil Ingatlan Lízing Zrt.	X	X
27.	Air-Invest Kft.	X	X
28.	SPLC-B Kft.	X	
29.	SPLC-N Kft.	X	
30.	SPLC-P Kft.	X	
31.	SPLC-S Kft.	X	
32.	SPLC-T1 Kft.	X	
33.	SPLC Vagyongkezelő Kft.	X	X
34.	OTP Lakáslízing Zrt.	X	X
35.	OTP Életjáradék Ingatlanbefektető Zrt.	X	X
36.	OTP Bank JSC (Ukraina)	X	X
37.	OAOTP Bank (Russia)	X	X
38.	OTP banka Srbija a.d.	X	X
39.	OTP Investments d.o.o. Novi Sad	X	X

Fully consolidated entities as at 31 December 2012			
	Name of the company	Consolidation Accounting (IFRS)	Consolidated Based Supervision
40.	Crnogorska Komercijalna banka a.d.	X	X
41.	Opus Security S.A.	X	X
42.	Kratos nekretnine d.o.o. Zagreb	X	X
43.	OTP Financing Cyprus	X	X
44.	OTP Financing Netherlands B.V.	X	X
45.	OTP HOLDING LIMITED	X	X
46.	LLC OTP Leasing (Ukrajna)	X	X
47.	LLC AMC OTP Capitol (Ukrajna)	X	X
48.	OTP Asset Management SAI S.A.	X	X
49.	OTP Financing Solution B.V.	X	X
50.	Velvin Ventures Ltd.	X	X
51.	DSK Leasing AD	X	X
52.	DSK Auto Leasing EOOD	X	X
53.	DSK Leasing Insurance EOOD	X	
54.	OTP Leasing d.d.	X	X
55.	OTP Leasing Romania IFN S.A.	X	X
56.	OTP Faktoring SRL	X	X
57.	OTP Faktoring Ukraine LLC	X	X
58.	Monicomp Zrt.	X	X
59.	OTP Factoring Bulgaria LLC	X	X
60.	OTP Factoring Serbia d.o.o.	X	X
61.	OTP Factoring Montenegro d.o.o.	X	X
62.	Projekt 3 Kft.	X	
63.	CIL Babér Kft.	X	X
64.	LLC OTP Credit	X	X
65.	OTP Factoring Slovensko s.r.o.	X	X
66.	SPLC-C Kft.	X	
67.	OTP Ingatlanpont Kft.	X	
68.	OTP Real Slovensko s.r.o.	X	
69.	OTP Buildings s.r.o.	X	
70.	R.E Four d.o.o	X	
71.	Immovable RE d.o.o	X	
72.	Bajor-Polár Center Zrt.	X	X
73.	Projekt 2003 Kft.	X	
74.	Szalamandra Kft.	X	
75.	Miskolci Diákotthon Kft.	X	
76.	Sasad-Beregszász Kft.	X	
77.	OTP Aventin d.o.o	X	X
78.	Balanz Zártkörű Nyíltvégű Ingatlanalap	X	
79.	OTP Faktoring d.o.o.		X
80.	OTP Real Estate Service SRL		X
81.	Cresco d.o.o.		X
82.	SC Aloha Buzz SRL		X
83.	SC Favo Consultanta SRL		X
84.	SC Tezaur Cont SRL		X
85.	OTP Ingatlan Befektetési Alapkezelő Zrt.		X
86.	DSK Asset Management		X
87.	AlyansReserv OOO		X
88.	OTP Immobilien Verwertung		X
89.	OTP Mérnöki Szolgáltató Kft.		X
90.	OTP Létesítményüzemeltető Kft.		X
91.	OTP Real Estate Service LLC		X

List of unconsolidated entities owned more than 20% of shares, under the rules of Consolidated Accounting (IFRS) and Consolidated Based Supervision as at 31 December 2012:

List of unconsolidated entities, owned more than 20% of shares as at 31 December 2012	
Consolidation Accounting	Consolidated Based Supervision
Agóra-Kapos Építőipari Kft.	Agóra-Kapos Építőipari Kft.
AlyansReserv OOO	Auctioneer s. r. o.
Auctioneer s. r. o.	Debt Management Project 1 Montenegro d.o.o.
CRESCO d.o.o.	Diákigazolvány Kft.

List of unconsolidated entities, owned more than 20% of shares as at 31 December 2012

Consolidation Accounting	Consolidated Based Supervision
Debt Management Project 1 Montenegro d.o.o.	DSK Bul-Projekt OOD
Diákigazolvány Kft.	DSK Leasing Insurance Broker EOOD
DSK Asset Management EAD	DSK Tours EOOD
DSK Bul-Projekt OOD	DSK Trans Security EOOD
Faktoring SK, a.s. "v.a."	Faktoring SK, a.s. "v.a."
Gamayun LLC	Gamayun LLC
Gizella Projekt Ingatlanforgalmazó Kft	Gizella Projekt Ingatlanforgalmazó Kft
Ingatlan Fedezetkezelő P1. Kft.	Immovable R.E. d.o.o., Novi Sad
Ingatlanbefektetési Projekt 7 Kft	Ingatlan Fedezetkezelő P1. Kft.
Ingatlanforgalom Projekt 15. Kft.	Ingatlanbefektetési Projekt 7 Kft
Ingatlanhasznosító Projekt 11 Kft	Ingatlanforgalom Projekt 15. Kft.
Ingatlankezelő Projekt 16. Kft.	Ingatlanhasznosító Projekt 11 Kft
Ingatlanmenedzser Projekt 18. Kft.	Ingatlankezelő Projekt 16. Kft.
Ingatlanvagyon Projekt 14. Kft.	Ingatlanmenedzser Projekt 18. Kft.
JN Parkolóház Kft.	Ingatlanvagyon Projekt 14. Kft.
Kereskedelmi Projekt 10. Kft.	JN Parkolóház Kft.
Kikötő Ingatlanforgalmazó Kft.	Kereskedelmi Projekt 10. Kft.
M8-2 Ingatlanhasznosító Kft.	Kikötő Ingatlanforgalmazó Kft.
Mlekara Han d.o.o. Vladicin Han f.a.	M8-2 Ingatlanhasznosító Kft.
Naprijed d.d. (f.a.) (forg.)	Miskolci Diákotthon Kft.
OFB Projects EOOD	Mlekara Han d.o.o. Vladicin Han f.a.
OOO OTP Travel	Naprijed d.d. (f.a.) (forg.)
OTP Advisor SRL	OFB Projects EOOD
OTP Consulting d.o.o.	OOO OTP Travel
OTP Consulting Romania SRL	OTP Advisor SRL
OTP Faktoring d.o.o.	OTP Buildings s.r.o.
OTP Fedezetingatlan Kft.	OTP Consulting d.o.o.
OTP Hungaro-Projekt Kft.	OTP Consulting Romania SRL
OTP Immobilien Verwertung GmbH.	OTP Fedezetingatlan Kft.
OTP Ingatlan Bau Kft.	OTP Hungaro-Projekt Kft.
OTP Ingatlan Befektetési Alapkezelő Zrt.	OTP Ingatlan Bau Kft.
OTP Létesítményüzemeltető Kft.	OTP Ingatlanpont Ingatlanközvetítő Kft.
OTP Mérnöki Szolgáltató Kft.	OTP Nedvizhimost ZAO
OTP Nedvizhimost ZAO	OTP Pension Funds Administrator
OTP Pension Funds Administrator	OTP Pénztárszolgáltató Zrt.
OTP Real Estate Services LLC	OTP Real Slovensko s.r.o.
OTP Real Estate Services SRL	OTP Travel Kft.
OTP Travel Kft.	PEVEC d.o.o. Beograd
PEVEC d.o.o. Beograd	POK DSK-Rodina AD
PortfoLion Kockázati Tőkealap-kezelő Zrt.	PortfoLion Kockázati Tőkealap-kezelő Zrt.
Projekt 13 Apartmany Slovensko s.r.o.	Projekt 13 Apartmany Slovensko s.r.o.
Projekt Ingatlanforgalmazó 9. Kft.	Projekt 2003. Ingatlan Befektető és Fejlesztő Kft.
Projekt Vagyonkezelési 13. Kft.	Projekt 3. Ingatlanforgalmazó és Kereskedelmi Kft.
Projekt-Ingatlan 8. Kft.	Projekt Ingatlanforgalmazó 9. Kft.
Rácalmás Projekt Kft.	Projekt Vagyonkezelési 13. Kft.
Rácalmási Területfejlesztő Kft.	Projekt-Ingatlan 8. Kft.
SC Aloha Buzz SRL	R.E. Four d.o.o., Novi Sad
SC AS Tourism SRL	Rácalmás Projekt Kft.
SC Cefin Real Estate Kappa SRL	Rácalmási Területfejlesztő Kft.
SC Favo Consultanta SRL	Sasad-Beregszász Ingatlanforgalmazó Kft.
SC Tezaur Cont SRL	SC AS Tourism SRL
Snorri-Salander Kft.	SC Cefin Real Estate Kappa SRL
Suzuki Pénzügyi Szolgáltató Zrt.	Snorri-Salander Kft.
TradeNova Kft. f.a.	SPLC-B Ingatlanfejlesztő, Ingatlanhasznosító Kft.
Vagyonértékesítő Projekt 17. Kft.	SPLC-C Ingatlanfejlesztő és Ingatlanhasznosító Kft
Vagyonkezelő Projekt 12. Kft	SPLC-N Ingatlanfejlesztő, Ingatlanhasznosító Kft.
	SPLC-P Ingatlanfejlesztő, Ingatlanhasznosító Kft.
	SPLC-S Ingatlanfejlesztő, Ingatlanhasznosító Kft.
	SPLC-T1 Ingatlanfejlesztő, Ingatlanhasznosító Kft.
	Suzuki Pénzügyi Szolgáltató Zrt.
	Szalamandra Ingatlanforgalmazó Kft.
	TradeNova Kft. f.a.
	Vagyonértékesítő Projekt 17. Kft.
	Vagyonkezelő Projekt 12. Kft

The group of companies deducted from consolidated regulatory capital as at 31 December 2012:

- The value of interests in other financial institutions, investment firms, insurance and reinsurance companies which deduct the regulatory capital: HUF 343 million.
- The ownership share value in the company which need not be included in the consolidation because of the Commission decision is zero.

1.3. Internal capital adequacy

The internal capital adequacy assessment process (ICAAP) aims to measure and ensure the disposability of the capital which is necessary to cover the material risks of OTP Group.

The internal capital adequacy assessment process assesses and defines the sufficient level of capital for the coverage of each risk type.

The ICAAP has to ensure the disposability of the sufficient capital by management information system and preparation of the necessary decisions.

The decisions related to the ICAAP process, and also the approval of the results, are made by Management Committee of OTP Bank.

The main principles of the ICAAP:

- The main aim of the internal capital adequacy assessment process is to measure the actual and the planned capital need.
- It is important to integrate the ICAAP to the decision making process of the Bank. We should ensure that the relevant management bodies are informed on the results of the ICAAP and are able to make the necessary capital management decisions.
- The ICAAP and the capital requirement of each risk type have to be reviewed and refreshed on a yearly basis.
- The capital requirement calculation is prepared in line with the Bank's business and risk strategy.
- The capital adequacy assessment process covers all relevant risk types.
- The assessment process should comply not just with the actual but also with the future circumstances.

1.4. Guarantee capital and regulatory capital requirements

The consolidated capital requirement calculation of OTP Group is based on HAS data.

OTP Group applied standardized capital calculation method regarding credit and market risk, basic indicator approach and advanced measurement approach (AMA) regarding operational risk. OTP Group consolidated regulatory capital requirement as of end of December 2012 was HUF 600 billion, the amount of guarantee capital was HUF 1,457 billion. The consolidated capital adequacy ratio stood at 19.4%.

Consolidated capital requirement (in HUF million)	31/12/2012
Capital requirement	599,752
Credit risk	481,260
Market risk	38,090
Operational risk	80,402
Consolidated regulatory capital (in HUF million)	
Regulatory capital	1,457,378
Tier1	1,221,476
Tier2	236,245
Additional capital	0
Deductions	-343
Exposure deducted from capital (in HUF million)	
Total	58,916

Capital requirement for credit and counterparty risk (in HUF million)	
Standardized method capital requirement	481,260
Central governments or central banks	15,297
Regional governments or local authorities	11,997
Public sector entities	1,616
Institutions	22,181
Corporate	157,986
Retail	155,810
Secured by real estate property	42,516
Past due items	39,027
Collective investment undertakings	1,619
Other items	33,212

2. OTP BANK

2.1. Calculation methods and approaches of impaired items and provisions

The Bank's provisioning policy is prudent and conservative.

In establishing the profit or loss for the reporting year, it is through accounting for impairment and raising provisions that foreseeable risks and potential losses are taken into consideration even if they become known between the end of the last reporting period and the balance sheet date. Impairment and provisions are both recognized, irrespective of whether the business year is closed with a profit or a loss.

For the debts outstanding at the rating cut-off date and the cut-off date for the business year and unpaid until the balance sheet date, impairment is recognized on the basis of available information; the amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. (The following qualify as receivables: receivables from credit institutions and financial enterprises, loans, advance payments as well as items of receivable type recorded among accruals and deferrals of income.)

If the amount of the debt that is expected to be recovered exceeds the book value of the debt at the cut-off date for rating, the impairment recognized earlier will be reduced through reversal.

The Bank recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their rating. If the rating process reveals that the amount of the risk provision exceeds the amount required on the basis of the rating, the excess amount of the risk provision is released. Risk provisions are used upon the termination of pending or certain (future) liabilities, or when losses arising from such liabilities are realized.

In its regulations entitled "Special valuation criteria", the Bank provides detailed regulations pertaining to the valuation and impairment recognition of, and provisioning for, outstanding debts, investments, assets received in return for receivables and recorded as inventories and off-balance sheet liabilities.

Low-amount outstanding debts are rated on the basis of group evaluation with a simplified method. The most important parameters of the simplified rating procedure are payment delay and the status of restructuring.

The Bank determines the payment delay on the basis of the number of the calendar days without the client's fulfilment that pass without debt amortization from the due date of the principal repayment and/or the loan rate payment obligation specified in the assumption of risk contract to the cut-off date of the valuation.

The frequency and length of payment delay, as well as its growing trend increase the credit risk of the transaction and impair the quality of the risk assumption.

Outstanding debts subject to group evaluation are classified into five categories during the rating process. A certain amount of provision is allocated to each rating category, and it is this percentage value on the basis of which impairment is recognized on all receivables in the same category.

Based on a case-by-case evaluation, outstanding debts not qualifying as 'low amount' are included in one of the following asset rating categories, which are associated with the following provisioning weight bands:

- performing 0%,
- watch 1-10%,
- substandard 11-30%,
- doubtful 31-70%,
- bad 71-100%.

Depending on the nature of the item, classification into asset rating categories is based on the joint deliberation of the following aspects:

- client and counterparty rating – financial situation, stability and income generation capability of the client or counterparty affected by the financial and investment service, and any changes in these factors;
- compliance with the repayment schedule (overdue days) – patterns of delay on principal and interest payment related to the amortization of the outstanding debt, regularly fulfilment of the payment obligation;
- status of restructured risk contract;
- sovereign risk and changes in the sovereign risk associated with the client (both political risk and transfer risk);

- value, marketability and availability of the securities pledged as collateral and any changes in them;
- resale-ability and marketability of the item (market demand and supply, achievable market prices, share in the issuer's equity in proportion to the size of the investment),
- future payment obligation, which qualifies as a loss originating from the item.

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. The comparison of such probable future losses with the value of the collateral securing the item indicates the expected amount of losses determined on the basis of the value of the collateral, i.e. the required amount of provisions. If this amount is lower than the amount recognized on the item earlier, it has to be supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the reversal of the existing amount of impairment. Classification into asset rating categories occurs on the basis of the expected amount of losses determined on the basis of the value of the collateral.

Investments (including assets received in return for receivables and recorded as inventories) and off-balance sheet liabilities are, in all cases, evaluated on a case-by-case basis.

In keeping with § 87 (2) of Act CXII of 1996 on Credit Institutions and Financial Enterprises, the Bank creates general risk provisions – up to a maximum of 1.25% of the risk-weighted exposure amounts (adjusted balance sheet total) – to cover any unforeseeable and indeterminable losses in connection with exposures.

General risk provisions can be used if losses are incurred when assets are sold, derecognized or written off as loan or investment losses, and when losses are realized due to off-balance sheet liabilities.

General risk provisions are used – in the amount of the losses – when losses are realized on a portion of the above assets or off-balance sheet liabilities that is uncovered by reserves.

Qualified exposures¹:

Qualified exposure and volume of provision								
(in HUF million)	Qualified exposure gross value 31/12/2012	Volume of provision impairment 01/01/2012	Provision / impairment accounted	Provision / impairment released	Provision / impairment utilized	Exchange difference	Total change of provision / impairment	Volume of provision impairment 31/12/2012
Loans to credit institutions and financial enterprises	60,695	2,672	135	-566	-2	0	-433	2,239
Loans to non-financial enterprises	179,221	54,575	42,281	-20,097	-7,757	-2,029	12,399	66,974
Household loans	96,780	13,514	38,630	-17,012	-16,621	-331	4,666	18,180
Other domestic loans	51,062	5,675	3,682	-4,132	-12	-99	-561	5,115
Loans abroad	270,145	77,057	15,976	-7,893	-24,169	-5,164	-21,250	55,807

Qualified exposure by countries – 31/12/2012			
(in HUF million)	Qualified loans on gross value	Volume of provision / impairment	Qualified loans on net value
Hungary	387,825	92,574	295,251
the Netherlands	128,921	4,520	124,402
Montenegro	56,743	37,385	19,358
Cyprus	45,939	1,825	44,114
Romania	15,202	7,090	8,113
Slovakia	7,415	159	7,256
Bulgaria	6,943	69	6,873
Seychelles	4,912	1,473	3,438
Russia	3,043	2,737	306
Egypt	664	332	332
Croatia	314	190	124
Serbia	10	5	4
Germany	9	5	4
The United States of America	6	4	1
Ukraine	3	1	2
United Kingdom	2	1	1
Switzerland	2	1	1
Austria	2	1	1
China	2	1	1

¹ Not include impairment due to total repayment of loans denominated in FX covered with real estate on fixed exchange rate.

Qualified exposure by countries – 31/12/2012			
(in HUF million)	Qualified loans on gross value	Volume of provision / impairment	Qualified loans on net value
France	1	1	1
Canada	1	1	0
Luxembourg	1	1	0
Libya	1	1	0
Other countries (gross value is less than 1 million HUF individually)	8	4	4
Total	657,969	148,381	509,589

2.2. Guarantee capital and regulatory capital requirements

The capital requirement calculation of OTP Bank is based on HAS and audited data.

OTP Bank applied standardized capital calculation method regarding credit and market risk, advanced measurement approach (AMA) regarding the operational risk. OTP Bank regulatory capital requirement as of end of December 2012 was HUF 293 billion, the amount of regulatory capital was HUF 749 billion. The capital adequacy ratio stood at 20.45%.

OTP Bank capital requirement	31/12/2012
(in HUF million)	
Capital requirement	293,051
Credit risk	228,434
Market risk	37,483
Operational risk	27,134
Regulatory capital	749,106
(in HUF million)	
Tier1	938,969
Tier2	276,700
Additional capital	0
Deductions	-466,563
Exposure deducted from capital	581,392
(in HUF million)	
Total	581,392

Capital requirement for credit and counterparty risk	Credit	Counterparty	Total
(in HUF million)			
Standardized method capital requirement	217,954	10,480	228,434
Central governments or central banks	830	0	830
Regional governments or local authorities	10,375	160	10,535
Public sector entities	662	0	662
Multilateral Development Banks	0	0	0
Institutions	18,195	8,048	26,243
Corporate	139,482	2,243	141,725
Retail	27,172	29	27,201
Secured by real estate property	2,799	0	2,799
Past due items	3,666	0	3,666
Covered Bonds	233	0	233
Collective investment undertakings	1,512	0	1,512
Other items	13,028	0	13,028

2.3. Exposures² broken down by exposure classes

Exposure amounts broken down by exposure classes – GROSS (in HUF million)	31/12/2012
Gross exposure	7,453,117
Central governments or central banks	1,391,136
Regional governments or local authorities	301,854
Public sector entities	31,935
Multilateral Development Banks	0
Institutions	1,350,714
Corporate	2,181,278
Retail	717,572
Secured by real estate property	96,586
Past due items	120,249
Covered bonds	979,111
Collective investment undertakings	18,900
Other items	263,782

Exposure amounts broken down by exposure classes – NET (in HUF million)	31/12/2012
Net exposure	7,262,877
Central governments or central banks	1,391,136
Regional governments or local authorities	292,813
Public sector entities	31,931
Multilateral Development Banks	0
Institutions	1,350,714
Corporate	2,118,110
Retail	708,181
Secured by real estate property	93,961
Past due items	47,306
Covered bonds	979,111
Collective investment undertakings	18,900
Other items	230,714

2.4. Exposures² broken down by exposure classes and maturity

Exposures broken down by exposure classes and maturity						
(in HUF million)	In 1 year	1 – 2.5 year	2.5 – 5 year	Over 5 year	Without maturity	Non allocated
Total	3,799,510	770,991	755,337	1,813,331	194,309	119,638
Central governments or central banks	909,521	29,513	2,334	449,642	0	126
Regional governments or local authorities	102,049	25,441	30,802	143,531	0	31
Public sector entities	2,706	3,989	3,311	20,053	0	1,875
Multilateral Development Banks	0	0	0	0	0	0
Institutions	693,649	248,939	205,532	143,681	0	58,914
Corporate	957,868	359,762	406,516	407,305	0	49,844
Retail	520,373	70,308	76,377	44,868	0	5,646
Secured by real estate property	25,111	14,192	22,386	34,898	0	0
Past due items	92,344	4,017	8,079	15,793	0	0
Covered bonds	418,720	14,830	0	545,560	0	0
Collective investment undertakings	0	0	0	0	18,900	0
Other items	77,169	0	0	8,000	175,409	3,204

² Exposures according to credit and counterparty risk excluding items are treated as negative components of capital.

2.5. Exposures² of foreign countries broken down by exposure classes

Exposure of foreign countries – GROSS – 31 December 2012 (in HUF million)										
Country	Central governments or central banks	Regional governments or local authorities	Institutions	Corporate	Retail	Secured by real estate property	Past due items	Secured bonds	Other items	Total
Austria			9,547	20	9		2		5,827	15,405
Australia			118				1			119
Bosnia és Herzegovina				44						44
Belgium			2,823	50	1					2,874
Bulgaria			3,965	54,735	1					58,701
Belize				10,562						10,562
Canada			380		3		1			384
Switzerland			12,398	14,406	3		2			26,809
Chile					1					1
China							2			2
Cyprus				353,357						353,357
Czech Republic			549							549
Germany	17,688		49,066		33		9			66,796
Denmark			589							589
Estonia			25		1					26
Egypt				674	1					675
Spain			3,830							3,830
France			69,532		6		1			69,539
United Kingdom			264,736	395	4		1			265,136
Greece					1					1
Hong Kong			14							14
Croatia			2,127	25,015			314			27,456
Ireland			12,148							12,148
Israel			25		1		1			27
Iraq					1					1
Iran					2					2
Italy			750		1					751
Japan			2,264							2,264
Kuwait					1					1
Luxemburg			12,120		2		1			12,123
Montenegro			14,413	17,380	20		39,524			71,337
Mongolia					1					1
Malta			300		1					301
Netherlands			707	335,243	4		1			335,955
Norway			1,970		1					1,971
Poland			550		2					552
Portugal			604							604
Romania	546	71	94,892	37,099	8,681	476	8,311			150,076
Serbia			213	11,178	2					11,393
Russia			70,078	26,527	1		3,043			99,649
Seychelles				5,484						5,484
Sweden			51		4		1			56
Slovenia				437						437
Slovakia			663	25,071	196		18	14,673		40,621
Turkey			1,893							1,893
Ukraine			15,063	4,052	27		2			19,144
United States of America	650		9,935	211	7		6			10,809
South Africa					1					1
Total	18,884	71	658,338	921,940	9,020	476	51,241	14,673	5,827	1,680,470

2.6. Credit risk mitigation

Regulations on the valuation and management of securities contain (1) the aspects and factors that the Bank uses as a basis for collateral valuation depending on the type of the collateral and (2) the methods that the Bank uses in evaluating collateral. They lay down the procedures applicable when change occurs in the availability, value and enforceability of the collateral as well as the rules governing the frequency of regular and subsequent collateral valuation.

Collateral valuation covers all the lending, risk managing and legal activities that the Bank performs prior to the extension of a loan as well as during the term of the risk assumption in order to obtain information on the availability, value and enforceability of the collateral.

During the term of the contract containing the risk exposure the Bank regularly monitors and documents the fulfilment of the conditions set forth in the contract, including developments in the client's financial and economic position as well as changes in the availability, fair value and enforceability of the collateral and the securities.

In its lending activity the Bank uses the following types of eligible securities the most frequently: collateral deposit, lien, guarantee and surety ship.

Collaterals used in capital requirement calculation (31/12/2012):

Net exposure covered by collaterals (in HUF million)						
	State guarantee	Institution guarantee	Guarantee provided by others	Guarantee	Secured by real estate	Financial guarantee
Total	97,982	0	59	98,041	96,889	75,615
Central governments or central banks	0	0	0	0	0	0
Regional governments or local authorities	1,302	0	0	1,302	0	10,789
Public sector entities	19,388	0	0	19,388	0	0
Institutions	0	0	0	0	0	18,431
Corporate	28,383	0	0	28,383	0	42,962
Retail	44,869	0	0	44,869	0	2,646
Secured by real estate property	0	0	0	0	93,961	0
Past due items	4,040	0	59	4,099	2,928	787

2.7. Information about market and credit risk concentration

In order to avoid excessive dependency, the Bank manages the concentration risks of the portfolio by setting limits for sectors, countries, clients and counterparties at both bank and bank group levels.

In order to restrain the transfer of risk originating from a potential owner-business interest relationship between clients or relationships of business nature or collateral-related relationships, clients that qualify as a client group must be defined and client level concentration limits must be interpreted at a client-group level.

In order to support the recording and maintenance of client groups at a bank-group level, group-level regulations have been developed together with an IT system.

2.8. Use of credit assessment by Export Credit Agencies

OTP Bank uses S&P, Moody's and Fitch credit assessment³. Exposures to central governments and central banks shall be assigned a risk weight in a credit assessment scale. Exposures to institutions shall be assigned a risk weight according to the credit quality step to central government.

Credit quality step (CQS) to which central government is assigned	1	2	3	4	5	6
Central governments and central banks risk weight	0%	20%	50%	100%	100%	150%
Institutions risk weights	20%	50%	100%	100%	100%	150%

2.9. Trading book

At the end of 2012 counterparty risk represented HUF 10,480 million.

The capital requirement for market risk:

Capital requirement for market risk (in HUF million)	31/12/2012
Total	37,483
Position risk	1,226
FX-rate risk	36,257

OTP Bank has not applied IRB method regarding the market risk since 28 November 2008.

³ If more than two credit assessments are available from nominated ECAs for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be assigned.

2.10. Aspects of classification for trading purposes (capital gain, strategic reasons):

According to the Act on Accounting (Subsection (1) of Section 27 of Act C of 2000) those participations shall be shown under the financial investments which are kept for the purposes of gaining permanent income, or an influencing, directive or controlling option therein while the purpose for holding of participations included in the trading books is the short term exchange gain due to the price difference between the purchase and selling price.

According to the Investment Regulation of the OTP Plc. the long-term participations can be classify as it follows:

- The OTP Group which is the complex entirety of the OTP Bank Plc. and the enterprises closely affiliated (qualified as dominant influence or participation) with OTP Bank Plc.
- Other capital investments which are operate under the direct control of the OTP Bank Plc., but not belong to the OTP Group.

Accounting and valuation methods

According to the Accounting Policy of the OTP Bank Plc. the cost value (purchase value) of the investments representing participating interests shall mean as it follows:

In the course of buying shares, participations, capital contributions the cost value shall be comprised the amount paid for it, or – in respect of acquisitions – decreased or increased by the goodwill or negative goodwill, as appropriate, if goodwill or negative goodwill is shown

In the course of foundation or increase of capital the amount is recorded as combined value of contributions, as defined in the deed of foundation or its amendments, or in the general meeting or shareholders' or founders' resolution, to cover the subscribed capital, the balance between subscription or issue price and the face value, or the capital above and beyond the subscribed capital in the amount of paid up cash contributions and non-pecuniary contribution provided.

Main factors influencing the valuation:

The shares and business shares of the companies which are included in the investment portfolio of OTP Bank's shall be classify according to the OTP Bank's actual regulations for the specific valuation and shall be adjusted based on the classification. Essentially, the probability and size of the expected losses of investment have to be determined under the classification.

Exposures in equities not included in trading book as at 31 December 2012:

Investment	Currency	Gross value in million		Exchange traded
		currency	HUF	
OTP Banka Slovensko a.s.	EUR	92	26,724	Yes
OTP Banka Srbija a.d. Novi Sad	RSD	6,462	16,542	Yes
Merkantil Bank Zrt.	HUF	-	1,600	No
OTP Lakástakarék Zrt.	HUF	-	1,000	No
OTP Jelzálogbank Zrt.	HUF	-	27,000	No
OTP Faktoring Zrt.	HUF	-	0	No
OTP Lakáslízing Zrt.	HUF	-	914	No
GIRO Elszámolásforgalmi Zrt.	HUF	-	294	No
Garantiqua Hítelgarancia Zrt.	HUF	-	280	No
Budapesti Értéktőzsde Zrt.	HUF	-	123	No
OTP Pénztárszolgáltató Zrt.	HUF	-	2,620	No
Monicomp Zrt.	HUF	-	3,146	No
OTP Alapkezelő Zrt.	HUF	-	1,653	No
OTP Ingatlan Befektetési Alapkezelő Zrt.	HUF	-	1,352	No
Portfolion Kockázati Tőkealap-Kezelő Zrt.	HUF	-	150	No
Kisvállalkozás-fejlesztő Pénzügyi Zrt.	HUF	-	50	No
OTP Életjáradék Zrt.	HUF	-	15,166	No
OTP Ingatlan Zrt.	HUF	-	1,420	No
Multipont Program Zrt.	HUF	-	15	No
DSK Bank AD	BGN	360	53,580	No
OTP Bank Romania S.A.	RON	770	50,575	No
OTP banka Hrvatska d.d.	HRK	1,202	46,398	No
OTP Bank JSC	UAH	3,120	85,438	No
OAOTP Bank	RUB	7,926	57,540	No
Crnogorska komercijalna banka a.d.	EUR	100	29,079	No
Hungarian Financing Ltd	GBP	0	71	No
Eastern Securities S.A.	RON	0	0	No

Investment	Currency	Gross value in million		Exchange traded
		currency	HUF	
VISA Europe Ltd.	EUR	0	0	No
VISA Inc.	USD	0	0	No
ABE Clearing SAS	EUR	0	0	No
OTP Financing Cyprus Company Limited	EUR	0	0	No
OTP Holding Ltd.	EUR	8	2,407	No
HAGE Zrt.	HUF	-	135	No
Honeywell ESCO Zrt.	HUF	-	37	No
Mátrai Erőmű Zrt.	HUF	-	0	No
Pénzügykutató Zrt.	HUF	-	1	No

Gains and losses on sale of securities (as at 31 December 2012):

Investment	Date	Gain / loss (HUF)
Budapest Bank Nyrt.	20/03/2012	68,200
Bajor-Polár Center Zrt.	19/04/2012	0

2.11. Counterparty risk management

The establishment of limits is fundamentally influenced by the risk rating of counterparties, which comprises the analysis of financial data and deliberation over qualitative factors. The rating of the counterparty thus established defines the amount of the limit that can be granted to it, and the exposures and maturities for which it is permitted to use the limit. A detailed description of the rating is contained in the Counterparty Rating Regulations, and the manner in which limits are established and broken down into sub-limits are contained in the Risk Exposure Regulations. The regulations are regularly reviewed in consideration of the changes in market trends.

The Collateral Valuation Regulations, reviewed annually, set out the security categories into which the collateral provided by the counterparties with different ratings can be classified, as well as the values assigned to such collateral.

Ratings performed prior to the establishment of limits focus on the vulnerability of the counterparties to negative market trends and special (one-off) shocks. A favourable rating is given to those banks only, whose financial situation (capitalization liquidity, asset quality) and external support (from its owner or the state) are both expected to ensure the banks' ability to honour their obligations even if unfavourable events occur. Based on the European events during the latest period, the significance of the financial situation and especially the capitalization increased further, so the analysis of these factors are given special emphasis during our monitoring activity.

The Risk Exposure Regulations set out the cases of counterparty exposures where encumbrance on limits can be reduced because collateral items are considered. This is rarely applied. No collateral is linked to the majority of the exposures.

The mark to market method is applied.

2.12. Operational risk management

Advanced Measurement Approach (AMA) to measure regulatory capital requirements for operational risk

Advanced Measurement Approach enables institutions to achieve sophisticated risk management and refined capital calculation regarding operational risks.

The model includes the use of four data elements: historical internal loss data collected by all the management organizations of the Bank; risk self-assessment performed by banking experts; scenario analysis that reflects extreme events and external data that aims to complete the internal loss database. The four basic sources are divided into a subjective (self-assessment, scenario analysis) and an objective (external and internal loss data) group.

Operational risk events can be divided into two groups according to another aspect: rare events that cause large losses and frequent events that cause smaller losses. The characteristics of the risks that fall into these two groups show different pictures.

The framework of the quantification is determined by the distribution as per the ORCs and the individual loss value. In order to define the group-level capital requirement, within the individual ORCs calculated VaR values must be aggregated taking into account the effect of diversification. Finally, we consider the 99.9th percentile of the aggregated distribution as the operational risk VaR value that is valid for the operational risk capital requirement.

3. OTP MORTGAGE BANK

3.1. Calculation methods and approaches of impaired items and provisions

OTP Mortgage Bank (by the Hungarian abbreviation: JZB) is engaged in an activity falling under the scope of Act XXX. of 1997 on Mortgage Banks and Mortgage Bonds (by the Hungarian abbreviation: Jht.). In order to protect the interests of investors purchasing mortgage bonds, Jht. stipulates tighter-than-usual criteria concerning the coverage securing individual claims and the portfolio as a whole.

Accordingly, the portfolio of OTP Mortgage Bank:

- is homogeneous,
- is comprised, without exception, of loans secured by mortgage, and – for certain loan types – an additional state guarantee as well.

Pertaining to the assessment of the collateral value of the real estate offered as collateral, Jht. stipulates the use of a loan collateral value, which is lower than the market value of the real estate, takes certain risks into consideration and is checked and approved by OTP Mortgage Bank. The regulations governing the establishment of this value are approved by the Hungarian State Supervisory Authority for Financial Enterprises (by the Hungarian abbreviation: PSzÁF).

OTP Mortgage Bank's regulations on the collateral registry, which are tight regulations stipulating compliance at the level of the individual collateral items and the portfolio as a whole, are also approved by PSzÁF. Accordingly, OTP Mortgage Bank's portfolio may only contain fully covered loans.

Changes are monitored by the collateral registry system. Given this background, the internal structure, and hence the quality of the portfolio is monitored on an ongoing basis. In establishing the profit or loss for the reporting year, it is through accounting for impairment and raising provisions that foreseeable risks and potential losses are taken into consideration even if they become known between the end of the last reporting period and the balance sheet date. Impairment and provisions are both recognized, irrespective of whether the business year is closed with a profit or a loss.

For the debts outstanding at the rating cut-off date and the cut-off date for the business year and unpaid until the balance sheet date, impairment is recognized on the basis of available information; the amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. (The following qualify as receivables: receivables from credit institutions and financial enterprises, loans, advance payments as well as items of receivable type recorded among accruals and deferrals of income.)

If the amount of the debt that is expected to be recovered exceeds the book value of the debt at the cut-off date for rating, the impairment recognized earlier will be reduced through reversal.

The Bank recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their rating. If the rating process reveals that the amount of the risk provision exceeds the amount required on the basis of the rating, the excess amount of the risk provision is released. Risk provisions are used upon the termination of pending or certain (future) liabilities, or when losses arising from such liabilities are realized.

In its regulations the Bank provides detailed regulations pertaining to the valuation and impairment recognition of, and provisioning for, outstanding debts, investments, assets received in return for receivables and recorded as inventories and off-balance sheet liabilities.

Low-amount outstanding debts are rated on the basis of group evaluation with a simplified method. The most important parameters of the simplified rating procedure are payment delay and the status of restructuring.

The Bank determines the payment delay on the basis of the number of the calendar days without the client's fulfilment that pass without debt amortization from the due date of the principal repayment and/or the loan rate payment obligation specified in the assumption of risk contract to the cut-off date of the valuation.

The frequency and length of payment delay, as well as its growing trend increase the credit risk of the transaction and impair the quality of the risk assumption.

Outstanding debts subject to group evaluation are classified into five categories during the rating process. A certain amount of provision is allocated to each rating category, and it is this percentage value on the basis of which impairment is recognized on all receivables in the same category.

Based on a case-by-case evaluation, outstanding debts not qualifying as 'low amount' are included in one of the following asset rating categories, which are associated with the following provisioning weight bands:

- performing 0%,
- watch 1-10%,
- substandard 11-30%,
- doubtful 31-70%,
- bad 71-100%.

Depending on the nature of the item, classification into asset rating categories is based on the joint deliberation of the following aspects:

- client and counterparty rating – financial situation, stability and income generation capability of the client or counterparty affected by the financial and investment service, and any changes in these factors;
- compliance with the repayment schedule (overdue days) – patterns of delay on principal and interest payment related to the amortization of the outstanding debt, regularly fulfilment of the payment obligation;
- status of restructured risk contract;
- sovereign risk and changes in the sovereign risk associated with the client (both political risk and transfer risk);
- value, marketability and availability of the securities pledged as collateral and any changes in them;
- resale-ability and marketability of the item (market demand and supply, achievable market prices, share in the issuer's equity in proportion to the size of the investment),
- future payment obligation, which qualifies as a loss originating from the item.

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. The comparison of such probable future losses with the value of the collateral securing the item indicates the expected amount of losses determined on the basis of the value of the collateral, i.e. the required amount of provisions. If this amount is lower than the amount recognized on the item earlier, it has to be supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the reversal of the existing amount of impairment. Classification into asset rating categories occurs on the basis of the expected amount of losses determined on the basis of the value of the collateral.

Qualified exposures⁴:

Qualified exposure and volume of provision								
(in HUF million)	Qualified exposure gross value 31/12/2012.	Volume of provision impairment 01/01/2012	Provision / impairment accounted	Provision / impairment released	Provision / impairment utilized	Exchange difference	Total change of provision / impairment	Volume of provision impairment 31/12/2012.
Loans to credit institutions and financial enterprises	0	0	0	0	0	0	0	0
Loans to non-financial enterprises	0	0	0	0	0	0	0	0
Household loans	386,081	40,976	70,672	-47,552	-16,629	-3,084	3,407	44,383
Other domestic loans	0	0	0	0	0	0	0	0
Loans abroad	0	0	0	0	0	0	0	0

3.2. Guarantee capital and regulatory capital requirements

The capital requirement calculation of OTP Mortgage Bank is based on HAS and audited data.

OTP Mortgage Bank applied standardized capital calculation method regarding credit and market risk, advanced measurement approach (AMA) regarding the operational risk. OTP Mortgage Bank regulatory capital requirement as of end of December 2012 was HUF 44,7 billion, the amount of regulatory capital was HUF 58,6 billion. The capital adequacy ratio stood at 10.48%.

⁴ Not include impairment due to total repayment of loans denominated in FX covered with real estate on fixed exchange rate.

OTP Mortgage Bank capital requirement (in HUF million)		31/12/2012	
Capital requirement		44,736	
Credit risk		41,965	
Market risk		165	
Operational risk		2,606	
Regulatory capital (in HUF million)			
Regulatory capital		58,585	
Tier1		55,692	
Tier2		2,893	
Additional capital		0	
Deductions		0	
Exposure deducted from capital (in HUF million)			
Total		164	
Capital requirement for credit and counterparty risk (in HUF million)			
	Credit	Counterparty	Total
Standardized method capital requirement	41,965	0	41,965
Central governments or central banks	10	0	10
Regional governments or local authorities	4	0	4
Institutions	12	0	12
Corporate	336	0	336
Retail	10,615	0	10,615
Secured by real estate property	27,370	0	27,370
Past due items	3,606	0	3,606
Other items	12	0	12

3.3. Exposures⁵ broken down by exposure classes

Exposure amounts broken down by exposure classes - GROSS (in HUF million)		31/12/2012
Gross exposure		1,456,320
Central governments or central banks		8,358
Regional governments or local authorities		256
Institutions		135,084
Corporate		4,211
Retail		230,056
Secured by real estate property		988,660
Past due items		89,542
Other items		154

Exposure amounts broken down by exposure classes - NET (in HUF million)		31/12/2012
Net exposure		1,411,871
Central governments or central banks		8,358
Regional governments or local authorities		256
Institutions		135,084
Corporate		4,196
Retail		225,023
Secured by real estate property		975,204
Past due items		63,601
Other items		149

⁵ Exposures according to credit and counterparty risk items.

3.4. Exposures⁵ broken down by exposure classes and maturity

Exposures broken down by exposure classes and maturity						
(in HUF million)	In 1 year	1 – 2.5 year	2.5 - 5 year	Over 5 year	Without maturity	Non allocated
Total	217,987	116,677	219,242	878,672	5	23,740
Central governments or central banks	8,309	0	0	0	0	49
Regional governments or local authorities	256	0	0	0	0	0
Institutions	111,558	0	0	0	0	23,526
Corporate	2,462	240	386	1,110	0	13
Retail	12,074	18,423	34,072	165,484	0	3
Secured by real estate property	59,076	93,964	174,953	660,668	0	0
Past due items	24,251	4,050	9,831	51,411	0	0
Other items	1	0	0	0	5	149

3.5. Credit risk mitigation

Collaterals used in capital requirement calculation (31/12/2012):

Exposures covered by collaterals		
(in HUF million)	State guarantee	Secured by real estate
Total	47,436	1,014,424
Retail	46,430	0
Secured by real estate property	0	975,205
Past due items	1,006	39,219

3.6. Trading book

The capital requirement for market risk:

Capital requirement for market risk (in HUF million)	31/12/2012
Total	165
Position risk	12
FX-rate risk	153

4. OTP BUILDING SOCIETY

4.1. Calculation methods and approaches of impaired items and provisions

OTP Building Society is engaged in an activity falling under the scope of Act CXIII. of 1996 on Home Savings and Loan Association (by the Hungarian abbreviation: LTP) which stipulates tighter-than-usual criteria in order to protect customers.

Its activity is restricted to collecting home savings deposits and providing home acquisition loans.

Its products, business regulations and the General Contractual Terms are approved by the Hungarian State Supervisory Authority for Financial Enterprises (by the Hungarian abbreviation: PSzÁF).

10-15% of authorized customers have utilized their right to take the loan since the start of OTP Building Society.

OTP Building Society's outstanding debts – according to its regulation – are low-amount debts and are evaluated on the basis of group evaluation with a simplified method.

Outstanding debts subject to group evaluation are classified into five rating categories on the basis of payment delay. A certain amount of provision is allocated to each rating category, and it is this percentage value on the basis of which impairment is recognized on all receivables in the same category.

At the end of December 2012 the gross amount of loans was HUF 5,870 million from which the non-problem free volume was only HUF 23 million, which is 0.4% of the gross loan volume.

Qualified exposure and volume of provision								
(in HUF million)	Qualified exposure gross value 31/12/2012.	Volume of provision impairment 01/01/2012	Provision / impairment accounted	Provision / impairment released	Provision / impairment utilized	Exchange difference	Total change of provision / impairment	Volume of provision impairment 31/12/2012.
Loans to credit institutions and financial enterprises	0	0	0	0	0	0	0	0
Loans to non-financial enterprises	0	0	0	0	0	0	0	0
Household loans	62	15	21	13	0	0	8	23
Other domestic loans	0	0	0	0	0	0	0	0
Loans abroad	0	0	0	0	0	0	0	0

4.2. Guarantee capital and regulatory capital requirements

The capital requirement calculation of OTP Building Society is based on HAS and audited data.

OTP Building Society applied standardized capital calculation method regarding credit and market risk and advanced measurement approach (AMA) regarding the operational risk. OTP Building Society regulatory capital requirement as of end of December 2012 was HUF 1.3 billion, the amount of regulatory capital was HUF 5.1 billion. The capital adequacy ratio stood at 30.69%.

OTP Building Society capital requirement (in HUF million)	31/12/2012
Capital requirement	1,333
Credit risk	370
Market risk	563
Operational risk	400
Regulatory capital (in HUF million)	
Regulatory capital	5,115
Tier1	5,115
Tier2	0
Additional capital	0
Deductions	0
Exposure deducted from capital (in HUF million)	
Total	98

Capital requirement for credit risk (in HUF million)	
Standardized method capital requirement	370
Central governments or central banks	0
Regional governments or local authorities	0
Institutions	0
Corporate	43
Retail	323
Past due items	1
Covered bonds	0
Other items	3

4.3. Exposures broken down by exposure classes

Exposure amounts broken down by exposure classes - GROSS (in HUF million)	31/12/2012
Gross exposure	126,184
Central governments or central banks	82,844
Regional governments or local authorities	5
Institutions	19,343
Corporate	537
Retail	5,450
Past due items	36
Covered bonds	17,935
Other items	34

Exposure amounts broken down by exposure classes - NET (in HUF million)	31/12/2012
Net exposure	126,161
Central governments or central banks	82,844
Regional governments or local authorities	5
Institutions	19,343
Corporate	537
Retail	5,450
Past due items	13
Covered bonds	17,935
Other items	34

4.4. Exposures broken down by exposure classes and maturity

Exposures broken down by exposure classes and maturity (in HUF million)	In 1 year	1 – 2.5 year	2.5 – 5 year	Over 5 year	Without maturity	Non allocated
Total	50,287	39,311	19,369	16,200	34	985
Central governments or central banks	16,321	37,248	17,763	10,527	0	985
Regional governments or local authorities	5	0	0	0	0	0
Institutions	19,343	0	0	0	0	0
Corporate	206	207	106	18	0	0
Retail	1,665	1,848	1,498	439	0	0
Past due items	28	7	2	0	0	0
Covered bonds	12,719	0	0	5,217	0	0
Other items	0	0	0	0	34	0

4.5. Trading book

The capital requirement for market risk:

Capital requirement for market risk (in HUF million)	31/12/2012
Total	563
Position risk	563
FX-rate risk	0

5. REMUNERATION POLICY

5.1. Decision-making process applied in determining the remuneration policy

The Board of Directors of OTP Bank Plc. – within the framework approved by the Bank's General Meeting – makes a decision about accepting the Bank Group's Remuneration Policy, approves its amendment and oversees its implementation. OTP Bank Plc.'s Board of Directors consults with all the units of OTP Bank that are significant in terms of corporate governance with regard to drafting the Bank Group's Remuneration Policy.

OTP Bank Plc.'s Board of Directors has the right to modify the Remuneration Policy with the exception of matters that by law are subject to the competence of the General Meeting, with the proviso that it notify all the subsidiaries of the OTP Bank Group of the amendment immediately and/or that it notify the shareholders at OTP Bank Plc.'s next General Meeting.

The Supervisory Board of OTP Bank Plc. is responsible for the implementation and review, at least once a year, of the Bank Group's Remuneration Policy.

The provisions of the Bank Group's Remuneration Policy, as well as the regulations related to it and their implementation, must be checked by OTP Bank Plc.'s Internal Audit department at least once a year, no later than by 31 March, and a report on the matter must be prepared for OTP Bank Plc.'s Board of Directors, Supervisory Board and Remuneration Committee.

OTP Bank Plc.'s Remuneration Committee oversees the remuneration of the managers who are responsible for risk management and legal compliance, and prepares remuneration decisions by taking into account the long-term interests of shareholders, investors and other stakeholders of the credit institution.

OTP Bank Plc.'s Remuneration Committee makes recommendations to the Supervisory Board of OTP Bank Plc. regarding the remuneration of the Board of Directors of OTP Bank Plc. and provides support and advice to OTP Bank Plc.'s Board of Directors with respect to drafting the Bank Group's comprehensive remuneration policy and checking the planning and operation of the remuneration system.

The detailed description of the tasks and responsibilities related to the operation of the Bank Group's Remuneration Policy is contained in the effective rules of procedure of the individual bodies.

5.2. Relationship between performance and performance-based remuneration

The most important principle of the Bank Group's Remuneration Policy is that the amount of performance-based remuneration – with the risks assessed in advance as well as subsequently – is tied to the extent to which the objectives of the Bank Group/Bank/subsidiary and the individual are realised. The amount of the performance-based remuneration is determined on the basis of a joint assessment of the objectives.

In respect of the persons subject to the effect of the Bank Group's Remuneration Policy, performance evaluation, as a rule of thumb, is based on individual agreements. Performance expectations are determined in a predefined indicator structure at Bank Group/Bank/subsidiary, organisational, managerial and job level and/or in terms of target tasks, taking into account the differences stemming from the nature of the activities of the Bank's individual units.

In the case of **managers employed by OTP Bank Plc.**, the key performance evaluation indicators include:

- the bank group-level (domestic and foreign companies that operated as group members under consolidated supervision throughout the evaluated business year) **RORAC** (Return on Risk-Adjusted Capital), which indicates return relative to the capital requirement associated with the given risk of an activity, as well as
- **criteria that measure individual performance** (financial indicators and indicators measuring the quality of work performance).

In the case of **the managers of the Bank Group's subsidiaries**, performance evaluation is conducted in a **differentiated manner based on the nature of the companies' activities**.

The target value of the key indicator is determined by the Bank's Board of Directors based on the prevailing annual financial plan. The Board of Directors may modify the target value in response to a change in the statutory regulations and/or a change in market circumstances that occurs after the target value is determined and that has a significant objective impact on the Bank's profit and/or attainment of the target value.

5.3. Criteria of variable remuneration

At Bank Group level, the maximum amount available for performance-based remuneration in a given year is determined by OTP Bank Plc.'s Board of Directors. OTP Bank Plc. uses the combined method when determining the amount of the performance-based remuneration (variable remuneration), with the proviso that the maximum amount available for performance-based remuneration is determined as a function of the Bank Group's capital position and its expected financial performance.

Bank Group level and individual performances are evaluated once a year. At Bank Group level the maximum amount of performance-based remuneration in a given year and the amount broken down by individuals are determined within 30 days after the date of the General Meeting of OTP Bank Plc. that closes the evaluated year.

As a general rule, the performance-based variable remuneration is provided in the form of a cash bonus and a share allowance granted at a discount, in a 50-50% ratio. The conditions of the share based remuneration is determined by the Board of Directors of OTP Bank Plc. within the frames defined by the Annual General Meeting. In respect of each member of the Bank Group, the share-based portion of variable remuneration is provided by OTP Bank Plc. to those concerned.

Pursuant to the general rule that is in line with the provisions of the Credit Institutions Act, 60% of the variable remuneration is deferred for 3 years, within which period the extent of the deferred payment shall be identical every year.

Entitlement to the deferred instalments is determined based on a subsequent assessment of the risks. The assessment of risks takes place, on the one hand, on the basis of quantitative criteria pertaining to prudent operations and, on the other, on qualitative evaluation criteria. On the basis of the values of the criteria of prudent operation, OTP Bank Plc.'s Board of Directors makes a decision on whether to pay the deferred instalments. Based on the assessment of the risks related to the activities of those concerned, the deferred portion of the performance-based remuneration may be reduced or cancelled. As a general rule, an additional condition for entitlement to the deferred instalments is the retention of the employment relationship.

5.4. Summarised information relating to the remuneration

Within the context of the Bank Group's Remuneration Policy, the summarised information pertaining to the remuneration of the persons specified in Article 69/B (2) of the Credit Institutions Act is contained in the following table.

Summarised information relating to the remuneration:

	Persons receiving remuneration	Remuneration settled in 2012			Amount of unpaid, deferred remuneration	
		Fixed remuneration ¹⁾	Performance based remuneration	The deferred portion of the performance based remuneration for 2012 ²⁾	Entitlement obtained	Entitlement not obtained
	(persons)					
Senior managers	22	1,271,194,503	1,321,421,380	240,343,840	817,876,093	2,984,505,844
Persons subject to the effect of the Bank Group's Remuneration Policy	183	4,263,069,053	3,500,275,839	416,634,324	1,594,547,194	5,395,271,394
OTP Bank Plc.	98	2,076,284,892	2,253,090,756	327,727,314	1,283,999,298	4,109,710,936
Subsidiaries under consolidated supervision ³⁾	85	2,186,784,161	1,247,185,083	88,907,010	310,547,896	1,285,560,458

Comments:

1) Contains the amount of the share allowance that constitutes the fixed remuneration of the members of OTP Bank's Board of Directors which, in accordance with Resolution 10/2011 of the General Meeting, is settled after the General Meeting that closes the year 2011.

2) The amount of the performance-based remuneration, which includes, based on resolution 9/2011 of the General Meeting, the short-term instalment of the performance-based remuneration for 2010.

3) In case of the subsidiaries under consolidated supervision the fixed remuneration is calculated at the closing exchange rate as at 31 December 2012, the performance based remuneration is calculated at the official middle rate of the National Bank of Hungary on the day of the evaluation of the financial year.

During the business year, no guaranteed performance-based remuneration was paid in relation to new employment contracts to persons employed by OTP Bank Plc. who are subject to the effect of the Remuneration Policy, and no severance pay was settled.

In the case of subsidiaries under consolidated supervision 1 person received severance payment in the amount of HUF 19,457,178, and 2 persons were paid in relation to new employment contracts in the total amount of HUF 19,971,000.