




## **OTP Bank Plc.**

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Government decree No. 234/2007. (IX.4)  
on disclosure requirements**

*(English translation of the original report)*

Budapest, 9 May 2014

A large, stylized green wave graphic that starts from the left, curves upwards, and then levels out towards the right, spanning the bottom half 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 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 measurement 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 is based on the methodological principles of the software used for reporting risk exposure of the trading book, supervised by the financial authority, which software complies with the EU directives.

Main principles of market risk management regulation:

- The bank is allowed to run market risks in the trading book within the limits set by the Board of Directors. The bank can open asset-liability management (ALM) positions to hedge strategic risks appearing in the profit plan, but in every single case, based on an Asset-Liability Management Directorate Proposal, it is a decision of the Asset-Liability Committee (ALCO) up to a certain risk limit, or the Board of Directors,

above this risk limit. 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 value 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 concerned 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

a) List of fully consolidated entities under the rules of Consolidation Accounting (IFRS) and Consolidated Based Supervision as at 31 December 2013:

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 Lakástakarékpénztár Zrt.	X	X
7. Bank Center No. 1. Kft.	X	X
8. OTP Faktoring Vagyonkezelő 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 Vagyonkezelő Kft.	X	X
34. OTP Ingatlanlízing Zrt.	X	X
35. OTP Életjáradék Ingatlanbefektető Zrt.	X	X
36. OTP Bank JSC (Ukrajna)	X	X
37. OAO OTP Bank (Russia)	X	X
38. OTP banka Srbija a.d.	X	X
39. OTP Investments d.o.o. Novi Sad	X	X
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

Name of the company	Consolidation Accounting (IFRS)	Consolidated Based Supervision
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 Capital (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 EAD	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. Bajor-Polár Center Zrt.	X	X
72. Projekt 2003 Kft.	X	
73. Szalamandra Kft.	X	
74. Miskolci Diákotthon Kft.	X	
75. Sasad-Beregszász Kft.	X	
76. OTP Aventin d.o.o.	X	X
77. Balansz Zártkörű Nyíltvégű Ingatlanalap	X	
78. Gizella Projekt Ingatlanforgalmazó Kft.	X	
79. JN Parkolóház Kft.	X	
80. Kikötő Ingatlanforgalmazó Kft.	X	
81. Debt Management Project 1 Montenegro d.o.o.	X	
82. OTP Mobil Szolgáltató Kft.	X	
83. OTP Ingatlan Befektetési Alapkezelő Zrt.	X	X
84. OTP Lésítmenyüzemeltető Kft.	X	X
85. OTP Faktoring d.o.o.		X
86. OTP Real Estate Service SRL		X
87. Cresco d.o.o.		X
88. SC Aloha Buzz SRL		X
89. SC Favo Consultanta SRL		X
90. SC Tezaur Cont SRL		X
91. DSK Asset Management		X
92. AlyansReserv OOO		X
93. OTP Immobilien Verwertung		X
94. OTP Mémöki Szolgáltató Kft.		X
95. OTP Real Estate Service LLC		X

b) List of partially consolidated entities under the rules of Consolidation Accounting (IFRS) and Consolidated Based Supervision as at 31 December 2013:

Name of the company	Consolidation Accounting (IFRS)	Consolidated Based Supervision
D-ÉG Thermoset Kft.	X	

c) 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 2013:

Consolidation Accounting (IFRS)	Consolidated Based Supervision
Agóra-Kapos Építőipari Kft.	Auctioneer s. r. o.
AlyansReserv OOO	Debt Management Project 1 Montenegro d.o.o.
Auctioneer s. r. o.	Diákigazolvány Kft.
CRESCO d.o.o.	DSK Bul-Projekt OOD
Diákigazolvány Kft.	DSK Tours EOOD
DSK Asset Management EAD	DSK Trans Security EOOD
DSK Bul-Projekt OOD	Faktoring Projekt 1 d.o.o.
Faktoring Projekt 1 d.o.o.	Faktoring SK, a.s. v likvidácii
Faktoring SK, a.s. v likvidácii	Gamayun LLC

Consolidation Accounting (IFRS)	Consolidated Based Supervision
Gamayun LLC	Gizella Projekt Ingatlanforgalmazó Kft
Govcka Project Company SRL	Govcka Project Company SRL
Ingatlan Fedezetkezelő P1. Kft.	Ingatlan Fedezetkezelő P1. Kft.
Ingatlanbefektetési Projekt 7. Kft	Ingatlanbefektetési Projekt 7. Kft
Ingatlanforgalom Projekt 15. Kft.	Ingatlanforgalom Projekt 15. Kft.
Ingatlanhasznosító Projekt 11. Kft	Ingatlanhasznosító Projekt 11. Kft
Ingatlankezelő Projekt 16. Kft.	Ingatlankezelő Projekt 16. Kft.
Ingatlanmenedzser Projekt 18. Kft.	Ingatlanmenedzser Projekt 18. Kft.
Ingatlanvagyon Projekt 14. Kft.	Ingatlanvagyon Projekt 14. Kft.
Kereskedelmi Projekt 10. Kft.	JN Parkolóház Kft.
KITE Mezőgazd. Szolg. és Ker. Zrt.	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	OFB Projects EOOD
OTP Advisor SRL	OOO OTP Travel
OTP Consulting d.o.o.	OTP Advisor SRL
OTP Consulting Romania SRL	OTP Buildings s.r.o.
OTP Faktoring d.o.o.	OTP Consulting d.o.o.
OTP Fedezetingatlan Kft.	OTP Consulting Romania SRL
OTP Hungaro-Projekt Kft.	OTP Fedezetingatlan Kft.
OTP Immobilien Verwertung GmbH.	OTP Hungaro-Projekt Kft.
OTP Ingatlan Bau Kft.	OTP Ingatlan Bau Kft.
OTP Mérnöki Szolgáltató Kft.	OTP Ingatlanpont Ingatlanközvetítő Kft.
OTP Nedvizhimost ZAO	OTP Mobil Szolgáltató Kft.
OTP Real Estate Services LLC	OTP Nedvizhimost ZAO
OTP Real Estate Services SRL	OTP Pénztárszolgáltató Zrt.
OTP Travel Kft.	OTP Real Slovensko s.r.o.
ÖSSZEANGOLÓ Vagyonkezelő Kft.	OTP Travel Kft.
PEVEC d.o.o. Beograd	ÖSSZEANGOLÓ Vagyonkezelő Kft.
PortfoLion Kockázati Tőkealap-kezelő Zrt.	PEVEC d.o.o. Beograd
Project 03 s.r.o.	PortfoLion Kockázati Tőkealap-kezelő Zrt.
Projekt 13 Apartman Slovensko s.r.o.	Project 03 s.r.o.
Projekt Ingatlanforgalmazó 9. Kft.	Projekt 13 Apartman Slovensko s.r.o.
Projekt Vagyonkezelési 13. Kft.	Projekt 2003. Ingatlan Befektető és Fejlesztő Kft.
Projekt-Ingatlan 8. Kft.	PROJEKT 3. Ingatlanforgalmazó és Kereskedelmi Kft.
Rácalmás Projekt Kft.	Projekt Ingatlanforgalmazó 9. Kft.
Rácalmási Területfejlesztő Kft.	Projekt Vagyonkezelési 13. Kft.
Rea Project One Company SRL	Projekt-Ingatlan 8. Kft.
RESPV s.r.l.	R.E. Four d.o.o., Novi Sad
SC Aloha Buzz SRL	Rácalmás Projekt Kft.
SC AS Tourism SRL	Rácalmási Területfejlesztő Kft.
SC Cefin Real Estate Kappa SRL	Rea Project One Company SRL
SC Favo Consultanta SRL	RESPV s.r.l.
SC Tezaur Cont SRL	Sasad-Beregszász Ingatlanforgalmazó Kft.
Snorri-Salander Kft.	SC AS Tourism SRL
Special Purpose Company LLC	SC Cefin Real Estate Kappa SRL
STABILIZÁLÓ Vagyonkezelő Kft.	Snorri-Salander Kft.
SUZUKI Pénzügyi Szolgáltató Zrt.	SPLC-B Ingatlanfejlesztő, Ingatlanhasznosító Kft.
TradeNova Kft. (f.a.)	SPLC-C Ingatlanfejlesztő és Ingatlanhasznosító Kft
Vagyonértékesítő Projekt 17. Kft.	SPLC-N Ingatlanfejlesztő, Ingatlanhasznosító Kft.
Vagyonhasznosító Projekt 19. Kft	SPLC-P Ingatlanfejlesztő, Ingatlanhasznosító Kft.
Vagyonkezelő Projekt 12. Kft.	SPLC-S Ingatlanfejlesztő, Ingatlanhasznosító Kft.
Vagyonmenedzser Projekt 20. Kft.	SPLC-T1 Ingatlanfejlesztő, Ingatlanhasznosító Kft.
	STABILIZÁLÓ Vagyonkezelő Kft.
	Szalamandra Ingatlanforgalmazó Kft.
	TradeNova Kft. (f.a.)
	Vagyonértékesítő Projekt 17. Kft.
	Vagyonhasznosító Projekt 19. Kft
	Vagyonkezelő Projekt 12. Kft.
	Vagyonmenedzser Projekt 20. Kft.
	Special Purpose Company LLC
	POK DSK-Rodina AD
	SUZUKI Pénzügyi Szolgáltató Zrt.
	KITE Mezőgazd. Szolg. és Ker. Zrt.
	Naprijed d.d. (f.a.) (forg.)
	Agóra-Kapos Építőipari Kft.

d) The group of companies deducted from consolidated regulatory capital as at 31 December 2013:

- The value of interests in other financial institutions, investment firms, insurance and reinsurance companies which deduct the regulatory capital: HUF 367 million.

- The ownership share value in the company which need not be included in the consolidation because of the Commission decision is zero.
- e) Relating to the accounting consolidation and consolidated based supervision of the calculation of capital requirements – regarding institutions involved in the calculation – no other items were raised.
- f) In case of OTP Bank Plc. there is no such institution which is out of consolidated based supervision, since its solvency capital does not reach the capital requirement under the law of its country of origin.
- g) Under the relevant regulations of the Banking Act. there is no constraint on transfer of solvency capital and repayment of obligations between referred institutions and OTP Bank Plc..

### 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 2013 was HUF 579 billion, the amount of guarantee capital was HUF 1,441 billion. The consolidated capital adequacy ratio stood at 19.9%.

Consolidated capital requirement (million HUF)	31/12/2013
<b>Capital requirement</b>	<b>579,409</b>
Credit risk	461,765
Market risk	37,295
Operational risk	80,348
<b>Consolidated regulatory capital (million HUF)</b>	<b>31/12/2013</b>
<b>Regulatory capital</b>	<b>1,440,563</b>
Tier1	1,253,990
Positive items of Tier1	1,421,028
Negative items of Tier1	-167,038
Tier2	186,940
Positive items of Tier2	188,362
Negative items of Tier2	-1,422
Additional capital	0
Deductions	-367

Capital requirement for credit and counterparty risk (million HUF)	31/12/2013
<b>Standardized method capital requirement</b>	<b>461,765</b>
Central governments or central banks	12,563
Regional governments or local authorities	4,926
Public sector entities	2,685
Institutions	16,615
Corporate	155,445
Retail	152,827
Secured by real estate property	40,310
Past due items	33,504
Collective investment undertakings	2,582
Other items	40,308



Exposure deducted from capital (million HUF)	31/12/2013
<b>Total</b>	<b>65,276</b>

### 1.5. Exposures<sup>1</sup> broken down by exposure classes

Exposure amounts broken down by exposure classes - <b>GROSS</b> (million HUF)	31/12/2013
<b>Gross exposure</b>	<b>12,987,011</b>
Central governments or central banks	2,120,499
Regional governments or local authorities	169,096
Public sector entities	69,834
Multilateral Development Banks	314
Institutions	894,891
Corporate	2,487,246
Retail	3,541,165
Secured by real estate property	1,447,383
Past due items	1,528,206
Covered bonds	0
Collective investment undertakings	32,270
Other items	696,107

Exposure amounts broken down by exposure classes - <b>NET</b> (million HUF)	31/12/2013
<b>Net exposure</b>	<b>11,647,628</b>
Central governments or central banks	2,119,673
Regional governments or local authorities	167,373
Public sector entities	69,441
Multilateral Development Banks	314
Institutions	894,577
Corporate	2,366,211
Retail	3,457,092
Secured by real estate property	1,431,807
Past due items	424,558
Covered bonds	0
Collective investment undertakings	32,270
Other items	684,312

<sup>1</sup> Exposures according to credit and counterparty risk excluding items are treated as negative components of capital.



## 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.

#### Qualified exposures:

(in HUF million)	Qualified exposure gross value 31/12/2013	Volume of provision impairment 01/01/2013	Provision / impairment accounted	Provision / impairment released	Provision / impairment utilized	Exchange difference	Total change of provision / impairment	Volume of provision impairment 31/12/2013
Loans to credit institutions and financial enterprises	51,772	2,239	1,977	-761	-2	0	1,214	3,452
Loans to non-financial enterprises	163,032	66,974	34,083	-20,765	-6,058	347	7,607	74,581
Household loans	79,425	18,247	30,402	-18,650	-14,470	17	-2,702	15,545
Other domestic loans	20,481	5,115	1,753	-5,681	-10	20	-3,917	1,197
Loans abroad	120,658	51,288	12,930	-10,177	-1,294	843	2,302	53,590

#### Qualified exposures by countries:

Qualified exposure by countries 31/12/2013 (HUF million)	Qualified loans on gross value	Volume of impairment	Qualified loans on net value
Hungary	314,765	94,796	219,969
Cyprus	45,979	10,371	35,609
Montenegro	36,065	30,446	5,619
Romania	12,071	6,150	5,922
Bulgaria	10,468	729	9,739
Slovakia	7,305	150	7,156
Seychelles	4,628	2,315	2,313
Russia	3,008	2,696	312
Egypt	686	480	206
Croatia	313	190	123
United Kingdom	23	14	9
The United States of America	16	11	6
Germany	12	5	7
Ukraine	4	2	2
Serbia	3	1	1
Switzerland	2	2	1
Luxembourg	2	2	0
China	2	1	1
Austria	2	1	1
Canada	1	1	1
Libya	1	1	0
Other countries (gross value is less than HUF 1 million individually)	11	5	5
<b>Total</b>	<b>435,368</b>	<b>148,366</b>	<b>287,002</b>

## 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 2013 was HUF 261 billion, the amount of regulatory capital was HUF 750 billion. The capital adequacy ratio stood at 23.01%.

OTP Bank capital requirement (in HUF million)	31/12/2013
<b>Capital requirement</b>	<b>260,644</b>
Credit risk	201,730
Market risk	32,942
Operational risk	25,972

Regulatory capital (in HUF million)	31/12/2012
<b>Regulatory capital</b>	<b>749,747</b>
Tier1	994,715
Positive items of Tier1	1,129,998
Negative items of Tier1	-135,283
Tier2	215,902
Positive items of Tier2	215,902
Negative items of Tier2	0
Additional capital	0
Deductions	-460,870

Exposure deducted from capital (in HUF million)	31/12/2013
<b>Total</b>	<b>576,525</b>

Capital requirement for credit and counterparty risk (in HUF million)	Credit	Counterparty	Total
<b>Standardized method capital requirement</b>	<b>201,730</b>	<b>6,888</b>	<b>208,618</b>
Central governments or central banks	271	0	271
Regional governments or local authorities	3,429	36	3,465
Public sector entities	394	0	394
Multilateral Development Banks	0	0	0
Institutions	20,102	4,612	24,714
Corporate	128,310	2,199	130,509
Retail	25,320	41	25,361
Secured by real estate property	3,412	0	3,412
Past due items	3,251	0	3,251
Covered Bonds	238	0	238
Collective investment undertakings	2,582	0	2,582
Other items	14,421	0	14,421

### 2.3. Exposures<sup>2</sup> broken down by exposure classes

Exposure amounts broken down by exposure classes – GROSS (in HUF million)	31/12/2013
<b>Gross exposure</b>	<b>7,220,798</b>
Central governments or central banks	1,548,682
Regional governments or local authorities	119,708
Public sector entities	30,043
Multilateral Development Banks	0
Institutions	1,472,532
Corporate	1,992,954
Retail	718,844
Secured by real estate property	116,317
Past due items	108,016
Covered bonds	789,757
Collective investment undertakings	32,270
Other items	291,675

Exposure amounts broken down by exposure classes – NET (in HUF million)	31/12/2013
<b>Net exposures</b>	<b>7,025,097</b>
Central governments or central banks	1,548,508
Regional governments or local authorities	118,662
Public sector entities	30,039
Multilateral Development Banks	0
Institutions	1,472,510
Corporate	1,918,215
Retail	711,713
Secured by real estate property	112,234
Past due items	40,384
Covered bonds	789,757
Collective investment undertakings	32,270
Other items	250,805

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

2.4. Exposures<sup>2</sup> broken down by exposure classes and maturity

Exposures broken down by exposure classes and maturity - GROSS (HUF million)						
	In 1 year	1 – 2.5 year	2.5 – 5 year	Over 5 year	Without maturity	Non allocated
<b>Total</b>	<b>3,928,752</b>	<b>1,171,117</b>	<b>794,608</b>	<b>1,019,522</b>	<b>235,810</b>	<b>70,988</b>
Central governments or central banks	1,160,354	106,394	93,678	188,172	0	83
Regional governments or local authorities	34,900	12,600	19,744	52,421	0	44
Public sector entities	7,389	1,692	1,465	17,035	0	2,462
Multilateral Development Banks	0	0	0	0	0	0
Institutions	913,337	178,316	147,722	178,938	48	54,172
Corporate	957,736	397,272	297,333	333,605	0	7,008
Retail	557,677	65,915	56,123	36,369	0	2,760
Secured by real estate property	35,390	20,794	25,482	34,601	0	50
Past due items	94,421	2,289	4,605	6,701	0	0
Covered bonds	87,890	385,845	148,455	167,567	0	0
Collective investment undertakings	0	0	0	0	32,270	0
Other items	79,658	0	0	4,115	203,492	4,410

2.5. Exposures<sup>2</sup> of foreign countries broken down by exposure classes

Exposure of foreign countries – GROSS – 31 December 2013										(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			227,645		7		2		5,939	233,593
Australia			131				1			132
Belgium			13,653		1					13,654
Bulgaria			363	54,740	2					55,105
Belize				10,380						10,380
Canada			208		3		1			212
Switzerland			15,723	8,466	3		2			24,194
Chile					1					1
China					1		2			3
Cyprus				262,987						262,987
Czech Republic			951				1			952
Germany	5,283		30,416		28		8			35,735
Denmark			1,642							1,642
Estonia			25		1					26
Egypt				686						686
Spain			3,700							3,700
France			50,424		6		1			50,431
United Kingdom			208,367		5		23			208,395
Grenada					1					1
Greece					3					3
Croatia			2,528	25,523	1		313			28,365
Ireland			2,000							2,000
Israel			25		1					26
Iraq					1					1
Iran					2					2
Italy			750		1		1			752
Japan			1,833		1					1,834
Kuwait					1					1
Luxembourg			5,626		2		2			5,630
Libya							1			1
Montenegro			1,401	3,443	15		32,689			37,548
Mongolia					2					2
Malta			300							300
Netherlands			1,017	225,843	3		1			226,864
Norway			1,210		1					1,211
Poland			1,884		2					1,886
Portugal			414							414
Romania	278		73,711	35,468	6,887	539	5,596			122,479
Serbia			1,560	8,904	3		1			10,468
Russian Federation			31,081	18,495	1		3,008			52,585
Seychelles				4,733			10			4,743
Sweden			1,579		4		1			1,584
Slovenia				594						594
Slovakia			12,581	22,414	165		5	14,846		50,011
Turkey			1,218							1,218
Ukraine			27,307	19,477	21		3			46,808

Exposure of foreign countries – GROSS – 31 December 2013										(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
United States			4,915		6		16			4,937
Venezuela					3					3
Vietnam					1					1
South Africa					1					1
<b>Total</b>	<b>5,561</b>	<b>0</b>	<b>726,188</b>	<b>702,153</b>	<b>7,187</b>	<b>539</b>	<b>41,688</b>	<b>14,846</b>	<b>5,939</b>	<b>1,504,101</b>

## 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<sup>3</sup> used in capital requirement calculation (31/12/2013):

Net exposure covered by collaterals						
(HUF million)	State guarantee	Institution guarantee	Guarantee provided by others	Guarantee	Secured by real estate	Financial guarantee
<b>Total</b>	<b>108,400</b>	<b>0</b>	<b>14</b>	<b>108,415</b>	<b>116,176</b>	<b>351,233</b>
Central governments or central banks	0	0	0	0	0	6270
Regional governments or local authorities	983	0	0	983	0	9,842
Public sector entities	18,655	0	0	18,655	0	45
Institutions	0	0	0	0	0	281,922
Corporate	35,793	0	0	35,794	0	50,020
Retail	49,360	0	0	49,360	0	3,091
Secured by real estate property	0	0	0	0	112,234	0
Past due items	3,609	0	14	3,623	3,942	43

## 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 assessment<sup>4</sup>. 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.

<sup>3</sup> OTP Bank has no credit derivative.

<sup>4</sup> 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.

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 2013 counterparty risk represented HUF 6,888 million.

The capital requirement for market risk:

Capital requirement for market risk (in HUF million)	31/12/2013
<b>Total</b>	<b>32,922</b>
Position risk	1,557
FX-rate risk	31,365

At OTP Bank Plc., according to the requirements of Hungarian Banking Act, the credit risk is considered as large exposure if the adjusted value of the exposure, calculated in line with the standardized approach, reaches 10% of the prudential solvency capital.

As at 31 December 2013, there were two client exposures where the net combined value of the banking book and trading book exposure exceeded 10% of the solvency capital.

Regarding the banking and trading book risk concerning risk in excess of the 25% limit, stated in the Banking Act Paragraph 79 (2)/a, the Bank has not undertaken risk in respect of any client or client group.

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

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

### 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 2013:**

Investment	Currency	Gross value in million		Exchange traded
		Foreign currency	HUF	
OTP Banka Slovensko a.s.	EUR	92	27,277	Yes
OTP Banka Srbija a.d. Novi Sad	RSD	8,298	21,491	No
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 Ingatlanlízing Zrt.	HUF	-	60	No
GIRO Elszámolásforgalmi Zrt.	HUF	-	294	No
Garantiqua Hitelgarancia Zrt.	HUF	-	270	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	-	15,091	No
OTP Ingatlan Zrt.	HUF	-	4,777	No
Multipont Program Zrt.	HUF	-	15	No
DSK Bank AD	BGN	360	54,616	No
OTP Bank Romania S.A.	RON	770	51,021	No
OTP banka Hrvatska d.d.	HRK	1,202	46,819	No
OTP Bank JSC	UAH	3,120	81,663	No
OAOTP Bank	RUB	7,934	51,970	No
Crnogorska komercijalna banka a.d.	EUR	110	32,647	No
Hungarian Financing Ltd	GBP	0	71	No
Eastern Securities S.A.	RON	0	0	No
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	2,454	No
HAGE Zrt.	HUF	-	135	No
Honeywell ESCO Zrt. (under liquidation)	HUF	-	37	No
Mátrai Erőmű Zrt.	HUF	-	0	No
Pénzügykutató Zrt.	HUF	-	1	No
KÖZVIL Első Magyar Közvilágítási Zrt	HUF	-	0	No

**Gains and losses on sale of securities (as at 31 December 2013):**

Investment	Date	Gain/loss (HUF)
Garantiqua Hitelgarancia Zrt.	28/05/2013	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 (including unfunded credit protection, mainly bank guarantees) can be classified, as well as the values assigned to such collateral. The Bank had no credit derivative transaction in the last year.

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 expectations of the regulatory authorities during the latest period, the significance of the stable financial situation and especially the capitalization increased further, so the analysis of these factors is taken into account with special emphasis during our monitoring activity.

The Risk Exposure Regulation sets out the cases of counterparty exposures where encumbrance on limits can be reduced because collateral items are considered. Majority of interbank derivative deals are conducted under ISDA/CSA agreements, the related risk mitigation effect appears at the limit utilization calculation. At the same time contractual netting is not taken into account in the capital requirement.



The mark to market method is applied for determination of counterparty risk capital requirement.

## 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.

Insurance or other legal transactions in order to mitigate the capital requirements – specified in Government Regulation about the management of operational risk and capital requirements No. 200/2007 (VII. 30) paragraph 9 – are not implemented by the Bank.

### 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 National Bank of Hungary (by the Hungarian abbreviation: MNB).

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 MNB. 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;
- 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 exposures:

(HUF million)	Qualified exposure gross value 31/12/2013	Volume of provision impairment 01/01/2013	Provision / impairment accounted	Provision / impairment released	Provision / impairment utilized	Exchange difference	Total change of provision / impairment	Volume of provision impairment 31/12/2013
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	281,885	44,383	49,569	-39,404	-21,103	-468	-11,405	32,978
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 2013 was HUF 41 billion, the amount of regulatory capital was HUF 58.4 billion. The capital adequacy ratio stood at 11.39%

<b>OTP Mortgage Bank capital requirement</b> (in HUF million)	31/12/2013
<b>Capital requirement</b>	<b>41,037</b>
Credit risk	37,528
Market risk	203
Operational risk	3,306
<b>Regulatory capital</b> (in HUF million)	31/12/2013
<b>Regulatory capital</b>	<b>58,424</b>
Tier1	56,245
Positive items of Tier1	56,422
Negative items of Tier1	-177
Tier2	2,179
Positive items of Tier2	2,179
Negative items of Tier2	0
Additional capital	0
Deductions	0
<b>Exposure deducted from capital</b> (in HUF million)	31/12/2013
<b>Total</b>	<b>177</b>

<b>Capital requirement for credit and counterparty risk</b> (HUF million)	<i>Credit</i>	<i>Counterparty</i>	<i>Total</i>
<b>Standardized method capital requirement</b>	<b>37,528</b>	<b>0</b>	<b>37,528</b>
Central governments or central banks	7	0	7
Regional governments or local authorities	4	0	4
Institutions	5	0	5
Corporate	212	0	212
Retail	10,094	0	10,094
Secured by real estate property	24,391	0	24,391
Past due items	2,804	0	2,804
Other items	11	0	11

### 3.3. Exposures<sup>5</sup> broken down by exposure classes

<b>Exposure amounts broken down by exposure classes - GROSS</b> (HUF million)	31/12/2013	<b>Exposure amounts broken down by exposure classes - NET</b> (HUF million)	31/12/2013
<b>Gross exposure</b>	<b>1,341,820</b>	<b>Net exposure</b>	<b>1,308,745</b>
Central governments or central banks	7,023	Central governments or central banks	7,023
Regional governments or local authorities	239	Regional governments or local authorities	239
Institutions	168,215	Institutions	168,215
Corporate	2,772	Corporate	2,654
Retail	214,819	Retail	211,437
Secured by real estate property	877,631	Secured by real estate property	869,112
Past due items	70,978	Past due items	49,927
Other items	143	Other items	138

### 3.4. Exposures<sup>5</sup> broken down by exposure classes and maturity

<b>Exposures broken down by exposure classes and maturity</b> (in HUF million)	<i>In 1 year</i>	<i>1 – 2.5 year</i>	<i>2.5 - 5 year</i>	<i>Over 5 year</i>	<i>Without maturity</i>	<i>Non allocated</i>
<b>Total</b>	<b>164,628</b>	<b>131,988</b>	<b>261,582</b>	<b>739,217</b>	<b>0</b>	<b>44,404</b>
Central governments or central banks	4,361	0	0	0	0	2,662
Regional governments or local authorities	239	0	0	0	0	0
Institutions	62,945	9,142	54,527	0	0	41,601
Corporate	1,391	209	311	859	0	1
Retail	12,245	20,337	34,621	147,614	0	2
Secured by real estate property	62,124	98,397	164,068	553,041	0	0
Past due items	21,317	3,903	8,055	37,703	0	0
Other items	6	0	0	0	0	137

<sup>5</sup> Exposures according to credit and counterparty risk items.

### 3.5. Credit risk mitigation

Collaterals used in capital requirement calculation (31/12/2013):

Exposures covered by collaterals (in HUF million)		
	State guarantee	Secured by real estate
<b>Total</b>	<b>42,435</b>	<b>900,022</b>
Retail	41,611	0
Secured by real estate property	0	869,112
Past due items	823	30,910

### 3.6. Trading book

The capital requirement for market risk:

Capital requirement for market risk (in HUF million)	31/12/2013
<b>Total</b>	<b>203</b>
Position risk	12
FX-rate risk	191

## 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 National Bank of Hungary (by the Hungarian abbreviation: MNB).

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 2013 the gross amount of loans was HUF 5,766 million from which the non-problem free volume was only HUF 28 million, which is 0.5% of the gross loan volume.

(in HUF million)	Qualified exposure gross value 31/12/2013	Volume of provision impairment 01/01/2013	Provision / impairment accounted	Provision / impairment released	Provision / impairment utilized	Exchange difference	Total change of provision / impairment	Volume of provision impairment 31/12/2013
Loans to credit institutions and financial enterprises	0	0	0	0	0	0	0	0
Loans to non-financial enterprises	2	2	1	2	0	0	-1	1
Household loans	26	21	10	20	0	0	-10	11
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 2013 was HUF 1 billion, the amount of regulatory capital was HUF 5.4 billion. The capital adequacy ratio stood at 42.88%.

<b>OTP Building Society capital requirement</b> (in HUF million)	31/12/2013
<b>Capital requirement</b>	<b>1,012</b>
Credit risk	365
Market risk	216
Operational risk	430
<b>Regulatory capital</b> (in HUF million)	31/12/2013
<b>Regulatory capital</b>	<b>5,422</b>
Tier1	5,422
Positive items of Tier1	5,526
Negative items of Tier1	-104
Tier2	0
Positive items of Tier2	0
Negative items of Tier2	0
Additional capital	0
Deductions	0
<b>Exposure deducted from capital</b> (in HUF million)	31/12/2013
<b>Total</b>	<b>104</b>

Capital requirement for credit risk (in HUF million)	31/12/2013
<b>Standardized method capital requirement</b>	<b>365</b>
Central governments or central banks	0
Regional governments or local authorities	1
Institutions	0
Corporate	39
Retail	321
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)	31/12/2013
<b>Gross exposure</b>	<b>140,169</b>
Central governments or central banks	99,408
Regional governments or local authorities	46
Institutions	29,336
Corporate	496
Retail	5,424
Past due items	17
Covered bonds	5,399
Other items	43

Exposure amounts broken down by exposure classes - NET (in HUF million)	31/12/2013
<b>Net exposure</b>	<b>140,157</b>
Central governments or central banks	99,408
Regional governments or local authorities	46
Institutions	29,336
Corporate	496
Retail	5,421
Past due items	8
Covered bonds	5,399
Other items	43

#### 4.4. Exposures broken down by exposure classes and maturity

Exposures broken down by exposure classes and maturity - GROSS (in HUF million)	In 1 year	1 – 2.5 year	2.5 – 5 year	Over 5 year	Without maturity	Non allocated
<b>Total</b>	<b>55,164</b>	<b>35,720</b>	<b>29,956</b>	<b>17,931</b>	<b>41</b>	<b>1,357</b>
Central governments or central banks	23,854	33,588	28,359	12,250	0	1,356
Regional governments or local authorities	46	0	0	0	0	0
Institutions	29,336	0	0	0	0	0
Corporate	188	199	96	13	0	0
Retail	1,545	1,930	1,500	450	0	0
Past due items	13	2	1	1	0	0
Covered bonds	182	0	0	5,217	0	0
Other items	1	0	0	0	41	1

#### 4.5. Trading book

The capital requirement for market risk:

Capital requirement for market risk (in HUF million)	31/12/2013
<b>Total</b>	<b>216</b>
Position risk	216
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 are 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<sup>6</sup>:

	Persons receiving remuneration	Remuneration settled in 2013				Amount of unpaid, deferred remuneration	
		Fixed remuneration <sup>1)</sup>	Performance based remuneration		The deferred portion of the performance based remuneration which settled in 2013 <sup>2)</sup>	Entitlement obtained	Entitlement not obtained
			Cash based	Share based			
Senior managers	22	1,605,115,548	1,235,791,125	1,243,850,103	1,251,909,082	329,129,436	3,234,744,676
Persons subject to the effect of the Bank Group's Remuneration Policy	190	4,649,562,006	3,782,996,612	2,465,029,609	3,400,289,181	647,921,047	7,365,015,083
OTP Bank Plc.	107	2,201,496,565	1,965,991,909	1,769,661,698	1,770,190,660	518,252,417	4,555,298,791
Subsidiaries under consolidated supervision <sup>3)</sup>	83	2,448,065,441	1,817,004,703	695,367,911	1,630,098,521	129,668,630	2,809,716,292

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 2012.

2) The amount of the performance-based remuneration, which includes the second deferred portions of the performance-based remuneration for 2010 and the first deferred portions of the performance-based remuneration for 2011.

3) In case of the subsidiaries under consolidated supervision the fixed remuneration is calculated at the closing exchange rate as at 31 December 2013, 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 in the frame of the Remuneration Policy no severance payment was settled, and 1 person was paid in relation to new employment contract in the total amount of HUF 13,972,500.

<sup>6</sup>. OTP Bank Plc. has Remuneration Policy on group level, accordingly the definition of business units includes the aggregated data of OTP Bank Plc. and companies under consolidated based supervisions involved in Remuneration Policy.