

# **OTP MORTGAGE BANK LTD.**

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

FOR THE YEAR ENDED  
31 DECEMBER 2012

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Separate Financial Statements

We have audited the accompanying separate financial statements (pages 2 to 60) of OTP Mortgage Bank Ltd. for the year 2012, which separate financial statements comprise the statement of financial position as at December 31, 2012 and the related statement of recognized and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Separate Financial Statements*

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

#### *Auditor's Responsibility*

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

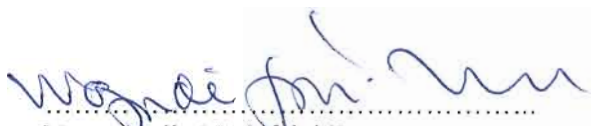
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether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

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

*Opinion*

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

Budapest, March 27, 2013



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Nagyváradiné Szépfalvi Zsuzsanna  
Deloitte Auditing and Consulting Ltd.  
1068 Budapest, Dózsa György út 84/C.  
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**OTP MORTGAGE BANK LTD.**

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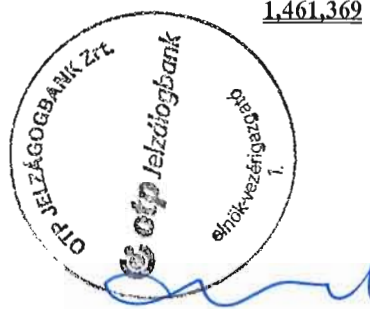
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**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012**  
(in HUF million)

|  | Note | 2012                    | 2011                    |
|--|------|-------------------------|-------------------------|
| Cash, amounts due from banks and balances with the<br>National Bank of Hungary | 4.   | 75,064                  | 1,729                   |
| Placements with other banks  | 5.   | 36,182                  | 80,652                  |
| Financial assets at fair value through profit or loss                          | 6.   | -                       | 2,028                   |
| Securities available-for-sale  | 7.   | 41,859                  | 1,845                   |
| Loans, net of allowances for loan losses                                       | 8.   | 1,273,919               | 1,482,103               |
| Property and equipment   | 9.   | 130                     | 126                     |
| Intangible assets  | 9.   | 164                     | 183                     |
| Other assets   | 10.  | <u>34,051</u>           | <u>90,733</u>           |
| <b>TOTAL ASSETS</b>  |      | <b><u>1,461,369</u></b> | <b><u>1,659,399</u></b> |
| Amounts due to OTP Bank and other banks  | 11.  | 225,077                 | 336,250                 |
| Liabilities from issued securities   | 12.  | 1,142,728               | 1,202,215               |
| Financial liabilities at fair value through profit or loss                     | 13.  | -                       | 7,122                   |
| Other liabilities  | 14.  | 14,313                  | 23,666                  |
| Subordinated bonds and loans   | 15.  | <u>3,640</u>            | <u>3,865</u>            |
| <b>TOTAL LIABILITIES</b>   |      | <b><u>1,385,758</u></b> | <b><u>1,573,118</u></b> |
| Share capital  | 16.  | 27,000                  | 27,000                  |
| Retained earnings and reserves   | 17.  | <u>48,611</u>           | <u>59,281</u>           |
| <b>TOTAL SHAREHOLDER'S EQUITY</b>  |      | <b><u>75,611</u></b>    | <b><u>86,281</u></b>    |
| <b>TOTAL LIABILITIES AND SHAREHOLDER'S<br/>EQUITY</b>                          |      | <b><u>1,461,369</u></b> | <b><u>1,659,399</u></b> |

Budapest, 27 March 2013



Dániel Gyuris  
Chief Executive Officer

**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF RECOGNIZED INCOME FOR THE YEAR ENDED**  
**31 DECEMBER 2012 (in HUF million)**

|  | Note    | 2012                  | 2011                   |
|--|---------|-----------------------|------------------------|
| <i>Interest Income:</i>  |         |                       |                        |
| Loans  |         | 100,124               | 106,817                |
| Placements with other banks  |         | 25,150                | 28,192                 |
| Amounts due from banks and balances with the<br>National Bank of Hungary                       |         | 51                    | 48                     |
| Interest subsidy on housing loans financed by mortgage<br>bonds                                |         | 39,578                | 42,719                 |
| Securities available-for-sale  |         | <u>551</u>            | <u>794</u>             |
| <b>Total Interest Income</b>   |         | <b><u>165,454</u></b> | <b><u>178,570</u></b>  |
| <i>Interest Expense:</i>   |         |                       |                        |
| Amounts due to OTP Bank and other banks  |         | 32,975                | 19,898                 |
| Deposits from customers  |         | 232                   | 375                    |
| Liabilities from issued securities   |         | 83,338                | 89,963                 |
| Subordinated bonds and loans   |         | <u>145</u>            | <u>139</u>             |
| <b>Total Interest Expense</b>  |         | <b><u>116,690</u></b> | <b><u>110,375</u></b>  |
| <b>NET INTEREST INCOME</b>   |         | <b>48,764</b>         | <b>68,195</b>          |
| Provision for impairment on loan and placement losses  | 8., 19. | 27,625                | 40,448                 |
| (Gains)/Losses on loans relating to early repayment  | 19.     | (1,555)               | 60,694                 |
| <b>NET INTEREST INCOME AFTER PROVISION<br/>FOR IMPAIRMENT ON LOAN AND<br/>PLACEMENT LOSSES</b> |         | <b>22,694</b>         | <b>(32,947)</b>        |
| Income from fees and commissions   | 20.     | 1,854                 | 2,116                  |
| Expenses from fees and commissions   | 20.     | <u>(3,664)</u>        | <u>(3,928)</u>         |
| <b>Net fees and commissions</b>  |         | <b><u>(1,810)</u></b> | <b><u>(1,812)</u></b>  |
| Foreign exchange (losses)/gains, net   |         | (2,335)               | 4,198                  |
| Gains on securities, net   |         | 45                    | -                      |
| Other operating income   | 28.     | 5,728                 | 2,377                  |
| Other operating expenses   |         | <u>(932)</u>          | <u>(1,003)</u>         |
| <b>Net operating income</b>  |         | <b><u>2,506</u></b>   | <b><u>5,572</u></b>    |
| Personnel expenses   |         | 636                   | 653                    |
| Depreciation and amortization  |         | 125                   | 157                    |
| Other administrative expenses  | 21.     | <u>14,469</u>         | <u>6,443</u>           |
| <b>Other administrative expenses</b>   |         | <b><u>15,230</u></b>  | <b><u>7,253</u></b>    |
| <b>PROFIT/(LOSS) BEFORE INCOME TAX</b>   |         | <b>8,160</b>          | <b>(36,440)</b>        |
| Income tax   | 23.     | <u>727</u>            | <u>(6,702)</u>         |
| <b>NET PROFIT/(LOSS) FOR THE YEAR</b>  |         | <b><u>7,433</u></b>   | <b><u>(29,738)</u></b> |
| Earnings/(Loss) per share (in HUF)   |         |                       |                        |
| Basic and diluted  | 24.     | <u>27,530</u>         | <u>(110,141)</u>       |

The accompanying notes to separate financial statements on pages 7 to 60 form an integral part of these separate financial statements.

**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED**  
**31 DECEMBER 2012 (in HUF million)**

|   | Note | 2012                | 2011                   |
|---|------|---------------------|------------------------|
| <b>NET PROFIT/(LOSS) FOR THE YEAR</b>                     |      | <b><u>7,433</u></b> | <b><u>(29,738)</u></b> |
| Fair value adjustment of securities<br>available-for-sale | 7.   | 45                  | (3)                    |
| Fair value adjustment of derivative financial instruments |      | <u>430</u>          | <u>377</u>             |
| <b>Other comprehensive income, net of income tax</b>      |      | <u>475</u>          | <u>374</u>             |
| <b>NET COMPREHENSIVE INCOME/(LOSS)</b>                    |      | <b><u>7,908</u></b> | <b><u>(29,364)</u></b> |

**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012**  
(in HUF million)

|   | Note | 2012                    | 2011                   |
|---|------|-------------------------|------------------------|
| <b>OPERATING ACTIVITIES</b>   |      |                         |                        |
| <b>Profit before income tax</b>   |      | <b>8,160</b>            | <b>(36,440)</b>        |
| Depreciation and amortization   |      | 125                     | 157                    |
| Provision for impairment on loan and placement losses   |      | 26,070                  | 101,142                |
| Provision for impairment on other assets  |      | 3                       | -                      |
| Unrealised (gains)/losses on fair value adjustment of derivative financial instruments              |      | (5,442)                 | 4,148                  |
| <i>Net changes in assets and liabilities in operating activities:</i>                               |      |                         |                        |
| Net changes in financial assets through comprehensive income  |      | 2,028                   | -                      |
| Decrease/(Increase) in loans, net of allowances for loan losses                                     |      | 182,114                 | (20,843)               |
| Decrease/(Increase) in other assets before provisions for losses                                    |      | 56,679                  | (80,099)               |
| (Decrease)/Increase in other liabilities  |      | (10,925)                | 20,334                 |
| Income tax paid   |      | <u>(1,161)</u>          | <u>(1,062)</u>         |
| <b>Net cash provided by/(used in) by operating activities</b>                                       |      | <b><u>257,651</u></b>   | <b><u>(12,663)</u></b> |
| <b>INVESTING ACTIVITIES</b>   |      |                         |                        |
| Net decrease in placements with other banks   |      | 44,470                  | 24,457                 |
| Net increase in securities available-for-sale   |      | (39,959)                | -                      |
| Net additions to property, equipment and intangible assets  |      | <u>(110)</u>            | <u>(130)</u>           |
| <b>Net cash provided by investing activities</b>  |      | <b><u>4,401</u></b>     | <b><u>24,327</u></b>   |
| <b>FINANCING ACTIVITIES</b>   |      |                         |                        |
| Net (decrease)/increase in amounts due to OTP Bank and other banks                                  |      | (111,173)               | 214,300                |
| Cash received from issuance of securities   |      | 145,084                 | 102,531                |
| Cash used for repurchase and redemption of issued securities  |      | (203,825)               | (372,733)              |
| Net (decrease)/increase in subordinated bonds and loans   |      | (225)                   | 501                    |
| Dividend paid   |      | (16,000)                | (1,000)                |
| Adjustment of capital contribution received from OTP Bank related to early repayment at fixed rates |      | <u>(2,578)</u>          | <u>46,440</u>          |
| <b>Net cash used in financing activities</b>  |      | <b><u>(188,717)</u></b> | <b><u>(9,961)</u></b>  |
| <b>Net increase in cash and cash equivalents</b>  |      | <b>73,335</b>           | <b>1,703</b>           |
| <b>Cash and cash equivalents at the beginning of the year</b>                                       |      | <b><u>1,729</u></b>     | <b><u>26</u></b>       |
| <b>Cash and cash equivalents at the end of the year</b>   |      | <b><u>75,064</u></b>    | <b><u>1,729</u></b>    |
| <i>Analysis of cash and cash equivalents opening and closing balance</i>                            |      |                         |                        |
| Cash, amounts due from banks and balances with the National Bank of Hungary                         |      | <u>1,729</u>            | <u>26</u>              |
| <b>Cash and cash equivalents at the beginning of the year</b>                                       |      | <b><u>1,729</u></b>     | <b><u>26</u></b>       |
| Cash, amounts due from banks and balances with the National Bank of Hungary                         | 4.   | <u>75,064</u>           | <u>1,729</u>           |
| <b>Cash and cash equivalents at the end of the year</b>   |      | <b><u>75,064</u></b>    | <b><u>1,729</u></b>    |



**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED**  
**31 DECEMBER 2012 (in HUF million)**

|   | Note  | Share Capital | Retained earnings<br>and reserves | Total         |
|---|-------|---------------|-----------------------------------|---------------|
| <b>Balance as at 1 January, 2011</b>  |       | <u>27,000</u> | <u>52,028</u>                     | <u>79,028</u> |
| Dividend paid   |       | -             | (1,000)                           | (1,000)       |
| Net loss for the year   |       | -             | (29,738)                          | (29,738)      |
| Capital contribution received from<br>OTP Bank related to early<br>repayment at fixed rates   |       | -             | 46,440                            | 46,440        |
| Current tax receivable recognised<br>directly in equity relating to early<br>repayment  |       | -             | (8,823)                           | (8,823)       |
| Other comprehensive income  |       | -             | 374                               | 374           |
| <b>Balance as at 31 December 2011</b>   |       | <u>27,000</u> | <u>59,281</u>                     | <u>86,281</u> |
| Dividend paid   |       | -             | (16,000)                          | (16,000)      |
| Net profit for the year   |       | -             | 7,433                             | 7,433         |
| Adjustment of capital contribution<br>received from OTP Bank related to<br>early repayment at fixed rates   | 2.14. | -             | (3,183)                           | (3,183)       |
| Current tax payable recognised<br>directly in equity relating to<br>Adjustment of capital contribution<br>received from OTP Bank related to<br>early repayment at fixed rates |       | -             | 605                               | 605           |
| Other comprehensive income  |       | -             | 475                               | 475           |
| <b>Balance as at 31 December 2012</b>   |       | <u>27,000</u> | <u>48,611</u>                     | <u>75,611</u> |

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2012**

**NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS**

**1.1. General information**

OTP Bank Plc. ("OTP Bank") established OTP Mortgage Bank Ltd. ("OTP Mortgage Bank" or the "Bank") as a fully owned subsidiary on 15 May 2001. The State Financial Supervisory Authority issued the operating license on 10 January 2002, and the Bank commenced operations on 1 February 2002.

OTP Bank is the ultimate parent of the Bank, and also the ultimate parent of OTP Group.

The Bank's registered office address is Nádor u. 21, Budapest 1051.

The Bank is a specialized financial institution with its main business being governed by Act XXX of 1997 on Mortgage Lending Institutions and Mortgage Bonds.

The Bank started the operations in foreign currency in 2004 with the issuance of EUR denominated medium term mortgage bonds. In 2005, the Bank started to extend its mortgage loan portfolio with CHF denominated assets. In 2007, the Bank started to disburse JPY based loans. In accordance with the above-mentioned law, the net foreign currency position must be hedged by derivative instruments. After 2011, based on the effect of the financial crisis and the debtor's exposure in foreign currencies FX loan financing activities are continued with stricter conditions. JPY loan disbursements are stopped.

The Bank employs limited staff at its head office and relies on approximately 380 branches of OTP Bank engaged in the housing loan business. Under a syndication agreement between OTP Bank and OTP Mortgage Bank, OTP Bank, through its branch network, provides services for OTP Mortgage Bank concerning the administration of the mortgage loans, for which fees are paid by OTP Mortgage Bank. Credit scoring and lending are performed at the branches of OTP Bank in accordance with the regulations of OTP Mortgage Bank. Loans are approved by OTP Mortgage Bank and OTP Bank acts for and on behalf of OTP Mortgage Bank during the conclusion of a loan agreement. The mortgage right, along with the restraint of transfer and encumbrance on property pledged to secure loans is entered in the property register for the benefit of OTP Mortgage Bank.

As the sole shareholder, OTP Bank provides financial and administrative support to the Bank. Additionally, any short-term liquidity gaps which may arise from the timing difference between the loan disbursements and issuance of mortgage backed securities are generally financed by OTP Bank. Details of related party balances and transactions are summarised in Note 28 to these financial statements.

A significant proportion of mortgage loans are extended for periods for more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity (1-10 years). One reason for this mismatch was that the interest subsidy (see Note 18 for details) on mortgage bonds was only for a period of up to five years. As a result of change in 2004, the interest subsidy regime now allows mortgage bond subsidies for up to twenty years. As a result the Bank is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

As at 31 December 2011 and 2012 the number and the average number of the employees at the Bank were 36 and 40.

**1.2. Accounting**

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

OTP Mortgage Bank's functional currency is the Hungarian Forint ("HUF").

The accounting policies followed by the Bank in the preparation of these financial statements conform with International Financial Reporting Standards ("IFRS"). Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to OTP Mortgage Bank's Hungarian statutory accounts (see Note 32), in order to present the financial position and results of operations of OTP Mortgage Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB"), which are referred to as IFRS.

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2012**

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

**1.2. Accounting [continued]**

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

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

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

The adoption of the above presented Amendment had no significant impact on the separate financial statements of the Bank.

**1.2.2 Amendments and new Standards and Interpretations to IFRS effective on or after 1 January 2013, which are adopted by EU**

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

- **IFRS 10 “Consolidated Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 “Joint Arrangements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 “Disclosures of Interests in Other Entities”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 13 “Fair Value Measurement”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 (revised in 2011) “Separate Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 1 (Amendment) “First-time Adoption of IFRS”** – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 1 (Amendment) “First-time Adoption of IFRS”** – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 7 (Amendment) “Financial Instruments: Disclosures”** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **IAS 1 (Amendment) “Presentation of Financial Statements”** – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **IAS 12 (Amendment) “Income Taxes” – Deferred Tax: Recovery of Underlying Assets**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **IAS 19 (Amendment) “Employee Benefits”** – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **IAS 32 (Amendment) “Financial Instruments: Presentation”** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2012**

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

**1.2. Accounting [continued]**

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

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

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2012**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1. Basis of presentation**

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

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

**2.2. Foreign currency translation**

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

**2.3. Securities and other financial assets**

The Bank classifies its financial assets into the following categories: held for trading, held-to-maturity and available-for-sale. Securities that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as securities held for trading. Investments with fixed maturity that the management has the expressed intention and ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale.

The Bank had no securities classified as held for trading or held-to-maturity as at 31 December 2012 and 2011.

**2.3.1. Securities available-for-sale**

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognized directly in equity, unless such available-for-sale security is part of an effective fair value hedge. Such gains and losses will be reported when realised in profit and loss for the applicable period. Interest received from available for sale securities are recognised as interest income in the Separate Statement of Recognized Income. Such securities consist of bonds issued by the NBH and the Hungarian Government as at 31 December 2012.

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

**2.3.2. Derivative financial instruments**

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

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.3.2. Derivative financial instruments [continued]**

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost all of its open derivative transactions collateralised. There is no other credit value (CVA), debit value (DBA) or funding value (FVA) adjustment applied.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and included in the Statement of Recognized Income for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

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

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

**2.4. Loans and allowance for loan losses**

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

When a borrower is unable to meet payments as they fall due or, there is an indication that a borrower may be unable to meet payments as agreed all accrued unpaid interest is impaired.

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

Due to the composition of the loan portfolio, the Bank does not have loans which are individually significant. The impairment is recorded on portfolio basis for the loans which are individually not significant, based on the type of the loans, overdue days, historical probability of default and expected losses.

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

The Bank classifies the renegotiated loans as impaired loans (at least to-be-monitored), and records at least 1 per cent provision for impairment on them, until a certain time period of repayment depending on the frequency of the renegotiated loan's cash-flows.

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**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.5. Liabilities from issued securities**

Issued mortgage bonds are measured at amortized cost. The costs related to their issuance is included in the amortized cost of the issued securities and amortized over the term of the securities. Mortgage bonds are issued based on the total amount of property pledged as collateral to the Bank and recorded in the Bank's collateral register.

**2.6. Property, equipment and intangible assets**

Property, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over their useful lives. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

|                               |            |
|-------------------------------|------------|
| Intangible assets             |            |
| Software                      | 33.3%      |
| Property rights               | 33.3%      |
| Property                      | 6%         |
| Office equipment and vehicles | 14.5-33.3% |

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

**2.7. Interest income and interest expense**

Interest income and expense are recognized in the Statement of Recognized Income on the accrual basis and based on the IAS 18 Revenue, referring to the provisions of IAS 39. The Bank recognises interest income when it assumes that the interest associated with the transaction will flow to the Bank and the amount of the revenue can be reasonably measured. All interest income and expense arising from loans, placements with other banks, securities available-for-sale and amounts due to OTP Bank and other banks, liabilities from issued securities, subordinated bonds and loans are presented under these lines of the financial statements. Any fees received or paid related to the origination of the loan are an integral part of the effective interest rate and revenue is recognized with the effective interest rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**2.8. Fees and Commissions**

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

**2.9. Income tax**

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.10. Government subsidies**

The Bank receives subsidies from the Hungarian government designed to compensate for the difference between the amount of interest charged to the customer, such interest being capped by legislation, and the interest charge on the issued mortgage bonds. Such subsidies are calculated on a monthly basis, are applicable over the life of the loan and are recognized among interest income in the Statement of Recognized Income in the period to which they relate.

**2.11. Statement of Cash Flows**

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

**2.12. Segment reporting**

The Bank's main operation is mortgage lending to retail customers in Hungary, and the related value-appraisal services. The management believes that the Bank operates in a single business and geographical segment. The segment reporting is disclosed at consolidated level in the OTP Bank's consolidated financial statements. From 2011 the loan financing activity is widened with loan portfolio from OTP Bank Romania. The significant part of the total loan portfolio is from Hungary.

**2.13. Offsetting of financial assets and liabilities**

Complying with IAS 32 "Financial Instruments: Presentation", the Bank and related parties in OTP Group as well as OTP Bank's partners do not intend to offset financial assets and liabilities among themselves.

**2.14. Events in accordance with early repayment at fixed exchange rates**

The Hungarian Government announced the Country Protection Action Plan on 12 September 2011. The most significant arrangement, which directly affected OTP Mortgage Bank Ltd., was the opportunity of early repayment at fixed exchange rates.

If certain conditions were completed by the borrowers, FX based mortgage loans can be repaid in one amount at fixed conversion rate ("early repayment") determined in the Law on Credit Institutions (Swiss Franc 180 HUF/CHF, Euro 250 HUF/EUR, Japanese Yen 2 HUF/JPY). Act CXXI of 2011 ("On the amendment of the acts in connection with the protection of homes") on early repayment entered into force on 29 September 2011. Under the law the bank may not charge any fees or other commissions for early repayment. Furthermore banks shall carry the loss derived from the difference between the book value recorded on market price and the paid amount calculated at fixed exchange rate as an early repayment. If the borrower meets the conditions determined by the law, the lender is not allowed to refuse the early repayment, and shall prepare the settlement of the contract in 60 days.

The final closing date of the opportunity of early repayment was 28 February 2012.

On 10 October 2011 OTP Bank and OTP Mortgage Bank have made a guarantee contract about a facility in the amount of HUF 200 billion. Based on this agreement the OTP Bank must compensate the loss of OTP Mortgage Bank on early repayment of FX based mortgage loans. The fee for guarantee was determined in the amount of HUF 5 billion, and it was recognised directly in Shareholder's Equity.

Up to December 31, 2011 more than 17 thousand customers paid back their FX mortgage loans, therefore under the early repayment scheme the loss recorded in the Mortgage Bank's books was HUF 28,850 million.

Up to December 31, 2012 additional 12,875 customers paid back their FX mortgage loans, therefore the loss recorded in the Mortgage Bank's book was HUF 30,486 million.



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**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.14. Events in accordance with early repayment at fixed exchange rates [continued]**

The Mortgage Bank recognized as provision for impairment in financial statements for the year of 2011 the calculated effect of the early repayment claimed and paid till 30 January 2012. Whole amount of the expected loss relating to the transactions claimed but not yet paid up to 30 January 2012 was impaired by Mortgage Bank as the customers had the possibility to present the collateral or the collateral certificate relating to the repayment till this date.

In the period from 1 till 30 January 2012 – together at OTP Bank and its subsidiaries OTP Mortgage Bank and OTP Flat Lease – 14,854 customers paid back their FX mortgage loans or presented collateral certificate relating to early repayment on mortgage loan that in connection with provision in the amount of HUF 31,937 million was recognized for 2011 at OTP Mortgage Bank. This amount of provision was released in 2012 parallel to recognizing of realised loan loss.

|   | <b>2012</b>           | <b>2011</b>          |
|---|-----------------------|----------------------|
| Provision for impairment on loan losses relating to early repayment at OTP Mortgage Bank                                    | 30,486                | 28,850               |
| Provision recognized at OTP Mortgage Bank relating to early repayment   | <u>(31,937)</u>       | <u>31,937</u>        |
| <b>Release of provision for impairment /Provision for impairment on loan losses relating to early repayment at OTP Bank</b> | <b><u>(1,451)</u></b> | <b><u>60,787</u></b> |

According to the 2011 amendment of Act LIX of 2006 of early repayments, a financial institution could reduce the 2011 amount of the payable bank tax as a tax refund of 30% of the loss from paid FX based mortgage loans. If the tax refund had exceeded the bank tax determined for the year 2011, the difference could have been reclaimed from the bank tax for 2011 by related parties of the given entity (one or more financial institution or insurance company) (“tax refund beneficiary”) of the financial institution.

In accordance with the guarantee contract OTP Bank refunded the losses of the Mortgage Bank derived from early repayment – reduced with bank tax receivables.

HUF 8,759 million bank tax refunds, the total of the bank tax paid in 2011 could be reclaimed from the Hungarian State as compensation for the arising loan losses on early repayment, based on the respective tax law. This amount was recognised as other receivables. The Hungarian State settled this receivable by transfer of government bonds during 2012.

Since the law allows only 30% of the losses on early repayment to be reclaimed, and 30% of loan losses on early repayment at the Bank exceed this amount, based on the law the surplus could be utilised by other members of OTP Group as tax refund.

In accordance with the guarantee contract with OTP Bank HUF 51,440 million was recorded in the Mortgage Bank’s shareholder’s equity for December 2011 that OTP Bank provided for the Bank covering the loan losses. Based on the final figures of the losses in 2012, HUF 3,183 million was recorded as other liabilities refundable amount to OTP Bank based on the guarantee. This item was recognised in the Statement of Changes in Shareholder’s Equity.

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

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

On 28 June 2011, Act LXXXV 2011 on fixing the exchange rate for calculating the monthly instalments of retail FX mortgage loans and on the foreclosure order of residential real estates was announced. Accordingly, in favour of performing FX mortgage debtors with up to 90 days of delinquency, a natural person FX mortgage debtor could initiate in written form between 12 August and 31 December 2011 the fixing of the exchange rate used to specify his monthly instalments for 36 months or until 31 December 2014 the latest. The fixed exchange rates were set at 180 HUF/CHF, 250 HUF/EUR and 2 HUF/JPY. For the difference between the fixed and the exceeding actual spot exchange rate, banks provided a special purpose HUF denominated mortgage loan (“escrow account loan”). Escrow account loan is an appropriation established by the Hungarian Government to help FX mortgage debtors during the repayment of FX mortgage loans to finance the non-paid instalment-proportion of debtors arising from the difference between the fixed and the actual spot exchange rate.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2012**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

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

During the time of fixing, the Bank was entitled to charge not more than the 3-months BUBOR interest rate on the HUF obligations on the escrow account which could be capitalised in every three months. Following the fixed exchange rate period debtors are obliged to pay instalments of both the original mortgage and the escrow account loans. From that time the interest rate charged on the escrow account must not surpass the market rate applicable for HUF denominated mortgages provided for the same purpose as the original FX mortgage loan.

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

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

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

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

**An analysis of main figures related to the escrow account loan construction. The number of loans already contains the contracted debtors without outstanding loan principal:**

|   |         |
|---|---------|
| Number of escrow account loans as at 31 December 2012 (number of loans) | 23,817  |
| Number of new contracts made after 1 April 2012 (number of contracts)   | 23,324  |
| Gross value of escrow account loans as at 31 December 2012 (in HUF mn)  | 831     |
| Gross amount of fixed FX loans as at 31 December 2012 (in HUF mn)       | 187,606 |

**An analysis of the effect of the escrow account loans on the financial statements as at 31 December 2012 at the Mortgage Bank:**

|   |     |
|---|-----|
| Loss on interest from fixed exchange rate refunded by the State | 824 |
| Contribution paid to the State (50%)                            | 412 |

**2.15.2. Conversion of FX mortgage loans into HUF denominated loans in case of FX mortgage debtors with more than 90 days of delinquency**

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

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2:           SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.15.2. Conversion of FX mortgage loans into HUF denominated loans in case of FX mortgage debtors with more than 90 days of delinquency [continued]**

Financial institutions were obliged to cancel 25% of their receivable at the date of conversion into HUF loan. Financial institutions were not allowed to charge any fees or other commissions in connection with the conversion and the 25% cancellation of receivable. The bank tax payable for the year 2012 can be reduced with 30 per cent of the released part (including the due interests, penalty interests and costs).

**Main figures of conversion into HUF denominated loans:**

|  |     |
|--|-----|
| Number of DPD <sup>1</sup> 90+ loans (number of loans) | 90  |
| Loan losses (in HUF mn)                                | 155 |
| Bank tax refund after released receivables (in HUF mn) | 57  |

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

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

**3.1. Impairment on loans and placements**

The Bank regularly assesses its loan portfolio for impairment. Management determines the adequacy of allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors, considering received collaterals and guarantees.

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

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

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<sup>1</sup> DPD: days past due

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

|   | <b>2012</b>          | <b>2011</b>         |
|---|----------------------|---------------------|
| Cash on hand                                      | -                    | -                   |
| Amounts due from banks and balances with the NBH: |                      |                     |
| Within one year                                   |                      |                     |
| In HUF  | 101                  | 1,139               |
| In foreign currency                               | <u>74,963</u>        | <u>581</u>          |
|   | <b><u>75,064</u></b> | <b><u>1,720</u></b> |
| Accrued interest                                  | -                    | 9                   |
| <b>Total</b>                                      | <b><u>75,064</u></b> | <b><u>1,729</u></b> |
| From this: amounts due from OTP Bank              | 75,061               | 621                 |
| Compulsory reserve                                | 20                   | 1,529               |
| Rate of the compulsory reserve                    | 2%                   | 2%                  |

In 2012, the main amount of cash due from banks shows the balance of the nostro accounts placed at OTP Bank of HUF 75,061 million and HUF 621 million as at 31 December 2012 and 2011, respectively. The remaining amounts represent the balances of the Bank's clearing account placed at the NBH.

The Bank fulfilled the compulsory reserve requirement on an average monthly basis.

**NOTE 5: PLACEMENTS WITH OTHER BANKS (in HUF million)**

|  | <b>2012</b>            | <b>2011</b>            |
|--|------------------------|------------------------|
| Within one year                                    |                        |                        |
| in HUF   | 350                    | 19,800                 |
| in CHF   | 6,752                  | 30,642                 |
| in EUR   | 27,381                 | 25,202                 |
| in JPY   | <u>1,670</u>           | <u>4,922</u>           |
| Total in foreign currency                          | <u>35,803</u>          | <u>60,766</u>          |
| <b>Subtotal</b>                                    | <b><u>36,153</u></b>   | <b><u>80,566</u></b>   |
| Accrued interest                                   | 29                     | 86                     |
| <b>Total</b>                                       | <b><u>36,182</u></b>   | <b><u>80,652</u></b>   |
| From this: amounts due from OTP Bank               | 36,153                 | 80,652                 |
| Interest conditions on placements with other banks |                        |                        |
| in HUF   | <b>2012</b> 4.80-9.00% | <b>2011</b> 4.75-7.50% |
| in foreign currency                                | 1.90-5.44%             | 0.10-4.22%             |
| Average interest of placements with other banks    |                        |                        |
| in HUF   | <b>2012</b> 7.40%      | <b>2011</b> 6.43%      |
| in EUR   | 2.85%                  | 3.51%                  |
| in CHF   | 3.22%                  | 1.71%                  |
| in JPY   | 3.71%                  | 2.51%                  |

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**  
**(in HUF million)**

|   | <b>2012</b> | <b>2011</b>         |
|---|-------------|---------------------|
| Foreign currency swaps classified as held for trading | =           | <u>2,028</u>        |
| <b>Total</b>  | <b>=</b>    | <b><u>2,028</u></b> |

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

|                            | <b>2012</b>          | <b>2011</b>         |
|----------------------------|----------------------|---------------------|
| Bonds issued by the NBH    | 39,940               | -                   |
| Hungarian Government bonds | <u>1,773</u>         | <u>1,740</u>        |
|                            | <u>41,713</u>        | <u>1,740</u>        |
| Accrued interest           | 146                  | 105                 |
| <b>Total</b>               | <b><u>41,859</u></b> | <b><u>1,845</u></b> |

The whole portfolio was denominated in HUF as at 31 December 2012 and 2011.

The government and NBH bonds are pledged as additional collateral of issued mortgage bonds.

Financial sources derived from mortgage bonds issued during 2012 were used partially for lending activity, from the remaining amount invested into short term debt instruments.

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

|  | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
| Within five years, fixed interest                                    | 41,713      | 1,740       |
| Interest condition on interest-bearing securities available-for-sale | 6.75%       | 6.75%       |

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

|                            | <b>2012</b>          |                      |
|----------------------------|----------------------|----------------------|
|                            | <b>Cost</b>          | <b>Fair value</b>    |
| Bonds issued by the NBH    | 39,919               | 39,940               |
| Hungarian Government bonds | <u>1,761</u>         | <u>1,773</u>         |
| <b>Total</b>               | <b><u>41,680</u></b> | <b><u>41,713</u></b> |

The valuation of the securities available-for-sale was as follows as at 31 December 2011:

|                            | <b>2011</b>         |                     |
|----------------------------|---------------------|---------------------|
|                            | <b>Cost</b>         | <b>Fair value</b>   |
| Hungarian Government bonds | <u>1,761</u>        | <u>1,740</u>        |
| <b>Total</b>               | <b><u>1,761</u></b> | <b><u>1,740</u></b> |

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

|                                    | <b>2012</b>             | <b>2011</b>             |
|------------------------------------|-------------------------|-------------------------|
| Short-term loans (within one year) |                         |                         |
| in HUF                             | 48,230                  | 51,367                  |
| in CHF                             | 266                     | 175                     |
| in JPY                             | <u>3</u>                | <u>-</u>                |
| in foreign currency                | <u>269</u>              | <u>175</u>              |
|                                    | <u>48,499</u>           | <u>51,542</u>           |
| Long-term loans (over one year)    |                         |                         |
| in HUF                             | 648,060                 | 644,830                 |
| in CHF                             | 475,293                 | 643,080                 |
| in JPY                             | 31,682                  | 168,728                 |
| in EUR                             | <u>109,298</u>          | <u>37,436</u>           |
| Total in foreign currency          | <u>616,273</u>          | <u>849,244</u>          |
|                                    | <u>1,264,333</u>        | <u>1,494,074</u>        |
| <b>Loans Gross Total</b>           | <b><u>1,312,832</u></b> | <b><u>1,545,616</u></b> |
| Provision for impairment           | (44,384)                | (72,913)                |
| Accrued interest                   | 5,471                   | 9,400                   |
| <b>Total</b>                       | <b><u>1,273,919</u></b> | <b><u>1,482,103</u></b> |

A significant part of the loans above are mortgage loans for housing. The loans have collateral notified in the public property register in favour of OTP Mortgage Bank. Such loans and their collateral are included in the Bank's register and mortgage bonds can be issued up to this registered amount. The remaining parts of the loans are real estate development loans given to individual farmers that work in the agro-industry. Real estate and arable land can be accepted as collateral of these loans.

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

|  | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
| Loans denominated in HUF with the maturity over one year                                     | 5%-22.21%   | 5%-22.21%   |
| Average interest rate of mortgage loans denominated in foreign currency for housing purposes |             |             |
| CHF  | 8.76%       | 8.74%       |
| EUR  | 8.01%       | 8.01%       |
| JPY  | 5.85%       | 5.83%       |
| Average interest rate of mortgage loans denominated in foreign currency for free purposes    |             |             |
| CHF  | 10.00%      | 10.00%      |
| EUR  | 8.94%       | 8.95%       |
| JPY  | 5.71%       | 5.72%       |
| Average interest rate of real estate development loans                                       |             |             |
| HUF  | 10.84%      | 10.73%      |
| EUR  | 6.68%       | 7.89%       |

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

**OTP MORTGAGE BANK LTD.**  
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**NOTE 8: LOANS, NET OF ALLOWANCES FOR LOAN LOSSES (in HUF million) [continued]**

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

|                             | 2012                    |                       | 2011                    |                       |
|-----------------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| Housing loans               | 941,680                 | 71.73%                | 1,108,794               | 71.74%                |
| Free purpose mortgage loans | 364,219                 | 27.74%                | 428,867                 | 27.75%                |
| Commercial loans            | <u>6,933</u>            | <u>0.53%</u>          | <u>7,955</u>            | <u>0.51%</u>          |
| <b>Total</b>                | <b><u>1,312,832</u></b> | <b><u>100.00%</u></b> | <b><u>1,545,616</u></b> | <b><u>100.00%</u></b> |

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

|                                  | 2012                 | 2011                 |
|----------------------------------|----------------------|----------------------|
| <b>Balance as at 1 January</b>   | <b>72,913</b>        | <b>20,683</b>        |
| Provision for the year           | 67,540               | 99,176               |
| Provision released for the year  | <u>(96,069)</u>      | <u>(46,946)</u>      |
| <b>Balance as at 31 December</b> | <b><u>44,384</u></b> | <b><u>72,913</u></b> |

See Note 2.4 for further information on provisions for impairment.

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

**NOTE 9: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF million)**

For year ended 31 December 2012

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

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**NOTE 9: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS**  
**(in HUF million) [continued]**

For year ended 31 December 2011

| <u>Cost</u>                    | Intangible assets | Property    | Office equipment and vehicles | Construction in progress | Total        |
|--------------------------------|-------------------|-------------|-------------------------------|--------------------------|--------------|
| Balance as at 1 January 2011   | 974               | 110         | 194                           | 1                        | 1,279        |
| Additions                      | 207               | -           | 7                             | 28                       | 242          |
| Disposals                      | <u>(112)</u>      | <u>(17)</u> | <u>(81)</u>                   | <u>(7)</u>               | <u>(217)</u> |
| Balance as at 31 December 2011 | <u>1,069</u>      | <u>93</u>   | <u>120</u>                    | <u>22</u>                | <u>1,304</u> |

**Accumulated Depreciation and Amortization**

|                                |            |             |             |          |              |
|--------------------------------|------------|-------------|-------------|----------|--------------|
| Balance as at 1 January 2011   | 757        | 20          | 166         | -        | 943          |
| Charge for the year            | 136        | 2           | 19          | -        | 157          |
| Disposals                      | <u>(7)</u> | <u>(17)</u> | <u>(81)</u> | <u>-</u> | <u>(105)</u> |
| Balance as at 31 December 2011 | <u>886</u> | <u>5</u>    | <u>104</u>  | <u>-</u> | <u>995</u>   |

**Net book value**

|                                |            |           |           |           |            |
|--------------------------------|------------|-----------|-----------|-----------|------------|
| Balance as at 1 January 2011   | <u>217</u> | <u>90</u> | <u>28</u> | <u>1</u>  | <u>336</u> |
| Balance as at 31 December 2011 | <u>183</u> | <u>88</u> | <u>16</u> | <u>22</u> | <u>309</u> |

**NOTE 10: OTHER ASSETS (in HUF million)**

|  | 2012                 | 2011                 |
|--|----------------------|----------------------|
| Derivatives qualified for hedge accounting                                     | 22,776               | 27,211               |
| Receivables from the Hungarian Government                                      | 7,099                | 70                   |
| Trade receivables  | 2,366                | 3,610                |
| Current income tax receivable  | 1,442                | 2,962                |
| Prepayments and other assets   | 382                  | 3,372                |
| Income tax receivable relating to early repayment <sup>1</sup>                 | -                    | 8,759                |
| Other receivables in connection with early repayment - Guarantee from OTP Bank | <u>-</u>             | <u>44,760</u>        |
|  | <u>34,065</u>        | <u>90,744</u>        |
| Provision for other assets   | (14)                 | (11)                 |
| <b>Total</b>   | <b><u>34,051</u></b> | <b><u>90,733</u></b> |

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

<sup>1</sup> See Note 2.14.



**OTP MORTGAGE BANK LTD.**  
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**NOTE 11: AMOUNTS DUE TO OTP BANK AND OTHER BANKS**  
**(in HUF million)**

|  | <b>2012</b>           | <b>2011</b>           |
|--|-----------------------|-----------------------|
| Within one year  |                       |                       |
| In HUF   | 122,624               | 328                   |
| In EUR   | 74,279                | -                     |
| In JPY   | 27,752                | 76,975                |
| In CHF   | -                     | <u>258,239</u>        |
| Total in foreign currency                                      | <u>102,031</u>        | <u>335,214</u>        |
| <b>Subtotal</b>  | <b><u>224,655</u></b> | <b><u>335,542</u></b> |
| Accrued interest   | 422                   | 708                   |
| <b>Total</b>   | <b><u>225,077</u></b> | <b><u>336,250</u></b> |
| From this: amounts due to OTP Bank                             | 225,077               | 336,250               |
| Interest conditions on amounts due to OTP Bank and other banks |                       |                       |
|  | <b>2012</b>           | <b>2011</b>           |
| In HUF   | 6.25 - 6.25%          | 5.45 - 7.00%          |
| In foreign currency  | 2.17 - 5.42%          | 1.67 - 2.57%          |

**NOTE 12: LIABILITIES FROM ISSUED SECURITIES (in HUF million)**

|  | <b>2012</b>             | <b>2011</b>             |
|--|-------------------------|-------------------------|
| Within one year:   |                         |                         |
| In HUF   | 106,248                 | 134,725                 |
| In EUR   | <u>217,572</u>          | <u>-</u>                |
|  | <u>323,820</u>          | <u>134,725</u>          |
| Over one year  |                         |                         |
| In HUF   | 496,323                 | 490,988                 |
| In EUR   | <u>279,557</u>          | <u>530,666</u>          |
|  | <u>775,880</u>          | <u>1,021,654</u>        |
| <b>Subtotal</b>  | <b><u>1,099,700</u></b> | <b><u>1,156,379</u></b> |
| Accrued interest   | <u>43,028</u>           | <u>45,836</u>           |
| <b>Total</b>   | <b><u>1,142,728</u></b> | <b><u>1,202,215</u></b> |
| Issued mortgage bonds during the period (nominal value)                    | 258,558                 | 560,943                 |
| Mortgage bonds became due or repurchased during the period (nominal value) | 279,525                 | 727,019                 |
| Interest conditions on issued securities                                   |                         |                         |
|  | <b>2012</b>             | <b>2011</b>             |
| In HUF   | 6.72 - 12.00%           | 6.53 - 13.41%           |
| In foreign currency  | 3.19 - 5.44%            | 4.00 - 6.70%            |

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 12: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]**

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

|  | 2012             | 2011             |
|--|------------------|------------------|
| Nominal value of the issued securities | 1,086,299        | 1,141,840        |
| Unamortized premiums                   | 12,253           | 12,567           |
| Fair value hedge adjustment            | <u>1,148</u>     | <u>1,972</u>     |
| Amortized cost                         | <u>1,099,700</u> | <u>1,156,379</u> |

OTP Mortgage Bank can issue mortgage bonds up to the total amount of collateral in the form of property notified in the public property register in favour of OTP Mortgage Bank. A coverage register of the mortgage property constituting the ultimate coverage for the mortgage bonds and the value of the collateral is recorded. An independent coverage supervisor is appointed for monitoring and certifying the existence and valuation of eligible collateral and the registration of such collateral in the coverage register.

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

| Name                                  | Date of issue | Maturity   | Nominal value in HUF million | Interest conditions (in % p.a.) | Hedged     |
|---------------------------------------|---------------|------------|------------------------------|---------------------------------|------------|
| OJB 2013/B                            | 25/05/2011    | 30/10/2013 | 8,516                        | 6.72% floating                  | not hedged |
| OJB 2013/II                           | 20/12/2002    | 31/08/2013 | 13,433                       | 8.25% fixed                     | not hedged |
| OJB 2013/III                          | 29/05/2009    | 29/05/2013 | 80,000                       | 12.00% fixed                    | not hedged |
| OJB 2013/IV                           | 25/05/2011    | 31/08/2013 | 3,567                        | 8.25% fixed                     | not hedged |
| OJB 2014/I                            | 14/11/2003    | 12/02/2014 | 13,500                       | 8.00% fixed                     | not hedged |
| OJB 2014/J                            | 17/09/2004    | 17/09/2014 | 292                          | 8.69% fixed                     | not hedged |
| OJB 2015/I                            | 10/06/2005    | 10/06/2015 | 3,243                        | 7.70% fixed                     | not hedged |
| OJB 2015/II                           | 17/05/2012    | 17/05/2015 | 110,000                      | 9.00% fixed                     | hedged     |
| OJB 2015/J                            | 28/01/2005    | 28/01/2015 | 205                          | 8.69% fixed                     | not hedged |
| OJB 2016/I                            | 03/02/2006    | 03/02/2016 | 1,269                        | 7.50% fixed                     | not hedged |
| OJB 2016/II                           | 31/08/2006    | 31/08/2016 | 4,692                        | 10.00% fixed                    | not hedged |
| OJB 2016/III                          | 17/02/2009    | 17/02/2016 | 150,000                      | 10.75% fixed                    | not hedged |
| OJB 2016/J                            | 18/04/2006    | 28/09/2016 | 227                          | 7.59% fixed                     | not hedged |
| OJB 2019/I                            | 17/03/2004    | 18/03/2019 | 31,517                       | 9.48% fixed                     | not hedged |
| OJB 2019/II                           | 25/05/2011    | 18/03/2019 | 7,733                        | 9.48% fixed                     | not hedged |
| OJB 2020/I                            | 19/11/2004    | 12/11/2020 | 5,503                        | 9.00% fixed                     | not hedged |
| OJB 2020/II                           | 25/05/2011    | 12/11/2020 | 4,497                        | 9.00% fixed                     | not hedged |
| OJB 2025/I                            | 31/07/2009    | 31/07/2025 | 150,000                      | 11.00% fixed                    | not hedged |
| <b>Total issued securities in HUF</b> |               |            | <b><u>588,194</u></b>        |                                 |            |
| Unamortized premium                   |               |            | 12,386                       |                                 |            |
| Fair value hedge adjustment           |               |            | <u>1,991</u>                 |                                 |            |
| <b>Total issued securities in HUF</b> |               |            | <b><u>602,571</u></b>        |                                 |            |
| Accrued interest                      |               |            | <u>40,791</u>                |                                 |            |
| <b>Total in HUF</b>                   |               |            | <b><u>643,362</u></b>        |                                 |            |

**OTP MORTGAGE BANK LTD.**  
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**NOTE 12: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]**

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

| Name                                 | Date of issuance | Maturity   | Currency | Nominal value in FX million | Nominal value in HUF million | Interest conditions (in % p.a.) | Hedged     |
|--------------------------------------|------------------|------------|----------|-----------------------------|------------------------------|---------------------------------|------------|
| OMB 2013/I                           | 11/11/2011       | 18/11/2013 | EUR      | 750                         | 218,468                      | 5.44% floating                  | hedged     |
| OMB 2014/I                           | 15/12/2004       | 15/12/2014 | EUR      | 200                         | 58,258                       | 4.00% fixed                     | not hedged |
| OMB 2014/II                          | 02/08/2011       | 10/08/2014 | EUR      | 250                         | 72,822                       | 3.19% floating                  | hedged     |
| OMB 2015/I                           | 30/08/2012       | 06/03/2015 | EUR      | 510                         | 148,558                      | 4.19% floating                  | hedged     |
| <b>Total issued securities in FX</b> |                  |            |          |                             | <b><u>498,106</u></b>        |                                 |            |
| Unamortized discount                 |                  |            |          |                             | (134)                        |                                 |            |
| Fair value hedge adjustment          |                  |            |          |                             | <u>(843)</u>                 |                                 |            |
| <b>Total issued securities in FX</b> |                  |            |          |                             | <b><u>497,129</u></b>        |                                 |            |
| Accrued interest                     |                  |            |          |                             | <u>2,237</u>                 |                                 |            |
| <b>Total in FX</b>                   |                  |            |          |                             | <b><u>499,366</u></b>        |                                 |            |
| <b>Total</b>                         |                  |            |          |                             | <b><u>1,142,728</u></b>      |                                 |            |

The EUR denominated mortgage bonds are being hedged in fair value hedge relationship. See Note 31 for further details of hedge accounting.

**NOTE 13: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF million)**

|                        | 2012     | 2011                |
|------------------------|----------|---------------------|
| Foreign currency swaps | -        | 7,122               |
| <b>Total</b>           | <b>≡</b> | <b><u>7,122</u></b> |

**NOTE 14: OTHER LIABILITIES (in HUF million)**

|   | 2012                 | 2011                 |
|---|----------------------|----------------------|
| Fair value of derivative financial instruments designated as fair value hedge     | 6,646                | 4,385                |
| Accrued services  | 3,282                | 4,205                |
| Deferred tax liabilities  | 2,309                | 2,631                |
| Liabilities to customers  | 978                  | 2,867                |
| Accounts payable  | 802                  | 587                  |
| Current income tax payable  | 212                  | 110                  |
| Provision for impairment off-balance sheet commitments and contingent liabilities | 51                   | 5                    |
| Salaries and social security payable  | 27                   | 16                   |
| Other   | 6                    | 21                   |
| Other liabilities on early repayment at fixed rates due to OTP                    |                      |                      |
| Bank – tax refund reimbursed  | -                    | 8,759                |
| Advances to government subsidies  | <u>-</u>             | <u>80</u>            |
| <b>Total</b>  | <b><u>14,313</u></b> | <b><u>23,666</u></b> |

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 15: SUBORDINATED BONDS AND LOANS (in HUF million)**

|  | 2012  | 2011  |
|--|-------|-------|
| With the maturity over one year denominated in CHF | 3,640 | 3,865 |

On 30 January 2009, OTP Bank provided CHF 15 million subordinated loan to the Bank with the maturity of 8 years. The loan is due at 30 January 2017. The interest of the loan is 3 month CHF LIBOR + 3.88%.

**NOTE 16: SHARE CAPITAL (in HUF million)**

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

|                                | 2012          | 2011          |
|--------------------------------|---------------|---------------|
| Share capital (in HUF million) | <u>27,000</u> | <u>27,000</u> |

**NOTE 17: RETAINED EARNINGS AND RESERVES (in HUF million)**

|  | 2012                 | 2011                 |
|--|----------------------|----------------------|
| <b>Balance as at 1 January</b>                                     | <b>59,281</b>        | <b>52,028</b>        |
| Dividend paid  | (16,000)             | (1,000)              |
| Net income after income taxes                                      | 7,433                | (29,738)             |
| Guarantee for early repayment at fixed exchange rates <sup>1</sup> | (3,183)              | 46,440               |
| Current tax receivables on early repayment                         | 605                  | (8,823)              |
| Other comprehensive income   | <u>475</u>           | <u>374</u>           |
| <b>Balance as at 31 December</b>                                   | <b><u>48,611</u></b> | <b><u>59,281</u></b> |

The Bank's retained earnings and reserves under IFRS were HUF 48,611 million and HUF 59,281 million as at 31 December 2012 and 2011 respectively. Retained earnings contains the net income after income taxes for the year ended 31 December 2012 in HUF 7,433 million, the legal reserves and the retained earnings from previous years in HUF 42,183 million. Other reserves contains positive fair value adjustment on available-for-sale securities in HUF 33 million and negative fair value adjustment on Cash-Flow hedges in HUF 1,038 million.<sup>2</sup>

The Bank's reserves under Hungarian Accounting Standards ("HAS") were HUF 28,857 million and HUF 32,162 million as at 31 December 2012 and 2011 respectively. These amounts include legal reserves amounting to HUF 9,421 million and HUF 8,752 million respectively. The legal reserve is not available for distribution.

In 2011 the Bank paid dividend of HUF 16,000 million from the profit of the year 2012. In 2013 dividend of HUF 10,000 million are expected to be proposed by the management from the profit of the year 2012.

<sup>1</sup> See Note 2.14.

<sup>2</sup> For further information about differences between the Bank's reserves under HAS and IFRS see Note 32.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 18:      INTEREST SUBSIDIES RELATED TO HOUSING LOANS**

During 2012 5 types of interest subsidised loans were among OTP Mortgage Bank's portfolio:

- (i) loans granted before 16 June 2003
- (ii) loans granted between 16 June 2003 and 22 December 2003
- (iii) loans granted between 22 December 2003 and 30 June 2009
- (iv) loans granted after 1 October 2009
- (v) loans granted after 2012

Interest subsidised loans fulfil the following conditions

- granted for purchase, building of new property, or purchase, renovation, enlargement of existing property
- for overdue loans-disbursed before 2012 to ensure smaller financial encumbrance for the debtors
- maximised interest rate
- interest subsidy fixed to the reference rate of the government bonds or to the reference rate of the issued mortgage bonds
- subsidy till the maturity of the loan, but maximum for 20 years.

Certain interest subsidised loans at OTP Mortgage Bank's portfolio are acquired from OTP Bank and the state provides one-off payment for these. As this one-off payment is fully transferred to OTP Bank, it is presented net in these financial statements. The one-off payment was HUF 2 million and HUF 6 million for the years ended 31 December 2012 and 2011.

Relevant elements of the currently available interest subsidised loans:

- the applicants can be residents of Hungary or residents outside Hungary
- purpose of the loan:
  - o purchasing or building of new property
  - o purchasing or modernisation or enlargement of used property
  - o purchasing of mortgaged properties with overdue mortgage loan or with cancelled loan
  - o purchasing of smaller property owned by debtors with overdue loan
  - o conversion of overdue FX mortgage loan
- in case of building or purchasing of property the building costs or the purchase price without the building plot price shall not exceed the amount of HUF 30 million, in case of purchase of used properties the amount of HUF 20 million, in case of modernisation or enlargement shall not exceed the costs the amount of HUF 15 million
- loan amount shall not exceed in case of new properties the amount of HUF 15 million, and in case of used properties the amount of HUF 10 million.

The interest subsidy is determined in the per cent of government bonds' yields depending on the purpose of the loan, and it can be granted as a maximum for 5 years.

Due to the strict conditions the loan demand remains moderate. Loans granted at the end of 2012 about HUF 7,203 million based on the conditions of 2009 and HUF 1,484 million based on conditions of 2012. Net closing amount of the loan with the conditions of 2009 was HUF 6,907 million and for the conditions of 2012 was HUF 1,469 million.

**OTP MORTGAGE BANK LTD.**  
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**NOTE 19: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES**  
**(in HUF million)**

| <b>Provision for impairment on loan losses</b>                                      | <b>2012</b>           | <b>2011</b>           |
|---|-----------------------|-----------------------|
| Provision for the year  | 67,540                | 99,176                |
| <i>from this: provision on impairment on loan losses related to early repayment</i> | -                     | 31,937                |
| Release of provision  | (96,069)              | (46,946)              |
| <i>from this: release of provision on loan losses related to early repayment</i>    | (31,937)              | -                     |
| Loan losses   | 54,599                | 48,912                |
| <i>from this: provision on impairment on loan losses related to early repayment</i> | 30,382                | 28,757                |
| <b>Provision for impairment on loan losses</b>                                      | <b><u>26,070</u></b>  | <b><u>101,142</u></b> |
| <i>from this: provision on impairment on loan losses related to early repayment</i> | (1,555)               | 60,694                |
| Losses from early repayment recognizing in interest income from loans               | 104                   | 93                    |
| <b>Total loss on loans related to early repayment</b>                               | <b><u>(1,451)</u></b> | <b><u>60,787</u></b>  |

**NOTE 20: NET LOSS FROM FEES AND COMMISSIONS (in HUF million)**

| <b>Income from fees and commissions</b>            | <b>2012</b>           | <b>2011</b>           |
|--|-----------------------|-----------------------|
| Fees and commissions relating to lending           | 1,563                 | 1,891                 |
| Other  | <u>291</u>            | <u>225</u>            |
| <b>Total</b>                                       | <b><u>1,854</u></b>   | <b><u>2,116</u></b>   |
| <b>Expense from fees and commissions</b>           | <b>2012</b>           | <b>2011</b>           |
| Fees and commissions relating to issued securities | 318                   | 355                   |
| Fees and commissions relating to lending           | 3,346                 | 3,573                 |
| <b>Total</b>                                       | <b><u>3,664</u></b>   | <b><u>3,928</u></b>   |
| <b>Net loss from fees and commissions</b>          | <b><u>(1,810)</u></b> | <b><u>(1,812)</u></b> |

The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance.

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**NOTE 21: OTHER ADMINISTRATIVE EXPENSES (in HUF million)**

|  | <b>2012</b>          | <b>2011</b>         |
|--|----------------------|---------------------|
| Taxes, other than income tax                                     |                      |                     |
| Bank tax   | 8,254                | -                   |
| Credit institution's contribution                                | 4,030                | 3,933               |
| <i>from this: credit institution's contribution based on the</i> |                      |                     |
| <i>escrow account loans</i>                                      | <i>412</i>           | <i>-</i>            |
| Other taxes  | <u>1,484</u>         | <u>1,805</u>        |
| Total taxes, other than income tax                               | 13,768               | 5,738               |
| Services   | 391                  | 366                 |
| Professional fees  | 198                  | 239                 |
| Rental fees  | 55                   | 49                  |
| Material type expenses   | 35                   | 31                  |
| Administration expenses  | 21                   | 18                  |
| Advertising  | <u>1</u>             | <u>2</u>            |
| <b>Total</b>   | <b><u>14,469</u></b> | <b><u>6,443</u></b> |

Taxes, other than income taxes are Credit institution's contribution that is payable by the Bank on HUF denominated loans having interest subsidy from the Hungarian government, bank tax and other local taxes. An amount of HUF 412 million was paid by the Bank as credit institution's contribution in connection with escrow account loans. Based on the approved regulation the whole amount of the exempted receivables were borne by the Government, and the Bank paid 50% credit institution's contribution based on these receivables.

Based on the amendment of the act on the special tax for financial institutions (bank tax) approved on 22 July 2010, a new special financial institution tax was paid by the Bank. The total tax amount is HUF 8,759 million recognised as an expense thus decreased the corporate tax base. The tax is based on the total assets of the Bank as of 31 December 2009, adjusted with certain items. The Hungarian government changed the plan about the ceasing of the bank tax, therefore financial institutions are obliged to pay it until an undetermined date of ceasing.

The amount of the bank tax payable in 2012 would be HUF 8,759 million and was paid in four equal instalments until 10th of the last month of every quarter of 2012 as well as in 2011. An amount of HUF 58 million was deducted as compensation for the losses on escrow account loans (see note 2.14.), and an amount of HUF 447 million was deducted as compensation on assigned loans to OTP Faktoring Ltd., resulted at HUF 8,254 million.

**NOTE 22: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)**

|   | <b>2012</b>      | <b>2011</b>      |
|---|------------------|------------------|
| Key executives (Managing Director and Deputies)     | 38               | 72               |
| Members of Board of Directors and Supervisory Board | <u>-</u>         | <u>-</u>         |
| <b>Total</b>  | <b><u>38</u></b> | <b><u>72</u></b> |

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

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**NOTE 23: INCOME TAX (in HUF million)**

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

A reconciliation of the total income tax charge for the years ended 31 December 2012 and 2011 is as follows:

|   | <b>2012</b>       | <b>2011</b>           |
|---|-------------------|-----------------------|
| Current tax expense/(benefit)             | 1,161             | (7,761)               |
| Deferred tax (benefit)/expense            | <u>(434)</u>      | <u>1,059</u>          |
| <b>Total income tax expense/(benefit)</b> | <b><u>727</u></b> | <b><u>(6,702)</u></b> |

A reconciliation of the deferred tax liability as at 31 December 2012 and 2011 is as follows:

|   | <b>2012</b>           | <b>2011</b>           |
|---|-----------------------|-----------------------|
| <b>Balance as at 1 January</b>                          | <b>(2,631)</b>        | <b>(1,421)</b>        |
| Recognized in other comprehensive income as tax expense | (112)                 | (151)                 |
| Deferred tax benefit/(expense)                          | <u>434</u>            | <u>(1,059)</u>        |
| <b>Balance as at 31 December</b>                        | <b><u>(2,309)</u></b> | <b><u>(2,631)</u></b> |

A reconciliation of deferred tax assets and liabilities as at 31 December 2012 and 2011 is as follows:

|   | <b>2012</b>           | <b>2011</b>           |
|---|-----------------------|-----------------------|
| Fair value adjustment of available-for-sale financial assets          | -                     | 4                     |
| <b>Deferred tax assets</b>  | <b><u>-</u></b>       | <b><u>4</u></b>       |
| Effect of applying effective interest rate method                     | (2,230)               | (2,310)               |
| Amortized cost of issued securities                                   | (56)                  | (199)                 |
| Fixed assets  | (17)                  | (18)                  |
| Fair value adjustment of held for available-for-sale financial assets | (6)                   | -                     |
| Fair value adjustment of derivative financial instruments             | <u>-</u>              | <u>(108)</u>          |
| <b>Deferred tax liabilities</b>                                       | <b><u>(2,309)</u></b> | <b><u>(2,635)</u></b> |
| <b>Net deferred tax liabilities</b>                                   | <b><u>(2,309)</u></b> | <b><u>(2,631)</u></b> |

A reconciliation of the effective tax rate as at 31 December 2012 and 2011 is as follows:

|   | <b>2012</b>       | <b>2011</b>           |
|---|-------------------|-----------------------|
| Profit/Loss before income taxes               | 8,160             | (36,440)              |
| Tax at statutory income tax rate (19%)        | 1,551             | (6,924)               |
| Permanent differences due to income tax       | (822)             | (753)                 |
| Effect of change in tax rate for deferred tax | -                 | 1,015                 |
| Other permanent differences                   | (2)               | (40)                  |
| <b>Income tax expense/(benefit)</b>           | <b><u>727</u></b> | <b><u>(6,702)</u></b> |
| Effective tax-rate                            | 8.91%             | 18.39%                |



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**NOTE 24: EARNINGS PER SHARE (in HUF million)**

Earnings per share attributable to ordinary shares are determined based by dividing Net profit for the year by the weighted average number of ordinary shares outstanding during the period. The Bank has no preference shares and no options or other rights related to shares.

|  | <b>2012</b>          | <b>2011</b>             |
|--|----------------------|-------------------------|
| Net profit/(loss) for the year   | 7,433                | (29,738)                |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share) | <u>270,000</u>       | <u>270,000</u>          |
| <b>EPS (in HUF) basic and diluted</b>  | <b><u>27,530</u></b> | <b><u>(110,141)</u></b> |

**NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million)**

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include<sup>1</sup>:

**25.1. Credit risk**

The Bank takes on exposure to credit risk, which is the risk that the counter-party will be unable to pay amounts in full when due. The risk of the mortgage lending activity is controlled and the safety is enhanced by the legal environment, which provides that loans can only be extended against a specific collateral of real property and with certain legal assurances.

In the treasury activity the Bank structures the levels of credit risk it undertakes by placing limits to each counter-party. Actual exposures against limits are monitored daily.

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<sup>1</sup> The management of liquidity risk related to financial instruments are shown in Note 30.

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**NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**25.1. Credit risk [continued]**

**Analysis by loan types and risk classes**

An analysis of the gross loan portfolio by loan types and financial risk classes is as follows. The table consists of only on-balance sheet items.

**As at 31 December 2012**

| Loan type                                | Performing            | To-be-monitored        | Below average          | Doubtful              | Bad               | Total carrying amount/<br>allowance |
|--|-----------------------|------------------------|------------------------|-----------------------|-------------------|-------------------------------------|
| Corporate loans                          | 2,632                 | 55                     | 51                     | 28                    | -                 | 2,766                               |
| <i>Allowance</i>                         | -                     | (1)                    | (6)                    | (17)                  | -                 | (24)                                |
| Placements with other banks              | 36,153                | -                      | -                      | -                     | -                 | 36,153                              |
| <i>Allowance</i>                         | -                     | -                      | -                      | -                     | -                 | -                                   |
| Retail loans                             | 916,610               | 269,811                | 109,739                | 9,716                 | 1                 | 1,305,877                           |
| <i>Allowance</i>                         | -                     | (10,126)               | (30,935)               | (3,275)               | (1)               | (44,337)                            |
| SME loans                                | 4,011                 | 141                    | 1                      | 36                    | -                 | 4,189                               |
| <i>Allowance</i>                         | -                     | (1)                    | -                      | (22)                  | -                 | (23)                                |
| <b>Gross loan portfolio total</b>        | <b><u>959,406</u></b> | <b><u>270,007</u></b>  | <b><u>109,791</u></b>  | <b><u>9,780</u></b>   | <b><u>1</u></b>   | <b><u>1,348,985</u></b>             |
| <b>Allowance Total</b>                   | <b><u>-</u></b>       | <b><u>(10,128)</u></b> | <b><u>(30,941)</u></b> | <b><u>(3,314)</u></b> | <b><u>(1)</u></b> | <b><u>(44,384)</u></b>              |
| <b>Net loan portfolio total</b>          | <b><u>959,406</u></b> | <b><u>259,879</u></b>  | <b><u>78,850</u></b>   | <b><u>6,466</u></b>   | <b><u>-</u></b>   | <b><u>1,304,601</u></b>             |
| <b>Accrued interest</b>                  |                       |                        |                        |                       |                   |                                     |
| Placements with other banks              |                       |                        |                        |                       |                   | 29                                  |
| Loans                                    |                       |                        |                        |                       |                   | 5,471                               |
| <b>Total accrued interest</b>            |                       |                        |                        |                       |                   | <b><u>5,500</u></b>                 |
| <b>Total placements with other banks</b> |                       |                        |                        |                       |                   | <b><u>36,182</u></b>                |
| <b>Total loans</b>                       |                       |                        |                        |                       |                   | <b><u>1,273,919</u></b>             |
| <b>Total</b>                             |                       |                        |                        |                       |                   | <b><u>1,310,101</u></b>             |

**As at 31 December 2011**

| Loan type                                | Performing            | To-be-monitored        | Below average          | Doubtful               | Bad               | Total carrying amount/<br>allowance |
|--|-----------------------|------------------------|------------------------|------------------------|-------------------|-------------------------------------|
| Corporate loans                          | 4,040                 | 120                    | 3                      | 114                    | 9                 | 4,286                               |
| <i>Allowance</i>                         | -                     | (1)                    | -                      | (56)                   | (9)               | (66)                                |
| Placements with other banks              | 80,566                | -                      | -                      | -                      | -                 | 80,566                              |
| <i>Allowance</i>                         | -                     | -                      | -                      | -                      | -                 | -                                   |
| Retail loans                             | 881,562               | 453,044                | 125,709                | 77,019                 | -                 | 1,537,334                           |
| <i>Allowance</i>                         | -                     | (12,566)               | (33,042)               | (27,212)               | -                 | (72,820)                            |
| SME loans                                | 3,857                 | 96                     | -                      | 43                     | -                 | 3,996                               |
| <i>Allowance</i>                         | -                     | (1)                    | -                      | (26)                   | -                 | (27)                                |
| <b>Gross loan portfolio total</b>        | <b><u>970,025</u></b> | <b><u>453,260</u></b>  | <b><u>125,712</u></b>  | <b><u>77,176</u></b>   | <b><u>9</u></b>   | <b><u>1,626,182</u></b>             |
| <b>Allowance Total</b>                   | <b><u>-</u></b>       | <b><u>(12,568)</u></b> | <b><u>(33,042)</u></b> | <b><u>(27,294)</u></b> | <b><u>(9)</u></b> | <b><u>(72,913)</u></b>              |
| <b>Net loan portfolio total</b>          | <b><u>970,025</u></b> | <b><u>440,692</u></b>  | <b><u>92,670</u></b>   | <b><u>49,882</u></b>   | <b><u>-</u></b>   | <b><u>1,553,269</u></b>             |
| <b>Accrued interest</b>                  |                       |                        |                        |                        |                   |                                     |
| Placements with other banks              |                       |                        |                        |                        |                   | 86                                  |
| Loans                                    |                       |                        |                        |                        |                   | 9,400                               |
| <b>Total accrued interest</b>            |                       |                        |                        |                        |                   | <b><u>9,486</u></b>                 |
| <b>Total placements with other banks</b> |                       |                        |                        |                        |                   | <b><u>80,652</u></b>                |
| <b>Total loans</b>                       |                       |                        |                        |                        |                   | <b><u>1,482,103</u></b>             |
| <b>Total</b>                             |                       |                        |                        |                        |                   | <b><u>1,562,755</u></b>             |

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**NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**25.1. Credit risk [continued]**

**Classification into risk classes**

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

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

Instead of the earlier used risk classes, five valuation groups have been formed based on past due days (A: 0-30 days past due - DPD, B: 31-60 DPD, C: 61-90 DPD, D: 91-365 DPD, E: over 365 days past due). The five new groups do not match one by one to the earlier used risk classes, the composition of the classes has changed due to the different criteria.

Further regrouping is caused in provision for impairment that according to the currently applied methodology the Bank takes into account the collateral at the collective valuation as well.

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

Every exposure with small amounts are subject to collective valuation method according to general rules. Exposures are classified into five risk classes (performing, to-be-monitored, below average, doubtful, bad).

A certain % degree belongs to these valuation groups based on past due days and based on this degree, provision for impairment is recognised on exposures classified into above risk classes.

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

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

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

**As at 31 December 2012**

| Loan type                               | Performing          | To-be-monitored | Below average   | Doubtful | Bad      | Total off-balance sheet items |
|---|---------------------|-----------------|-----------------|----------|----------|-------------------------------|
| Housing and free-purpose mortgage loans | <u>3,506</u>        | <u>3</u>        | <u>6</u>        | =        | =        | <u>3,515</u>                  |
| <b>Total</b>                            | <b><u>3,506</u></b> | <b><u>3</u></b> | <b><u>6</u></b> | <b>=</b> | <b>=</b> | <b><u>3,515</u></b>           |

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**NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**25.1. Credit risk [continued]**

**Collaterals**

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

| <b>Types of collateral</b> | <b>2012</b>             | <b>2011</b>             |
|----------------------------|-------------------------|-------------------------|
| Government guarantees      | 138,976                 | 216,942                 |
| Mortgage                   | 2,437,745               | 2,594,362               |
| Other                      | <u>5,044</u>            | <u>6,200</u>            |
| <b>Total</b>               | <b><u>2,581,765</u></b> | <b><u>2,817,504</u></b> |

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

| <b>Types of collateral</b> | <b>2012</b>             | <b>2011</b>             |
|----------------------------|-------------------------|-------------------------|
| Government guarantees      | 138,368                 | 213,262                 |
| Mortgage                   | 1,104,448               | 1,217,386               |
| Other                      | <u>4,054</u>            | <u>5,367</u>            |
| <b>Total</b>               | <b><u>1,246,870</u></b> | <b><u>1,436,015</u></b> |

**Loans, neither past due, nor impaired**

An analysis of the credit quality of the gross value of the loans that are neither past due nor impaired is as follows:

The table consists of only on-balance sheet items and these loans are classified by the Bank as performing loans.

| <b>Loan type</b>                        | <b>2012</b>           | <b>2011</b>             |
|---|-----------------------|-------------------------|
| Housing and free-purpose mortgage loans | 838,840               | 1,261,451               |
| Placements with other banks             | 36,153                | 80,566                  |
| Corporate loans                         | <u>4,342</u>          | <u>5,948</u>            |
| <b>Total</b>                            | <b><u>879,335</u></b> | <b><u>1,347,965</u></b> |

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**NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**25.1. Credit risk [continued]**

**Past due, but not impaired loans**

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

**As at 31 December 2012**

| Loan type                               | Up to 90 days        | 91-180 days       | 181-365 days     | Above 365 days   | Total                |
|---|----------------------|-------------------|------------------|------------------|----------------------|
| Housing and free purpose mortgage loans | 76,736               | 901               | 86               | 47               | 77,770               |
| Corporate loans                         | <u>2,299</u>         | <u>2</u>          | <u>-</u>         | <u>-</u>         | <u>2,301</u>         |
| <b>Total</b>                            | <b><u>79,035</u></b> | <b><u>903</u></b> | <b><u>86</u></b> | <b><u>47</u></b> | <b><u>80,071</u></b> |

**As at 31 December 2011**

| Loan type                               | Up to 90 days        | 91-180 days      | 181-365 days    | Above 365 days  | Total                |
|---|----------------------|------------------|-----------------|-----------------|----------------------|
| Housing and free purpose mortgage loans | 73,078               | 71               | 6               | -               | 73,155               |
| Corporate loans                         | <u>2,165</u>         | <u>-</u>         | <u>-</u>        | <u>-</u>        | <u>2,165</u>         |
| <b>Total</b>                            | <b><u>75,243</u></b> | <b><u>71</u></b> | <b><u>6</u></b> | <b><u>-</u></b> | <b><u>75,320</u></b> |

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

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

| Types of collateral (total collateral value) | 2012                  | 2011                  |
|--|-----------------------|-----------------------|
| Retail loans                                 | 137,815               | 121,470               |
| Corporate loans                              | 1,579                 | 1,452                 |
| SME loans                                    | <u>2,147</u>          | <u>1,709</u>          |
| <b>Total</b>                                 | <b><u>141,541</u></b> | <b><u>124,631</u></b> |

| Types of collateral (to the extent of the exposures) | 2012                 | 2011                 |
|--|----------------------|----------------------|
| Retail loans   | 74,409               | 840                  |
| Corporate loans                                      | 861                  | 69,681               |
| SME loans  | <u>1,176</u>         | <u>1,078</u>         |
| <b>Total</b>   | <b><u>76,446</u></b> | <b><u>71,599</u></b> |

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

**Non-qualified gross loan portfolio by countries**

|              | 2012                  | 2011                  |
|--------------|-----------------------|-----------------------|
| Hungary      | 959,215               | 969,980               |
| Romania      | <u>191</u>            | <u>45</u>             |
| <b>Total</b> | <b><u>959,406</u></b> | <b><u>970,025</u></b> |

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**NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**25.1. Credit risk [continued]**

**Forborne loans**

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

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

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

**Rating of forborne loans**

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

*1. Individual evaluation method*

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

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

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

- as a result of forbearance, debts in default have been paid off or outstanding debts are 100% collateral loans (value of collateral equals or exceeds one of outstanding debts at the rating date),
- following the forbearance, default in paying with more than 15 days of delinquency did not arise during 365 days continuously and
- borrower's prospective ability to service the debt with new terms and conditions is adequate.

*2. Collective evaluation method*

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

- following the forbearance, default in paying with more than 15, in case of retail loan 30 days of delinquency did not arise during 180 days continuously.

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

- following the forbearance, default in paying with more than 15, in case of retail loan 30 days of delinquency did not arise during 365 days continuously.

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**NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**25.1. Credit risk [continued]**

**Forborne loans [continued]**

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

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

| Loan type                             | 2012                  | 2011                  |
|---------------------------------------|-----------------------|-----------------------|
| Retail loans                          | 238,613               | 152,287               |
| <i>from this: Escrow account loan</i> | 149,758               | 7,492                 |
| SME loans                             | 10                    | 6                     |
| <b>Total</b>                          | <b><u>238,623</u></b> | <b><u>152,293</u></b> |

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

| Loan type                             | 2012                  | 2011                 |
|---------------------------------------|-----------------------|----------------------|
| Retail loans                          | 153,458               | 93,614               |
| <i>from this: Escrow account loan</i> | 96,094                | 5,710                |
| <b>Total</b>                          | <b><u>153,458</u></b> | <b><u>93,614</u></b> |

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

| Loan type                                      | Balance as at<br>1 January |                       | Sale                 | Decrease<br>(expiring,<br>repayment) | Balance as at<br>31 December<br>2012 |
|--|----------------------------|-----------------------|----------------------|--------------------------------------|--------------------------------------|
|  | 2012                       | Additions             |                      |                                      |                                      |
| Retail loans                                   | 152,287                    | 122,927               | 21,503               | 15,098 <sup>1</sup>                  | 238,613                              |
| <i>Allowance</i>                               | 15,294                     | 12,556                | 5,824                | 790                                  | 21,236                               |
| SME loans                                      | 6                          | 4                     | -                    | -                                    | 10                                   |
| <i>Allowance</i>                               | -                          | -                     | -                    | -                                    | -                                    |
| <b>Gross forborne loan<br/>portfolio total</b> | <b><u>152,293</u></b>      | <b><u>122,931</u></b> | <b><u>21,503</u></b> | <b><u>15,098</u></b>                 | <b><u>238,623</u></b>                |
| <i>Allowance total</i>                         | <u>15,294</u>              | <u>12,556</u>         | <u>5,824</u>         | <u>790</u>                           | <u>21,236</u>                        |
| <b>Net forborne loan<br/>portfolio total</b>   | <b><u>136,999</u></b>      | <b><u>110,375</u></b> | <b><u>15,679</u></b> | <b><u>14,308</u></b>                 | <b><u>217,387</u></b>                |

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

| Loan type                                      | 0 DPD                 | 1-30<br>DPD          | 31-60<br>DPD         | 61-90<br>DPD        | 91-360<br>DPD        | 360+<br>DPD          | Total<br>carrying<br>amount<br>/allowance |
|--|-----------------------|----------------------|----------------------|---------------------|----------------------|----------------------|---|
|  |                       |                      |                      |                     |                      |                      |   |
| Retail loans                                   | 151,689               | 34,789               | 10,623               | 6,344               | 23,826               | 11,342               | 238,613                                   |
| <i>Allowance</i>                               | 4,753                 | 3,110                | 1,446                | 1,400               | 7,119                | 3,408                | 21,236                                    |
| SME loans                                      | 5                     | 5                    | -                    | -                   | -                    | -                    | 10  |
| <i>Allowance</i>                               | -                     | -                    | -                    | -                   | -                    | -                    | -   |
| <b>Gross forborne loan<br/>portfolio total</b> | <b><u>151,694</u></b> | <b><u>34,794</u></b> | <b><u>10,623</u></b> | <b><u>6,344</u></b> | <b><u>23,826</u></b> | <b><u>11,342</u></b> | <b><u>238,623</u></b>                     |
| <i>Allowance total</i>                         | <u>4,753</u>          | <u>3,110</u>         | <u>1,446</u>         | <u>1,400</u>        | <u>7,119</u>         | <u>3,408</u>         | <u>21,236</u>                             |
| <b>Net forborne loan<br/>portfolio total</b>   | <b><u>146,941</u></b> | <b><u>31,684</u></b> | <b><u>9,177</u></b>  | <b><u>4,944</u></b> | <b><u>16,707</u></b> | <b><u>7,934</u></b>  | <b><u>217,387</u></b>                     |

<sup>1</sup>From this HUF 11,730 million is related to early repayment

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**NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**25.1. Credit risk [continued]**

**Forborne loans [continued]**

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

| Loan type                                      | 0 DPD                | 1-30<br>DPD          | 31-60<br>DPD        | 61-90<br>DPD        | 91-360<br>DPD        | 360+<br>DPD         | Total<br>carrying<br>amount<br>/allowance |
|--|----------------------|----------------------|---------------------|---------------------|----------------------|---------------------|---|
| Retail loans                                   | 68,881               | 35,119               | 9,649               | 7,024               | 23,781               | 7,833               | 152,287                                   |
| <i>Allowance</i>                               | <i>1,792</i>         | <i>1,378</i>         | <i>537</i>          | <i>1,303</i>        | <i>7,724</i>         | <i>2,560</i>        | <i>15,294</i>                             |
| SME loans                                      | 6                    | -                    | -                   | -                   | -                    | -                   | 6   |
| <i>Allowance</i>                               | -                    | -                    | -                   | -                   | -                    | -                   | -   |
| <b>Gross forborne loan<br/>portfolio total</b> | <b><u>68,887</u></b> | <b><u>35,119</u></b> | <b><u>9,649</u></b> | <b><u>7,024</u></b> | <b><u>23,781</u></b> | <b><u>7,833</u></b> | <b><u>152,293</u></b>                     |
| <i>Allowance total</i>                         | <i><u>1,792</u></i>  | <i><u>1,378</u></i>  | <i><u>537</u></i>   | <i><u>1,303</u></i> | <i><u>7,724</u></i>  | <i><u>2,560</u></i> | <i><u>15,294</u></i>                      |
| <b>Net forborne loan<br/>portfolio total</b>   | <b><u>67,095</u></b> | <b><u>33,741</u></b> | <b><u>9,112</u></b> | <b><u>5,721</u></b> | <b><u>16,057</u></b> | <b><u>5,273</u></b> | <b><u>136,999</u></b>                     |

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

| Loan type                                      | 0 DPD                 |                      |                       | 1+ DPD               |                      |                      |
|--|-----------------------|----------------------|-----------------------|----------------------|----------------------|----------------------|
|  | Not<br>impaired       | Impaired             | Total                 | Not<br>impaired      | Impaired             | Total                |
| Retail loans                                   | 79,989                | 71,702               | 151,691               | 12,115               | 74,807               | 86,922               |
| <i>Allowance</i>                               | -                     | <i>4,754</i>         | <i>4,754</i>          | -                    | <i>16,482</i>        | <i>16,482</i>        |
| <i>Collateral</i>                              | <i>106,604</i>        | <i>84,552</i>        | <i>191,156</i>        | <i>15,623</i>        | <i>82,453</i>        | <i>98,076</i>        |
| SME loans                                      | -                     | 5                    | 5                     | -                    | 5                    | 5                    |
| <i>Allowance</i>                               | -                     | -                    | -                     | -                    | -                    | -                    |
| <i>Collateral</i>                              | -                     | 7                    | 7                     | -                    | 7                    | 7                    |
| <b>Gross forborne loan<br/>portfolio total</b> | <b><u>79,989</u></b>  | <b><u>71,707</u></b> | <b><u>151,696</u></b> | <b><u>12,115</u></b> | <b><u>74,812</u></b> | <b><u>86,927</u></b> |
| <i>Allowance total</i>                         | <i>-</i>              | <i><u>4,754</u></i>  | <i><u>4,754</u></i>   | <i>-</i>             | <i><u>16,482</u></i> | <i><u>16,482</u></i> |
| <b>Net forborne loan<br/>portfolio total</b>   | <b><u>79,989</u></b>  | <b><u>66,953</u></b> | <b><u>146,942</u></b> | <b><u>12,115</u></b> | <b><u>58,330</u></b> | <b><u>70,445</u></b> |
| <i>Collateral total</i>                        | <i><u>106,604</u></i> | <i><u>84,559</u></i> | <i><u>191,163</u></i> | <i><u>15,623</u></i> | <i><u>82,460</u></i> | <i><u>98,083</u></i> |

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

| Loan type                                      | 0 DPD                |                      |                      | 1+ DPD              |                      |                      |
|--|----------------------|----------------------|----------------------|---------------------|----------------------|----------------------|
|  | Not<br>impaired      | Impaired             | Total                | Not<br>impaired     | Impaired             | Total                |
| Retail loans                                   | 22,282               | 46,599               | 68,881               | 6,098               | 77,308               | 83,406               |
| <i>Allowance</i>                               | -                    | <i>1,793</i>         | <i>1,793</i>         | -                   | <i>13,501</i>        | <i>13,501</i>        |
| <i>Collateral</i>                              | <i>34,447</i>        | <i>52,204</i>        | <i>86,651</i>        | <i>8,164</i>        | <i>76,468</i>        | <i>84,632</i>        |
| SME loans                                      | -                    | 6                    | 6                    | -                   | -                    | -                    |
| <i>Allowance</i>                               | -                    | -                    | -                    | -                   | -                    | -                    |
| <i>Collateral</i>                              | -                    | 7                    | 7                    | -                   | -                    | -                    |
| <b>Gross forborne loan<br/>portfolio total</b> | <b><u>22,282</u></b> | <b><u>46,605</u></b> | <b><u>68,887</u></b> | <b><u>6,098</u></b> | <b><u>77,308</u></b> | <b><u>83,406</u></b> |
| <i>Allowance total</i>                         | <i>-</i>             | <i><u>1,793</u></i>  | <i><u>1,793</u></i>  | <i>-</i>            | <i><u>13,501</u></i> | <i><u>13,501</u></i> |
| <b>Net forborne loan<br/>portfolio total</b>   | <b><u>22,282</u></b> | <b><u>44,812</u></b> | <b><u>67,094</u></b> | <b><u>6,098</u></b> | <b><u>63,807</u></b> | <b><u>69,905</u></b> |
| <i>Collateral total</i>                        | <i><u>34,447</u></i> | <i><u>52,211</u></i> | <i><u>86,658</u></i> | <i><u>8,164</u></i> | <i><u>76,468</u></i> | <i><u>84,632</u></i> |



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**NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**25.1. Credit risk [continued]**

**Forborne loans [continued]**

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

| <b>Types of forbearance</b>                 | <b>2012</b>           | <b>2011</b>           |
|---|-----------------------|-----------------------|
| Home Protection Program <sup>1</sup>        | 149 758               | 7 492                 |
| Stay of execution <sup>2</sup>              | 55,353                | 85,823                |
| Prolongation                                | 1,343                 | 1,527                 |
| Combined (Stay of execution + Prolongation) | 3,575                 | 4,398                 |
| Other                                       | <u>28,584</u>         | <u>53,047</u>         |
| <b>Total</b>                                | <b><u>238,613</u></b> | <b><u>152,287</u></b> |

**Financial instruments by rating categories**

**Available-for-sale securities as at 31 December 2012**

|                            | <b>Bal</b>           |                       | <b>Not rated</b> |                     | <b>Total</b>         |
|----------------------------|----------------------|-----------------------|------------------|---------------------|----------------------|
| Hungarian Government bonds | 39,940               | 95.75%                | -                | 0.00%               | 39,940               |
| NBH bonds                  | 1,773                | 4.25%                 | -                | 0.00%               | 1,773                |
| <b>Total</b>               | <b><u>41,713</u></b> | <b><u>100.00%</u></b> | <b>=</b>         | <b><u>0.00%</u></b> | <b><u>41,713</u></b> |
| Accrued interest           |                      |                       |                  |                     | <u>146</u>           |
| <b>Total</b>               |                      |                       |                  |                     | <b><u>41,859</u></b> |

<sup>1</sup> Home Protection Action Plan was established by the Hungarian Government on FX mortgage loan debtor's behalf to reduce the financial burdens. From 2011 the opportunity of the early repayment at fixed exchange rates and from 2012 the escrow account loan construction was available for the debtors. See Note 2.14.

<sup>2</sup> Stay of execution means an average 12 month period for the retail housing loans.

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**NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**25.2. Market risk**

Market risks arise from positions taken in securities and other instruments. The Bank takes no significant exposure to market risks. Market risk generally monitored and controlled by the Asset and Liability Management function.

**25.2.1. Interest rate sensitivity analysis<sup>1</sup>**

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

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

The simulation was prepared by assuming two scenarios:

1. 0.50% - 0.75% decrease in average HUF yields (probable scenario)
2. 1.00% - 1.50% decrease in average HUF yields (alternative scenario)

The net interest income in a one year period after January 1, 2013 would be decreased by HUF 193 million (probable scenario) and HUF 1,384 million (alternative scenario) as a result of these simulation.

The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period can be summarized as follows (in HUF million):

| Description               | Effects to the net interest income in one year period |              |
|---------------------------|---|--------------|
|                           | 2012  | 2011         |
| HUF (0.1%) parallel shift | (82)  | (130)        |
| EUR (0.1%) parallel shift | -   | (64)         |
| EUR 0.1% parallel shift   | (18)  | -            |
| USD 0.1% parallel shift   | -   | -            |
| <b>Total</b>              | <b>(64)</b>   | <b>(194)</b> |

**25.2.2. Foreign exchange rate sensitivity analysis<sup>2</sup>**

The foreign exchange sensitivity analysis has been determined based on the net open position, taking into account both balance sheet exposure and off balance sheet exposure. The simulation was made on the assumption, that the price changes happens as a one off event, and neither does it take into consideration possible balance sheet dynamics, nor the potential increase or decrease of risk costs related to foreign exchange denominated assets.

The total net open position of OTP Mortgage Bank Ltd. was an amount of HUF 1.9 million short on 28 December 2012, which consisted of EUR, CHF and JPY exposure. Considering the volatilities estimated at the given reference date (11.7%, 11.8% and 13.0% respectively), we assumed a +/- 13.6%, 13.8% and 15.1% price shock for a one quarter long time horizon, which is equivalent to the 99% VaR of the price distribution. Based on this, the following profit or loss impact was estimated.

<sup>1</sup> Quantitative data on interest rate risk are shown in Note 30

<sup>2</sup> Quantitative data on foreign exchange rate risk are shown in Note 30

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**NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

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

|              | Price Shock | 2012                |                       | Price Shock | 2011                |                         |
|--------------|-------------|---------------------|-----------------------|-------------|---------------------|-------------------------|
|              |             | -                   | +                     |             | -                   | +                       |
| EUR          | 13.6%       | (0.4)               | 0.4                   | 17.1%       | (32.4)              | 38.4                    |
| CHF          | 13.8%       | 200.5               | (230.1)               | 20.0%       | 745.2               | (910.1)                 |
| JPY          | 15.1%       | <u>49.1</u>         | <u>(57.1)</u>         | 23.9%       | <u>178.7</u>        | <u>(226.9)</u>          |
| <b>Total</b> |             | <b><u>249.2</u></b> | <b><u>(286.8)</u></b> |             | <b><u>891.5</u></b> | <b><u>(1,098.6)</u></b> |

It has a negative impact on the Statement of Recognised Income of the Bank when HUF weakens against key currencies. Compared to 2011, the main reason of decreasing of the loss is due to the decreasing open position. At the same time, it has to be pointed out, that potential loss is marginal compared to the regulatory capital of the Bank.

**25.3. Equity sensitivity analysis**

The Bank has no equity instruments held in 2012 and 2011, therefore not exposed to equity risk.

**25.4. Capital management**

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

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

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

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures including the owner of the Bank.

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**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**25.4. Capital management [continued]**

**Capital adequacy**

The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with the Hungarian Accounting Standards („HAS”) applying the directives, rulings and indicators defined by the Basel Committee, that has been adopted in Hungary in 2008.

The Bank has entirely complied with the regulatory capital requirements in 2012 similar to prior years.

The capital adequacy calculations of the Bank for the year 2012 are prepared based on the data of the audited financial statements prepared in accordance with HAS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and the alternative standard method in case of the operational risk. In 2012 the Mortgage Bank’s solvency ratio is 10.48%. Surplus capital is 58,585; the total required regulatory capital is 44,736.

| <b>In HUF million</b>                    | <b>2012</b>          | <b>2011</b>          |
|--|----------------------|----------------------|
| Core capital                             | 55,856               | 59,161               |
| Supplementary capital                    | 2,893                | 3,839                |
| Deductions                               | (164)                | (183)                |
| <b>Regulatory capital</b>                | <b>58,585</b>        | <b>62,817</b>        |
| Credit risk capital requirement          | 41,965               | 48,414               |
| Market risk capital requirement          | 165                  | 1,112                |
| Operational risk capital requirement     | 2,606                | 2,106                |
| <b>Total required regulatory capital</b> | <b>44,736</b>        | <b>51,632</b>        |
| <b>Surplus capital</b>                   | <b><u>13,849</u></b> | <b><u>11,185</u></b> |
| <b>Solvency ratio</b>                    | <b><u>10.48%</u></b> | <b><u>9.73%</u></b>  |

The positive components of the Core capital are the following:

Issued capital, Capital reserve, Tied-up reserve, Profit reserve, Profit for the year, General risk reserve.

The negative components of the Core capital are the following:

Intangible assets.

The positive components of the Supplementary capital are the following:

Subsidiary loan capital, Subordinated loan capital.

Deductions are deductions due to PIBB<sup>1</sup> investments and deductions due to limit breaches.

<sup>1</sup> PIBB: Financial Institutions, Investing Enterprises, Insurance Companies

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**NOTE 26:      OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS**  
**(in HUF million)**

**Derivative financial instruments**

The Bank has certain swap and forward transactions, which are qualified as hedging instrument based on the Bank's risk management policy. However these financial instruments are not qualified as hedging instrument based on IAS 39, therefore the Bank qualified these derivative financial instruments as held for trading, and fair value adjustment is recognised directly in the Statement of Recognized Income.

***Derivatives***

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

***Foreign currency contracts***

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

Foreign currency contracts can be used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

***Foreign exchange swaps and interest rate swaps***

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

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

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**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 26: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS**  
**(in HUF million) [continued]**

**Derivatives [continued]**

*Cross-currency interest rate swap*

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

**NOTE 27: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK**  
**(in HUF million)**

**As at 31 December 2012**

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

**As at 31 December 2011**

|   | <b>CHF</b>             | <b>EUR</b>         | <b>JPY</b>            | <b>Total</b>           |
|---|------------------------|--------------------|-----------------------|------------------------|
| Assets  | 635,377                | 65,960             | 166,622               | 867,959                |
| Liabilities                                   | (267,087)              | (532,739)          | (77,547)              | (877,373)              |
| Off-balance sheet assets and liabilities, net | <u>(386,130)</u>       | <u>466,695</u>     | <u>(94,178)</u>       | <u>(13,613)</u>        |
| <b>Net position</b>                           | <b><u>(17,840)</u></b> | <b><u>(84)</u></b> | <b><u>(5,103)</u></b> | <b><u>(23,027)</u></b> |

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**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 28: RELATED PARTY TRANSACTIONS (in HUF million)**

**28.1. Outstanding balances/Transactions due from or due to OTP Bank**

**28.1.1. Outstanding balances in the Separate Statement of Financial Position related to OTP Bank**

The Bank had the following assets and liabilities due from, or due to the OTP Bank:

| <b>Assets</b>   | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|
| Cash, amounts due from OTP Bank   | 75,061      | 621         |
| Placements with OTP Bank  | 36,153      | 80,656      |
| Accrued receivables   | 10          | 16          |
| Fair value hedge derivatives – positive fair value  | 22,776      | 27,211      |
| Other receivables – capital contribution for losses from early repayment from 1 January till 31 January 2012 <sup>1</sup> | -           | 31,937      |
| Other receivables – capital contribution for losses from early repayment until 31 December 2011 <sup>1</sup>              | -           | 4,064       |
| <b>Liabilities</b>  | <b>2012</b> | <b>2011</b> |
| Amounts due to OTP Bank and other banks   | 225,077     | 335,542     |
| Fair value hedge derivatives - negative fair value  | 6,646       | 4,385       |
| Other liabilities due to OTP Bank   | 15,688      | 17,412      |
| Issued mortgage bonds held by OTP Bank  | 983,954     | 1,009,179   |
| Accrued interest payable related to mortgage bonds held by OTP Bank   | 38,068      | 39,808      |
| Early repayment – liabilities to OTP Bank relating to tax refund <sup>1</sup>   | -           | 8,759       |

**28.1.2. Transactions in the Separate Statement of Recognized Income related to OTP Bank**

|  | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
| Interest income  | 10,636      | 10,397      |
| Interest expense   | 93,514      | 87,029      |
| Fees and commissions paid to OTP Bank relating to lending activity | -           | 92          |
| Account handling fees paid to OTP Bank                             | 6,106       | 7,282       |
| Other fees and commissions relating to lending paid to OTP Bank    | 1,618       |             |
| Gains from mortgage bond repurchase                                | 5,683       | -           |
| Other operating income   | 10          | 52          |
| One-off payments fee (0.5%)  | -           | 6           |
| Revenue from the value appraisal activity from OTP Bank            | 158         | 164         |

**28.1.3. Transactions of the Mortgage Bank's loan portfolio related to OTP Bank**

|  | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
| Performing loans purchased from OTP Bank               | 2,260       | 5,381       |
| Book value of performing loans purchased from OTP Bank | 2,259       | 5,379       |

**28.2. Outstanding balances related to key management personnel**

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 520.5 million as at 31 December 2012. These loans were covered by HUF 1,261.2 million mortgage.

**28.3. Outstanding balances/Transactions related to other related party**

**28.3.1. Transactions related to OTP Building Society Ltd.**

|  | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
| Issued mortgage bonds held by OTP Building Society Ltd.                              | 17,618      | 29,152      |
| Accrued interest payable related to mortgage bonds held by OTP Building Society Ltd. | 380         | 1,109       |

<sup>1</sup> See Note 2.14.

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**NOTE 28: RELATED PARTY TRANSACTIONS (in HUF million) [continued]**

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

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

|   | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|
| Book value of non-performing loans sold to OTP Factoring Ltd.           | 29,108      | 26,233      |
| Selling price of the non-performing loans related to OTP Factoring Ltd. | 22,046      | 23,538      |

**28.3.3. Further Outstanding balances/Transactions related to other related party**

|   | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|
| Accrued receivables due from other related party  | 8           | 17          |
| Other liabilities due to other related party  | 11          | 34          |
| Issued mortgage bonds held by OTP Fund Management Ltd.  | 2,596       | 2,611       |
| Accrued interest payable related to mortgage bonds held by<br>OTP Fund Management Ltd.            | 93          | 87          |
| Other operating income from other related party   | 10          | 49          |
| Revenue from the value appraisal activity from OTP<br>Factoring Ltd. and from other related party | 158         | 71          |

Compensation of key management personnel is shown in Note 22.

In the normal course of the business the Bank enters into other transactions with the entities within the OTP Group, the amounts and volumes of which are not significant to these financial statements taken as a whole. Only relevant transactions were highlighted.

**NOTE 29: INTEREST RATE RISK MANAGEMENT**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

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

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

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



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**NOTE 29: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

| 31 December 2012  | Within 1 month |                  | within 3 months over 1 month |                  | within 1 year over 3 months |                  | within 2 years over 1 year |                  | over 2 years |                  | Non-interest-bearing |                  | Total |                  |           |
|---|----------------|------------------|------------------------------|------------------|-----------------------------|------------------|----------------------------|------------------|--------------|------------------|----------------------|------------------|-------|------------------|-----------|
|   | HUF            | Foreign currency | HUF                          | Foreign currency | HUF                         | Foreign currency | HUF                        | Foreign currency | HUF          | Foreign currency | HUF                  | Foreign currency | HUF   | Foreign currency | Total     |
| <b>ASSETS</b>   |                |                  |                              |                  |                             |                  |                            |                  |              |                  |                      |                  |       |                  |           |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 101            | 74,963           | -                            | -                | -                           | -                | -                          | -                | -            | -                | 101                  | 74,963           | -     | -                | 75,064    |
| variable interest   | 101            | 74,963           | -                            | -                | -                           | -                | -                          | -                | -            | -                | 101                  | 74,963           | -     | -                | 75,064    |
| non-interest bearing  | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | -     | -                | -         |
| <b>Placements with other banks</b>  | 350            | 35,803           | -                            | -                | -                           | -                | -                          | -                | -            | -                | 350                  | 35,832           | 29    | -                | 36,182    |
| fixed interest  | 350            | 35,803           | -                            | -                | -                           | -                | -                          | -                | -            | -                | 350                  | 35,803           | -     | -                | 36,153    |
| variable interest   | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | -     | -                | -         |
| non-interest bearing  | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | 29    | -                | 29        |
| <b>Securities available-for-sale</b>  | 41,713         | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | 41,859               | -                | 146   | -                | 41,859    |
| fixed interest  | 41,713         | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | 41,713               | -                | -     | -                | 41,713    |
| variable interest   | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | -     | -                | -         |
| non-interest bearing  | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | 146                  | -                | 146   | -                | 146       |
| <b>Loans, net of allowances for loan losses</b>                             | 263,691        | 577,713          | 62,915                       | -                | 135,749                     | -                | 81,632                     | -                | 146,748      | -                | 694,070              | 579,849          | 2,136 | -                | 1,273,919 |
| variable interest   | 263,691        | 577,713          | 62,915                       | -                | 135,749                     | -                | 81,632                     | -                | 146,748      | -                | 690,735              | 577,713          | -     | -                | 1,268,448 |
| non-interest bearing  | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | 3,335                | 2,136            | 3,335 | 2,136            | 5,471     |
| <b>Derivative financial instruments</b>                                     | -              | -                | -                            | 469,825          | 101,360                     | -                | -                          | -                | -            | -                | 101,360              | 469,825          | -     | -                | 571,185   |
| fixed interest  | -              | -                | -                            | 101,360          | -                           | -                | -                          | -                | -            | -                | 101,360              | -                | -     | -                | 101,360   |
| variable interest   | -              | -                | -                            | 469,825          | -                           | -                | -                          | -                | -            | -                | -                    | 469,825          | -     | -                | 469,825   |

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**NOTE 29: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

| 31 December 2012                               | Within 1 month |                  | within 3 months over 1 month |                  | within 1 year over 3 months |                  | within 2 years over 1 year |                  | over 2 years |                  | Non-interest-bearing |                  | Total          |                  |                  |
|--|----------------|------------------|------------------------------|------------------|-----------------------------|------------------|----------------------------|------------------|--------------|------------------|----------------------|------------------|----------------|------------------|------------------|
|  | HUF            | Foreign currency | HUF                          | Foreign currency | HUF                         | Foreign currency | HUF                        | Foreign currency | HUF          | Foreign currency | HUF                  | Foreign currency | HUF            | Foreign currency | Total            |
| <b>LIABILITIES</b>                             |                |                  |                              |                  |                             |                  |                            |                  |              |                  |                      |                  |                |                  |                  |
| <b>Amounts due to OTP Bank and other banks</b> | <b>122,624</b> | <b>102,031</b>   | -                            | -                | -                           | -                | -                          | -                | -            | -                | <b>216</b>           | <b>206</b>       | <b>122,840</b> | <b>102,237</b>   | <b>225,077</b>   |
| <i>fixed interest</i>                          | 37,244         | 27,752           | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | 37,244         | 27,752           | 64,996           |
| <i>variable interest</i>                       | 85,380         | 74,279           | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | 85,380         | 74,279           | 159,659          |
| <i>non-interest bearing</i>                    | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | 216                  | 206              | 216            | 206              | 422              |
| <b>Liabilities from issued securities</b>      | <b>8,547</b>   | -                | -                            | <b>439,005</b>   | <b>97,468</b>               | -                | <b>13,378</b>              | <b>58,166</b>    | -            | <b>483,136</b>   | <b>40,791</b>        | <b>2,237</b>     | <b>643,320</b> | <b>499,408</b>   | <b>1,142,728</b> |
| <i>fixed interest</i>                          | -              | -                | -                            | -                | 97,468                      | -                | 13,378                     | 58,166           | -            | 483,136          | -                    | -                | 593,982        | 58,166           | 652,148          |
| <i>variable interest</i>                       | 8,547          | -                | -                            | 439,005          | -                           | -                | -                          | -                | -            | -                | -                    | -                | 8,547          | 439,005          | 447,552          |
| <i>non-interest bearing</i>                    | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | 40,791               | 2,237            | 40,791         | 2,237            | 43,028           |
| <b>Derivative financial instruments</b>        | -              | <b>86,718</b>    | -                            | <b>468,337</b>   | -                           | -                | -                          | -                | -            | -                | -                    | -                | -              | <b>555,055</b>   | <b>555,055</b>   |
| <i>fixed interest</i>                          | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | -              | -                | -                |
| <i>variable interest</i>                       | -              | 86,718           | -                            | 468,337          | -                           | -                | -                          | -                | -            | -                | -                    | -                | -              | 555,055          | 555,055          |
| <b>Subordinated bonds and loans</b>            | -              | <b>3,616</b>     | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | <b>24</b>        | -              | <b>3,640</b>     | <b>3,640</b>     |
| <i>fixed interest</i>                          | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | -              | -                | -                |
| <i>variable interest</i>                       | -              | 3,616            | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | -              | 3,616            | 3,616            |
| <i>non-interest bearing</i>                    | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | 24               | -              | 24               | 24               |
| <b>NET POSITION</b>                            | <b>174,684</b> | <b>496,114</b>   | <b>62,915</b>                | <b>(437,517)</b> | <b>139,641</b>              | -                | <b>68,254</b>              | <b>(58,166)</b>  | -            | <b>(336,388)</b> | <b>(37,526)</b>      | <b>(302)</b>     | <b>71,580</b>  | <b>129</b>       | <b>71,709</b>    |

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**NOTE 29: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

| 31 December 2011   | Within 1 month |                  | within 3 months over 1 month |                  | within 1 year over 3 months |                  | within 2 years over 1 year |                  | over 2 years |                  | Non-interest-bearing |                  | Total   |                  | Total     |
|--|----------------|------------------|------------------------------|------------------|-----------------------------|------------------|----------------------------|------------------|--------------|------------------|----------------------|------------------|---------|------------------|-----------|
|  | HUF            | Foreign currency | HUF                          | Foreign currency | HUF                         | Foreign currency | HUF                        | Foreign currency | HUF          | Foreign currency | HUF                  | Foreign currency | HUF     | Foreign currency |           |
| <b>Cash, amounts due from banks and balances with the National Bank of Hungary</b> | 1,139          | 581              | -                            | -                | -                           | -                | -                          | -                | -            | -                | 9                    | -                | 1,148   | 581              | 1,729     |
| <i>variable interest</i>   | 1,139          | 581              | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | 1,139   | 581              | 1,720     |
| <i>non-interest bearing</i>  | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | 9                    | -                | 9       | -                | 9         |
| <b>Placements with other banks</b>   | 19,800         | 60,766           | -                            | -                | -                           | -                | -                          | -                | -            | -                | 11                   | 75               | 19,811  | 60,841           | 80,652    |
| <i>fixed interest</i>  | 19,800         | 35,564           | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | 19,800  | 35,564           | 55,364    |
| <i>variable interest</i>   | -              | 25,202           | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | -       | 25,202           | 25,202    |
| <i>non-interest bearing</i>  | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | 11                   | 75               | 11      | 75               | 86        |
| <b>Securities available-for-sale</b>   | -              | -                | -                            | -                | -                           | -                | 1,740                      | -                | -            | -                | 105                  | -                | 1,845   | -                | 1,845     |
| <i>fixed interest</i>  | -              | -                | -                            | -                | -                           | -                | 1,740                      | -                | -            | -                | -                    | -                | 1,740   | -                | 1,740     |
| <i>non-interest bearing</i>  | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | 105                  | -                | 105     | -                | 105       |
| <b>Loans, net of allowances for loan losses</b>                                    | 217,897        | 778,566          | 24,618                       | -                | 101,386                     | -                | 175,308                    | -                | -            | 174,928          | 6,451                | 2,949            | 700,588 | 781,515          | 1,482,103 |
| <i>variable interest</i>   | 217,897        | 778,566          | 24,618                       | -                | 101,386                     | -                | 175,308                    | -                | -            | 174,928          | -                    | -                | 694,137 | 778,566          | 1,472,703 |
| <i>non-interest bearing</i>  | -              | -                | -                            | -                | -                           | -                | -                          | -                | -            | -                | 6,451                | 2,949            | 6,451   | 2,949            | 9,400     |
| <b>Derivative financial instruments</b>  | 89,116         | 63,233           | -                            | -                | 511,697                     | -                | -                          | -                | -            | -                | -                    | -                | 89,116  | 574,930          | 664,046   |
| <i>fixed interest</i>  | 89,116         | 63,233           | -                            | -                | -                           | -                | -                          | -                | -            | -                | -                    | -                | 89,116  | 63,233           | 152,349   |
| <i>variable interest</i>   | -              | -                | -                            | -                | 511,697                     | -                | -                          | -                | -            | -                | -                    | -                | -       | 511,697          | 511,697   |

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**NOTE 29: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

| 31 December 2011<br>LIABILITIES                    | Within 1 month |                     | within 3 months<br>over 1 month |                     | within 1 year over 3<br>months |                     | within 2 years over 1<br>year |                     | over 2 years    |                     | Non-interest-bearing |                     | Total           |                     |            |
|--|----------------|---------------------|---------------------------------|---------------------|--------------------------------|---------------------|-------------------------------|---------------------|-----------------|---------------------|----------------------|---------------------|-----------------|---------------------|------------|
|  | HUF            | Foreign<br>currency | HUF                             | Foreign<br>currency | HUF                            | Foreign<br>currency | HUF                           | Foreign<br>currency | HUF             | Foreign<br>currency | HUF                  | Foreign<br>currency | HUF             | Foreign<br>currency | Total      |
| <b>Amounts due to OTP Bank<br/>and other banks</b> | <b>328</b>     | <b>335,214</b>      | -                               | -                   | -                              | -                   | -                             | -                   | -               | -                   | -                    | -                   | -               | -                   | <b>328</b> |
| <i>fixed interest</i>                              | -              | 335,214             | -                               | -                   | -                              | -                   | -                             | -                   | -               | -                   | -                    | -                   | -               | -                   | 335,214    |
| <i>variable interest</i>                           | 328            | -                   | -                               | -                   | -                              | -                   | -                             | -                   | -               | -                   | -                    | -                   | -               | -                   | 328        |
| <i>non-interest bearing</i>                        | -              | -                   | -                               | -                   | -                              | -                   | -                             | -                   | -               | -                   | -                    | -                   | -               | -                   | 708        |
| <b>Liabilities from issued<br/>securities</b>      | <b>14,084</b>  | -                   | <b>13,872</b>                   | <b>468,588</b>      | <b>116,060</b>                 | -                   | <b>98,350</b>                 | -                   | <b>62,078</b>   | <b>42,336</b>       | <b>3,500</b>         | <b>668,049</b>      | <b>534,166</b>  | <b>1,202,215</b>    |            |
| <i>fixed interest</i>                              | 5,533          | -                   | 13,872                          | -                   | 116,060                        | -                   | 98,350                        | -                   | 62,078          | -                   | -                    | 617,162             | 62,078          | 679,240             |            |
| <i>variable interest</i>                           | 8,551          | -                   | -                               | 468,588             | -                              | -                   | -                             | -                   | -               | -                   | -                    | 8,551               | 468,588         | 477,139             |            |
| <i>non-interest bearing</i>                        | -              | -                   | -                               | -                   | -                              | -                   | -                             | -                   | -               | 42,336              | 3,500                | 42,336              | 3,500           | 45,836              |            |
| <b>Derivative financial<br/>instruments</b>        | <b>61,226</b>  | <b>96,217</b>       | -                               | <b>488,871</b>      | -                              | -                   | -                             | -                   | -               | -                   | -                    | <b>61,226</b>       | <b>585,088</b>  | <b>646,314</b>      |            |
| <i>fixed interest</i>                              | 61,226         | 96,217              | -                               | -                   | -                              | -                   | -                             | -                   | -               | -                   | -                    | 61,226              | 96,217          | 157,443             |            |
| <i>variable interest</i>                           | -              | -                   | -                               | 488,871             | -                              | -                   | -                             | -                   | -               | -                   | -                    | -                   | 488,871         | 488,871             |            |
| <b>Subordinated bonds and<br/>loans</b>            | -              | <b>3,839</b>        | -                               | -                   | -                              | -                   | -                             | -                   | -               | -                   | <b>26</b>            | -                   | <b>3,865</b>    | <b>3,865</b>        |            |
| <i>fixed interest</i>                              | -              | -                   | -                               | -                   | -                              | -                   | -                             | -                   | -               | -                   | -                    | -                   | -               | -                   |            |
| <i>variable interest</i>                           | -              | 3,839               | -                               | -                   | -                              | -                   | -                             | -                   | -               | -                   | -                    | -                   | 3,839           | 3,839               |            |
| <i>non-interest bearing</i>                        | -              | -                   | -                               | -                   | -                              | -                   | -                             | -                   | -               | -                   | 26                   | -                   | 26              | 26                  |            |
| <b>NET POSITION</b>                                | <b>252,314</b> | <b>467,876</b>      | <b>10,746</b>                   | <b>(445,762)</b>    | <b>(14,674)</b>                | -                   | <b>78,698</b>                 | -                   | <b>(62,078)</b> | <b>(35,760)</b>     | <b>(1,210)</b>       | <b>82,905</b>       | <b>(41,474)</b> | <b>41,730</b>       |            |

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**NOTE 30: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)**

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

| As at 31 December 2012  | Within 3 months       | Within one year and over 3 months | Within 5 years and over one year | Over 5 years            | Without maturity       | Total                   |
|---|-----------------------|-----------------------------------|----------------------------------|-------------------------|------------------------|-------------------------|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 75,064                | -                                 | -                                | -                       | -                      | 75,064                  |
| Placements with other banks   | 36,182                | -                                 | -                                | -                       | -                      | 36,182                  |
| Financial assets at fair value through profit or loss                       | -                     | -                                 | -                                | -                       | -                      | -                       |
| Securities available-for-sale   | 41,859                | -                                 | -                                | -                       | -                      | 41,859                  |
| Loans, net of allowance for loan losses                                     | 18,247                | 35,045                            | 198,588                          | 1,022,039               | -                      | 1,273,919               |
| Property and equipment  | -                     | -                                 | -                                | -                       | 130                    | 130                     |
| Intangible assets   | -                     | -                                 | -                                | -                       | 164                    | 164                     |
| Other assets  | <u>11,275</u>         | <u>-</u>                          | <u>22,776</u>                    | <u>-</u>                | <u>-</u>               | <u>34,051</u>           |
| <b>TOTAL ASSETS</b>   | <b><u>182,627</u></b> | <b><u>35,045</u></b>              | <b><u>221,364</u></b>            | <b><u>1,022,039</u></b> | <b><u>294</u></b>      | <b><u>1,461,369</u></b> |
| Amounts due to OTP Bank and other banks                                     | 139,519               | 85,558                            | -                                | -                       | -                      | 225,077                 |
| Liabilities from issued securities  | 42,508                | 323,509                           | 566,443                          | 210,268                 | -                      | 1,142,728               |
| Financial liabilities at fair value through profit or loss                  | -                     | -                                 | -                                | -                       | -                      | -                       |
| Other liabilities   | 5,427                 | 6,785                             | 798                              | 1,303                   | -                      | 14,313                  |
| Subordinated bonds and loans  | <u>24</u>             | <u>-</u>                          | <u>3,616</u>                     | <u>-</u>                | <u>-</u>               | <u>3,640</u>            |
| <b>TOTAL LIABILITIES</b>  | <b><u>187,478</u></b> | <b><u>415,852</u></b>             | <b><u>570,857</u></b>            | <b><u>211,571</u></b>   | <b><u>-</u></b>        | <b><u>1,385,758</u></b> |
| Share capital   | -                     | -                                 | -                                | -                       | 27,000                 | 27,000                  |
| Retained earnings and reserves  | <u>-</u>              | <u>-</u>                          | <u>-</u>                         | <u>-</u>                | <u>48,611</u>          | <u>48,611</u>           |
| <b>TOTAL SHAREHOLDER'S EQUITY</b>   | <b><u>-</u></b>       | <b><u>-</u></b>                   | <b><u>-</u></b>                  | <b><u>-</u></b>         | <b><u>75,611</u></b>   | <b><u>75,611</u></b>    |
| <b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>                           | <b><u>187,478</u></b> | <b><u>415,852</u></b>             | <b><u>570,857</u></b>            | <b><u>211,571</u></b>   | <b><u>75,611</u></b>   | <b><u>1,461,369</u></b> |
| <b>LIQUIDITY (DEFICIENCY)/ EXCESS</b>                                       | <b><u>(4,851)</u></b> | <b><u>(380,807)</u></b>           | <b><u>(349,493)</u></b>          | <b><u>810,468</u></b>   | <b><u>(75,317)</u></b> | <b><u>-</u></b>         |

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**NOTE 30: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]**

| As at 31 December 2011  | Within 3 months         | Within one year and over 3 months | Within 5 years and over one year | Over 5 years            | Without maturity       | Total                   |
|---|-------------------------|-----------------------------------|----------------------------------|-------------------------|------------------------|-------------------------|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 1,729                   | -                                 | -                                | -                       | -                      | 1,729                   |
| Placements with other banks   | 80,652                  | -                                 | -                                | -                       | -                      | 80,652                  |
| Financial assets at fair value through profit or loss                       | 2,028                   | -                                 | -                                | -                       | -                      | 2,028                   |
| Securities available-for-sale   | 105                     | -                                 | 1,740                            | -                       | -                      | 1,845                   |
| Loans, net of allowance for loan losses                                     | 22,040                  | 36,860                            | 198,620                          | 1,224,583               | -                      | 1,482,103               |
| Property and equipment  | -                       | -                                 | -                                | -                       | 126                    | 126                     |
| Intangible assets   | -                       | -                                 | -                                | -                       | 183                    | 183                     |
| Other assets  | <u>79,012</u>           | <u>11,721</u>                     | <u>-</u>                         | <u>-</u>                | <u>-</u>               | <u>90,733</u>           |
| <b>TOTAL ASSETS</b>   | <b><u>185,566</u></b>   | <b><u>48,581</u></b>              | <b><u>200,360</u></b>            | <b><u>1,224,583</u></b> | <b><u>309</u></b>      | <b><u>1,659,399</u></b> |
| Amounts due to OTP Bank and other banks                                     | 336,250                 | -                                 | -                                | -                       | -                      | 336,250                 |
| Liabilities from issued securities  | 65,241                  | 116,060                           | 809,142                          | 211,772                 | -                      | 1,202,215               |
| Financial liabilities at fair value through profit or loss                  | 7,122                   | -                                 | -                                | -                       | -                      | 7,122                   |
| Other liabilities   | 16,650                  | -                                 | 4,385                            | 2,631                   | -                      | 23,666                  |
| Subordinated bonds and loans  | <u>26</u>               | <u>-</u>                          | <u>-</u>                         | <u>3,839</u>            | <u>-</u>               | <u>3,865</u>            |
| <b>TOTAL LIABILITIES</b>  | <b><u>425,289</u></b>   | <b><u>116,060</u></b>             | <b><u>813,527</u></b>            | <b><u>218,242</u></b>   | <b><u>-</u></b>        | <b><u>1,573,118</u></b> |
| Share capital   | -                       | -                                 | -                                | -                       | 27,000                 | 27,000                  |
| Retained earnings and reserves  | <u>-</u>                | <u>-</u>                          | <u>-</u>                         | <u>-</u>                | <u>59,281</u>          | <u>59,281</u>           |
| <b>TOTAL SHAREHOLDER'S EQUITY</b>   | <b><u>-</u></b>         | <b><u>-</u></b>                   | <b><u>-</u></b>                  | <b><u>-</u></b>         | <b><u>86,281</u></b>   | <b><u>86,281</u></b>    |
| <b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>                           | <b><u>425,289</u></b>   | <b><u>116,060</u></b>             | <b><u>813,527</u></b>            | <b><u>218,242</u></b>   | <b><u>86,281</u></b>   | <b><u>1,659,399</u></b> |
| <b>LIQUIDITY (DEFICIENCY)/ EXCESS</b>                                       | <b><u>(239,723)</u></b> | <b><u>(67,479)</u></b>            | <b><u>(613,167)</u></b>          | <b><u>1,006,341</u></b> | <b><u>(85,972)</u></b> | <b><u>-</u></b>         |

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**NOTE 31: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)**

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 31 for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

**Fair value of financial assets and liabilities**

|   | 2012                    |                         | 2011                    |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
|   | Carrying amount         | Fair value              | Carrying amount         | Fair value              |
| Cash, due from banks and balances with the National Bank of Hungary | 75,064                  | 75,064                  | 1,729                   | 1,729                   |
| Placements with other banks   | 36,182                  | 36,182                  | 80,652                  | 80,652                  |
| Financial assets at fair value through profit and loss              | -                       | -                       | 2,028                   | 2,028                   |
| Securities available-for-sale                                       | 41,859                  | 41,859                  | 1,845                   | 1,845                   |
| Loans, net of allowance for loan losses                             | <u>1,273,919</u>        | <u>2,058,492</u>        | <u>1,482,103</u>        | <u>2,356,785</u>        |
| <b>FINANCIAL ASSETS TOTAL</b>                                       | <b><u>1,427,024</u></b> | <b><u>2,211,597</u></b> | <b><u>1,568,357</u></b> | <b><u>2,443,039</u></b> |
| Amounts due to OTP Bank and other banks                             | 225,077                 | 225,077                 | 336,250                 | 336,250                 |
| Liabilities from issued securities                                  | 1,142,728               | 1,133,831               | 1,202,215               | 1,148,412               |
| Derivative financial instruments designated as hedging instruments  | 6,646                   | 6,646                   | 4,385                   | 4,385                   |
| Financial liabilities at fair value through profit or loss          | -                       | -                       | 7,122                   | 7,122                   |
| Subordinated bonds and loans  | <u>3,640</u>            | <u>3,640</u>            | <u>3,865</u>            | <u>3,865</u>            |
| <b>FINANCIAL LIABILITIES TOTAL</b>                                  | <b><u>1,378,091</u></b> | <b><u>1,369,194</u></b> | <b><u>1,553,837</u></b> | <b><u>1,500,034</u></b> |

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**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 31: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

**Fair value of derivative instruments**

|   | <b>Fair value</b>     |                        | <b>Notional value, net</b> |                         |
|---|-----------------------|------------------------|----------------------------|-------------------------|
|   | <b>2012</b>           | <b>2011</b>            | <b>2012</b>                | <b>2011</b>             |
| <b>Foreign exchange swaps designated as held for trading</b>                        |                       |                        |                            |                         |
| Positive fair value of foreign exchange swaps<br>classified as held for trading     | -                     | 1,872                  | -                          | 150,689                 |
| Negative fair value of foreign exchange swaps<br>classified as held for trading     | -                     | (7,122)                | -                          | (155,841)               |
| <b>CCIRS designated as fair value hedge</b>   |                       |                        |                            |                         |
| Positive fair value of CCIRS classified as fair<br>value hedge                      | 22,776                | 27,211                 | 525,228                    | 466,695                 |
| Negative fair value of CCIRS classified as fair<br>value hedge                      | (6,646)               | (4,385)                | (514,650)                  | (447,318)               |
| <b>Other derivative contracts designated as fair value hedge</b>                    |                       |                        |                            |                         |
| Positive fair value of other derivative contracts<br>classified as fair value hedge | -                     | -                      | -                          | -                       |
| Negative fair value of other derivative contracts<br>classified as fair value hedge | -                     | -                      | -                          | -                       |
| <b>Other derivative contracts designated as held for trading</b>                    |                       |                        |                            |                         |
| Positive fair value of other derivative contracts<br>classified as held for trading | -                     | 156                    | -                          | 2,282                   |
| Negative fair value of other derivative contracts<br>classified as held for trading | -                     | -                      | -                          | (2,104)                 |
| <b>Derivative financial assets total</b>  | <b><u>22,776</u></b>  | <b><u>29,239</u></b>   | <b><u>525,228</u></b>      | <b><u>172,348</u></b>   |
| <b>Derivative financial liabilities total</b>                                       | <b><u>(6,646)</u></b> | <b><u>(11,507)</u></b> | <b><u>(514,650)</u></b>    | <b><u>(157,945)</u></b> |
| <b>Derivative financial instruments total</b>                                       | <b><u>16,130</u></b>  | <b><u>17,732</u></b>   | <b><u>10,578</u></b>       | <b><u>14,403</u></b>    |



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**NOTE 31: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

**Hedge accounting**

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

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

**As at 31 December 2012**

| Type of hedge                                 | Description of the hedging instrument | Fair value of the hedging instrument | Type of the risk being hedged   |
|---|---------------------------------------|--------------------------------------|---------------------------------|
| 1) Cash flow hedges                           | -                                     | -                                    | -                               |
| 2) Fair value hedges                          | CCIRS                                 | HUF 16,130 million                   | Interest rate, foreign exchange |
| 3) Net investment hedge in foreign operations | -                                     | -                                    | -                               |

**As at 31 December 2011**

| Type of hedge                                 | Description of the Hedging instrument | Fair value of the hedging instrument | Type of the risk being hedged   |
|---|---------------------------------------|--------------------------------------|---------------------------------|
| 1) Cash flow hedges                           | -                                     | -                                    | -                               |
| 2) Fair value hedges                          | CCIRS                                 | HUF 22,826 million                   | Interest rate, foreign exchange |
| 3) Net investment hedge in foreign operations | -                                     | -                                    | -                               |

**Cash-flow hedge**

**1. Issued securities**

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the EUR/HUF foreign exchange rate. The FX risk arising from this type of securities was hedged by EUR-HUF CCIRS transactions, where the fixed EUR cash-flows were swapped to fixed HUF cash-flows. The critical terms of the issued securities and the swap transactions are matched (maturity, cash-flows). The hedging transactions were terminated as of 15 December 2008. The net gains on the settlement of the swap transaction were reported in the cash-flow hedging reserve in the other comprehensive income. During 2012 and 2011 HUF 531 million was recognized as income in proportion with the profit or loss impacts of the hedged item to the net income.

| <b><u>Cash-flow hedges</u></b>                                 | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
| Amount reclassified from equity to profit or loss for the year | 532         | 531         |

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**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2012**

**NOTE 31: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

**Fair value hedges - Issued securities**

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the EUR/CHF, CHF/HUF and JPY/HUF foreign exchange rate and the risk of change in the risk-free interest rates of EUR, HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR-CHF and HUF-JPY CCIRS transactions, where the fixed EUR or HUF cash-flows were swapped to payments linked to 3 CHF or JPY LIBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

The fair value of the hedging instruments is HUF 16,130 million and HUF 22,826 million as at 31 December 2012 and 2011 respectively.

**As at 31 December 2012**

| Types of hedged instrument         | Types of hedging items | Fair value of the hedged item | Fair value of the hedging instrument | Gain/ loss attributable to the hedged risk |             |
|------------------------------------|------------------------|-------------------------------|--------------------------------------|--|-------------|
|                                    |                        |                               |                                      | hedging instrument                         | hedged item |
| Liabilities from issued securities | CCIRS                  | 72,822                        | 7,368                                | (2,384)                                    | 2,384       |
| Liabilities from issued securities | CCIRS                  | 218,468                       | (6,646)                              | (828)                                      | 828         |
| Liabilities from issued securities | CCIRS                  | 148,558                       | 766                                  | (171)                                      | 171         |
| Liabilities from issued securities | CCIRS                  | 85,380                        | 14,642                               | 1,991                                      | (1,991)     |

**As at 31 December 2011**

| Types of hedged instrument         | Types of hedging items | Fair value of the hedged item | Fair value of the hedging instrument | Gain/ loss attributable to the hedged risk |             |
|------------------------------------|------------------------|-------------------------------|--------------------------------------|--|-------------|
|                                    |                        |                               |                                      | hedging instrument                         | hedged item |
| Liabilities from issued securities | CCIRS                  | 233,348                       | 27,211                               | (811)                                      | 811         |
| Liabilities from issued securities | CCIRS                  | 233,348                       | (4,385)                              | 1,802                                      | (1,802)     |

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**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 31: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

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

- 1<sup>st</sup> Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2<sup>nd</sup> Level: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly;
- 3<sup>rd</sup> Level: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

**As at 31 December 2012**

|   | <b>Total</b>          | <b>Level 1</b>       | <b>Level 2</b>        | <b>Level 3</b> |
|---|-----------------------|----------------------|-----------------------|----------------|
| Financial assets at fair value through profit or loss   | -                     | -                    | -                     | -              |
| from this: positive fair value of derivative financial instruments designated as held for trading | -                     | -                    | -                     | -              |
| Securities available-for-sale   | 41,713                | 41,713               | -                     | -              |
| Positive fair value of derivative financial instruments designated as fair value hedge            | <u>22,776</u>         | -                    | <u>22,776</u>         | -              |
| <b>Financial assets measured at fair value total</b>  | <b><u>64,489</u></b>  | <b><u>41,713</u></b> | <b><u>22,776</u></b>  | -              |
| Negative fair value of derivative financial instruments designated as held for trading            | -                     | -                    | -                     | -              |
| Negative fair value of derivative financial instruments designated as fair value hedge            | <u>(6,646)</u>        | -                    | <u>(6,646)</u>        | -              |
| <b>Financial liabilities measured at fair value total</b>   | <b><u>(6,646)</u></b> | <b><u>-</u></b>      | <b><u>(6,646)</u></b> | -              |

**As at 31 December 2011**

|   | <b>Total</b>         | <b>Level 1</b>      | <b>Level 2</b>      | <b>Level 3</b>       |
|---|----------------------|---------------------|---------------------|----------------------|
| Financial assets at fair value through profit or loss   | 2,028                | -                   | 2,028               | -                    |
| from this: positive fair value of derivative financial instruments designated as held for trading | 2,028                | -                   | 2,028               | -                    |
| Securities available-for-sale   | 1,740                | 1,740               | -                   | -                    |
| Positive fair value of derivative financial instruments designated as fair value hedge            | <u>27,211</u>        | -                   | -                   | <u>27,211</u>        |
| <b>Financial assets measured at fair value total</b>  | <b><u>30,979</u></b> | <b><u>1,740</u></b> | <b><u>2,028</u></b> | <b><u>27,211</u></b> |
| Negative fair value of derivative financial instruments designated as held for trading            | 7,122                | -                   | 7,122               | -                    |
| Negative fair value of derivative financial instruments designated as fair value hedge            | <u>4,385</u>         | -                   | -                   | <u>4,385</u>         |
| <b>Financial liabilities measured at fair value total</b>   | <b><u>11,507</u></b> | <b><u>-</u></b>     | <b><u>7,122</u></b> | <b><u>4,385</u></b>  |

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**Movements in level 3 financial instruments measured at fair value**

**EUR/CHF cross currency swap (CCIRS) portfolio**

According to the risk management policies the Bank holds EUR/CHF cross currency swap portfolio with a notional totalling CHF 1,748 million (HUF 443,400 million equivalent) designed as hedging deals, in order to hedge its foreign currency denominated mortgage loan portfolio's fx risk.

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

For the above mentioned reasons, the Bank has classified these deals to 3<sup>rd</sup> level in the valuation of financial instruments in IFRS, and applied non-market observable inputs, which resulted a more reliable valuation.

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

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

| Movements for the year<br>2012                                    | Opening balance<br>as at 1 January<br>2012 | Transfer<br>out as at 31<br>March 2012 | Closing balance<br>as at 31<br>December 2012 | Total gain / loss<br>as at 31<br>December 2012 |
|---|--|--|--|--|
| Positive Fair Value of<br>hedging instruments                     | 27,211                                     | 23,605                                 | -  | 3,606  |
| <b>Financial assets measured<br/>at fair value total</b>          | <b><u>27,211</u></b>                       | <b><u>23,605</u></b>                   | <b>≡</b>                                     | <b><u>3,606</u></b>                            |
| Negative Fair Value of<br>hedging instruments                     | (4,385)                                    | (6,545)                                | -  | (2,160)  |
| <b>Financial liabilities<br/>measured at fair value<br/>total</b> | <b><u>(4,385)</u></b>                      | <b><u>(6,545)</u></b>                  | <b>≡</b>                                     | <b><u>(2,160)</u></b>                          |

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**NOTE 32: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HAS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)**

|   | Retained<br>Earnings and<br>Reserves as at<br>1 January<br>2012 | Net profit<br>for the year<br>ended 31<br>December<br>2012 | Direct<br>Movements on<br>Reserves | Dividend        | Retained<br>Earnings and<br>Reserves as at<br>31 December<br>2012 |
|---|---|--|------------------------------------|-----------------|---|
| <b>Financial Statements in accordance with HAS</b>  | 32,162  | 6,695  | -                                  | (10,000)        | 28,857  |
| Fair value adjustment of available-for-sale financial assets                                    | (21)  | -  | 55                                 | -               | 34  |
| Application of effective interest rate on direct issuance costs of securities                   | 1,045   | (750)  | -                                  | -               | 295   |
| Effect of using effective interest rate method for loan origination fees and cost               | 12,160  | (426)  | -                                  | -               | 11,734  |
| Fair value adjustment of derivative financial instruments                                       | 566   | (1,098)  | 532                                | -               | -   |
| Effect of capital contribution received from OTP Bank related to early repayment at fixed rates | -   | 2,578  | (2,578)                            | -               | -   |
| Deferred taxation   | (2,631)   | 434  | (112)                              | -               | (2,309)   |
| Dividend paid in 2012   | 16,000  | -  | -                                  | (16,000)        | -   |
| Dividend payable for 2012   | -   | -  | -                                  | <u>10,000</u>   | <u>10,000</u>   |
| <b>Financial Statements in accordance with IFRS</b>   | <u>59,281</u>   | <u>7,433</u>   | <u>(2,103)</u>                     | <u>(16,000)</u> | <u>48,611</u>   |

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**NOTE 33:      SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2012**

**Relevant transactions related to final repayment**

FX mortgage loan debtors had the opportunity of early repayment at fixed exchange rates from 29 September 2011 till 28 February 2012. 22.2 per cent of the loans at the Bank were converted to HUF loans under this regulation.

From 2012 escrow account loans could be claimed by the clients, as a result 27 per cent of the remaining FX denominated portfolio were converted to this loan type. The government expanded the previously determined closing date for the registration till 29 March 2013.

The loan portfolio relating to FX mortgage debtors with more than 90 days of delinquency could be converted to HUF denominated loans, and release of 25 per cent of these loan receivables. 13.3 per cent of the Bank's clients utilised this opportunity. See details in note 2.14.

**Relevant transactions related to issued securities for the year 2012**

Issued securities became due in amount of HUF 5.5 billion in January, HUF 13.9 billion in March, HUF 95 billion in May, HUF 20 billion in August. Issued securities were repurchased in amount of face value EUR 500 million in June. In May HUF 110 billion, in September EUR 510 million mortgage bond was issued, from which EUR 5 million was purchased investors besides OTP Group – foreign insurance companies, fund managers and banks.

**NOTE 34:      POST BALANCE SHEET EVENTS**

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

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**NOTE 35:      THE EFFECT OF THE FINANCIAL SITUATION ON THE BANK**

The deepest point of the financial crisis was left behind though, but in 2012 new problems had to be solved by the concerned participants. The Government's and the bank's attention and financial resources concentrated primarily to the protection of the debtors. The opportunity of early repayment on fixed exchange rates was closed at the beginning of the year, which rearranged the existing portfolio. However the ratio of the early repayment was low contrary to the expectations. During the year the quality of the remaining loan portfolio denominated in foreign currency was worsened dramatically. According to the NBH report in the first three quarter the ratio of FX debtors with more than 90 days delinquency increased in the category of loans for housing purposes from 10.1 % to 14.3 %, and in the category of loans for free purposes from 17.9 % to 22.7%.

For this purpose new government measures came into force in favour of the FX mortgage debtors. The opportunity of the escrow account loan ensures considerably better conditions compared to the early repayment at fixed exchange rates introduced in 2011, therefore many of the debtors with worsened financial situation could be supported. Besides previously introduced measures are available in the future as well:

- interest subsidy on new loans for debtors with arrears
- establishing the National Asset Manager for subsidizing the residential situation of the families with bad financial situation
- establishing eviction quotes

Furthermore the conditions of the interest subsidised housing loans improved, which may contribute to the expansion of the credit demand and the credit disbursements. In the economy and in the banking system there is need for such lending activity, since new placement of the loans was the lowest in the last 10 years in November 2012.