OTP Bank

Annual Report

2012

Management's Analysis

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

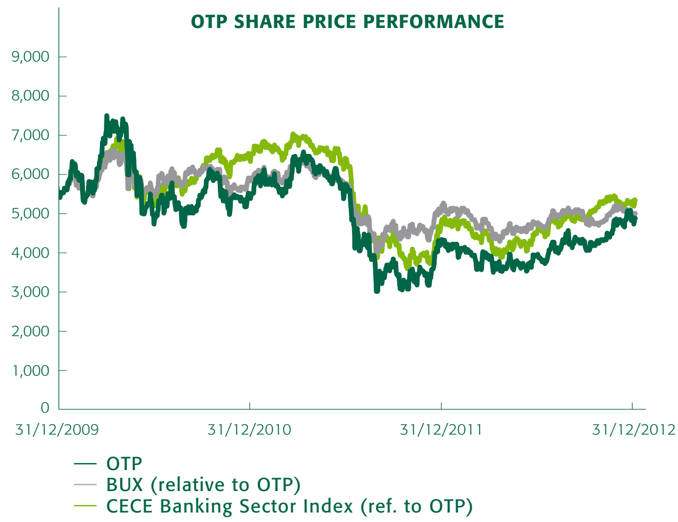
CONSOLIDATED FINANCIAL HIGHLIGHTS AND SHARE DATA[1]

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

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

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

OTP SHARE PRICE PERFORMANCE



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

MANAGEMENT'S ANALYSIS OF THE 2012 RESULTS OF OTP GROUP

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Performance of the non-Hungarian business

In 2012 the trend of growing profit contribution by foreign subsidiaries continued, they posted altogether HUF 61 billion versus HUF 51.3 billion a year ago. Bulk of the net result was produced by the Russian and Bulgarian subsidiaries, HUF 71 billion in total, while the Ukrainian unit posted HUF 0.5 billion profit. The Croatian operation not only remained profitable, but managed to substantially improve its result without one-offs. Losses in Serbia and Montenegro moderated a lot, while the Slovakian bank remained in red. The substantial loss at the Romanian entity is partly related to the 54% increase of risk costs, but the operating profit also suffered a setback.

Similar to the previous year **OTP Bank Russia** posted strong earnings in 2012 (at HUF 47.2 billion). The key driver of the 15% y-o-y profit growth was the strong operating profit underpinning a 50% improvement. Net interest income grew nicely (+37%). The annual net interest margin almost reached 18% (+1.75 ppts y-o-y) supported by the good dynamism of high margin consumer lending (+31% y-o-y, +15% q-o-q). Parallel with the lending growth operational expenses advanced by 18%, while risk costs doubled. The DPD90+ ratio reached 16.6% by the end of 2012. As a result of higher risk costs, provision coverage improved by 2.7 ppts y-o-y to 92.3%.

The **Bulgarian DSK Group** realized HUF 24.2 billion after tax profit in 2012, almost twice as much as in 2011. Since the operational profit remained practically flat, the key reason behind the improving profitability was the lower risk costs. The lower net interest income was due to lower net interest margins (–17 bps y-o-y), interest earning assets stagnated. The 4Q increase of operating expenses was induced mainly by seasonality, but a few bigger projects also generated higher advisory costs. As a result the cost-to-income ratio increased by 2.7 ppts y-o-y. It was highly positive that the portfolio deterioration showed strong signals of further moderation from 2H. Despite the lower annual risk costs, the bank managed to improve its DPD90+ coverage by 5.6 ppts y-o-y.

While the annual HUF 0.5 billion net profit of **OTP Bank Ukraine** is only fraction of the net earning a year ago. The significant y-o-y drop was due to doubling risk costs. At the same time operating profit advanced by 25%. Out of core earnings both net interest income and net fees had a decent growth (+19% and +39% respectively), whereas the annual net interest margin reached almost 7% (4Q 2012: 8.89%). The dynamic expansion of consumer loans kept its momentum throughout the whole year (+282% y-o-y). The meaningful growth of retail deposits (+21%) was the key funding source of such spectacular increase. Corporate loans, on the other hand, representing around half of the total loan book, contracted by 9%. The DPD90+ ratio grew substantially (+6.4 ppts y-o-y) and reached 36.4%, provision coverage was at 79% by end-2012.

OTP Bank Romania posted a significant loss of HUF 5.5 billion versus a profit of HUF 763 million in 2011. Such a turn-around was due to a 28% decline in operating profit, but risk costs also advanced by 54%. Within core earnings the net interest income dropped by 15% as a result of on-going deposit campaigns aimed at improving the net loan-to-deposit ratio of the bank (the ratio decreased by 81 ppts). Higher risk costs aimed at increasing the provision coverage on DPD90+ volumes. As for balance sheet dynamism, consumer loans grew by 74% (FX-adjusted), while the y-o-y increase of deposits was the highest across the group (+40%).

OTP banka Hrvatska (Croatia) continued its profitable operation posting HUF 3.7 billion after tax earnings in 2012. Despite risk costs declining by more than half, the provision coverage of non-performing loans improved further (61%). Amid the moderate increase of mortgages and the consumer portfolio, the loan book shrank by 1% y-o-y. At the same time deposits increased by 4%, thus the net loan-to-deposit ratio dropped to 80%.

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

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

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

Credit ratings, shareholder structure

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

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

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

KEY POST BALANCE SHEET EVENTS

Hungary

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

Russia

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

Ukraine

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

Bulgaria

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

Croatia

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

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

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

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

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

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

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

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

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

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

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

ASSET-LIABILITY MANAGEMENT

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

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

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

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

…and keeping interest-rate risk exposures low.

Interest-rate risk exposure of the Group is determined primarily by the positions of OTP Bank Plc. and OTP Mortgage Bank Ltd.

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

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

Market risk exposure of OTP Group

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE OTP GROUP

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

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

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

Consolidated capital adequacy – Basel2	2011	2012	%/ppts
Capital adequacy ratio (consolidated, IFRS)	17.3%	19.7%	2.4
Tier1 ratio	13.3%	16.1%	2.8
Core Tier1 ratio	12.0%	14.7%	2.7
Leverage (Total Assets/Shareholder's Equity)	7.2x	6.7x	
Regulatory capital (consolidated)	1,433,086	1,473,525	3
o/w Tier1 Capital	1,105,876	1,203,019	9
o/w Core Tier1 Capital	997,583	1,098,882	10
Hybrid Tier1 Capital	108,293	104,137	(4)
Tier2 Capital	327,587	270,849	(17)
Deductions from the regulatory capital	(377)	(343)	(9)
Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk)	8,297,547	7,485,293	(10)
o/w RWA (Credit risk)	6,397,182	6,004,147	(6)
RWA (Market & Operational risk)	1,900,365	1,481,146	(22)
Closing exchange rate of the HUF	**2011**	**2012**	**Change**
	HUF	**HUF**	**%**
HUF/EUR	311	291	(6)
HUF/CHF	256	241	(6)
HUF/USD	241	221	(8)
100HUF/JPY	311	257	(17)

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

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

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

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

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

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

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

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

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

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

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

CONSOLIDATED CAPITAL ADEQUACY RATIO (IN ACCORDANCE WITH BASEL II)

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

OTP Core Statement of recognised income (segmented):

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

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

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

P&L developments

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

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

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

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

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

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

Balance sheet trends

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

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

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

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

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

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

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

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

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

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

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

OTP FUND MANAGEMENT (HUNGARY)

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

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

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

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

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

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

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

MERKANTIL GROUP (HUNGARY)

Performance of Merkantil Bank and Car:

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

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

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

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

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

Performance of OTP Bank's foreign subsidiaries*

OTP BANK RUSSIA

Performance of OTP Bank Russia:

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

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

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

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

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

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

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

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

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

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

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

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

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

DSK GROUP (BULGARIA)

Performance of DSK Group:

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

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

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

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

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

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

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

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

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

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

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

Performance of OTP Bank JSC:

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

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

In 2012 **OTP Bank Ukraine** posted HUF 528 million of profits which significantly fell short of 2011 net earnings at HUF 5 billion. The annual operating profit (in hryvnia terms) increased by 14% supported by 9% growth in total income: the net interest income advanced by 8% as a result of successful consumer lending activity and higher net interest margin (2012: 6.93%, +1.34 ppts). Net fees in hryvnia terms grew by 28%: not only deposit and transaction fees performed nicely, but revenues also from payment protection policies sold with consumer loans increased, too.

Operating expenses grew only moderately (+5% y-o-y, FX-adjusted) driven mainly by the 8.1% increase in personnel expenses on the back of stronger POS and cash loan sales. In that segment agent-related selling activity gained ground against the traditional branch-based business. The agency network showed a dynamic expansion and grew to 2,591 by year end, whereas 3 branches were closed. Annual cost dynamics reflected both strong cost management and a relatively low inflation environment. As a result, FX-adjusted administrative expenses moderated by 0.3% y-o-y. The cost-to-income ratio declined by a further 1.8 ppts to 48.1%.

Risk costs doubled y-o-y, in case of consumer loans a new scoring system has been implemented together with a new verification system, as a result the quality of newly disbursed loans was better around the end of the year compared to that of in summer, true, in the overall portfolio those results are not yet meaningful. Despite growing risk costs the DPD90+ coverage declined slightly (–1.8 ppts y-o-y) and reached 78.9% by end-2012 as DPD90+ loan volumes in hryvnia terms increased by 14% y-o-y.

Since the launch of consumer lending in March 2011 newly disbursed volumes have been growing. The outstanding POS loan portfolio doubled y-o-y, and the Bank entered federal retail chains with its products. The cross sale of credit cards continued to be successful, too, in 4Q 2012 volumes advanced by 61%. Cash loan disbursement, however was scaled back somewhat in 2H due to more stringent scoring.

Similar to the meltdown of retail mortgage portfolio (–2% y-o-y, FX-adjusted), corporate volumes contracted, too as a result of repayments and write-offs (–9%). Corporate loans showed a slight recovery in 4Q as part of the loans written-off earlier was brought back into the balance sheet again as the management expects resuming payment service.

In order to provide hryvnia liquidity for the growing need of consumer lending, the bank launched deposit campaigns focusing on household clients. As a result of attractive offered rates, retail term deposits advanced by 21% y-o-y (FX-adjusted) and part of the existing deposits was repriced, too (the share of lower yielding deposits shrank). As a result, the net loan-to-deposit ratio decreased further (2012: 200%, –41 ppts y-o-y).

Due to a regulation of the Ukrainian National Bank, the capital position of OTP Ukraine lowered from 20.3% in September 2012 to 13.8% in December (the regulatory minimum is at 10%). However from 1 January 2013 new accounting standards for provisioning were introduced according to which the capital adequacy ratio would have been higher than 18% by end-2012.

OTP BANK ROMANIA (ROMANIA)

Performance of OTP Bank Romania:

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

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

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

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

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

OTP BANKA HRVATSKA (CROATIA)

Performance of OTP banka Hrvatska:

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

OTP banka Hrvatska posted HUF 3.7 billion after tax profit in 2012 (+5% y-o-y). The annual profit formation mainly reflected the 54% drop in risk costs as operating income remained stable. Total income of the Croatian subsidiary was stagnant in 2012 in HUF terms. Net interest income grew by 5% y-o-y as a result of stable net interest margin (2012: 3.09%, +0.06 ppt y-o-y) and portfolio formation. 14% increase of net fees was driven by the significantly improving card- and POS-terminal revenues in the summer tourist season and loan prepayment fees, while other net non-interest income dropped by 28%.

The cost/income ratio in 2012 was improving continuously (1Q 2012: 65.6%, 2Q: 62.9%, 3Q: 60.8%; 4Q: 60.0%).

After an improvement in the first half of the year, in 2H the portfolio deterioration accelerated, thus the DPD90+ ratio grew by 0.9 ppt to 11.1% y-o-y. With regards to different segments, the quality of consumer loans stagnated at 10.1%, while DPD90+ ratio of mortgage loans elevated to 8.0%. DPD90+ ratio of SME loans improved 1.7% to 19.0%, while the ratio of car- and corporate loans went up to 15.2% and 17.2%, respectively. Coverage ratio of DPD90+ loan portfolio at year-end 2012 was 61% (+3.5 ppts y-o-y). Due to shrinking economy and high level of unemployment the loan demand remained subdued. In 2012 the loan portfolio declined by 1% due to 2% increase of retail and 4% decline of corporate loan portfolio (FX-adjusted). Within the retail book mortgage and consumer loans grew by 1% and 3%, respectively. As the contraction in loan portfolio is typical on the Croatian market, the market share of the bank in loans was stable at 3.2%.

In 2012 the FX-adjusted deposit book expanded in all segments, altogether by 4% y-o-y. The annual growth of retail and SME portfolio was 3%, while the corporate book developed by 9%. As a result, the market share practically remained unchanged at 4.3%. In the wake of decreasing loans but increasing deposits, the net-loan-to-deposit rate dropped by 4 ppts to 80% in 2012. Capital adequacy ratio of the Bank increased by 1.4 ppts y-o-y to 14.9% (regulatory minimum: 12%).

OTP BANKA SLOVENSKO (SLOVAKIA)

Performance OTP Banka Slovensko:

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

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

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

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

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

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

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

OTP BANKA SRBIJA (SERBIA)

Performance of OTP banka Srbija:

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

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

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

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

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

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

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

CRNOGORSKA KOMERCIJALNA BANKA (MONTENEGRO)

Performance of CKB:

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

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

STAFF LEVEL AND OTHER INFORMATION*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ADJUSTMENTS ON THE CONSOLIDATED STATEMENT OF RECOGNIZED INCOME (IFRS)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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