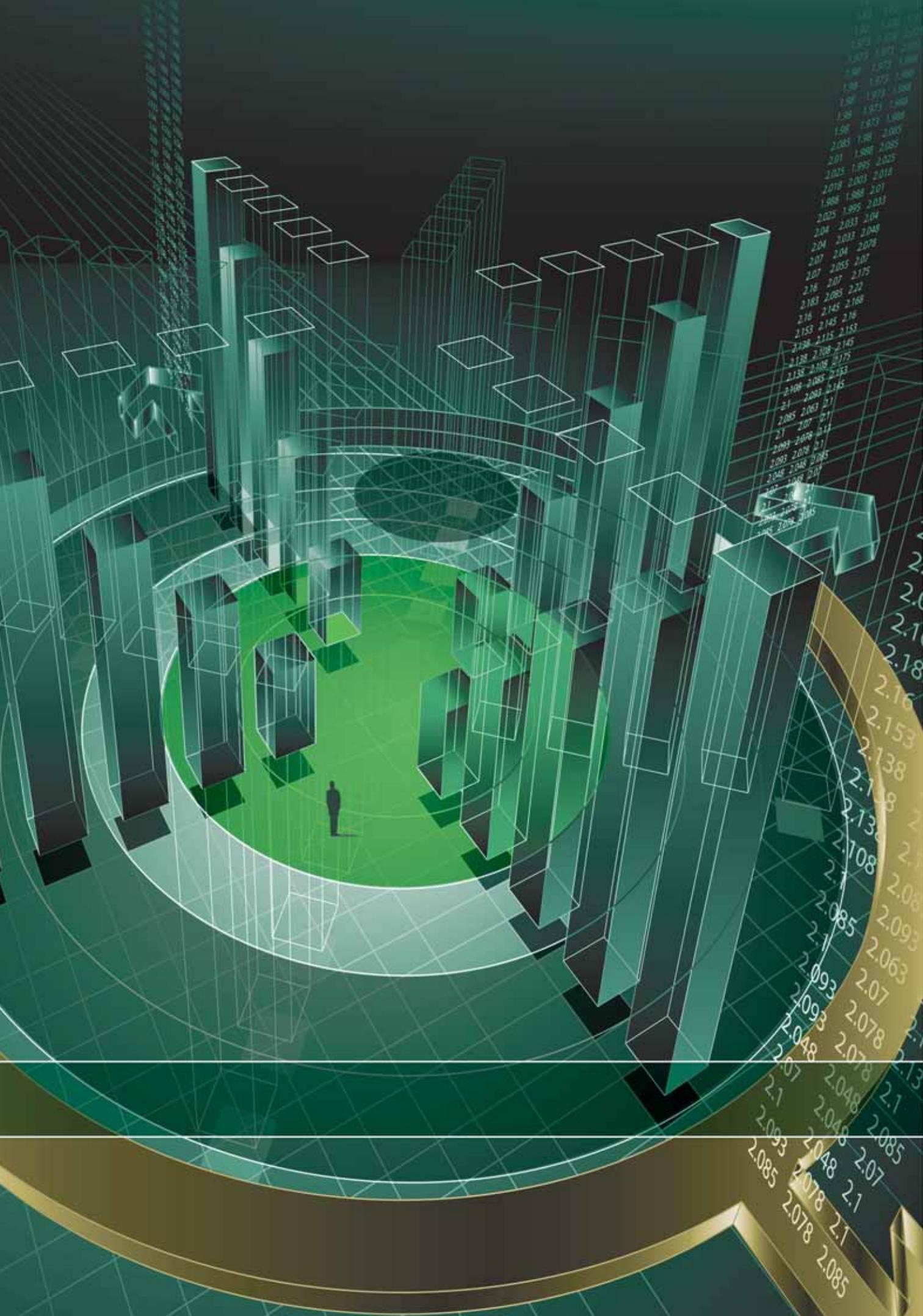


*annual report*



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# Message from the Chairman & CEO



## DEAR SHAREHOLDERS,

*In the past few years there's been less in the way of good news, and more about problems and challenges. So let me start this summary of the year 2010 on a cautiously optimistic note: after the global economic and financial crisis that began in 2008 and reached its low point in 2009, 2010 was clearly a year of recovery from the crisis in the central-east European region which is of primary importance for OTP Bank.*

At group level, all national economies experienced positive GDP growth in the fourth quarter, and we have every hope that in 2011 all the countries of the Bank Group will embark again on a path of growth.

At the same time, the crisis showed us that the strategy of regional acquisition that OTP launched in 2001 proved to be correct: the selection of appropriate business objectives and the consistent implementation of these goals helped us to effectively offset, with the help of other subsidiaries or business lines, the temporary inability of certain group members to generate profits. It's natural that during a crisis certain priorities should be re-evaluated: previously dynamic lending gave way to stricter cost control and risk management practices as well as the implementation of effective debtor protection programmes. Stable capital positions and secure liquidity were prized much more than previously. The results of the past three years indicate that overall, OTP Bank handled the challenges of the crisis successfully, without receiving any external help or taxpayers' money. The Bank did not curtail its lending activities during the crisis; quite the opposite – it made great efforts to step them up. Meanwhile, the Bank continuously maintained its

profitability and improved its capital position, liquidity and market share. I'm happy to say that Standard & Poor's, the largest debtor rating agency, acknowledged this effort in its decision of 23 March 2011 to upgrade the previous "BB+" rating of OTP Bank and OTP Mortgage Bank to BBB- which is on a par with Hungary's sovereign rating.

### **Overview of the financial performance and business results of 2010**

In 2010 the OTP Group realised HUF 162 billion in adjusted after-tax profit, which is 7% higher than in the previous year. If we take into account the total HUF 29.5 billion in net special tax on financial institutions paid by the Hungarian group members and the impact of the HUF 15 billion goodwill write-off in Montenegro, the annual accounting profit was HUF 118 billion, which is 21% less than in 2009. In addition to the absolute amount of the profit, the contribution to the profit by the foreign subsidiaries also improved considerably: compared to the HUF 24 billion loss in 2009, the foreign subsidiaries produced HUF 17 billion in after-tax profit in 2010 on an annual basis, which played

a significant role in offsetting the negative impact of the special bank tax in Hungary and the drop in domestic profits. The profitability of the Bank Group remained stable despite the crisis; the return on equity (ROE), adjusted for the bank tax and the goodwill write-off, is close to 13%, which, compared to our regional competitors, is an excellent achievement. We should note that on the basis of the stress test that was performed by the Committee of European Banking Supervisors (CEBS) in the summer of 2010, the OTP Group was ranked the second most stable bank in Europe.

In 2010 the Group's operating profit, adjusted for individual items, stood at HUF 436 billion, which corresponds to an annual growth of 6%. In an extremely positive development, the consolidated revenue margin (8.08%) improved by 15 basis points, while the net interest margin remained at virtually the same level on an annual basis (6.16%). Operating costs in the past year grew by a mere 1%, which – considering the frequently 5% or higher inflation at group level and the weakening of the average forint exchange rate on an annual basis – is indicative of sturdy cost control. The operating cost/average assets indicator (3.62%), which is a good indicator of the efficiency of operation, improved in comparison to 2009. Drastic cuts in headcount or the closing of branches was not necessary in the subsidiaries other than that in Ukraine, which suffered significant setbacks in retail lending.

One of the negative effects of the crisis was the deterioration in the financial position of borrowers and consequently of the quality of loan portfolios. The ratio of loans that are more than 90 days overdue reached 13.7% within the total loan portfolio. However, the annual rate of deterioration diminished: while from 2008 to 2009 the indicator grew by 5.3%, it only increased by 3.9% in the past year. Risk costs continued to grow even in 2010 and reached HUF 273 billion. This amount is some HUF 200 billion higher than the "normal" amount before the crisis. At the same time, it is a positive development that the coverage by provisions of defaulting loans improved (74.4%). We believe that the normalisation of risk costs points to the likelihood of a significant increase in the Group's profits and a gradual decrease in the risk-cost rate over the coming years.

Another negative impact of the crisis was the significant drop in the demand for loans, which was indicated by stagnating and sometimes decreasing volumes. We consider it a considerable achievement that we managed to bring a halt to this process, and starting from the second half of 2010 the loan portfolio, if adjusted for exchange rates, began to grow. The deposit portfolio, adjusted for exchange rates, remained virtually unchanged on an annual basis. The consolidated net loan/deposit indicator (110%) improved by 5%.

Within the Bank Group, the adjusted profit on operations in Hungary fell by 20% on an annual level in 2010 and profits including the bank tax and the effect of the goodwill write-off fell by 44%. We should note that in Hungary the OTP Group paid an enormous amount, a total of HUF 41 billion, in extra bank tax in 2010 to the Hungarian budget in the context of its social solidarity contributions. In addition to this and the negative impact of the goodwill write-off the Bank implemented promotional interest rate cuts for 2010 to diminish the repayment burden on foreign currency mortgage borrowers, which also had a negative impact on profits. Another important factor for profits was the roughly 60% increase in risk costs compared to 2009 as a result of the accelerated deterioration in the portfolio. However, in contrast with 2009, when the overdue loan portfolio was the result of the deteriorating macroeconomic environment, in 2010 the portfolio deteriorated primarily owing to the considerable weakening of the forint compared to the Swiss franc. In the context of the debtor protection programme that was launched in 2009, by year-end 2010 OTP had entered into a mutual agreement with approximately 50,000 retail customers who were having serious payment difficulties, thereby providing a temporary solution for the most difficult period of the crisis.

Although the Bank had to carry the burden of the bank tax in addition to the serious negative effects of the past three years of the crisis, it never abandoned its intention to increase its lending activities despite the crisis and thereby to help launch the Hungarian economy on a path of sustained growth as soon as possible. In the area of home and mortgage loans the Bank increased its new placements by 60%, considerably

increased its market share from 15% to 29% by year-end 2010 and acquired an approximately 50% share in personal loans. The Bank's performance in corporate lending is even more outstanding: in its micro and small-enterprise lending it exceeded the 5% growth it achieved in 2009, increasing its portfolio by 7% over the past year, while lending to medium-sized and large companies expanded by 1%. This is especially remarkable if we consider that in 2010, the corporate lending market contracted by 7% overall. In addition, the Bank's market share in the area of retail savings remained stable in the past year, which is also an excellent result. In 2010 Fund Management realised a HUF 7.5 billion after-tax profit, while assets under management grew by 21% and the company retained its market leading position with a share of some 33%. The HUF 4.1 billion negative result of the Merkantil Group was primarily caused by an increase in the costs of risk and the deteriorating domestic market environment.

One of the most positive developments in 2010 was that the performance of the Russian, Bulgarian and Ukrainian businesses, which are decisive in terms of the consolidated profit position, was excellent. The aggregate after-tax profit of the three subsidiaries, that together represent 30% of the Bank Group's loan portfolio, was HUF 48 billion, which corresponds to 30% of the consolidated adjusted profit. The after-tax profit of the Russian subsidiary, owing to carefully planned and executed business policies and more favourable macroeconomic conditions, grew considerably, more than six-fold. The HUF 20.5 billion profit is the result of continuous improvements in the net interest margin (14.3%) owing to the profitability of retail consumer loans and the stable risk cost rate (5.6%). Within retail consumer loans, consumer goods loans grew by 58%, card loans by 73%, and personal loans by 124%. The improvement in profits was also extraordinary in Ukraine where, owing to a significant reduction in risk costs, the subsidiary, after an approximately HUF 44 billion loss in 2009, realised HUF 9 billion in profit in 2010 and corporate lending started to grow again in the second half of 2010. While the credit portfolio, adjusted for exchange rates, fell, the volume of deposits grew by 4% and, as a result, the bank's net loan/deposit ratio improved even further (283%). The profit of the Bulgarian subsidiary, despite a

considerable increase in risk costs, was stable, and exceeded HUF 18 billion. Owing to a carefully planned deposit pricing policy, the bank's interest margin improved. The bank's cost efficiency continues to be excellent; its 36.1% cost/income ratio is the lowest in the group.

As far as the performance of smaller subsidiaries is concerned, only the Croatian bank had positive results, while the Slovakian, Serbian, Romanian and Montenegrin subsidiaries sustained losses to varying degrees. This was primarily the consequence of the deteriorating quality of the portfolio caused by the unfavourable operating environment and the dramatically increased risk costs since the improvement of the operating profit was remarkable in the case of several banks.

We believe that the performance of the foreign group members will continue to improve in 2011, and we expect an outstanding increase in profits from our Russian bank. The OTP Group is present in nine countries, and in 2011 we expect improvements in the economic and operating environment in each country, the positive effects of which will probably be apparent in the performance of the banks as well.

As a bank that plays an influential role in the Hungarian banking system, the OTP stock price closely correlates with Hungary's perception in the market because its possibilities and performance are largely defined by the macroeconomic environment. Although a country's perception is a lot more than what is reflected in a CDS-spread, for example, the correlation between the Bank's share price and the Hungarian sovereign risk premium is telling. In the spring of 2010 the OTP share price stood at HUF 7,400 while the Hungarian CDS spread fell below 200 bp. But it's not only the absolute value of the share price that is indicative; in comparison with its regional peers OTP Bank was the only bank whose share price reached and even exceeded the pre-crisis level. However, after 25 March, owing largely to negative developments and investor skittishness related to the eurozone and, to a lesser extent, to the market's lack of confidence in the economic policies of the new Hungarian government, the share price fell significantly, and reached a low point at HUF 4,500 at the end of August, while the CDS spread climbed to nearly

400 bp. Finally, after a closing price of HUF 5,456 in 2009 the share price stood at HUF 5,460 at the end of 2010.

Since taking office in May 2010, the government has taken or announced several measures that clearly point in the right direction and in the mid-term aim at setting the country on a long-term sustainable growth path through structural reforms and at the same time at gradually reducing the fiscal deficit and the national debt in proportion to GDP. Owing to the changes in taxation, a drastic cut in spending and other structural reforms, the Hungarian economy will likely be able to catch up with the other countries of the region. A few measures, such as the bank tax which is exceptionally high even by European standards, will naturally have a negative effect on the Bank's profits, but we understand that it serves the purpose of strengthening the country's financial stability.

Besides contributing fully, by means of its liquidity and capital strength, to energising domestic retail and corporate lending, the Bank demonstrated corporate responsibility in other areas as well. In addition to the debtor protection programme and the interest reduction measures mentioned above, the Bank gave HUF 500 million last year to help the victims of the summer flood that caused tremendous damage and an additional HUF 100 million to the victims of the red sludge disaster in the fall. Furthermore, in December 2010 the Bank forgave the debt of 40 customers who were in an exceptionally difficult situation and in the case of close to 50 other customers the Bank agreed to pay the monthly instalments for the customers on a temporary basis.

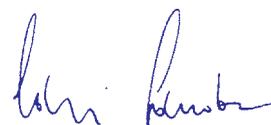
OTP Bank's professional achievements and fundamentally excellent performance has been acknowledged by the international press for years: in 2010 Global Finance selected OTP Bank as the best bank in Hungary for the 13th time, and the Bank was awarded the title of Bank of the Year by financial journals such as The Banker, Euromoney and EMEA Finance. In addition, The Banker named OTP Private Bank as the financial institution that offers the best private banking services in Hungary and Ukraine. In Bulgaria, DSK Bank was chosen by The Banker as Bank of the Year, and Finance Central Europe awarded it the title of Best Bulgarian Bank of the Decade. These

acknowledgments are important for us because they confirm that our Bank was extremely successful even during the crisis and they reassure our retail, corporate and municipal customers that they have selected the right partner to help manage their finances.

Now that we have navigated through the crisis successfully, we are optimistic about the year ahead. We have the necessary stable capital and liquidity. Our proposal to pay dividends reflects the conviction of the management that the Bank Group's countries have put the worst of the crisis behind them and risk costs will soon start to fall. But at the same time there are still serious risk factors around, and the regulatory requirements have become stricter, which means that the Bank has lower than optimal leverage. Consequently, dividend payments will also be moderate.

With the easing of the crisis the Bank will focus on balanced growth, and owing to its excellent capital strength it may be capable of performing new regional acquisitions, especially in those markets where business size is less than optimal. Central and eastern Europe is recovering from the crisis at a pace that is faster than expected, partly owing to the fact that the region's financial system was relatively resilient, it required virtually no external capital injection and the national debt is significantly lower than in developed countries, and both decision-makers and societies at large agreed to accept painful but necessary structural reforms. Consequently, the long-term prospects for the region are good.

I am convinced that the Bank Group passed a difficult test with flying colours in the face of the extraordinary challenges of the economic and financial crisis and this will provide a foundation for remaining the leading services provider in Hungary and one of the most influential ones in the region. We have shared the difficulties in the past and I hope we will share successes in the future. The management and the employees of the Bank will be working with this objective at the fore.



**Dr. Sándor Csányi**

Chairman & CEO

# Macroeconomic and financial environment in 2010

## MACROECONOMIC AND FINANCIAL TRENDS IN HUNGARY

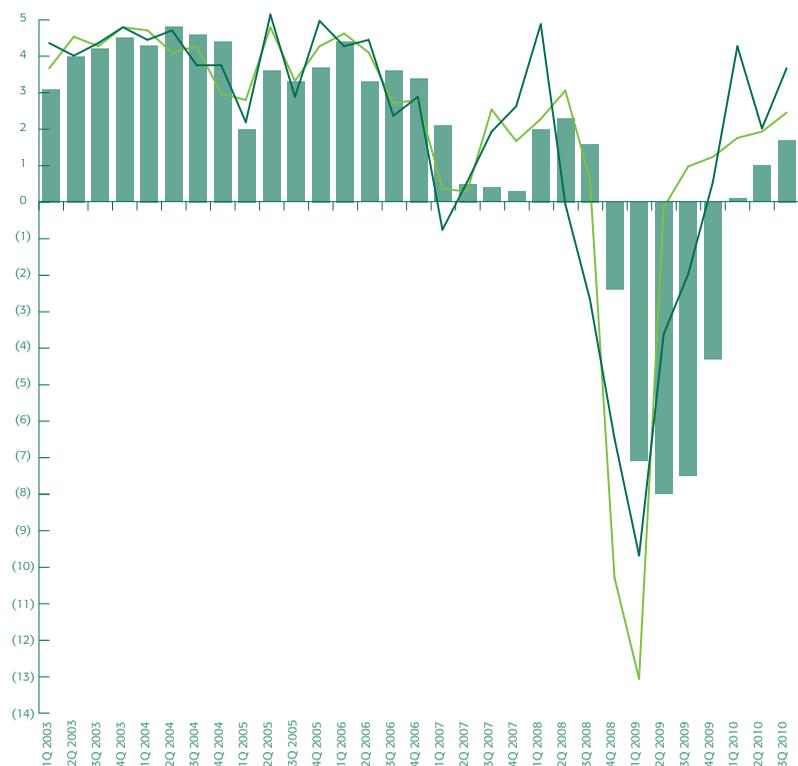
In 2010 the Central and Eastern European region began its recovery, following the major downturn of 2009. By spring 2010, in most countries of the region the balance-of-payments adjustment programs had come to a halt or slowed considerably, and the foreign demand stimulated by the upswing in recovering developed markets had a favourable impact on the performance of export-driven economies. This, after the slump of 2009, led to GDP growth in the majority of the countries, although domestic demand – consumption and investment – continued to contract in most countries.

After the weak performance of 2009, in 2010 Hungary came halfway up the rankings for the region in terms of growth, with a 1% expansion in real GDP. Domestic demand continued to have a negative effect on growth: household consumption fell by 3.2% and investments by around 3%. However, owing to the re-emergence of foreign demand, export expansion of more than 10% (10.7%) helped to push the overall rate of growth into positive figures.

Based on the central budget balance it appeared likely that the 3.8% target deficit for 2010 had

### Changes in real GDP

- Annual growth of GDP
- Quaterly growth of GDP – annualized (HCSO)
- Quaterly growth of GDP – annualized (OTP)



been achieved; however, based on the preliminary financial accounts of the National Bank of Hungary (MNB), the public sector borrowing requirement of the fourth quarter (excluding MNB transactions) was 4.4% in 2010.

The income positions of both the corporate and household sectors developed unfavourably again in 2010. The rate of growth in nominal gross wages (2.4%) lagged behind inflation (4.9%), with the result that gross real wages fell by 2.4%. Although the unemployment rate rose from 10.0% to 10.9%, this was primarily due to an increase in the activity rate, while the number of employed actually rose. Overall, the available nominal income of households increased by 1.5%. In real terms, however, this actually represented a 3.2% decrease. Besides the lack of domestic demand, companies were also hit by sector-specific special taxes (on the financial, energy, telecom and retail sectors). Inflation remained above the central bank's

target, averaging 4.9% over the year as a whole; but in the last quarter the base interest rate, which had stood at 5.25% since April, was raised in November and December (and also in January of this year) by 25 basis points on each occasion, before the inflation data for January was judged sufficiently favourable to end the cycle of interest rate increases.

Bank activity continued to be weak in 2010, on both the demand and the supply side. Due to the deterioration in the asset portfolio and the special tax levied on banks, in all likelihood the Hungarian bank sector will have made a loss in 2010. In the third quarter the bank sector sustained a loss of HUF 60 billion (without OTP, the loss would have been almost HUF 90 billion). In the first half of 2010, based on balance sheet total some 20% of the bank sector was loss-making, but due to the bank tax payable in the second half of the year this proportion is almost certain to have risen since then. In order to



stabilise their capital position, those banks that had become loss-making were forced to cut back on their credit offerings. As a consequence of this, lending activity in Hungary fell behind that of other countries in the region, and even at the end of the year retail and corporate net credit flows were in the negative range.

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

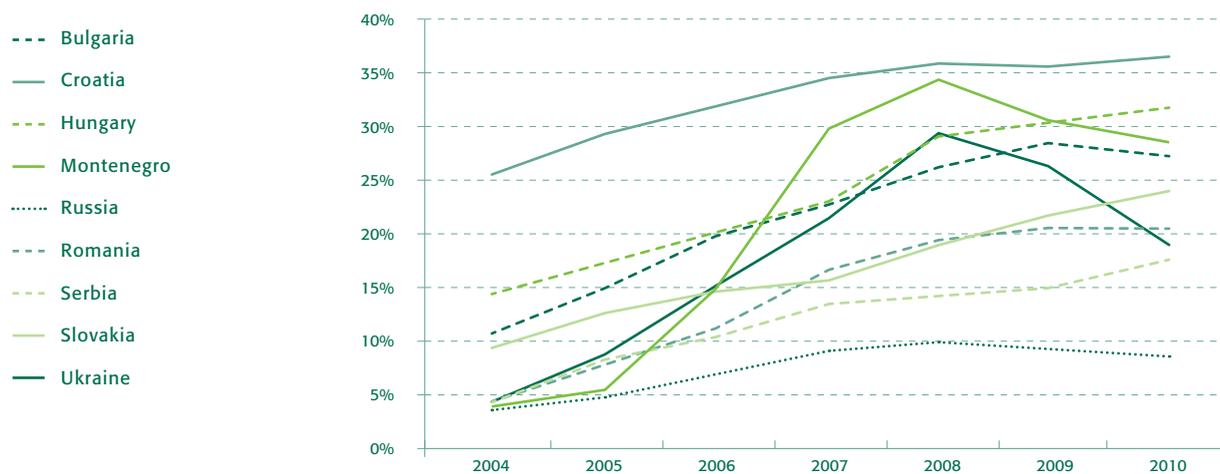
Trends similar to those observed in Hungary also played out in the other export-driven countries of the region, with growth mainly assisted by the resurgence in external demand. Besides this, Ukraine and Russia also witnessed a recovery in domestic demand, while Slovakia only witnessed a slight decline,

which also led to higher overall growth in these countries, coming in at around 4%. The worries that had arisen in several developed countries regarding the high level of state debt and the unsustainable trend in public borrowing did not materialise in most of the region's countries, due to their low ratios of state debt to GDP.

Retail loan portfolios, which had typically stagnated or declined in 2009, did not grow by any significant extent last year either, but in several countries the penetration-to-GDP ratio did increase. In Hungary this only occurred as a result of the revaluation of Swiss franc-denominated loans, which was an important factor in Serbia too, alongside government loan subsidies. The rise in penetration in Slovakia, however, was clearly due to the positive flows.



## Bank sector retail loans as a percentage of GDP







*management's analysis*

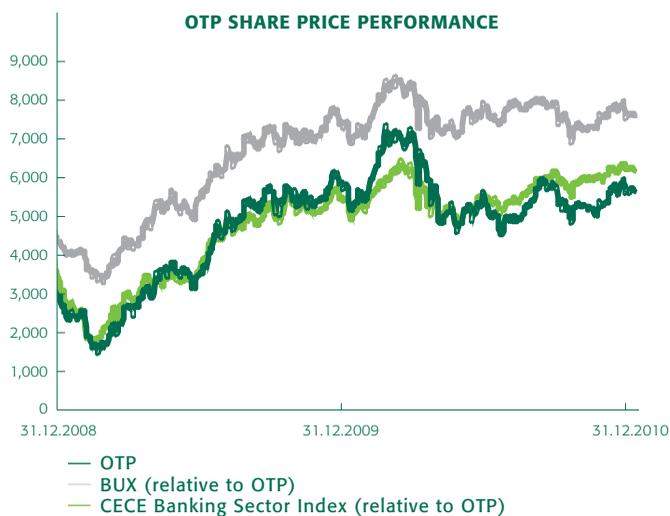
# Management's analysis of the 2010 results of the OTP Group\*

## CONSOLIDATED FINANCIAL HIGHLIGHTS<sup>1</sup> AND SHARE DATA

<b>Statement of recognized income</b>	<b>2009</b>	<b>2010</b>	<b>Change</b>
	<b>HUF million</b>	<b>HUF million</b>	<b>%</b>
Consolidated net profit	150,206	118,126	(21)
Consolidated net profit without dividends received, net cash transfers, result of strategic open position, goodwill depreciation and special tax on financial institutions	151,326	162,110	7
Profit before income tax	172,080	194,313	13
Operating profit	437,059	467,058	7
Total income	786,084	821,123	4
Net interest income (adj.)	589,780	620,354	5
Net interest income (before the result on revaluation of FX swaps)	589,780	601,622	2
Net fees and commissions	132,913	136,702	3
Total other non-interest income (adj.)	63,390	64,067	1
Operating expenses (adj.)	(349,024)	(354,065)	1
Total allowance for loan losses (total)	(264,979)	(272,745)	3
<b>Main components of balance sheet (closing balances)</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Total assets	9,755,132	9,780,946	0
Customer loans (gross)	6,907,094	7,502,331	9
Provision for impairment	(494,378)	(761,272)	54
Customer deposits	5,688,887	5,821,489	2
Issued securities	1,410,348	1,035,153	(27)
Subordinated and auxiliary loan capital	280,834	290,630	3
Shareholders' equity	1,191,606	1,308,929	10
<b>Performance indicators (%)</b>	<b>2009</b>	<b>2010</b>	<b>ppts</b>
ROA	1.6%	1.7%	0.1
ROE	13.4%	13.0%	(0.4)
Operating profit margin (adj.)	4.57%	4.78%	0.21
Total income margin (adj.)	8.22%	8.41%	0.18
Net interest margin (adj.)	6.17%	6.35%	0.18
Net interest margin without the revaluation result of FX swaps	6.17%	6.16%	(0.01)
Operating costs/total assets (adj.)	3.65%	3.62%	(0.03)
Cost/income ratio (adj.)	44.4%	43.1%	(1.3)
Allowance for loan losses/gross loans (adj.)	3.57%	3.82%	0.25
Total allowance for loan losses (total)/total assets (adj.)	2.77%	2.79%	0.02
Net loan/(deposit+retail bond) ratio	108%	110%	2
Capital adequacy ratio (consolidated, IFRS)	17.2%	17.5%	0.3
Tier1 ratio (consolidated, IFRS)	13.7%	14.0%	0.3
Core Tier1 ratio (consolidated, IFRS)	12.0%	12.5%	0.5
<b>Share data</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
EPS diluted (HUF) (from unadjusted net earnings)	572	437	(24)
Closing price (HUF)	5,456	5,020	(8)
High (HUF)	5,790	7,400	28
Low (HUF)	1,355	4,500	232
Market capitalization (EUR billion)	5.6	5.0	(11)
P/BV	1.3	1.1	(16)
P/E (trailing, from adjusted net earnings)	10.1	8.7	(14)
Average daily trading volume (EUR million)	51	53	5
Average daily trading volume (millions of shares)	4.1	2.6	(37)

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

<sup>1</sup> The details of the structural adjustments made in the consolidated IFRS income statement, as well as the calculation methodology of the adjusted indicators, are contained in the Supplementary data section of the Management's analysis.



MOODY'S RATINGS	
<b>OTP Bank</b>	
Foreign currency long-term deposits	Baa3
Foreign currency senior unsecured deposits	Baa2
Financial strength	D+
<b>OTP Mortgage Bank</b>	
Foreign currency long-term deposits	Baa3
Covered mortgage bonds	Baa1
Financial strength	D+
<b>DSK Bank</b>	
Long-term deposits	Baa3
Local currency long-term deposits	Baa3
Financial strength	D+
STANDARD & POOR'S RATING	
<b>OTP Bank and OTP Mortgage Bank</b>	
Long term credit rating	BB+

## MANAGEMENT'S ANALYSIS OF THE 2010 RESULTS OF THE OTP GROUP

### Favourable changes in the region

The countries of the Central-East European region that are of key importance in terms of the Bank's operations have begun to recover from the crisis of the past two years, however with some difficulties. The recession that followed the grave financial and economic crisis that began in 2008 reached its low point in 2009, and in most of the national economies 2010 generally marked the start of a new growth.

One of the direct effects of the crisis was that with the exception of Russia's dynamic growth in consumer loans, the demand for credit remained weak in all markets in which the Bank Group operates. In Hungary, OTP Bank made serious efforts to revive lending: in 2009 the Bank increased its SME and large-corporate loan placements by 5% and 8% respectively, while the market shrank overall by 10%, and in 2010 its placement volumes increased again, by 7% and 1% respectively, while the market contracted by 7%. With regard to mortgage loans, the volume of OTP Bank's new disbursements grew by 60% y-o-y in 2010, as a result of which its market share of new disbursements grew from 15% to 29%. As a consequence of the crisis, customers' solvency deteriorated significantly, and because

of this, the Total allowance for loan losses grew markedly; however in 2010 the provision coverage of loans overdue for more than ninety days (known as DPD90+ loans) improved. In a number of countries where OTP Group operates, debtor protection programmes continued. In Hungary, the Bank placed considerable emphasis on helping its customers that were experiencing payment problems to manage their temporary difficulties. In the context of the debtor protection programme launched in the second half of 2009, by the end of 2010 the Bank had concluded mutually satisfactory agreements with some 50,000 customers for this purpose.

**Consolidated performance: HUF 162 billion in adjusted net profit, 7% increase in operating profit, improving profit contribution from the subsidiary banks, excellent capital position, stable liquidity**

In 2010 the **OTP Group's** annual net profit, including the special Hungarian tax on financial institutions and the negative effect of the Montenegro goodwill write-down, was HUF 118

billion, and stripped of these two items it was HUF 162 billion, with this latter exceeding the previous year's performance by 7%. Apart from the absolute size of the profit, a favourable development was the fact that the profit contribution of the foreign subsidiaries improved significantly on a y-o-y basis: compared to a loss of HUF 24 billion in 2009, the foreign subsidiaries generated net profits of 17 billion in 2010, thus offsetting the negative effect of the Hungarian tax on banks and the fall in the net profit of the Hungarian operation.

In 2010 the Group posted HUF 467 billion in operating profit (+7%), which, stripped of the effect of extraordinary items in 2010, was HUF 436 billion, that is, approximately the same level as in the previous year. Among the key components of income, adjusted net interest income stripped of swap revaluations grew by 2% y-o-y. The interest margin was stable, remaining broadly unchanged (2010: 6.16%). In 2010 total loans grew by 9% y-o-y in nominal terms, and deposits increased by 2%, though when adjusted for exchange rates, the loan and deposit portfolios remained unchanged. Notable loan-volume growth in 2010 occurred only in Russia, where the exchange rate-adjusted loan portfolio expanded by 24% y-o-y, and within this, the consumer loan portfolio increased by 61% and card credit loans by an even greater 72%. It was a favourable development that besides the dynamic growth in Russian retail lending, in the second half of the year, Ukrainian corporate lending also began to grow. In Hungary too, the Bank significantly increased its market share in newly disbursed mortgage loans, and its corporate loan portfolio increased as well. In respect of deposits, the largest growth was again achieved by the Russian subsidiary (18%), but the volume expansion was significant in Serbia (14%) and in Romania (13%) as well. As a result of these factors, the consolidated net loan/deposit ratio (110%), stripped of technical effects, declined by 5 percentage points. The most significant y-o-y exchange-rate adjusted improvement occurred at the Ukrainian (-57 ppts), Serbian (-52 ppts), Romanian (-49 ppts) and Montenegrin (-23 ppts) subsidiary banks. With regard to capital market funding activity,

no market transactions took place in the second half of 2010. The Bank did not renew its obligations that matured during the year; these were repaid to the charge of liquid assets.

However, OTP Bank's successful domestic retail bond programme continued, and as of the end of 2010 the outstanding volume had reached HUF 284 billion (approx. EUR 1 billion).

The deterioration in the quality of the loan portfolio in 2010 resulted in an allowance for impairment charge of HUF 273 billion for the year as a whole (+3% y-o-y). The ratio of the DPD90+ portfolio grew further over the year, reaching 13.7%. The annual extent of the deterioration, however, declined: while in 2009 the indicator grew by 5.3 ppts y-o-y, in the past one year it increased by just 3.9 ppts. A contrasting tendency could be observed in the development of the DPD90+ coverage rate: in 2009 the indicator fell by 12 ppts compared to the previous year, but in 2010 the coverage improved by 1 ppt, from 73.6% to 74.4%.

The consolidated IFRS capital adequacy ratio of the OTP Group continued to be stable: by the end of December 2010 it had risen to 17.5%. At the same time, the primary capital (Tier1 ratio) grew by 0.3 ppts, to 14.0%, over the past twelve months. Both indicators significantly exceed those of the Bank's main regional competitors. OTP Bank's stand-alone capital adequacy ratio at the end of December was 18.1%, which again, represented a growth for the year as a whole (+1.9 ppts y-o-y).

### **The Hungarian core operation ("OTP Core"): stable income basis alongside lower net earnings due to increasing allowance for impairment; reviving mortgage lending, growing corporate loan volumes**

Within the Bank Group **OTP Core** achieved total net profits of HUF 147 billion over the course of the year, which was 20% less than in 2009 (before the effect of the bank tax).

Of the various revenue items, net interest income improved by 6% over the year, which was mainly due to the HUF 18.7 billion result on

reevaluation of FX swaps. The adjusted 2010 net interest income was essentially unchanged over the previous year. The adjusted net interest margin deteriorated by 25 bps y-o-y. A further revenue-boosting item was the HUF 8.9 billion<sup>2</sup> foreign-exchange result, as well as the HUF 7.1 billion gain realised on securities. In addition to this, there was a further individual item that affected the structure of the income: the HUF 3.8 billion positive result at annual level on positions hedging the revaluation of foreign currency provisions set aside in relation to OTP Core's foreign currency loans. Since this item appeared as a negative figure of the same amount on the allowance on impairment line, it did not have an impact on net profit. Net fee and commission income declined by 4% over the year as a whole, which was primarily a result of the fall in card commissions. The effective control of operating costs is evidenced by the fact that, despite an average inflation rate of 4.9% in Hungary, operating expenses for the year fell by 1%. Net of exchange rate changes and other technical factors, the loan portfolio grew by 1% over the year. Small and large corporate loans net of exchange rates grew by 7% and 1% respectively y-o-y, consumer loans stagnated, and despite improving sales the mortgage loan book net of exchange rates declined by 2% y-o-y – although in the second half of 2010, the decline slowed significantly. With regard to new mortgage loan disbursements, OTP's share grew continuously over the course of 2010, and with its 35% share of this segment as at the end of December 2010 (29% for the year as a whole), the Bank further strengthened its market-leading position. Another favourable development was that the volume of disbursements rose continuously: in 2010, disbursed loans (HUF 103 billion) exceeded the figure for 2009 by 60%. With effect from 1 July 2010 the Bank ceased all retail foreign currency mortgage lending, and so the HUF share of new disbursements in the second half of 2010 was essentially 100%. The pace of portfolio deterioration became quicker slightly at the annual level in 2010, with the second quarter seeing the most rapid

decline in quality, primarily due to the deterioration of large corporate transactions. In the second half of the year, the pace of deterioration steadily declined in overall, although among the new problematic loan portfolios, the volume of non-performing mortgage loans grew significantly compared to the first half of the year.

The exchange rate adjusted deposit portfolio together with retail bonds fell by 1% y-o-y. Retail deposits (together with retail bonds), however, grew by 2%. At the same time, corporate deposits declined significantly (by 8% y-o-y) due to withdrawals of funds by fund managers and municipalities. The Bank's "net loan/ (deposit+retail bonds)" indicator was 89% at the end of the reporting period (-1 ppts y-o-y adjusted for technical factors).

**Merkantil Group** (the Hungarian vehicle financing business) booked a loss, before bank tax, of HUF 4.1 billion in 2010, compared to an approximately break-even result a year earlier. The reason for the loss, besides a declining revenues, was the high rate of provisioning. The exchange-rate adjusted loan portfolio fell by 14% over the course of the year, the DPD90+ ratio increased to 17.6% by the end of 2010, and the coverage rate remained stable, at 88%.

**Positive profit contribution from the foreign subsidiary banks: performance in Russia and Ukraine well above expectations, stable Bulgarian and Croatian operations, with Slovakia, Serbia, Romania and Montenegro still reporting losses**

OTP Bank Russia, DSK Bank and OTP Bank Ukraine, which together represent around 30% of the Bank Group's consolidated loan portfolio, generated HUF 48 billion in net profits in 2010 – a 30% of the consolidated adjusted profit – as against a loss of close to HUF 16 billion in 2009.

The largest net profit was achieved by OTP Bank Russia, overtaking DSK, while the greatest improvement occurred in Ukraine, where the

<sup>2</sup> In relation to the hedging of the FX-risk of provisions of some FX denominated loans at OTP Bank Ukraine.

Bank produced a HUF 8.9 billion profit versus a loss of HUF 43.6 billion in 2009. As a result of operating profits' almost doubling at annual level and credit allowance for impairment growing by 18%, the net profit of **OTP Bank Russia** in 2010 was HUF 20.5 billion, more than six times more than that of the previous year. Thanks to the strongly growing revenues, as well as to expenditures needed for the growth in lending activity, but otherwise kept under tight control, the Bank's efficiency improved significantly at annual level (cost/income ratio: 49.3%, -12.4 ppts y-o-y). The expansion in durable-goods credit disbursements (POS lending) has been continuous for the past year and half now (+58% y-o-y), but cross-sales – and use – of credit cards has grown even faster, and the disbursement of personal loans has also improved further. Together with this, due to the low margin content, the management consciously reduced the corporate portfolio (-25% y-o-y, exchange-rate adjusted). Due to the good profitability of POS and credit card loans, OTP Bank Russia's net interest margin improved further (14.3%, +343 bps y-o-y). The bank has an excellent market position in respect of these two lead products: in the area of POS it is the Russian market's second largest player, and the fourth in credit card issuance.

Alongside the dynamic growth of the consumer credit portfolio, at Group level it was here that the largest expansion took place in the deposit portfolio as well (+18% on an exchange rate adjusted basis). Due to the difference in growth rates between loans and deposits, the net loan/deposit ratio began to increase again from the second half of 2010 (Q4: 114%). It is worth noting that amongst the largest markets, it was in Russia that the ratio of loans overdue for more than 90 days began to decline first: the 0.6 ppts q-o-q improvement witnessed in Q3 was followed by a further 3.7 ppts fall in Q4, though this was certainly assisted by the sale at that time of a portfolio of overdue loans. The provision coverage of the overdue portfolio rose (87.4%, +3.8 ppts y-o-y).

During the crisis **DSK Bank** maintained a favourable level of profitability. While the 2010 net profit of HUF 18.2 billion was 27% lower

than that of the base period, mainly as a result of the growth in allowance for impairment, the Bank's income-generating ability remained stable the cost control remained strict. A point that is extremely positive is the fact that through its conscious deposit-pricing policy, the Bank's annual net interest margin (5.77%) improved, and net interest income grew by 3% y-o-y. The Bank's cost efficiency remained outstanding; its cost/income ratio of 36.1% is the lowest in the Group. Loans expanded by 1% and deposits by 3% y-on-y when adjusted for exchange rates, and as a result the net loan/deposit ratio (115%) improved further. The DPD90+ ratio, which reflects the quality of the portfolio, deteriorated further, but a steadily slowing rate throughout the year, and reached 11% by the end of December. The coverage ratio of problematic loans (82%) remained above the Group average.

**OTP Bank Ukraine** posted a sizeable, HUF 8.9 billion net profit at full-year level. The favourable earnings were supported by a significant, one-off tax effect of HUF 3.2 billion, but the most important factor was the fall in the allowance for impairment to one quarter of their previous level. Although the deterioration of the portfolio continued, and the DPD90+ ratio grew to 29.3%, the pace of the deterioration slowed significantly (2010: +6.9 ppts y-o-y vs. 2009: +17.6 ppts). The share of retail loans restructured in the context of the debtor protection programme (41.2% at the end of 2010) began to decline during the year. Lending activity was held back overall by administrative restrictions and also by unfavourable hryvnia credit conditions; as a result, the loan portfolio fell by 7% y-o-y (on an exchange rate adjusted basis), though from the second half of the year the corporate portfolio began to grow, increasing 6% in the fourth quarter alone. Alongside the exchange-rate adjusted fall in the loan portfolio, deposits grew by 4%, and accordingly the year-end net loan/deposit indicator improved further (283%, y-o-y -54 ppts). Despite average inflation of above 10%, operating costs grew by only 5%. As a result of a 20% fall in overall revenues over the year, the annual cost/income ratio was 41.5% (+9.6 ppts y-o-y). Alongside the three large-sized subsidiary

banks, **the Croatian bank** also achieved a positive result: its profit for the year was HUF 2.7 billion, with the y-o-y 16% decline being due to the substantial increase in the allowance for impairment (+60%), which outweighed the 16% improvement in operating profit over the year. The ratio of loans overdue for more than 90 days (12.8%) rose by 3.9 ppts y-o-y, while coverage fell by 1.9 ppts. The Bank's net loan/deposit indicator (86%) was the lowest within the Group.

The **Romanian subsidiary bank** posted a loss in 2010 of HUF 6.4 billion. While the 41% y-o-y rise in its operating profit was outstanding, this was not sufficient to outweigh the threefold increase in the Total allowance for loan losses. The most significant deterioration in asset quality was observed in the corporate segment, but there was also a deterioration in respect of mortgage loans. The ratio of overdue (DPD90+) loans reached 10.6% by the end of December. The net loan/deposit indicator improved to 270%, which amounted to an exchange-rate adjusted fall of 49 ppts. Cost management continues to be successful: the cost/income ratio improved by 9 ppts y-o-y (56.9%).

The **Slovakian subsidiary** posted a HUF 1 billion loss in 2010, compared to a loss of HUF 6.7 billion in 2009. Operating profit improved significantly (+13% y-o-y), and within this, also net interest income (+7%). The Bank's net interest margin grew by nearly 50 basis points (3.09%), and the cost/income indicator improved by nearly 3 ppts over the year as a whole. The DPD90+ ratio had stabilized by the second half of 2010 (10.2%), and coverage also remained stable on a y-o-y basis (56.1%). While the total loan portfolio declined further on a full-year basis, the retail segment has begun to grow (+10%). The Bank's net loan/deposit indicator remained at 100%.

The **Serbian subsidiary bank's** operations remain loss-making, although the extent of the loss fell relative to 2009 (–HUF 7.3 billion). The decline in the loan portfolio continued. The effect of the fall in revenues was only partly offset by the 37% fall in costs. The quality of the loan portfolio deteriorated further; the DPD90+ ratio, at 47.8%, was the highest within the Group. Alongside a y-o-y 16% growth in allowance for impairment, the coverage of

DPD90+ loans rose (43.7%, +3.5 ppts y-o-y). At the **Montenegrin subsidiary bank**, the extent of the negative result for the year was HUF 16.8 billion. By the end of 2010, the DPD90+ ratio had reached 26.6%, while coverage grew by 21.2 ppts y-o-y in response to the significant allowance for impairment provisioning. The exchange-rate adjusted loan portfolios fell by 15%, while the contraction in the deposit portfolio was of smaller proportions than this, and as a result, the net loan/deposit ratio improved by 23 ppts. While operating costs at annual level fell slightly, the significant decline in revenues meant that the cost/income ratio grew, from 46.1% to 60.9%. By the end of 2010, the OTP Group had 1,486 branches (–28 branches y-o-y). In the past twelve months there were significant branch closures in Ukraine (–17 branches); in the case of the other subsidiary banks, it was typically network rationalization that occurred. At the end of 2010 the closing headcount in terms of the employees of the OTP Group exceeded 30 thousand; over the course of the past 12 months, significant headcount reductions took place only in Ukraine.

## Credit rating, shareholder structure

OTP Bank's credit rating essentially followed changes in the relevant sovereign ratings in the course of 2010. In December, Moody's downgraded the Bank's rating from "Baa1" to "Baa3" (the rating of its foreign currency bonds was "Baa2"), with a negative outlook. S&P's rating of the Bank remained "BB+", with a stable outlook. There was no change in the rating of the other members of the Bank Group. As regards the Bank's ownership structure, in the fourth quarter of 2010, Lazard Asset Management's stake surpassed the 5% mark (16.5 shares, giving it a stake of 5.9%), and with this, the number of investors holding an interest of above 5% increased to four. The Rahimkulov family held a 9.0% stake, Hungarian Oil and Gas Company Plc 8.6%, and Groupama 8.3% at the end of 2010.

# KEY POST-BALANCE SHEET EVENTS

## Hungary

- Effective from 1 January 2011, the Board of Directors appointed Dr. László Utassy to the position of Chairman and CEO of Merkantil Bank Ltd., a 100% subsidiary of OTP Bank Plc. Dr. Norbert Szaniszló, who had been appointed acting CEO of Merkantil Bank Ltd. with effect from 19 November 2010, has been performing the duties of deputy CEO of Merkantil Bank Ltd. since 1 January 2011 – as he had been prior to November of 2010.
- With effect from 1 February 2011, Dr. György Szapáry resigned from his position as a member of the Board of Directors of OTP Bank, in view of his appointment to the post of Ambassador of the Hungarian Republic to the United States in Washington DC.
- On 4 February 2011 the national-economy minister made a proposal to the Prime Minister that the government should create a HUF 250 billion stability reserve fund from the 2011 budget, which could be spent in the event that potential risks were to materialize.
- On 1 March 2011, the Hungarian government announced a series of structural measures targeting seven key areas. These are the labour market, the pension system, public transport, tertiary education, drug subsidies, state and local-government financing, and contributions to a state-debt-reducing fund. As a result of the planned measures, the fiscal deficit is expected to drop to 1.9% of GDP in 2014, and the gross public debt-to-GDP ratio to around 66%.
- On 17 March 2011 the Hungarian Parliament approved the partial lifting of the foreclosure moratorium originally valid until 15 April (for consumer loans and non-housing-purpose mortgage loans), and stipulated 1 July 2011 as the date for full termination of the moratorium.

- The number of OTP Private Pension Fund members who decided to maintain their membership was 18,214 (according to preliminary data as of 30 March 2011).
- On 1 April 2011 the Central Statistics Office announced that the budget deficit based on EDP methodology amounted to 4.2% of gross domestic product in 2010, compared to the planned 3.8% deficit.

## Russia

- With effect from 1 February 2011, the Russian central bank raised the reserve requirements. The mandatory reserve ratio for credit institutions' liabilities to non-resident banks was raised from 2.5% to 3.5%, and the mandatory reserve ratio for liabilities to individuals and other liabilities increased from 2.5% to 3.0%.
- On 25 February 2011, the Russian central bank increased the base rate by 25 basis points to 8.0%, citing inflationary pressure.

## Ukraine

- In mid-February 2011, the IMF delegation conducted negotiations with Ukraine on the disbursement of the third, USD 1.55-billion, tranche of a total loan of USD 15.6 billion; a decision was not reached, however.

## Romania

- On 8 February 2011 the IMF, the EU and Romania reached agreement on the terms of a EUR 5 billion, two-year standby loan. The Romanian government has no immediate plans to draw on the standby loan.

country's interbank swap market, and to ensure more efficient liquidity management.

- On 16 March 2011 Standard & Poor's upgraded Serbia's credit rating one notch to "BB-" with a stable outlook. The significant improvement in the country's economic growth prospects and its political stability were mentioned as key factors behind the decision.

## Serbia

- On 8 February 2011 the Serbian central bank announced that on 1 March it would be relaunching its three-month currency-swap auctions, which had been suspended in July of 2010. The aim of relaunching the auctions was to encourage the development of the

## Montenegro

- On 30 March 2011 Moody's confirmed Montenegro's "Ba3" sovereign debt rating, and lifted the outlook from negative to stable.



## CONSOLIDATED EARNINGS BY MAIN SUBSIDIARIES (IFRS)<sup>3</sup>

	2009 HUF million	2010 HUF million	Change %
Consolidated net profit	150,206	118,126	(21)
Profit of the strategic short position <sup>1</sup> (after tax)	(1,912)	0	(100)
Dividend and total net cash transfers (consolidated)	792	488	(38)
Goodwill impairment charges (after tax) <sup>2</sup>	0	(15,001)	
Special tax on financial institutions (after corporate income tax)	0	(29,471)	0
Consolidated net profit without dividends received, net cash transfers, result of strategic open position, goodwill depreciation in relation to the foreign subsidiaries, and special tax on financial institutions	151,326	162,110	7
Banks total before one-off items <sup>3</sup>	145,844	159,081	9
OTP CORE (Hungary)	182,699	146,920	(20)
Corporate Centre (after tax) <sup>4</sup>	(10,478)	(6,709)	(36)
OTP Bank Russia	3,086	20,545	566
OTP Bank JSC (Ukraine)	(43,650)	8,928	(120)
DSK Bank (Bulgaria) <sup>5</sup>	24,797	18,190	(27)
OBR (adjusted) (Romania)	1,136	(6,406)	(664)
OTP banka Srbija (Serbia)	(8,990)	(7,312)	(19)
OBH (Croatia)	3,245	2,721	(16)
OBS (Slovakia)	(6,673)	(952)	(86)
OBS (adjusted)	(6,429)	(952)	(85)
OBS one-off items (after tax) <sup>6</sup>	(244)	–	(100)
CKB (Montenegro)	428	(16,844)	
Leasing	(1,246)	(6,337)	408
Merkantil Bank + Car (adjusted) (Hungary) <sup>7</sup>	(68)	(4,123)	
Merkantil Bank + Car one-off items (after tax) <sup>8</sup>	12	0	(100)
Foreign leasing (Slovakia, Croatia, Bulgaria, Romania) <sup>9</sup>	(1,191)	(2,214)	86
Result of asset management	5,104	7,448	46
OTP Asset Management (Hungary)	5,124	7,456	46
Foreign asset management companies (Ukraine, Romania) <sup>10</sup>	(20)	(8)	(61)
Other Hungarian subsidiaries	(2,148)	(994)	(54)
Other foreign subsidiaries (Slovakia, United Kingdom, Cyprus, Romania, Belize) <sup>11</sup>	3,404	(6)	(100)
Eliminations	612	2,919	377
Hungarian Group members, total (before open position, dividends and net cash transfers) <sup>12</sup>	175,754	145,469	(17)
Foreign group members, total (before dividends and net cash transfers) <sup>13</sup>	(24,428)	16,642	(168)
Profit contribution of foreign Group members, %	(16%)	10%	26

<sup>3</sup> The footnotes to the table are contained in the Supplementary Data section of Chapter „Management’s analysis“.

# THE OTP GROUP'S CONSOLIDATED STATEMENT OF RECOGNIZED INCOME<sup>4</sup>

<b>Main components of profit and loss</b>	<b>2009</b>	<b>2010</b>	<b>Change</b>
	<b>HUF million</b>	<b>HUF million</b>	<b>%</b>
Consolidated net profit	150,206	118,126	(21)
Dividends and net cash transfers (after tax)	792	488	(38)
Result of strategic open FX position (after tax)	(1,912)	0	(100)
Goodwill impairment (after tax)	0	(15,001)	
Special tax on financial institutions (after corporate income tax)	0	(29,471)	
Consolidated net profit without dividends received, net cash transfers, result of strategic open position, goodwill impairment in relation to the foreign subsidiaries, and special tax on financial institutions	151,326	162,110	7
Profit before income tax	172,080	194,313	13
Operating profit	437,059	467,058	7
Total income	786,084	821,123	4
Net interest income (adj.)	589,780	620,354	5
Net interest income without the revaluation result of FX swaps	589,780	601,622	2
Net fees and commissions	132,913	136,702	3
Other net non-interest income (adj.)	63,390	64,067	1
Foreign exchange result, net (adj.)	(5,919)	31,811	(637)
Gain/loss on securities, net (adj.)	7,459	14,829	99
Net other income (adj.)	61,851	17,426	(72)
Operating expenses	(349,024)	(354,065)	1
Personnel expenses	(155,516)	(160,725)	3
Depreciation (adj.)	(45,141)	(48,805)	8
Other expenses (adj.)	(148,367)	(144,535)	(3)
Total allowance on impairment (lending and other)	(264,979)	(272,745)	3
Provisions for lending and placement losses (adj.)	(246,935)	(272,859)	10
Other allowance for loan losses	(18,044)	113	(101)
Corporate tax	(20,754)	(32,203)	55
<b>Performance indicators</b>	<b>2009</b>	<b>2010</b>	<b>ppts</b>
ROA	1.6%	1.7%	0.1
ROE	13.4%	13.0%	(0.4)
Operating margin (adj.)	4.57%	4.78%	0.21
Total income margin (adj.)	8.22%	8.41%	0.19
Net interest margin (adj.)	6.17%	6.35%	0.18
Net interest margin without the revaluation result of FX swaps	6.17%	6.16%	(0.01)
Net fee and commission margin (adj.)	1.39%	1.40%	0.01
Net other non-interest income margin (adj.)	0.66%	0.66%	0
Operating cost/total assets	3.65%	3.62%	(0.03)
Cost/income ratio (adj.)	44.4%	43.1%	(1.3)
Allowance for loan losses/gross loans (adj.)	3.57%	3.82%	0.25
Allowance for loan losses (total)/total assets (adj.)	2.77%	2.79%	0.02
Effective tax rate	12.1%	16.6%	4.5
Non-interest income/total income	25%	24%	(1)
<b>Comprehensive income statement</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Net comprehensive income	151,661	135,936	(10)
Net profit attributable to shareholders	151,045	117,930	(22)
Consolidated net profit	150,206	118,126	(21)
(-) Net profit attributable to non-controlling interest	(839)	196	(123)
Fair value adjustment of securities available-for-sale (recognised directly through equity)	9,941	(10,771)	(208)
Derivative financial instruments designated as cash-flow hedge transactions	431	335	(22)
Net investment hedge transactions in foreign operations	(1,543)	(2,232)	45
Currency translation difference	(8,213)	30,674	(473)

<sup>4</sup> Details of the adjustments made in respect of the consolidated income statement are contained in the Supplementary Data section of the business report.

- Profit (before bank tax and goodwill write-offs) of HUF 162 billion, up 7% y-o-y
- Annual operating profit (stripped of 2010 one-off items) equal to 2009 level, at HUF 436 billion
- Improving net interest income, stable adjusted net interest margin (2010: 6.16%), outstanding Russian (+48% y-o-y), improving Bulgarian (+3% y-o-y), and stable adjusted Hungarian net interest income
- Strict cost control, improving cost/income ratio (2010: 43%)
- Allowance on impairment 3% higher than in 2009; however, y-o-y slowing consolidated DPD90+ volume growth and improving provision coverage (2010: 74.4%, +0.8 ppts)

In 2010 the OTP Group achieved HUF 162 billion in adjusted net profit, which exceeds the profit figure for the base period by 7%. The accounting net result, which includes the special tax on financial institutions (net HUF 29.5 billion) as well as goodwill impairment (net HUF 15.0 billion), was HUF 118 billion, which is 21% below the performance of the same period of 2009. 2010 annual operating profit was HUF 467 billion (+7%), which, stripped of one-off items, amounted to HUF 436 billion, that is, the same as in 2009. One-off items included in the operating result in the course of 2010 were as follows. Within net interest income, the Bank posted a HUF 18.7 billion net result on FX swap revaluations in Q2 and in Q3 in all (from now on, interest income from the revaluation of swaps is not expected, due to the building up of hedging positions). Within FX results (other net non-interest results) were the following one-off items: a HUF 8.9 billion gain on the hedging of provisions related to FX loans at OTP Bank Ukraine (in Q2 2010) and FX revaluation results of HUF 3.8 billion on the open position, which is held by OTP Core for hedging purposes to offset the revaluation results of FX provisions related to its FX loan portfolio. However, this last item had no impact on overall profitability, since allowance for loan losses were adjusted by an identical amount because of the revaluation of the previously mentioned FX provisions. Total income adjusted by one-offs (2010: HUF 790 billion) was essentially flat compared to 2009 (+0.5% y-o-y).

Adjusted net interest income increased by 2% y-o-y. The net interest margin remained stable, and essentially unchanged (2010: 6.16%). At annual level a major role was played in the stability of the margin by the gradual increase in deposit margins:

in almost all the Bank Group's deposit markets, interests paid on deposits were reduced in parallel with the increase in liquidity. Net interest income in Russia improved significantly (+HUF 29 billion, +48% y-o-y), which was the result of the major upturn in consumer lending. From the large subsidiaries, DSK slightly increased its net interest income adjusted for one-offs, and OTP Core succeeded in repeating its 2009 performance in this regard (respectively +3% and 0% y-o-y). These positive trends were offset by the fall in net interest income in Ukraine, Montenegro and Serbia (-19%, -30% and -37% y-o-y respectively) as a result of the decline in business activity and the increase in the number of non-paying customers. Net fees and commissions grew by 3% (HUF 4 billion) on an annual basis, in which, again, the growth in the Russian contribution was of decisive importance (+HUF 4.9 billion y-o-y), where card and deposit commissions grew most markedly, but the commission income of the Hungarian fund management company also grew, by HUF 1.7 billion y-o-y, which was primarily due to the rapid growth in assets under management. Other net non-interest income was HUF 64.2 billion in 2010, and when adjusted for the above-mentioned one-off items, it was HUF 51.5 billion. The decline in the annual amount of adjusted net other non-interest income was due to the base effect. In 2009 all gains earned (HUF 27.7 billion) on the repurchase of auxiliary loan capital elements (Upper Tier2 capital) issued by OTP Bank is presented on this line, whereas in 2010 there was no such repurchase.

Operating expenses y-o-y increased by just 1%, which, considering that in many markets underlying consumer price inflation approached or exceeded 5% (Hungary, Russia, Ukraine,

Romania and Serbia), and also that the forint weakened significantly y-o-y, this slight increase reflects a regime of strong cost control. Assuming an unchanged cost structure, these two factors (inflation and currency weakening) would have implied a nominal increase of HUF 19 billion y-o-y in consolidated operating expenses, of which the Group realised only a HUF 5 billion increase as a result of ongoing cost rationalization (renegotiating rental and supplier contracts, optimization of energy consumption, reengineering business processes etc.)

The further deterioration in the quality of the loan portfolio led to an increase in the Total allowance for loan losses associated with provisioning (HUF 273 billion in 2010, +3% y-o-y). The DPD90+ ratio increased from 9.8% to 13.7%. However, the extent of deterioration declined: while the ratio increased by 5.3 ppts between 2008 and 2009, in the last year it grew by only 3.9 ppts. At the same time, the Group increased its provisioning coverage on overdue loans in a prudent manner in 2010, by 0.8 ppt, from 73.6%

to 74.4% (whereas in 2009 the coverage ratio had fallen by 12 ppts compared to the previous year). An increase of this extent in the coverage ratio represented HUF 8 billion in additional Total allowance for loan losses, which means that if the Group had maintained the 2009 year-end coverage level, the Total allowance for loan losses, relative to 2009, would not have grown (2009: HUF 265 billion).

The 55% y-o-y increase in annual corporate-tax expense was partly a result of the base effect: in 2009 a significant part of the tax-base-reducing effect of the unscheduled goodwill write-off in 2008 was recognized as a one-off item, which, in accordance with IFRS, reduced, by 11.7 billion, the extent of the tax payable for 2009, as a one-off effect (in the case of both the OTP Group and OTP Core). As a result, the Group's effective tax rate dropped to around 12% in 2009. In 2010, by contrast, the revaluation of the investments (for a detailed explanation of this item, see the OTP Core section) resulted in an additional tax charge of HUF 3.7 billion for the year.

# ASSET-LIABILITY MANAGEMENT

## ***In 2010 the focus was on secure liquidity levels...***

The primary objective of OTP Group in terms of asset-liability management was again to ensure that the Bank Group's liquidity reserves were maintained at a suitably safe level. From December 2009 the opportunity for modest external fund raising reopened, and this further enhanced the liquidity management potential of the Bank Group. To strengthen its capital market activity the Bank turned to the capital markets on several occasions to raise funds. A syndicated loan agreement was signed in December 2009 (EUR 220 million), and in July 2010 another syndicated credit agreement (for a limit of EUR 250 million) was signed and the facility drawn down. In addition to these transactions, in February 2010 the Bank issued a CHF 100 million senior unsecured note and the refinancing sources of ECB became available for the Bank as well, thus easing the renewal risk of maturing mortgage bonds. The achieved spread levels demonstrated that with smaller tranches and with good timing funding, was available even at lower spread levels than those for the Hungarian State.

Despite the repayment of a significant amount of maturing debt (in the amount of around EUR 2.3 billion) in 2010, the liquidity reserves of OTP Group remained permanently above the safety level. The liquidity reserves of the Group amounted to EUR 4.3 billion at the end of 2010 (in February 2011 it hovered in the range of EUR 5.1-5.4 billion), which is more than sufficient to provide coverage not just for the redemptions within one year but for potential liquidity shocks as well. The CHF and USD liquidity requirement of the Group stemming from its FX lending operations was covered by long-term FX swaps (besides the above mentioned CHF note issue).

## ***...and on keeping interest risk exposures low.***

The Bank Group's interest risk exposure is determined primarily by the positions of OTP Bank

Plc. and OTP Mortgage Bank Ltd. Due to the HUF 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 fixed-rate government securities in order to offset the negative impact of falling yields on net interest income.

The Bank has a closed interest-rate position in EUR and CHF, and consequently the yield volatility of the previous period did not cause significant changes in the interest income.

## ***OTP Group's market risk exposure***

At the end of December 2010 the consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure was HUF 31.8 billion, which was in large part due to the capital requirement of the FX risk exposure (HUF 25.2 billion).

OTP Group is an active participant on the international FX and derivative markets. The exposure of the various Group members' FX positions is restricted through individual and global net open position (overnight and intraday) limits, and through stop-loss limits. The open positions of Group members outside Hungary were negligible measured against either the balance sheet total or regulatory capital, and because of this the FX exposure at Group level was concentrated at OTP Bank. The bulk of the FX exposure booked at OTP Bank came from the strategic open FX position kept to hedge the currency risk of FX-denominated net earnings of the main foreign subsidiaries. The size of the strategic open short EUR position amounted to EUR 310 million and was equal to 2 years' expected net profits of the subsidiaries. Apart from this strategic short position, the average net open position held by the dealing room of the central Treasury Department was negligible (HUF 1.2 billion).

# CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS OF THE OTP GROUP

<b>Main components of statement of financial positions</b>	<b>2009</b>	<b>2010</b>	<b>Change</b>
	<b>HUF million</b>	<b>HUF million</b>	<b>%</b>
<b>TOTAL ASSETS</b>	<b>9,755,132</b>	<b>9,780,946</b>	<b>0</b>
Cash, amounts due from banks and balances with National Banks	505,650	513,038	1
Placements with other banks, net of allowance for placement losses	440,850	511,244	16
Financial assets at fair value through profit or loss	256,100	233,667	(9)
Securities available-for-sale	1,354,285	1,008,097	(26)
Loans to customers (gross)	6,907,094	7,502,331	9
of which: Retail loans	4,291,847	4,769,793	11
Mortgage loans	2,703,433	2,983,235	10
Consumer loans	1,149,231	1,335,119	16
Micro and small enterprise loans	439,183	451,439	3
Corporate loans	2,161,903	2,286,415	6
Loans to medium-sized and large corporations	1,933,848	1,921,660	(1)
Municipality loans	228,055	364,755	60
Vehicle financing	387,431	385,587	0
Bills of exchange and interest receivables related to loans	65,968	60,535	(8)
Allowance on loan losses	(494,378)	(761,272)	54
Associates and other investments	18,834	11,554	(39)
Securities held-to-maturity	188,853	172,302	(9)
Property, equipment and intangible assets	476,358	480,828	1
Other assets	101,486	109,157	8
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>9,755,132</b>	<b>9,780,946</b>	<b>0</b>
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	802,749	681,949	(15)
<b>Deposit from customers</b>	<b>5,688,887</b>	<b>5,821,489</b>	<b>2</b>
of which: Retail deposits	4,165,398	4,368,021	5
Household deposits	3,746,263	3,924,525	5
Micro and small enterprise deposits	419,135	443,496	6
Corporate deposits	1,480,496	1,424,631	(4)
Deposits of medium-sized and large corporations	1,169,837	1,191,319	2
Municipality deposits	310,659	233,312	(25)
Interest liabilities related to customer deposits	42,997	28,836	(33)
Liabilities from issued securities	1,410,348	1,035,153	(27)
Other liabilities	380,708	642,796	69
Subordinated bonds and loans	280,834	290,630	3
<b>Total shareholders' equity</b>	<b>1,191,606</b>	<b>1,308,929</b>	<b>10</b>
<b>Indicators</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Loan/deposit ratio	121%	128%	7
Net loan/(deposit + retail bond) ratio	108%	110%	2
Net loans	6,346,748	6,680,524	5
Customer deposits	5,645,890	5,792,653	3
Retail bonds	236,733	283,646	20
90+ days past due loan volume	671,625	1,022,950	52
90+ days past due loans/gross customer loans	9.8%	13.7%	3.9
Total provisions/90+ days past due loans	73.6%	74.4%	0.8
<b>Consolidated capital adequacy</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Capital adequacy ratio (consolidated, IFRS)	17.2%	17.5%	0.3
Tier1 ratio	13.7%	14.0%	0.3
Core Tier1 ratio	12.0%	12.5%	0.5
Leverage (Total Assets/Shareholders' Equity)	8.2x	7.5x	
Regulatory capital (consolidated)	1,194,508	1,304,144	9
of which primary (Tier1) capital	952,416	1,045,977	10
of which Hybrid Tier1 capital	118,278	112,812	(5)
Secondary (Tier2) capital	242,521	258,632	7
Deductions due to investments	(428)	(464)	8
Risk weighted assets (RWA) (total assets adjusted for credit, market and operational risk)	6,942,437	7,462,128	7
<b>Closing exchange rates (in HUF)</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
HUF/EUR	271	279	3
HUF/CHF	182	223	22
HUF/USD	188	209	11
HUF/JPY	204	257	26

- FX-adjusted loan book stagnated y-o-y, but showed growth again in H2 2010
- Outstanding consumer loan origination in Russia (FX-adjusted growth: +61% y-o-y), Ukrainian corporate volumes also began growing from H2 2010
- FX-adjusted deposit volumes remained flat y-o-y
- The FX-adjusted yearly decrease of the net loan/(deposit + retail bond) ratio was 5% (2010: 110%)
- The pace of portfolio quality deterioration declined y-o-y, and DPD90+ reached 13.7% as at the end of 2010

*Methodological note: starting from Q4 2010 the loan book of OTP Residential Property Leasing was reclassified from corporate exposures into mortgage and SME loans (the total reclassified volume represented HUF 32 billion and 6 billion respectively). Furthermore, the DPD90+ volumes of those loans began to be registered within the consolidated statistics. Given the limited impact of these changes, we did not adjust the figures of the base periods, and thus both y-o-y consolidated volume dynamics for the previously mentioned product categories, and changes in risk indicators, are impacted by this technical effect.*

The consolidated loan portfolio grew by 9% y-o-y in nominal terms. Although, after adjusting for technical effects (i.e. FX movements), the loan book essentially remained unchanged y-o-y (-0.3%), it began growing modestly in H2 (+1.1% in Q3 and +0.4% in Q4 q-o-q). Only the Russian market experienced significant volume growth: the FX-adjusted portfolio expanded by 24%, within that the retail book increased by 46%. The core products of OTP Bank Russia demonstrated exceptional growth: POS lending grew by 58% y-o-y, and credit card loan volumes increased even faster, by 72% y-o-y.

It was also positive that within the major markets, the Hungarian large corporate segment grew by 1% y-o-y and the SME segment – though fairly small – expanded by 7%. In Bulgaria both mortgage loans and corporate exposures grew by 4% y-o-y, while in Ukraine corporate lending began to recover from the second half of 2010, and in Q4 2010 it grew by 6% q-o-q.

By contrast, in the smaller markets adjusted volumes contracted, with Montenegro suffering the single most sizeable decline, of 15% y-o-y, although in particular segments some recovery could be observed, reflecting the efforts of the local managements as well as gradually reviving

loan demand. In Romania mortgages grew by 5% y-o-y and SME loans by 15%, in Croatia personal loans expanded by 9%, in Serbia consumer credit grew by 20%, while in Slovakia the retail segment advanced by 6%. In Montenegro, however, all major loan categories dropped by two digits.

FX-adjusted deposit volumes stagnated y-o-y. However, the +2% y-o-y growth in consolidated retail deposit volumes is regarded as a positive development. Corporate deposit volumes decreased by 6% y-o-y, mainly due to a drop in corporate savings at OTP Core (-8% y-o-y). The significant volume decline was related to temporary deposit withdrawals by OTP Fund Management (since then most of the withdrawn amount has been re-deposited – mainly in the course of January 2011) and to the decrease in Hungarian municipalities' deposit volumes, due to declining local tax collection since the financial crisis, and increasing withdrawals. Across the Group the biggest deposit increase in relative terms was achieved in Russia (+18% y-o-y), including retail deposits (22% y-o-y), but volumes grew notably in Serbia and Romania too (14 and 13% respectively). Given its absolute volume, the deposit growth in Bulgaria was also significant (+3%). OTP Core's deposit portfolio fell by 2% y-o-y, due to the above mentioned fund management and municipality deposit decreases.

At the end of 2010, the consolidated net loan/(deposit + retail bond) ratio stood at 110% (the y-o-y change was -5 pts, after adjusting for technical effects). The lowest ratio was achieved at CKB (75%), OBH (86%) and OTP Core (89%), whereas Ukraine (283%), Romania (270%) and Serbia (189%) were the countries with the highest net loan/deposit ratios.

The overall volume of issued securities dropped by 27% over the year. The volume of the portfolio was significantly affected by the fact

that on 4 March 2010 a covered bond of EUR 1 billion nominal value matured and was repaid. In addition, on 1 July and on 20 December 2010 senior bonds of respectively EUR 500 and EUR 300 million were also repaid. This volume decrease was somewhat mitigated by the y-o-y HUF 47 billion increase in HUF bonds sold to retail customers, and by the HUF 39 billion increase in HUF senior bonds sold to Hungarian institutional investors. There were two capital market exercises in the past twelve months: in April OTP Mortgage Bank tapped the market with a 2-year, EUR 300 million mortgage bond transaction (of which approximately EUR 90 million was sold to investors outside the OTP Group), and in February OTP Bank issued a smaller size, CHF 100 million senior bond with a 2-year tenor. The Lower and Upper Tier2 volumes remained flat y-o-y (in EUR terms); there was no buyback of any outstanding OTP issues. The Group has accumulated a sizable amount of liquidity reserves since the beginning of the crisis: the total liquidity buffer amounted to

EUR 5.0 billion as of 31 January 2011. This level of reserves is significantly higher than what would be needed to provide coverage for the redemptions in wholesale funding within one year and for potential liquidity shocks. The source of this buffer is two-fold: the ongoing growth of consolidated deposits since the start of the crisis and the internal FX liquidity generation of the business lines, related to the fact that retail FX lending had been stopped both in Hungary and Ukraine, and therefore the continuous repayments of clients are increasing the Group's FX liquidity. Internal FX liquidity generation enabled the Group to repay its redemptions throughout 2009-2010 without issuing new instruments in the market on a significant scale. Repayments reached EUR 1.5 billion and EUR 2.3 billion equivalent in 2009 and 2010 respectively (in the form of maturing senior notes, mortgage bonds and syndicated or bilateral loans), whereas new issuances in 2010 amounted to only EUR 420 million equivalent (of which bonds amounted to EUR 170 million, and syndicated loans to EUR 250 million).

## CONSOLIDATED CAPITAL ADEQUACY RATIO (IN ACCORDANCE WITH BASEL II)

At the end of the reporting period the regulatory capital of the Bank Group was HUF 1,304 billion, while the preliminary, estimated adjusted total assets (taking into account lending, market and operational risks too) was HUF 7,462 billion. The value of the capital adequacy ratio was 17.5%, and within this, the rate of the basic capital (Tier1) less intangible assets was 14.0%, and the Core

Tier1 ratio without hybrid instruments was 12.5%. The outstandingly high and secure capital position of the Bank is reflected by fact that, based on the recent European CEBS stress test, the 16.2% Tier1 ratio of the OTP Group projected for 2011 is the second best among the 91 banks tested.

# OTP BANK'S HUNGARIAN CORE OPERATIONS (OTP CORE<sup>5</sup>)

## Segmented profit and loss account of OTP Core:

<b>Profit and loss account</b>	<b>2009</b>	<b>2010</b>	<b>Change</b>
	<b>HUF million</b>	<b>HUF million</b>	<b>%</b>
OTP CORE net profit less dividends and net cash transfers	182,699	146,920	(20)
OTP CORE profit before income tax	198,716	174,048	(12)
Operating profit	270,533	288,373	7
Total income	450,137	466,947	4
Net interest income	325,142	343,508	6
Net interest income without the revaluation result of FX swaps	325,142	324,777	0
Net fees and commissions	88,379	84,807	(4)
Other net non-interest income	36,616	38,632	6
Operating expenses	(179,604)	(178,574)	(1)
Total provisions	(71,817)	(114,326)	59
Provisions for loan losses	(72,530)	(115,038)	59
Other allowance for loan losses	713	712	0
<b>Revenues by business line</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
<b>RETAIL</b>			
Total income	325,304	323,137	(1)
Net interest income	241,732	243,875	1
Net fees and commissions	78,478	74,827	(5)
Other net non-interest income	5,094	4,435	(13)
<b>CORPORATE</b>			
Total income	36,221	40,363	11
Net interest income	23,707	26,693	13
Net fees and commissions	11,025	12,374	12
Other net non-interest income	1,489	1,296	(13)
<b>Treasury ALM</b>			
Total income	85,894	106,195	24
Net interest income	59,704	72,940	22
Net fees and commissions	1,274	1,438	13
Other net non-interest income	24,917	31,817	28
<b>Performance indicators</b>	<b>2009</b>	<b>2010</b>	<b>ppts</b>
ROA	2.9%	2.3%	(0.7)
ROE	18.7%	13.8%	(4.9)
Total income margin	7.24%	7.17%	(0.07)
Net interest margin	5.23%	5.27%	0.04
Net interest margin without the revaluation result of FX swaps	5.23%	4.98%	(0.25)
Total allowance for loan losses/average gross loans	2.21%	3.39%	1.18
Cost/income ratio	39.9%	38.2%	(1.7)
Effective tax rate	8.1%	15.6%	7.5

- Y-o-y decrease in net profit (–20%) as a result of increasing cost of risk (+59%)
- Slightly accelerating decadency of the portfolio quality y-o-y, provision coverage of DPD90+ portfolio increased significantly (2010: 78.2%, +3.3 ppts y-o-y)
- Growing corporate volumes y-o-y, stabilizing mortgage loan volumes in second half of 2010
- Regained market leadership in sales of mortgages and consistent number one position in new disbursements of personal loans
- Stringent cost controls (full-year operating expenses down by 1%)

<sup>5</sup> OTP Core is an economic entity that serves to measure the results of the OTP Group's Hungarian core business activity, whose financial statements are compiled on the basis of the consolidated IFRS-based financial statements of the companies performing the OTP Group's Hungarian banking core activity (OTP Bank Hungary Plc, OTP Mortgage Bank Ltd, OTP Buildig Society Ltd, OTP Factoring Ltd, OTP Financing Netherlands Ltd and OTP Holding Ltd). Separated from the consolidated financials of these companies is the Corporate Centre. This is a virtual economic entity that provides capital-market services to the subsidiaries in the OTP Group, typically in the form of equity and/or debt-type financing.

## P&L developments

Excluding the effect of the special bank tax, OTP Core's net profit for the full year of 2010, at HUF 147 billion, represents a decline of 20% relative to the base year. Total income, rising by 4% due to one-off items, and the decline in operating expenses (–1% y-o-y), resulted in a record-high operating profit of HUF 288 billion. The improvement in total operating income stemmed from the increasing income of the Treasury Department's asset-liability management activity (boosted significantly by one-off items). The contribution of the retail segment to total income slightly diminished, due to the falling level of card-related net fees. The portfolio quality deterioration as well as the management's intention to increase the provision coverage of the non-performing loans, however, required an unprecedented HUF 114 billion in provisioning, and as a result, the coverage of non-performing loans grew to 78.2% (+3.3 ppts y-o-y). The net profit for the full year of 2010 was boosted by significant one-off items<sup>6</sup>: a HUF 18.7 billion fair value adjustment gain – presented in net interest income – was generated on the revaluation of FX swaps (the Bank entered into hedging derivative contracts during Q2–Q3 2010, bringing the sensitivity of the swap book to changes in the basis swap spreads close to zero; accordingly, in 2011 no substantial revaluation gain is expected from basis-swap spread movements); a HUF 8.9 billion pre-tax FX gain was realised on FX hedging transactions related to the FX loan provisions at OTP Bank Ukraine; and finally, a HUF 7.1 billion gain on securities was generated.

Without having any substantive impact on bottom-line profitability, another one-off item affected the structure of earnings. A HUF 3.8 billion revaluation gain, related to the balance sheet positions held to hedge the revaluation result of FX provisions for FX loans at OTP Core, was booked as other non-interest income for the full year of 2010. This profit was fully offset among the allowance for impairment, the latter being HUF 3.8 billion higher in FY 2010.

The fall in the annual net profit was caused by the substantial rise in allowance for impairment. The HUF 114.3 billion allowance for impairment level represents a 59% increase y-o-y. The growth is only partially explained by the technical effect of the revaluation of FX provisions (HUF 3.8 billion more allowance for impairment in 2010 than in 2009). A decisive factor was the substantial growth in provisioning coverage (in 2010 the provisioning coverage increased by 3.3 ppts, while in 2009 it had decreased by 7.2 ppts), and a part was also placed by the slightly quickening pace of deterioration in portfolio quality (the y-o-y FX-adjusted growth in DPD90+ volumes was HUF 108 billion in 2009 and HUF 118 billion in 2010).

The paces of portfolio-quality deterioration in 2010 was highest in Q2, primarily due to the deterioration of large corporate transactions. In the second half of the year, the pace of decreased decelerated gradually overall, although among the new non-performing loan volumes, the portfolio of mortgage loans increased significantly compared to the first half of the year (FX-adjusted quarterly growth in DPD90+ volumes in billion forints: 2010 Q1: 19, Q2: 37, Q3: 35, Q4: 27). The total DPD90+ ratio rose from 7.8% to 10.6% y-o-y, and within this total, the rate of DPD90+ mortgage loans rose from 5.1% to 8.1%, and in the case of consumer loans, from 15.9% to 20.4%, and in the case of large-corporate loans, the ratio rose from 9.7% to 13.7%. By contrast, the small-enterprise 90-day past due portfolio displayed a more moderate deterioration, with the ratio of DPD90+ loans growing from 11.2% to 12.5% in this segment. In response to the weakening of the forint in the second quarter of 2010, and to ease the growing burden on retail foreign currency debtors, in June 2010, as a temporary promotional-type measure the Bank lowered the interest rate on its CHF mortgage loans by 75 bps and on its JPY mortgage loans by 50 bps. Furthermore, due to the lower funding costs, the Bank implemented another 25 bp cut on average in its CHF mortgage rates in June 2010, and a 30-72 bp cut in mortgage rates on selective product segments (mostly

<sup>6</sup> To assist comparability with the base periods: full-year profit for 2009 included the following one-off items. A profit before income tax of HUF 27.7 billion was realised (accounted for within other net non-interest income) on the repurchase of the Bank's own auxiliary loan capital (Upper Tier2 Capital). The goodwill write-off in 2008 trimmed the IFRS tax burden of OTP Core by HUF 11.7 billion in Q3 2009. In addition, provisioning in the OTP Bank (Hungary) P&L under local accounting standards for the Ukrainian loan guarantees in Q4 2009 significantly lowered the tax base and tax payable, and thus the IFRS tax amount as well. In the stock exchange report we present the above mentioned allowance for impairment as part of the Ukrainian performance, but its tax effect is presented in the results of OTP Core. As a result of the above, the effective tax rate of OTP Core (2009: 8%) remained below the normal rate of 19%.

EUR-denominated) was carried out in September. Altogether, from the point of view of a CHF mortgage borrower, these steps were equivalent to an approx. HUF 13 strengthening of the forint against the CHF.<sup>7</sup> Interest rates on customer loans were lowered in the personal loan segment too: by 50–75 bps in June for CHF denominated loans, and by 37–73 bps in September for forint-denominated loans.

The 6% y-o-y improvement in the full-year net interest income was the result of a one-off item. The significant widening that occurred in Q2 2010 in the forint-FCY basis swap spreads, and then a slight correction in the spreads in Q3<sup>8</sup>, overall caused a HUF 18.7 billion fair value adjustment gain, booked as net interest income, on the Bank's FX swaps in the course of Q2–Q3 2010. The full-year net interest income stripped of the result on revaluation of the swaps (2010: HUF 325 billion) remained at the same level y-o-y, behind which lay contradictory trends: the interest-differential result on FX swaps, as a result of the lower forint interest-rate environment, fell significantly y-o-y. However, this negative effect was largely offset by the fact that due to its strong liquidity position and the easing of deposit-market competition, as well as to the fall in the forint interest-rate environment, the Bank managed to lower its deposit rates compared to 2009 levels. Net fees fell by 4% y-o-y, which was primarily due to declining bank card commissions. The latter was the result of the increasing take-up of retail current-account product packages, since customers re-contracting for the new products can often use the services under promotional transaction fee terms. Other net non-interest income, on the other hand, exceeded by 6% the base-period figures, despite the fact that these later contained significant one-off items<sup>9</sup> (2010: HUF 38.6 billion, +HUF 2.0 billion y-o-y). The strong result was driven by several factors: due to the marked decline of HUF yields in 2010, a HUF 7.1 billion gain was realised on the government securities in the trading portfolio. Within Q2 2010 net foreign exchange gains of HUF 8.9 billion were realised

on FX hedging transactions related to the FX-loan provisions at OTP Bank Ukraine. An identical amount of loss stemming from the revaluation result of the FX provisions was booked among the consolidated capital reserves during the process of accounting consolidation. Marked as a one-off item, a HUF 3.8 billion FX gain was posted in 2010. This result was realised on a balance sheet position that is held by OTP Core for hedging purposes<sup>10</sup> to offset the revaluation results of FX provisions related to its FX loan portfolio.

Operating expenses showed a slight decrease (–1% y-o-y) in nominal terms; however, given the 4.9% average Hungarian consumer price inflation in 2010, this represents a material improvement in real terms. A major part of the decline was realised on personnel expenses, which decreased by 2% or HUF 1.8 billion y-o-y (2010: HUF 77.8 billion). The significant adjustment is the result of the 6% headcount reduction implemented in 2009: following the lay-off of 477 persons last year, in 2010 there was no significant change (2010 closing headcount: 7,800, –20 persons y-o-y). The further reduction in personnel expenses stemmed from the 5 ppts decrease in the level of social contributions<sup>11</sup> paid by the employer, effective from the beginning of 2010. Other expenses shrank by 1% y-o-y (2010: HUF 76.3 billion), despite the fact that the HUF 0.5 billion aid transferred to the Hungarian Red Cross to help people suffering flood-related damages was registered as an other expense item in Q2 2010. The saving is the result of rigorous cost control and to continuous cost rationalisation efforts by the management. Y-o-y savings were achieved on telecommunication, IT maintenance and cash carrier services, due to the renegotiation of supplier contracts.

Within the 2010 cost pool, the depreciation (HUF 24.5 billion) shows an 8% y-o-y increase, which is mainly due to the fact that in 2010 significant assets were activated, mostly in relation to the core IT systems of the Bank. On top of this, as a result of a decrease in the cost of entry for new

<sup>7</sup> Assuming HUF 10 million equivalent CHF mortgage loan with a 20-year maturity.

<sup>8</sup> In Q2 2010, EUR/HUF basis swap spreads of 2 years' maturity increased from 100 bps to around 180 bps, and by the end of September they had narrowed to close to 150 bps. The fair value adjustment of swaps is recognised only under IFRS; there is no impact at all on the stand-alone P&L under the local accounting standards.

<sup>9</sup> In 2009 the profit before income tax of HUF 27.7 billion realised on the repurchase of the Bank's own auxiliary loan capital (Upper Tier2 Capital) was booked on this line.

<sup>10</sup> A detailed description of this item is available on page 20 of the 2010 Half-year Report of OTP Bank Plc.

<sup>11</sup> The purpose of the position is to neutralize the revaluation result of the fair value adjustment on FX depreciation of FX loans. According to these, the total HUF 3.8 billion foreign exchange gain was offset on the risk cost line in 2010.

POS terminals, most of the investments in POS appliances qualified for an immediate cost in 2010

as opposed to previous years, when the depreciation of these assets was accrued over a longer period.

## Main components of OTP Core's statement of financial position:

Main components of balance sheet (closing balances)	2009	2010	Change %
	HUF million	HUF million	
Total assets	6,535,059	6,495,965	(1)
Gross loans	3,208,909	3,584,078	12
Retail loans	2,186,021	2,376,884	9
Corporate loans	1,022,888	1,207,194	18
Allowance on loan losses	(188,502)	(298,096)	58
Deposits from customers	3,484,896	3,427,845	(2)
Deposits from customers + retail bonds	3,721,628	3,711,491	0
Retail deposits	2,470,161	2,488,066	1
Retail deposits + retail bonds	2,706,894	2,771,712	2
Corporate deposits	1,014,734	939,779	(7)
Amounts due to banks, the Hungarian Government	643,281	559,506	(13)
Liabilities from issued securities	953,433	797,749	(16)
of which retail bonds	236,733	283,646	20
Total shareholders' equity	1,001,181	1,131,311	13
<b>Loan quality (%)</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
90+ days past due loan volume	251,594	381,262	52
90+ days past due loans/gross customer loans	7.8%	10.6%	2.8
Total provisions/90+ days past due loans	74.9%	78.2%	3.3
<b>Market share (%)</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Loans	17.8%	18.4%	0.6
Deposits	24.2%	24.0%	(0.2)
Total Assets	26.3%	24.8%	(1.5)
<b>Performance indicators (%)</b>	<b>2009</b>	<b>2010</b>	<b>ppts</b>
Gross loans to deposits	92%	105%	13
Net loans to (deposits + retail bonds)	81%	89%	8
Leverage (Shareholder's Equity/Total Assets)	15.3%	17.4%	2.1
Leverage (Total Assets/Shareholder's Equity)	6.5x	5.7x	
Capital adequacy ratio (OTP Bank, non-consolidated, HAS)	16.2%	18.1%	1.9
Tier1 ratio (OTP Bank, non-consolidated, HAS)	13.1%	15.4%	2.3

### Balance sheet trends

Adjusted for technical effects in 2010, the loan book of OTP Core – primarily due to the corporate business – increased slightly (+1% y-o-y), while the deposit portfolio – mainly as a result of municipal deposit withdrawals – decreased by 2%. Hence the adjusted “net loans/(deposits + retail bonds) ratio” (Q4 2010: 89%) increased slightly (y-o-y +2 ppts). The two technical effects were as follows: weakening of the HUF closing rate during 2010 (the forint exchange rate weakened y-o-y against the CHF by 22%, against the euro by 3%, and against the Japanese yen by 26%). Furthermore, approximately HUF 100 billion municipality bonds were reclassified into loans in Q2 2010 at OTP Core. It is an encouraging trend that in mortgage-loan disbursements,

since January 2010, the market share of new disbursements has been growing dynamically (the market share in new disbursements excluding Swiss franc is Q1 2010: 17%, Q2: 29%, Q3: 33%, Q4: 35%, making the full-year 2010 total: 29%), with which the Bank achieved a market-leading position again. During the year, quarterly disbursements gradually increased (in HUF billion Q1: 14, Q2: 28, Q3: 30, Q4: 31), representing a y-o-y increase of 60% over the disbursements of 2009; however, this performance still lags the pre-crisis peak in 2008 by 72% (mortgage loan disbursement in HUF billion: 2008: 366, 2009: 64, 2010: 103). In the second half of 2010, the ratio of HUF denomination within new origination increased to virtually 100%, as from 1 July 2010 OTP Bank suspended the admission of

foreign-currency loan applications. The decision of the Bank's management was a response to the 29-point action plan of the Hungarian government, which included an intention to put an end to retail foreign-currency lending. As a result, on 22 July 2010 the parliament approved an amendment of the law, according to which no mortgage right may, in the case of private individuals, be established in the future in order to secure a foreign-currency loan denominated in foreign currency. Due to the favourable developments in origination, FX-adjusted mortgage-loan volumes remained broadly flat in H2 2010 (–2% y-o-y). The consumer loan portfolios remained virtually unchanged during the year (+1% y-o-y, –1% q-o-q). On a full-year basis, adjusted for technical effects, there was growth in small and large corporate as well as municipality lending (y-o-y +7%, +1%, and +14% respectively). In 2010 the Bank again actively supported the domestic corporate sector: after HUF 248 billion in 2009, a further HUF 230 billion loans were disbursed in 2010. It was due to this, that in contrast to the 7% fall in the corporate loan volumes of the Hungarian banking sector excluding OTP, the Bank's placement volume increased in both small and large corporate segment in 2010. OTP Core's deposit base, including the Bank's repurchased bonds portfolio regarded as a deposit-substitute product, decreased, on an FX-adjusted basis, by 1% y-o-y. The decline over the year was primarily caused by the deposit withdrawals of municipalities (–26% y-o-y); large corporate deposits remained largely unchanged (–2%), while retail deposits and bonds – though more slowly than in 2009 – grew further (+3%). The significant y-o-y drop in municipality deposits was the result of lower local tax revenues due to the crisis and to the growing

utilization of local government funds. The fact that deposits of medium-sized and large corporations remained essentially unchanged was largely due to the following one-off item: in Q4 2010 the portfolio declined by 22% q-o-q mainly due to the withdrawal of the deposits of the funds managed by OTP Fund Management (–HUF 163 billion portfolio decrease in Q4), when the latter temporarily allocated its maturing term deposits to government securities. However, the bulk of the withdrawn amount (HUF 134 billion) was re-deposited in January 2011.

The volume of issued bonds (Q4 2010: HUF 798 billion, –16% y-o-y) was influenced more than any other factor by the mortgage-bond maturities. Most sizeable among these was the EUR 1 billion mortgage bond redemption on 4 March 2010 (at the 2010 year-end closing price, the nominal value was HUF 279 billion). This effect was partially offset by a number of factors: the already mentioned retail bond issuances resulted in a HUF 47 billion portfolio growth y-o-y – the outstanding retail bond portfolio reached HUF 284 billion (approximately EUR 1 billion) at the end of 2010. On top of this, the volume of senior bonds issued to Hungarian institutional investors increased by HUF 39 billion y-o-y. One further major mortgage bond issue took place in 2010: in March 2010 OTP Mortgage Bank issued mortgage bonds in a total face value of EUR 300 million (together with the December 2009 issue, HUF 1.35 billion), with a 2-year maturity, under its EUR 3 billion EMTN programme. Of this, however, only EUR 90 million (approximately HUF 25 billion) was subscribed by investors from outside the OTP Group; the rest of the bonds were bought by OTP Bank and partly utilised as collateral for repo transactions.

# OTP FUND MANAGEMENT

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

Main components of profit and loss	2009	2010	Change %
	HUF million	HUF million	
Net profit w/o dividends, net cash transfers and bank tax	5,124	7,456	46
Profit before income tax	6,400	8,913	39
Total income	8,062	9,815	22
Fund management fees	10,025	13,431	34
Fund management fees (%)	1.44%	1.31%	(0,13)
Asset management fees	3,305	3,346	1
Asset management fees (%)	0.40%	0.32%	(0,1)
Other income	40	(27)	(167)
Dealer commissions	(5,309)	(6,935)	31
Operating expenses	(1,519)	(1,763)	16
Personnel expenses	(634)	(686)	8
Operating expenses	(863)	(1,058)	23
Depreciation	(22)	(19)	(14)
<b>Main components of balance sheet closing balances</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Total assets	10,933	12,963	19
Total shareholders' equity	9,059	11,389	26
<b>Assets under management</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
OTP Funds	862.7	1,110.7	29
money market	299.2	333.9	12
bond	105.9	158.3	49
mixed	14.8	15.1	2
security	306.8	483.6	58
guaranteed	117.6	93.1	(21)
other	18.5	26.7	42
Pension Funds	758.2	874.0	15
of which OTP Funds	737.5	850.4	15
Other pension funds	20.7	23.6	14
Other Institutional Investors	198.1	213.0	8
<b>Assets under management, total</b>	<b>1,819.0</b>	<b>2,197.7</b>	<b>21</b>

**OTP Fund Management** posted HUF 7.5 billion in net profit for 2010, representing a growth of 46% on a yearly basis.

The year of 2010 was characterized by rapidly changing investment sentiment. The favourable trend experienced in the first half of the year was a consequence of slowly returning retail investor confidence, while in the second half of the year the activity of institutional investors strengthened due to the recovery of the stock markets. Despite the year-end redemptions of retail investors, the total assets of investment funds increased further and this had a positive impact on income generation. The Company's fee income from fund management increased by almost 34% y-o-y, which represented a 1.31% fee charge on the average portfolio. Fee income from asset management (HUF 3.3 billion) was in line with the results realized in the previous year. Operating expenses rose by 16% y-o-y.

The volume of assets held in the funds managed by OTP Fund Management – partly as a result of capital inflows, and partly thanks to the favourable yield

environment – increased by nearly 30% y-o-y.

However, as a result of the year-end retail redemptions, the money-market and mixed funds posted a significant capital withdrawal. Institutional activity had again strengthened by the end of the year; as a result of the restructuring of the portfolios of institutional investors, significant capital flowed into the closed-end bond funds.

The volume of assets under management in the pension fund segment increased further over the year (+15% y-o-y). At the end of December 2010, the volume of assets under management exceeded HUF 870 billion, of which the assets of the OTP Pension Funds amounted to HUF 850 billion. OTP Fund Management preserved its market-leading position during the year 2010; its market share adjusted for estimated duplications reached 32.7% at the end of December, while the customer base of the Company exceeded 205 thousand (+14 thousand y-o-y). The two foreign fund management companies (Ukraine and Romania) had a loss of HUF 8 million in 2010.

# MERKANTIL GROUP

## Key indicators of the performance of Merkantil Bank and Merkantil Car:

Main components of profit and loss*	2009	2010	Change %
	HUF million	HUF million	
Net profit w/o dividends, net cash transfers and one-offs	(68)	(4,123)	
Profit before income tax	(52)	(4,125)	
Operating profit	11,813	9,784	(17)
Total income	16,901	14,793	(12)
Net interest income	19,630	17,329	(12)
Net fees and commissions	(4,867)	(4,077)	(16)
Other net non-interest income	2,138	1,541	(28)
Operating expenses	(5,088)	(5,009)	(2)
Provisions for impairment on loan losses	(11,504)	(13,674)	19
Other allowance for loan losses	(361)	(236)	(35)
<b>Main components of balance sheet closing balances<sup>1</sup></b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Total assets	304,942	285,360	(6)
Gross loans	308,933	308,200	0
Retail loans	80	396	397
Corporate loans	34,085	28,941	(15)
Car financing loans	274,768	278,863	1
Allowance on loan losses	(34,393)	(47,550)	38
Deposits from customers	5,467	4,784	(12)
Retail deposits	1,496	2,017	35
Corporate deposits	3,971	2,767	(30)
Amounts due to banks, the Hungarian Government, deposit from National Banks and other banks	231,788	228,908	(1)
Total shareholders' equity	31,444	22,180	(29)
<b>Loan quality</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
90+ days past due loan volume (in HUF million)	38,469	54,161	40,8
90+ days past due loans/gross customer loans (%)	12.5%	17.6%	5.1
Total allowance for loan losses/average gross loans (%)	3.64%	4.43%	0.79
Total provisions/90+ days past due loans (%)	89.4%	87.8%	(1.6)
<b>Performance indicators</b>	<b>2009</b>	<b>2010</b>	<b>ppts</b>
ROA	0.0%	(1.4%)	(1.4)
ROE	(0.2%)	(15.4%)	(15.2)
Net interest margin	5.95%	5.87%	(0.08)
Cost/income ratio	30.1%	33.9%	3.8

*The methodological changes affecting the balance sheet and the P&L statement are presented in the Supplementary Data section of this report.*

In 2010, Merkantil Bank and Car's aggregated net result was a loss of HUF 4.1 billion, before the special tax on financial institutions. The bank tax on the Merkantil Group in 2010 amounted to HUF 1.2 billion (both in gross and net terms). Essential factors in the development of the operating result in 2010 were the y-o-y 12% decline in total revenue and the persistently high allowance for impairment. In response to the latter, the coverage ratio remained at a safely high level (87.8%), despite the growth of the DPD90+ ratio to 17.6% (+5.1 ppts y-o-y).

Net interest income decreased by 12% y-o-y in 2010. The main reasons for the lower net interest

income were the growing intragroup financing premiums from the second half of 2009 and the increase in non-received interest incomes on the deteriorating portfolio.

The 16% fall in net fee and commission expenses reflects the lower levels of business activity: accrued agents' commission expenses in respect of previous years, when sales volumes were high, are gradually falling in line with the subsequent decline in sales volumes.

The fall in the vehicle financing volume stripped of the effect of exchange-rate changes continued over the course of 2010: the volume calculated at fixed exchange rates fell by 13% y-o-y, since both the number of new placements and the value of these placements fell by a rate of more than 40% y-o-y.

\* Starting from Q2 2009, the Car leasing portfolio is stated among vehicle loans, and the Big ticket leasing portfolio is stated among Corporate loans. Provisioning for impairment on the leasing portfolios was reclassified in the profit and loss statement, from Q2 2009, from the 'Other allowance for impairment' line to the 'Allowance for impairment on loan and placement losses' line.

# Performance of OTP Bank's foreign subsidiaries\*

## DSK GROUP (BULGARIA)

### Key indicators of the performance of DSK Group:

<b>Main components of profit and loss</b>	<b>2009</b>	<b>2010</b>	<b>Change</b>
	<b>HUF million</b>	<b>HUF million</b>	<b>%</b>
Net profit w/o dividends, net cash transfers and one-offs	24,797	18,190	(27)
Profit before income tax	27,693	20,230	(27)
Operating profit	54,199	56,031	3
Total income	84,757	87,710	3
Net interest income	67,615	69,972	3
Net fees and commissions	15,555	15,478	0
Other net non-interest income	1,587	2,260	42
Operating expenses	(30,557)	(31,678)	4
Allowance for loan and placement losses	(25,855)	(35,232)	36
Other allowance for loan losses	(651)	(569)	(13)
<b>Main components of balance sheet closing balances</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Total assets	1,207,328	1,218,627	1
Gross loans	1,027,820	1,072,128	4
Retail loans	831,729	861,281	4
Corporate loans	196,091	210,847	8
Allowance for loan losses	(61,810)	(96,706)	56
Deposits from customers	801,112	847,807	6
Retail deposits	688,399	733,511	7
Corporate deposits	112,713	114,296	1
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	100,739	37,541	(63)
Subordinated bonds and loans	95,049	97,866	3
Total shareholders' equity	193,214	217,992	13
<b>Loan quality</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
90+ days past due loan volume (in HUF million)	72,080	118,453	64.3
90+ days past due loans/gross customer loans (%)	7.0%	11.0%	4.0
Allowance for loan losses/average gross loans (%)	2.53%	3.36%	0.83
Total provisions/90+ days past due loans (%)	85.8%	81.6%	(4.2)
<b>Performance indicators</b>	<b>2009</b>	<b>2010</b>	<b>ppts</b>
ROA	2.1%	1.5%	(0.6)
ROE	13.8%	8.8%	(5.0)
Total income margin	7.13%	7.23%	0.10
Net interest margin	5.68%	5.77%	0.09
Cost/income ratio	36.1%	36.1%	0
Net loan/Deposit ratio	121%	115%	(6)

- Stable operating result combined with a growth in credit allowance for impairment is the reason for the 27% decline in annual profit y-o-y
- As a result of the significant loan loss provisioning made during the year (+36%), the coverage of the non-performing portfolio (81.6%) remains well above the Group average
- Net interest margin improved by 8 bps y-o-y (2010: 5.77%)
- Slightly increasing FX-adjusted loan and deposit portfolio (+1% and +3% y-o-y)
- Outstanding efficient operation (cost/income ratio in 2010: 36.1%)

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

The DSK Group's net profit in 2010 was HUF 18.2 billion, 27% less than the previous year's figure. The performance of the Bulgarian bank in 2010 reflects its robust income-generating capability and efficient cost control. Operating profit (before provisioning and taxes) in 2010 increased slightly over the base period (+3% y-o-y). Total income for the year in local currency terms grew by 5% y-o-y, due to a 5% increase in net interest income. The y-o-y 42% rise in other net non-interest income measured in forint was due to the share price rise, recorded on the gain on securities, that resulted from the merger in the fourth quarter of two independent Bulgarian clearing houses. It was a favourable improvement that in 2010 net interest margin grew quarter-by-quarter (Q1 2010: 5.36%, Q2: 5.66%, Q3: 6.02%, Q4: 6.09%), mainly as a result of pricing and liquidity management measures on the liability side. The previously mentioned stringent cost control is reflected in the continuously low cost/income ratio (2010: 36.1%). Due to the above, the higher allowance for impairment were the main reason for the decrease in net profit for the period: the HUF 35.2 billion in risk provisioning for 2010 represents a growth for the reporting period of 36%.

During the year, the quality of the loan portfolio deteriorated gradually decreasing, however still significant pace: the proportion of 90+ days past due loans rose from 7% to 11%. The pace of deterioration shows a decline (in ppts: Q1: +0.9, Q2: +1.6, Q3: +1.2, Q4: +0.3 q-o-q) even if the figures are adjusted for the effect of the sale of a consumer portfolio in Q3 2010<sup>12</sup>. With regard to the components: over the course of the year, the DPD90+ ratio of mortgage and SME loans grew; however, a notable slow-down in such increase was experienced in both segments during the final quarter. In case of consumer loans, the portfolio deterioration was experienced again in Q4, with the DPD90+ ratio reaching 10.5% (+3.2 ppts y-o-y). However, as regards corporate loans, the deterioration eased somewhat (with the year-end ratio reaching 6.2%). As a result of the HUF 35.2 billion provisioning, the coverage rate of non-performing loans is the third highest in the Group, at 81.6%. With respect to the development of total revenues, it is a positive development that due to its robust liquidity position during the nine-month period, the

Bank lowered its interest rates on deposits and did not renew its expiring deposit campaigns. Consequently, net interest margin improved gradually. What is even more favourable is that despite the interest rates cuts, the Bank's market share in the retail deposit market eroded only very slightly (y-o-y -0.5 ppt) and in the corporate deposit market it maintained its position. On an annual basis, the net fee and commission income reflects a stable performance.

As regards loan volumes, new disbursements in 2010 were only sufficient to maintain the portfolio at the level of the previous year. In a year-on-year comparison, the maintenance of the current loan base was supported by the similar 4% y-o-y FX-adjusted growth of mortgage and corporate loans, while the decline of the SME segment (-8% y-o-y) had a negative impact. On a full-year basis, the consumer loan portfolio stagnated. The Bank maintained its stable market share in the loan market (year-end 2010: 14.2%).

Despite the previously mentioned pricing measures, the deposit base of the Bank increased continuously (FX-adjusted y-o-y growth: +3%). Due to the higher increase in the deposit base compared to loans, the net loan/deposit ratio decreased slightly (2010: 115%, FX-adjusted -5 ppts y-o-y).

The subordinated capital base remained flat in BGN terms on a yearly basis. At the same time, interbank funding dropped significantly (-63% y-o-y). There were two main reasons for the decrease: on one hand, as a result of the repayments, the portfolio of parent-bank funding fell significantly (by approximately -HUF 45 billion y-o-y), and on the other hand, a syndicated loan of EUR 140 million (about HUF 40 billion) was retired on 8 April 2010. The capital position of DSK is still very strong: the capital adequacy ratio is more than double of the regulatory minimum (2010: 23.7% vs. a 12% regulatory minimum; Tier1 ratio: 17% vs. a 6% regulatory minimum). In 2010 the ratio improved significantly due to changes in the Bulgarian regulations. Among these changes, the one that modified the risk weight of some asset classes had the most impact, leading to a y-o-y decline of 13% in risk-weighted assets.

In 2010, Moody's did not change the "Baa3" local and foreign currency deposit rating of DSK Bank (outlook: negative).

<sup>12</sup> In Q3 of 2010 DSK Bank sold BGN 19 million (equivalent to some HUF 3 billion) worth of non-performing consumer loans outside the Group.

# OTP BANK RUSSIA<sup>13</sup>

## Key indicators of the performance of OTP Bank Russia:

<b>Main components of profit and loss</b>	<b>2009</b>	<b>2010</b>	<b>Change</b>
	<b>HUF million</b>	<b>HUF million</b>	<b>%</b>
Net profit w/o dividends, net cash transfers and one-offs	3,086	20,545	566
Profit before income tax	4,400	26,916	512
Operating profit	25,975	51,022	96
Total income	67,810	100,551	48
Net interest income	60,316	88,991	48
Net fees and commissions	4,701	9,638	105
Other net non-interest income	2,793	1,922	(31)
Operating expenses	(41,834)	(49,529)	18
Provisions for impairment on loan and placement losses	(21,040)	(24,389)	16
Other allowance for loan losses	(535)	282	(153)
<b>Main components of balance sheet closing balances</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Total assets	579,941	664,403	15
Gross loans	369,877	508,139	37
Retail loans	250,463	405,562	62
Corporate loans	103,719	86,657	(16)
Provision for impairment on loan losses	(38,493)	(54,718)	42
Deposits from customers	306,646	396,788	29
Retail deposits	196,744	263,136	34
Corporate deposits	109,902	133,652	22
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	163,592	117,474	(28)
Issued securities	15,955	22,814	43
Subordinated bonds and loans	13,607	15,421	13
Total shareholders' equity	71,459	97,778	37
<b>Loan quality</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
90+ days past due loan volume (in HUF million)	46,027	62,573	35.9
90+ days past due loans/gross customer loans (%)	12.4%	12.3%	(0.1)
Allowance for loan losses/average gross loans (%)	5.59%	5.56%	(0.03)
Total provisions/90+ days past due loans (%)	83.6%	87.4%	3.8
<b>Performance indicators</b>	<b>2009</b>	<b>2010</b>	<b>ppts</b>
ROA	0.6%	3.3%	2.7
ROE	4.7%	24.3%	19.6
Total income margin	12.23%	16.16%	3.93
Net interest margin	10.88%	14.30%	3.42
Cost/income ratio	61.7%	49.3%	(12.4)
Net loans to deposits	108%	114%	6

- HUF 20.5 billion profit for 2010 is about seven times higher than the net profit for 2009; the second highest net profit in the Group
- Doubling in operating income y-o-y, robust interest and fee income
- Strong consumer loan disbursement, extremely successful cross-selling of credit card products, further increase in the personal loan portfolio
- Stable NPL ratio on a yearly basis, improving coverage
- Improving cost efficiency due to higher income and controlled cost base (2010 CIR at 49%, -12 ppts y-o-y)

*The HUF-denominated financials of OTP Bank Russia were greatly influenced by the development of the RUB/HUF exchange rate: in 2010 the closing rate of the HUF weakened by 10% y-o-y, while the 2010 average rate weakened by 8% y-o-y against the RUB.*

The net profit of **OTP Bank Russia** for 2010 exceeded HUF 20.5 billion, which is an outstanding result given that during H1 2010 the Bank had to set aside almost HUF 7.3 billion in provisions as a one-off item for a corporate exposure that defaulted in February.

<sup>13</sup> The 2009 figures are based on the aggregated financial statements of OAO OTP Bank and Donskoy Narodny Bank. Since the merger of the two banks in Q1 2010, the figures are based on the statements of OAO OTP Bank.

2010 net interest income grew by 48% y-o-y as a combined effect of the growing consumer loan portfolio and a strong interest margin; net fee and commission income increased by 105%. All of these factors, coupled with a cost base growing by less than the loan portfolio (operating costs +18% y-o-y), resulted in outstanding operating profit growth (+96% y-o-y). The 16% y-o-y increase in allowance on impairment was caused by a HUF 7.3 billion provisioning (one-third of total allowance for 2010) for a loan of one corporate customer during H1 2010. The allowance rate remained stable (2009: 5.59%, 2010: 5.56%), which is clearly due to the still favourable quality of the consumer loan portfolio, which accounted for two thirds of the total loan book. In Q4 2010 non-performing loans were written off (RUB 1.8 billion in total, about HUF 12.4 billion), which resulted in further provisioning (RUB +316 million, about HUF 2.2 billion).

The good financial performance of the Bank is mainly due to the robust growth on the income side, which in turn is due to largely to successful sales of consumer loans. The latter is evidenced by the fact that the consumer loan portfolio in 2010 is half as large again as it was in 2009 (+61%). In the case of the flagship product, POS loans, sales performance has improved in line with the substantial increase in demand since the summer of 2009. Sales were supported by the extension of the internal and third-party agents' network. The dynamics of origination remained outstandingly strong in 2010, and in fact, hit an all-time-high record in Q4 2010, as a result of which the Bank's market share remained above 20%, starting from H2 2009 (2010: 21%). Due to the outstanding Q4 origination, the POS loan portfolio grew dynamically (Q4 2010: +58% y-o-y in RUB), and the Bank maintained its second position on the top list both in terms of new origination and portfolio size. As regards credit card loans, the success was due to the re-design of the product proposal in August 2009 and the intensive sales campaigns that followed. The number of newly issued cards as well as the achieved utilization rates significantly exceeded the results of previous campaigns. As a consequence, the portfolio of credit card loans increased dynamically: +9% q-o-q in Q1 2010, +19% in Q2 and +18% in Q3 and +12% in Q4 (adjusted for write-offs, the latter would be 16%). Altogether, the growth for the year was 72% in

2010. Besides the outstanding growth in card issues, the utilization rate also improved, from 10% to 14% y-o-y, which means that with respect to credit card loans, the bank is currently the 4<sup>th</sup> largest player in the Russian market. As a favourable improvement, personal loans sold in the branch network demonstrated a strong increment of growth in the course of 2010 (however from a relatively low base, the portfolio increased by 111% y-o-y in RUB terms, and adjusted for write-offs, by 124%). The 11% y-o-y growth in mortgage loans is mainly due to a portfolio purchase in Q3 2010. The total income margin and net interest margin of OTP Bank Russia were significantly boosted by the strong growth in consumer lending, with the former increasing to 16.2% and the latter to 14.3% in 2010, which is a remarkable improvement compared to the previous year's levels (+3.93 ppts and +3.43% y-o-y, respectively). Besides the strong consumer lending activity, the margin improvement was also generated by the fact that offered deposit rates were reduced in several steps from Q4 2009 on, and the active sales promotions were stopped. These changes are reflected in the slowing growth in deposit volumes in 2010: in RUB terms deposits increased by 18% y-o-y in 2010 after the outstanding 41% y-o-y growth in 2009. As the combined effect of these changes, the rapid decline in the net loan/deposit ratio experienced in 2009 was replaced by growth in 2010 (Q4 2010: 114%, +5 ppts y-o-y FX-adjusted growth). The y-o-y growth increment (105%) in net fee and commission income in 2010 was also bolstered by the previously mentioned consumer loan and deposit trends. Growth is mainly due an increase in fee income related to credit card and POS loans. The significant increase in allowance associated with loan losses in 2010 (HUF 24.4 billion, +16% y-o-y) was the result primarily of a HUF 7.3 billion one-off provisioning requirement for a corporate loan after the default of Technosila Group. The company was a retail trader of electronic and home appliances, with a wide distribution network. The coverage of the exposure with provisions and collaterals did not necessitate further provisioning in H2 2010. Technosila's largest lender, the Russian MDM Bank, formally took over the company in 2010, and refused to repay its obligations to the other previous creditors. Due to the growth of the consumer loans portfolio, the allowance to average

loans ratio was stable y-o-y in 2010 (5.56%), and is in fact even 1.5 ppts lower than the 2009 allowance rate adjusted by the allowance for impairment of Technosila. The ratio of DPD90+ loans was also flat on a yearly basis (Q4 2010: 12.3%, -0.1 ppt y-o-y, mainly due to the write-offs). The coverage ratio of non-performing loans improved (Q4 2010: 87.4%, +3.8 ppts y-o-y).

Due to stringent operating cost control, operating expenses increased by only 9% y-o-y in RUB

terms (in HUF +18%), which is largely in line with the Russian CPI (2010 inflation: 8.8%). As a result of branch network rationalizations, the headcount of the bank fell to 4,768 from 5,224 (y-o-y -9%), while the number of branches fell to 155 from 162 (-7 y-o-y). The POS loans agency network has been expanding since Q2 2009. The cost/income ratio decreased to below 50% in 2010 due to the above-mentioned developments (2010: 49.3%, -12.4 ppts y-o-y).

## OTP BANK JSC (UKRAINE)<sup>14</sup>

### Key indicators of the performance of OTP Bank JSC:

<b>Main components of profit and loss</b>	<b>2009</b>	<b>2010</b>	<b>Change</b>
	<b>HUF million</b>	<b>HUF million</b>	<b>%</b>
Net profit w/o dividends and net cash transfers	(43,650)	8,928	(120)
Profit before income tax	(44,646)	5,719	(113)
Operating profit	51,033	35,280	(31)
Total income	74,948	60,330	(20)
Net interest income	62,759	50,690	(19)
Net fees and commissions	7,442	7,999	7
Other net non-interest income	4,747	1,641	(65)
Operating expenses	(23,916)	(25,050)	5
Allowance for impairment loan and placement losses	(94,974)	(29,439)	(69)
Other allowance for loan losses	(704)	(121)	(83)
<b>Main components of balance sheet closing balances</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Total assets	711,155	715,760	1
Gross loans	670,758	692,878	3
Retail loans	311,158	323,568	4
Corporate loans	300,795	316,956	5
Car financing loans	58,806	52,354	(11)
Provision for impairment	(110,583)	(154,126)	39
Deposits from customers	165,764	190,061	15
Retail deposits	98,164	113,056	15
Corporate deposits	67,600	77,005	14
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	403,803	366,979	(9)
Total shareholders' equity	90,711	109,469	21
<b>Loan quality</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
90+ days past due loan volume (in HUF million)	149,827	202,859	35.4
90+ days past due loans/gross customer loans (%)	22.3%	29.3%	7.0
Total allowance for loan losses/average gross loans (%)	13.24%	4.32%	(8.92)
Total provisions/90+ days past due loans (%)	73.8%	76.0%	2.2
<b>Performance indicators</b>	<b>2009</b>	<b>2010</b>	<b>ppts</b>
ROA	(5.6%)	1.3%	6.9
ROE	(51.1%)	8.9%	60.0
Net interest margin	8.06%	7.10%	(0.96)
Total allowance for loan losses/average gross loans	13.24%	4.32%	(8.92)
Cost/income ratio	31.9%	41.5%	9.6
Net loans to deposit	338%	283%	(55)

<sup>14</sup> It includes the results and portfolio balances of LLC OTP Leasing Ukraine from Q4 2008, and from Q4 2009 the results and portfolio balances of LLC OTP Faktoring Ukraine.

- Net profit for the year 2010 exceeded HUF 8.9 billion despite high level of provisioning and y-o-y 20% decline of total income
- The FX-adjusted development of gross loan volumes reflects a declining trend, however there were signs of recovery in case of corporate loans in H2
- Coverage ratio of non-performing loans is still stable (2010: 76.0%); despite the yearly decline of provisions increased by 2.2 ppts
- FX-adjusted DPD90+ loan volume development moderated significantly on a yearly basis
- Despite the high level of inflation operating expenses remained stable (+5% y-o-y)

In 2010, OTP Bank JSC Ukraine realised HUF 8.9 billion net profit compared to the loss realised in the previous year. The profit development was partially influenced by the significant provisioning, while the positive effect of deferred tax income (booked in Q4 2010) was reflected in earnings as well. Significant part of the tax savings was induced by the changes of tax legislation with respect to the financial crisis thus accrued but unpaid interest income became deductible from the tax base generating a deferred tax income.

Operating profit of the Bank (without allowance) decreased by 31% y-o-y, primarily driven by the 20% y-o-y decline of income of the core banking activity. The development of the income side was mainly influenced by the decrease of net interest income determined by several factors. On one hand the development of gross loan volumes reflected a decreasing trend (-7% y-o-y adjusted for FX-effect) and it was influenced by the sale of loan portfolios to OTP Factoring Ukraine, – despite in the Business Report transferred portfolios are indicated in the balance sheet of OTP Bank Ukraine at gross value – because no interest income booked on transferred portfolios. Due to pricing measures over the year the favourable impact of lower interest level on the liability side was demonstrated in the q-o-q increase of net interest income in the last quarter. It should be noted that HUF denominated financials of OTP Bank Ukraine were highly influenced by exchange rate developments: the average rate of the HUF weakened by 4% y-o-y against the UAH. Net fee and commission income out of total revenues grew by 7% y-o-y (+17% in LCY terms) reflecting the improving performance of commission related to deposit, payment and card transactions (+27% y-o-y, +11% y-o-y). In 2010 the number of transactions in ATMs

and POS-terminals grew approximately by 50%, due to the increasing number of sales points accepting the bankcards. New card products and services were introduced, too.

Other net non-interest income dropped on a yearly basis (by -65% y-o-y). The revaluation result of provisions driven by the UAH exchange rate fluctuations dropped to one quarter (-74% y-o-y), and this negative impact was only partially balanced by the gain (HUF 308 million) realised on securities valuation result in the period. Operational costs remained flat in LCY terms y-o-y reflecting the efficiency of cost control. This is remarkable in light of the high (over 10%) average yearly increase of CPI in Ukraine in 2010. Parallel with the decline in business activity the headcount of the bank was gradually reduced reaching 3,075 person by the end of December (-758 person y-o-y). The yearly decline of other expenses (-2% in LCY terms y-o-y) was driven by the implementation of stringent cost control measures. As a consequence of network rationalization measures, some of the branches that serve retail customers were closed (-17 branches y-o-y), and thus the number of branches decreased to 189 as at the year-end 2010.

In 2010, OTP Bank Ukraine set aside HUF 30 billion allowance for impairment on loan and placement losses representing one third of provisions of the last year; thus allowance for impairment to average gross loan ratio decreased to 4.32% from 13.24%. However the coverage on non-performing loans (Q4 2010: 76.0%) was showing an increase of 2.2 ppts in line with the slowdown in the dynamics of portfolio deterioration. Still a moderate loan demand characterised the Ukrainian market, as a consequence of the measures taken by National Bank of Ukraine. Foreign currency lending was restricted by tough

administrative regulations, furthermore interest rates of UAH denominated loans remained unfavourable, the gross loan portfolio adjusted for FX-effect was showing a 7% yearly decline. On the corporate side there were signs of recovery from the beginning of H2, the FX-adjusted volume of corporate loans increased by 6% in a quarterly comparison. The main reasons behind the recovery in the corporate sector were the increase of portfolio of companies involved in trading/export of agricultural products and the establishment of new limits for existing borrowers. Regarding the other segments, the recovery is slipping away, during the last year retail mortgage and SME portfolios were shrinking (-7% and -11% adjusted by FX-effect). The pace of loan portfolio deterioration moderated significantly in 2010. The FX-adjusted DPD90+ loan volume development decreased gradually (Q1: 4, Q2: 14, Q3: 8, Q4: 7). The DPD90+ ratio stood at 29.3% by the end of December (2009: 22.3%), mainly influenced by the shrinking loan volumes. The portfolio quality deterioration trend was experienced in the retail and in SME segment: in case of mortgage loans DPD90+ ratio increased to 37.2% from 22.3% y-o-y, in case of SME loans DPD90+ ratio reached 46% against 29.1% a year earlier. It should be highlighted the in case of corporate loans the portfolio development was more favourable: DPD90+ ratio moderated to 18.3% from 21.2% on a yearly basis.

The Bank provides a debtor protection program to its retail customers; within this framework it allows its customers to change their originally USD denominated mortgage and car loans into UAH loans, and is also open to agree to lower temporary instalments. The ratio of restructured loans in the retail segment reached 41.2% by the end of December, it is favourable, however, that the volume of retail restructured loans in LCY showing a downward trend.

The Bank several times lowered its interest on deposits in 2010, still it managed to preserve its deposit base. The retail deposit base of the Bank showed an increase of 5% (adjusted by FX-effect), mainly fuelled by the periodic increase of sight deposit base reflecting the growing trust of people in the banking sector. Simultaneously, corporate deposits grew by 3% y-o-y (adjusted by FX-effect), however they stagnated on a quarterly basis. In the forthcoming period, retail deposits will be the engine of the growth because Ukrainian companies still face restricted access to credit and their saving capability will remain on a low level. Consequently, the Bank's net loan/deposit ratio improved further both on yearly (-54 pps). Capital position of the Bank is rather strong, the CAR calculated in compliance with local regulations stood at 22.1% by the end of December, which is more than twice bigger as the regulatory minimum (10%).

# OTP BANK ROMANIA (ROMANIA)

## Key indicators of the performance of OTP Bank Romania:

Main components of profit and loss	2009	2010	Change
	HUF million	HUF million	
Net profit w/o dividends, net cash transfers and one-offs <sup>15</sup>	1,136	(6,406)	(664)
Profit before income tax	1,489	(6,404)	(530)
Operating profit	6,947	9,775	41
Total income	20,237	22,662	12
Net interest income	15,876	18,419	16
Net fees and commissions	2,013	2,402	19
Other net non-interest income	2,348	1,841	(22)
Operating expenses	(13,290)	(12,886)	(3)
Provisions for impairment on loan and placement losses	(5,332)	(15,944)	199
Other allowance for loan losses	(125)	(235)	88
Main components of balance sheet <sup>16</sup> closing balances	2009	2010	%
Total assets	365,743	424,464	16
Gross loans	293,116	329,005	12
Retail loans	200,738	239,846	19
Corporate loans	92,379	89,158	(3)
Provision for impairment	(8,725)	(24,702)	183
Deposits from customers	96,364	112,619	17
Retail deposits	81,998	73,838	(10)
Corporate deposits	14,366	38,781	170
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	227,298	266,155	17
Total shareholders' equity	25,513	25,144	(1)
Loan quality	2009	2010	%
90+ days past due loan volume (in HUF million)	9,942	34,852	250.5
90+ days past due loans/gross customer loans (%)	3.4%	10.6%	7.2
Allowance for loan losses/average gross loans (%)	1.75%	5.13%	3.38
Total provisions/90+ days past due loans (%)	87.8%	70.9%	(16.9)
Performance indicators	2009	2010	ppts
ROA	0.3%	(1.6%)	(1.9)
ROE	4.7%	(25.3%)	(30.0)
Total income margin	5.52%	5.74%	0.22
Net interest margin	4.33%	4.66%	0.33
Cost/income ratio	65.7%	56.9%	(8.8)
Net loans to deposits	295%	270%	(25)

In 2010, **OTP Bank Romania** realised HUF 6.4 billion loss compared to the net profit of HUF 1.1 billion in 2009. The deterioration of loan quality continued: in 2010 the DPD90+ ratio jumped to 10.6% from 3.4%. While the strong pace of portfolio quality deterioration in Q2 was in connection with several corporate exposures, a significant decrease was observed in H2 and at that time the majority of new NPL formation was related to the gradual deterioration of mortgage portfolio. The loan quality deterioration resulted in a tripling allowance for impairment in 2010 y-o-y. Altogether, the coverage ratio of DPD90+ loans dropped in 2010, but compared to the bottom reached in Q2 2010, the coverage improved significantly in the second half of 2010. The operating profit showed a 41% yearly improvement in 2010, supported by both the strong core banking revenues and the decline of operating costs. The net interest income was underpinned by the positive revaluation result of swaps made for liquidity management purposes (part of this revaluation is

booked on net interest income line; half of the yearly increment on the net interest income line can be explained by the swap revaluation result). If the positive contribution from swap revaluation result (booked on the net interest income line) was deducted, the net interest margin would remain basically unchanged in 2010 y-o-y. The gross loan portfolio shrank by 1% y-o-y adjusted for the currency exchange rate movements. The lending campaigns launched in 2010 focused on mortgage and SME loans; significant volume expansion was registered in these segments. On the contrary, the corporate loan volumes decreased by 8% in 2010. The success of the deposit collection is certified by the 13% yearly FX-adjusted growth; the strong y-o-y dynamics is owing to the excellent performance showed in case of corporate deposit collection. The Bank received a capital injection of RON 80 million in 2010. The number of branches (106 units) remained unchanged and the number of employees (1,104 persons) did not change significantly y-o-y.

<sup>15</sup> Adjusted with result of CCIRS swap transactions executed with OTP Bank in relation to interbank financing.

<sup>16</sup> Before transfer balance sheet numbers are displayed.

# OTP BANKA HRVATSKA (CROATIA)

## Key indicators of the performance of OTP banka Hrvatska:

<b>Main components of profit and loss</b>	<b>2009</b>	<b>2010</b>	<b>Change</b>
	<b>HUF million</b>	<b>HUF million</b>	<b>%</b>
Net profit w/o dividends, net cash transfers and one-offs	3,245	2,721	(16)
Profit before income tax	4,068	3,441	(15)
Operating profit	6,068	7,017	16
Total income	19,540	20,232	4
Net interest income	13,239	13,964	5
Net fees and commissions	3,935	3,986	1
Other net non-interest income	2,366	2,282	(4)
Operating expenses	(13,472)	(13,216)	(2)
Provisions for impairment on loan and placement losses	(1,947)	(3,120)	60
Other allowance for loan losses	(52)	(455)	775
<b>Main components of balance sheet closing balances</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Total assets	469,304	484,923	3
Gross loans	318,477	335,828	5
Retail loans	194,021	208,515	7
Corporate loans	122,183	125,395	3
Provision for impairment on loan and placement losses	(9,195)	(13,083)	42
Deposits from customers	337,935	373,813	11
Retail deposits	294,348	331,255	13
Corporate deposits	43,588	42,558	(2)
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	60,377	40,271	(33)
Total shareholders' equity	60,626	57,262	(6)
<b>Loan quality</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
90+ days past due loan volume (in HUF million)	28,417	42,991	51.3
90+ days past due loans/gross customer loans (%)	8.9%	12.8%	3.89
Allowance for loan losses/average gross loans (%)	0.62%	0.95%	0.33
Total provisions/90+ days past due loans (%)	32.4%	30.4%	(2)
<b>Performance indicators</b>	<b>2009</b>	<b>2010</b>	<b>pts</b>
ROA	0.7%	0.6%	(0.1)
ROE	5.6%	4.6%	(1.0)
Total income margin	4.19%	4.24%	0.05
Net interest margin	2.84%	2.93%	0.09
Cost/income ratio	68.9%	65.3%	(3.6)
Net loans to deposits	92%	86%	(6)

In 2010, **OBH Group** realised HUF 2.7 billion net profit, representing a fall of 16% over 2009. The main reason for the lower income was the higher provisioning rates for non-performing loans (+60% y-o-y). This rise is explained by the deteriorating portfolio quality and the change in the regulations effective from 31 March. On the liabilities side, notwithstanding the continuously declining deposit interest rates, the Bank's portfolio grew by 11% y-o-y. However, the entire Croatian market was characterized by restrained lending activity. In case of OBH, alongside a stagnating corporate loan portfolio, it was only in the consumer loan portfolio that some of growth was observable. As a result of the above, the net loan/deposit ratio decreased by a further 6% in 2010.

Net fee and commission income for 2010 was about the same as in the previous year, and with regard to operating expenses, strict cost control continued to be evident.

As a result of its favourable funding position, OBH prepaid its CHF 140 million senior loan over the year, and paid HRK 200 million (around HUF 7.6 billion) as interim dividend to the parent bank. Despite the latter, OBH's capital adequacy ratio improved y-o-y (from 13.4% to 14.2%).

The number of employees at the OBH Group stood at 1,016 at the end of December 2010, and the number of branches did not change (105 in all).

# OTP BANKA SLOVENSKO<sup>17</sup> (SLOVAKIA)

## Key indicators of the performance OTP Banka Slovensko:

Main components of profit and loss	2009	2010	Change %
	HUF million	HUF million	
Net profit w/o dividends, net cash transfers and one-offs	(6,673)	(952)	(86)
One-off items, net	(244)	0	(100)
Net profit w/o dividends, net cash transfers and one-offs	(6,429)	(952)	(85)
Profit before income tax	(6,633)	(833)	(87)
Operating profit	3,289	3,727	13
Total income	13,731	13,885	1
Net interest income	10,485	11,207	7
Net fees and commissions	2,705	2,380	(12)
Other net non-interest income	541	298	(45)
Operating expenses	(10,442)	(10,157)	(3)
Allowance for impairment on loan and placement losses	(9,029)	(4,715)	(48)
Other allowance for loan losses	(894)	154	(117)
Main components of balance sheet closing balances	2009	2010	%
Total assets	375,208	349,448	(7)
Gross loans	273,269	273,641	0
Retail loans	163,779	179,440	10
Corporate loans	109,490	94,202	(14)
Allowance for loan losses	(13,633)	(15,677)	15
Deposits from customers	253,462	256,751	1
Retail deposits	219,597	234,543	7
Corporate deposits	33,865	22,209	(34)
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	28,707	11,825	(59)
Liabilities from issued securities	55,457	43,655	(21)
Subordinated bonds and loans	7,876	8,109	3
Total shareholders' equity	24,767	24,551	(1)
Loan quality	2009	2010	%
90+ days past due loan volume (in HUF million)	24,286	27,965	15.1
90+ days past due loans/gross customer loans (%)	8.9%	10.2%	1.3
Allowance for loan losses/average gross loans (%)	3.07%	1.72%	(1.35)
Total provisions/90+ days past due loans (%)	56.1%	56.1%	(0.1)
Performance indicators	2009	2010	pts
ROA	(1.6%)	(0.3%)	1.3
ROE	(23.2%)	(3.9%)	19.3
Total income margin	3.41%	3.83%	0.42
Net interest margin	2.61%	3.09%	0.48
Cost/income ratio	76.0%	73.2%	(2.8)
Net loans to deposits	102%	100%	(2)

In 2010, **OTP Banka Slovensko** posted a net loss of HUF 952 million, compared to a HUF 6,429 million net loss in 2009. The main reason for the lower loss was the lower allowance, although higher income and cost savings also contributed to the favourable development. Operating profit in 2010 was 13% higher in HUF terms y-o-y, and grew by even more in EUR terms, since in 2010 the average exchange rate of the HUF versus EUR was 2% stronger compared to the average of 2009. Analysing the P&L developments in EUR terms, the improvement in operating profit was mainly due to the good

overall income (+3% y-o-y), and to lower operating expenses (-3% y-o-y) resulting from stringent cost control. The cost/income ratio fell by 2.9% y-o-y, to 73.2%.

In 2010, within total income, net interest income improved by 9% y-o-y in EUR terms. Interest income decreased due to the shrinking loan portfolio in LCY and the lower reference rates. This was partly offset by the gradual repricing of corporate loans in the preceding quarters. The lower reference rates as well as the new expiry of term deposits with attractive deposit rates from early 2009 lowered interest expenses on deposits.

<sup>17</sup> In the third and fourth quarters of 2010 several loans were sold from OBS's balance sheet to other members of the Group. OBS's balance sheet in 2010 reflects the position before the transfer of loans to OTP Bank Plc. and OTP Factoring Ltd. Accordingly, the gross loans line includes the gross value of sold loans at the time of sale, less recoveries since the sale. Furthermore, the allowance for impairment on loan losses line in the balance sheet includes the impairment related to these sold loans. The effect on profit and loss of the loan sale was not significant, and therefore the P&L was not adjusted.

All in all, the net interest margin increased to 3.09% in 2010 (+49 bps y-o-y). The drop in net fees and commissions in 2010 (in EUR –10% y-o-y) was mainly due to the weak business activity in the corporate segment. Other net non-interest income, which represents a very small proportion of total income, almost halved in 2010 y-o-y, as a result of the lower net exchange-rate gain.

In 2010 OBS set aside HUF 4.7 billion provisions for impairment on loan and placement losses, which is half of the 2009 figure. The main reason for the significant y-o-y change in the other allowance line is due to the release of provisions related to off-balance-sheet items.

By the end of 2010, the DPD90+ ratio had increased by 1.3%, to 10.2% y-o-y. In the case of mortgage loans, the portfolio quality stagnated in 2010. The quality of consumer loans improved, while the quality of corporate loans deteriorated. Compared to 2009, the total coverage through provisioning of loans overdue for more than 90 days had not changed by the end of 2010.

The development of deposit and loan volumes was in line with the intention to strengthen the retail focus of the Bank. Analysing the dynamics in EUR terms, total deposits decreased by 2% y-o-y, mainly because large corporate deposits dropped by 32% and municipality deposits fell by 42%, while retail and micro-and-small enterprise deposits both rose by 4% y-o-y. If we treat the loan portfolio sold by OBS within the Group in the third and fourth quarters of 2010 (in gross value terms, nearly EUR 30 and EUR 32 million in each quarter respectively) as part of the portfolio, gross loans fell by 3% compared to 2009. The volume of corporate loans decreased by 16% y-o-y, while in contrast, retail lending began to pick up (+7.5% y-o-y). The mortgage loan portfolio grew by 6.2% y-o-y. Worth highlighting is the 51% y-o-y growth in non-mortgage-backed loans. The net loan/deposit ratio fell to 100% by the end of 2010 (–2 ppts y-o-y). After the significant rationalisations of 2009, the number of branches decreased by just 1 branch, to 76 branches in 2010, and the headcount fell by 34 persons, to 573.

# OTP BANKA SRBIJA (SERBIA)

## Key indicators of the performance of OTP banka Srbija:

<b>Main components of profit and loss</b>	<b>2009</b>	<b>2010</b>	<b>Change</b>
	<b>HUF million</b>	<b>HUF million</b>	<b>%</b>
Net profit w/o dividends, net cash transfers and one-offs	(8,990)	(7,312)	(19)
Profit before income tax	(9,024)	(7,325)	(19)
Operating profit	(2,278)	465	(120)
Total income	8,010	6,934	(13)
Net interest income	4,051	2,568	(37)
Net fees and commissions	1,954	1,689	(14)
Other net non-interest income	2,004	2,677	34
Operating expenses	(10,287)	(6,469)	(37)
Allowance for impairment on loan and placement losses	(6,277)	(7,288)	16
Other allowance for impairment	(470)	(502)	7
<b>Main components of balance sheet closing balances</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Total assets	127,025	114,796	-10
Gross loans	89,878	88,754	-1
Retail loans	33,607	35,826	7
Corporate loans	56,271	52,928	-6
Provision for impairment on loan losses	(12,189)	(18,560)	52
Deposits from customers	32,395	37,180	15
Retail deposits	23,546	27,304	16
Corporate deposits	8,848	9,875	12
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	25,952	15,922	-39
Subordinated bonds and loans	38,910	40,846	5
Total shareholders' equity	27,690	17,987	-35
<b>Loan quality</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
90+ days past due loan volume (in HUF million)	30,321	42,476	40.1
90+ days past due loans/gross customer loans (%)	33.7%	47.8%	14.1
Allowance for loan losses/average gross loans (%)	6.80%	8.16%	1.36
Total provisions/90+ days past due loans (%)	40.2%	43.7%	3.5
<b>Performance indicators</b>	<b>2009</b>	<b>2010</b>	<b>ppts</b>
ROA	(6.7%)	(6.0%)	0.7
ROE	(27.3%)	(32.0%)	(4.7)
Total income margin	5.94%	5.73%	(0.21)
Net interest margin	3.00%	2.12%	(0.88)
Cost/income ratio	128.4%	93.3%	(35.1)
Net loans to deposits	240%	189%	(51)

**OTP banka Srbija** realised a HUF 7.3 billion loss in 2010, which was 19% less than in the base period.

The 2010 operating result turned positive as cost savings materialized following the operating cost cutting measures taken in 2009, which effectively offset the 13% decline in total revenues. The lower net interest income is explained mainly by the gradually declining loan portfolio on which interest income is booked (as a consequence of portfolio quality deterioration). The growth in other net non-interest income was to a great extent influenced by the previously suspended, but in 2010 collected, interest revenues and, on the other hand, the offsetting of the growth in allowance for impairment as a result of the

revaluation of provisions due to FX-rate changes was booked on this line as well.

The gradually rising ratio of loans past due for more than 90 days is almost entirely attributable to the SME and corporate segment. The y-o-y soaring risk costs resulted in improving coverage ratio of DPD90+ loans (+3.5 ppts y-o-y).

Gross loans decreased by 2% y-o-y (adjusted for the FX effect). Thanks to the successful deposit campaign launched in Q4 2010, the FX-adjusted deposit portfolio expanded by 14% y-o-y and, consequently, the net loan/deposit ratio fell to 189% by the end of 2010.

In 2010, the headcount declined to 708 (-76 persons y-o-y) and, with five newly opened branches, the number of branches grew to 55.

# CRNOGORSKA KOMERCIJALNA BANKA (MONTENEGRO)

## Key indicators of the performance of CKB's operations:

Main components of profit and loss	2009	2010	Change %
	HUF million	HUF million	
Net profit w/o dividends, net cash transfers and one-offs	428	(16,844)	
Profit before income tax	430	(16,844)	
Operating profit	7,227	3,825	(47)
Total income	13,400	9,793	(27)
Net interest income	10,136	7,131	(30)
Net fees and commissions	2,946	2,981	1
Other net non-interest income	318	(319)	(200)
Operating expenses	(6,173)	(5,968)	(3)
Provisions for possible loan and placement losses	(6,730)	(20,316)	202
Other allowance for loan losses	(68)	(353)	419
Main components of balance sheet closing balances	2009	2010	%
Total assets	234,804	212,228	(10)
Gross loans	181,137	158,321	(13)
Retail loans	112,606	100,069	(11)
Corporate loans	68,531	58,252	(15)
Provision for impairment on loan losses	(10,362)	(31,149)	201
Deposits from customers	164,317	158,021	(4)
Retail deposits	90,943	101,295	11
Corporate deposits	73,374	56,726	(23)
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	30,662	21,860	(29)
Subordinated bonds and loans	7,317	7,532	3
Total shareholders' equity	23,049	16,222	(30)
Loan quality	2009	2010	%
90+ days past due loan volume (in HUF million)	19,673	42,166	114.3
90+ days past due loans/gross customer loans (%)	10.9%	26.6%	15.7
Allowance for loan losses/average gross loans (%)	3.09%	11.97%	8.88
Total provisions/90+ days past due loans (%)	52.7%	73.9%	21.2
Performance indicators	2009	2010	ppts
ROA	0.2%	(7.5%)	(7.7)
ROE	2.1%	(85.8%)	(87.9)
Total income margin	4.94%	4.38%	(0.56)
Net interest margin	3.73%	3.19%	(0.54)
Cost/income ratio	46.1%	60.9%	14.8
Net loans to deposits	104%	80%	(24)

**Crnogorska Komercijalna Banka's** net loss for the year 2010 was HUF 16.8 billion. The deterioration in performance is for the most part explained by the three-fold increase in allowance for impairment, though the 47% fall in operating profit was an additional negative factor. The decline in net interest income was primarily due to the fall in lending activity caused by the downturn in the demand for loans. EUR 11 million worth of loans were sold to OTP Core Hungary in Q1 2010, and there was a significant sale (in the amount of EUR 66,2 million) of a portfolio to the Montenegrin collection company. The deterioration in the loan portfolio continued

in 2010, and by the end of the year the DPD90+ ratio had reached 26.6%. Due to significant provisioning, the DPD90+ coverage (73.9%) is near the OTP Group's average coverage level. In 2010, the FX-adjusted loan portfolio fell by 15% (corporate loans: -17% y-o-y, retail loans: -14% y-o-y). Total deposits decreased further, by 7% y-o-y, mainly due to significant withdrawals of corporate deposits (-13% y-o-y), while this was only partially offset by the increase in the retail deposit base (+8% y-o-y). Following the net loss realised in H1 2010, CKB Bank received a capital injection of EUR 35 million from its parent company in June.

## STAFFING LEVELS AND OTHER INFORMATION

The closing headcount figure of the OTP Group was 30,367 as at 30 December 2010, showing a net decrease of 970 employees over the year-end 2009 figure. The most significant lay-offs were implemented at the Ukrainian subsidiary (–758 persons), mainly as a consequence of the fall in lending activity.

The Group's branch network comprised a total of 1,486 branches at the end of December 2010 (–28 branches y-o-y). In the year 2010 the modernization and development of the branch and sales network were afforded high priority both in Hungary and in the countries of the foreign subsidiaries.

<b>OTP Bank</b>	<b>31/12/2009</b>	<b>31/12/2010</b>	<b>Change (%)</b>
Closing staff number (persons)	7,820	7,800	(0.3%)
Per capita total assets (HUF million)	863.3	815.1	(5.6%)
Per capita profit after tax (HUF million)	19.8	16.0	(19.2%)
<b>Group</b>	<b>31/12/2009</b>	<b>31/12/2010</b>	<b>Change (%)</b>
Closing staff (persons)	31,337	30,367	(3.1%)
Per capita consolidated total assets (HUF million)	311.3	322.1	3.5%
Per capita consolidated profit after tax (HUF million)	4.8	3.9	(18.8%)

	<b>31 December 2010</b>						<b>Change (Y-o-Y)</b>					
	Bank branches	ATM	POS	Bank cards (th)	Number of banking clients (th)	Staff (closing)	Bank branches	ATM	POS	Bank cards (th)	Number of banking clients (th)	Staff (closing)
OTP Bank	380	1,995	39,231	3,841	4,592	7,800	(2)	8	3,672	29	(33)	(20)
DSK Bank	387	880	5,049	1,196	2,978	4,321	1	10	504	(8)	3	(16)
OTP Banka Slovensko	76	117	671	119	193	573	(1)	1	27	0	5	(34)
OTP banka Hrvatska	105	217	1,102	385	382	1,016	0	17	(79)	15	(73)	2
OTP Bank Romania	106	138	1,106	171	219	1,104	0	2	30	24	13	10
OTP Bank JSC Ukraine	189	216	400	124	337	3,075	(17)	1	(3)	38	55	(758)
OTP Bank Russia	155	249	2,218	7,394	3,715	4,768	(7)	(2)	(39)	3,928	877	(456)
OTP banka Srbija	55	190	4,054	100	349	708	5	(5)	459	(54)	(7)	(76)
CKB	33	105	3,819	167	290	451	(7)	0	284	(12)	(30)	(56)
Foreign banks total	1,106	2,112	18,419	9,656	8,463	16,016	(26)	24	1,183	3,932	843	(1,384)
OTP Bank Russia (employed agents)						5,358						808
Other Hungarian and foreign subsidiaries						1,193						(374)
Group total (aggregated)	1,486	4,107	57,650	13,497	13,055	30,367	(28)	32	4,855	3,960	811	(970)
Group total aggregated w/o contractual agents)						25,009						(1,778)
OTP Bank Russia (total agents)						13,845						3,165

## SUPPLEMENTARY DATA – FOOTNOTES TO THE CONSOLIDATED EARNINGS BY MAIN SUBSIDIARIES (IFRS) TABLE

*General note: neither in the case of OTP Core nor of the other subsidiaries do the net results of the subsidiaries stated in the table include received dividends and net cash transfers.*

*Items such as these received from or given to companies outside the Group are shown on a separate line in one sum in the table, regardless of which subsidiary the income or cost item was registered at.*

(1) Revaluation result of the strategic open FX position. The size and denomination of the short position changed as follows:

29.12.2008-05.01.2009: EUR 300 million short position plus USD 75 million short position

06.01.2009- : EUR 310 million short position plus USD 61.5 million short position

Since the start of 2007, the OTP Group has held a strategic open FX position in order to hedge the exposure of its net profit to the exchange rate movements of the Hungarian forint, stemming from the translation of the profit and loss of the foreign subsidiaries from local currencies to HUF. Since Q1 2009, the Bank re-classified the strategic open FX position as a hedge transaction. Consequently, going forward, the exchange rate effect of a EUR 310 million short position, equal to the 2009 and 2010 annual result of 4 subsidiaries (DSK, CKB, OTP banka Hrvatska and OTP Banka Slovensko), is to be booked against equity. Accordingly, in Q1, out of the total HUF 16.2 billion before taxation revaluation loss generated on the entire strategic open position, HUF 13.8 billion was booked against equity and only HUF 2.4 billion charged to profit and loss.

(2) In Q2 2010, the majority of the goodwill related to CKB (Montenegro) was written off, which had a HUF 18.5 billion pre-tax and a HUF 15.0 billion net impact on the consolidated profit and loss. After the successful performance over several years, from Q4 2009 the deteriorating macro environment brought about a significant deterioration of portfolio quality, and CKB's

results were negative for the last three consecutive quarters. In June 2010 OTP also had to inject capital into its Montenegrin operation. All this necessitated the goodwill write-down of the above amount.

(3) OTP Core, Corporate Centre and foreign banks aggregated, excluding one-offs.

(4) Within the OTP Group, the Corporate Centre is a virtual entity established through an equity investment of OTP Core for the purpose of performing the capital-market financing of the subsidiaries, outside of OTP Core, that belong to the OTP Group. Therefore, the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core plus the Subordinated bonds and loans and senior notes arranged by OTP Bank under its ongoing EMTN program. From these financing sources, the Corporate Centre must supply the OTP subsidiaries outside of OTP Core with loans and with equity. The main subsidiaries financed by the Corporate Centre are as follows: Hungary – 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; foreign entities – leasing companies and factoring companies.

(5) From Q3 2010, statements are based on the combined P&L accounts of DSK Group and the newly established Bulgarian collection company – OTP Factoring Bulgaria LLC.

(6) One-off losses booked in relation to loan transfers.

(7) Combined net profit of Merkantil Bank and Merkantil Car without dividends, net cash transfers and provisioning for investments in subsidiaries.

(8) Correction item booked in relation to the sale of OTP Leasing a.s in Q1 2009.

(9) From Q4 2009: OTP Leasing Romania IFN S.A. (Romania), Z plus d.o.o. (Croatia),

OTP Leasing d.d. (Croatia), DSK Leasing AD (Bulgaria).  
 (10) LLC AMC OTP Capitol (Ukraine) and OTP Asset Management SAI S.A. (Romania)  
 (11) HIF Ltd. (United Kingdom), OTP Faktoring Slovensko a.s. (Slovakia), OTP Holding Limited (Cyprus), Velvin Ventures Ltd. (Belize), OTP Faktoring SRL (Romania)

(12) All Hungarian group companies combined: sum of adjusted net results of Hungarian subsidiaries, the Corporate Centre and the eliminations related thereto.

(13) All foreign group companies combined: sum of adjusted net results of the foreign group companies and of any net items related thereto.

## CALCULATION OF ADJUSTED LINES OF IFRS PROFIT AND LOSS STATEMENTS PRESENTED IN THE MANAGEMENT'S ANALYSIS SECTION OF THE ANNUAL REPORT

*In order to ensure a presentation of the performance of the OTP Group that reflects genuine trends, we have performed the following adjustments on the consolidated income statement contained in the "Management's analysis" section of the Annual Report, relative to the Company's audited financial statements (published under the title of "Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2010", which is available on the website of OTP Bank ([www.otpbank.hu](http://www.otpbank.hu)) under Investor Relations / Reports / IFRS reports). We also made the following layout adjustments in respect of the stated stand-alone and part-consolidated data of the subsidiaries.*

*Adjustments:*

- *Received dividends, together with net cash transfers, net profit generated on the strategic open FX position, goodwill impairment, and the special tax on financial institutions have been removed from the P&L hierarchy, and analysed separately from the profit and loss generated from the operations of the Group or the Group members, and from other profit and loss.*
- *Other non-interest income elements stemming from the release during the*

*reporting period of provisions set aside prior to acquisition have been presented among allowance for impairment related to loans, with these costs reduced by the provision releases preceding the acquisition.*

- *Other income has been presented combined with the gains and losses on real estate transactions lines, but without the above-mentioned income from the release of pre-acquisition provisions and without received cash transfers. However, Other expenses related to non-financial activities are stated on the adjusted net other income line, thus presenting in net terms the profit/loss related to non-financial activity within adjusted net other income.*
- *Of the Other operating expenses, Other allowance for impairment have been removed and stated separately in the adjusted income statement. In the IFRS income statement, Other allowance for impairment are made up of the following items: provisioning for contingent and future liabilities and legal cases, provisioning for equity interests and securities, as well as provisioning for other assets.*
- *Other general costs have been adjusted as follows. Here we have listed Other costs and Other expenses related to non-financial activity, and at the same time, we have stripped out Paid cash transfers (with the*

*exception of the movie subsidies and cash transfers to public benefit organisations), Other expenses from other non-financial activity, as well as the Special tax on financial institutions.*

- In the first quarter of 2010 price losses incurred on the sale of bonds, and the release of provisions set aside on these bonds, as other allowance for impairment in the preceding periods, have been stated in net terms on the Price gains/losses on securities line both in the consolidated and in OTP Core's income statement. The negative profit effect of the impairment on bonds was generated in the preceding periods, when setting aside provisions associated with other allowance for impairment.*
- In 2010, the agent commissions paid by Merkantil Group to dealers (dealer commissions) were recorded as an interest expense in the income statement. In the income statements of the preceding periods this item had still been stated as a commission expense. In the interests of ensuring the comparability of data over time, in the adjusted tables of the report, the dealer commission was reclassified from net interest income to net fees and commissions – both at the stand-alone and at the consolidated level.*
- In the aggregated income statement of Merkantil Bank and Car, we have eliminated impairment recognized on subsidiary firms as investments. The reason for this is that this item has been stripped out of the consolidated net earnings of the OTP Group, and the profit and loss of the Group is only charged with the profit and loss of the – likewise consolidated – subsidiary firms.*
- The performance indicators stated in the report (cost/income ratio, net interest margin, allowance/gross loans, as well as the ROA and ROE ratios) have been calculated on the basis of the adjusted income statement, excluding one-offs. Thus they do not contain received dividends, net cash transfers, the net result of the strategic open FX position, the net effect of the goodwill impairment and the effect of the special tax on financial institutions. In the case of the cost/income ratio, the costs do not include other allowance for impairment.*
- The consolidated 2010 ROA and ROE indicators are calculated from the adjusted net profit excluding one-off items; however, for 2009 – since in that year one-off items did not have a material impact – they were calculated from the unadjusted accounting profit figure (which also includes one-off items).*

## ADJUSTMENTS TO THE CONSOLIDATED STATEMENT OF RECOGNIZED INCOME (IFRS)

The table below contains the adjustments to items of the audited, consolidated Statement of recognized income (published under the title of "Consolidated Financial Statements in accordance with international financial reporting standards as adopted by the European Union for

the year ended 31 December 2010", which is available on the website of OTP Bank ([www.otpbank.hu](http://www.otpbank.hu)) under Investor Relations / Reports / IFRS reports) after the 2010 Annual General Meeting of the Company).

HUF million	2009	2010
<b>Net interest income</b>	<b>589,780</b>	<b>616,425</b>
(-) Agent commissions paid to car dealers by Merkantil Group		(3,929)
<b>Net interest income (adj.)</b>	<b>589,780</b>	<b>620,354</b>
<b>Profit from fees and commissions</b>	<b>132,913</b>	<b>140,631</b>
(+) Agent commissions paid to car dealers by Merkantil Group		(3,929)
<b>Profit from fees and commissions (adj.)</b>	<b>132,913</b>	<b>136,702</b>
<b>Foreign exchange result, net</b>	<b>(8,308)</b>	<b>31,811</b>
(-) Result of strategic open FX position	(2,390)	0
<b>Foreign exchange result, net (adj.)</b>	<b>(5,919)</b>	<b>31,811</b>
<b>Net gains on securities</b>	<b>7,458</b>	<b>5,445</b>
(+) Release of other provisions related to securities		9,384
<b>Net gains on securities, net (adj.)</b>	<b>7,458</b>	<b>14,829</b>
<b>Gains on real estate transactions</b>	<b>931</b>	<b>845</b>
<b>(+) Other operating income</b>	<b>66,308</b>	<b>20,890</b>
(-) Received cash transfers	4	32
(-) Reversal of pre-acquisition loan impairment	2,344	165
(+) Other expenses related to non-financial activity	(3,041)	(4,112)
<b>Net other operating income (adj.)</b>	<b>61,851</b>	<b>17,426</b>
<b>Provision for impairment on loan and placement losses</b>	<b>(249,278)</b>	<b>(273,024)</b>
(+) Reversal of pre-acquisition loan impairment	2,344	165
<b>Provision for impairment on loan and placement losses (adj.)</b>	<b>(246,935)</b>	<b>(272,859)</b>
<b>Dividends and net cash transfers</b>	<b>(378)</b>	<b>(1,215)</b>
(-) Movie subsidies and cash transfers to public benefit organizations	(1,170)	(1,704)
<b>Dividends and net cash transfers</b>	<b>792</b>	<b>488</b>
<b>Depreciation and amortization</b>	<b>(45,141)</b>	<b>(67,324)</b>
(-) Goodwill impairment (CKB (Montenegro))	0	(18,519)
<b>Depreciation and amortization(adj.)</b>	<b>(45,141)</b>	<b>(48,805)</b>
<b>Other operating expenses</b>	<b>(21,048)</b>	<b>(14,435)</b>
(+) Provision for impairment/Use of provision on securities available-for-sale and held-to-maturity	(8,027)	9,924
(-) Release of securities-related provisions		9,384
(-) Other costs	(6,714)	(7,698)
(-) Other expenses related to non-financial activity	(4,318)	(6,310)
<b>Other allowance and operating expenses</b>	<b>(18,043)</b>	<b>113</b>
<b>Other administrative expenses</b>	<b>(140,483)</b>	<b>(171,231)</b>
(+) Other costs	(6,714)	(7,698)
(+) Other expenses related to non-financial activity	(4,318)	(6,310)
(-) Paid cash transfers	(1,277)	(2,199)
(+) Movie subsidies and cash transfers to public benefit organizations	(1,170)	(1,704)
(-) Other expenses related to other non-financial activity	(3,041)	(4,112)
<b>(-) Special tax on financial institutions</b>	<b>0</b>	<b>(36,098)</b>
<b>Other administrative expenses (adj.)</b>	<b>(148,367)</b>	<b>(144,535)</b>

## COMPARISON OF DATA UNDER THE OLD AND NEW COMPUTATION WITH RESPECT TO THE RANGE OF DATA AFFECTED BY THE CHANGE IN THE CALCULATION METHODOLOGY OF MERKANTIL GROUP IN Q4 2010

Methodological changes: in 2009 and 2010, in the combined income statement of Merkantil Bank and Car, the impairment recognised in relation to their subsidiaries as investments was eliminated. The reason for this is that this item has been stripped out of the consolidated net earnings of the OTP Group, and the profit and loss of the Group is only charged with the profit and loss of the – likewise consolidated – subsidiary firms.

In addition, loans that Merkantil Bank granted to Merkantil Car – previously stated as corporate

loans – have been eliminated both from the gross loans and from the total assets (these items do not appear at the consolidated level). In the interests of ensuring comparability of data over time, these changes were also implemented in respect of 2009, and as a result, certain financial data and indicators have changed compared to the previously published data. (Of these, the most significant change is the elimination of HUF 1.8 billion Other allowance for impairment from Merkantil's net result in 2009. This item does not appear at the consolidated level.)

### Merkantil Bank and Car's financial data – under the old methodology:

<b>Main components of profit and loss</b>	<b>2009</b>	<b>2010</b>
	<b>HUF million</b>	<b>HUF million</b>
Net profit w/o dividends, net cash transfers and one-offs	(1,830)	(9,144)
Profit before income tax	(1,815)	(9,146)
Operating profit	11,813	9,784
Total income	16,901	14,793
Net interest income	19,630	17,329
Net fees and commissions	(4,867)	(4,077)
Other net non-interest income	2,138	1,541
Operating expenses	(5,088)	(5,009)
Allowance for impairment on loan and placement losses	(11,504)	(13,674)
Other allowance for loan losses	(2,123)	(5,256)
<b>Main components of balance sheet closing balances</b>	<b>2009</b>	<b>2010</b>
Total assets	308,706	305,325
Gross loans	312,698	328,166
Retail loans	80	396
Corporate loans	37,850	48,907
Car financing loans	274,768	278,863
Allowance for impairment on loan losses	(34,393)	(47,550)
Deposits from customers	5,467	4,784
Retail deposits	1,496	2,017
Corporate deposits	3,971	2,767
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	235,553	248,874
Total shareholders' equity	31,444	22,180
<b>Loan quality</b>	<b>2009</b>	<b>2010</b>
90+ days past due loan volume (in HUF million)	38,469	54,161
90+ days past due loans/gross customer loans (%)	12.3%	16.5%
Allowance for loan losses/average gross loans (%)	3.64%	4.43%
Total provisions/90+ days past due loans (%)	89.4%	87.8%
<b>Performance indicators</b>	<b>2009</b>	<b>2010</b>
ROA	(0.6%)	(3.0%)
ROE	(5.5%)	(34.1%)
Net interest margin	5.92%	5.64%
Cost/income ratio	30.1%	33.9%

### Adjusted items (in HUF million):

Adjustment of loans that Merkantil Bank granted to Merkantil Car (previously stated as corporate loans)	3,765	19,966
Adjusted due to impairment related to investments	(1,762)	(5,021)

## Merkantil Bank and Car's financial data – under the new methodology

<b>Main components of profit and loss</b>	<b>2009</b>	<b>2010</b>
	<b>HUF million</b>	<b>HUF million</b>
Net profit w/o dividends, net cash transfers and one-offs	(68)	(4,123)
Profit before income tax	(52)	(4,125)
Operating profit	11,813	9,784
Total income	16,901	14,793
Net interest income	19,630	17,329
Net fees and commissions	(4,867)	(4,077)
Other net non-interest income	2,138	1,541
Operating expenses	(5,088)	(5,009)
Provisions for impairment loan and placement losses	(11,504)	(13,674)
Total allowance for loan losses	(361)	(236)
<b>Main components of balance sheet closing balances</b>	<b>2009</b>	<b>2010</b>
Total assets	304,942	285,360
Gross loans	308,933	308,200
Retail loans	80	396
Corporate loans	34,085	28,941
Car financing loans	274,768	278,863
Provision for impairment	(34,393)	(47,550)
Deposits from customers	5,467	4,784
Retail deposits	1,496	2,017
Corporate deposits	3,971	2,767
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	231,788	228,908
Total shareholders' equity	31,444	22,180
<b>Loan quality</b>	<b>2009</b>	<b>2010</b>
90+ days past due loan volume (in HUF million)	38,469	54,161
90+ days past due loans/gross customer loans (%)	12.5%	17.6%
Allowance for loan losses/average gross loans (%)	3.64%	4.43%
Total provisions/90+ days past due loans (%)	89.4%	87.8%
<b>Performance indicators</b>	<b>2009</b>	<b>2010</b>
ROA	0.0%	(1.4%)
ROE	(0.2%)	(15.4%)
Net interest margin	5.95%	5.87%
Cost/income ratio	30.1%	33.9%

## Non-consolidated, audited statement of recognized income of OTP Bank Plc., according to Hungarian Accounting Regulations

Statement of recognized income	2009	2010	Change %
	HUF million	HUF million	
<b>Net interest income</b>	<b>206,530</b>	<b>241,838</b>	<b>17</b>
Interest received and similar income	717,616	611,167	(15)
Interest paid and similar charges	(511,086)	(369,329)	(28)
<b>Net fee and commission income</b>	<b>136,469</b>	<b>121,900</b>	<b>(11)</b>
Commissions and fees received or due	160,808	145,368	(10)
Commissions and fees paid or payable	(24,339)	(23,468)	(4)
<b>Other income</b>	<b>182,881</b>	<b>109,893</b>	<b>(40)</b>
Income from securities	32,986	57,651	75
Net profit or net loss on financial operations	5,709	(3,864)	(168)
Other operating income	144,186	56,106	(61)
<b>General administrative expenses</b>	<b>(129,581)</b>	<b>(146,097)</b>	<b>13</b>
<b>Depreciation</b>	<b>(14,332)</b>	<b>(14,134)</b>	<b>(1)</b>
<b>Other expenses from ordinary business activity</b>	<b>(182,566)</b>	<b>(218,561)</b>	<b>20</b>
<b>Impairment and provisioning on contingent and certain (future) liabilities</b>	<b>(138,237)</b>	<b>(106,446)</b>	<b>(23)</b>
<b>Reversal of impairment on receivables and release of provisions on contingent and certain (future) liabilities</b>	<b>62,839</b>	<b>120,282</b>	<b>91</b>
<b>Net change in general risk provision generation and use</b>	<b>2,615</b>	<b>573</b>	<b>(78)</b>
<b>Impairment on debt securities held for investment, on shares and participations held in associated companies and on minority interests</b>	<b>(10,199)</b>	<b>(4,017)</b>	<b>(61)</b>
<b>Reversal of impairment on debt securities held for investment, on shares and participations in associated companies and on minority interests</b>	<b>2,994</b>	<b>10,338</b>	<b>245</b>
<b>Profit on ordinary (business) activities</b>	<b>119,413</b>	<b>115,569</b>	<b>(3)</b>
Extraordinary profit	(5,287)	(1,820)	(66)
<b>Profit before tax</b>	<b>114,126</b>	<b>113,749</b>	<b>0</b>
Tax payment liability	(11,797)	(4,785)	(59)
<b>Profit after tax</b>	<b>102,329</b>	<b>108,964</b>	<b>6</b>
Generation and use of general reserve	(10,233)	(10,896)	6
Use of profit reserve for dividends and profit share	0	0	
Approved dividend and profit share	0	(20,160)	
<b>Profit or loss for the year</b>	<b>92,096</b>	<b>77,908</b>	<b>(15)</b>

## Non-consolidated, audited balance sheet of OTP Bank Plc., according to Hungarian Accounting Regulations

Main components of balance sheet	2009	2010	Change %
	HUF million	HUF million	
<b>Total assets</b>	<b>6,565,860</b>	<b>6,213,397</b>	<b>(5)</b>
1. Liquid assets	177,813	171,255	(4)
2. Government securities	951,801	758,697	(20)
3. Loans and advances to credit institutions	996,604	796,402	(20)
<b>4. Loans and advances to customers</b>	<b>2,602,753</b>	<b>2,607,173</b>	<b>0</b>
5. Debt securities, including fixed-income securities	938,429	984,323	5
6. Shares and other variable-yield securities	85,528	99,526	16
7. Shares and participations held for investment	930	960	3
8. Shares and participations in affiliated companies	391,135	443,972	14
9. Intangible assets	174,833	142,337	(19)
10. Tangible assets	68,178	67,655	(1)
11. Treasury shares	3,773	3,729	(1)
12. Other assets	30,133	21,779	(28)
13. Prepayments and accrued income	143,950	115,589	(20)
<b>Total liabilities</b>	<b>6,565,860</b>	<b>6,213,397</b>	<b>(5)</b>
1. Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	963,760	739,808	(23)
<b>2. Liabilities to customers</b>	<b>3,357,638</b>	<b>3,290,982</b>	<b>(2)</b>
3. Liabilities due to issued securities	616,618	534,749	(13)
4. Other liabilities	221,523	58,546	(74)
5. Accruals and deferred income	153,654	269,915	76
6. Provisions	107,514	73,562	(32)
7. Subordinated liabilities	309,695	318,594	3
8. Shareholders' equity	835,458	927,241	11
<b>Performance indicators</b>	<b>2009</b>	<b>2010</b>	<b>%</b>
Receivables from customers / Liabilities to customers	78%	79%	2

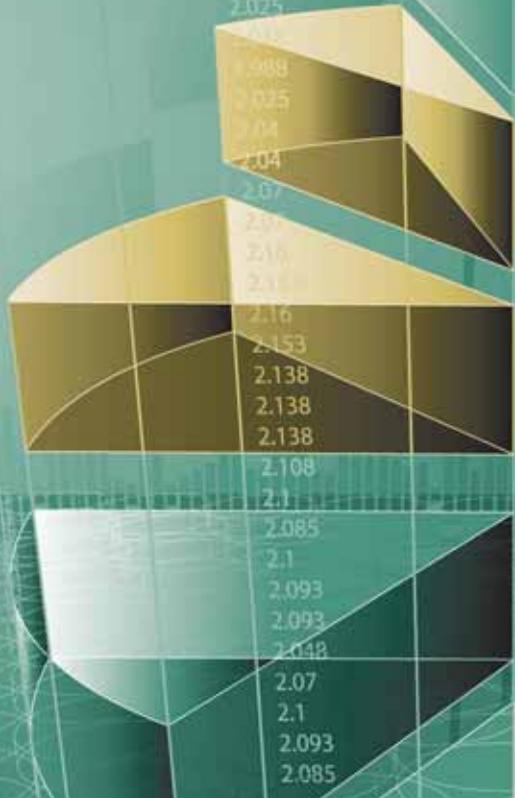


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***financial reports***

## ***INDEPENDENT AUDITORS' REPORT***

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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of OTP Bank Plc. (the "Bank") for the year 2010, which financial statements comprise the consolidated balance sheet as at December 31, 2010 – which shows total assets of 9,780,946 million HUF, – and the related consolidated statement of recognized and comprehensive income – which shows a retained profit for the year attributable to equity holders of 117,930 million HUF –, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 62 to 129 of this Annual Report.

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

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

#### *Auditor's Responsibility*

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

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

*Clause (Opinion)*

We have audited the consolidated financial statements of OTP Bank Plc. including its sections and items and the supporting accounting records and certificates thereof, in accordance with the applicable National Standards on Auditing and have obtained reasonable assurance that the consolidated financial statements have been prepared pursuant to the International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of OTP Bank Plc. as at December 31, 2010, in accordance with International Financial Reporting Standards as adopted by the European Union.

**Other Reporting Obligation on the Consolidated Business Report**

We have examined the accompanying consolidated business report of OTP Bank Plc. for the year 2010.

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

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

In our opinion, the consolidated business report of OTP Bank Plc. for the year 2010. corresponds to the figures included in the consolidated financial statements of OTP Bank Plc. for the year 2010.

Budapest, February 25, 2011



Horváth Tamás  
Deloitte Auditing and Consulting Ltd.  
1068 Budapest, Dózsa György út 84/C  
000083



Nagyváradiné Szépfalvi Zsuzsanna  
registered statutory auditor  
005313

## Statement of financial position

(consolidated, based on IFRS, as at 31 december 2010 in HUF million)

	Note	2010	2009
Cash, amounts due from banks and balances with the National Banks	4.	513,038	505,649
Placements with other banks, net of allowance for placement losses	5.	511,244	440,851
Financial assets at fair value through profit or loss	6.	233,667	256,100
Securities available-for-sale	7.	1,008,097	1,354,285
Loans, net of allowance for loan losses	8.	6,741,059	6,412,716
Associates and other investments	9.	11,554	18,834
Securities held-to-maturity	10.	172,302	188,853
Property and equipment	11.	217,615	208,730
Intangible assets	11.	263,213	267,628
Other assets	12.	109,157	101,486
<b>TOTAL ASSETS</b>		<b>9,780,946</b>	<b>9,755,132</b>
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	13.	681,949	802,749
Deposits from customers	14.	5,821,489	5,688,887
Liabilities from issued securities	15.	1,035,153	1,410,348
Financial liabilities at fair value through profit or loss	16.	257,052	118,468
Other liabilities	17.	385,744	262,240
Subordinated bonds and loans	18.	290,630	280,834
<b>TOTAL LIABILITIES</b>		<b>8,472,017</b>	<b>8,563,526</b>
Share capital	19.	28,000	28,000
Retained earnings and reserves		1,327,638	1,210,132
Treasury shares	21.	(52,597)	(52,678)
Non-controlling interest	22.	5,888	6,152
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,308,929</b>	<b>1,191,606</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>9,780,946</b>	<b>9,755,132</b>

The accompanying notes to consolidated financial statements on pages 62 to 129 form an integral part of these consolidated financial statements.

## Statement of recognized income

(consolidated, based on IFRS, as at 31 december 2010 in HUF million)

	Note	2010	2009
Interest Income:			
Loans		741,708	780,161
Placements with other banks		301,259	350,742
Securities available-for-sale		73,247	31,373
Securities held-to-maturity		11,991	45,804
Amounts due from banks and balances with the National Banks		5,052	7,514
Securities held for trading		2,091	5,556
Total Interest Income		1,135,348	1,221,150
Interest Expense:			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		216,654	244,744
Deposits from customers		227,781	290,516
Liabilities from issued securities		61,877	79,770
Subordinated bonds and loans		12,611	16,340
Total Interest Expense		518,923	631,370
<b>NET INTEREST INCOME</b>		<b>616,428</b>	<b>589,780</b>
Provision for impairment on loan and placement losses	5., 8.	273,024	249,278
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES</b>		<b>343,401</b>	<b>340,502</b>
Income from fees and commissions		177,252	170,335
Expense from fees and commissions		36,621	37,422
<b>NET PROFIT FROM FEES AND COMMISSIONS</b>	<b>23.</b>	<b>140,631</b>	<b>132,913</b>
Foreign exchange gains and (losses), net		31,811	(8,308)
Net gains on securities		5,445	7,458
Gains on real estate transactions		845	931
Dividend income		951	894
Provision for impairment / Provision on securities available-for-sale and securities held-to-maturity		9,924	(8,027)
Other operating income		20,890	66,308
Other operating expense	24.	(14,435)	(21,048)
<b>NET OPERATING INCOME</b>		<b>55,431</b>	<b>38,208</b>
Personnel expenses		160,725	155,517
Depreciation and amortization	11.	67,324	45,141
Other administrative expenses		171,231	140,483
<b>OTHER ADMINISTRATIVE EXPENSES</b>	<b>25.</b>	<b>399,280</b>	<b>341,141</b>
<b>PROFIT BEFORE INCOME TAX</b>		<b>140,183</b>	<b>170,482</b>
Income tax	26.	(22,057)	(20,276)
<b>NET PROFIT FOR THE PERIOD</b>		<b>118,126</b>	<b>150,206</b>
From this, attributable to:			
Non-controlling interest		196	(839)
Equity holders		117,930	151,045
Consolidated earnings per share (in HUF)			
Basic	37.	443	577
Diluted	37.	437	572

## Statement of comprehensive income

(consolidated, based on IFRS, for the year ended 31 December 2010, in HUF million)

	2010	2009
<b>NET PROFIT FOR THE YEAR (EQUITY HOLDERS)</b>	<b>117,930</b>	<b>151,045</b>
Fair value adjustment of securities available-for-sale	(10,771)	9,941
Derivative financial instruments designated as Cash-flow hedge	335	431
Net investment hedge in foreign operations	(2,232)	(1,543)
Foreign currency translation difference	30,674	(8,213)
<b>NET COMPREHENSIVE INCOME</b>	<b>135,936</b>	<b>151,661</b>

The accompanying notes to consolidated financial statements on pages 62 to 129 form an integral part of these consolidated financial statements.

## Statement of cash flows

(consolidated, based on IFRS, for the year ended 31 December 2010, in HUF million)

OPERATING ACTIVITIES	Note	2010	2009
<b>Profit before income tax</b>		<b>140,183</b>	<b>170,482</b>
Goodwill impairment	11.	18,519	–
Depreciation and amortization	11.	48,805	45,141
(Release of provision)/ provision for impairment on securities	7., 10.	(9,754)	8,027
Provision for impairment on loan and placement losses	5., 8.	273,024	249,278
Provision for impairment on permanent diminution in value of investments	9.	425	118
Provision for impairment on other assets	12.	3,808	5,811
(Release of provision) / provision on off-balance sheet commitments and contingent liabilities	17.	(3,977)	4,087
Share-based payment	2., 29.	(11,821)	6,802
Unrealized gains on fair value adjustment of securities held for trading		3,428	4,579
Unrealized gains on fair value adjustment of derivative financial instruments		106,972	9,891
<i>Net changes in assets and liabilities in operating activities</i>			
Changes in financial assets at fair value through profit or loss		22,243	(123,644)
Net (increase)/decrease in loans, net of allowance for loan losses		(474,804)	92,396
(Increase)/decrease in other assets before provisions for impairment		(16,572)	111,857
Net increase in deposits from customers		132,602	430,720
(Decrease)/increase in other liabilities		(44,352)	13,073
Net decrease/(increase) in compulsory reserves at the National Banks		4,114	(11,035)
Dividend income		(951)	(894)
Income tax paid		(21,748)	(34,273)
<b>Net Cash Provided by Operating Activities</b>		<b>170,144</b>	<b>982,416</b>
<b>INVESTING ACTIVITIES</b>			
Net increase in placement with other banks before allowance for placements losses		(68,976)	(30,013)
Net decrease/(increase) in securities available-for-sale		340,238	(851,579)
Net decrease/(increase) in investments in subsidiaries, before provision for impairment		6,855	(8,485)
Dividend income		951	894
Net decrease in securities held-to-maturity		21,106	136,877
Additions to property, equipment and intangible assets		(92,633)	(79,737)
Disposals to property, equipment and intangible assets		21,362	27,812
Net decrease/(increase) in advances for investments, included in other assets		2,027	(1,874)
<b>Net Cash Provided by / (Used in) Investing Activities</b>		<b>230,930</b>	<b>(806,105)</b>
<b>FINANCING ACTIVITIES</b>			
Net decrease in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(120,800)	(45,981)
Net decrease in liabilities from issued securities		(302,446)	(156,412)
Increase/(decrease) in subordinated bonds and loans		9,796	(39,216)
Decrease in non-controlling interest		(264)	(633)
Foreign currency translation		30,674	(8,213)
Payments to ICES holders		(6,669)	(5,223)
Net change in Treasury shares		141	44,513
Dividends paid		(2)	(539)
<b>Net Cash Used in Financing Activities</b>		<b>(389,570)</b>	<b>(211,704)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>11,504</b>	<b>(35,393)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>243,541</b>	<b>278,934</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>255,045</b>	<b>243,541</b>
<b>Analysis of cash and cash equivalents</b>			
Cash, amounts due from banks and balances with the National Banks		505,649	530,007
Compulsory reserve established by the National Banks		(262,108)	(251,073)
<b>Cash and cash equivalents at the beginning of the period</b>		<b>243,541</b>	<b>278,934</b>
Cash, amounts due from banks and balances with the National Banks	4.	513,038	505,649
Compulsory reserve established by the National Banks	4.	(257,993)	(262,108)
<b>Cash and cash equivalents at the end of the period</b>		<b>255,045</b>	<b>243,541</b>

The accompanying notes to consolidated financial statements on pages 62 to 129 form an integral part of these consolidated financial statements.

## Statement of changes in shareholders' equity

(consolidated, based on IFRS, for the year ended 31 December 2010, in HUF million)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Put option reserve	Treasury shares	Non-controlling interest	Total
<b>Balance as at 1 January 2009</b>		<b>28,000</b>	<b>52</b>	<b>19,181</b>	<b>1,141,702</b>	<b>–</b>	<b>(146,749)</b>	<b>6,785</b>	<b>1,048,971</b>
Net comprehensive income		–	–	–	151,661	–	–	–	151,661
Share-based payment	29.	–	–	6,802	–	–	–	–	6,802
Closed share-based payments		–	–	(19,153)	19,153	–	–	–	–
Sale of Treasury shares		–	–	–	–	–	110,637	–	110,637
Written put option on ordinary shares		–	–	–	–	(55,468)	–	–	(55,468)
Treasury shares		–	–	–	–	–	–	–	–
– loss on sale		–	–	–	(48,575)	–	–	–	(48,575)
– acquisition		–	–	–	–	–	(16,566)	–	(16,566)
Payments to ICES holders	20.	–	–	–	(5,223)	–	–	–	(5,223)
Non-controlling interest		–	–	–	–	–	–	(633)	(633)
<b>Balance as at 31 December 2009</b>		<b>28,000</b>	<b>52</b>	<b>6,830</b>	<b>1,258,718</b>	<b>(55,468)</b>	<b>(52,678)</b>	<b>6,152</b>	<b>1,191,606</b>
Net comprehensive income		–	–	–	135,936	–	–	–	135,936
Share-based payment	29.	–	–	(6,802)	(5,019)	–	–	–	(11,821)
Sale of Treasury shares		–	–	–	–	–	–	–	–
Treasury shares		–	–	–	–	–	496	–	496
– gain on sale		–	–	–	60	–	–	–	60
– acquisition		–	–	–	–	–	(415)	–	(415)
Payments to ICES holders	20.	–	–	–	(6,669)	–	–	–	(6,669)
Non-controlling interest		–	–	–	–	–	–	(264)	(264)
<b>Balance as at 31 December 2010</b>		<b>28,000</b>	<b>52</b>	<b>28</b>	<b>1,383,026</b>	<b>(55,468)</b>	<b>(52,597)</b>	<b>5,888</b>	<b>1,308,929</b>

The accompanying notes to consolidated financial statements on pages 62 to 129 form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## NOTE 1:

### ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

#### 1.1. General information

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

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

These financial statements were approved by the board of directors and authorized for issue on 31 March 2011.

	2010	2009
<b>The structure of the Share capital by shareholders:</b>		
Domestic and foreign private and institutional investors	96%	97%
Employees	2%	2%
Treasury shares	2%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide

network of 1,489 branches. The Group has operations in Hungary, Bulgaria, Croatia, Slovakia, Romania, Ukraine, Serbia, Russia and Montenegro.

	2010	2009
<b>The number of employees at the Group:</b>		
The number of employees at the Group	30,367	31,337
The average number of employees at the Group	30,183	31,051

#### 1.2. Accounting

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

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

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

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

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

### ***1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2010***

The following amendments to the existing standards issued by the IASB, interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and adopted by the EU are effective for the current period:

- IAS 27 (Amendment) "Consolidated and Separate Financial Statements" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009),
- IAS 39 (Amendment) "Financial Instruments: Recognition and Measurement" – Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009),
- IFRS 1 (Revised) "First-time Adoption of IFRS" adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010),

- IFRS 3 (Revised) "Business Combinations" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009),
- IFRS 1 (Amendment) "First-time Adoption of IFRS" – Additional Exemptions for First-time Adopters, adopted by the EU on 23 June 2010 (effective for annual periods beginning on or after 1 January 2010),
- IFRS 2 (Amendment) "Share-based Payment" – Group cash-settled share-based payment transactions adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),
- "Improvements to IFRSs (2009)" (Amendment) resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),
- IFRIC 12 "Service Concession Arrangements" adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009),
- IFRIC 15 "Agreements for the Construction of Real Estate" adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010),
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" adopted by the EU on 26 November,
- IFRIC 18 "Transfers of Assets from Customers" adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009).

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

### **1.2.2 Amendments to IFRSs effective on or after 1 January 2011, not yet adopted**

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

- IAS 12 “Income Taxes” (Amendment) – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),<sup>1</sup>
- IAS 24 (Amendment) “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- IAS 32 (Amendment) “Financial Instruments: Presentation” – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- IFRS 1 (Amendment) “First-time Adoption of IFRS” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),
- IFRS 1 “First-time Adoption of IFRS” (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),<sup>1</sup>
- IFRS 7 “Financial Instruments: Disclosures” (Amendment) – Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),<sup>1</sup>

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013),<sup>1</sup>– “Improvements to IFRSs (2010)” (Amendment) resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011).
- IFRIC 14 “IAS 19 (Amendment) – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction” – Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The adoption of the above presented Amendments and new Standards and Interpretations will have no significant impact on the Consolidated Financial Statements of the Group. The Group is still analysing the impact of adopting IFRS 9 “Financial instruments” which will replace IAS 39 “Financial instruments: Recognition and measurement”. IFRS 9 is not published in its entirety by IASB.

<sup>1</sup> Not yet endorsed by the EU.

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

### 2.1. Basis of Presentation

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

The presentation of Consolidated Financial Statements in conformity with IFRS requires the management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

### 2.2. Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates, quoted by the National Bank of Hungary ("NBH"), or if there is no official rate, at exchange rates quoted by OTP as at the date of the Consolidated Financial Statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the Consolidated Statement of Recognized Income.

Net differences resulting from translating foreign currency financial statements of consolidated subsidiaries are presented as an element of the

Retained earnings and reserves in the Consolidated Statement of Financial Position.

Goodwill arising on acquisition is expressed in the functional currency of the foreign operation and translated at the closing rate in the Consolidated Statement of Financial Position. The resulting the foreign currency translation difference is presented as an element of the Retained earnings and reserves in the Consolidated Statement of Financial Position.

### 2.3. Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank holds a controlling interest. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 31. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.10.). As the ultimate parent, the Bank is preparing consolidated financial statement of the Group.

### 2.4. Accounting for acquisitions

Subsidiaries are accounted for purchase method of accounting. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.

The investment has to be presented in the Statement of Financial Position as Associates and other investments from the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Before this date, it should be presented as Advance for investments within Other assets. The Group has applied IFRS 3 Business Combinations Standard since 31 March 2004 for acquisitions after that date. Goodwill, which represents the residual

cost of the acquisition after recognizing the acquirer's significant influence in the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements. If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Recognized Income. Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. The Group calculates the value in use a discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. The Group, in its strategic plan, has taken into consideration the effects of the present global economic situation, the probable economic decline and their possible influence on the financial sector as well as the limited external refinancing funds, the lower possibility of the expansion and the prospective effects of all these above mentioned factors. Negative goodwill, when the interest of the acquirer in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statement of Recognized Income as other income.

## **2.5. Securities held-to-maturity**

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is

aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment.

Such securities comprise mainly securities issued by the Hungarian Government, discounted Treasury bills, mortgage bonds and foreign bonds.

## **2.6. Financial assets at fair value through profit or loss**

### ***2.6.1. Securities held for trading***

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

### ***2.6.2. Derivative financial instruments***

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

Derivative financial instruments are initially measured at fair value and at subsequent reporting dates also at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Consolidated Statement of Recognized Income for the period. All

derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

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

Certain derivative transactions, while providing effective economic hedges under the risk management policy of the Group, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Consolidated Statement of Recognized Income.

### **2.7. Securities available-for-sale**

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities available-for-sale are

measured at subsequent reporting dates at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized directly in equity, unless such available-for-sale security is part of an effective fair value hedge. Such gains and losses will be reported when realized in Consolidated Statement of Recognized Income for the applicable period.

Such securities consist of Hungarian government bonds, bonds issued by NBH, corporate bonds, discounted Treasury bills and other securities. Other securities include shares in investment funds and shares in commercial companies. The impairment is calculated based on discounted cash flow methodology, using the expected future cash flow and original effective interest rate.

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

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

### **2.8. Loans, placements with other banks and allowance for loan and placement losses**

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

When a borrower is unable to meet payments as they fall due or, in the opinion of the management, there is an indication that a borrower may be

unable to meet payments as they fall due, all unpaid interest is impaired. The amount of allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.

Allowance for loan and placement losses with other banks represent management assessment for potential losses in relation to these activities. The allowances for loan and placement losses are maintained to cover losses that have been specifically identified and for potential losses which may be present based on portfolio performance. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provision for impairment on loan and placement losses" in the Consolidated Statement of Recognized Income. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into net operating income. The Group classifies the previously performing loans that have been renegotiated automatically to the to-be-monitored risk class for a certain period and records at least 1 per cent provision for impairment on them.

## 2.9. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Statement of Financial Position and the consideration paid is recorded in Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement. In the case of security lending transactions the Group doesn't recognise or derecognise the securities because believes that

the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognised for the consideration amount.

## 2.10. Associates and other investments

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

Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a controlling interest are recorded at the cost of acquisition, less Provision for impairment on investment, when appropriate.

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

## 2.11. Property and equipment, Intangible assets

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

Intangible assets	
Software	3.33–50%
Property rights	10–50%
Property	1–33%
Office equipments and vehicles	5–50%

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

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

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

## 2.12. Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. In connection to the financial liabilities at fair value through profit or loss, the Group presents the amount of change in their fair value originated from the changes of market conditions and business environment.

## 2.13. Leases

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

### The Group as a lessor

Amounts due from lessees under finance leases are recorded as other receivables at the amount of the net investment in the lease of the Group. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the net

investment outstanding of the Group in respect of the leases. Direct costs such as commissions are included in the initial measurement of the finance lease receivables.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

### The Group as a lessee

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The principal element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Consolidated Statement of Recognized Income over the period of the leases to produce a constant rate of charge on the balance of principal payments outstanding. Payments made under operating leases are charged to the Consolidated Statement of Recognized and Comprehensive Income on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

## 2.14. Treasury shares

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

## 2.15. Interest income and interest expense

The interest income and expense are recognized in the Consolidated Statement of Recognized Income

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

### **2.16. Fees and Commissions**

Fees and commissions are recognized in the Consolidated Statement of Recognized Income on an accrual basis based on IAS 18 Revenue Standard. Fees and Commissions are recognized using the effective interest method referring to provisions of IAS 39.

### **2.17. Dividend income**

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

### **2.18. Income tax**

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realized or the liability is settled. Deferred tax assets are recognized by the Group for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

### **2.19. Off-balance sheet commitments and contingent liabilities**

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

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

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

### **2.20. Share-based payment**

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

The Bank issues equity-settled share-based payment to certain employees. Equity-settled share-based payment is measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Share-based payment is recorded in Consolidated Statement of Recognized Income as Personnel expenses. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

### **2.21. Consolidated Statement of Cash Flows**

For the purposes of reporting Consolidated Statement of Cash Flows, cash and cash equivalents include

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

## 2.22. Segment reporting

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group

that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Based on the above, the segments identified by the Group are the geographical segments. The Group's reportable segments under IFRS 8 are therefore as follows: Hungary, Slovakia, Montenegro, Bulgaria, Romania, Croatia, Serbia, Russia, Ukraine.

## 2.23. Comparative figures

Certain amounts in the Consolidated Financial Statements for the year ended 31 December 2009 have been reclassified to conform with the current year presentation. These reclassifications were not material.

## NOTE 3:

### SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

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

#### 3.1. Impairment on loans and placements

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

to make many subjective judgements in estimating the loss amounts.

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

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

#### 3.3. Provisions

Provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon

historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 17)

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

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

### 3.3. Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 "Impairment of assets".

The Group calculates the value in use a discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

#### NOTE 4:

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

	2010	2009
<b>Cash on hand</b>		
In HUF	58,130	49,957
In foreign currency	114,659	108,121
	<b>172,789</b>	<b>158,078</b>
<b>Amounts due from banks and balances with the National Banks</b>		
Within one year:		
In HUF	100,867	96,282
In foreign currency	238,340	250,204
	<b>339,207</b>	<b>346,486</b>
Over one year:		
In HUF	–	–
In foreign currency	619	661
	<b>619</b>	<b>661</b>
Accrued interest	423	424
	<b>340,249</b>	<b>347,571</b>
<b>Total</b>	<b>513,038</b>	<b>505,649</b>
<b>Compulsory reserve set by the National Banks</b>	<b>257,993</b>	<b>262,108</b>

#### NOTE 5:

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

	2010	2009
Within one year		
In HUF	19,760	18,228
In foreign currency	488,128	414,925
	<b>507,888</b>	<b>433,153</b>
Over one year		
In HUF	–	–
In foreign currency	4,996	10,929
	<b>4,996</b>	<b>10,929</b>
Accrued interest	341	283
Provision for impairment on placement losses	(1,981)	(3,514)
<b>Total</b>	<b>511,244</b>	<b>440,851</b>

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

	<b>2010</b>	<b>2009</b>
Balance as at 1 January	3,514	370
(Release of provision) / Provision for the period	(1,418)	4,819
Use of provision	(242)	(1,564)
Foreign currency translation difference	127	(111)
<b>Closing balance</b>	<b>1,981</b>	<b>3,514</b>

**Interest conditions of placements with other banks:**

	<b>2010</b>	<b>2009</b>
In HUF	0.8%–10.9%	0.14%–11.7%
In foreign currency	0.10%–12.6%	0.01%–22%

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

	<b>2010</b>	<b>2009</b>
<b>Securities held for trading</b>		
Corporate shares	105,832	88,513
Government bonds	26,550	32,965
Securities issued by the NBH	19,984	49,887
Treasury bills	3,774	2,642
Other securities	537	2,785
Other non-interest bearing securities	2,166	598
	<b>158,843</b>	<b>177,390</b>
Accrued interest	404	1,166
<b>Total</b>	<b>159,247</b>	<b>178,556</b>

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

	<b>2010</b>	<b>2009</b>
Interest rate swaps designated as held for trading	34,413	53,726
CCIRS <sup>2</sup> and mark-to-market CCIRS designated as held for trading	18,938	16,548
Foreign exchange swaps designated as held for trading	15,442	6,008
Other transactions designated as held for trading	5,627	1,262
	74,420	77,544
<b>Total</b>	<b>233,667</b>	<b>256,100</b>

**An analysis of securities held for trading portfolio by currency:**

	<b>2010</b>	<b>2009</b>
Denominated in HUF (%)	88.5%	95.8%
Denominated in foreign currency (%)	11.5%	4.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

**An analysis of government bond portfolio by currency:**

	<b>2010</b>	<b>2009</b>
Denominated in HUF (%)	41.5%	86.7%
Denominated in foreign currency (%)	58.5%	13.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>
Interest rates on securities held for trading	2%–8.75%	1.8%–12.2%

<sup>2</sup> CCIRS: Cross currency interest rate swaps

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

	2010	2009
Within five years		
With variable interest	27	69
With fixed interest	35,662	70,747
	<b>35,689</b>	<b>70,816</b>
Over five years		
With variable interest	1,038	1,124
With fixed interest	14,118	16,339
	<b>15,156</b>	<b>17,463</b>
Non-interest bearing securities	107,998	89,111
<b>Total</b>	<b>158,843</b>	<b>177,390</b>

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

	2010	2009
<b>Securities available-for-sale: Securities available-for-sale:</b>		
Government bonds	584,065	437,070
Bonds issued by NBH	312,007	724,752
Corporate bonds	32,937	142,264
From this:		
Listed securities:		
In HUF	–	–
In foreign currency	30,972	19,824
	30,972	19,824
Non-listed securities:		
In HUF	–	6,113
In foreign currency	1,965	116,327
Treasury bills	11,463	7,919
Mortgage bonds	151	148
Other securities	14,740	10,768
Other non-interest bearing securities	35,522	22,439
From this:		
Listed securities:		
In HUF	263	279
In foreign currency	708	683
	971	962
Non-listed securities:		
In HUF	22,965	13,646
In foreign currency	11,586	7,831
	35,522	21,477
	<b>990,885</b>	<b>1,345,360</b>
Accrued interest	18,901	15,913
Provision for impairment on securities available-for-sale	(1,689)	(6,988)
<b>Total</b>	<b>1,008,097</b>	<b>1,354,285</b>

**An analysis of securities available-for sale by currency:**

	2010	2009
Denominated in HUF (%)	79.8%	81.6%
Denominated in foreign currency (%)	20.2%	18.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

### **An analysis of government bonds by currency:**

	<b>2010</b>	<b>2009</b>
Denominated in HUF (%)	72.5%	81.2%
Denominated in foreign currency (%)	27.5%	18.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

	<b>2010</b>	<b>2009</b>
Interest rates on securities available-for-sale denominated in HUF (%)	5.4%–8.9%	5.5%–10.1%
Interest rates on securities available-for-sale denominated in foreign currency (%)	0.5%–20.5%	1%–22%

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

	<b>2010</b>	<b>2009</b>
Within five years		
With variable interest	3,549	35,321
With fixed interest	790,928	1,057,965
	794,477	1,093,286
Over five years		
With variable interest	2,064	74,138
With fixed interest	158,822	155,497
	160,886	229,635
Non-interest bearing securities	35,522	22,439
<b>Total</b>	<b>990,885</b>	<b>1,345,360</b>

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

	<b>2010</b>	<b>2009</b>
Balance as at 1 January	6,988	3,363
Provision for the period	575	6,427
Release of provision	(1,247)	(2,880)
Use of provision	(4,723)	–
Foreign currency translation difference	96	78
<b>Closing balance</b>	<b>1,689</b>	<b>6,988</b>

Certain securities are hedged. See Note 39.

Release of provision was related to foreign currency denominated bonds issued in

Kazakhstan which were included in other securities and have been sold during 2010.

## **NOTE 8:**

### **LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF million)**

	<b>2010</b>	<b>2009</b>
Short-term loans and trade bills (within one year)	1,922,771	1,694,685
Long-term loans and trade bills (over one year)	5,522,355	5,149,322
	<b>7,445,126</b>	<b>6,844,007</b>
Accrued interest	57,205	63,087
Provision for impairment on loan losses	(761,272)	(494,378)
<b>Total</b>	<b>6,741,059</b>	<b>6,412,716</b>

### **An analysis of the loan portfolio by currency:**

	<b>2010</b>	<b>2009</b>
In HUF	25%	24%
In foreign currency	75%	76%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Interest rates of the loan portfolio are as follows:**

	2010	2009
Short-term loans denominated in HUF	4.5%–36.1%	6%–35.2%
Long-term loans denominated in HUF	1.8%–36.1%	3%–35.2%
Short-term loans denominated in foreign currency	0.9%–83.2%	1%–66%
Long-term loans denominated in foreign currency	1%–67%	1%–66%
Gross loan portfolio on which interest to customers is not being accrued	11.7%	8.5%

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

	2010		2009	
Corporate loans	2,598,277	35%	2,466,413	36%
Retail loans	2,368,554	32%	2,108,915	31%
Housing loans	2,118,321	28%	2,043,336	30%
Municipality loans	359,974	5%	225,343	3%
<b>Total</b>	<b>7,445,126</b>	<b>100%</b>	<b>6,844,007</b>	<b>100%</b>

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

	2010	2009
Balance as at 1 January	494,378	270,680
Provision for the period	274,442	244,459
Use of provision	(25,445)	(14,087)
Foreign currency translation difference	17,897	(6,674)
<b>Closing balance</b>	<b>761,272</b>	<b>494,378</b>

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

	2010	2009
(Release of provision)/Provision for impairment on placement losses (see Note 5)	(1,418)	4,819
Provision for impairment on loan losses	274,442	244,459
<b>Total</b>	<b>273,024</b>	<b>249,278</b>

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

	2010	2009
Investments		
Unconsolidated subsidiaries	9,222	16,503
Associated companies (non-listed)	384	384
Other investments (non-listed)	3,268	2,840
	12,874	19,727
Provision for impairment on investments	(1,320)	(893)
<b>Total</b>	<b>11,554</b>	<b>18,834</b>
Total assets of unconsolidated subsidiaries	39,939	47,236

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

	2010	2009
Balance as at 1 January	893	879
Provision for the period	425	118
Release of provision	–	(104)
Foreign currency translation difference	2	–
<b>Closing balance</b>	<b>1,320</b>	<b>893</b>

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

	<b>2010</b>	<b>2009</b>
Government bonds	148,278	153,244
Hungarian government discounted Treasury bills	15,979	11,708
Foreign bonds	2,914	13,832
Mortgage bonds	2,071	11,013
	<b>169,242</b>	<b>189,797</b>
Accrued interest	3,214	3,579
Provision for impairment on securities held-to-maturity	(154)	(4,523)
<b>Total</b>	<b>172,302</b>	<b>188,853</b>

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

	<b>2010</b>	<b>2009</b>
Within five years		
With variable interest	40,605	51,322
With fixed interest	104,056	109,743
	144,661	161,065
Over five years		
With variable interest	3,704	8,900
With fixed interest	20,877	19,832
	24,581	28,732
<b>Total</b>	<b>169,242</b>	<b>189,797</b>

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

	<b>2010</b>	<b>2009</b>
Denominated in HUF (%)	53%	59%
Denominated in foreign currency (%)	47%	41%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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

	<b>2010</b>	<b>2009</b>
Interest rates of securities held-to-maturity with fixed interest	2%–30%	1.7%–30%
Interest rates of securities held-to-maturity with variable interest	0.2%–8.9%	0.6%–10.9%

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

	<b>2010</b>	<b>2009</b>
Balance as at 1 January	4,523	112
Provision for the period	87	4,585
Release of provision	(2,044)	(157)
Use of provision	(2,598)	–
Foreign currency translation difference	186	(17)
<b>Closing balance</b>	<b>154</b>	<b>4,523</b>

Release of provision was related to foreign currency denominated bonds issued in Kazakhstan which were included in foreign bonds. Due to unexpected events (a significant

deterioration of the issuer's creditworthiness) that were beyond the Bank's control the securities were sold in 2010 and the related provisions were released.

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

**For the year ended 31 December 2010:**

	Intangible assets and goodwill	Property	Office equipments and vehicles	Construction in progress	Total
<b>Cost</b>					
Balance as at 1 January	336,682	145,904	170,276	13,344	666,206
Additions	45,567	17,896	16,376	20,920	100,759
Foreign currency translation differences	1,991	2,324	3,192	207	7,714
Disposals	(11,130)	(3,912)	(17,666)	(22,673)	(55,381)
Change in consolidation scope	10	9,791	244	–	10,045
<b>Balance as at 31 December</b>	<b>373,120</b>	<b>172,003</b>	<b>172,422</b>	<b>11,798</b>	<b>729,343</b>
<b>Depreciation and Amortization</b>					
Balance as at 1 January	69,054	24,563	96,231	–	189,848
Charge for the period (except for Goodwill impairment)	23,298	5,531	19,976	–	48,805
Goodwill impairment	18,519	–	–	–	18,519
Foreign currency translation differences	1,001	507	1,290	–	2,798
Disposals	(1,965)	(746)	(8,635)	–	(11,346)
Change in consolidation scope	–	(46)	(63)	–	(109)
<b>Balance as at 31 December</b>	<b>109,907</b>	<b>29,809</b>	<b>108,799</b>	<b>–</b>	<b>248,515</b>
<b>Net book value</b>					
Balance as at 1 January	267,628	121,341	74,045	13,344	476,358
<b>Balance as at 31 December</b>	<b>263,213</b>	<b>142,194</b>	<b>63,623</b>	<b>11,798</b>	<b>480,828</b>

**An analysis of the changes in the goodwill for the year ended 31 December 2010 is as follows:**

	Goodwill
<b>Cost</b>	
Balance as at 1 January	210,229
Additions	5,695
Foreign currency translation difference	11,915
Current year impairment	(18,519)
<b>Balance as at 31 December</b>	<b>209,320</b>
<b>Net book value</b>	
Balance as at 1 January	210,229
<b>Balance as at 31 December</b>	<b>209,320</b>

During 2010, HUF 18,519 million was impaired. This impairment was related to Crnogorska komercijalna banka a.d. (Montenegro).

**For the year ended 31 December 2009:**

	Intangible assets and goodwill	Property	Office equipments and vehicles	Construction in progress	Total
<b>Cost</b>					
Balance as at 1 January	318,732	142,321	143,706	15,648	620,407
Additions	26,287	7,725	18,949	14,279	67,240
Foreign currency translation differences	(2,512)	(124)	561	162	(1,913)
Disposals	(5,937)	(4,049)	(9,487)	(16,745)	(36,218)
Change in consolidation scope	112	31	16,547	–	16,690
<b>Balance as at 31 December</b>	<b>336,682</b>	<b>145,904</b>	<b>170,276</b>	<b>13,344</b>	<b>666,206</b>
<b>Depreciation and Amortization</b>					
Balance as at 1 January	49,390	20,299	81,017	–	150,706
Charge for the period	19,913	5,080	20,148	–	45,141
Foreign currency translation differences	(211)	(97)	37	–	(271)
Disposals	(88)	(725)	(7,526)	–	(8,339)
Change in consolidation scope	50	6	2,555	–	2,611
<b>Balance as at 31 December</b>	<b>69,054</b>	<b>24,563</b>	<b>96,231</b>	<b>–</b>	<b>189,848</b>
<b>Net book value</b>					
Balance as at 1 January	269,342	122,022	62,689	15,648	469,701
<b>Balance as at 31 December</b>	<b>267,628</b>	<b>121,341</b>	<b>74,045</b>	<b>13,344</b>	<b>476,358</b>

**An analysis of the changes in the goodwill for the year ended 31 December 2009 is as follows:**

	Goodwill
<b>Cost</b>	
Balance as at 1 January	212,493
Additions	–
Foreign currency translation difference	(2,264)
Decrease	–
<b>Balance as at 31 December</b>	<b>210,229</b>
<b>Net book value</b>	
Balance as at 1 January	212,493
<b>Balance as at 31 December</b>	<b>210,229</b>

In 2009 as well the Bank performed the goodwill impairment test for all the cash generating units, but no further impairment need was identified.

**NOTE 12: OTHER ASSETS (in HUF million)**

	2010	2009
Inventories	32,501	30,945
Prepayments and accrued income	15,152	7,725
Trade receivables	13,543	10,912
Current income tax receivable	8,885	8,328
Fair value of derivative financial instrument designated as fair value hedge	8,489	14,181
Deferred tax receivables	7,315	4,689
Other receivables from Hungarian Government	5,794	2,059
Other advances	3,741	2,128
Receivables due from pension funds and investment funds	1,776	1,744
Receivables from leasing activities	1,045	496
Advances for securities and investments	605	2,632
Receivables from investment services	415	512
Dividend receivables	–	283
Other	23,007	24,576
	<b>122,268</b>	<b>111,210</b>
Provision for impairment on other assets <sup>3</sup>	(13,111)	(9,724)
<b>Total</b>	<b>109,157</b>	<b>101,486</b>

<sup>3</sup> Provision for impairment on other assets mainly consists of provision for impairment on trade receivables and inventories.

**The breakdown of positive fair value of derivative financial instruments designated as fair value hedge:**

	2010	2009
Interest rate swaps designated as fair value hedge	8,477	14,148
Other transactions designated as fair value hedge	9	13
Foreign exchange swaps designated as fair value hedge	3	20
<b>Total</b>	<b>8,489</b>	<b>14,181</b>

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

	2010	2009
Balance as at 1 January	9,724	6,695
Provision for the period	3,808	5,811
Release of provision	(476)	(1,848)
Use of provision	(33)	–
Foreign currency translation difference	88	(934)
<b>Closing balance</b>	<b>13,111</b>	<b>9,724</b>

**NOTE 13:**

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

	2010	2009
Within one year		
In HUF	111,735	37,444
In foreign currency <sup>4</sup>	249,317	345,315
	<b>361,052</b>	<b>382,759</b>
Over one year		
In HUF	116,441	98,150
In foreign currency <sup>5</sup>	202,852	319,814
	<b>319,293</b>	<b>417,964</b>
Accrued interest	1,604	2,026
<b>Total</b>	<b>681,949</b>	<b>802,749</b>

The Group has used mortgage bonds as collateral in relation to collateralized borrowing (EUR 550 million).

<sup>4</sup>The Hungarian State through the Government Debt Management Agency has rendered EUR 1.4 billion loan to the Bank in the framework of a loan agreement signed on 26 March 2009. The source of the facility is the IMF Loan Programme. The first disbursement was effected on 1 April 2009, the second on 30 June 2009. The original maturity of the loan was 11 November 2012. The loan facility had market conditions; the coupon paid by the Bank exceeded the relevant benchmark rates by 245-250 bps. The loan agreement aimed to provide liquidity for Hungarian corporations, as well as to mitigate the negative effect of the current financial situation and stabilizing the local financial sector.

In order to contribute to the stimulation of the economy in Hungary, the Bank got these funds with the aim of re-channelling it to local corporate clients. On 5 November 2009 the Bank has paid back an equivalent of EUR 700 million, and on 19 March 2010, the Bank paid back the remaining EUR 700 million to the Hungarian State.

<sup>5</sup>On 2 July 2010, the Bank signed an EUR 250,000,000 Term Loan Facility. The originally planned amount was EUR 200 million, but the transaction was very well received, altogether 16 banks took part in the deal. The facility has a 2 years tenore, carries a margin of 1.30% above Euribor and the proceeds will be used for general funding purposes.

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

	2010	2009
Within one year		
In HUF	1.9%–6.4%	8.9%–11%
In foreign currency	0.2%–15.9%	1.75%–8.5%
Over one year		
In HUF	0.9%–6.9%	0.2%–15%
In foreign currency	0.1%–9.9%	0.1%–10.6%

**NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF million)**

	2010	2009
Within one year		
In HUF	2,683,142	2,773,407
In foreign currency	2,897,942	2,668,089
	<b>5,581,084</b>	<b>5,441,496</b>
Over one year		
In HUF	114,618	98,716
In foreign currency	96,951	105,678
	<b>211,569</b>	<b>204,394</b>
Accrued interest	28,836	42,997
<b>Total</b>	<b>5,821,489</b>	<b>5,688,887</b>

**Interest rates on deposits from customers are as follows:**

	2010	2009
Within one year		
In HUF	0.1%–10.3%	0.2%–12%
In foreign currency	0.01%–15.9%	0.05%–24%
Over one year		
In HUF	0.2%–5.3%	0.2%–11.5%
In foreign currency	0.02%–18.8%	0.1%–19.3%

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

	2010		2009	
Retail deposits	4,020,689	69%	3,796,097	68%
Corporate deposits	1,564,968	27%	1,549,026	27%
Municipality deposits	206,996	4%	300,767	5%
<b>Total</b>	<b>5,792,653</b>	<b>100%</b>	<b>5,645,890</b>	<b>100%</b>

## NOTE 15:

## LIABILITIES FROM ISSUED SECURITIES (in HUF million)

	2010	2009
With original maturity		
Within one year		
In HUF	320,919	249,809
In foreign currency	387,610	526,278
	<b>708,529</b>	<b>776,087</b>
Over one year		
In HUF	201,556	219,780
In foreign currency	97,746	375,628
	<b>299,302</b>	<b>595,408</b>
Accrued interest	27,322	38,853
<b>Total</b>	<b>1,035,153</b>	<b>1,410,348</b>

## Interest rates on liabilities from issued securities are as follows:

	2010	2009
Issued securities denominated in HUF	0.25%–10.5%	0.25%–10.5%
Issued securities denominated in foreign currency	1.2%–11.5%	0.8%–15.5%

## Issued securities denominated in HUF as at 31 December 2010:

Name	Date of issue	Maturity	Nominal value (in original currency)	Nominal value (in HUF)	Interest conditions (in % p.a.)	Hedged
1. OTP 2011/I	08/01/2010-15/01/2010	08/01/2011	6,011	6,011	5.5 fixed	
2. OTP 2011/II	22/01/2010-29/01/2010	22/01/2011	23,326	23,326	5.5 fixed	
3. OTP 2011/III	05/02/2010-12/02/2010	05/02/2011	5,981	5,981	5.5 fixed	
4. OTP 2011/IV	19/02/2010-26/02/2010	19/02/2011	22,805	22,805	5.5 fixed	
5. OTP 2011/V	05/03/2010-12/03/2010	05/03/2011	10,711	10,711	5.5 fixed	
6. OTP 2011/VI	19/03/2010-26/03/2010	19/03/2011	5,231	5,231	5.5 fixed	
7. OTP 2011/VII	02/04/2010-09/04/2010	02/04/2011	13,085	13,085	5 fixed	
8. OTP 2011/VIII	16/04/2010-23/04/2010	16/04/2011	7,295	7,295	5 fixed	
9. OTP 2011/IX	30/04/2010-07/05/2010	30/04/2011	9,516	9,516	5 fixed	
10. OTP 2011/X	14/05/2010-21/05/2010	14/05/2011	9,805	9,805	5 fixed	
11. OTP 2011/XI	28/05/2010-04/06/2010	28/05/2011	8,367	8,367	5 fixed	
12. OTP 2011/XII	11/06/2010-18/06/2010	11/06/2011	6,794	6,794	5 fixed	
13. OTP 2011/XIII	25/06/2010-02/07/2010	25/06/2011	9,206	9,206	5 fixed	
14. OTP 2011/XIV	09/07/2010-16/07/2010	09/07/2011	10,349	10,349	5 fixed	
15. OTP 2011/XV	23/07/2010-30/07/2010	23/07/2011	11,171	11,171	5 fixed	
16. OTP 2011/XVI	06/08/2010-13/08/2010	06/08/2011	13,272	13,272	5 fixed	
17. OTP 2011/XVII	19/08/2010-27/08/2010	19/08/2011	7,245	7,245	5 fixed	
18. OTP 2011/XVIII	03/09/2010-10/09/2010	03/09/2011	14,679	14,679	5 fixed	
19. OTP 2011/XIX	17/09/2010-24/09/2010	17/09/2011	11,131	11,131	5 fixed	
20. OTP 2011/XX	01/10/2010-08/10/2010	01/10/2011	4,864	4,864	5 fixed	
21. OTP 2011/XXI	15/10/2010-22/10/2010	15/11/2011	6,474	6,474	5 fixed	
22. OTP 2011/XXII	29/10/2010-05/11/2010	29/10/2011	19,640	19,640	5 fixed	
23. OTP 2011/XXIII	12/11/2010-19/11/2010	12/11/2011	12,589	12,589	5 fixed	
24. OTP 2011/XXIV	26/11/2010-03/12/2010	26/11/2012	6,518	6,518	5 fixed	
25. OTP 2011/XXV	13/12/2010-30/12/2010	13/12/2011	15,810	15,810	5 fixed	
26. OTP 2011A	13/10/2009	13/04/2011	3,000	3,000	9.5 fixed	
27. OTP 2011B	28/10/2009	28/04/2011	1,000	1,000	7.55 fixed	
28. OTP 2011C	09/11/2009	09/11/2011	2,000	2,000	7.5 fixed	
29. TBSZ 2013_I	26/02/2010-28/12/2010	30/12/2013	6,264	6,264	5.5 fixed	
30. TBSZ 2015_J	26/02/2010-17/12/2010	30/12/2015	5,729	5,729	5.5 fixed	
31. OTPX 2011A	29/02/2008	01/03/2011	315	315	indexed floating	hedged
32. OTPX 2011B	30/05/2008	30/05/2011	539	539	indexed floating	hedged
33. OTPX 2011C	14/12/2009-05/02/2010	20/12/2011	527	527	indexed floating	hedged
34. OTPX 2012C	25/03/2010	30/03/2012	668	668	indexed floating	hedged
35. OTPX 2013C	16/12/2010	19/12/2013	450	450	indexed floating	hedged
36. OTPX 2012A	11/09/2009-25/09/2009	11/09/2012	1,686	1,686	indexed floating	hedged
37. OTPX 2013A	28/06/2010	08/07/2013	480	480	indexed floating	hedged
38. OTPX 2014A	13/12/2010	30/06/2014	3,278	3,278	indexed floating	hedged
39. OTPX 2014B	05/10/2010	13/10/2014	4,164	4,164	indexed floating	hedged
40. OTPX 2014C	14/12/2009	19/12/2014	4,080	4,080	indexed floating	hedged
41. OTPX 2015A	13/12/2010	30/03/2015	5,602	5,602	indexed floating	hedged
42. OTPX 2015B	13/12/2010	09/07/2015	5,030	5,030	indexed floating	hedged
43. OTPX 2016B	16/12/2010	19/12/2016	3,480	3,480	indexed floating	hedged

Name	Date of issue	Maturity	Nominal value (in original currency)	Nominal value (in HUF)	Interest conditions (in % p.a.)	Hedged
44. OTPX 2019A	13/12/2010	01/07/2019	319	319	indexed floating	hedged
45. OTPX 2019B	05/10/2009-05/02/2010	14/10/2019	481	481	indexed floating	hedged
46. OTPX 2019C	13/12/2010	20/12/2019	404	404	indexed floating	hedged
47. OTPX 2020A	13/12/2010	30/03/2020	415	415	indexed floating	hedged
48. OTPX 2020B	28/06/2010	09/07/2020	450	450	indexed floating	hedged
49. OTPX 2020D	16/12/2010	18/12/2020	245	245	indexed floating	hedged
50. OTPRA_2013_B	26/11/2010	03/12/2013	3,752	3,752	indexed floating	hedged
51. OTPX 2013B	26/11/2010	06/11/2013	940	940	indexed floating	hedged
52. OTPX 2016A	11/11/2010	03/11/2016	4,600	4,600	indexed floating	hedged
53. OTPX 2020C	11/11/2010	05/11/2020	290	290	indexed floating	hedged
53. OTPRF_2020_C	11/11/2010	05/11/2020	64	64	indexed floating	hedged
55. 3Y_EUR_HUF	25/06/2010	25/06/2013	2,338	2,338	indexed floating	hedged
56. 2020_RF_A	12/07/2010	20/07/2020	117	117	indexed floating	hedged
57. 2020_RF_B	12/07/2010	20/07/2020	468	468	indexed floating	hedged
58. DNT_HUF_2011_A	23/12/2010	23/06/2010	3,903	3,903	indexed floating	hedged
59. OJB2011_I	20/12/2002	12/02/2011	15,111	15,111	8 fixed	hedged
60. OJB2011_II	28/05/2004	12/09/2011	8,780	8,780	10 fixed	
61. OJB2011_III	28/02/2005	30/11/2011	2	2	9 fixed	
62. OJB2011_IV	31/08/2006	31/08/2011	7,622	7,622	8 fixed	
63. OJB2011_V	08/02/2008	08/02/2011	1,111	1,111	7.5 fixed	
64. OJB2012_I	17/03/2004	21/03/2012	13,870	13,870	9.83 fixed	
65. OJB2012_II	14/04/2004	16/05/2012	36,283	36,283	10 fixed	
66. OJB2012_III	19/11/2004	15/08/2012	14,353	14,353	10.5 fixed	
67. OJB2013_II	20/12/2002	31/08/2013	13,433	13,433	8.25 fixed	
68. OJB2014_I	14/11/2003	12/02/2014	13,497	13,497	8 fixed	
69. OJB2014_J	17/09/2004	17/09/2014	486	486	8.69 fixed	
70. OJB2015_I	10/06/2005	10/06/2015	3,243	3,243	7.7 fixed	
71. OJB2015_J	28/01/2005	28/01/2015	250	250	8.69 fixed	
72. OJB2016_I	03/02/2006	03/02/2016	1,266	1,266	7.5 fixed	
73. OJB2016_II	31/08/2006	31/08/2016	4,684	4,684	10 fixed	
74. OJB2016_J	18/04/2006	28/09/2016	324	324	7.59 fixed	
75. OJB2019_I	17/03/2004	18/03/2019	32,610	32,610	9.48 fixed	
76. OJB2020_I	19/11/2004	12/11/2020	6,990	6,990	9 fixed	
77. Other				21,580		
<b>Total issued securities in HUF</b>				<b>534,448</b>		
<b>Unamortized premium</b>				<b>(7,810)</b>		
<b>Fair value adjustment</b>				<b>(4,163)</b>		
<b>Total issued securities in HUF</b>				<b>522,475</b>		

### Issued securities denominated in foreign currency as at 31 December 2010:

Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	(HUF mn)	Interest conditions (in % p.a.)	Hedged
1. OTP HBFIXED 160511	16/05/2008	16/05/2011	EUR	432	120,490	5.75 fixed	hedged
2. OTPHB402/12	24/02/2010	24/02/2012	CHF	56	12,449	4 fixed	hedged
3. OTPX 2015C	22/12/2010	29/12/2015	EUR	1	270	indexed floating	hedged
4. DNT_EUR_2011_A	23/12/2010	23/06/2011	EUR	9	2,543	indexed floating	
5. DNT_USD_2011_A	23/12/2010	23/06/2011	USD	3	572	indexed floating	
6. OMB2011_I	10/07/2006	11/07/2011	EUR	727	202,749	4.25 fixed	hedged
7. OMB2011_II	04/12/2009	05/12/2011	EUR	87	24,223	4.13 fixed	hedged
8. OMB2014_I	15/12/2004	15/12/2014	EUR	198	55,262	4 fixed	hedged
9. Mortgage bonds OTP	15/10/2003	15/10/2012	EUR	17	4,626	4.7 fixed	
10. Mortgage bonds OTP VII	21/12/2005	21/12/2015	EUR	22	6,264	0.88 variable	
11. Mortgage bonds OTP XIII	12/03/2008	12/03/2011	EUR	17	4,626	4.5 fixed	
12. Mortgage bonds OTP XVII	08/06/2009	08/06/2012	EUR	3	845	4.1 fixed	
13. Mortgage bonds OTP XVIII	18/09/2009	18/03/2012	EUR	1	251	3.5 fixed	
14. Mortgage bonds OTP XIX	02/11/2009	02/11/2012	EUR	10	2,788	4 fixed	
15. Mortgage bonds OTP XXI	20/05/2010	20/05/2013	EUR	10	2,788	3.5 fixed	
16. Mortgage bonds OTP XXIV	23/11/2010	23/11/2013	EUR	2	677	3.3 fixed	
17. Other					29,394		
<b>Total issued securities in FX</b>					<b>470,817</b>		
<b>Unamortized premium</b>					<b>5,066</b>		
<b>Fair value adjustment</b>					<b>9,473</b>		
<b>Total issued securities in FX</b>					<b>485,356</b>		
<b>Total accrued interest</b>					<b>27,322</b>		
<b>Total</b>					<b>1,035,153</b>		

### **CHF Bond issuance programme**

On 24 February 2010 the Bank issued CHF 100 million fixed rate bonds at 100.633%. The maturity of the bonds is 24 February 2012. The interest rate is 4% paid annually. CHF 11 million of the bonds issued was repurchased by the Bank during the year 2010.

### **EMTN Programme**

On 30 July 2010, the "Commission de Surveillance du Secteur Financier" (CSSF) approved the Base Prospectus relating to EUR 5 billion Euro Medium Term Note Programme of OTP Bank Plc.

### **Term Note Program in the value of HUF 500 billion**

On 2 August 2010, Hungarian Financial Supervisory Authority approved the prospectus of Term Note Program in a total nominal value of HUF 500 billion. The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Prague, Bucharest and Sofia Stock Exchange.

### **Redemption of EUR 500 million senior notes**

On 1 July 2010, the Bank duly fulfilled its obligations regarding the redemption and last interest payment of EUR 500 million senior note due on 1 July 2010.

### **Redemption of EUR 300 million senior notes**

On 20 December 2010, the Bank duly fulfilled its obligations regarding the redemption and last interest payment of EUR 300 million senior note due on 20 December 2010.

Certain structured bonds are hedged by interest rate swaps which may transfer to a transferee a fixed rate financial asset and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate based on a notional amount which is equal to the notional amount of the hedged bond. The hedge is highly effective if changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are within a range of 80–125 per cent.

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the HUF/CHF and HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and CHF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and CHF CCIRS transactions, where the fixed EUR cash-flows were swapped to payments linked to 3 or 6 month HUF BUBOR or CHF LIBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

## **NOTE 16:**

### **FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF million)**

#### ***An analysis of negative fair value of derivative financial instruments designated as held for trading:***

	<b>2010</b>	<b>2009</b>
CCIRS and mark-to-market CCIRS designated as held for trading	206,877	61,518
Interest rate swaps designated as held for trading	40,064	47,042
Foreign exchange swaps designated as held for trading	4,611	5,305
Option contracts designated as held for trading	2,482	2,346
Foreign exchange forward contracts designated as held for trading	2,177	1,910
Forward rate agreements designated as held for trading (FRA)	840	332
Forward security agreements designated as held for trading	1	15
<b>Total</b>	<b>257,052</b>	<b>118,468</b>

## NOTE 17:

## OTHER LIABILITIES (in HUF million)

	2010	2009
Fair value of derivative financial instruments designated as fair value hedge	115,159	22,249
Financial liabilities from OTP-MOL share swap transaction <sup>6</sup>	105,766	86,912
Salaries and social security payable	26,902	24,731
Provision for impairment on off-balance sheet commitments and contingent liabilities	19,650	23,598
Accrued expenses	16,447	15,355
Liabilities from investment services	12,036	2,814
Giro clearing accounts	11,581	15,634
Accounts payable	11,445	13,216
Current income tax payable	10,714	10,939
Liabilities from custody accounts	5,495	7,260
Deferred tax liabilities	4,098	2,229
Advances received from customers	1,901	1,754
Liabilities connected to loans for collection	1,147	1,426
Liabilities related to housing loans	351	1,803
Dividends payable	304	604
Other	41,776	31,621
	<b>384,772</b>	<b>262,145</b>
Accrued interest	972	95
<b>Total</b>	<b>385,744</b>	<b>262,240</b>

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

	2010	2009
Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending	12,855	14,550
Provision for litigation	3,953	6,084
Provision for other liabilities	1,944	2,305
Provision for expected pension commitments	898	659
<b>Total</b>	<b>19,650</b>	<b>23,598</b>

<sup>6</sup> On 16 April 2009 OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to

the lost of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity and a recognition of a corresponding liability. As at 31 December 2010 and 2009 105,766 and HUF 86,912 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

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

	2010	2009
Balance as at 1 January	23,598	24,234
(Release)/Provision for the period	(3,977)	4,087
Use of provision	(131)	(4,733)
Foreign currency translation differences	160	10
<b>Closing balance</b>	<b>19,650</b>	<b>23,598</b>

**The negative fair value of derivative financial instruments designated as fair value hedge relates to the following type of contracts:**

	2010	2009
CCIRS and mark-to-market CCIRS designated as fair value hedge	108,012	18,615
Interest rate swaps designated as fair value hedge	7,143	3,571
Foreign exchange swaps designated as fair value hedge	4	–
Forward security agreements designated as fair value hedge	–	63
<b>Total</b>	<b>115,159</b>	<b>22,249</b>

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

	2010	2009
Within one year:		
In HUF	–	–
In foreign currency	309	458
	<b>309</b>	<b>458</b>
Over one year:		
In HUF	5,000	5,000
In foreign currency	282,137	271,652
	<b>287,137</b>	<b>276,652</b>
Accrued interest	3,184	3,724
<b>Total</b>	<b>290,630</b>	<b>280,834</b>

**Interest rates on subordinated bonds and loans are as follows:**

	2010	2009
Denominated in HUF	2.7%	3.8%
Denominated in foreign currency	1.6%–7.75%	1.3%–8.8%

**Subordinated bonds and loans can be detailed as follows:**

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 31 December 2010
Subordinated bond	HUF 5 billion	20/12/1993	20/12/2013	100%	Frequency of payment is based on the condition of interest of 2013/C credit consolidation government bonds	3.80%
Subordinated bond	EUR 125 million	04/03/2005	04/03/2015	100%	Three-month EURIBOR + 0.55% quarterly	–
Subordinated bond	EUR 498 million	07/11/2006	Perpetual, but callable after 10 years	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	–
Subordinated bond (under EMTN <sup>7</sup> program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN <sup>7</sup> program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond	USD 65 million	21/04/2008	13/10/2015	100%	Variable, six-month EURIBOR + 1.4%	1.86%
Subordinated bond	RUB 26,86 million	15/06/2001	21/06/2015	100%	Variable, based on the Russian National Bank's interest rate	7.75%
Subordinated bond	EUR 5,122 million	23/12/1997	15/11/2014	100%	Variable, six-month EURIBOR + 1.3%	2.58%

<sup>7</sup> European Medium Term Note Program

**NOTE 19:****SHARE CAPITAL (in HUF million)**

	2010	2009
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000
<b>Total</b>	<b>28,000</b>	<b>28,000</b>

On 21 April 2007, the law on abolishment of "Aranyrészvény" (special share assigning voting rights to the Hungarian State) came into force (Act XXVI of 2007). Consequently, this special voting share was transformed into 10 ordinary

shares with a face value of HUF 100. Therefore the registered capital of the Bank consists of 280,000,010 ordinary shares with a face value of HUF 100.

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

***The reserves in the Unconsolidated Financial Statements under Hungarian Accounting Standards are as follows:***

	2010	2009
Capital reserve	52	52
General reserve	122,863	111,903
Retained earnings	692,754	598,133
Tied-up reserve	5,729	5,274
<b>Total</b>	<b>821,398</b>	<b>715,362</b>

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

These Financial Statements subject to approval by the Board of Directors in the Annual General Meeting in April 2011. The Bank did not pay any dividend in 2010 from the profit of the year 2009. In 2011, a dividend of HUF 20,160 million are expected to be proposed by the management.

On 19 October 2006, the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares („ICES”). Within the transaction 10 million shares owned by OTP, and further 4.5 million shares owned by OTP Group were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the

Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years, thereafter the Issuer has the right to redeem the bonds at face value.

Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP has discretionary right to cancel the interest payments. The interest payable is non-cumulative.

Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

**NOTE 21:****TREASURY SHARES (in HUF million)**

	2010	2009
Nominal value (Ordinary shares)	1,873	1,879
Carrying value at acquisition cost	52,597	52,678

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

<b>Change in number of shares:</b>	2010	2009
Number of shares as at 1 January	18,786,004	34,017,196
Additions	73,232	10,355,980
Disposals	(128,005)	(25,587,172)
<b>Closing number of shares</b>	<b>18,731,231</b>	<b>18,786,004</b>

<b>Change in carrying value:</b>	2010	2009
Balance as at 1 January	52,678	146,749
Additions	415	16,566
Disposals	(496)	(110,637)
<b>Closing balance</b>	<b>52,597</b>	<b>52,678</b>

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

	2010	2009
Balance as at 1 January	6,152	6,785
Non-controlling interest included in net profit for the period	196	(839)
Foreign currency translation difference	74	233
Changes due to ownership structure	(534)	(27)
<b>Closing balance</b>	<b>5,888</b>	<b>6,152</b>

**NOTE 23:****NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)*****Income from fees and commissions***

	2010	2009
Deposit and account maintenance fees and commissions	67,774	65,626
Fees and commissions related to the issued bank cards	32,570	29,892
Fees related to cash withdrawal	24,655	25,162
Fees and commissions related to fund management	16,946	13,512
Fees and commissions related to lending	15,551	16,145
Fees and commissions related to security trading	5,876	6,147
Other	13,880	13,851
<b>Total</b>	<b>177,252</b>	<b>170,335</b>

## Expense from fees and commissions

	2010	2009
Interchange fees	8,276	6,999
Fees and commissions related to issued bank cards	6,537	6,463
Fees and commissions paid on loans	3,635	8,175
Fees and commissions related to lending	2,503	1,788
Fees and commissions related to deposits	2,480	2,502
Cash withdrawal transaction fees	2,089	2,175
Insurance fees	1,820	1,535
Money market transaction fees and commissions	1,226	1,755
Fees and commissions related to security trading	874	838
Postal fees	803	842
Other	6,378	4,350
<b>Total</b>	<b>36,621</b>	<b>37,422</b>
<b>Net profit from fees and commissions</b>	<b>140,631</b>	<b>132,913</b>

## NOTE 24: OTHER OPERATING INCOME AND EXPENSE (in HUF million)

	2010	2009
Other income from non-financial activities	20,890	66,308
<b>Total</b>	<b>20,890</b>	<b>66,308</b>

	2010	2009
Provision for impairment on other assets	3,808	5,811
Provision for impairment on investments <sup>8</sup>	425	118
Provision for investment bonds	170	–
(Release of provision) / Provision for off-balance sheet commitments and contingent liabilities	(3,977)	4,087
Other costs	7,698	6,714
Other expense from non-financial activities	6,311	4,318
<b>Total</b>	<b>14,435</b>	<b>21,048</b>

## NOTE 25: OTHER ADMINISTRATIVE EXPENSES (in HUF million)

	2010	2009
Wages	118,569	113,266
Taxes related to personnel expenses	30,995	31,832
Other personnel expenses	11,161	10,419
<b>Total personnel expenses</b>	<b>160,725</b>	<b>155,517</b>
<b>Depreciation and amortization</b>	<b>67,324</b>	<b>45,141</b>
Taxes, other than income tax <sup>9</sup>	65,252	29,623
Administration expenses, including rental fees	43,884	51,361
Services	35,709	33,357
Professional fees	15,729	14,995
Advertising	10,657	11,147
<b>Other administrative expenses</b>	<b>171,231</b>	<b>140,483</b>
<b>Total</b>	<b>399,280</b>	<b>341,141</b>

<sup>8</sup> See details in Note 9.

<sup>9</sup> Based on the amendment of the act on the special tax of financial institutions approved on 22 July 2010, a new special financial institution tax was paid by the Group. The total tax amount for the year 2010 was HUF 36 billion recognized as an expense thus decreased the corporate tax base. Based on the approved regulations, financial institutions are obliged to pay this special tax until the end of 2012.

**NOTE 26:****INCOME TAX (in HUF million)**

The Group is presently liable for income tax at rates between 9% and 28% of taxable income. Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria, Serbia and Cyprus, 16% in Romania, 19% in Slovakia, 20% in Croatia and Russia, 25% in Ukraine and 28% in the United Kingdom.

Due to the fact that the Hungarian Government approved a law effected that the income tax rate

will be reduced to 10% from 1 January 2013 the deferred tax is calculated at 10% for those temporary differences that are expected to be resulted in taxable amounts or amounts deductible from the taxable profit after 2012.

19% was used for the calculation of the deferred tax for the remaining items.

From 1 January 2010 in Hungary the additional banking tax (4%) was cancelled.

***The breakdown of the income tax expense is:***

	<b>2010</b>	<b>2009</b>
Current tax expense	20,599	31,436
Deferred tax expense/(benefit)	1,458	(11,160)
<b>Total</b>	<b>22,057</b>	<b>20,276</b>

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

	<b>2010</b>	<b>2009</b>
Balance as at 1 January	2,460	(5,352)
Deferred tax (expense)/benefit	(1,458)	11,160
Differences arising on consolidation	(627)	–
Acquisition of subsidiaries	–	34
Foreign currency translation difference	309	24
Deferred tax related to items recognized in equity	2,533	(3,406)
<b>Closing balance</b>	<b>3,217</b>	<b>2,460</b>

***A reconciliation of the income tax expense is as follows:***

	<b>2010</b>	<b>2009</b>
Profit before income tax	140,183	170,482
Income tax at statutory tax rates	31,866	21,277
Special tax (4%)	–	7,299

### **Income tax adjustments due to permanent differences:**

	<b>2010</b>	<b>2009</b>
Revaluation of investments denominated in foreign currency to historical cost	3,656	(1,880)
Differences in carrying value of subsidiaries	981	(7,245)
Reversal of statutory general provision	114	569
Tax effect of amortization of statutory goodwill	(266)	(108)
Reclassification of direct charges to reserves	(647)	–
Effect of change of income tax rate	(912)	(216)
Share-based payment	(2,246)	1,292
Difference of accounting of equity instrument (ICES)	(4,234)	(199)
Provision for impairment on investments in subsidiaries	(6,547)	(10,039)
Other	292	9,526
<b>Income tax expense</b>	<b>22,057</b>	<b>20,276</b>
<b>Effective tax rate</b>	<b>15.7%</b>	<b>11.9%</b>

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

	<b>2010</b>	<b>2009</b>
Provision for impairment on investments	8,814	13,221
Tax loss carry forward	4,906	4,024
Fair value adjustment of securities held for trading and securities available-for-sale	317	–
Repurchase agreement and security lending	1,515	2,483
Difference in accounting for leases	492	734
Premium and discount amortization on bonds	370	336
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	117	90
Other	1,450	–
<b>Deferred tax asset</b>	<b>17,981</b>	<b>20,888</b>

	<b>2010</b>	<b>2009</b>
Fair value adjustment of derivative financial instruments	(3,849)	(1,126)
Fair value adjustment of securities held for trading and securities available-for-sale	–	(2,402)
Difference in depreciation and amortization	(3,474)	(4,265)
Net effect of treasury share transactions	(2,752)	(4,913)
Accounting of equity instrument (ICES)	(2,182)	(981)
Temporary differences arising on consolidation	(2,507)	(707)
<b>Other</b>	<b>–</b>	<b>(4,034)</b>
<b>Deferred tax liabilities</b>	<b>(14,764)</b>	<b>(18,428)</b>
<b>Net deferred tax asset</b>	<b>3,217</b>	<b>2,460</b>

**NOTE 27:****FINANCIAL RISK MANAGEMENT (in HUF million)**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

**27.1. Credit risk**

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers,

and to geographical and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

**Analysis by loan types and risk classes**

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

**As at 31 December 2010**

<b>Loan type</b>	<b>Performing</b>	<b>To-be monitored</b>	<b>Below average</b>	<b>Doubtful</b>	<b>Bad</b>	<b>Total carrying amount</b>
Retail loans	3,349,382	585,908	98,492	175,144	277,949	4,486,875
Corporate loans	1,471,952	452,792	139,389	117,396	416,748	2,598,277
Placement with other banks	497,820	7,619	6,285	400	760	512,884
Municipal loans	307,023	39,746	6,912	4,493	1,800	359,974
<b>Total gross portfolio</b>	<b>5,626,177</b>	<b>1,086,065</b>	<b>251,078</b>	<b>297,433</b>	<b>697,257</b>	<b>7,958,010</b>
Allowance for loans	(26,569)	(39,517)	(45,713)	(141,775)	(507,698)	(761,272)
Allowance for placements	–	(97)	(949)	(175)	(760)	(1,981)
<b>Total allowance</b>	<b>(26,569)</b>	<b>(39,614)</b>	<b>(46,662)</b>	<b>(141,950)</b>	<b>(508,458)</b>	<b>(763,253)</b>
<b>Total net portfolio</b>	<b>5,599,608</b>	<b>1,046,451</b>	<b>204,416</b>	<b>155,483</b>	<b>188,799</b>	<b>7,194,757</b>

**Accrued interest**

for loans	57,205
for placements	341

**Total accrued interest**

Total net loans	6,741,059
Total net placements	511,244

**Total net exposures**

**7,252,303**

## As at 31 December 2009

Loan type	Performing	To-be monitored	Below average	Doubtful	Bad	Total carrying amount
Retail loans	3,407,101	373,116	72,550	112,280	187,204	4,152,251
Corporate loans	1,765,731	345,709	107,322	89,422	158,229	2,466,413
Placement with other banks	431,785	4,717	6,370	–	1,210	444,082
Municipal loans	220,747	4,021	19	360	196	225,343
<b>Total gross portfolio</b>	<b>5,825,364</b>	<b>727,563</b>	<b>186,261</b>	<b>202,062</b>	<b>346,839</b>	<b>7,288,089</b>
Allowance for loans	(16,917)	(66,704)	(28,988)	(99,620)	(282,149)	(494,378)
Allowance for placements	(218)	(123)	(1,787)	(1)	(1,385)	(3,514)
<b>Total allowance</b>	<b>(17,135)</b>	<b>(66,827)</b>	<b>(30,775)</b>	<b>(99,621)</b>	<b>(283,534)</b>	<b>(497,892)</b>
<b>Total net portfolio</b>	<b>5,808,229</b>	<b>660,736</b>	<b>155,486</b>	<b>102,441</b>	<b>63,305</b>	<b>6,790,197</b>

### Accrued interest

for loans	63,087
for placements	282
<b>Total accrued interest</b>	<b>63,369</b>
Total net loans	6,412,716
Total net placements	440,851
<b>Total net exposures</b>	<b>6,853,567</b>

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

Qualification categories	2010	2009
Performing	1,014,076	749,754
To-be monitored	58,101	120,270
Below average	16,187	38,183
Doubtful	7,595	15,632
Bad	5,581	52,214
<b>Total</b>	<b>1,101,540</b>	<b>976,053</b>

### Qualification categories

The Group's loan portfolio increased by 9.2% in 2010. Analysing the contribution of loan types to the loan portfolio, the share of the retail and corporate loan type slightly decreased while the share of other loan types either slightly increased. As a consequence of the economic situation, the qualification of the loan portfolio deteriorated, the ratio of the non-performing (doubtful and bad) loans compared to the gross loan portfolio increased from 7.5% to 12.5%. Among the qualified loan portfolio, the loans classified to the risk class of "bad" expanded at the fastest level. The Group has a prudent provisioning policy, the coverage of loans by provision for impairment on loans classified as doubtful or bad, the indicator was 65.4% and 69.8% as

at 31 December 2010 and 31 December 2009 respectively.

The off-balance sheet liabilities connected to the lending activity increased by 12.9%.

The qualified loan portfolio increased by 59.4% in 2010.

### Classification into risk classes

Exposures with small amounts (in corporate and municipality sector) are subject to collective valuation method, which is a simplified assessment. The exposures subject to collective valuation method are classified to five risk classes (performing, to-be monitored, below average, doubtful, bad). Depending on

the days of delay, a specific percentage is assigned to each risk class, and the provision for impairment is calculated on all exposures based on previously determined rates.

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

- the credit rating of the customer or the partner: the financial position, stability and income-generating capacity affected by the financial or investment service and issuer of the security, and any changes thereto;

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

### Loan portfolio by countries

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

Country	2010		2009	
	Carrying amount of the qualified gross loan portfolio	Allowance	Carrying amount of the qualified gross loan portfolio	Allowance
Hungary	1,092,232	286,258	534,507	194,300
Ukraine	278,039	156,550	132,073	114,754
Bulgaria	270,510	90,296	195,220	56,129
Russia	152,290	53,099	155,746	38,140
Romania	140,210	25,268	123,843	12,545
Montenegro	120,412	38,767	76,906	6,985
Serbia	102,357	43,793	90,199	27,555
Cyprus	58,955	10,765	58,852	5,022
Slovakia	58,137	16,606	48,470	12,132
Croatia	43,110	12,704	24,094	8,654
Kazakhstan	6,268	944	5,663	1,140
Seychelles	4,701	705	4,563	411
Byelorussia	1,006	10	38	–
The United States	988	1	2,340	1
Latvia	847	53	9	–
The United Kingdom	828	632	3,379	1,755
Egypt	525	58	533	80
Macedonia	102	50	51	3
Germany	93	1	73	–
Ireland	85	69	58	35
Other	138	55	6,108	1,116
<b>Total</b>	<b>2,331,833</b>	<b>736,684</b>	<b>1,462,725</b>	<b>480,757</b>

The qualified loan portfolio increased mostly in Ukraine, Hungary and Croatia. Their stock of provision increased in Hungary, Croatia and Ukraine.

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

Country	2010		2009	
	Carrying amount of the non-qualified gross loan portfolio	Allowance	Carrying amount of the non-qualified gross loan portfolio	Allowance
Hungary	2,630,070	107	2,503,171	–
Bulgaria	881,034	10,697	900,645	6,822
Ukraine	427,691	–	560,087	219
Russia	390,154	2,201	334,415	891
Croatia	329,441	3,341	330,370	1,501
Romania	242,789	221	238,012	406
Slovakia	239,410	606	249,617	1,218
The United Kingdom	131,214	25	36,809	15
Montenegro	112,794	9,327	147,059	5,978
Serbia	49,095	42	56,735	77
France	47,048	–	25,073	–
Belgium	46,599	–	50,583	–
Germany	44,087	–	51,300	–
Cyprus	17,199	–	23,539	–
Malta	10,626	–	9,632	–
The United States	7,310	–	14,587	1
Switzerland	5,075	–	14,323	1
Netherlands	3,061	–	149,395	–
Spain	2,922	–	5,124	–
Poland	2,116	–	4,432	–
Turkey	1,151	–	–	–
Austria	1,138	–	43,977	–
Norway	1,121	–	445	–
Czech Republic	771	–	8,454	5
Byelorussia	645	–	38	–
Azerbaijan	627	–	–	–
Sweden	156	–	5,578	–
Japan	120	–	142	–
Italy	116	–	1,526	–
Kazakhstan	108	–	294	–
Ireland	107	1	52,691	–
Denmark	100	–	1,924	–
Other	282	1	5,387	1
<b>Total</b>	<b>5,626,177</b>	<b>26,569</b>	<b>5,825,364</b>	<b>17,135</b>

The non-qualified loan portfolio decreased mostly in Netherlands, Cyprus, Ukraine and Montenegro. In some countries the stock of

provision increased due to local regulations on the base of which it is compulsory to account fix rate of provision on the non-qualified portfolio.

## Collaterals

The values of collaterals held by the Group by types are as follows: (total collaterals). The

collaterals cover loans as well as off-balance sheet exposures.

Types of collaterals	2010	2009
Mortgages	6,797,599	7,795,345
Guarantees and warranties	290,364	163,700
Guarantees of state or organizations owned by state	245,971	328,366
Assignments (revenue or other receivables)	131,434	97,725
Cash deposits	75,341	95,930
Securities	67,729	54,438
Other	926,118	2,749,527
<b>Total</b>	<b>8,534,556</b>	<b>11,285,031</b>

The values of collaterals held by the Group by types are as follows: (to the extent of the

exposures). The collaterals cover loans as well as off-balance sheet exposures.

<b>Types of collaterals</b>	<b>2010</b>	<b>2009</b>
Mortgages	3,698,552	3,420,732
Guarantees and warranties	257,096	147,763
Assignments (revenue or other receivables)	277,806	211,695
Guarantees of state or organizations owned by state	103,220	201,165
Cash deposits	63,181	77,834
Securities	50,102	23,259
Other	694,994	820,493
<b>Total</b>	<b>5,144,951</b>	<b>4,902,941</b>

The coverage level of the loan portfolio (total collaterals) decreased by 31.0%, as well as the

coverage level to the extent of the exposures decreased by 4.3% as at 31 December 2010.

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

	<b>2010</b>	<b>2009</b>
Retail loans	2,404,099	2,432,593
Corporate loans	1,276,316	1,358,011
Placement with other banks	489,713	431,567
Municipal loans	291,891	212,309
<b>Total</b>	<b>4,462,019</b>	<b>4,434,480</b>

<b>Qualification categories</b>	<b>2010</b>	<b>2009</b>
Performing	4,414,665	4,378,982
To-be monitored	33,851	43,140
Below average	6,114	6,455
Doubtful	1,872	2,054
Bad	5,517	3,849
<b>Total</b>	<b>4,462,019</b>	<b>4,434,480</b>

Loans neither past due, nor impaired cover only balance sheet items. The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio decreased from 61% to 56.1 % as at 31 December 2010 compared to the prior year. The ratio of the corporate and retail loans compared to the portfolio of loans neither past due nor impaired decreased during the whole year of 2010 while

the ratio of the municipality and placement with other banks increased.

### **Renegotiated loans**

An analysis of the gross value of the loans that would otherwise be past due or impaired and whose terms have been renegotiated as at 31 December 2010 and 31 December 2009 is as follows:

	<b>2010</b>	<b>2009</b>
Retail loans	305,146	496,549
Corporate loans	166,312	318,291
Municipal loans	478	6
Placement with other banks	–	1,380
<b>Total</b>	<b>471,936</b>	<b>816,226</b>

The gross amount of renegotiated loans decreased considerably by 31 December 2010, which is connected mainly to the retail loans.

There were no renegotiated loans in 2010 among the Placements with other banks.

### **Past due, but not impaired loans**

### **The aging of gross loans that are past due but not impaired as at 31 December 2010 and 31 December 2009 is as follows:**

<b>As at 31 December 2010</b>	<b>Up to 90 days</b>	<b>91-180 days</b>	<b>181-365 days</b>	<b>Above 365 days</b>	<b>Total</b>
Retail loans	344,081	27,398	20,483	14,545	406,507
Corporate loans	40,662	23,239	8,353	4,430	76,684
Municipality loans	6,516	–	–	2	6,518
<b>Total</b>	<b>391,259</b>	<b>50,637</b>	<b>28,836</b>	<b>18,977</b>	<b>489,709</b>

<b>As at 31 December 2009</b>	<b>Up to 90 days</b>	<b>91-180 days</b>	<b>181-365 days</b>	<b>Above 365 days</b>	<b>Total</b>
Retail loans	386,064	26,395	13,015	13,697	439,171
Corporate loans	48,513	28,741	26,445	10,230	113,929
Municipality loans	383	2	–	2	387
<b>Total</b>	<b>434,960</b>	<b>55,138</b>	<b>39,460</b>	<b>23,929</b>	<b>553,487</b>

The loans that are past due but not impaired are concentrated in the retail loan type since in the other loan types the low level of loans past

due but not impaired is a consequence of the prudent provisioning policy of the Group.

**The fair value of funds related to past due, but not impaired loans**  
**An analysis of the fair value of funds related to past due, but not impaired loans (total collaterals) as at 31 December 2010 and 31 December 2009 is as follows:**

<b>Fair value of the collaterals (total collaterals) value</b>	<b>2010</b>	<b>2009</b>
Retail loans	466,307	465,027
Corporate loans	184,753	194,338
Municipality loans	180	353
<b>Total</b>	<b>651,240</b>	<b>659,718</b>

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

**Loans individually assessed for provision**

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for

them and the collaterals considered as at 31 December 2010 and 31 December 2009 is as follows. The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.

**As at 31 December 2010**

<b>Loan type</b>	<b>Considered factors</b>	<b>Carrying value</b>	<b>Allowance for impairment</b>	<b>Collateral value</b>	<b>Off-balance sheet commitments</b>	<b>Provision for off-balance sheet commitments</b>
Corporate	Delay of payment	145,693	69,065	104,059	1,974	–
	Regularity of payment	1,047	211	429	–	–
	Renegotiation	57,627	3,893	54,933	3,642	19
	Legal proceedings	79,065	55,339	37,280	371	220
	Decrease of client classification	362,691	49,461	211,377	24,417	306
	Loan characteristics	68,317	3,261	–	803	16
	Critical industry classification	29,762	12,140	378	5,098	450
	Country risk	7,673	3,836	–	2,609	1,304
	Other	17,459	5,106	5,054	11,783	1,253
	Cross default	38,863	22,267	4,267	2,103	1,302
<b>Corporate total</b>		<b>808,197</b>	<b>224,589</b>	<b>417,777</b>	<b>52,800</b>	<b>4,870</b>
Municipal	Delay of payment	44	21	8,966	–	–
	Renegotiation	1,749	181	–	27	3
	Legal proceedings	847	244	15	–	–
	Decrease of client classification	6,074	287	2	56	1
	Other	27,232	3,330	10	1,056	139
	Cross default	204	29	–	76	8
<b>Municipal total</b>		<b>36,150</b>	<b>4,092</b>	<b>8,993</b>	<b>1,215</b>	<b>151</b>
<b>Placement with other banks</b>		<b>7,617</b>	<b>1,679</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>		<b>851,964</b>	<b>230,360</b>	<b>426,770</b>	<b>54,015</b>	<b>5,021</b>

## As at 31 December 2009

Loan type	Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Corporate	Delay of payment	120,141	54,555	44,336	8,126	808
	Regularity of payment	407	214	100	–	–
	Renegotiation	22,207	1,811	848	418	38
	Legal proceedings	23,514	16,258	8,218	131	66
	Decrease of client classification	19,443	2,779	18,280	4,197	158
	Loan characteristics	109,185	4,319	415	11,813	896
	Critical industry classification	99,935	10,425	1,975	16,837	1,360
	Country risk	–	–	–	63,145	39,615
	Other	10,510	1,003	5,056	6,565	315
<b>Corporate total</b>		<b>478,551</b>	<b>100,073</b>	<b>80,599</b>	<b>132,962</b>	<b>45,988</b>
Municipal	Delay of payment	292	110	2,728	68	–
	Renegotiation	145	116	–	–	–
	Legal proceedings	80	1	–	–	–
	Decrease of client classification	120	8	–	22	2
	Other	2,882	350	30	346	18
	Cross default	33	26	–	–	–
<b>Municipal total</b>		<b>3,552</b>	<b>611</b>	<b>2,758</b>	<b>436</b>	<b>20</b>
<b>Placement with other banks</b>		<b>10,916</b>	<b>1,697</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>		<b>493,019</b>	<b>102,381</b>	<b>83,357</b>	<b>133,398</b>	<b>46,008</b>

By 31 December 2010 the volume of the individually rated portfolio significantly increased in the corporate loan type. Among the rating factors of the corporate loan type, the ratio of the loans determined to be impaired based on the decrease of client classification, legal proceedings, the fact of renegotiation and the regularity of payment increased mostly.

Loan characteristics:

Loans to customers are classified by using this category name if the clients are performing according to the contracts but the risks of the transactions are higher than usual (balloon payment, using loan to finance the monetary expenditures in the phase of investment).

Critical industry classification:

Transactions are classified by using this category name, if the client works in the branch which had been grievously accused by the financial crisis (vehicle industry, building industry, real estate services, metal processing, financial services).

Balance of individually qualified transactions has been significantly increased in the municipal sector due to the serious liquidity problems and the high rate of debt of the municipalities. In many cases standalone supervising and using of customized handling methods were needed.

## 27.2. Market risk

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

### 27.2.1. Market Risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and

variance-covariance approach. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

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

<b>Historical VaR (99%, one-day) by risk type</b>	<b>Average</b>	
	<b>2010</b>	<b>2009</b>
Foreign exchange	934	493
Interest rate	717	261
Equity instruments	30	15
Diversification	(297)	(189)
<b>Total VaR exposure</b>	<b>1,384</b>	<b>580</b>

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

#### **27.2.2. Foreign currency sensitivity analysis**

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

and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was EUR (310) million as of 31 December 2010 and EUR (310) million as of 31 December 2009. High portion of strategic positions is considered as effective hedge of investment of foreign subsidiaries, so FX risk affects the Group capital and not its earnings.

A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

<b>Probability</b>	<b>Effects to the Consolidated Statement of Recognized Income in 3 months period</b>	
	<b>2010 In HUF billion</b>	<b>2009 In HUF billion</b>
1%	(9.6)	(9.7)
5%	(6.3)	(6.4)
25%	(1.9)	(2.2)
50%	0.9	0.5
25%	3.5	3.1
5%	7.2	6.6
1%	9.7	9.1

#### **Notes:**

(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.

(2) Due to the stabilization of the EUR/HUF volatility the potential risk did not increased.

(3) Monte Carlo simulation is based on the historical exchange rate movements. Although

potential losses have not changed on the edge of the distribution, concerning the recent level of EUR/HUF makes appreciation and minor gains more probable.

### 27.2.3. Interest rate sensitivity analysis

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

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

- Assets and liabilities with an interest rate lower than 0.3% were assumed to be unchanged for the whole period.

The simulations were prepared by assuming two scenarios:

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

The net interest income in a one year period after 31 December 2010 would be decreased by HUF 2,597 million (probable scenario) and HUF 12,746 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,707 million (probable scenario) and HUF 8,421 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2009.

This effect is counterbalanced by capital gains (HUF 6,453 million for probable scenario, HUF 9,411 million for alternative scenario) as at 31 December 2010 and (HUF 4,560 million for probable scenario, HUF 6,900 million for alternative scenario) as at 31 December 2009 on the government bond portfolio held for hedging.

### **The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period and to the market value of the hedge government bond portfolio booked against capital can be summarized as follows (HUF million):**

Description	2010		2009	
	Effects to the net interest income (1 Year period)	Effects to capital (Price change of AFS government bonds)	Effects to the net interest income (1 Year period)	Effects to capital (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(728)	1,191	(551)	812
EUR (0.1%) parallel shift	(183)	–	(281)	–
USD 0.1% parallel shift	(80)	–	(147)	–
<b>Total</b>	<b>(991)</b>	<b>1,191</b>	<b>(979)</b>	<b>812</b>

### 27.2.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk

diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2010	2009
VaR (99%, one day, million HUF)	30	15
Stress test (million HUF)	(14)	(32)

### 27.2.5. Capital management

#### Capital management

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

The capital management of the Group members includes the management and evaluation of the shareholders' equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital. The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.

The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent

operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

#### Capital adequacy

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

The Group has entirely complied with the regulatory capital requirements.

The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the alternative standard method in case of the operational risk. The consolidated Capital adequacy ratio of the Group was 18.4% and 18.5% as at 31 December 2010 and 31 December 2009 respectively. The Regulatory capital was HUF 1,373,610 million and HUF 1,271,173 million, the Total eligible regulatory capital was HUF 596,970 million and HUF 550,853 million as at 31 December 2010 and 31 December 2009 respectively.

### Calculation on HAS basis

	2010	2009
Core capital	1,089,153	1,036,191
Supplementary capital	284,921	242,443
Deductions	(464)	(7,461)
due to investments	(464)	(428)
due to limit breaches	–	(7,033)
<b>Regulatory capital</b>	<b>1,373,610</b>	<b>1,271,173</b>
Credit risk capital requirement	480,663	453,048
Market risk capital requirement	30,807	29,490
Operational risk capital requirement	85,500	68,315
<b>Total requirement regulatory capital</b>	<b>596,970</b>	<b>550,853</b>
<b>Surplus capital</b>	<b>776,640</b>	<b>720,320</b>
Tier1 ratio	14.6%	15.0%
<b>Capital adequacy ratio</b>	<b>18.4%</b>	<b>18.5%</b>

The positive components of the Core capital are the following: Issued capital, Capital reserve, Tied-up reserve, General reserve, Profit reserve, Changes in the equity, Changes due to

consolidation, Non-controlling interest, Profit for the year, General risk reserve, Core loan capital. The negative components of the Core capital are the following: Treasury shares, Intangible assets.

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

capital are the following: Changes due to consolidation of equity.

The components of the Deductions: deductions due to investments.

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

Subsidiary bank	Country	Minimum prescribed CAR	2010	2009
OAQ OTP Bank	Russia	11%	17.0%	13.3%
OTP Bank JSC	Ukraine	10%	22.1%	17.8%
DSK Bank EAD	Bulgaria	12%	23.7%	21.9%
OTP Bank Romania S.A.	Romania	10%	14.0%	14.3%
OTP banka Srbija a.d.	Serbia	12%	16.4%	27.1%
OTP banka Hrvatska d.d.	Croatia	10%/12% <sup>1</sup>	14.2%	13.4%
OTP Banka Slovensko a. s.	Slovakia	8%	11.1%	10.7%
Crnogorska komerčijalna banka a.d.	Montenegro	10%	14,1%	13,4%

<sup>1</sup>In 2010 the minimum prescribed CAR has changed.

For international comparison purposes, the Group calculates the Regulatory capital in accordance with the Basel II directive based on IFRS data, and the consolidated Capital adequacy ratio based on this. The Capital adequacy ratio of the Group was 17.5% as at 31 December 2010 and 17.3% as at 31 December 2009. The Regulatory capital was HUF 1,304,144 million and HUF 1,194,508 million, the Total regulatory capital requirement was HUF 596,970 million and HUF 550,853 million as at 31 December 2010 and 31 December 2009 respectively.

Other reserves, Changes in the equity of subsidiaries, Profit for the year, Changes due to consolidation, Other issued capital components. The negative components of the Core capital are the following: Treasury shares, Goodwill and other intangible assets, dividend. The components of the Supplementary capital are the following: Revaluation reserve, Fair value adjustments, Share-based payment, Cash-flow hedge, Hedges of net investments in foreign operations, Other issued capital (in the Supplementary capital), Subordinated loan capital, Supplementary loan capital. The components of the Deductions: deductions due to investments.

**Calculation on IFRS basis**

The positive components of the Core capital are the following: Issued capital, Profit reserve,

	2010	2009
Core capital	1,045,977	952,416
Positive components	1,361,633	1,272,721
Issued capital	28,000	28,000
Reserves	1,220,821	1,126,443
Other issued capital components	112,812	118,278
Negative components	(315,656)	(320,305)
Treasury shares	(52,597)	(52,678)
Goodwill and other intangible assets	(263,059)	(267,627)
Supplementary capital	258,632	242,521
Fair value corrections	(12,948)	(34,589)
Subordinated bonds and loans	271,580	277,110
Deductions	(464)	(428)
<b>Regulatory capital</b>	<b>1,304,144</b>	<b>1,194,509</b>
Credit risk capital requirement	480,663	453,048
Market risk capital requirement	30,807	29,490
Operational risk capital requirement	85,500	68,315
<b>Total requirement regulatory capital</b>	<b>596,970</b>	<b>550,853</b>
<b>Surplus capital</b>	<b>707,174</b>	<b>643,655</b>
Tier I ratio	14.0%	13.8%
<b>Capital adequacy ratio</b>	<b>17.5%</b>	<b>17.3%</b>

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

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the Consolidated Statement of Financial Position and are referred to

as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

	<b>2010</b>	<b>2009</b>
Legal disputes (disputed value)	9,596,769	32,566
Commitments to extend credit	819,308	730,399
Guarantees arising from banking activities	282,232	245,654
Confirmed letters of credit	6,458	6,579
Other	110,653	91,916
<b>Total</b>	<b>10,815,420</b>	<b>1,107,114</b>

**Legal disputes**

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

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

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 3,953 million and HUF 6,084 million as at 31 December 2010 and 31 December 2009, respectively. (See Note 17.)

**Commitments to extend credit, guarantees and letters of credit**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of

credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

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

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

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

## Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group.

A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

## Derivatives

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

risk exposures on these instruments, except for trading with clients, where the Group in most of the cases requires margin deposits.

## Foreign currency contracts

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

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

## Foreign exchange swaps and interest rate swaps

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

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

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

## Cross-currency interest rate swaps

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

## Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based

on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

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

## NOTE 29:

### SHARE-BASED PAYMENT

The 2006 Annual General Meeting approved a five year share option program for the years of 2006 to 2010 under which options are granted annually. The grant date of these options is 28 April 2006 and the date of the Annual General Meeting of 2007 (27 April 2007) for the increased amount of share options under the modified program.

The exercise prices of the options relating to the years of 2006 to 2010 are calculated as the average of the market price of OTP shares quoted by the BSE daily during the period between 30 April and 30 May in the actual year and decreased by HUF 1,000. In that case if the average price of the shares exceeds by more than HUF 3,000 the exercise price one day before the date of exercise, the exercise price would be increased by the amount above the HUF 3,000.

The 2007 Annual General Meeting approved a few changes in the program:

The exercise prices of the options relating to the years of 2006 to 2010 is calculated as the average of the market price of OTP shares quoted by the BSE daily during the three month period ended 31 March in the actual year and decreased by

HUF 2,000. In that case if the average price of the shares exceeds by more than HUF 4,000 the exercise price one day before the date of exercise, the exercise price would be increased by the amount above the HUF 4,000.

The vesting conditions of the option program are that, two of following conditions should be fulfilled:

- the growth of the net income reaches 10%,
- the ROA indicator for the actual year ended 31 December should be at least 2.1%,
- the ROE indicator for the actual year ended 31 December should be at least 20%

The exercise period of the options granted for the year of 2005 is two years and for the years of 2006 to 2010 is 19 months. The exercise period of the option program for the years of 2006 to 2010 must be opened at 1 June in the actual year, the period can be prolonged by two years. If the options remain unexercised before the end of the exercise period, the options expire. Additionally, options are forfeited if the employee leaves the Bank before the options vest. The options can only be settled by physical delivery, therefore the option program is accounted as equity-settled share based transaction.

In connection with the equity-settled share-based payment programs HUF 6,802 million has been recognised as an expense in 2009. In 2010 the Bank did not recognise any expense in

relation to equity-settled share-based payment programs because the key performance indicators – that were the vesting conditions of the options – were not fulfilled.

	2010		2009	
	Options (number of shares)	Weighted average exercise price (in HUF)	Options (number of shares)	Weighted average exercise price (in HUF)
Outstanding at beginning of period	–	–	2,534,950	6,484
Granted during the period	3,068,800	134	–	–
Forfeited during the period	–	–	2,534,950	6,484
Repurchased during the period	2,988,800	134	–	–
Exercised during the period	–	–	–	–
Outstanding at the end of the period	30,000	569	–	–
Exercisable at the end of the period	50,000	134	–	–

In 2009 there were no share options having been exercised. 3,068,800 pieces of shares from the total 3,500,000 had been available for exercise for 2009 were distributed to the management in relation to their accomplishment

and due to personal changes. With the consent of the parties the Board of Directors made a decision on the redemption of the option rights granted for 2009. The redemption price was HUF 3,975 per share.

	2010	2009
Weighted average exercise price of the options outstanding	134	–
Weighted average remaining contractual life (month)	12	–
Weighted average number of shares	50,000	–

***The inputs to the Valuation model at the grant date were as follows related to the share options vesting for the years ended :***

	2010	2009
Weighted average spot share price (HUF)	–	8,272
Weighted average exercise price (HUF)*	–	8,875
Expected volatility (%)	–	32
Expected life (average year)	–	5.45
Risk free rate (%)	–	7.63
Expected dividends (%)	–	1.95
Cap for the maximum gain (HUF/option)	–	4,000

\* Exercise price is determined by the AGM after the vesting period, therefore the exercise price was estimated by using the forward share price as of the grant date. Expected volatility was determined by calculating the historical volatility of the Bank's share price three months prior to the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

**NOTE 30:****RELATED PARTY TRANSACTIONS (in HUF million)**

The compensation of key management personnel, such as the members of the Board of Directors, members of the Supervisory Board, key employees of the Bank and its major subsidiaries involved in the

decision-making process in accordance with the compensation categories defined in IAS 24 Related party disclosures, is summarised below:

<b>Compensations</b>	<b>2010</b>	<b>2009</b>
Short-term employee benefits	12,828	9,949
Other long-term employee benefits	197	94
Termination benefits	74	31
Redundancy payments	74	–
Share-based payment	–	3,139
<b>Total</b>	<b>13,173</b>	<b>13,213</b>

	<b>2010</b>	<b>2009</b>
Loans provided to companies owned by the management (normal course of business)	36,617	31,876
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions)	117	218
Commitments to extend credit and guarantees	9	103

	<b>2010</b>	<b>2009</b>
Loans provided to unconsolidated subsidiaries	43,275	40,027

**NOTE 31:****MAJOR SUBSIDIARIES**

Investments in companies in which the Bank has a controlling interest are detailed below. They are fully consolidated companies and

incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

Name	2010 Ownership (Direct and Indirect)	2009 Ownership (Direct and Indirect)	Activity
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
OAOTP Bank (Russia)	95.87%	95.55%	commercial banking services
CJSC Donskoy Narodny Bank (Russia)	–	100.00%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	91.43%	91.43%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	98.82%	97.24%	commercial banking services
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	flat finance and reconstruction
OTP Fund Management Ltd.	100.00%	100.00%	fund management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)/OTP Financing Cyprus	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Two Commercial Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd.	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services
OTP Factoring Ukraine LLC	100.00%	100.00%	work-out

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

**As at 31 December 2010:**

	Moneta Ltd.	Company for Cach Services Ltd.	Suzuki Pénzügyi Szolgáltató Cjsc.	Agóra-Kapos Ltd.	Total
Total assets	694	1,936	598	343	3,571
Total liabilities	485	233	5	326	1,049
Shareholders' equity	209	1,703	593	17	2,522
Reserves	(260)	–	541	–	281
Total revenues	319	765	46	501	1,631
Profit before income tax	(133)	12	4	20	(97)
Profit after income tax	(133)	11	2	17	(103)

**As at 31 December 2009:**

	Moneta Ltd.	Company for Cach Services Ltd.	Suzuki Pénzügyi Szolgáltató Cjsc.	Total
Total assets	744	1,904	598	3,246
Total liabilities	358	260	5	623
Shareholders' equity	386	1,644	593	2,623
Reserves	(253)	–	538	285
Total revenues	273	757	73	1,103
Profit before income tax	59	8	5	72
Profit after income tax	53	7	5	65

**NOTE 32:****TRUST ACTIVITIES (in HUF million)**

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related

funds are not considered to be assets or liabilities of the Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

	<b>2010</b>	<b>2009</b>
The amount of loans managed by the Group as a trustee	44,300	45,172

**NOTE 33:****CONCENTRATION OF ASSETS AND LIABILITIES**

<b>In the percentage of the total assets</b>	<b>2010</b>	<b>2009</b>
Receivables from, or securities issued by the Hungarian Government or the NBH	9.8%	14.2%

There were no other significant concentrations of the assets or liabilities of the Group as at 31 December 2010 or as at 31 December 2009.

maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

The Group continuously provides the supervisory authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Group.

Further to this obligatory reporting to the authority, the Group pays particular attention on the exposure of its largest partners and cares for

The organisational unit of the Group in charge of partner-risk management analyses the biggest partners on a constant basis and sets limits on the Bank's and the Group's exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas.

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

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations prescribed by the NBH. The following tables provide an analysis of assets, liabilities and

shareholders' equity into relevant maturity groupings based on the remaining period from the period end to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

<b>As at 31 December 2010</b>	<b>Within 3 months</b>	<b>Within one year and over months</b>	<b>Within 5 years and over one year</b>	<b>Over 5 years</b>	<b>Without maturity</b>	<b>Total</b>
Cash, amounts due from banks and balances with the National Banks	496,240	16,176	156	466	–	513,038
Placements with other banks, net of allowance for placements losses	498,465	8,173	4,360	246	–	511,244
Financial assets at fair value through profit or loss	30,988	36,531	35,642	22,917	107,589	233,667
Securities available-for-sale	390,478	137,581	283,241	180,497	16,300	1,008,097
Loans, net of allowance for loan losses	651,880	1,088,792	1,755,872	3,244,515	–	6,741,059
Associates and other investments	–	–	–	–	11,554	11,554
Securities held-to-maturity	29,727	40,070	77,873	24,632	–	172,302
Property and equipment, Intangible assets	–	–	–	–	480,828	480,828
Other assets	42,977	26,276	30,263	9,641	–	109,157
<b>TOTAL ASSETS</b>	<b>2,140,755</b>	<b>1,353,599</b>	<b>2,187,407</b>	<b>3,482,914</b>	<b>616,271</b>	<b>9,780,946</b>
Amounts due to banks, the Hungarian overnment, deposits from the National Banks and other banks	352,235	9,413	181,752	138,549	–	681,949
Deposits from customers	4,273,546	1,334,423	183,901	29,619	–	5,821,489
Liabilities from issued securities	144,738	589,935	237,784	62,696	–	1,035,153
Financial liabilities at fair value through profit or loss	81,780	74,881	94,376	6,015	–	257,052
Other liabilities	244,924	120,692	12,215	7,913	–	385,744
Subordinated bonds and loans	3,473	15	54,160	134,070	98,912	290,630
<b>TOTAL LIABILITIES</b>	<b>5,100,696</b>	<b>2,129,359</b>	<b>764,188</b>	<b>378,862</b>	<b>98,912</b>	<b>8,472,017</b>
Share capital	–	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	–	1,327,638	1,327,638
Treasury shares	–	–	–	–	(52,597)	(52,597)
Non-controlling interest	–	–	–	–	5,888	5,888
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,308,929</b>	<b>1,308,929</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>5,100,696</b>	<b>2,129,359</b>	<b>764,188</b>	<b>378,862</b>	<b>1,407,841</b>	<b>9,780,946</b>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<b>(2,959,941)</b>	<b>(775,760)</b>	<b>1,423,219</b>	<b>3,104,052</b>	<b>(791,570)</b>	<b>–</b>

<b>As at 31 December 2009</b>	<b>Within 3 months</b>	<b>Within one year and over months</b>	<b>Within 5 years and over one year</b>	<b>Over 5 years</b>	<b>Without maturity</b>	<b>Total</b>
Cash, amounts due from banks and balances with the National Banks	505,649	–	–	–	–	505,649
Placements with other banks, net of allowance for placements losses	360,506	68,757	11,241	347	–	440,851
Financial assets at fair value through profit or loss	71,134	29,638	52,357	102,971	–	256,100
Securities available-for-sale	751,750	88,110	274,764	239,661	–	1,354,285
Loans, net of allowance for loan losses	617,956	966,976	1,747,451	3,080,333	–	6,412,716
Associates and other investments	–	–	–	–	18,834	18,834
Securities held-to-maturity	20,676	36,367	104,480	27,330	–	188,853
Property and equipment, Intangible assets	–	–	–	–	476,358	476,358
Other assets	36,511	44,317	18,736	1,922	–	101,486
<b>TOTAL ASSETS</b>	<b>2,364,182</b>	<b>1,234,165</b>	<b>2,209,029</b>	<b>3,452,564</b>	<b>495,192</b>	<b>9,755,132</b>
Amounts due to banks, the Hungarian overnment, deposits from the National Banks and other banks	148,219	235,502	106,018	313,010	–	802,749
Deposits from customers	4,404,224	1,079,141	181,280	24,242	–	5,688,887
Liabilities from issued securities	762,102	31,108	394,544	222,594	–	1,410,348
Financial liabilities at fair value through profit or loss	36,416	16,203	59,659	6,190	–	118,468
Other liabilities	211,916	8,399	34,429	7,496	–	262,240
Subordinated bonds and loans	465	252	4,035	276,082	–	280,834
<b>TOTAL LIABILITIES</b>	<b>5,563,342</b>	<b>1,370,605</b>	<b>779,965</b>	<b>849,614</b>	<b>–</b>	<b>8,563,526</b>
Share capital	–	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	–	1,265,600	1,265,600
Treasury shares	–	–	–	–	(108,146)	(108,146)
Non-controlling interest	–	–	–	–	6,152	6,152
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,191,606</b>	<b>1,191,606</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>5,563,342</b>	<b>1,370,605</b>	<b>779,965</b>	<b>849,614</b>	<b>1,191,606</b>	<b>9,755,132</b>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<b>(3,199,160)</b>	<b>(136,440)</b>	<b>1,429,064</b>	<b>2,602,950</b>	<b>(696,414)</b>	<b>–</b>

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

<b>As at 31 December 2010</b>	<b>USD</b>	<b>EUR</b>	<b>CHF</b>	<b>Other</b>	<b>Total</b>
Assets	691,852	2,373,293	1,529,159	2,276,029	6,870,333
Liabilities	(207,776)	(2,644,529)	(120,992)	(1,315,876)	(4,289,173)
Off-balance sheet assets and liabilities, net	(354,571)	218,998	(1,484,742)	(40,709)	(1,661,024)
<b>Net position</b>	<b>129,505</b>	<b>(52,238)</b>	<b>(76,575)</b>	<b>919,444</b>	<b>920,136</b>

<b>As at 31 December 2009</b>	<b>USD</b>	<b>EUR</b>	<b>CHF</b>	<b>Other</b>	<b>Total</b>
Assets	766,152	2,472,194	1,435,992	995,489	5,669,827
Liabilities	(412,554)	(3,190,517)	(103,419)	(1,136,012)	(4,842,502)
Off-balance sheet assets and liabilities, net	(358,347)	769,872	(1,428,065)	(181,304)	(1,197,844)
<b>Net position</b>	<b>(4,749)</b>	<b>51,549</b>	<b>(95,492)</b>	<b>(321,827)</b>	<b>(370,519)</b>

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within 'Others'. 'Others' category contains mainly foreign currencies in RON, UAH, RUB and BGN. Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of

the National Banks and own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the 'Value-at-Risk' ("VaR") limit on the foreign exchange exposure of the Group.

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

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

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

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

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

## As at 31 December 2010

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest- bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
<b>ASSETS</b>															
Cash, amounts due from banks and balances with the National Banks	100,759	61,768	–	4,007	–	6,978	–	85	–	503	58,650	280,288	159,409	353,629	513,038
fixed rate	100,307	9,054	–	36	–	240	–	3	–	–	–	–	100,307	9,333	109,640
variable rate	452	52,714	–	3,971	–	6,738	–	82	–	503	–	–	452	64,008	64,460
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	58,650	280,288	58,650	280,288	338,938
Placements with other banks, net of allowance for placements losses	19,687	358,348	9	71,692	–	39,297	–	947	–	4,428	43	16,793	19,739	491,505	511,244
fixed rate	19,687	306,146	–	27,764	–	3,282	–	414	–	4,247	–	–	19,687	341,853	361,540
variable rate	–	52,202	9	43,928	–	36,015	–	533	–	181	–	–	9	132,859	132,868
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	43	16,793	43	16,793	16,836
Securities held for trading	20,000	1,118	222	283	3,680	726	2,483	2,427	8,338	11,561	105,943	2,466	140,666	18,581	159,247
fixed rate	20,000	81	204	283	3,680	717	2,483	2,427	8,338	11,561	–	–	34,705	15,069	49,774
variable rate	–	1,037	18	–	–	9	–	–	–	–	–	–	–	18	1,064
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	105,943	2,466	105,943	2,466	108,409
Securities available-for-sale	312,007	21,260	501	39,797	71,040	80,194	48,423	4,958	301,939	73,942	38,079	15,957	771,989	236,108	1,008,097
fixed rate	312,007	19,196	501	39,081	71,040	80,194	48,423	4,958	300,243	73,942	–	–	732,214	217,371	949,585
variable rate	–	2,064	–	716	–	–	–	–	1,696	–	–	–	–	1,696	2,780
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	38,079	15,957	38,079	15,957	54,036
Loans, net of allowance for loan losses	817,694	3,266,004	45,661	264,573	250,115	987,395	92,261	129,003	336,202	323,816	85,365	142,970	1,627,298	5,113,761	6,741,059
fixed rate	9,314	79,887	1,933	82,600	2,205	263,182	2,134	120,333	8,295	308,272	–	–	23,881	854,274	878,155
variable rate	808,380	3,186,117	43,728	181,973	247,910	724,213	90,127	8,670	327,907	15,544	–	–	1,518,052	4,116,517	5,634,569
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	85,365	142,970	85,365	142,970	228,335
Securities held-to-maturity	20,017	5,977	21,996	7,309	26,596	19,781	365	6,742	20,702	38,812	2,163	1,842	91,839	80,463	172,302
fixed rate	–	1,003	14,051	6,846	15,731	19,736	365	6,742	20,702	38,812	–	–	50,849	73,139	123,988
variable rate	20,017	4,974	7,945	463	10,865	45	–	–	–	–	–	–	38,827	5,482	44,309
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	2,163	1,842	2,163	1,842	4,005
Derivative financial instruments	811,957	1,130,879	818,718	553,692	394,740	86,539	3,479	3,029	26,202	2,087	–	–	2,055,096	1,776,226	3,831,322
fixed rate	459,293	817,193	41,739	100,136	321,630	86,386	3,479	3,029	26,202	2,087	–	–	852,343	1,008,831	1,861,174
variable rate	352,664	313,686	776,979	453,556	73,110	153	–	–	–	–	–	–	1,202,753	767,395	1,970,148

## As at 31 December 2010

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest- bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
<b>LIABILITIES</b>															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	92,985	373,434	16,001	10,815	118,884	13,949	4	15,311	283	37,461	837	1,985	228,994	452,955	681,949
fixed rate	90,815	87,411	8,418	8,706	3,874	4,272	4	3,467	283	37,397	–	–	103,394	141,253	244,647
variable rate	2,170	286,023	7,583	2,109	115,010	9,677	–	11,844	–	64	–	–	124,763	309,717	434,480
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	837	1,985	837	1,985	2,822
Deposits from customers	931,742	1,762,360	662,537	393,339	532,131	563,483	84,080	49,463	585,721	118,094	12,967	125,572	2,809,178	3,012,311	5,821,489
fixed rate	500,979	567,608	645,993	393,258	531,627	563,051	84,080	49,269	20,484	14,480	–	–	1,783,163	1,587,666	3,370,829
variable rate	430,763	1,194,752	16,544	81	504	432	–	194	565,237	103,614	–	–	1,013,048	1,299,073	2,312,121
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	12,967	125,572	12,967	125,572	138,539
Liabilities from issued securities	34,974	1,223	71,783	18,802	196,037	384,443	81,388	20,104	139,342	58,972	23,143	4,942	546,667	488,486	1,035,153
fixed rate	27,499	1,223	58,198	12,691	196,037	384,443	81,388	20,104	139,342	58,972	–	–	502,464	477,433	979,897
variable rate	7,475	–	13,585	6,111	–	–	–	–	–	–	–	–	21,060	6,111	27,171
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	23,143	4,942	23,143	4,942	28,085
Derivative financial instruments	641,297	1,377,362	43,305	1,336,517	74,064	498,463	9,630	2,495	12,736	12,551	–	–	781,032	3,227,388	4,008,420
fixed rate	629,848	644,609	32,495	108,703	56,926	435,607	9,630	2,495	12,736	12,551	–	–	741,635	1,203,965	1,945,600
variable rate	11,449	732,753	10,810	1,227,814	17,138	62,856	–	–	–	–	–	–	39,397	2,023,423	2,062,820
Subordinated bonds and loans	–	12	–	34,815	–	14,979	–	–	5,000	234,819	8	997	5,008	285,622	290,630
fixed rate	–	–	–	–	–	–	–	–	5,000	234,819	–	–	5,000	234,819	239,819
variable rate	–	12	–	34,815	–	14,979	–	–	–	–	–	–	–	49,806	49,806
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8	997	8	997	1,005
<b>Net position</b>	<b>401,123</b>	<b>1,330,963</b>	<b>93,481</b>	<b>(852,935)</b>	<b>(174,945)</b>	<b>(254,407)</b>	<b>(28,091)</b>	<b>59,818</b>	<b>(49,699)</b>	<b>(6,748)</b>	<b>253,288</b>	<b>326,820</b>	<b>495,157</b>	<b>603,511</b>	<b>1,098,668</b>

## As at 31 December 2009

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest- bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
<b>ASSETS</b>															
Cash, amounts due from banks and balances with the National Banks	96,112	133,011	170	–	–	–	–	–	–	–	50,337	226,019	146,619	359,030	505,649
fixed rate	95,747	129,275	–	–	–	–	–	–	–	–	–	–	95,747	129,275	225,022
variable rate	365	3,736	170	–	–	–	–	–	–	–	–	–	535	3,736	4,271
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	50,337	226,019	50,337	226,019	276,356
Placements with other banks, net of allowance for placements losses	13,149	383,273	–	5,112	–	9,014	–	1,155	–	826	206	28,116	13,355	427,496	440,851
fixed rate	13,136	344,605	–	2,461	–	665	–	503	–	151	–	–	13,136	348,385	361,521
variable rate	13	38,668	–	2,621	–	8,349	–	652	–	675	–	–	13	50,995	51,008
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	206	28,116	206	28,116	28,322
Securities held for trading	49,773	863	170	–	3,476	462	1,780	249	14,318	2,901	87,278	1,595	156,795	6,070	162,865
fixed rate	49,773	–	152	–	3,476	411	1,780	249	14,318	2,901	–	–	69,499	3,561	73,060
variable rate	–	863	18	–	–	51	–	–	–	–	–	–	18	914	932
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	87,278	1,595	87,278	1,595	88,873
Securities available-for-sale	718,651	3,973	10,709	104,954	19,937	56,849	70,372	29,178	244,808	59,349	8,368	27,137	1,072,845	281,440	1,354,285
fixed rate	718,651	1,866	7,096	6,620	19,937	40,625	70,372	11,590	243,090	58,756	–	–	1,059,146	119,457	1,178,603
variable rate	–	2,107	3,613	98,334	–	16,224	–	17,588	1,718	593	–	–	5,331	134,846	140,177
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8,368	27,137	8,368	27,137	35,505
Loans, net of allowance for loan losses	822,682	3,311,187	52,532	231,138	134,056	734,596	55,285	45,355	388,323	390,438	55,332	191,792	1,508,210	4,904,506	6,412,716
fixed rate	12,759	39,442	2,533	23,116	3,224	205,784	2,019	24,165	9,138	341,450	–	–	29,673	633,957	663,630
variable rate	809,923	3,271,745	49,999	208,022	130,832	528,812	53,266	21,190	379,185	48,988	–	–	1,423,205	4,078,757	5,501,962
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	55,332	191,792	55,332	191,792	247,124
Securities held-to-maturity	23,349	13,379	7,973	9,984	27,750	16,480	29,202	2,838	20,964	33,173	2,178	1,583	111,416	77,439	188,853
fixed rate	–	8,450	–	8,865	16,885	16,480	29,202	2,838	20,964	33,173	–	–	67,051	69,806	136,857
variable rate	23,349	4,929	7,973	1,119	10,865	–	–	–	–	–	–	–	42,187	6,048	48,235
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	2,178	1,583	2,178	1,583	3,761
Derivative financial instruments	591,140	1,014,857	848,862	861,010	229,989	41,928	11,576	228,605	24,489	6,251	–	–	1,706,056	2,152,651	3,858,707
fixed rate	259,983	657,084	49,244	394,910	149,174	40,345	11,576	228,605	24,489	6,251	–	–	494,466	1,327,195	1,821,661
variable rate	331,157	357,773	799,618	466,100	80,815	1,583	–	–	–	–	–	–	1,211,590	825,456	2,037,046

## As at 31 December 2009

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest- bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
<b>LIABILITIES</b>															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	25,709	104,424	25,554	331,360	82,148	137,762	1	22,798	48	70,838	1,952	155	135,412	667,337	802,749
fixed rate	21,394	64,747	19,668	5,562	1,949	111,624	1	944	48	47,407	–	–	43,060	230,284	273,344
variable rate	4,315	39,677	5,886	325,798	80,199	26,138	–	21,854	–	23,431	–	–	90,400	436,898	527,298
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,952	155	1,952	155	2,107
Deposits from customers	1,286,443	1,708,572	518,026	290,308	429,680	398,694	75,794	87,924	560,859	193,947	22,437	116,203	2,893,239	2,795,648	5,688,887
fixed rate	791,756	635,106	497,916	290,308	421,637	394,881	75,794	87,924	14,682	159,801	–	–	1,801,785	1,568,020	3,369,805
variable rate	494,687	1,073,466	20,110	–	8,043	3,813	–	–	546,177	34,146	–	–	1,069,017	1,111,425	2,180,442
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	22,437	116,203	22,437	116,203	138,640
Liabilities from issued securities	35,687	150,425	36,518	352,106	180,078	30,487	35,190	332,970	155,895	61,249	19,508	20,235	462,876	947,472	1,410,348
fixed rate	22,455	2,272	36,518	260,267	180,078	30,487	35,190	332,970	155,895	61,249	–	–	430,136	687,245	1,117,381
variable rate	13,232	148,153	–	91,839	–	–	–	–	–	–	–	–	13,232	239,992	253,224
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	19,508	20,235	19,508	20,235	39,743
Derivative financial instruments	927,406	914,113	1,416,108	335,906	247,120	19,530	15,283	17,577	10,835	12,137	–	–	2,616,752	1,299,263	3,916,015
fixed rate	217,783	700,092	139,647	35,282	166,547	19,526	15,283	17,577	10,835	12,137	–	–	550,095	784,614	1,334,709
variable rate	709,623	214,021	1,276,461	300,624	80,573	4	–	–	–	–	–	–	2,066,657	514,649	2,581,306
Subordinated bonds and loans	–	588	5,000	17,293	–	11,530	–	–	13,325	229,375	61	3,662	18,386	262,448	280,834
fixed rate	–	–	–	–	–	–	–	–	13,325	229,375	–	–	13,325	229,375	242,700
variable rate	–	588	5,000	17,293	–	11,530	–	–	–	–	–	–	5,000	29,411	34,411
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	61	3,662	61	3,662	3,723
<b>Net position</b>	<b>39,611</b>	<b>1,982,421</b>	<b>(1,080,790)</b>	<b>(114,775)</b>	<b>(523,818)</b>	<b>261,326</b>	<b>41,947</b>	<b>(153,889)</b>	<b>(48,060)</b>	<b>(74,608)</b>	<b>159,741</b>	<b>335,987</b>	<b>(1,411,369)</b>	<b>2,236,462</b>	<b>825,093</b>

**NOTE 37:****EARNINGS PER SHARE**

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the year attributable to ordinary shareholders, after the

deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year.

	<b>2010</b>	<b>2009</b>
Net profit for the year attributable to ordinary shareholders (in HUF mn)	117,930	151,045
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	266,485,429	261,608,279
<b>Basic Earnings per share (in HUF)</b>	<b>443</b>	<b>577</b>
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	117,930	151,045
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	269,617,607	263,929,565
<b>Diluted Earnings per share (in HUF)</b>	<b>437</b>	<b>572</b>

	<b>2010</b>	<b>2009</b>
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	13,514,581	18,391,731
<b>Weighted average number of ordinary shares outstanding during the year for calculating basic EPS</b>	<b>266,485,429</b>	<b>261,608,279</b>
Dilutive effects of options issued in accordance with Management Option Program and convertible into ordinary shares	3,132,178	2,321,286
<b>The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS</b>	<b>269,617,607</b>	<b>263,929,565</b>

**NOTE 38:****NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF million)****As at 31 December 2010**

	<b>Net interest gain and loss</b>	<b>Net non-interest gain and loss</b>	<b>Provision</b>	<b>Other comprehensive income</b>
Cash, amounts due from banks and balances with the National Banks	5,052	–	–	–
Placements with other banks, net of allowance for placements losses	6,728	–	1,418	–
Securities held for trading	2,091	415	–	–
Securities available-for-sale	73,247	4,397	5,369	(13,298)
Loans, net of allowance for loan losses	728,282	11,915	(274,442)	–
From this: Consumer loans	279,503			
Housing loans	197,274			
Corporate loans	166,706			
Mortgage backed loans	68,952			
Municipality loans	15,847			
Securities held-to-maturity	11,991	(3,356)	4,385	–
Derivative financial instruments	94,148	(9,917)	–	–
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	(15,897)	–	–	–
Deposits from customers	(214,729)	105,617	–	–
Liabilities from issued securities	(61,877)	–	–	–
Subordinated bonds and loans	(12,611)	–	–	–
<b>Total</b>	<b>616,425</b>	<b>109,071</b>	<b>(263,270)</b>	<b>(13,298)</b>

## As at 31 December 2009

	Net interest gain and loss	Net non-interest gain and loss	Provision	Other comprehensive income
Cash, amounts due from banks and balances with the National Banks	7,515	–	–	–
Placements with other banks, net of allowance for placements losses	10,311	–	(4,819)	–
Securities held for trading	5,556	395	–	–
Securities available-for-sale	31,373	(501)	–	12,273
Loans, net of allowance for loan losses	766,747	8,188	(244,460)	–
From this:				
Consumer loans	257,875			
Housing loans	208,598			
Corporate loans	213,461			
Mortgage backed loans	69,204			
Municipality loans	17,609			
Securities held-to-maturity	45,803	(2,896)	–	–
Derivative financial instruments	131,739	(15,836)	–	–
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	(36,535)	–	–	–
Deposits from customers	(276,619)	102,541	–	–
Liabilities from issued securities	(79,770)	–	–	–
Subordinated bonds and loans	(16,340)	–	–	–
<b>Total</b>	<b>589,780</b>	<b>91,891</b>	<b>(249,279)</b>	<b>12,273</b>

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

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

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

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

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

## a) Fair value of financial assets and liabilities

	2010		2009	
	Carrying amount	Fair Value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Banks	513,038	513,038	505,649	505,844
Placements with other banks, net of allowance for placements losses	511,244	512,195	440,851	455,802
Financial assets at fair value through profit or loss	233,667	233,667	256,100	256,100
Securities held for trading	159,247	159,247	178,556	178,556
FVA of derivative financial instruments designated as held for trading	74,420	74,420	77,544	77,544
Securities available-for-sale	1,008,097	1,008,097	1,354,285	1,354,285
Loans, net of allowance for loan losses	6,741,059	7,787,442	6,412,716	6,679,949
Securities held-to-maturity	172,302	167,130	188,853	184,895
FVA of derivative financial instruments designated as fair value hedge	8,489	8,489	14,181	14,181
<b>Financial assets total</b>	<b>9,187,896</b>	<b>10,230,058</b>	<b>9,172,635</b>	<b>9,451,056</b>
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	681,949	621,968	802,749	832,101
Deposits from customers	5,821,489	5,802,637	5,688,887	5,668,845
Liabilities from issued securities	1,035,153	947,864	1,410,348	1,399,933
FVA of derivative financial instruments designated as fair value hedge	115,159	115,159	22,249	22,249
FVA of derivative financial instruments designated as held for trading	257,052	257,052	118,468	118,468
Subordinated bonds and loans	290,630	219,966	280,834	210,075
<b>Financial liabilities total</b>	<b>8,201,432</b>	<b>7,964,646</b>	<b>224,593</b>	<b>8,251,671</b>

## b) Fair value of derivative instruments

	2010		2009	
	Fair value	Fair value	Notional value, net	Notional value, net
<b>Interest rate swaps designated as held for trading</b>				
Positive fair value of interest rate swaps designated as held for trading	34,413	53,721	44,613	56,695
Negative fair value of interest rate swaps designated as held for trading	(40,064)	(47,043)	(59,736)	(45,962)
<b>Foreign exchange swaps designated as held for trading</b>				
Positive fair value of foreign exchange swaps designated as held for trading	15,442	5,947	20,958	6,360
Negative fair value of foreign exchange swaps designated as held for trading	(4,611)	(5,182)	(4,306)	(4,133)
<b>Interest rate swaps designated as fair value hedge</b>				
Positive fair value of interest rate swaps designated as fair value hedge	8,477	14,147	13,412	10,507
Negative fair value of interest rate swaps designated as fair value hedge	(7,143)	(3,569)	(11,479)	(3,740)
<b>CCIRS designated as held for trading</b>				
Positive fair value of CCIRS designated as held for trading	11,539	11,421	(4,437)	3,552
Negative fair value of CCIRS designated as held for trading	(197,440)	(54,169)	(177,976)	(4,734)
<b>Mark-to-market CCIRS designated</b>				
Positive fair value of mark-to-market CCIRS designated as held for trading	7,399	5,133	40,124	40,776
Negative fair value of mark-to-market CCIRS designated as held for trading	(9,437)	(7,348)	1,852	40,803
<b>CCIRS designated as fair value hedge</b>				
Positive fair value of CCIRS designated as fair value hedge	–	–	–	–
Negative fair value of CCIRS designated as fair value hedge	(108,012)	(18,615)	(113,266)	(40,518)
<b>Other derivative contracts designated as fair value hedge</b>				
Positive fair value of other derivative contracts designated as fair value hedge	12	33	–	26
Negative fair value of other derivative contracts designated as fair value hedge	(4)	(65)	(4)	(65)
<b>Other derivative contracts designated as held for trading</b>				
Positive fair value of other derivative contracts designated as held for trading	5,627	1,323	2,709	773
Negative fair value of other derivative contracts designated as held for trading	(5,500)	(4,726)	(2,248)	(12,189)
<b>Derivative financial assets total</b>	<b>82,909</b>	<b>91,725</b>	<b>117,379</b>	<b>118,689</b>
<b>Derivative financial liabilities total</b>	<b>(372,211)</b>	<b>(140,717)</b>	<b>(367,163)</b>	<b>(70,538)</b>
<b>Derivative financial instruments total</b>	<b>(289,302)</b>	<b>(48,992)</b>	<b>(249,784)</b>	<b>48,151</b>

## c) Hedge accounting

The Group regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction

do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading.

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

#### As at 31 December 2010

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash flow hedges	–	–	–
Fair value hedges	IRS	HUF 1,334 million	Interest rate
	Options	HUF 0 million	Foreign exchange
	CCIRS	HUF (108,012) million	Foreign exchange and interest rate
Net investment hedge in foreign operations	CCIRS	HUF (2,521) million	Foreign exchange

#### As at 31 December 2009

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash flow hedges	–	–	–
Fair value hedges	IRS	HUF 10,578 million	Interest rate
	Options	HUF 1 million	Foreign exchange
	CCIRS	HUF (18,615) million	Foreign exchange and interest rate
Net investment hedge in foreign operations	CCIRS	HUF (2,118) million	Foreign exchange

## d) Fair value hedges

### 1. Deposits from customers

The interest payment cash-flows of some structured deposits of the Group denominated in HUF are exposed to the change of equity prices, equity indices or the change of EUR/HUF exchange rate. In order to hedge

the interest rate risk of the interest payments the Group entered into interest rate swap transactions, where the risk of the cash-flow's from the structured deposits were swapped to payments linked to 3 or 6 months BUBOR, resulting in a decrease in the fair value exposure of the deposits from customers.

	2010	2009
Fair value of the hedging instruments	(61)	3,461

### 2. Securities available-for-sale

The Group holds fixed interest rate securities denominated in currencies within the available-for-sale portfolio. These fixed interest rate securities are exposed to the fair value risk driven by the changes in the risk-free interest rates.

In order to hedge the interest rate risk of the cash-flows the Bank entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 6 month LIBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

	2010	2009
Fair value of the hedging instruments	(128)	348

### 3. Loans to customers

#### 3.1. Hedges of foreign exchange rate risk

The Group has some loans to customers denominated in foreign exchange, where the Group ensures during a part of the loan term,

that the FX rate applied to the customer will not exceed a pre-defined cap limit. In order to hedge the foreign exchange risk of the translation of the cash-flows from the loan at a pre-determined rate the Group entered into FX options providing the right to the Group to purchase the foreign exchange on a pre-determined exercise price.

	2010	2009
Fair value of the hedging instruments	–	2

#### 3.2. Hedges of interest rate risk

The Group has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows

the Group entered into pay-fixed, receive-floater interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 or 6 month LIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.

	2010	2009
Fair value of the hedging instruments	(1,238)	(1,335)

### 4. Issued securities

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the EUR/CHF and EUR/JPY foreign exchange rate and the risk of change in the risk-free interest rates of EUR, CHF and JPY. The interest rate

risk and foreign exchange risk related to these securities are hedged with EUR-CHF and EUR-JPY CCIRS transactions, where the fixed EUR cash-flows were swapped to payments linked to 3 or 6 month CHF or JPY LIBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

	2010	2009
Fair value of the hedging instruments	(105,251)	(10,511)

**As at 31 December 2010**

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/ Losses	
				on the hedged items	on hedging instruments
Securities available-for-sale	IRS	HUF 23,002 million	HUF (128) million	HUF 483 million	HUF (483) million
Loans to customers	IRS	HUF 47,470 million	HUF (1,238) million	HUF (160) million	HUF 160 million
Deposits from customers	IRS	HUF 20,436 million	HUF (61) million	HUF 3,522 million	HUF (3,522) million
Liabilities from issued securities	IRS	HUF 206,489 million	HUF 2,761 million	HUF 5,343 million	HUF (5,343) million
EUR mortgage bonds	CCIRS	HUF 209,063 million	HUF (45,125) million	HUF 4,761 million	HUF (4,761) million
EUR mortgage bonds	CCIRS	HUF 320,563 million	HUF (54,799) million	HUF 2,912 million	HUF (2,912) million
EUR mortgage bonds	CCIRS	HUF 55,750 million	HUF (8,088) million	HUF 517 million	HUF (517) million

**As at 31 December 2009**

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/ Losses	
				on the hedged items	on hedging instruments
Securities available-for-sale	IRS	HUF 15,557 million	HUF 348 million	HUF 197 million	HUF (197) million
Loans to customers	IRS	HUF 43,292 million	HUF (1,335) million	HUF 792 million	HUF (790) million
Loans to customers	Options	HUF 3.6 million	HUF 1 million	HUF (52) million	HUF 52 million
Deposits from customers	IRS	HUF 29,685 million	HUF 3,461 million	HUF 4,036 million	HUF (4,036) million
Liabilities from issued securities	IRS	HUF 154,164 million	HUF 8,104 million	HUF 429 million	HUF (429) million
EUR mortgage bonds	CCIRS	HUF 216,672 million	HUF (11,229) million	HUF 23 million	HUF (23) million
EUR mortgage bonds	CCIRS	HUF 203,130 million	HUF 1,049 million	HUF (2,495) million	HUF 2,495 million
EUR mortgage bonds	CCIRS	HUF 54,168 million	HUF (8,435) million	HUF (2,361) million	HUF 2,361 million

**e) Fair value classes**

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices

included within Level 1, that are observable for the asset or liability either directly or indirectly;

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December 2010	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	233,263	158,685	74,577	1
from this: securities held for trading	158,843	158,551	291	1
from this: positive FVA of derivative financial instruments designated as held for trading	74,420	134	74,286	–
Securities available-for-sale	989,196	964,535	24,635	26
Positive FVA of derivative financial instruments designated as fair value hedge	8,489	9	8,480	–
<b>Financial assets measured at fair value total</b>	<b>1,230,948</b>	<b>1,123,229</b>	<b>107,692</b>	<b>27</b>
Negative FVA of derivative financial instruments designated as held for trading	257,052	596	256,456	–
Negative FVA of derivative financial instruments designated as fair value hedge	115,159	4	115,155	–
<b>Financial liabilities measured at fair value total</b>	<b>372,211</b>	<b>600</b>	<b>371,611</b>	<b>–</b>

As at 31 December 2009	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	254,934	174,827	80,107	–
from this: securities held for trading	177,390	174,655	2,735	–
from this: positive FVA of derivative financial instruments designated as held for trading	77,544	172	77,372	–
Securities available-for-sale	1,338,371	1,159,740	75,790	102,841
Positive FVA of derivative financial instruments designated as fair value hedge	14,181	–	14,181	–
<b>Financial assets measured at fair value total</b>	<b>1,607,486</b>	<b>1,334,567</b>	<b>170,078</b>	<b>102,841</b>
Negative FVA of derivative financial instruments designated as held for trading	118,468	76	118,392	–
Negative FVA of derivative financial instruments designated as fair value hedge	22,249	–	22,249	–
<b>Financial liabilities measured at fair value total</b>	<b>140,717</b>	<b>76</b>	<b>140,641</b>	<b>–</b>

### Movements in Level 3 financial instruments measured at fair value

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

As at 31 December 2010	Opening balance / Balance as at 1 January 2010	Transfer	Closing balance	Total profit or loss as at 31 December 2010
Securities available-for-sale <sup>1</sup>	102,841			
Financial assets measured at fair value total	102,841	(102,815)	26	26
As at 31 December 2009	Opening balance / Balance as at 1 January 2010	Transfer	Closing balance	Total profit or loss as at 31 December 2010
Securities available-for-sale <sup>1</sup>	99,658	3,183	102,841	3,183
Financial assets measured at fair value total	99,658	3,183	102,841	3,183

<sup>1</sup> Certain bonds mainly issued by local governments in Hungary were reclassified to loans during the year ended 31 December 2010. These securities were not quoted on an active market and were met the definition of loans and receivables as defined in IAS 39.

## NOTE 40:

### SEGMENT REPORTING BY GEOGRAPHICAL SEGMENTS (in HUF mn)

The Group operates in 9 principal geographical areas, the reportable segments are geographical segments. The reportable geographical segments of the Group are those components where:

- separated incomes and expenses, assets and liabilities can be identified and assignable to the

segments

- transactions between the different segments were eliminated
- the main decisive board of the Group regularly controls the operating results
- separated financial information is available

The Group's segment reporting, based on the relevant data, is presented below as at 31 December 2010

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Eliminations	Consolidated
<b>Interest income</b>											
External	753,340	15,826	14,514	105,561	17,738	28,157	5,690	114,850	79,672		1,135,348
Intersegment	65,302	1,116	509	716	6,816	115	–	7,535	–	(82,109)	–
<b>Total</b>	<b>818,642</b>	<b>16,942</b>	<b>15,023</b>	<b>106,277</b>	<b>24,554</b>	<b>28,272</b>	<b>5,690</b>	<b>122,385</b>	<b>79,672</b>	<b>(82,109)</b>	<b>1,135,348</b>
<b>Non-interest income</b>											
External	148,716	4,051	4,177	19,262	5,473	12,748	6,190	19,212	17,368		237,194
Intersegment	22,953	–	415	303	2,121	–	–	–	–	(25,792)	–
<b>Total</b>	<b>171,666</b>	<b>4,051</b>	<b>4,592</b>	<b>19,565</b>	<b>7,594</b>	<b>12,748</b>	<b>6,190</b>	<b>19,212</b>	<b>17,368</b>	<b>(25,792)</b>	<b>237,618</b>
<b>Interest expense</b>											
External	418,987	5,052	7,499	31,338	4,317	12,968	1,406	25,795	11,561		518,923
Intersegment	42,854	414	393	3,629	7,102	760	2,095	7,599	17,363	(82,209)	–
<b>Total</b>	<b>461,841</b>	<b>5,466</b>	<b>7,892</b>	<b>34,967</b>	<b>11,419</b>	<b>13,728</b>	<b>3,501</b>	<b>33,394</b>	<b>28,924</b>	<b>(82,209)</b>	<b>518,923</b>
<b>Non-interest expense</b>											
External	262,700	11,277	8,129	33,560	15,333	17,374	7,226	56,540	26,073		440,412
Intersegment	7,694	–	105	–	–	190	–	235	405	(8,629)	–
<b>Total</b>	<b>270,394</b>	<b>11,277</b>	<b>8,234</b>	<b>33,560</b>	<b>15,333</b>	<b>19,564</b>	<b>7,226</b>	<b>56,775</b>	<b>26,478</b>	<b>(8,629)</b>	<b>440,412</b>

## As at 31 December 2010

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Eliminations	Consolidated
<b>Provision for impairment on loan and placement losses</b>	<b>136,061</b>	<b>4,848</b>	<b>20,333</b>	<b>38,360</b>	<b>8,278</b>	<b>3,185</b>	<b>7,376</b>	<b>24,438</b>	<b>29,443</b>	<b>702</b>	<b>273,024</b>
<b>Highlighted lines</b>											
Capital expenditures	10,201	847	–	5,739	2,329	1,357	171	32	244	–	20,920
Depreciation and amortization	26,519	1,699	705	4,907	1,386	4,677	778	5,188	2,946	18,519	67,324
<b>Segment profit before income tax</b>	<b>122,012</b>	<b>(598)</b>	<b>(16,844)</b>	<b>18,955</b>	<b>(3,082)</b>	<b>4,543</b>	<b>(6,223)</b>	<b>26,990</b>	<b>12,195</b>	<b>(17,765)</b>	<b>140,183</b>
<b>Income tax</b>	<b>15,927</b>	<b>119</b>	<b>–</b>	<b>1,928</b>	<b>192</b>	<b>730</b>	<b>(13)</b>	<b>6,383</b>	<b>(3,209)</b>	<b>–</b>	<b>22,057</b>
<b>Net profit for the year</b>	<b>106,085</b>	<b>(717)</b>	<b>(16,844)</b>	<b>17,027</b>	<b>(3,274)</b>	<b>3,813</b>	<b>(6,210)</b>	<b>20,607</b>	<b>15,404</b>	<b>(17,765)</b>	<b>118,126</b>
<b>Segment assets</b>	<b>7,180,872</b>	<b>349,370</b>	<b>192,514</b>	<b>1,265,892</b>	<b>281,227</b>	<b>550,531</b>	<b>119,958</b>	<b>718,482</b>	<b>848,885</b>	<b>(1,726,812)</b>	<b>9,780,946</b>
<b>Segment liabilities</b>	<b>6,829,454</b>	<b>324,674</b>	<b>195,681</b>	<b>1,021,589</b>	<b>246,968</b>	<b>454,978</b>	<b>96,842</b>	<b>566,625</b>	<b>606,298</b>	<b>(1,871,092)</b>	<b>8,472,017</b>

## As at 31 December 2009

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Eliminations	Consolidated
<b>Interest income</b>											
External	827,614	18,294	21,312	108,011	22,177	28,678	7,863	86,542	100,659	–	1,221,150
Intersegment	89,606	983	121	488	7,343	95	–	3,172	317	(102,125)	–
<b>Összesen</b>	<b>917,220</b>	<b>19,277</b>	<b>21,433</b>	<b>108,499</b>	<b>29,520</b>	<b>28,773</b>	<b>7,863</b>	<b>89,714</b>	<b>100,976</b>	<b>(102,125)</b>	<b>1,221,150</b>
<b>Non-interest income</b>											
External	159,116	3,836	5,475	18,516	5,739	13,892	4,632	12,654	13,758	–	237,618
Intersegment	15,282	842	–	344	3,436	–	–	–	–	(19,904)	–
<b>Total</b>	<b>174,398</b>	<b>4,678</b>	<b>5,475</b>	<b>18,860</b>	<b>9,175</b>	<b>13,892</b>	<b>4,632</b>	<b>12,654</b>	<b>13,758</b>	<b>(19,904)</b>	<b>237,618</b>
<b>Interest expense</b>											
External	522,407	7,683	9,108	32,453	8,988	13,901	1,616	21,074	14,140	–	631,370
Intersegment	47,191	775	2,189	6,734	10,195	1,233	2,196	8,353	23,999	(102,865)	–
<b>Total</b>	<b>569,598</b>	<b>8,485</b>	<b>11,297</b>	<b>39,187</b>	<b>19,183</b>	<b>15,134</b>	<b>3,812</b>	<b>29,427</b>	<b>38,139</b>	<b>(102,865)</b>	<b>631,370</b>
<b>Non-interest expense</b>											
External	235,562	13,049	8,106	33,224	14,907	19,632	10,982	46,647	25,529	–	407,638
Intersegment	5,524	–	–	–	155	11	–	555	334	(6,579)	–
<b>Total</b>	<b>241,086</b>	<b>13,049</b>	<b>8,106</b>	<b>33,224</b>	<b>15,062</b>	<b>19,643</b>	<b>10,982</b>	<b>47,202</b>	<b>25,863</b>	<b>(6,579)</b>	<b>407,638</b>

## As at 31 December 2009

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Eliminations	Consolidated
<b>Provision for impairment on loan and placement losses</b>	<b>73,402</b>	<b>9,350</b>	<b>7,075</b>	<b>26,701</b>	<b>6,884</b>	<b>3,559</b>	<b>6,583</b>	<b>21,338</b>	<b>95,376</b>	<b>(990)</b>	<b>249,278</b>
<b>Highlighted lines</b>											
Capital expenditures	1,568	2,852	–	6,568	1,615	1,220	388	–	68	–	14,279
Depreciation and amortization	24,447	1,668	684	4,717	1,541	4,242	1,064	4,520	2,258	–	45,141
<b>Segment profit before income tax</b>	<b>207,532</b>	<b>(6,902)</b>	<b>430</b>	<b>28,247</b>	<b>(2,434)</b>	<b>4,329</b>	<b>(8,882)</b>	<b>4,401</b>	<b>(44,644)</b>	<b>(11,595)</b>	<b>170,482</b>
<b>Income tax</b>	<b>16,103</b>	<b>(204)</b>	<b>2</b>	<b>2,962</b>	<b>112</b>	<b>1,017</b>	<b>(34)</b>	<b>1,314</b>	<b>(996)</b>	<b>–</b>	<b>20,276</b>
<b>Net profit for the year</b>	<b>191,429</b>	<b>(6,698)</b>	<b>428</b>	<b>25,285</b>	<b>(2,546)</b>	<b>3,312</b>	<b>(8,848)</b>	<b>3,087</b>	<b>(43,648)</b>	<b>(11,595)</b>	<b>150,206</b>
<b>Segment assets</b>	<b>7,492,880</b>	<b>374,889</b>	<b>235,307</b>	<b>1,260,189</b>	<b>244,535</b>	<b>533,223</b>	<b>132,182</b>	<b>625,689</b>	<b>83,656</b>	<b>(1,975,418)</b>	<b>9,755,132</b>
<b>Segment liabilities</b>	<b>7,188,208</b>	<b>350,124</b>	<b>211,755</b>	<b>1,039,257</b>	<b>216,278</b>	<b>435,431</b>	<b>99,335</b>	<b>500,414</b>	<b>620,214</b>	<b>(2,097,490)</b>	<b>8,563,526</b>

**NOTE 41:****SIGNIFICANT EVENTS DURING THE YEAR ENDED  
31 DECEMBER 2010****Hungarian Government  
loan facility**

See details in Note 13.

**Legal action against the Bank**

See details in Note 28.

**Term Loan Facility**

See details in Note 13.

**Special Tax On Financial  
Institutions**

On 22 July 2010 based on the amendment of the act on the special tax of financial institutions approved by the Parliament of the Republic of Hungary, the following members of the Group are obliged to pay the special financial institution tax:

**Credit institutions:**

OTP Bank Plc.,  
OTP Mortgage Bank Ltd.,  
OTP Building Society Ltd.,  
Merkantil Bank Ltd.

**Financial enterprises:**

OTP Real Estate Leasing Ltd.,  
OTP Factoring Ltd.,  
Merkantil Car Ltd.,  
Merkantil Real Estate Leasing Ltd.

**Fund managers:**

OTP Fund Management Ltd.,  
OTP Real Estate Fund Management Ltd.

From the second half of 2010 the special tax shall consist of two parts:

- The approved amendment does not have any impact on the already existing special banking tax, which came into effect by 1 January 2007. This special tax amount for the full year of 2010 was HUF 5 billion and was to be paid by OTP and OTP Mortgage Bank Ltd.
- A new special financial institution tax is to be introduced and paid by the above mentioned members of the Group. Accordingly, the total special tax amount was paid by the Group for the full year of 2010 was at HUF 36 billion (See details in Note 25).

The total tax amount payable for the year 2010 was HUF 41 billion.

**NOTE 42:****POST BALANCE SHEET EVENTS**

No significant event happened.

**NOTE 43:****THE EFFECT OF FINANCIAL AND ECONOMIC CRISIS ON THE GROUP**

National economies of the region where the Group operates left behind the worst period of the last two years of the financial crisis. The severe contraction that followed the financial and economic crisis reached its bottom in 2009 and in most of the countries real GDP growth was already in the positive territory in 2010.

Similarly to 2009, in 2010 the Group focused its activity on the stable operation, including the robust capital position and liquidity, and in line with the deteriorating loan portfolio, on prudent risk management and monitoring. At the same time, some Group members could already benefit from the business opportunities arising from the improving operating environment.

- One of the direct consequences of the crisis was the weak loan demand in most of our markets, but the Russian consumer lending business. After adjusting for technical effects (i.e. FX-movements and reclassification of municipality bonds in 2010 from securities to loans), consolidated loan book kept decreasing from 2009 to 2010 (–0.3%), however in the second half of 2010 – for the first time since the onset of the crisis – it started growing again (in the third quarter: +1.1%, in the fourth quarter +0.4% from quarter to quarter).

It was only the Russian market enjoying a significant volume growth: the FX-adjusted portfolio of OAO OTP Bank (Russia) expanded by 24%, within that the retail book increased by 46% from 2009 to 2010. The flagship products of OAO OTP Bank demonstrated a spectacular expansion: POS-, credit card- and personal loan volumes grew by 58%, 72% and 111% from 2009 to 2010 respectively. In Hungary, the Group made huge efforts to revitalise its lending activity: OTP Core's loans to large enterprises grew by 1% and the SME

segment – though being fairly small – expanded by 7% the last year with the simultaneous 7% decline of the Hungarian corporate lending market. As for Hungarian mortgage lending, in 2010 new volumes at OTP increased by 60% from 2009 to 2010, as a result the Bank's market share in new origination jumped from 15% to 29%.

However these efforts only slowed down the gradual erosion in the outstanding mortgage loan volumes.

Hungarian retail FX lending was stopped during the year, as a reaction to a legal change according to which no mortgage is allowed to be established to secure FX-denominated retail mortgage loans for private individuals from July 2010.

- After the strong deposit growth in 2009, due to the generally weak loan demand the Group put less emphasis on deposit collection in 2010. Instead of further improving its liquidity indicators, the Group focused rather on the improvement of deposit margins. Fx adjusted deposit volumes remained stable during the last year, a favourable tendency though that retail deposits kept growing in 2010 too (+2% from 2009 to 2010).

The Group has accumulated a sizable amount of liquidity reserves since the beginning of the crisis: the total liquidity buffer amounted to EUR 5.0 billion as of 31 January 2011. This level of the reserves is significantly higher than what would be sufficient to provide coverage for the redemptions in wholesale funding within one year and for potential liquidity shocks. The source of this buffer is two-fold: the on-going growth of consolidated deposits since the beginning of the crisis and the internal FX liquidity generation of the loan

types, related to the fact that retail FX lending had been stopped both in Hungary and Ukraine, therefore the continuous repayments of the clients are increasing the Group's FX liquidity. Internal FX liquidity generation enabled the Group to repay its redemptions throughout 2009-2010 without issuing new instruments in the market on a significant scale. Repayments reached EUR 1.5 billion and EUR 2.3 billion equivalent in 2009 and 2010 respectively (in the form of maturing senior notes, mortgage bonds and syndicated or bilateral loans), whereas new issuances amounted to a only EUR 420 million in 2010. As for the new issuances, by leveraging on the improving market sentiment the Group completed three smaller scale debt market transactions in 2010: in February OTP Bank issued CHF 100 million plain vanilla bonds with 2 year tenor, in April OTP Mortgage Bank tapped the market with a 2 year, EUR 300 million mortgage bond transaction (of which approximately EUR 90 million was sold to investors outside the Group), whereas in July the Bank organized a EUR 250 million syndicated loan facility with similar maturity.

- Another side effect of the crisis was the significant deterioration in the financial position of the clients, which led to worsening portfolio quality and materially increasing risk costs compared to pre-crisis levels. In 2010, the ratio of loans past due over 90 days ('DPD90+ ratio') on Group level have increased further to 13.7% from 9.8%. The pace of deterioration, however, moderated. While in 2009 the ratio grew by 5.3%-points, in 2010 it increased only by 3.9%-points from 2009 to 2010. At the

same time, the Group increased the provision coverage of the DPD 90+ loans by 1%-point from 73.6% to 74.4% (in 2009 the ratio dropped by 12%-points from 2009 to 2010), which resulted in HUF 273 billion total risk costs for the full year of 2010. The 0.8%-point increase in the consolidated coverage ratio is equivalent with HUF 8 billion additional risk costs, therefore if the management has not had increased the coverage ratio during 2010, the risk cost would have remained at its 2009 level (2009: HUF 266 billion).

Debtor protection programs launched in previous years in Ukraine, Hungary, Bulgaria and Romania continued in 2010 as well. The Group made special efforts to assist distressed borrowers in managing their temporary financial difficulties. However, if re-defaulted clients are excluded from the rescheduled portfolio, the share of rescheduled retail loans already stopped growing in 2010 (at end of 2010: 6.2%). The reason behind is the material slow down in the rescheduling activity in Hungary and in the Ukraine.

In Hungary, on top of the prevailing debtor protection programme and as a reaction to the depreciation of the local currency starting from the second quarter, the Bank lowered the CHF and JPY mortgage rates by 75 bps and 50 bps respectively in June 2010, in order to ease the increasing burden of retail FX-debtors through a temporary measure.

- The further enhancement of the stable capital adequacy still remained a top priority for the Group in 2010. Due to the profitable operation and the weak lending activity amid the crisis,

the capital adequacy ratio of the Group rose to 17.5%, which is significantly higher than the ratios at its regional competitors.

- During 2009, as a reaction to the lower level of business activity, cost-cutting programs were implemented at each subsidiary, in many cases staff level was reduced and some branches were closed. In 2010, strict cost control was maintained, however further material staff reduction and branch closures were implemented only in the Ukraine. Consolidated operating expenses from 2009 to 2010 increased by mere 1% in 2010. This slight increase reflects fairly successful cost management, especially taking into consideration that in many markets underlying consumer price inflation approached or exceeded 5% (i.e. in Hungary, Russia, Ukraine Romania and Serbia), and also that HUF weakened significantly during year 2010. Assuming an unchanged cost structure, those

two factors (inflation and currency depreciation) would have implied a nominal increase of HUF 19 billion from 2009 to 2010 in the consolidated operating expenses, of which the Group realized only HUF 5 billion increase as a result of ongoing cost rationalization initiatives (i.e. renegotiating rental- and supplier contracts, optimization of energy consumption, reengineering business processes).

- In Hungary from 2010, to reduce the deficit of the general government, new special tax was imposed on financial institutions. The total tax amount paid by Hungarian OTP Group members for the year of 2010 was at HUF 36 billion and this amount was deductible from the corporate tax base. Therefore the total negative impact on the Group's 2010 after-tax profit was at HUF 29.5 billion.

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Unconsolidated Financial Statements**

We have audited the accompanying unconsolidated financial statements of OTP Bank Plc., which comprise the unconsolidated statement of financial position as at December 31, 2010, and the related unconsolidated statement of recognized and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 132-198 of this Annual Report.

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

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

#### *Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of OTP Bank Plc. as of December 31, 2010, and of its unconsolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Emphasis of Matter*

We draw attention to Note 2.3 to the unconsolidated financial statements which states that the consolidated financial statements of OTP Bank Plc. prepared in accordance with International Financial Reporting Standards have been issued separately. The consolidated financial statements of OTP Bank Plc. as of and for the year ended December 31, 2010 were audited by us and our report dated February 25, 2011 expressed an unqualified opinion. Our opinion is not modified in respect of this matter.

Budapest, February 25, 2011



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Horváth Tamás  
Deloitte Auditing and Consulting Ltd.

## Statement of financial position

(unconsolidated statement of financial position as at 31 December 2010, in HUF million)

	Note	2010	2009
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	171,677	178,217
Placements with other banks, net of allowance for placement losses	5.	794,686	962,063
Financial assets at fair value through profit or loss	6.	248,790	273,652
Securities available-for-sale	7.	1,477,930	1,652,747
Loans, net of allowance for loan losses	8.	2,723,784	2,622,895
Investments in subsidiaries	9.	637,819	643,907
Securities held-to-maturity	10.	154,003	216,563
Property and equipment	11.	70,004	69,654
Intangible assets	11.	35,145	38,909
Other assets	12.	44,512	92,085
<b>TOTAL ASSETS</b>		<b>6,358,350</b>	<b>6,750,692</b>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	13.	741,845	1,152,131
Deposits from customers	14.	3,279,573	3,368,752
Liabilities from issued securities	15.	512,466	618,303
Financial liabilities at fair value through profit or loss	16.	257,328	119,353
Other liabilities	17.	231,288	252,988
Subordinated bonds and loans	18.	297,638	287,321
<b>TOTAL LIABILITIES</b>		<b>5,320,138</b>	<b>5,798,848</b>
Share capital	19.	28,000	28,000
Retained earnings and reserves	20.	1,013,941	927,618
Treasury shares	21.	(3,729)	(3,774)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,038,212</b>	<b>951,844</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>6,358,350</b>	<b>6,750,692</b>

The accompanying notes to unconsolidated financial statements on pages 132 to 198 form an integral part of these unconsolidated financial statements.

## Statement of recognized income

(unconsolidated statement of recognized income for the year ended 31 December 2010, in HUF million)

	Note	2010	2009
Interest Income:			
Loans		228,847	253,822
Placements with other banks, net of allowance for placement losses		297,539	353,911
Securities available-for-sale		107,113	54,087
Securities held-to-maturity		13,752	52,934
Amounts due from banks and balances with National Bank of Hungary		4,807	7,026
Securities held for trading		2,399	5,297
Total Interest Income		654,457	727,077
Interest Expense:			
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government		232,605	265,205
Deposits from customers		128,885	197,585
Liabilities from issued securities		33,892	32,474
Subordinated bonds and loans		16,243	17,446
Total Interest Expense		411,625	512,710
<b>NET INTEREST INCOME</b>		<b>242,832</b>	<b>214,367</b>
Provision for impairment on loan and placement losses	5., 8.	97,540	78,462
<b>NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES</b>		<b>145,292</b>	<b>135,905</b>
Income from fees and commissions	22.	145,832	160,881
Expenses from fees and commissions	22.	20,444	22,080
<b>NET PROFIT FROM FEES AND COMMISSIONS</b>		<b>125,388</b>	<b>138,801</b>
Foreign exchange gains and (losses)		12,233	(18,487)
Gains and (losses) on securities, net		2,209	(1,085)
Dividend income		57,651	32,986
Other operating income	23.	1,671	41,350
Net other operating expenses	23.	(19,542)	(2,713)
–from this: provision for impairment on investments in subsidiaries		(20,683)	(575)
<b>NET OPERATING INCOME</b>		<b>54,222</b>	<b>52,051</b>
Personnel expenses	24.	75,637	77,677
Depreciation and amortization	24.	24,141	22,262
Other administrative expenses	24.	90,490	65,449
<b>OTHER ADMINISTRATIVE EXPENSES</b>		<b>190,268</b>	<b>165,338</b>
<b>PROFIT BEFORE INCOME TAX</b>		<b>134,634</b>	<b>161,369</b>
Income tax	25.	9,970	3,231
<b>NET PROFIT FOR THE YEAR</b>		<b>124,664</b>	<b>158,138</b>
Earnings per share (in HUF)			
Basic	35.	449	582
Diluted	35.	444	577

## Statement of comprehensive income

(unconsolidated statement of comprehensive income for the year ended 31 December 2010, in HUF million)

	2010	2009
<b>NET PROFIT FOR THE YEAR</b>	<b>124,664</b>	<b>158,138</b>
Fair value adjustment of securities available-for-sale	(19,667)	29,126
<b>NET COMPREHENSIVE INCOME</b>	<b>104,997</b>	<b>187,264</b>

The accompanying notes to unconsolidated financial statements on pages 132 to 198 form an integral part of these unconsolidated financial statements.

## Statement of cash flows

(unconsolidated statement of cash flows for the year ended 31 December 2010, in HUF million)

Operating activities	Note	2010	2009
<b>Profit before income tax</b>		<b>134,634</b>	<b>161,369</b>
Depreciation and amortization		24,141	22,262
(Release of provision)/ provision for impairment on securities available-for-sale	7.	(5,220)	2,451
Provision for impairment on loan and placement losses	5.,8.	97,540	78,462
Provision for impairment on investments in subsidiaries	9.	20,683	575
(Release of provision)/ provision for impairment on securities held-to-maturity	10.	(4,164)	4,164
Provision for impairment on other assets	12.	567	1,370
Release of provision on off-balance sheet commitments and contingent liabilities	17.	(10,272)	(9,500)
Share-based payment	28.	(11,821)	6,802
Unrealised gains on fair value adjustment of securities available-for-sale and held for trading		9,031	1,634
Unrealised gains on fair value adjustment of derivative financial instruments		1,737	34,568
<b>Net changes in assets and liabilities in operating activities</b>			
Changes in financial assets at fair value through profit or loss		28,791	(124,995)
Changes in financial liabilities at fair value through profit or loss		(528)	(224)
Net (increase)/ decrease in loans, net of allowance for loan losses		(79,755)	10,026
Decrease in other assets, excluding advances for investments and before provisions for losses		18,799	1,533
Net (decrease)/ increase in deposits from customers		(85,658)	256,289
(Decrease)/ increase in other liabilities		(5,030)	37,839
Net increase in the compulsory reserve established by the National Bank of Hungary		(10,942)	(8,167)
Dividend income		(57,651)	(32,986)
Income tax paid		(7,404)	(13,278)
<b>Net cash provided by operating activities</b>		<b>57,478</b>	<b>430,194</b>
<b>INVESTING ACTIVITIES</b>			
Net decrease/ (increase) in placements with other banks before allowance for placement losses		201,037	(66,321)
Net decrease/ (increase) in securities available-for-sale		151,572	(1,055,389)
Net increase in investments in subsidiaries before provision for impairment		(19,760)	(10,107)
Dividend income		57,651	32,986
Net decrease in securities held-to-maturity		65,912	227,376
Additions to property, equipment and intangible assets		(34,441)	(27,189)
Disposals to property, equipment and intangible assets		9,155	6,674
Net increase in advances for investments included in other assets		(15)	(13)
<b>Net cash provided by/ (used in) investing activities</b>		<b>431,111</b>	<b>(891,983)</b>
<b>FINANCING ACTIVITIES</b>			
Net (decrease)/ increase in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		(410,286)	441,054
Cash received from issuance of securities		355,776	247,548
Cash used for redemption of issued securities		(456,270)	(236,139)
Increase/ (decrease) in subordinated bonds and loans		10,317	(17,897)
Payments to ICES holders		(5,626)	(5,706)
Net change in Treasury shares		20	45,496
Dividends paid		(2)	(539)
<b>Net cash (used in)/ provided by financing activities</b>		<b>(506,071)</b>	<b>473,817</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(17,482)</b>	<b>12,028</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>105,679</b>	<b>93,651</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>88,197</b>	<b>105,679</b>
<b>Analysis of cash and cash equivalents</b>			
Cash, amounts due from banks and balances with the National Bank of Hungary		178,217	158,022
Compulsory reserve established by the National Bank of Hungary		(72,538)	(64,371)
<b>Cash and cash equivalents at the beginning of the year</b>		<b>105,679</b>	<b>93,651</b>
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	171,677	178,217
Compulsory reserve established by the National Bank of Hungary	4.	(83,480)	(72,538)
<b>Cash and cash equivalents at the end of the year</b>		<b>88,197</b>	<b>105,679</b>

The accompanying notes to unconsolidated financial statements on pages 132 to 198 form an integral part of these unconsolidated financial statements.

## Statement of changes in shareholders' equity

(unconsolidated statement of changes in shareholders' equity for the year ended 31 December 2010, in HUF million)

	Note	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Put option reserve	Treasury Shares	Total
<b>Balance as at 1 January 2009</b>		<b>28,000</b>	<b>52</b>	<b>19,181</b>	<b>823,085</b>	<b>–</b>	<b>(97,845)</b>	<b>772,473</b>
Net comprehensive income for the year		–	–	–	187,264	–	–	187,264
Share-based payment	28.	–	–	6,802	–	–	–	6,802
Closed share-based payment		–	–	(19,153)	19,153	–	–	–
Payments to ICES holders		–	–	–	(4,723)	–	–	(4,723)
Sale of treasury shares		–	–	–	–	–	110,637	110,637
Written put option on ordinary shares		–	–	–	–	(55,468)	–	(55,468)
Loss on sale of treasury shares		–	–	–	(48,575)	–	–	(48,575)
Acquisition of treasury shares		–	–	–	–	–	(16,566)	(16,566)
<b>Balance as at 31 December 2009</b>		<b>28,000</b>	<b>52</b>	<b>6,830</b>	<b>976,204</b>	<b>(55,468)</b>	<b>(3,774)</b>	<b>951,844</b>
Net comprehensive income for the year		–	–	–	104,997	–	–	104,997
Share-based payment	28.	–	–	(6,802)	(5,019)	–	–	(11,821)
Payments to ICES holders		–	–	–	(6,828)	–	–	(6,828)
Sale of treasury shares		–	–	–	–	–	460	460
Loss on sale of treasury shares		–	–	–	(25)	–	–	(25)
Acquisition of treasury shares		–	–	–	–	–	(415)	(415)
<b>Balance as at 31 December 2010</b>		<b>28,000</b>	<b>52</b>	<b>28</b>	<b>1,069,329</b>	<b>(55,468)</b>	<b>(3,729)</b>	<b>1,038,212</b>

The accompanying notes to unconsolidated financial statements on pages 132 to 198 form an integral part of these unconsolidated financial statements.

# NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## NOTE 1:

### ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

#### 1.1. General information

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

In 1995, the shares of the Bank were listed on the Budapest and the Luxembourg Stock Exchanges and were also listed on the SEAQ board on the London Stock Exchange and PORTAL in the USA. These financial statements were approved by the the board of directors and authorised for issue on 31 March 2011.

	2010	2009
<b>The structure of the Share capital by shareholders (%):</b>		
Domestic and foreign private and institutional investors	96%	97%
Employees	2%	2%
Treasury shares	2%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The Bank provides a full range of commercial banking services through a nationwide network of 380 branches in Hungary.

	2010	2009
<b>Number of the employees of the Bank:</b>		
Number of employees	7,800	7,820
Average number of employees	7,777	7,977

#### 1.2. Accounting

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

The functional currency of the Bank is the Hungarian Forint ("HUF").

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial

markets. Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with the International Financial Reporting Standards ("IFRS"). Certain adjustments have been made to the Bank's Hungarian unconsolidated statutory accounts (see Note 38), in order to present the unconsolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB"), which are referred to as IFRS.

The unconsolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union (the "EU") except for the matters discussed in Note 2.3. IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") which has not been approved by the EU. As the Bank does not apply portfolio hedge accounting under IAS 39, there would be no impact on these unconsolidated financial statements, had it been approved by the EU at the balance sheet date.

### ***1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2010***

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- IAS 27 (Amendment) "Consolidated and Separate Financial Statements" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009),
- IAS 39 (Amendment) "Financial Instruments: Recognition and Measurement" – Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009),
- IFRS 1 (Revised) "First-time Adoption of IFRS" adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010),
- IFRS 3 (Revised) "Business Combinations" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009),
- IFRS 1 (Amendment) "First-time Adoption of IFRS" – Additional Exemptions for First-time Adopters, adopted by the EU on 23 June 2010 (effective for annual periods beginning on or after 1 January 2010),
- IFRS 2 (Amendment) "Share-based Payment" – Group cash-settled share-based payment transactions adopted by the EU on 23 March

- 2010 (effective for annual periods beginning on or after 1 January 2010),
- "Improvements to IFRSs (2009)" (Amendment) resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),
- IFRIC 12 "Service Concession Arrangements" adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009),
- IFRIC 15 "Agreements for the Construction of Real Estate" adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010),
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" adopted by the EU on 26 November 2009,
- IFRIC 18 "Transfers of Assets from Customers" adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009).

– The adoption of the above presented Amendments, Improvements and new IFRSs had no significant impact on the financial statements. The adoption of the above presented Amendments and new Standards and Interpretations had no significant impact on the unconsolidated financial statements of the Bank.

### ***1.2.2. Amendments to IFRSs effective on or after 1 January 2011, not yet adopted***

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

- IAS 12 "Income Taxes" (Amendment) – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)\*,

\*Not yet endorsed by the EU.

- IAS 24 (Amendment) “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- IAS 32 (Amendment) “Financial Instruments: Presentation” – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- IFRS 1 (Amendment) “First-time Adoption of IFRS” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),
- IFRS 1 “First-time Adoption of IFRS” (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),<sup>1</sup>
- IFRS 7 “Financial Instruments: Disclosures” (Amendment) - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),<sup>1</sup>
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013),<sup>1</sup>

- “Improvements to IFRSs (2010)” (Amendment) resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011).
- IFRIC 14 “IAS 19 (Amendment) – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction” – Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The adoption of the above presented Amendments and new Standards and Interpretations will have no significant impact on the unconsolidated financial statements of the Bank. The Bank is still analysing the impact of adopting IFRS 9 “Financial instruments” which will replace IAS 39 “Financial instruments: Recognition and measurement”. IFRS 9 is not published in its entirety by IASB.

## NOTE 2:

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1. Basis of presentation

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

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

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

<sup>1</sup>Not yet endorsed by the EU.

## 2.2. Foreign currency translation

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

## 2.3. Consolidated financial statements

These financial statements present the unconsolidated financial position and results of operations of the Bank. Consolidated financial statements are currently being prepared by the Bank and consolidated net profit for the year and shareholders' equity differs significantly from that presented in these unconsolidated financial statements. See Note 2.4 for the description of the method of accounting for investments in subsidiaries and associated companies in these unconsolidated financial statements. The consolidated financial statements and the unconsolidated financial statements will be published on the same date. As the ultimate parent, OTP is preparing consolidated financial statement of OTP Group.

## 2.4. Investments in subsidiaries

Investments in subsidiaries comprise those investments where the Bank, through direct and indirect ownership interest, controls the financial and operating policies of the investee. Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction. Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

OTP calculates the value in use a discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash-generating units.

OTP in its strategic plan, has taken into consideration the cautious recovery of global economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

## 2.5. Securities held-to-maturity

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

## 2.6. Financial assets at fair value through profit or loss

### 2.6.1. Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognised in profit or loss and are included in the unconsolidated statement of recognised income for the period.

Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, securities issued by NBH, shares in non-financial commercial companies and shares in investment funds.

### **2.6.2. Derivative financial instruments**

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

Derivative financial instruments are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss and are included in the unconsolidated statement of recognised income for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

directly to the unconsolidated statement of recognised income.

The conditions of hedge accounting applied by the Bank are the following formally designed as hedge, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective. Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised as reserve in the shareholders' equity. Amounts deferred in equity are transferred to the unconsolidated statement of recognised income and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the unconsolidated statement of recognised and comprehensive income for the period. The ineffective element of the hedge is charged directly to the unconsolidated statement of recognised income.

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the unconsolidated statement of recognised income.

### **2.7. Securities available-for-sale**

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale securities are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognised directly in equity, unless such available-for-sale security is part of an effective fair value hedge. Such gains and losses will be reported when realised in profit and loss for the applicable period. Securities available-for-sale consist of Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in investment funds, bonds issued by NBH and other securities.

The provision for impairment is calculated based on discounted cash flow methodology,

using the expected future cash flow and original effective interest rate.

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

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

## **2.8. Loans, placements with other banks and allowance for loan and placement losses**

Loans and placements with other banks are stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amounts outstanding. When a borrower is unable to meet payments as they fall due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest is impaired.

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

Allowance for losses on loans and placements with other banks represent management assessment for potential losses in relation to these activities.

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified and for potential losses which may be present based on portfolio performance.

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

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

## **2.9. Sale and repurchase agreements, security lending**

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the statement of financial position and the consideration received is recorded in Other liabilities or Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks, or Deposits from customers. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the statement of financial position and the consideration paid is recorded in Placement with other Banks. Interest is accrued evenly over the life of the repurchase agreement. In the case of security lending transactions the Bank do not recognise or derecognise the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognised for the consideration amount.

## 2.10. Property, equipment and intangible assets

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

Intangible assets	
Software	20–33.3%
Property rights	16.7%
Property	1–2%
Office equipments and vehicles	8–33.3%

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

## 2.11. Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. In connection to the financial liabilities at fair value through profit or loss, the Bank presents the amount of change in their fair value originated from the changes of market conditions and business environment.

## 2.12. Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the unconsolidated statement of recognised income over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding. Payments made under operating leases are charged to the unconsolidated statement of recognised income on a straight-line basis over the life of the lease terms. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

## 2.13. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the unconsolidated statement of financial position at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of Treasury shares are credited or charged directly to shareholder's equity in the treasury shares. Derecognition of Treasury shares is based on the FIFO method.

## 2.14. Interest income and interest expense

The interest income and expense are recognised on the accrual basis and based on the IAS 18 Revenue Standard, referring to provisions of IAS 39. The Bank recognises interest income when assumes that the interest associated with the transaction will flow to the Bank and the amount of the revenue can reasonably be measured. All interest income and expense arising from loans, placements with other banks, securities held for trading, securities available-for-sale, securities held to maturity and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statement.

## 2.15. Fees and Commissions

Fees and commissions are recognised in the unconsolidated statement of recognised income on an accrual basis based on IAS 18 Revenue Standard, fees and commissions are recognised using the effective interest method referring to provisions IAS 39.

## 2.16. Dividend income

The Bank recognises dividend income in the unconsolidated financial statements when its right to receive the payment is established.

## 2.17. Income tax

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

## 2.18. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit and transactions with financial instruments. The provision on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of

transactions and other pertinent factors.

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

## 2.19. Share-based payment

The Bank has applied the requirements of IFRS 2 Share-based Payment. The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

## 2.20. Unconsolidated statement of cash flows

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

## 2.21. Segment reporting

The Bank has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker

in order to allocate resources to the segments and to assess their performance. Based on the above, the segments identified by the Group are the geographical segments. At unconsolidated level, the Management does not separate and makes decisions based on different segments, the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the geographical segments. The OTP Group's reportable segments

under IFRS 8 are therefore as follows: Hungary, Slovakia, Montenegro, Bulgaria, Romania, Croatia, Serbia, Russia, Ukraine.

## 2.22. Comparative figures

Certain amounts in the unconsolidated financial statements for the year ended 31 December 2009 have been reclassified to conform with the current year presentation.

## NOTE 3:

### SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

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

#### 3.1. Impairment on loans and placements

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

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

Financial instruments without direct quotations in an active market are valued using the valuation

model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (eg. for correlations, volatilities, etc). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.

#### 3.3. Provisions

Provision is recognised and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 17) A provision is recognised by the Bank when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities, for commitments to extend credit, provision for warranties arising from banking activities and provision for Confirmed letter of credit.

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

	2010	2009
<b>Cash on hand:</b>		
In HUF	57,246	49,237
In foreign currency	4,995	5,453
	<b>62,241</b>	<b>54,690</b>
<b>Amounts due from banks and balances with National Bank of Hungary:</b>		
Within one year:		
In HUF	100,524	95,389
In foreign currency	8,510	27,734
	<b>109,034</b>	<b>123,123</b>
Accrued interest	402	404
<b>Total</b>	<b>171,677</b>	<b>178,217</b>
<b>Compulsory reserve</b>	<b>83,480</b>	<b>72,538</b>
<b>Rate of the compulsory reserve</b>	<b>2%</b>	<b>2%</b>

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

	2010	2009
Within one year:		
In HUF	52,953	230,804
In foreign currency	540,194	442,228
	<b>593,147</b>	<b>673,032</b>
Over one year		
In HUF	300	300
In foreign currency	200,707	288,894
	<b>201,007</b>	<b>289,194</b>
Total placements	794,154	962,226
Accrued interest	1,482	1,534
Provision for impairment on placement losses	(950)	(1,697)
<b>Total</b>	<b>794,686</b>	<b>962,063</b>

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

	2010	2009
Balance as at 1 January	1,697	362
Provision for the period	33	1,600
Use of provision	(780)	(265)
<b>Balance as at 31 December</b>	<b>950</b>	<b>1,697</b>

***Interest conditions of placements with other banks:***

	2010	2009
Placements with other banks in HUF	6.04%–10.9%	6.75%–10.89%
Placements with other banks in foreign currency	0.5%–12.6%	0.5%–10.5%

**NOTE 6:****FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF million)****Securities held for trading:**

	<b>2010</b>	<b>2009</b>
Corporate shares	105,832	88,513
Securities issued by the NBH	19,984	49,887
Government bonds	13,784	28,857
Mortgage bonds	4,201	8,689
Hungarian government discounted Treasury Bills	3,635	2,642
Hungarian government interest bearing Treasury Bills	26	183
Other securities	153	282
	<b>147,615</b>	<b>179,053</b>
Accrued interest	244	1,363
<b>Subtotal</b>	<b>147,859</b>	<b>180,416</b>

**Derivative financial instruments designated as held for trading:**

	<b>2010</b>	<b>2009</b>
CCIRS <sup>3</sup> and mark-to-market CCIRS swaps designated as held for trading	42,807	28,403
Interest rate swaps designated as held for trading	34,414	56,134
Foreign currency swaps designated as held for trading	18,084	7,439
Other derivative transactions	5,626	1,260
	<b>100,931</b>	<b>93,236</b>
<b>Subtotal</b>	<b>248,790</b>	<b>273,652</b>

**Interest conditions and the remaining maturities of securities held for trading are as follows:**

	<b>2010</b>	<b>2009</b>
Within five years:		
variable interest	19	18
fixed interest	36,191	74,670
	<b>36,210</b>	<b>74,688</b>
Over five years:		
variable interest	–	–
fixed interest	5,559	15,832
	<b>5,559</b>	<b>15,832</b>
Non-interest bearing securities	105,846	88,533
<b>Total</b>	<b>147,615</b>	<b>179,053</b>

	<b>2010</b>	<b>2009</b>
Held for trading securities denominated in HUF	95%	96%
Held for trading securities denominated in Foreign currency	5%	4%
<b>Held for trading securities total</b>	<b>100%</b>	<b>100%</b>
Government securities denominated in HUF	80%	99%
Government securities denominated in foreign currency	20%	1%
<b>Government securities total</b>	<b>100%</b>	<b>100%</b>
Interest rates on securities held for trading	3.6%–10%	3.9%–12.2%

<sup>3</sup> CCIRS: Cross Currency Interest Rate Swap

## NOTE 7:

## SECURITIES AVAILABLE-FOR-SALE (in HUF million)

	2010	2009
Mortgage bonds	778,553	720,260
Government bonds	318,637	257,571
Bonds issued by NBH	300,648	504,172
Other securities	40,639	137,389
listed securities	19,851	15,878
in HUF	–	–
in foreign currency	19,851	15,878
non-listed securities	20,788	121,511
in HUF	18,398	14,580
in foreign currency	2,390	106,931
Accrued interest	39,453	38,575
Provision for impairment	–	(5,220)
<b>Securities available-for-sale total</b>	<b>1,477,930</b>	<b>1,652,747</b>

*An analysis of the changes in the provision for impairment is as follows:*

	2010	2009
Balance as at 1 January	5,220	2,769
Provision for the period	–	5,220
Release of provision	(523)	(2,769)
Use of provision	(4,697)	–
<b>Balance as at 31 December</b>	<b>–</b>	<b>5,220</b>

Release of provision was related to foreign currency denominated bonds issued in Kazakhstan which were included in other securities.

	2010	2009
Securities available-for-sale denominated in HUF	72%	74%
Securities available-for-sale denominated in foreign currency	28%	26%
<b>Securities available-for-sale total</b>	<b>100%</b>	<b>100%</b>
Interest rates on securities available-for-sale denominated in HUF	5.5%–12%	5.5%–12%
Interest rates on securities available-for-sale denominated in foreign currency	3.6%–6.8%	1%–9.5%

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

	2010	2009
Within five years:		
variable interest	14,110	29,140
fixed interest	961,968	1,066,196
	<b>976,078</b>	<b>1,095,336</b>
Over five years:		
variable interest	–	72,030
fixed interest	444,001	443,559
	<b>444,001</b>	<b>515,589</b>
Non-interest bearing securities	18,398	8,467
<b>Total</b>	<b>1,438,477</b>	<b>1,619,392</b>

Certain fixed-rate mortgage bonds and other securities are hedged. (See Note 37.)

	2010	2009
Net loss reclassified from equity to statement of recognised income	491	197
<b>Fair value of the hedged securities</b>		
Corporate bonds	16,342	17,286
<b>Total</b>	<b>16,342</b>	<b>17,286</b>

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

	2010	2009
Short-term loans and trade bills (within one year)	664,197	611,898
Long-term loans and trade bills (over one year)	2,177,421	2,078,523
<b>Loans gross total</b>	<b>2,841,618</b>	<b>2,690,421</b>
Accrued interest	16,787	22,061
Provision of impairment on loan losses	(134,621)	(89,587)
<b>Total</b>	<b>2,723,784</b>	<b>2,622,895</b>

### *An analysis of the loan portfolio by currency:*

	2010	2009
In HUF	34%	33%
In foreign currency	66%	67%
<b>Total</b>	<b>100%</b>	<b>100%</b>

### *Interest rates of the loan portfolio are as follows:*

	2010	2009
Loans denominated in HUF, with a maturity within one year	7.8%–29%	9.7%–30%
Loans denominated in HUF, with a maturity over one year	3%–24.8%	3%–24.8%
Loans denominated in Foreign currency	1.8%–24.9%	1.8%–24.1%
Gross loan portfolio on which interest to customers is not being accrued	8.4%	6.8%

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

	2010		2009	
Corporate loans	1,944,825	68%	1,921,905	70%
Consumer loans	365,648	13%	364,839	14%
Municipality loans	322,120	11%	178,224	7%
Housing loans	131,609	5%	149,851	6%
Mortgage backed loans	77,416	3%	75,602	3%
<b>Total</b>	<b>2,841,618</b>	<b>100%</b>	<b>2,690,421</b>	<b>100%</b>

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

	2010	2009
Balance as at 1 January	89,587	45,319
Provision for the period	98,320	76,862
Release of provision	(53,286)	(32,594)
<b>Balance as at 31 December</b>	<b>134,621</b>	<b>89,587</b>

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

	2010	2009
(Release of provision)/ provision for impairment on placement losses (see Note 5)	(780)	1,600
Provision for impairment on loan losses	98,320	76,862
<b>Total</b>	<b>97,540</b>	<b>78,462</b>

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned

subsidiary, OTP Factoring Ltd. See Note 29.

## NOTE 9:

## INVESTMENTS IN SUBSIDIARIES (in HUF million)

	2010	2009
Investments in subsidiaries:		
Controlling interest	784,041	769,477
Other	1,006	975
	785,047	770,452
Provision for impairment	(147,228)	(126,545)
<b>Total</b>	<b>637,819</b>	<b>643,907</b>

Investments in companies in which the Bank has a controlling interest are detailed below.

All companies are incorporated in Hungary unless indicated otherwise:

	2010		2009	
	% Held (direct and indirect)	Gross book value	% Held (direct and indirect)	Gross book value
OTP Bank JSC (Ukraine)	100.00%	266,512	100.00%	271,677
DSK Bank EAD (Bulgaria)	100.00%	86,832	100.00%	86,831
OAD OTP Bank (Russia)	95.87%	73,445	95.55%	66,739
OTP banka Hrvatska d.d. (Croatia)	100.00%	72,940	100.00%	72,940
OTP banka Sribija a.d. (Serbia)	91.43%	55,997	91.43%	55,997
OOO AlyansReserv (Russia)	100.00%	50,074	100.00%	11,147
Crnogorska Komercijalna Banka a.d. (Montenegro)	100.00%	46,998	100.00%	37,100
OTP Bank Romania S.A. (Romania)	100.00%	45,204	100.00%	40,058
OTP Mortgage Bank Ltd.	100.00%	27,000	100.00%	27,000
OTP Banka Slovensko a.s. (Slovakia)	98.82%	10,516	97.23%	10,038
Monicomp Ltd.	100.00%	9,234	–	–
Air-Invest Ltd.	100.00%	8,298	100.00%	8,298
Bank Center No. 1. Ltd.	100.00%	7,330	100.00%	7,330
Inga Two Ltd.	100.00%	5,892	100.00%	5,892
OTP Funds Servicing and Consulting Ltd.	100.00%	2,469	100.00%	2,469
OTP Holding Ltd. (Cyprus)	100.00%	2,000	100.00%	2,000
OTP Building Society Ltd.	100.00%	1,950	100.00%	1,950
OTP Fund Management Ltd.	100.00%	1,653	100.00%	1,653
Merkantil Bank Ltd.	100.00%	1,600	100.00%	1,600
OTP Life Annuity Ltd.	100.00%	1,600	100.00%	1,250
OTP Real Estate Investment Fund Management Ltd.	100.00%	1,353	–	–
Sinvest Ltd. "v.a."	100.00%	1,311	–	–
CIL Babér Ltd.	100.00%	1,025	–	–
Omega Interconsult SRL (previously S.C. OTP Fond de Pensii)	100.00%	885	100.00%	885
OTP Financing Netherlands B.V. (Netherlands)	100.00%	481	100.00%	481
OTP Card Factory Ltd.	100.00%	450	100.00%	450
OTP Real Estate Leasing Ltd.	100.00%	410	100.00%	410
OTP Factoring Ltd.	100.00%	225	100.00%	225
Portfolion Ltd.	100.00%	150	–	–
HIF Ltd.	100.00%	81	100.00%	81
OTP Hungaro-Projekt Ltd.	100.00%	81	–	–
OOO Invest Oil (Russia)	–	–	100.00%	21,224
OOO Megaform Inter (Russia)	–	–	100.00%	17,704
CJSC Donskoy Narodny Bank (Russia)	–	–	100.00%	6,687
Monicomp Ltd.	–	–	100.00%	3,800
Monirent Ltd.	–	–	100.00%	1,520
Omnilog Ltd.	–	–	100.00%	1,500
D4 Tenant Ltd.	–	–	100.00%	1,020
Pet-Real Ltd.	–	–	100.00%	808
Dokulog Ltd.	–	–	100.00%	475
CIL Babér Ltd.	–	–	100.00%	5
MONOPOST Ltd.	–	–	100.00%	2
Other		45		231
<b>Total</b>		<b>784,041</b>		<b>769,477</b>

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

	2010	2009
<b>Balance as at 1 January</b>	<b>126,545</b>	<b>125,995</b>
Provision for the period	20,683	575
Release of provision	–	(25)
<b>Balance as at 31 December</b>	<b>147,228</b>	<b>126,545</b>

The provision for impairment on OTP Bank JSC (Ukraine) was HUF 97,526 million, for OTP banka Srbija a.d. was HUF 25,284 million as at 31

December 2010. During 2010, HUF 18,519 million was impaired. This impairment was related to Crnogorska komercijalna banka a.d.

## The main figures of the Bank's indirectly owned associates, that are not consolidated using equity-method:

### As at 31 December 2010

	Moneta a.d.	Company for Cash Services LLC	Agóra-Kapos Ltd.	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	694	1,936	343	598	3,571
Liabilities	485	233	326	3	1,049
Shareholders' equity	209	1,703	17	595	2,522
Retained earnings and reserves	(260)	–	–	541	281
Total income	319	765	501	46	1,631
Profit before tax	(133)	12	20	4	(97)
Net (loss)/ profit	(133)	11	17	2	(103)

### As at 31 December 2009

	Moneta a.d.	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	744	1,904	598	3,246
Liabilities	358	260	5	623
Shareholders' equity	386	1,644	593	2,623
Retained earnings and reserves	(253)	–	538	285
Total income	273	757	73	1,103
Profit before tax	59	8	5	72
Net (loss)/ profit	53	7	5	65

On 21 January 2010, the capital increase of the Romanian subsidiary of the Bank has been registered by the Romanian Court of Registration. Accordingly the statutory capital of the OTP Bank Romania S.A. has been increased from RON 432,909,120 to RON 462,909,120.

On 25 January 2010, the Bank called its option to buy 100% of the shares of Sinvest Trust Ltd, and become the sole owner of the company.

OTP Bank Plc. became 100% sole owner of OTP Real Estate Fund Management Ltd. The Bank bought the 49% block of the shares from Sinvest Trust Ltd. The Bank paid the purchase price of the shares on 29 March 2010, that the shares were vested to OTP Bank Plc.

During 2010 CJSC Donskoy Narodny Bank was merged into OAO OTP Bank. The merger has been registered by the Court of Registration on 5 February 2010, thus the core capital of OAO OTP Bank reached RUB 2,797,887,853.

On 16 February 2010, the Court of Registration registered the merger of LLC Alliance Reserve, LLC Megaform Inter and LLC Invest Oil.

On 25 February 2010, the Bank acquired an 80% direct ownership in PortfoLion Venture Capital Ltd. The registered capital of the company is HUF 25 million.

On 12 March 2010, the Bank acquired a 10% direct ownership in Overdose Vagyonkezelő Ltd. The purchase price of the shares was HUF 40 million.

On 28 April 2010, the Bank signed a contract in accordance with which OTP Bank Plc. purchased the 89.9% business share of Monopost Ltd. and became the sole owner of the company.

On 24 June 2010, the Bank decided about an EUR 35 million capital increase to CKB Montenegro. Also, the local board of directors appointed Mrs. Inabat Török as the new CEO of CKB.

On 1 July, OTP Found de Pensi S.A. changed its name to Omega Interconsult S.R.L.

On 24 September 2010, D4 Tenant Ltd. was merged into CIL Babér Ltd the fully owned subsidiary of the Bank.

On 30 September 2010, the following companies fully owned by the Bank – Monopost Ltd., Monicomp Ltd., Pet-Real Ltd., Monirent Ltd., Omnilog Ltd., Dokulog Ltd. Pet-Real Ltd., – were merged and became a new company called Bankszolgáltató Ltd. As at 11 October 2010 the company changed its name to Monicomp Ltd.

On 7 October 2010, the Bank purchased an additional 20% stock in PortfoLion Venture Capital Ltd. from a minority holder to its existing 80% stake. As a result of this transaction, the Bank became the sole owner of PortfoLion Venture Capital Ltd. The purchase price was paid on 7 October 2010 to the previous owners and the Bank obtained the ownership rights on the same day.

OTP Bank Plc. increased capital – in the amount of RON 80 million - of its Romanian subsidiary that has been registered by the Romanian Court of Registration on 16 November 2010. Accordingly the statutory capital of OTP Bank Romania S.A. increased from RON 462,909,120 to RON 542,909,040.

On 22 November 2010 the Bank provided HUF 350 million additional capital to OTP Life Annuity Ltd. from this amount HUF 50 million was the core capital that was registered in on 1 December 2010.

## NOTE 10:

## SECURITIES HELD-TO-MATURITY (in HUF million)

	2010	2009
Government bonds	87,878	107,447
Mortgage bonds	60,140	99,220
Hungarian government discounted Treasury bills	395	388
Other bonds	–	5,250
	<b>148,413</b>	<b>212,305</b>
Accrued interest	5,590	8,422
Provision for impairment	–	(4,164)
<b>Total</b>	<b>154,003</b>	<b>216,563</b>

### *An analysis of the change in the provision for impairment is as follows:*

	2010	2009
<b>Balance as at 1 January</b>	<b>4,164</b>	<b>–</b>
Provision for impairment	–	4,164
Release of provision	(1,566)	–
Use of provision	(2,598)	–
<b>Balance as at 31 December</b>	<b>–</b>	<b>4,164</b>

Release and use of provision was related to foreign currency denominated bonds issued in Kazakhstan which were included in other bonds. Due to certain unexpected events (a significant

deterioration of the issuer's creditworthiness) that were beyond the Bank's control the securities were sold in 2010 and the related provisions were released and used.

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

	2010	2009
Within five years:		
variable interest	34,090	37,204
fixed interest	87,060	144,593
	<b>121,150</b>	<b>181,797</b>
Over five years:		
variable interest	3,334	6,666
fixed interest	23,929	23,842
	<b>27,263</b>	<b>30,508</b>
<b>Total</b>	<b>148,413</b>	<b>212,305</b>

**The distribution of the held-to-maturity securities by currency:**

	2010	2009
Securities held-to-maturity denominated in HUF (%)	100%	98%
Securities held-to-maturity denominated in foreign currency (%)	0%	2%
<b>Securities held-to-maturity total</b>	<b>100%</b>	<b>100%</b>
Interest rates on securities held-to-maturity (%)	5.5%–10%	5.5%–19.2%

In most cases, interest on variable rate securities is based on the interest rates of 90 day Hungarian government Treasury bills and

is adjusted semi-annually. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

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

**For year ended 31 December 2010**

	Intangible assets	Property	Office equipments and vehicles	Construction in progress	Total
<b>Cost</b>					
Balance as at 1 January	87,735	59,964	71,121	3,832	222,652
Additions	20,572	2,658	5,516	9,472	38,218
Disposals	(9,892)	(611)	(3,371)	(8,336)	(22,210)
<b>Balance as at 31 December</b>	<b>98,415</b>	<b>62,011</b>	<b>73,266</b>	<b>4,968</b>	<b>238,660</b>
<b>Depreciation and Amortization</b>					
Balance as at 1 January	48,826	11,492	53,771	–	114,089
Charge for the year	15,802	1,535	6,804	–	24,141
Disposals	(1,358)	(193)	(3,168)	–	(4,719)
<b>Balance as at 31 December</b>	<b>63,270</b>	<b>12,834</b>	<b>57,407</b>	<b>–</b>	<b>133,511</b>
<b>Net book value</b>					
Balance as at 1 January	38,909	48,472	17,350	3,832	108,563
<b>Balance as at 31 December</b>	<b>35,145</b>	<b>49,177</b>	<b>15,859</b>	<b>4,968</b>	<b>105,149</b>

## For the year ended 31 December 2009

	Intangible assets	Property	Office equipments and vehicles	Construction in progress	Total
<b>Cost</b>					
Balance as at 1 January	74,686	58,354	72,441	4,869	210,350
Additions	18,682	3,116	4,355	–	26,153
Disposals	(5,633)	(1,506)	(5,675)	(1,037)	(13,851)
<b>Balance as at 31 December</b>	<b>87,735</b>	<b>59,964</b>	<b>71,121</b>	<b>3,832</b>	<b>222,652</b>
<b>Depreciation and Amortization</b>					
Balance as at 1 January	35,147	10,585	52,235	–	97,967
Charge for the year	13,730	1,475	7,057	–	22,262
Disposals	(51)	(568)	(5,521)	–	(6,140)
<b>Balance as at 31 December</b>	<b>48,826</b>	<b>11,492</b>	<b>53,771</b>	<b>–</b>	<b>114,089</b>
<b>Net book value</b>					
Balance as at 1 January	39,539	47,769	20,206	4,869	112,383
<b>Balance as at 31 December</b>	<b>38,909</b>	<b>48,472</b>	<b>17,350</b>	<b>3,832</b>	<b>108,563</b>

## NOTE 12: OTHER ASSETS (in HUF million)

	2010	2009
Fair value of derivative financial instruments designated as fair value hedge	8,477	14,148
Receivables from OTP Mortgage Bank Ltd. <sup>4</sup>	6,921	49,026
Receivables from decreasing share capital of OTP Holding Ltd.	4,800	4,800
Credits sold under deferred payment scheme	4,665	1,248
Trade receivables	4,354	6,010
Prepayments and accrued income	4,334	4,506
Current income tax receivable	2,224	1,400
Due from Hungarian Government from interest subsidies	1,992	1,878
Deferred tax assets	1,887	3,828
Inventories	952	705
Advances for securities and investments	561	546
Receivables from investment services	415	512
Other advances	308	192
Other	5,029	5,265
	<b>46,919</b>	<b>94,064</b>
Provision for impairment on other assets <sup>5</sup>	(2,407)	(1,979)
<b>Total</b>	<b>44,512</b>	<b>92,085</b>

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

	2010	2009
Interest rate swaps designated as fair value hedge	8,477	14,147
Other	–	1
<b>Total</b>	<b>8,477</b>	<b>14,148</b>

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

	2010	2009
Balance as at 1 January	1,979	610
Charge for the period	1,500	1,940
Release of provision	(933)	(570)
Use of provision	(139)	(1)
<b>Balance as at 31 December</b>	<b>2,407</b>	<b>1,979</b>

<sup>4</sup> The Bank, under a syndication agreement administered mortgage loans with recourse to OTP Mortgage Bank Ltd.

<sup>5</sup> Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.

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

	2010	2009
Within one year:		
In HUF	149,032	84,777
In foreign currency <sup>6</sup>	325,207	712,431
	<b>474,239</b>	<b>797,208</b>
Over one year:		
In HUF	116,271	97,875
In foreign currency <sup>7</sup>	149,681	254,377
	<b>265,952</b>	<b>352,252</b>
<b>Subtotal</b>	<b>740,191</b>	<b>1,149,460</b>
Accrued interest	1,654	2,671
<b>Total</b>	<b>741,845</b>	<b>1,152,131</b>

The Bank has used mortgage bonds as collateral in relation to collateralised borrowing (EUR 550 million).

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

	2010	2009
Within one year:		
In HUF	1.89%–6.37%	8.94%–11%
In foreign currency	0.22%–15.9%	1%–5.9%
Over one year:		
In HUF	0.89%–6.37%	1.75%–8.46%
In foreign currency	0.12%–4.73%	0.28%–10.56%

<sup>6</sup>The Hungarian State through the Government Debt Management Agency has rendered EUR 1.4 billion loan to the Bank in the framework of a loan agreement signed on 26 March 2009. The source of the facility is the IMF Loan Programme. The first disbursement was effected on 1 April 2009, the second on 30 June 2009. The original maturity of the loan was 11 November 2012. The loan facility had market conditions; the coupon paid by the Bank exceeded the relevant benchmark rates by 245-250 bps. The loan agreement aimed to provide liquidity for Hungarian corporations, as well as mitigating the negative effect of the current financial situation and stabilizing the local financial sector. In order to contribute to the stimulation of the

economy in Hungary, the Bank got these funds with the aim of re-channelling it to local corporate clients.

On 5 November 2009, the Bank paid back an equivalent of EUR 700 million, and on 19 March 2010, the Bank paid back the remaining EUR 700 million to the Hungarian State.

<sup>7</sup>On 2 July 2010, the Bank signed an EUR 250,000,000 Term Loan Facility. The originally planned amount was EUR 200 million, but the transaction was very well received, altogether 16 banks took part in the deal.

The facility has a 2 years tenore, carries a margin of 1.30% above Euribor and the proceeds will be used for general funding purposes.

**NOTE 14:****DEPOSITS FROM CUSTOMERS (in HUF million)**

	2010	2009
Within one year:		
In HUF	2,595,048	2,694,633
In foreign currency	646,053	630,457
	<b>3,241,101</b>	<b>3,325,090</b>
Over one year:		
In HUF	26,185	16,860
In foreign currency	2,421	3,941
	<b>28,606</b>	<b>20,801</b>
<b>Subtotal</b>	<b>3,269,707</b>	<b>3,345,891</b>
Accrued interest	9,866	22,861
<b>Total</b>	<b>3,279,573</b>	<b>3,368,752</b>

**Interest rates on deposits from customers are as follows:**

	2010	2009
Within one year in HUF	0.1%–10.3%	0.2%–12%
Over one year in HUF	0.2%–5.3%	0.2%–11.5%
In foreign currency	0.02%–6.1%	0.1%–8.1%

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

	2010		2009	
Retail deposits	2,043,644	63%	2,057,361	61%
Corporate deposits	1,056,183	32%	1,033,705	31%
Municipality deposits	169,880	5%	254,825	8%
<b>Total</b>	<b>3,269,707</b>	<b>100%</b>	<b>3,345,891</b>	<b>100%</b>

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

	2010	2009
Within one year:		
In HUF	282,049	227,834
In foreign currency	140,094	216,673
	<b>422,143</b>	<b>444,507</b>
Over one year:		
In HUF	45,964	22,206
In foreign currency	36,196	140,540
	<b>82,160</b>	<b>162,746</b>
<b>Subtotal</b>	<b>504,303</b>	<b>607,253</b>
Accrued interest	8,163	11,050
<b>Total</b>	<b>512,466</b>	<b>618,303</b>

**Interest rates on liabilities from issued securities are as follows:**

	2010	2009
Issued securities denominated in HUF	0.25%–9.5%	0.25%–10%
Issued securities denominated in foreign currency	4%–5.75%	0.86%–5.75%

## Issued securities denominated in foreign currency as at 31 December 2010:

	Name	Date of issuance	Maturity	Currency	Nominal value in		Interest conditions		Hedged
					FX million	HUF million	(in % p.a.)		
1.	OTP HBFIXED 160511	16/05/2008	16/05/2011	EUR	500	139,375	5.75	fixed	hedged
2.	OTPHB402/12	24/02/2010	24/02/2012	CHF	89	19,797	4	fixed	hedged
3.	DNT_EUR_2011_A	23/12/2010	23/06/2011	EUR	9	2,543	indexed	floating	
4.	DNT_USD_2011_A	23/12/2010	23/06/2011	USD	3	572	indexed	floating	
5.	OTPX 2015C	22/12/2010	29/12/2015	EUR	1	270	indexed	floating	hedged
<b>Total issued securities in FX</b>						<b>162,557</b>			
Unamortized premium						6,809			
Fair value hedge adjustment						6,924			
<b>Total issued securities in FX</b>						<b>176,290</b>			

### CHF Bond issuance programme

On 24 February 2010, the Bank issued CHF 100 million fixed rate bonds at 100.633%. The maturity of the bonds is 24 February 2012. The interest rate is 4% paid annually. CHF 11 million of the bonds issued was repurchased by the Bank during the year 2010.

### EMTN Programme

On 30 July 2010, the "Commission de Surveillance du Secteur Financier" (CSSF) approved the Base Prospectus relating to EUR 5 billion Euro Medium Term Note Programme of OTP Bank Plc.

### Term Note Program in the value of HUF 500 billion

On 2 August 2010, Hungarian Financial Supervisory Authority approved the prospectus of Term Note Program in a total nominal value of HUF 500 billion. The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Prague, Bucharest and Sofia Stock Exchange.

### Redemption of EUR 500 million senior notes

On 1 July 2010, the Bank duly fulfilled its obligations regarding the redemption and last interest payment of EUR 500 million senior note due on 1 July 2010.

### Redemption of EUR 300 million senior notes

On 20 December 2010, the Bank duly fulfilled its obligations regarding the redemption and last interest payment of EUR 300 million senior note due on 20 December 2010.

Certain structured bonds are hedged by interest rate swaps which may transfer to a transferee a fixed rate financial asset and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate based on a notional amount which is equal to the notional amount of the hedged bond. The hedge is highly effective if changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are within a range of 80-125 per cent.

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the HUF/CHF and HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and CHF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and CHF CCIRS transactions, where the fixed EUR cash-flows were swapped to payments linked to 3 or 6 month HUF BUBOR or CHF LIBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

## Issued securities denominated in HUF as at 31 December 2010:

Name	Date of issuance	Maturity	Nominal value in HUF million	Interest conditions	Hedged	
1. OTP 2011/I	08/01/2010	15/01/2010	08/01/2011	6,011	5.5 fixed	
2. OTP 2011/II	22/01/2010	29/01/2010	22/01/2011	23,326	5.5 fixed	
3. OTP 2011/III	05/02/2010	12/02/2010	05/02/2011	5,981	5.5 fixed	
4. OTP 2011/IV	19/02/2010	26/02/2010	19/02/2011	22,805	5.5 fixed	
5. OTP 2011/V	05/03/2010	12/03/2010	05/03/2011	10,711	5.5 fixed	
6. OTP 2011/VI	19/03/2010	26/03/2010	19/03/2011	5,231	5.5 fixed	
7. OTP 2011/VII	02/04/2010	09/04/2010	02/04/2011	13,085	5 fixed	
8. OTP 2011/VIII	16/04/2010	23/04/2010	16/04/2011	7,295	5 fixed	
9. OTP 2011/IX	30/04/2010	07/05/2010	30/04/2011	9,516	5 fixed	
10. OTP 2011/X	14/05/2010	21/05/2010	14/05/2011	9,805	5 fixed	
11. OTP 2011/XI	28/05/2010	04/06/2010	28/05/2011	8,367	5 fixed	
12. OTP 2011/XII	11/06/2010	18/06/2010	11/06/2011	6,794	5 fixed	
13. OTP 2011/XIII	25/06/2010	02/07/2010	25/06/2011	9,206	5 fixed	
14. OTP 2011/XIV	09/07/2010	16/07/2010	09/07/2011	10,349	5 fixed	
15. OTP 2011/XV	23/07/2010	30/07/2010	23/07/2011	11,171	5 fixed	
16. OTP 2011/XVI	06/08/2010	13/08/2010	06/08/2011	13,272	5 fixed	
17. OTP 2011/XVII	19/08/2010	27/08/2010	19/08/2011	7,245	5 fixed	
18. OTP 2011/XVIII	03/09/2010	10/09/2010	03/09/2011	14,679	5 fixed	
19. OTP 2011/XIX	17/09/2010	24/09/2010	17/09/2011	11,131	5 fixed	
20. OTP 2011/XX	01/10/2010	08/10/2010	01/10/2011	4,864	5 fixed	
21. OTP 2011/XXI	15/10/2010	22/10/2010	15/11/2011	6,474	5 fixed	
22. OTP 2011/XXII	29/10/2010	05/11/2010	29/10/2011	19,640	5 fixed	
23. OTP 2011/XXIII	12/11/2010	19/11/2010	12/11/2011	12,589	5 fixed	
24. OTP 2011/XXIV	26/11/2010	03/12/2010	26/11/2012	6,518	5 fixed	
25. OTP 2011/XXV	13/12/2010	30/12/2010	13/12/2011	15,810	5 fixed	
26. OTP 2011A	13/10/2009		13/04/2011	3,000	9.5 fixed	
27. OTP 2011B	28/10/2009		28/04/2011	1,000	7.55 fixed	
28. OTP 2011C	09/11/2009		09/11/2011	2,000	7.5 fixed	
29. TBSZ2013_I	26/02/2010	28/12/2010	30/12/2013	6,264	5.5 fixed	
30. TBSZ2015_J	26/02/2010	17/12/2010	30/12/2015	5,729	5.5 fixed	
31. OTPX 2011A	29/02/2008		01/03/2011	315	indexed floating	hedged
32. OTPX 2011B	30/05/2008		30/05/2011	539	indexed floating	hedged
33. OTPX 2011C	14/12/2009	05/02/2010	20/12/2011	527	indexed floating	hedged
34. OTPX 2012C	25/03/2010	13/12/2010	30/03/2012	668	indexed floating	hedged
35. OTPX 2013C	16/12/2010		19/12/2013	450	indexed floating	hedged
36. OTPX 2012A	11/09/2009	25/09/2009	11/09/2012	1,686	indexed floating	hedged
37. OTPX 2013A	28/06/2010		08/07/2013	480	indexed floating	hedged
38. OTPX 2014A	25/06/2009	24/06/2010	30/06/2014	3,278	indexed floating	hedged
39. OTPX 2014B	05/10/2009	05/10/2010	13/10/2014	4,164	indexed floating	hedged
40. OTPX 2014C	14/12/2009		19/12/2014	4,080	indexed floating	hedged
41. OTPX 2015A	25/03/2010		30/03/2015	5,602	indexed floating	hedged
42. OTPX 2015B	28/06/2010		09/07/2015	5,030	indexed floating	hedged
43. OTPX 2016B	16/12/2010		19/12/2016	3,480	indexed floating	hedged
44. OTPX 2019A	25/06/2009	24/06/2010	01/07/2019	319	indexed floating	hedged
45. OTPX 2019B	05/10/2009	05/02/2010	14/10/2019	481	indexed floating	hedged
46. OTPX 2019C	14/12/2009		20/12/2019	404	indexed floating	hedged
47. OTPX 2020A	25/03/2010		30/03/2020	415	indexed floating	hedged
48. OTPX 2020B	28/06/2010		09/07/2020	450	indexed floating	hedged
49. OTPX 2020D	16/12/2010		18/12/2020	245	indexed floating	hedged
50. OTPRA_2013_B	26/11/2010		03/12/2013	3,752	indexed floating	hedged
51. OTPX 2013B	26/11/2010		06/11/2013	940	indexed floating	hedged
52. OTPX 2016A	11/11/2010		03/11/2016	4,600	indexed floating	hedged
53. OTPX 2020C	11/11/2010		05/11/2020	290	indexed floating	hedged
54. OTPRF_2020_C	11/11/2010		05/11/2020	64	indexed floating	hedged
55. 3Y_EUR_HUF	25/06/2010		25/06/2013	2,338	indexed floating	hedged
56. 2020_RF_A	12/07/2010		20/07/2020	117	indexed floating	hedged
57. 2020_RF_B	12/07/2010		20/07/2020	468	indexed floating	hedged
58. DNT_HUF_2011_A	23/12/2010		23/06/2011	3,903	indexed floating	hedged
<b>Total issued securities in HUF</b>				<b>338,953</b>		
Unamortized premium				(6,777)		
Fair value hedge adjustment				(4,163)		
<b>Total issued securities in HUF</b>				<b>328,013</b>		
Accrued interest				8,163		
<b>Total</b>				<b>512,466</b>		

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

***Negative fair value of financial liabilities at fair value through profit or loss designated as held for trading by deal types:***

	<b>2010</b>	<b>2009</b>
CCIRS and mark-to-market CCIRS	206,887	61,517
Interest rate swaps	40,064	47,065
Foreign currency swaps	5,426	6,168
Other derivative contracts	4,951	4,603
<b>Total</b>	<b>257,328</b>	<b>119,353</b>

**NOTE 17: OTHER LIABILITIES (in HUF million)**

	<b>2010</b>	<b>2009</b>
Financial liabilities from OTP-MOL share swap transaction <sup>a</sup>	105,766	86,912
Accrued expenses	33,219	36,634
Salaries and social security payable	21,022	18,938
Liabilities from investment services	12,033	2,813
Giro clearing accounts	10,682	11,330
Provision on off-balance sheet commitments, contingent liabilities	8,461	18,733
Fair value of derivative financial instruments designated as fair value hedge	7,143	3,569
Accounts payable	6,642	6,999
Liabilities from custody accounts	5,495	7,260
Current income tax payable	4,066	6,902
Short term liabilities due to repurchase agreement transactions	3,461	401
Liabilities connected to loans for collection	1,147	1,426
Liabilities related to housing loans	351	1,580
Dividends payable	193	196
Financial liabilities from guaranteed loans of OTP Bank JSC	–	38,132
Other	11,607	11,163
<b>Total</b>	<b>231,288</b>	<b>252,988</b>

***Negative fair value of derivative financial instruments designated as fair value hedge:***

	<b>2010</b>	<b>2009</b>
Interest-rate swap transactions designated as fair value hedge	7,143	3,569

<sup>a</sup> On 16 April 2009, OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an american style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the lost of control

over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity and a recognition of a corresponding liability. As at 31 December 2010 and 2009 HUF 105,766 and HUF 86,912 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

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

	2010	2009
Provision for losses on off-balance sheet commitments and contingent liabilities related to lending	6,325	14,346
From this: provision for the repurchase guarantee to OTP Mortgage Bank Ltd.	177	6,619
Provision for litigation	1,476	3,116
Provision on other liabilities	660	1,271
<b>Total</b>	<b>8,461</b>	<b>18,733</b>

**Movements in the provision for losses on commitments and contingent liabilities can be summarized as follows:**

	2010	2009
Balance as at 1 January	18,733	28,233
Provision for the period	23,213	53,899
Release of provision for the period	(33,485)	(63,399)
<b>Balance as at 31 December</b>	<b>8,461</b>	<b>18,733</b>

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

	2010	2009
Over one year:		
In HUF	5,000	5,000
In foreign currency	289,184	278,863
	<b>294,184</b>	<b>283,863</b>
Accrued interest	3,454	3,458
<b>Total</b>	<b>297,638</b>	<b>287,321</b>

**Interest rates on subordinated bonds and loans are as follows:**

	2010	2009
Subordinated bonds and loans denominated in HUF	2.7%	3.8%
Subordinated bonds and loans denominated in foreign currency	1.6%–5.9%	1.3%–5.9%

**Subordinated loans and bonds are detailed as follows:**

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 31 December 2010
Subordinated bond	HUF 5 billion	20/12/1993	20/12/2013	100%	frequency of payment is based on the condition of interest of 2013/C credit consolidation government bonds	3.80%
Subordinated bond	EUR 125 million	04/03/2005	04/03/2015	100%	three-month EURIBOR + 0.55% quarterly	
Subordinated bond	EUR 498 million	07/11/2006	Perpetual bond callable after 10 years	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	
Subordinated bond (under EMTN <sup>1</sup> program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN <sup>1</sup> program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%

<sup>1</sup>European Medium Term Note Program

**NOTE 19:****SHARE CAPITAL (in HUF million)**

	2010	2009
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000
<b>Total</b>	<b>28,000</b>	<b>28,000</b>

On 21 April 2007, the law on abolishment of „aranyrészvény” (special share assigning voting rights to the Hungarian State) came into force (Act XXVI of 2007). As a result of this, this special voting share was transformed into

10 ordinary shares with a face value of HUF 100. Therefore, the registered capital of the Bank consists of 280,000,010 ordinary shares with a face value of HUF 100.

**NOTE 20:****RETAINED EARNINGS AND RESERVES (in HUF million)*****The reserves of the Bank under Hungarian Accounting Standards:***

	2010	2009
Capital reserve	52	52
General reserve	122,863	111,903
Retained earnings	692,754	598,133
Tied-up reserve	5,729	5,274
<b>Total</b>	<b>821,398</b>	<b>715,362</b>

The legal reserves (general reserve and tied-up reserve) are not available for distribution. Dividend was calculated on the bases of the unconsolidated annual net profit according to the Hungarian Accounting Standards.

These Financial Statements subject to approval by the Board of Directors in the Annual General Meeting in April 2011. The Bank did not pay any dividend in 2010 from the profit of the year 2009. In 2011 dividend of HUF 20,160 million are expected to be proposed by the management.

On 19 October 2006 the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares („ICES”). Within the transaction 10 million shares owned by OTP Bank, and 4.5 million OTP shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The

shares have been purchased by Opus Securities S.A. („OPUS”), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP Bank has discretionary right to cancel the payments. The interest payable is non-cumulative.

Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

**NOTE 21:****TREASURY SHARES (in HUF million)**

	<b>2010</b>	<b>2009</b>
Nominal value (ordinary shares)	216	219
Carrying value at acquisition cost	3,729	3,774

The changes in the carrying value of Treasury shares are due to repurchase and sale

transactions on market authorised by the General Assembly.

***Change in number of shares:***

	<b>2010</b>	<b>2009</b>
Number of shares as at 1 January	2,187,444	17,418,636
Additions	73,232	10,355,980
Disposals	(103,005)	(25,587,172)
<b>Number of shares as at 31 December</b>	<b>2,157,671</b>	<b>2,187,444</b>

***Change in carrying value:***

	<b>2010</b>	<b>2009</b>
Balance as at 1 January	3,774	97,845
Additions	415	16,566
Disposals	(460)	(110,637)
<b>Balance as at 31 December</b>	<b>3,729</b>	<b>3,774</b>

**NOTE 22:****NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)*****Income from fees and commissions***

	<b>2010</b>	<b>2009</b>
Deposit and account maintenance fees and commissions	41,173	42,231
Fees and commissions paid by OTP Mortgage Bank Ltd.	38,603	52,693
Fees and commission related to the issued bank cards	21,565	22,726
Fees related to the cash withdrawal	20,361	21,316
Fees and commissions related to security trading	13,184	11,513
Fees and commissions related to lending	3,734	4,702
Net insurance fee income	1,884	1,384
Other	5,328	4,316
<b>Total</b>	<b>145,832</b>	<b>160,881</b>

***Expenses from fees and commissions***

	<b>2010</b>	<b>2009</b>
Interchange fee	5,932	5,217
Fees and commissions related to issued bank cards	4,340	4,339
Insurance fees	1,766	1,505
Cash withdrawal transaction fees	1,660	1,747
Fees and commissions related to lending	1,353	1,903
Money market transaction fees and commissions	1,134	1,775
Fees and commissions relating to deposits	730	684
Fees and commissions related to security trading	646	558
Postal fees	538	545
Other	2,345	3,807
<b>Total</b>	<b>20,444</b>	<b>22,080</b>
<b>Net profit from fees and commissions</b>	<b>125,388</b>	<b>138,801</b>

**NOTE 23: OTHER OPERATING INCOME AND EXPENSES (in HUF million)****Other operating income:**

	<b>2010</b>	<b>2009</b>
Other income from redemption of issued securities	–	38,600
Other	1,671	2,750
<b>Total</b>	<b>1,671</b>	<b>41,350</b>

**Net other operating expenses:**

	<b>2010</b>	<b>2009</b>
Provision for impairment on investments in subsidiaries	20,683	575
Cancellation fee paid for OTP Mortgage Bank Ltd.	14,510	–
Provision for impairment on other assets	567	1,370
(Release of provision)/ provision for losses on securities available-for-sale	(5,220)	2,451
(Release of provision)/ provision for losses on securities held-to-maturity	(4,164)	4,164
Release of provision for off-balance sheet commitments and contingent liabilities	(10,272)	(9,500)
Other	3,438	3,653
<b>Total</b>	<b>19,542</b>	<b>2,713</b>

**NOTE 24: OTHER ADMINISTRATIVE EXPENSES (in HUF million)****Personnel expenses:**

	<b>2010</b>	<b>2009</b>
Wages	52,653	53,747
Taxes related to personnel expenses	15,705	16,651
Other personnel expenses	7,279	7,279
<b>Subtotal</b>	<b>75,637</b>	<b>77,677</b>

**Other administrative expenses:**

	<b>2010</b>	<b>2009</b>
Taxes, other than income tax <sup>10</sup>	40,908	15,232
Administration expenses, including rental fees	21,155	22,549
Services	19,735	19,544
Advertising	6,182	5,604
Professional fees	2,510	2,520
<b>Subtotal</b>	<b>90,490</b>	<b>65,449</b>
<b>Total</b>	<b>190,268</b>	<b>165,388</b>

**NOTE 25: INCOME TAX (in HUF million)**

The Bank is presently liable for income tax at a rate of 19% of taxable income. From 1 January 2010 the additional banking tax (4%) was cancelled. Due to the fact that the Hungarian Government approved a law effected that the income tax rate will be reduced to 10% from

1 January 2013 the deferred tax is calculated at 10% for those temporary differences that are expected to be resulted in taxable amounts or amounts deductible from the taxable profit after 2012. 19% was used for the calculation of the deferred tax for the remaining items.

<sup>10</sup> Based on the amendment of the act on the special tax of financial institutions approved on 22 July 2010, a new special financial institution tax was paid by OTP Bank Plc. The total tax amount for the year 2010 was HUF 26 billion recognised as an expense thus decreased the corporate tax base. Based on the approved regulation, financial institutions are obliged to pay this special tax until the end of 2012.

**A breakdown of the income tax expense is:**

	<b>2010</b>	<b>2009</b>
Current tax expense	5,216	13,811
Deferred tax expense/(benefit)	4,754	(10,580)
	<b>9,970</b>	<b>3,231</b>

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

	<b>2010</b>	<b>2009</b>
Balance as at 1 January	3,828	(759)
Deferred tax (expense)/benefit	(4,754)	10,580
Tax effect of fair value adjustment of available-for-sale securities and ICES recognised in other comprehensive income	2,813	(5,993)
<b>Balance as at 31 December</b>	<b>1,887</b>	<b>3,828</b>

**A breakdown of the deferred tax asset/liability is as follows:**

	<b>2010</b>	<b>2009</b>
<b>Provision for impairment on investments in subsidiaries</b>	<b>8,814</b>	<b>13,221</b>
Repurchase agreements and security lending	1,515	2,483
Fair value adjustment of securities held for trading and available-for-sale	1,263	–
Difference in accounting for finance leases	510	721
<b>Deferred tax assets</b>	<b>12,102</b>	<b>16,425</b>

	<b>2010</b>	<b>2009</b>
Fair value adjustment of derivative financial instruments	(3,782)	(994)
Effect of redemption of issued securities	(2,752)	(4,913)
Valuation of equity instrument (ICES)	(2,182)	(981)
Difference in depreciation and amortization	(997)	(1,678)
Effect of using effective interest rate method	(502)	(177)
Fair value adjustment of held for trading and available-for-sale securities	–	(3,854)
Deferred tax liabilities	(10,215)	(12,597)
<b>Net deferred tax asset</b>	<b>1,887</b>	<b>3,828</b>

	<b>2010</b>	<b>2009</b>
Profit before income tax	134,634	161,369
Income tax at statutory tax rate (19% in 2010, 16% in 2009)	25,580	25,819
Special tax (4%)	–	5,116

**Income tax adjustments due to permanent differences are as follows:**

	<b>2010</b>	<b>2009</b>
Revaluation of investments denominated in foreign currency to historical cost	3,656	(1,884)
Differences in carrying value of subsidiaries	981	(7,245)
Reversal of statutory general provision	109	497
Tax effect of amortisation of statutory goodwill and negative goodwill	(266)	(108)
Reclassification of direct charges to reserves	(647)	(771)
Effect of change of income tax rate	(912)	(216)
Share-based payment	(2,246)	1,292
Accounting of equity instrument (ICES)	(4,234)	(199)
Dividend income	(4,407)	(5,278)
Provision for impairment on investments in subsidiaries	(6,547)	(10,039)
Other	(1,097)	(3,753)
<b>Income tax</b>	<b>9,970</b>	<b>3,231</b>
Effective tax rate	7.4%	2.0%

**NOTE 26:****FINANCIAL RISK MANAGEMENT (in HUF million)**

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

**26.1. Credit risk**

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan

types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

**Analysis by loan types and risk classes**

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

*As at 31 December 2010*

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total carrying amount/ allowance
Corporate loans	<b>1,275,811</b>	<b>402,422</b>	<b>56,571</b>	<b>70,288</b>	<b>50,600</b>	<b>1,855,692</b>
Allowance	–	(12,927)	(13,173)	(40,808)	(42,335)	(109,243)
Placements with other banks	787,294	833	6,027	–	–	794,154
Allowance	–	(42)	(908)	–	–	(950)
Retail loans	477,066	54,447	16,160	26,914	86	574,673
Allowance	–	(3,520)	(3,719)	(10,775)	(72)	(18,086)
Municipal loans	271,195	39,263	6,631	4,493	538	322,120
Allowance	–	(1,219)	(582)	(2,041)	(423)	(4,265)
SME loans	81,016	2,841	814	3,922	540	89,133
Allowance	–	(32)	(106)	(2,356)	(533)	(3,027)
<b>Gross loan portfolio total</b>	<b>2,892,382</b>	<b>499,806</b>	<b>86,203</b>	<b>105,617</b>	<b>51,764</b>	<b>3,635,772</b>
<b>Allowance Total</b>	<b>–</b>	<b>(17,740)</b>	<b>(18,488)</b>	<b>(55,980)</b>	<b>(43,363)</b>	<b>(135,571)</b>
<b>Net loan portfolio total</b>	<b>2,892,382</b>	<b>482,066</b>	<b>67,715</b>	<b>49,637</b>	<b>8,401</b>	<b>3,500,201</b>
<b>Accrued interest</b>						
placements with other banks						1,482
loans						16,787
<b>Total accrued interest</b>						<b>18,269</b>
<b>Total</b>						<b>3,518,470</b>

## As at 31 December 2009

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total carrying amount/ allowance
Corporate loans	1,337,671	383,054	52,893	47,985	18,683	1,840,286
Allowance	–	(9,709)	(10,108)	(21,440)	(17,149)	(58,406)
Placements with other banks	951,310	4,717	5,642	–	557	962,226
Allowance	–	(123)	(1,128)	–	(446)	(1,697)
Retail loans	499,821	34,604	5,415	44,325	6,127	590,292
Allowance	–	(353)	(596)	(19,689)	(5,970)	(26,608)
Municipal loans	174,909	2,761	–	360	194	178,224
Allowance	–	(130)	–	(245)	(159)	(534)
SME loans	70,595	3,975	1,204	4,950	895	81,619
Allowance	–	(41)	(133)	(2,970)	(895)	(4,039)
<b>Gross loan portfolio total</b>	<b>3,034,306</b>	<b>429,111</b>	<b>65,154</b>	<b>97,620</b>	<b>26,456</b>	<b>3,652,647</b>
<b>Allowance total</b>	<b>–</b>	<b>(10,356)</b>	<b>(11,965)</b>	<b>(44,344)</b>	<b>(24,619)</b>	<b>(91,284)</b>
<b>Net loan portfolio total</b>	<b>3,034,306</b>	<b>418,755</b>	<b>53,189</b>	<b>53,276</b>	<b>1,837</b>	<b>3,561,363</b>
<b>Accrued interest</b>						
placements with other banks						1,534
loans						22,061
<b>Total accrued interest</b>						<b>23,595</b>
<b>Total</b>						<b>3,584,958</b>

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

## As at 31 December 2010

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total off balance sheet items
Corporate loans	876,212	26,355	8,424	3,576	2,551	917,118
Placements with other banks	–	–	–	–	–	–
Retail loans	347,195	386	213	60	2	347,856
Municipal loans	102,950	909	191	207	–	104,257
SME loans	23,524	103	–	–	–	23,627
<b>Total</b>	<b>1,349,881</b>	<b>27,753</b>	<b>8,828</b>	<b>3,843</b>	<b>2,553</b>	<b>1,392,858</b>

## As at 31 December 2009

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total off balance sheet items
Corporate loans	328,438	44,403	28,290	2,267	53,438	456,836
Placements with other banks	15	–	–	–	–	15
Retail loans	238,201	12,073	6,472	10,088	659	267,493
Municipal loans	99,271	369	–	4	–	99,644
SME loans	22,295	271	10	–	–	22,576
<b>Total</b>	<b>688,220</b>	<b>57,116</b>	<b>34,772</b>	<b>12,359</b>	<b>54,097</b>	<b>846,564</b>

The Bank's loan portfolio increased by 5.16% as at 31 December 2010. Analysing the contribution of loan types to the loan portfolio, the share of the retail business line and one of placements with other banks decreased while the share of other business lines increased. As a consequence of the economic situation, the qualification of the loan portfolio deteriorated, the ratio of the non-performing (doubtful and bad) loans compared to the gross loan portfolio increased from 3.3% to 4.48%. Among the qualified loan portfolio, the loans classified to the risk class of "to-be-monitored" expanded at the greatest level.

The Bank has a prudent provisioning policy, the coverage of loans by provision for impairment on loans classified as doubtful or bad, the coverage was 85.3% as at 31 December 2010.

The off-balance sheet liabilities connected to the lending activity increased by 31.8%, while the qualified loan portfolio decreased by 71.9% as at 31 December 2010.

## Classification into risk classes

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

As of 31 December 2010, the classification and impairment methodology of the retail exposures – which are assessed using the collective valuation method – has changed. According to the new methodology, the expected loss of the different homogenous populations are determined using historical loss experience models instead of the old method which was using expert keys. The new expected loss percentages were determined based on these new models.

Instead of the earlier used risk classes, five valuation groups have been formed based on past due days (A: 0-30 days past due - DPD, B: 31-60 DPD, C: 61-90 DPD, D: 91-365 DPD, E: over 365 days past due). The five new groups do not match one by one to the earlier used risk classes, the composition of the classes has changed due to the different criteria. Also in the new methodology, the Bank takes into account the collateral at the collective valuation as well. The consequence of the methodology change is that the loans which has higher collateral value behind the loans are provided less than by using the previous methodology, and the loans with less collateral has in general more provision than in the previous model. The allocation of the impairment of the loans is more appropriate, the new model gives a more accurate impairment amount.

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

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

## Loan portfolio by countries

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

Country	2010		2009	
	Carrying amount of the qualified gross loan portfolio	Allowance	Carrying amount of the qualified gross loan portfolio	Allowance
Hungary	380,257	61,105	323,895	57,018
Netherlands	140,327	1,999	113,822	654
Cyprus	58,955	10,765	58,852	5,022
Serbia	34,946	25,198	26,858	15,401
Montenegro	32,458	16,734	8,831	2,601
Romania	29,306	8,332	17,990	2,966
Bulgaria	27,222	1,102	24,361	735
Slovakia	15,715	4,007	9,218	319
Ukraine	7,758	1,828	12,085	2,584
Kazakhstan	6,051	908	5,637	1,127
Seychelles	4,701	705	4,563	411
Croatia	3,489	2,241	3,387	313
Russia	836	544	812	536
Latvia	836	42	–	–
Egypt	525	58	533	80
Other	8	3	7,499	1,518
<b>Total</b>	<b>743,390</b>	<b>135,571</b>	<b>618,343</b>	<b>91,285</b>

The non-performing loans connected to the Netherlands are related to the refinancing of retail loans at the subsidiaries, the actual exposure of non-performing loans is HUF 10.6 billion as at 31 December 2010.

## Collaterals

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

Types of collateral	2010	2009
Mortgages	932,807	1,026,159
Guarantees and warranties	200,274	101,174
Cash deposit	50,554	52,999
Other	193,463	193,835
<b>Total</b>	<b>1,377,098</b>	<b>1,374,167</b>

The collateral value held by the Bank by collateral types is as follows (to the extent of the

exposures). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	2010	2009
Mortgage	376,372	336,930
Guarantees and warranties	158,246	89,557
Cash deposit	45,577	33,748
Other	46,228	55,414
<b>Total</b>	<b>626,423</b>	<b>515,649</b>

The coverage level of loan portfolio to the extent of the exposures decreased from 30.2% to 29.8% as at 31 December 2010, while

coverage to the extent of the receivables increased from 11.3% to 13.6%.

## Loans, neither past due, nor impaired

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

Loan type	2010	2009
Corporate loans	1,253,954	1,335,628
Placements with other banks	787,294	951,310
Retail loans	376,566	401,895
Municipal loans	264,736	174,814
SME loans	79,839	69,525
<b>Total</b>	<b>2,762,389</b>	<b>2,933,172</b>

These loans are classified by the Bank as performing loans.

31 December 2010, while one of the other lines increased.

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio decreased from 81% to 76% as at 31 December 2010 compared to prior year. The ratio of retail and corporate loans compared to the portfolio of retail and corporate business line decreased as at

### Renegotiated loans

An analysis of the gross value of the loans that would otherwise be past due or impaired and whose terms have been renegotiated as at 31 December 2010 and 2009 is as follows:

Loan type	2010	2009
Corporate loans	109,040	28,557
Retail loans	73,425	41,238
Municipal loans	1,870	6
SME loans	478	60
<b>Total</b>	<b>184,813</b>	<b>69,861</b>

The gross amount of renegotiated loans increased considerably by 31 December 2010, which is a consequence of the debtor compensation program launched in June

2009 in order to handle the effects of the economic situation. The growth is mainly connected to the retail loans.

## Past due, but not impaired loans

*The aging of gross loans that are past due but not impaired as at 31 December 2010 and 2009 is as follows:*

As at 31 December 2010	Up to 90 days	91-180 days	181-365 days	Above 365 days	Total
Retail loans	85,669	1,742	6,375	6,714	100,500
Corporate loans	4,477	16,519	689	173	21,858
SME loans	1,122	53	–	2	1,177
Municipal loans	6,459	–	–	–	6,459
<b>Total</b>	<b>97,727</b>	<b>18,314</b>	<b>7,064</b>	<b>6,889</b>	<b>129,994</b>

As at 31 December 2009	Up to 90 days	91-180 days	181-365 days	Above 365 days	Total
Retail loans	91,124	737	459	5,606	97,926
Corporate loans	1,053	938	12	40	2,043
SME loans	1,036	28	5	1	1,070
Municipal loans	95	–	–	–	95
<b>Total</b>	<b>93,308</b>	<b>1,703</b>	<b>476</b>	<b>5,647</b>	<b>101,134</b>

The loans that are past due but not impaired are concentrated in the retail business line because the state guaranteed housing loans up to a 90 day delay in the repayment are classified to the performing category. The level of corporate loans past due but not impaired is possible because of the individual evaluation. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank.

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

An analysis of the fair value of collaterals related to past due, but not impaired loans to total collateral value and to the extent of the exposures as at 31 December 2010 and 2009 is as follows:

Types of collateral (total collateral value)	2010	2009
Retail loans	46,883	49,967
Corporate loans	13,421	2,544
SME loans	1,235	960
Municipal loans	24	49
<b>Total</b>	<b>61,563</b>	<b>53,520</b>

Types of collateral (to the extent of the exposures)	2010	2009
Retail loans	21,987	21,351
Corporate loans	12,433	1,043
SME loans	951	829
Municipal loans	18	25
<b>Total</b>	<b>35,389</b>	<b>23,248</b>

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

## Loans individually assessed for provision

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for

them and the collaterals considered as at 31 December 2010 and 2009 is as follows. The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.

### As at 31 December 2010

Loan type	Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off-balance sheet contingent liabilities
Corporate	Delay of repayment	43,244	27,395	3,459	–	–
	Regularity of payment	1,047	221	429	–	–
	Renegotiation	38,644	2,808	2,797	346	19
	Legal proceedings	17,884	13,208	3,818	288	220
	Decrease of client classification	125,500	16,961	1,705	10,981	252
	Loan characteristics	68,317	3,261	–	803	16
	Business lines risks	76,582	12,141	378	10,745	1,203
	Country risk	7,673	3,836	–	2,609	1,304
	Refinancing of subsidiaries portfolio	140,316	1,999	–	–	–
	Cross default	33,394	21,351	2,444	2,078	1,302
Other	12,449	3,869	1,565	11,906	1,267	
<b>Corporate total</b>		<b>565,050</b>	<b>107,050</b>	<b>16,595</b>	<b>39,756</b>	<b>5,583</b>
Municipal	Delay of repayment	31	7	–	–	–
	Regularity of payment	–	–	–	–	–
	Renegotiation	1,749	181	–	27	3
	Legal proceedings	314	239	15	–	–
	Decrease of client classification	6,074	287	2	56	1
	Other	27,232	3,330	10	1,056	139
Cross default	204	29	–	76	8	
<b>Municipal total</b>		<b>35,604</b>	<b>4,073</b>	<b>27</b>	<b>1,215</b>	<b>151</b>
Placements with other banks		6,887	949	–	–	–
<b>Total</b>		<b>607,541</b>	<b>112,072</b>	<b>16,622</b>	<b>40,971</b>	<b>5,734</b>

## As at 31 December 2009

Loan type	Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off-balance sheet contingent liabilities
Corporate	Delay of repayment	55,985	26,485	5,048	4,868	797
	Regularity of payment	407	214	100	–	–
	Renegotiation	22,207	1,811	848	418	38
	Legal proceedings	3,232	2,567	655	129	66
	Decrease of client classification	6,046	773	681	4,197	158
	Loan characteristics	109,185	4,319	415	11,813	896
	Business lines risks	99,935	10,425	1,975	16,837	1,360
	Country risk	–	–	–	63,145	39,615
	Refinancing of subsidiaries portfolio	113,921	654	–	–	–
	Cross default	70,209	7,956	1,109	21,721	2,732
	Other	21,358	2,629	1,484	6,564	315
<b>Corporate total</b>		<b>502,485</b>	<b>57,833</b>	<b>12,315</b>	<b>129,692</b>	<b>45,977</b>
Municipal	Delay of repayment	–	–	–	–	–
	Regularity of payment	145	116	–	–	–
	Renegotiation	80	1	–	–	–
	Legal proceedings	–	–	–	–	–
	Decrease of client classification	120	8	–	22	2
	Other	2,882	350	30	346	18
	Cross default	33	26	–	–	–
<b>Municipal total</b>		<b>3,260</b>	<b>501</b>	<b>30</b>	<b>368</b>	<b>20</b>
Placements with other banks		10,916	1,697	–	–	–
<b>Total</b>		<b>516,661</b>	<b>60,031</b>	<b>12,345</b>	<b>130,060</b>	<b>45,997</b>

By 31 December 2010 the volume the individually rated portfolio significantly increased in the corporate business line. The reason for it is the refinancing of the loans of the subsidiaries by the Bank. This portfolio was HUF 140.3 billion as at 31 December 2010, from which the volume of really non performing loans was HUF 10.6 billion.

### Transactions with high level of risk:

Loans to customers are classified by using this category name if the clients are performing according to the contracts but the risks of the transactions are higher than usual (balloon payment, using loan to finance the monetary expenditures in the phase of investment).

### Business lines risks:

Transactions are classified by using this category name, if the client works in the branch which had been grievously accused by the financial crisis (vehicle industry, building industry, real estate services, metal processing, financial services).

Balance of individually qualified transactions has been significantly increased in the municipal sector due to the serious liquidity problems and the high rate of debt of the municipalities. In many cases standalone supervising and using of customized handling methods were needed.

## Non-qualified gross loan portfolio by countries

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

Country	2010	2009
Hungary	1,665,804	1,596,552
Cyprus	390,928	452,299
Netherlands	256,508	277,892
Russia	135,353	176,349
United Kingdom	126,264	33,386
Bulgaria	48,812	96,931
France	47,048	21,473
Romania	40,549	42,473
Belgium	40,370	46,869
Croatia	37,209	53,491
Germany	24,170	33,887
Ukraine	19,605	17
Slovakia	16,863	22,365
Serbia	13,338	24,701
Malta	10,626	9,632
Montenegro	7,624	13,539
Switzerland	3,627	13,745
USA	2,975	826
Turkey	1,151	–
Other	3,558	117,879
<b>Total</b>	<b>2,892,382</b>	<b>3,034,306</b>

## Financial instruments by rating categories<sup>12</sup>

Held-for-trading securities as at 31 December 2010

	Baa1		Baa3		Not rated		Total
Corporate shares	–	0.0%	–	0.0%	105,832 <sup>13</sup>	99.7%	105,832
Securities issued by the NBH	–	0.0%	19,984	53.4%	–	0.0%	19,984
Government bonds	–	0.0%	13,784	36.8%	–	0.0%	13,784
Mortgage bonds	3,966	100.0%	–	0.0%	235	0.2%	4,201
Hungarian government discounted Treasury Bills	–	0.0%	3,635	9.7%	–	0.0%	3,635
Hungarian government interest bearing Treasury Bills	–	0.0%	26	0.1%	–	0.0%	26
Other securities	–	0.0%	–	0.0%	153	0.1%	153
<b>Total</b>	<b>3,966</b>	<b>100.0%</b>	<b>37,429</b>	<b>100.0%</b>	<b>106,220</b>	<b>100.0%</b>	<b>147,615</b>
Accrued interest							244
<b>Total</b>							<b>147,859</b>

Available-for-sale securities as at 31 December 2010

	Baa1		Baa3		Not rated		Total
Mortgage bonds	353,095	100.0%	–	0.0%	425,458 <sup>14</sup>	91.3%	778,553
Government bonds	–	0.0%	318,637	51.5%	–	0.0%	318,637
Bonds issued by NBH	–	0.0%	300,648	48.5%	–	0.0%	300,648
Hungarian government discounted Treasury Bills	–	0.0%	–	0.0%	–	0.0%	–
Other securities	–	0.0%	–	0.0%	40,639	8.7%	40,639
<b>Total</b>	<b>353,095</b>	<b>100.0%</b>	<b>619,285</b>	<b>100.0%</b>	<b>466,097</b>	<b>100.0%</b>	<b>1,438,477</b>
Accrued interest							39,453
<b>Total</b>							<b>1,477,930</b>

<sup>12</sup> Moody's ratings

<sup>13</sup> Corporate shares listed on Budapest Stock Exchange

<sup>14</sup> From this HUF 411,348 million represents mortgage bonds issued by OTP Mortgage Bank Ltd. denominated in HUF

## Held-to-maturity securities as at 31 December 2010

	Baa1		Baa3		Total
Government bonds	–	0.0%	87,878	99.5%	87,878
Mortgage bonds	60,140	100.0%	–	0.0%	60,140
Hungarian government discounted Treasury bills	–	0.0%	395	0.5%	395
Bonds issued by NBH	–	0.0%	–	0.0%	–
Foreign bonds	–	0.0%	–	0.0%	–
<b>Total</b>	<b>60,140</b>	<b>100.0%</b>	<b>88,273</b>	<b>100.0%</b>	<b>148,413</b>
Accrued interest					5,590
<b>Total</b>					<b>154,003</b>

### 26.2. Market risk

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

#### 26.2.1. Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The

VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

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

### The VaR of the trading portfolio can be summarized as follows (in HUF million):

Historical VaR (99%, one-day) by risk type	Average	
	2010	2009
Foreign exchange	635	529
Interest rate	702	255
Equity instruments	30	15
Diversification	(130)	(181)
<b>Total VaR exposure</b>	<b>1,237</b>	<b>618</b>

While VaR captures the Bank's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of

sensitivity analysis complements VaR and helps the Bank to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 26.2.2 below and, for interest rate risk, in Note 26.2.3 below.

### 26.2.2. Foreign currency sensitivity analysis

The following table details the OTP's sensitivity to a increase and decrease in the HUF exchange rate against EUR, over a 3 months period.

Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign

activities. The strategic open position related to the foreign operations were EUR (310) million as of 31 December 2010. High portion of strategic positions are considered as effective hedge of the net investment in foreign subsidiaries, and so FX risk affects the Bank's other comprehensive income and not its income. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the P&L in 3 months period in HUF billion	
	2010	2009
1%	(9.6)	(9.7)
5%	(6.3)	(6.4)
25%	(1.9)	(2.2)
50%	0.9	0.5
25%	3.5	3.1
5%	7.2	6.6
1%	9.7	9.1

#### Notes:

- (1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
- (2) Due to the stabilization of EUR/HUF volatility the potential risk did not increased.
- (3) Monte Carlo simulation is based on the historical distribution of the exchange rate movements. Although potential losses has not changed on the edge of the distribution, concerning the recent level of EUR/HUF makes appreciation and minor gains more probable.

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

### 26.2.3. Interest rate sensitivity analysis

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

The simulation was prepared by assuming two scenarios:

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

The net interest income in a one year period after December 31, 2010 would be decreased by HUF 1,595 million (probable scenario) and HUF 8,124 million (alternative scenario) as a result of these simulation. This effect is

counterbalanced by capital gains (HUF 6,453 million for probable scenario, HUF 9,411 million for alternative scenario) on the government bond portfolio held for hedging.

The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period and to the market value of the hedge government bond portfolio booked against capital can be summarized as follows (HUF million):

Description	2010		2009	
	Effects to the net interest income (1Year period)	Effects to equity (Price change of AFS government bonds)	Effects to the net interest income (1Year period)	Effects to equity (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(396)	1,191	(206)	812
EUR (0.1%) parallel shift	(191)	–	6	–
USD 0.1% parallel shift	(48)	–	(184)	–
<b>Total</b>	<b>(635)</b>	<b>1,191</b>	<b>(384)</b>	<b>812</b>

#### 26.2.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well

as risk diversification by recognising offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability. The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2010	2009
VaR (99%, one day, million HUF)	30	15
Stress test (million HUF)	(14)	(32)

#### 26.2.5. Capital management

##### Capital management

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

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

##### Capital adequacy

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

The Bank has entirely complied with the regulatory capital requirements in 2010 and in 2009. The capital adequacy calculations of the Bank for the year ended 31 December 2010 are prepared based on the data of the audited financial

statements prepared in accordance with HAS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and the alternative standard method in case of the operational risk.

**The calculation of the Capital Adequacy ratio as at 31 December 2010 and 2009 is as follows:**

	<b>2010</b>	<b>2009</b>
Core capital	813,701	691,064
Supplementary capital	316,237	308,695
Deductions	(421,408)	(373,823)
Deductions due to PIBB <sup>14</sup> investments	(386,837)	(340,108)
Deductions due to limit breaches	(34,571)	(33,715)
<b>Regulatory capital</b>	<b>708,530</b>	<b>625,936</b>
Credit risk capital requirement	256,998	260,665
Market risk capital requirement	30,166	18,374
Operational risk capital requirement	26,073	29,231
<b>Total requirement regulatory capital</b>	<b>313,237</b>	<b>308,270</b>
<b>Surplus capital</b>	<b>395,293</b>	<b>317,666</b>
Tier1 ratio	15.40%	13.10%
<b>Capital adequacy ratio</b>	<b>18.10%</b>	<b>16.24%</b>

The positive components of the Core capital are: Issued capital, Capital reserve, Tied-up reserve, Profit reserve, Profit for the year, General risk reserve. The negative components of the Core

capital are: Treasury shares, Intangible assets. The positive components of the Supplementary capital are: Subsidiary loan capital, Subordinated loan capital.

**NOTE 27:**

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

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are

referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

<b>Contingent liabilities and commitments</b>	<b>2010</b>	<b>2009</b>
Legal disputes (disputed value)	9,595,780	32,012
Commitments to extend credit	699,332	613,496
Guarantees arising from banking activities	693,526	233,068
Contingent liabilities related to OTP Mortgage Bank Ltd.	2,532	75,215
Confirmed letters of credit	1,640	3,865
Other	2,689	1,586
<b>Total</b>	<b>10,995,499</b>	<b>959,242</b>

**Legal disputes**

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

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

<sup>14</sup> PIBB: Financial Institutions, Investing Enterprises, Insurance Companies

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provision due to legal disputes were HUF 1,476 million and HUF 3,116 million as at 31 December 2010 and 2009 respectively. (See Note 17)

### **Commitments to extend credit, guarantees and letter of credit**

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

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

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

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

### **Guarantees, payment undertakings arising from banking activities**

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank.

A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

### **Contingent liabilities related to OTP Mortgage Bank Ltd.**

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank had guaranteed, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. The repurchase guarantee contract of non-performing loans between OTP Mortgage Bank Ltd. and OTP Bank Plc. was modified in 2010. According to the new arrangement the repurchase guarantee was cancelled and the OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

## **Derivatives**

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

### ***Foreign currency contracts***

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

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

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

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

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

### ***Cross-currency interest rate swaps***

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

### ***Forward rate agreements (FRA)***

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

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

**NOTE 28:****SHARE-BASED PAYMENT**

The 2006 Annual General Meeting approved a five year share option program for the years of 2006 to 2010 under which options are granted annually. The grant date of these options is 28 April 2006 and the date of the Annual General Meeting of 2007 (27 April 2007) for the increased amount of share options under the modified program.

The exercise prices of the options relating to the years of 2006 to 2010 are calculated as the average of the market price of OTP shares quoted by the BSE daily during the period between 30 April and 30 May in the actual year and decreased by HUF 1,000. In that case if the average price of the shares exceeds by more than HUF 3,000 the exercise price one day before the date of exercise, the exercise price would be increased by the amount above the HUF 3,000.

The 2007 Annual General Meeting approved a few changes in the program:

The exercise prices of the options relating to the years of 2006 to 2010 is calculated as the average of the market price of OTP shares quoted by the BSE daily during the three month period ended 31 March in the actual year and decreased by HUF 2,000. In that case if the average price of the shares exceeds by more than HUF 4,000 the exercise price one day before the date of exercise, the exercise price would be increased by the amount above the HUF 4,000.

The vesting conditions of the option program are that two of following conditions should be fulfilled:

- the growth of the net income reach 10%
- the ROA indicator for the actual year ended 31 December should be at least 2.1%
- the ROE indicator for the actual year ended 31 December should be at least 20%

The exercise period of the options granted for the year of 2005 is two years and for the years of 2006 to 2010 is 19 months. The exercise period of the option program for the years of 2006 to 2010 must be opened at 1 June in the actual year, the period can be prolonged by two years. If the options remain unexercised before the end of the exercise period, the options expire. Additionally, options are forfeited if the employee leaves the Bank before the options vest. The options can only be settled by physical delivery, therefore the option program is accounted as equity-settled share based transaction.

In connection with the equity-settled share-based payment programs HUF 6,802 million was recognised as an expense in 2009. In 2010 the Bank did not recognise any expense in relation to equity-settled share-based payment programs because the key performance indicators – that were the vesting conditions of the options – were not fulfilled.

	2010		2009	
	Options (number of shares)	Weighted average exercise price (in HUF)	Options (number of shares)	Weighted average exercise price (in HUF)
Outstanding at beginning of period	–	–	2,534,950	6,484
Granted during the period	3,068,800	134	–	–
Forfeited during the period	–	–	2,534,950	6,484
Repurchased during the period	2,988,800	134	–	–
Exercised during the period	–	–	–	–
Outstanding at the end of the period	30,000	569	–	–
Exercisable at the end of the period	50,000	134	–	–

In 2009 there were no share options having been exercised. 3,068,800 pieces of shares from the total 3,500,000 had been available for exercise for 2009 were distributed to the management in relation to their accomplishment

and due to personal changes. With the consent of the parties the Board of Directors made a decision on the redemption of the option rights granted for 2009. The redemption price was HUF 3,975 per share.

	2010	2009
Weighted average exercise price of options outstanding	134	–
Weighted average remaining contractual life (month)	12	–
Weighted average number of shares	50,000	–

***The inputs used to the valuation of the options at the grant date were as follows related to the share options vesting for the years ended :***

	2010	2009
Weighted average spot share price (HUF)	–	8,272
Weighted average exercise price (HUF) <sup>15</sup>	–	8,875
Expected volatility (%)	–	32
Expected life (average year)	–	5.45
Risk free rate (%)	–	7.63
Expected dividends (%)	–	1.95
Cap for the maximum gain (HUF/option)	–	4,000

<sup>15</sup> Exercise price is determined by the AGM after the vesting period, therefore the exercise price were estimated by using the forward share price as of the grant date. Expected volatility was determined by calculating the historical volatility of the Bank's share price three months prior to the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

**NOTE 29: RELATED PARTY TRANSACTIONS**

The Bank provides loans to subsidiaries, and collects deposits.

***Transactions with related parties, other than increases in share capital, are summarized below:***

***a) Loans provided to subsidiaries***

	2010	2009
OTP Holding Ltd./ OTP Financing Cyprus Co. Ltd. (Cyprus)	373,729	428,900
OTP Financing Netherlands B.V. (The Netherlands)	247,227	260,823
Merkantil Bank Ltd.	219,628	201,022
OTP Financing Solutions B.V. (The Netherlands)	146,591	130,843
OTP Mortgage Bank Ltd.	119,205	215,235
OAD OTP Bank (Russia)	117,218	153,969
OTP Factoring Ltd.	83,401	34,100
OTP Real Estate Leasing Ltd.	36,078	30,036
OTP Leasing dd (Croatia)	25,068	21,773
Merkantil Lease Ltd.	25,067	30,366
DSK Leasing AD (Bulgaria)	20,544	23,834
OTP Bank JSC (Ukraine)	19,567	–
OTP banka Srbija a.d. (Serbia)	12,183	24,674
DSK Bank EAD (Bulgaria)	11,150	54,398
OTP Life Annuity Ltd.	10,658	9,432
Merkantil Car Ltd.	10,373	32,080
OTP banka Hrvatska Group (Croatia)	9,700	28,445
Crnogorska Komercijalna Banka a.d (Montenegro)	3,345	3,250
OTP Real Estate Ltd.	2,425	5,554
OTP Banka Slovensko, a.s. (Slovakia)	62	24
OTP Bank Romania S.A. (Romania)	–	614
Z plus d.o.o. (Croatia)	–	325
<b>Total</b>	<b>1,493,219</b>	<b>1,689,697</b>

## b) Deposits from subsidiaries

	2010	2009
OAo OTP Bank (Russia)	42,916	86,526
Crnogorska Komercijalna Banka a.d. (Montenegro)	37,546	23,045
OTP Building Society Ltd.	29,339	26,152
DSK Bank EAD (Bulgaria)	25,732	42,520
Merkantil Bank Ltd.	15,969	20,379
OTP Banka Slovensko a.s. (Slovakia)	12,049	2
OTP banka Hrvatska d.d. (Croatia)	5,886	4,586
OTP Holding Ltd. (Cyprus)	5,074	1,105
OTP banka Srbija a.d. (Serbia)	4,068	188
OTP Mortgage Bank Ltd.	2,317	299,562
OTP Real Estate Leasing Ltd.	1,626	1,212
OTP Financing Netherlands B. V. (The Netherlands)	797	4,419
Merkantil Lease Ltd.	528	171
Concordia Info Ltd.	297	596
OTP Factoring Ltd.	262	49
<b>Total</b>	<b>184,406</b>	<b>510,512</b>

## c) Interests received by the Bank

	2010	2009
OTP Mortgage Bank Ltd.	68,951	58,957
OAo OTP Bank (Russia)	7,639	8,187
Merkantil Bank Ltd.	4,599	2,350
Merkantil Lease Ltd.	2,004	2,639
DSK Bank EAD (Bulgaria)	324	2,246
<b>Total</b>	<b>83,517</b>	<b>74,379</b>

## d) Interests paid by the Bank

	2010	2009
OTP Mortgage Bank Ltd.	7,693	15,963
Merkantil Lease Ltd.	2,840	3,641
OAo OTP Bank (Russia)	2,276	3,131
Merkantil Bank Ltd.	2,110	3,553
OTP Bank Romania S.A. (Romania)	108	7,213
<b>Total</b>	<b>15,027</b>	<b>33,501</b>

## e) Commissions received by the Bank

	2010	2009
From OTP Fund Management Ltd. in relation to trading activity	6,934	5,309
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	1,790	1,802
From OTP Fund Management Ltd. in relation to custody activity	549	378
<b>Total</b>	<b>9,273</b>	<b>7,489</b>

## f) Commissions paid by the Bank

	2010	2009
OTP Bank Romania S.A. (Romania) related to loan portfolio handling	600	2,920
<b>Total</b>	<b>600</b>	<b>2,920</b>

### **g) Transactions related to OTP Mortgage Bank Ltd.**

	<b>2010</b>	<b>2009</b>
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	9,893	64,164
The gross book value of the loans sold	9,888	64,090
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	35,313	51,440
Provision for the repurchase guarantee of non-performing loans	–	2,850
Provision for the purchase obligation of the non-performing loans originated by OTP Mortgage Bank Ltd.	177	3,769

### **h) Transactions related to OTP Factoring Ltd.**

	<b>2010</b>	<b>2009</b>
Loans sold to OTP Factoring Ltd. without recourse (including interest)	35,315	19,868
The gross book value of the loans	85,023	49,351
Provision for loan losses on the loans sold	39,985	26,482
Loss on these transaction (recorded in the unconsolidated financial statements as loan and placement loss)	9,723	3,001

The underlying mortgage rights were also transferred to OTP Factoring Ltd.

### **i) Transactions related to Crnogorska Komercijalna Banka a.d (Montenegro)**

	<b>2010</b>	<b>2009</b>
The gross book value of the loans sold to Crnogorska Komercijalna Banka a.d.	52	–
The gross book value of the loans bought from Crnogorska Komercijalna Banka a.d.	2,981	33,057

### **j) Transactions related OTP Banka Slovensko a.s. (Slovakia)**

	<b>2010</b>	<b>2009</b>
Securities issued by OBS held by the Bank (nominal value in HUF million)	13,938	–
Securities issued the Bank held by OBS (nominal value in HUF million)	8,530	6,974

### **k) Related party transactions with key management**

The compensation of key management, such as the members of the Board of Directors, the members of the Supervisory Board and the employees involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

<b>Compensations</b>	<b>2010</b>	<b>2009</b>
Short-term employee benefits	6,961	5,128
Share-based payment	–	3,139
<b>Total</b>	<b>6,961</b>	<b>8,267</b>

	2010	2009
Loans provided to companies owned by the management (in the normal course of business)	36,617	31,876
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	117	218
Commitments to extend credit and bank guarantees	9	103

In the normal course of business, the Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these financial statements taken as a whole.

## NOTE 30:

### TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans

and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying unconsolidated statement of financial position.

	2010	2009
Loans managed by the Bank as a trustee	44,095	45,037

## NOTE 31:

### CONCENTRATION OF ASSETS AND LIABILITIES

<b>In the percentage of the total assets</b>	2010	2009
Receivables from, or securities issued by the Hungarian Government or the NBH	13%	16%
Securities issued by the OTP Mortgage Bank Ltd.	13%	12%

There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2010 or as at 31 December 2009.

The Bank continuously provides the Supervisory Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Bank.

Further to this obligatory reporting to the authority, the Bank pays particular attention on the exposure of its largest partners and cares for

maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

The organisational unit of the Bank in charge of partner-risk management analyses the biggest partners on a constant basis and sets limits on the Bank's and the Group's exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas.

**NOTE 32:**
**MATURITY ANALYSIS OF ASSETS AND LIABILITIES  
AND LIQUIDITY RISK (in HUF mn)**

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the NBH. The following tables provide an analysis of assets, liabilities and shareholders'

equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

<b>As at 31 December 2010</b>	<b>Within 3 months</b>	<b>Within one year and over 3 months</b>	<b>Within 5 years and over one year</b>	<b>Over 5 years</b>	<b>Without maturity</b>	<b>Total</b>
Cash, amounts due from banks and balances with the National Bank of Hungary	171,677	–	–	–	–	171,677
Placements with other banks, net of allowance for placement losses	481,052	113,021	197,273	3,340	–	794,686
Financial assets at fair value through profit or loss	36,510	40,327	52,307	13,814	105,832	248,790
Securities available-for-sale	340,101	413,620	261,810	462,399	–	1,477,930
Loans, net of allowance for loan losses	164,530	485,384	1,170,145	903,725	–	2,723,784
Investments in subsidiaries	–	–	–	–	637,819	637,819
Securities held-to-maturity	20,475	19,070	87,195	27,263	–	154,003
Property and equipment	–	–	–	–	70,004	70,004
Intangible assets	–	–	–	–	35,145	35,145
Other assets	22,994	18,157	3,239	122	–	44,512
<b>TOTAL ASSETS</b>	<b>1,237,339</b>	<b>1,089,579</b>	<b>1,771,969</b>	<b>1,410,663</b>	<b>848,800</b>	<b>6,358,350</b>
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	467,019	7,919	173,369	93,538	–	741,845
Deposits from customers	2,623,422	625,910	22,566	7,675	–	3,279,573
Liabilities from issued securities	84,689	345,617	54,870	27,290	–	512,466
Financial liabilities at fair value through profit or loss	83,073	73,885	94,376	5,994	–	257,328
Other liabilities	222,885	2,181	2,898	3,324	–	231,288
Subordinated bonds and loans	3,454	–	39,844	135,724	118,616	297,638
<b>TOTAL LIABILITIES</b>	<b>3,484,542</b>	<b>1,055,512</b>	<b>387,923</b>	<b>273,545</b>	<b>118,616</b>	<b>5,320,138</b>
Share capital	–	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	–	1,013,941	1,013,941
Treasury shares	–	–	–	–	(3,729)	(3,729)
TOTAL SHAREHOLDERS' EQUITY	–	–	–	–	1,038,212	1,038,212
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>(3,484,542)</b>	<b>1,055,512</b>	<b>387,923</b>	<b>273,545</b>	<b>1,156,828</b>	<b>6,358,350</b>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<b>(2,247,203)</b>	<b>34,067</b>	<b>1,384,046</b>	<b>1,137,118</b>	<b>(308,028)</b>	<b>–</b>

<b>As at 31 December 2009</b>	<b>Within 3 months</b>	<b>Within one year and over 3 months</b>	<b>Within 5 years and over one year</b>	<b>Over 5 years</b>	<b>Without maturity</b>	<b>Total</b>
Cash, amounts due from banks and balances with the National Bank of Hungary	178,217	–	–	–	–	178,217
Placements with other banks, net of allowance for placement losses	537,234	135,635	289,194	–	–	962,063
Financial assets at fair value through profit or loss	75,115	29,283	56,090	24,651	88,513	273,652
Securities available-for-sale	543,025	30,938	554,728	524,056	–	1,652,747
Loans, net of allowance for loan losses	163,511	458,165	1,362,862	638,357	–	2,622,895
Investments in subsidiaries	–	–	–	–	643,907	643,907
Securities held-to-maturity	48,082	19,417	118,556	30,508	–	216,563
Property and equipment	–	–	–	–	69,654	69,654
Intangible assets	–	–	–	–	38,909	38,909
Other assets	62,904	14,293	14,261	627	–	92,085
<b>TOTAL ASSETS</b>	<b>1,608,088</b>	<b>687,731</b>	<b>2,395,691</b>	<b>1,218,199</b>	<b>840,983</b>	<b>6,750,692</b>
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	586,506	213,373	84,738	267,514	–	1,152,131
Deposits from customers	2,836,297	511,654	16,349	4,452	–	3,368,752
Liabilities from issued securities	455,557	–	–	162,746	–	618,303
Financial liabilities at fair value through profit or loss	37,301	16,203	59,659	6,190	–	119,353
Other liabilities	247,323	2,152	3,052	461	–	252,988
Subordinated bonds and loans	–	–	4,391	169,009	113,921	287,321
<b>TOTAL LIABILITIES</b>	<b>4,162,984</b>	<b>743,382</b>	<b>168,189</b>	<b>610,372</b>	<b>113,921</b>	<b>5,798,848</b>
Share capital	–	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	–	927,618	927,618
Treasury shares	–	–	–	–	(3,774)	(3,774)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>951,844</b>	<b>951,844</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>4,162,984</b>	<b>743,382</b>	<b>168,189</b>	<b>610,372</b>	<b>1,065,765</b>	<b>6,750,692</b>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<b>(2,554,896)</b>	<b>(55,651)</b>	<b>2,227,502</b>	<b>607,827</b>	<b>(224,782)</b>	<b>–</b>

### NOTE 33: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

<b>As at 31 December 2010</b>	<b>USD</b>	<b>EUR</b>	<b>CHF</b>	<b>Others</b>	<b>Total</b>
Assets <sup>16</sup>	550,292	1,440,636	872,212	101,832	2,964,972
Liabilities	(169,281)	(1,292,680)	(131,374)	(32,729)	(1,626,064)
Off-balance sheet assets and liabilities, net	(363,785)	(295,662)	(736,050)	(92,824)	(1,488,321)
<b>Net position</b>	<b>17,226</b>	<b>(147,706)</b>	<b>4,788</b>	<b>(23,721)</b>	<b>(149,413)</b>

<b>As at 31 December 2009</b>	<b>USD</b>	<b>EUR</b>	<b>CHF</b>	<b>Others</b>	<b>Total</b>
Assets <sup>16</sup>	642,210	1,348,116	918,302	111,247	3,019,875
Liabilities	(334,040)	(1,831,848)	(95,582)	(101,180)	(2,362,650)
Off-balance sheet assets and liabilities, net	(341,452)	291,886	(840,978)	(57,690)	(948,234)
<b>Net position</b>	<b>(33,282)</b>	<b>(191,846)</b>	<b>(18,258)</b>	<b>(47,623)</b>	<b>(291,009)</b>

The table above provides an analysis of the Bank's main foreign currency exposures. The remaining foreign currencies are shown within 'Others'. Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the Hungarian National Bank and

own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the 'Value-at-Risk' limit on the foreign exchange exposure of the Bank.

<sup>16</sup>The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

**NOTE 34:****INTEREST RATE RISK MANAGEMENT**

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

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

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

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

## As at 31 December 2010

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest- bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
<b>ASSETS</b>															
Cash, amounts due from banks and balances with the National Banks	100,524	8,510	–	–	–	–	–	–	–	–	57,648	4,995	158,172	13,505	171,677
fixed rate	100,524	8,510	–	–	–	–	–	–	–	–	–	–	100,524	8,510	109,034
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	57,648	4,995	57,648	4,995	62,643
Placements with other banks	52,880	351,463	309	283,497	–	77,557	–	256	–	27,242	48	1,434	53,237	741,449	794,686
fixed rate	52,880	346,571	–	22,271	–	74,163	–	256	–	27,242	–	–	52,880	470,503	523,383
variable rate	–	4,892	309	261,226	–	3,394	–	–	–	–	–	–	309	269,512	269,821
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	48	1,434	48	1,434	1,482
Securities held for trading	20,000	–	227	256	3,690	4,361	2,483	–	8,680	2,072	105,954	136	141,034	6,825	147,859
fixed rate	20,000	–	209	256	3,690	4,361	2,483	–	8,680	2,072	–	–	35,062	6,689	41,751
variable rate	–	–	18	–	–	–	–	–	–	–	–	–	18	–	18
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	105,954	136	105,954	136	106,090
Securities available-for-sale	300,648	–	–	14,110	59,821	353,799	19,741	–	641,961	29,999	56,197	1,654	1,078,368	399,562	1,477,930
fixed rate	300,648	–	–	–	59,821	353,799	19,741	–	641,961	29,999	–	–	1,022,171	383,798	1,405,969
variable rate	–	–	–	14,110	–	–	–	–	–	–	–	–	–	14,110	14,110
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	56,197	1,654	56,197	1,654	57,851
Loans, net of allowance for loan losses	754,740	650,118	22,404	396,237	146,938	648,316	561	112	6,184	81,387	7,856	8,931	938,683	1,785,101	2,723,784
fixed rate	8,351	–	31	62	476	174	561	112	6,184	81,387	–	–	15,603	81,735	97,338
variable rate	746,389	650,118	22,373	396,175	146,462	648,142	–	–	–	–	–	–	915,224	1,694,435	2,609,659
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,856	8,931	7,856	8,931	16,787
Securities held-to-maturity	20,017	–	21,261	–	25,928	–	55,330	–	25,877	–	5,590	–	154,003	–	154,003
fixed rate	–	–	14,051	–	15,731	–	55,330	–	25,877	–	–	–	110,989	–	110,989
variable rate	20,017	–	7,210	–	10,197	–	–	–	–	–	–	–	37,424	–	37,424
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	5,590	–	5,590	–	5,590
Derivative financial instruments	811,957	1,132,002	818,718	557,299	394,740	106,790	3,479	3,029	26,202	2,087	–	–	2,055,096	1,801,207	3,856,303
fixed rate	459,293	817,193	41,739	100,136	321,630	106,637	3,479	3,029	26,202	2,087	–	–	852,343	1,029,082	1,881,425
variable rate	352,664	314,809	776,979	457,163	73,110	153	–	–	–	–	–	–	1,202,753	772,125	1,974,878

## As at 31 December 2010

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest- bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
<b>LIABILITIES</b>															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	130,132	427,959	16,001	34,496	118,884	3,703	4	3,729	283	5,000	804	850	266,108	475,737	741,845
fixed interest	127,652	143,407	8,418	124	3,874	3,401	4	3,729	283	5,000	–	–	140,231	155,661	295,892
variable rate	2,480	284,552	7,583	34,372	115,010	302	–	–	–	–	–	–	125,073	319,226	444,299
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	804	850	804	850	1,654
Deposits from customers	934,713	199,785	627,955	211,155	477,108	131,586	10,819	2,391	570,638	103,557	8,692	1,174	2,629,925	649,648	3,279,573
fixed interest	504,210	192,074	610,991	211,155	476,580	131,586	10,819	2,391	5,401	–	–	–	1,608,001	537,206	2,145,207
variable rate	430,503	7,711	16,964	–	528	–	–	–	565,237	103,557	–	–	1,013,232	111,268	1,124,500
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8,692	1,174	8,692	1,174	9,866
Liabilities from issued securities	27,499	–	42,284	–	179,473	157,883	2,266	18,147	76,491	260	7,831	332	335,844	176,622	512,466
fixed interest	27,499	–	42,284	–	179,473	157,883	2,266	18,147	76,491	260	–	–	328,013	176,290	504,303
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,831	332	7,831	332	8,163
Derivative financial instruments	641,747	1,377,362	43,305	1,336,517	74,064	499,239	9,630	2,495	12,736	12,551	–	–	781,482	3,228,164	4,009,646
fixed rate	629,848	644,609	32,495	108,703	56,926	436,383	9,630	2,495	12,736	12,551	–	–	741,635	1,204,741	1,946,376
variable rate	11,899	732,753	10,810	1,227,814	17,138	62,856	–	–	–	–	–	–	39,847	2,023,423	2,063,270
Subordinated bonds and loans	–	–	–	34,844	–	–	–	–	5,000	254,340	8	3,446	5,008	292,630	297,638
fixed interest	–	–	–	–	–	–	–	–	5,000	254,340	–	–	5,000	254,340	259,340
variable rate	–	–	–	34,844	–	–	–	–	–	–	–	–	–	34,844	34,844
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8	3,446	8	3,446	3,454
<b>Net position</b>	<b>326,675</b>	<b>136,987</b>	<b>133,374</b>	<b>(365,613)</b>	<b>(218,412)</b>	<b>398,412</b>	<b>58,875</b>	<b>(23,365)</b>	<b>43,756</b>	<b>(232,921)</b>	<b>215,958</b>	<b>11,348</b>	<b>560,226</b>	<b>(75,152)</b>	<b>485,074</b>

## As at 31 December 2009

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest- bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
<b>ASSETS</b>															
Cash, amounts due from banks and balances with the National Banks	95,389	27,734	–	–	–	–	–	–	–	–	49,566	5,528	144,955	33,262	178,217
fixed rate	95,389	27,734	–	–	–	–	–	–	–	–	–	–	95,389	27,734	123,123
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	49,566	5,528	49,566	5,528	55,094
Placements with other banks	231,104	729,425	–	–	–	–	–	–	–	–	369	1,165	231,473	730,590	962,063
fixed rate	231,104	729,425	–	–	–	–	–	–	–	–	–	–	231,104	729,425	960,529
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	369	1,165	369	1,165	1,534
Securities held for trading	49,888	–	237	2,221	3,521	274	2,027	5,155	26,936	262	89,835	60	172,444	7,972	180,416
fixed rate	49,888	–	219	2,221	3,521	274	2,027	5,155	26,936	262	–	–	82,591	7,912	90,503
variable rate	–	–	18	–	–	–	–	–	–	–	–	–	18	–	18
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	89,835	60	89,835	60	89,895
Securities available-for-sale	504,172	–	3,613	109,038	–	22,407	59,702	285,571	593,041	28,161	28,837	18,205	1,189,365	463,382	1,652,747
fixed rate	504,172	–	–	11,481	–	22,407	59,702	285,571	593,041	28,161	–	–	1,156,915	347,620	1,504,535
variable rate	–	–	3,613	97,557	–	–	–	–	–	–	–	–	3,613	97,557	101,170
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	28,837	18,205	28,837	18,205	47,042
Loans, net of allowance for loan losses	680,599	865,022	38,428	248,481	117,078	643,676	528	192	6,830	–	7,154	14,907	850,617	1,772,278	2,622,895
fixed rate	7,816	–	26	96	336	96	528	192	6,830	–	–	–	15,536	384	15,920
variable rate	672,783	865,022	38,402	248,385	116,742	643,580	–	–	–	–	–	–	827,927	1,756,987	2,584,914
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,154	14,907	7,154	14,907	22,061
Securities held-to-maturity	23,349	–	46,062	620	27,082	–	29,202	–	81,360	466	8,254	168	215,309	1,254	216,563
fixed rate	–	–	38,824	–	16,885	–	29,202	–	81,360	466	–	–	166,271	466	166,737
variable rate	23,349	–	7,238	620	10,197	–	–	–	–	–	–	–	40,784	620	41,404
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8,254	168	8,254	168	8,422
Derivative financial instruments	401,743	1,014,857	848,862	590,028	229,989	41,928	11,576	25,475	24,489	6,251	–	–	1,516,659	1,678,539	3,195,198
fixed rate	70,586	657,084	49,244	123,928	149,174	40,345	11,576	25,475	24,489	6,251	–	–	305,069	853,083	1,158,152
variable rate	331,157	357,773	799,618	466,100	80,815	1,583	–	–	–	–	–	–	1,211,590	825,456	2,037,046

## As at 31 December 2009

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest- bearing		Total		Total	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency		
<b>LIABILITIES</b>																
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	73,966	482,449	25,554	333,168	83,084	131,398	1	–	48	19,792	424	2,247	183,077	969,054	1,152,131	
fixed interest	73,197	454,253	19,668	737	1,949	131,317	1	–	48	19,792	–	–	94,863	606,099	700,962	
variable rate	769	28,196	5,886	332,431	81,135	81	–	–	–	–	–	–	87,790	360,708	448,498	
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	424	2,247	424	2,247	2,671	
Deposits from customers	1,291,546	304,706	483,353	103,964	381,795	95,247	7,611	1,664	547,188	128,817	18,526	4,335	2,730,019	638,733	3,368,752	
fixed interest	796,626	267,555	463,243	103,964	373,752	95,247	7,611	1,664	1,011	94,671	–	–	1,642,243	563,101	2,205,344	
variable rate	494,920	37,151	20,110	–	8,043	–	–	–	546,177	34,146	–	–	1,069,250	71,297	1,140,547	
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	18,526	4,335	18,526	4,335	22,861	
Liabilities from issued securities	22,455	138,152	31,146	82,891	176,759	–	1,450	138,152	16,248	–	4,514	6,536	252,572	365,731	618,303	
fixed interest	22,455	–	31,146	–	176,759	–	1,450	138,152	16,248	–	–	–	248,058	138,152	386,210	
variable rate	–	138,152	–	82,891	–	–	–	–	–	–	–	–	–	221,043	221,043	
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	4,514	6,536	4,514	6,536	11,050	
Derivative financial instruments	927,406	509,441	1,415,969	35,440	247,120	19,528	15,283	17,577	10,835	12,137	–	–	2,616,613	594,123	3,210,736	
fixed rate	217,783	509,441	139,508	35,282	166,547	19,524	15,283	17,577	10,835	12,137	–	–	549,956	593,961	1,143,917	
variable rate	709,623	–	1,276,461	158	80,573	4	–	–	–	–	–	–	2,066,657	162	2,066,819	
Subordinated bonds and loans	–	–	5,000	26,540	–	–	–	–	–	–	252,323	61	3,397	5,061	282,260	287,321
fixed interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	252,323	252,323
variable rate	–	–	5,000	26,540	–	–	–	–	–	–	–	–	–	5,000	26,540	31,540
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	61	3,397	61	3,397	3,458	
<b>Net position</b>	<b>(329,129)</b>	<b>1,202,290</b>	<b>(1,023,820)</b>	<b>368,385</b>	<b>(511,088)</b>	<b>462,112</b>	<b>78,690</b>	<b>159,000</b>	<b>158,337</b>	<b>(377,929)</b>	<b>160,490</b>	<b>23,518</b>	<b>(1,466,520)</b>	<b>1,837,376</b>	<b>370,856</b>	

**NOTE 35:****EARNINGS PER SHARE**

Earnings per share attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary shareholders, after the deduction of declared

preference dividends, by the weighted average number of ordinary shares outstanding during the year.

	<b>2010</b>	<b>2009</b>
Net profit for the year attributable to ordinary shareholders (in HUF mn)	124,664	158,138
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	277,830,864	271,732,001
<b>Basic Earnings per share (in HUF)</b>	<b>449</b>	<b>582</b>
Unconsolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	124,664	158,138
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	280,963,042	274,053,287
<b>Diluted Earnings per share (in HUF)</b>	<b>444</b>	<b>577</b>

	<b>2010</b>	<b>2009</b>
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(2,169,146)	(8,268,009)
<b>Weighted average number of ordinary shares outstanding during the year for calculating basic EPS</b>	<b>277,830,864</b>	<b>271,732,001</b>
Dilutive effect of options issued in accordance with Management Option Program and convertible into ordinary shares	3,132,178	2,321,286
<b>The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS</b>	<b>280,963,042</b>	<b>274,053,287</b>

**NOTE 36: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF million)**

**As at 31 december 2010**

Name	Net interest income and expense	Net non-interest gain and loss	Provision	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	4,807	–	–	–
Placements with other banks, net of allowance for placement losses	20,182	–	748	–
Securities held for trading	2,399	415	–	–
Securities available-for-sale	107,113	4,397	5,220	(5,235)
Loans, net of allowance for loan losses	215,455	40,994	(45,042)	–
From this: Corporate loans	91,617			
Consumer loans	89,526			
Housing loans	14,780			
Municipality loans	12,884			
Mortgage backed loans	6,648			
Securities held-to-maturity	13,752	(3,356)	4,164	–
Derivative financial instruments	63,792	(12,404)	–	–
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	(18,808)	–	–	–
Deposits from customers	(115,725)	70,437	–	–
Liabilities from issued securities	(33,892)	–	–	–
Subordinated bonds and loans	(16,243)	–	–	–
<b>Total</b>	<b>242,832</b>	<b>100,483</b>	<b>(34,910)</b>	<b>(5,235)</b>

**As at 31 December 2009**

Name	Net interest income and expense	Net non-interest gain and loss	Provision	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	7,026	–	–	–
Placements with other banks, net of allowance for placement losses	27,925	–	(1,335)	–
Securities held for trading	5,297	395	–	–
Securities available-for-sale	54,087	(501)	(2,451)	36,102
Loans, net of allowance for loan losses	240,408	55,492	(44,268)	–
From this: Corporate loans	104,024			
Consumer loans	92,240			
Housing loans	20,819			
Municipality loans	13,974			
Mortgage backed loans	9,351			
Securities held-to-maturity	52,934	(2,896)	(4,164)	–
Derivative financial instruments	91,860	(17,589)	–	–
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	(31,448)	–	–	–
Deposits from customers	(183,802)	49,960	–	–
Liabilities from issued securities	(32,474)	–	–	–
Subordinated bonds and loans	(17,446)	–	–	–
<b>Total</b>	<b>214,367</b>	<b>84,861</b>	<b>(52,218)</b>	<b>36,102</b>

**NOTE 37:****FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)**

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 37. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

National Bank of Hungary represent amounts available immediately thus the fair value equals to the cost.

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

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

**a) Fair value of financial assets and liabilities**

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Bank of Hungary	171,677	171,677	178,217	178,217
Placements with other banks, net of allowance for placement losses	794,686	795,637	962,063	969,344
Financial assets at fair value through profit or loss	248,790	248,790	273,652	273,652
Held for trading securities	147,859	147,859	180,416	180,416
Derivative financial instruments designated as held for trading	100,931	100,931	93,236	93,236
Securities available-for-sale	1,477,930	1,477,930	1,652,747	1,652,747
Loans, net of allowance for loan losses	2,723,784	3,007,093	2,622,895	2,884,329
Securities held-to-maturity	154,003	147,427	216,563	206,292
Derivative financial instruments designated as hedging instruments	8,477	8,477	14,148	14,148
<b>FINANCIAL ASSETS TOTAL</b>	<b>5,579,347</b>	<b>5,857,031</b>	<b>5,920,285</b>	<b>6,178,729</b>
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	741,845	681,864	1,152,131	1,157,833
Deposits from customers	3,279,573	3,260,721	3,368,752	3,361,027
Liabilities from issued securities	512,466	490,978	618,303	607,199
Derivative financial instruments designated as hedging instruments	7,143	7,143	3,569	3,569
Financial liabilities at fair value through profit or loss	257,328	257,328	119,353	119,353
Financial liabilities from OTP-MOL transaction	105,766	105,766	86,912	86,912
Financial liabilities from guaranteed loans of OTP Bank JSC by OTP Bank	–	–	38,132	38,132
Subordinated bonds and loans	297,638	226,974	287,321	216,562
<b>FINANCIAL LIABILITIES TOTAL</b>	<b>5,201,759</b>	<b>5,030,774</b>	<b>5,674,473</b>	<b>5,590,587</b>

## b) Fair value of derivative instruments

	2010	2009	2010	2009
	Fair value		Notional value, net	
<b>Interest rate swaps designated as held for trading</b>				
Positive fair value of interest rate swaps designated as held for trading	34,414	56,134	44,613	58,203
Negative fair value of interest rate swaps designated as held for trading	(40,064)	(47,065)	(59,736)	(45,983)
<b>Foreign exchange swaps designated as held for trading</b>				
Positive fair value of foreign exchange swaps designated as held for trading	18,084	7,439	22,973	7,790
Negative fair value of foreign exchange swaps designated as held for trading	(5,426)	(6,168)	(5,100)	(5,154)
<b>Interest rate swaps designated as fair value hedge</b>				
Positive fair value of interest rate swaps designated in fair value hedge	8,477	14,147	13,412	10,507
Negative fair value of interest rate swaps designated in fair value hedge	(7,143)	(3,569)	(11,479)	(3,740)
<b>CCIRS designated as held for trading</b>				
Positive fair value of CCIRS designated as held for trading	35,408	23,270	21,434	14,951
Negative fair value of CCIRS designated as held for trading	(197,450)	(54,169)	(177,976)	(4,734)
<b>Mark-to-market CCIRS designated as held for trading</b>				
Positive fair value of mark-to-market CCIRS designated as held for trading	7,399	5,133	40,124	40,776
Negative fair value of mark-to-market CCIRS designated as held for trading	(9,437)	(7,348)	1,852	40,803
<b>Other derivative contracts designated as hedge accounting relationship</b>				
Positive fair value of other derivative contracts designated in fair value hedge	–	1	–	(4)
Negative fair value of other derivative contracts designated in fair value hedge	–	–	–	–
<b>Other derivative contracts designated as held for trading</b>				
Positive fair value of other derivative contracts designated as held for trading	5,626	1,260	2,161	711
Negative fair value of other derivative contracts designated as held for trading	(4,951)	(4,603)	(1,700)	(12,066)
<b>Derivative financial assets total</b>	<b>109,408</b>	<b>107,384</b>	<b>144,717</b>	<b>132,934</b>
<b>Derivative financial liabilities total</b>	<b>(264,471)</b>	<b>(122,922)</b>	<b>(254,139)</b>	<b>(30,874)</b>
<b>Derivative financial instruments total</b>	<b>(155,063)</b>	<b>(15,538)</b>	<b>(109,422)</b>	<b>102,060</b>

## c) Hedge accounting

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

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

#### As at 31 December 2010

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash flow hedges	–	–	–
Fair value hedges	IRS	HUF 1,334 million	Interest rate
Net investment hedge in foreign operations	–	–	–

#### As at 31 December 2009

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash flow hedges	–	–	–
Fair value hedges	IRS	HUF 10,578 million	Interest rate
	Options	HUF 1 million	Foreign exchange
Net investment hedge in foreign operations	–	–	–

## d) Fair value hedges

### 1. Deposits from customers

The interest payment cash-flows of some structured deposits of the Bank denominated in HUF are exposed to the change of equity prices, equity indices or the change of EUR/HUF exchange rate. In order to hedge

the interest rate risk of the interest payments the Bank entered into interest rate swap transactions, where the risk of the cash-flow's from the structured deposits were swapped to payments linked to 3 or 6 months BUBOR, resulting in a decrease in the fair value exposure of the deposits from customers.

	2010	2009
Fair value of the hedging instruments	(61)	3,461

### 2. Securities available-for-sale

The Bank holds fixed interest rate securities denominated in foreign currencies within the available-for-sale portfolio. These fixed interest rate securities are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order to hedge the interest rate risk of

the cash-flows the Bank entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 6 month LIBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

	2010	2009
Fair value of the hedging instruments	(128)	348

### 3. Loans to customers

#### 3.1. Hedges of foreign exchange rate risk

The Bank has some loans to customers denominated in foreign exchange, where the Bank ensures during a part of the loan term,

that the FX rate applied to the customer will not exceed a pre-defined cap limit. In order to hedge the foreign exchange risk of the translation of the cash-flows from the loan at a pre-determined rate the Bank entered into FX options providing the right to the Bank to purchase the foreign exchange on a pre-determined exercise price.

	2010	2009
Fair value of the hedging instruments	–	1

### 3.2. Hedges of interest rate risk

The Bank has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows

the Bank entered into pay-fixed, receive-floater interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 or 6 month LIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.

	2010	2009
Fair value of the hedging instruments	(1,238)	(1,335)

### 4. Issued securities

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the EUR/CHF and EUR/JPY foreign exchange rate and the risk of change in the risk-free interest rates of EUR, CHF and JPY. The interest

rate risk and foreign exchange risk related to these securities are hedged with EUR-CHF and EUR-JPY CCIRS transactions, where the fixed EUR cash-flows were swapped to payments linked to 3 or 6 month CHF or JPY LIBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

	2010	2009
Fair value of the hedging instruments	2,761	8,104

#### As at 31 December 2010

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 23,002 million	HUF (128) million	HUF 483 million	HUF (483) million
Loans to customers	IRS	HUF 47,470 million	HUF (1,238) million	HUF (160) million	HUF 160 million
Deposits from customers	IRS	HUF 20,436 million	HUF (61) million	HUF 3,522 million	HUF (3,522) million
Liabilities from issued securities	IRS	HUF 206,489 million	HUF 2,761 million	HUF 5,343 million	HUF (5,343) million

#### As at 31 December 2009

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 15,557 million	HUF 348 million	HUF 197 million	HUF (197) million
Loans to customers	IRS	HUF 43,292 million	HUF (1,335) million	HUF 792 million	HUF (790) million
Loans to customers	Options	HUF 3.6 million	HUF 1 million	HUF (52) million	HUF 52 million
Deposits from customers	IRS	HUF 29,685 million	HUF 3,461 million	HUF 4,036 million	HUF (4,036) million
Liabilities from issued securities	IRS	HUF 154,164 million	HUF 8,104 million	HUF 429 million	HUF (429) million

## e) Fair value classes

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

- 1<sup>st</sup> Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- 2<sup>nd</sup> Level: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly;

- 3<sup>rd</sup> Level: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

<b>As at 31 December 2010</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Financial assets at fair value through profit or loss	248,546	147,433	101,113	–
from this: securities held for trading	147,615	147,333	282	–
from this: positive FVA of derivative financial instruments designated as held for trading	100,931	100	100,831	–
Securities available-for-sale	1,438,477	610,823	827,654	–
Positive FVA of derivative financial instruments designated as hedge accounting relationship	8,477	–	8,477	–
<b>Financial assets measured at fair value total</b>	<b>1,695,500</b>	<b>758,256</b>	<b>937,244</b>	<b>–</b>
Negative FVA of derivative financial instruments designated as held for trading	257,328	7	257,321	–
Negative FVA of derivative financial instruments designated as hedge accounting relationship	7,143	–	7,143	–
<b>Financial liabilities measured at fair value total</b>	<b>264,471</b>	<b>7</b>	<b>264,464</b>	<b>–</b>
<b>As at 31 December 2009</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Financial assets at fair value through profit or loss	272,289	179,225	93,064	–
from this: securities held for trading	179,053	179,053	–	–
from this: positive FVA of derivative financial instruments designated as held for trading	93,236	172	93,064	–
Securities available-for-sale	1,614,172	1,473,253	38,078	102,841
Positive FVA of derivative financial instruments designated as hedge accounting relationship	14,148	–	14,148	–
<b>Financial assets measured at fair value total</b>	<b>1,900,609</b>	<b>1,652,478</b>	<b>145,290</b>	<b>102,841</b>
Negative FVA of derivative financial instruments designated as held for trading	119,353	76	119,277	–
Negative FVA of derivative financial instruments designated as hedge accounting relationship	3,569	–	3,569	–
<b>Financial liabilities measured at fair value total</b>	<b>122,922</b>	<b>76</b>	<b>122,846</b>	<b>–</b>

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

Movements for the year 2010	Opening balance	Transfer	Closing balance	Total profit or loss as at 31 December 2010
Securities available-for-sale <sup>17</sup>	102,841	(102,841)	–	–
Financial assets measured at fair value total	102,841	(102,841)	–	–

**NOTE 38: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS (“HAS”) AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)**

	Retained Earnings and Reserves 1 January 2010	Net profit for the year ended 31 December 2010	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves as at 31 December 2010
<b>Financial Statements in accordance with HAS</b>	<b>807,458</b>	<b>108,964</b>	<b>(20,160)</b>	<b>2,979</b>	<b>899,241</b>
Reversal of statutory general provision	40,729	(573)	–	–	40,156
Premium and discount amortization of financial instruments measured at amortised cost <sup>18</sup>	934	1,103	–	1,994	4,031
Effect of redemption of issued securities	25,860	(3,301)	–	–	22,559
Differences in carrying value of subsidiaries	39,280	(5,165)	–	–	34,115
Difference in accounting for finance leases	(3,793)	337	–	–	(3,456)
Fair value adjustment of held for trading and available-for-sale financial assets	20,282	(3,811)	–	(25,676)	(9,205)
Fair value adjustment of derivative financial instruments	5,233	14,672	–	–	19,905
Reversal of statutory goodwill	11,156	1,402	–	–	12,558
Revaluation of investments denominated in foreign currency to historical cost	40,025	(19,241)	–	–	20,784
Difference in accounting of security lending	(13,068)	(2,076)	–	–	(15,144)
Treasury share transaction	–	25	–	(25)	–
Written put option on ordinary shares	(55,468)	–	–	–	(55,468)
Reclassification of direct charges to reserves	–	2,979	–	(2,979)	–
Share-based payment	–	11,821	–	(11,821)	–
Payments to ICES holders	5,162	22,282	–	(5,626)	21,818
Deferred taxation	3,828	(4,754)	–	2,813	1,887
Dividend	–	–	20,160	–	20,160
<b>Financial Statements in accordance with IFRS</b>	<b>927,618</b>	<b>124,664</b>	<b>–</b>	<b>(38,341)</b>	<b>1,013,941</b>

<sup>17</sup> Certain bonds, mainly issued by local municipalities in Hungary were reclassified to loans during the year ended 31 December 2010. These securities were not quoted on an active market and were met the definition of loans and receivables as defined by IAS 39.

<sup>18</sup> Inc. effects of using effective interest rate method.

**NOTE 39:****SIGNIFICANT EVENTS DURING THE YEAR ENDED  
31 DECEMBER 2010****Hungarian Government loan  
facility**

See details in Note 13.

**Legal action against  
the OTP Bank Plc.**

See details in Note 27.

**Term Loan Facility**

See details in Note 13.

**Joint and several guarantee**

See details in Note 27.

**Special Tax On Financial  
Institutions**

On 22 July 2010 based on the amendment of the act on the special tax of financial institutions approved by the Parliament of the Republic of Hungary, the following members of OTP Group are obliged to pay the special financial institution tax:

**Credit institutions:**

OTP Bank Plc.,  
OTP Mortgage Bank Ltd.,  
OTP Building Society Ltd.,  
Merkantil Bank Ltd.

**Financial enterprises:**

OTP Real Estate Leasing Ltd.,  
OTP Factoring Ltd.,  
Merkantil Car Ltd.,  
Merkantil Real Estate Leasing Ltd.

**Fund managers:**

OTP Fund Management Ltd.,  
OTP Real Estate Fund Management Ltd.

From the second half of 2010 the special tax shall consist of two parts:

- The approved amendment does not have any impact on the already existing special banking tax, which came into effect by 1 January 2007. This special tax amount for the full year of 2010 was HUF 658 million and was to be paid by OTP Bank Plc.
- A new special financial institution tax is to be introduced and paid by OTP Bank Plc. The total tax amount payable for the year 2010 was HUF 26 billion (See details in Note 24). Accordingly, the total special tax amount was paid by OTP Group for the full year of 2010 was HUF 36 billion.

The amount of the special tax payable in 2011 is HUF 24 billion that is payable in four equal instalments until 10th of the last month of every quarter.

**NOTE 40:****POST BALANCE SHEET EVENTS**

There were no relevant events.

In Hungary, the severe contraction that followed the financial and economic crisis reached its bottom in 2009 and real GDP growth was already in the positive territory in 2010.

Similarly to 2009, in 2010 the Bank focused its activity on the stable operation, including the robust capital position and liquidity, and in line with the deteriorating loan portfolio, on prudent risk management and monitoring.

- One of the direct consequences of the crisis was the weak loan demand in the Hungarian market. After adjusting for technical effects (ie. FX-movements and reclassification of municipality bonds in 2010 from securities to loans), OTP Core's loan book remained stagnant from 2009 to 2010 (+0.5%). Since the onset of the crisis, both retail lending activity and retail loan demand fell significantly, and despite the slowly improving macro indicators retail loan demand remained subdued in 2010. Hungarian retail FX lending was stopped during 2010, as a reaction to a legal change according to which no mortgage is allowed to be established to secure FX-denominated retail mortgage loans for private individuals from July 2010. Nevertheless OTP Bank made huge efforts to revitalise its lending activity in Hungary: as for mortgage lending, in 2010 new volumes at OTP Bank increased by 60% from 2009 to 2010, and as a result the Bank's market share in new origination jumped from 15% to 29%. However these efforts only slowed down the gradual erosion in the outstanding mortgage loan volumes.

As for lending to Hungarian corporates, OTP's performance was even more outstanding: loans to the SME segment grew by 7% in 2010, surpassing the 2009 yearly growth at 5%, and

OTP Bank could continue to grow its loan book to large enterprises too in 2010.

Simultaneously, corporate loan volumes of the Hungarian banking sector (excluding OTP) contracted significantly both in 2009 and 2010.

- After the strong deposit growth in 2009, due to the generally weak loan demand the Bank put less emphasis on deposit collection in 2010. Instead of further improving its liquidity indicators, it focused rather on the improvement of its deposit margins. FX adjusted deposit volumes of OTP Core (including senior bonds sold to Hungarian retail investors) shrank by 1% in 2010, a favourable tendency though that retail deposits (including retail bonds) kept growing in 2010 too (+2% from 2009 to 2010). The Bank has accumulated a sizable amount of liquidity reserves since the beginning of the crisis: its total liquidity buffer amounted to EUR 5.0 billion as of 31 January 2011. This level of the reserves is significantly higher than what would be sufficient to provide coverage for the redemptions in wholesale funding within one year and for potential liquidity shocks.
- Another side effect of the crisis was the significant deterioration in the financial position of the clients, which led to worsening portfolio quality and materially increasing risk costs compared to pre-crisis levels. In 2010, risk costs of OTP Core grew by 59% compared to 2009. The sizeable growth is mostly explained by the increasing level of the provision coverage for loans more than 90 days past due the coverage increased by 3.3%-points in 2010 as opposed to the decrease of 7.2%-points in 2009. Furthermore the slight acceleration in the portfolio quality deterioration had its negative impact too.

<sup>19</sup> OTP Group reports its Hungarian core banking business activity under the brand „OTP Core“. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in OTP Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc, OTP Mortgage Bank Ltd, OTP 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.

Debtor protection program launched in 2009 continued in 2010 as well. OTP Bank made special efforts to assist distressed Hungarian retail borrowers in managing their temporary financial difficulties. As a result, almost 50 thousand retail clients were involved in the program by the end of 2010. On top of the debtor protection programme, as a reaction to the depreciation of the Hungarian forint starting from 2nd quarter 2010, the Bank lowered the CHF and JPY mortgage rates by 75 bps and 50 bps respectively in June 2010. This temporary measure was aimed at easing the increasing burden of retail FX-debtors.

- The further enhancement of the stable capital adequacy still remained a top priority for the Bank in 2010. Due to the profitable operation and the weaker than pre-crisis Hungarian lending activity, the capital adequacy ratio of OTP Bank (under the local accounting standards) rose to 18.1% from 16.2%.

- Hungary from 2010, to reduce the deficit of the general government, new special tax was imposed on financial institutions. The total tax amount paid by OTP Bank Plc for the year of 2010 was at HUF 25.5 billion and this amount was deductible from the corporate tax base. Therefore the total negative impact on OTP Bank's 2010 after-tax profit was at HUF 20.7 billion.







***corporate*** *governance*

# Senior management of OTP Bank and executive members of the Board of Directors



## Dr. Sándor Csányi

*Chairman & CEO*

Dr. Sándor Csányi (58) graduated from the College of Finance and Accountancy in 1974 with a bachelor's degree in business administration and in 1980 from the Budapest University of Economic Sciences with a degree in economics. He is an economist with a specialisation in finance, and is also a qualified pricing specialist and certified auditor. After graduation he worked at the Revenue Directorate and then at the Secretariat of the Ministry of Finance, after which, between 1983 and 1986, he was a departmental head at the Ministry of Agriculture and Food Industry. From 1986 to 1989 he worked as a head of department at Magyar Hitel Bank. He was deputy CEO of K&H Bank from 1989 to 1992. Since 1992 he has been Chairman & CEO of OTP Bank Plc, where he is responsible for the Bank's strategy and overall operation. He is a member of the European Board of Directors for MasterCard, one of the world's leading payment card companies, and is Vice Chairman of the Board of Directors of MOL Plc, Co-Chairman of the National Association of Entrepreneurs and Employers (VOSZ), and he was a member of the Board of Directors of the Hungarian Banking Association until April 2011.

As of 31 December 2010 he held 200,000 ordinary OTP shares (while the total number of OTP shares held by him directly and indirectly was 2,700,000).

## Dr. Antal Pongrácz

*Deputy Chairman,  
Deputy CEO  
Staff Division*

Dr. Antal Pongrácz (65) graduated from the Budapest University of Economic Sciences and earned a PhD in 1971. From 1969 he worked as an analyst at the Petrochemical Investment Company, then as a group manager at the Revenue Directorate until 1975. From 1976 he held various executive positions at the Ministry of Finance. After that, he was the first Deputy Chairman of the State Office for Youth and Sports (86–87). Between 1988 and 1990 he was the first Deputy CEO of OTP Bank. Between 1991 and 1994 he was CEO, and then Chairman & CEO, of the European Commercial Bank Rt. Between 1994 and 1998 he was Chairman & CEO of Szerencsejáték Rt, then in 1998-99 he served as CEO of Hungarian flagship carrier, Malév. Since 2001 he has been executive director of OTP Bank's Staff Division and more recently, Deputy CEO. He has been a member of OTP Bank's Board of Directors since 2002 and Deputy Chairman since 9 June 2009.

As of 31 December 2010 he held 200,000 ordinary OTP shares.

## László Bencsik

*CFO, Deputy CEO  
Strategy and Finance Division*

Mr. László Bencsik (41) has been deputy CEO of OTP Bank Plc, and head of the Strategy and Finance Division, since August 2009. He joined OTP Bank in September 2003, when he became executive director of the Bank Operations Management Directorate, and the manager with overall responsibility for controlling and planning. From 2000, until he joined OTP Bank, he was a project manager at consulting firm McKinsey & Company. Between 1996 and 2000 he worked as a consultant at Andersen Consulting (now Accenture). In 1996 he graduated from the Faculty of Business Administration at the Budapest University of Economic Sciences, and in 1999 he obtained a Masters in Business Administration (MBA) from INSEAD Business School in France.

As of 31 December 2010 he held no ordinary OTP shares.



### **Dr. István Gresa**

*Deputy CEO  
Credit Approval and Risk  
Management Division*

Dr. István Gresa (58) graduated from the College of Finance and Accountancy in 1974 and received a degree in economics from the Budapest University of Economic Sciences in 1980. He earned a PhD from the same establishment in 1983. He has worked in the banking sector since 1989. Between 1989 and 1993 he was branch manager of Budapest Bank's Zalaegerszeg branch. From 1993 he was director of OTP Bank's Zala County Directorate, and from 1998 he served as the executive director of the bank's West Transdanubian Region. Since 1 March 2006 he has been Deputy CEO of OTP Bank and the head of the Credit Approval and Risk Management Division and chairman of the Board of Directors at OTP Factoring Ltd. Since 22 May 2007 he has been chairman of the Board of Directors at the OTP National Health Fund. As of 31 December 2010 he held 63,758 ordinary OTP shares.

### **Dániel Gyuris**

*Deputy CEO  
Real Estate, Small Enterprises  
and Agriculture Division  
Chairman & CEO  
OTP Mortgage Bank Ltd. and  
OTP Building Society Ltd.*

Mr. Dániel Gyuris (52) obtained a post-graduate degree in agricultural engineering from Gödöllő University of Agricultural Sciences in 1998. Two years earlier he graduated in economics from the Budapest University of Economic Sciences, where he majored in bank management. In the same year he obtained a post-graduate diploma from the College of Finance and Accountancy. He is a certified accountant and property valuation specialist. He began his career as an agricultural engineer at an industrial cooperative, where as deputy production manager he was responsible for the overall management of the production processes. In 1989 he was appointed a head of department at Agrobank Ltd., and then from 1991 he held a similar position at Inter-Europe Bank Ltd. From 1999 he was CEO of FHB Land Credit and Mortgage Bank Plc., and was the executive director responsible for the operation of the bank group. Since 1 November 2010 he has been deputy CEO of OTP Bank Plc., and is also the head of the Real Estate, Small Enterprises and Agriculture Division, as well as Chairman & CEO of OTP Mortgage Bank Ltd. and OTP Building Society Ltd. As of 31 December 2010 he did not hold any ordinary OTP shares.

### **Antal Kovács**

*Member of the Supervisory Board,  
Deputy CEO  
Retail Division*

Mr. Antal Kovács (58) graduated from the Budapest University of Economics with a degree in economics in 1985. He began his professional career in 1990 at the Nagyatád branch of K&H Bank, where he worked as a branch manager between 1993 and 1995. He has been working at OTP Bank Plc. since 1995, first as a county director and from 1998 as the executive director of OTP Bank's South Transdanubian Region. Since 1 July 2007 he has served as OTP Bank's Deputy CEO. He has received additional training at the International Training Centre for Bankers and on various courses held by the World Trade Institute. He has been a member of OTP Bank's Supervisory Board since 2004. As of 31 December 2010 he held 23,000 ordinary OTP shares.

# Senior management of OTP Bank and executive members of the Board of Directors



## Ákos Takáts

*Deputy CEO  
IT and Bank Operations Division*

Mr. Ákos Takáts (51) graduated from the University of Horticulture and Food Industry in 1982 and earned a degree in engineering in 1985. He has worked in the banking sector since 1987. From 1993 he served as a deputy head of department at OTP Bank Plc., then, from 1995, he was executive director of the bank's IT Development Directorate. Since 1 October 2006 he has served as OTP Bank's Deputy CEO and the head of the IT and Bank Operations Division. As of 31 December 2010 he held a total of 153,347 ordinary OTP shares.

## Dr. László Utassy

*Chairman & CEO\*  
Merkantil Bank Ltd.*

Dr. László Utassy (59) graduated from the Faculty of Law of ELTE University in Budapest in 1978. He held various positions at the State Insurance Company between 1978 and 1995 and then at ÁB-Aegon Rt. He was Chairman & CEO at OTP Garancia Insurance from 1996 to 2008. He was managing director of OTP Bank Plc. between 2009 and 2010. Since 1 January 2011 he has been Chairman & CEO of Merkantil Bank Ltd. He has been a member of OTP Bank's Board of Directors since 2001. As of 31 December 2010 he held 260,000 ordinary OTP shares.

## László Wolf

*Deputy CEO  
Commercial Banking Division*

Mr. László Wolf (51) graduated from the Budapest University of Economic Sciences in 1983. After graduation, he worked at the Bank Relations Department of the National Bank of Hungary for 8 years, and then served as head of Treasury at BNP-KH-Dresdner Bank between 1991 and 1993. From April 1993 he was executive director of OTP Bank's Treasury Directorate, and since 1994 he has been Deputy CEO of the Commercial Banking Division. As of 31 December 2010 he held 654,640 ordinary OTP shares.

\* from 1 January 2011

# Non-executive members of the Board of Directors of OTP Bank



## **Mihály Baumstark**

*Chairman & CEO  
Csányi Winery Ltd.*

Mr. Mihály Baumstark (62) holds degrees in agricultural engineering and agricultural economics. He was employed by the Ministry of Agriculture and Food Industry between 1978 and 1989. When he left the Ministry he was deputy head of the Investment Policy Department. After this he was managing director of Hubertus Rt., and from 1999 he was deputy CEO and then Chairman & CEO of Villányi Winery Ltd. (now Csányi Winery Ltd.). He was a member of OTP Bank's Supervisory Board from 1992 to 1999, and has been a non-executive member of OTP Bank's Board of Directors since 1999.

As of 31 December 2010 he did not hold any ordinary OTP shares.

## **Dr. Tibor Bíró**

*Head of Department  
Budapest Business School*

Dr. Tibor Bíró (59) graduated from the Budapest University of Economic Sciences with a degree in business administration. He was the Head of the Financial Department of the City Council of Tatabánya from 1978-82. He began teaching at the College of Finance and Accountancy in 1982 and has been head of department since 1992. He is a certified auditor and chartered accountant. He is a member of the Educational Committee of the Chamber of Hungarian Auditors. He has been a non-executive member of OTP Bank's Board of Directors since 1992.

As of 31 December 2010 he held 30,681 ordinary OTP shares.

## **Péter Braun**

*Electrical Engineer  
Former Deputy CEO  
OTP Bank*

Péter Braun (75) earned a degree in electrical engineering from the Technical University of Budapest. Between 1954 and 1989 he worked for the Research Institute for Electrical Energy, with his last position there being head of department. After that, he was the managing director of K&H Bank Rt., working in its Computer and Information Centre. He is a member of GIRO Rt.'s Board of Directors, and was Deputy CEO of OTP Bank Plc. from 1993 until his retirement in 2001. Since the second half of 2009 he has been the chairman of the Chief Information Officers' Association (VISZ). He has been a member of OTP Bank's Board of Directors since 1997. As of 31 December 2010 he held 527,905 ordinary OTP shares.

# Non-executive members of the Board of Directors of OTP Bank



## Dr. István Kocsis

CEO  
BKV Zrt.  
(Budapest Transport Corporation)

Dr. István Kocsis (59) graduated from the Technical University of Budapest as a mechanical engineer in 1976, and earned his PhD in 1985. Before 2001 he held numerous senior management positions in the public administration. From 2002 he worked as the CEO of Paks Nuclear Power Plant and from 2005 he was the CEO of Hungarian Power Companies Ltd. (MVM Zrt.). In 2008 he became the Member of the Board and CEO of Budapest Transport Corporation (BKV Zrt.). From 2004 he is the Member of Presidium of the Hungarian Chamber of Commerce & Industry. Non-executive member of OTP Bank's Board of Directors since 1997. As of 31 December 2010 he held 81,600 ordinary OTP shares. As of 31 December 2010 he held 81,600 ordinary OTP shares.

## Dr. György Szapáry\*

Professor  
Central European University  
Department of Economic Science

Dr. György Szapáry (72) graduated with a degree in economics from the Catholic University of Louvain (Belgium) in 1961 and gained a PhD from there, also in economics, in 1966. From 1965 to 1966 he worked at the European Commission in Brussels. From 1966 to 1990 he worked at the IMF in Washington, D.C. as an economist, senior economist and assistant director, and from 1990 to 1993 he was the Resident Representative of the IMF in Hungary. From 1993 to 2007, with a short break when he was advisor to the Governor of the national bank, he served as Deputy Governor of the National Bank of Hungary, while also serving as a member of the Monetary Council. From 2008 to 2010 he was visiting professor at the Central European University in Budapest. In June 2010 he was named Chief Economic Policy Advisor to the Prime Minister. In January 2011 he was appointed Ambassador of Hungary in Washington. He is the author of a book and of numerous articles published in various economic journals. He has been a member of the Board of Directors of OTP Bank since 25 April 2008. As of 31 December 2010 he did not hold any ordinary OTP shares.

## Dr. József Vörös

Professor, Institute Director

Dr. József Vörös (60) earned a degree in economics from the Budapest University of Economic Sciences in 1974. In 1984 he earned a PhD in economics from the Hungarian Academy of Sciences, and a Doctor of Science degree in 1993. Between 1990 and 1993 he was the dean of the Faculty of Business and Economics, Janus Pannonus University (JPTE). In 1993 he attended the Advanced Management Program (AMP) at Harvard Business School. Since 1994 he has been a professor at JPTE, and was the senior Vice Rector of the University from 2004-2007, and since 2007 he has been chairman of the Board of Trustees. He has been a non-executive member of OTP Bank's Board of Directors since 1992. As of 31 December 2010 he held 117,200 ordinary OTP shares.

\*until 31 January 2011

# Members of the Supervisory Board\*



## Tibor Tolnay

*Chairman  
of the Supervisory Board  
Chairman & CEO  
Magyar Építő Zrt.*

Tibor Tolnay (60) graduated from the Budapest Technical University with a degree in construction engineering, then took a post-graduate degree in economic engineering from the same establishment, and later received a further post-graduate degree, this time in economics, from the Budapest University of Economic Sciences. In 1994 he was appointed Chairman & CEO of Magyar Építő Rt. He has been Chairman of OTP Bank's Supervisory Board since 1999. He has been a member of the Audit Committee since 27 April 2007. As of 31 December 2010 he held no ordinary OTP shares.

## Dr. Gábor Horváth

*Lawyer*

Dr. Gábor Horváth (55) earned a degree in law from ELTE University in Budapest. From 1983 he worked for the Hungarian State Development Bank. He has been a lawyer since 1986, and since 1990 has run his own law firm, which specialises in corporate finance and corporate governance. He has been a member of the Board of Directors of MOL Plc. since 1999, and a member of OTP Bank Plc.'s Supervisory Board since 1995. Since 27 April 2007 he has been deputy chairman of OTP Bank's Supervisory Board, and chairman of the Audit Committee. As of 31 December 2010 he held 10,000 ordinary OTP shares.

## Jean-Francois Lemoux

*Head of International  
Groupama SA*

After graduating from the school of 'Hautes Etudes Commerciales' (HEC), Jean François Lemoux (63) began his career in 1971 at the VIA Assurances Group, where he was first Head of Marketing, then Management Controller, and finally Sales and Life Insurance Manager. He joined the Athena Group in 1988, first as Chief Executive of Proxima, a group life insurance specialist, then as Chief Executive of PFA Vie from 1990 to 1998, and member of the Group's governance committee. In 1998, when Groupama acquired GAN, he was appointed to the Management Board of GAN SA, in charge of the life and non-life business conducted through agents and brokers. In September 2000, in accordance with Groupama-Gan's new organisational structure, he was also entrusted with the management of the non-life insurance divisions and the sales networks. Mr. Lemoux has been Groupama's CEO Head of International since he was appointed to the position in July of 2003. He has been a member of OTP Bank's Supervisory Board since 25 April 2008. On 1 January 2011, he was appointed Senior International Advisor to Groupama's CEO. As of 31 December 2010 he held 0 ordinary OTP shares.

## András Michnai

*Director, Independent  
Compliance Department  
OTP Bank Plc.*

András Michnai (56), representative of the employees of OTP Bank, earned his degree at the College of Finance and Accountancy in Budapest. He has been an employee of the Bank since 1974, and until 1981 he worked in various positions. From that year, he performed managerial work in the central network management department and then in the network itself. In 1994 he was promoted to deputy director and cooperated in the central management of the network. Since 2005 he has managed the Bank's Independent Compliance Department. He obtained his second degree from the College of Finance and Accountancy, and is a registered tax consultant. He has been a member of the OTP Supervisory Board since 25 April 2008. As of 31 December 2010 he held 15,600 ordinary OTP shares.

\*Mr. Antal Kovács has been a member of OTP Bank's Supervisory Board since 2004.

# Information for Shareholders

## General company data

### Date of foundation:

31 December 1990, registered by the Metropolitan Court of Budapest as Court of Registration on 28 October 1991 under company registration number 01-10-041585. The latest Bylaws may be requested from the company or may be downloaded from the Bank's website.

### Legal predecessor:

Országos Takarékpénztár,  
founded 1 March 1949

### Registered head office of OTP Bank Plc.

H-1051 Budapest, Nádor utca 16.  
Telephone: (+36-1) 473-5000  
Fax: (+36-1) 473-5955

### Share capital:

OTP Bank's share capital as at 31 December 2010 was HUF 28,000,001,000, consisting of 280,000,010 ordinary shares of nominal value HUF 100 each.

## Ownership structure as at 31 December 2010:

Shareholder	Ownership (%)	Voting rights (%)
OTP Bank Plc.	1.5	0.0
Government held owner	0.4	0.4
Foreign institution	72.0	73.1
Foreign individual	0.2	0.2
Domestic institution	16.8	17.0
Domestic individual	9.1	9.3
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

## Stock exchange listing

The ordinary shares of OTP Bank Plc. are listed on the Budapest Stock Exchange under category "A", and the global depository receipts (GDRs) representing the ordinary shares that are traded abroad are listed on the Luxemburg Stock Exchange. (2 GDR represents 1 ordinary shares.) Regulation S GDRs are traded on the London SEAQ International, and Rule 144A GDRs are traded in the PORTAL system. The custodian bank for OTP GDRs is the Bank of New York, and the safekeeping bank is OTP Bank Plc. (Stock exchange symbol for OTP Bank shares: OTP, Reuters: OTP.BU)

## Participation and voting rights at the General Meeting

The General Meeting is going to be performed with the personal participation of the authorised persons. Shareholders may participate in the General Meeting in person or through their authorised representatives. Authorisations must be issued in the form of a notarised deed or a private document with full validity as evidence. A single representative may represent several shareholders, however he/she has the possession with an authorization either in forms of a notarial document or private deed. In case the authorisation was issued outside

Hungary, its formal requirements must satisfy the statutes of law concerning the certification and/or legalisation of documents issued outside Hungary. Information on the subject may be obtained from the foreign representations of the Republic of Hungary.

In case the shareholder is represented at the General Meeting by its legal representative (e.g. director, managing director, mayor etc.), – the original authorization or the one verified by a public notary can not be older than 30 days – the deed issued by the court or court of registration concerning the representation, or a certificate concerning the election of the mayor must be presented at the venue of the General Meeting.

### **Participation in the General Meeting and exercising of voting rights is subject to the following preconditions:**

- the shareholder verification effectively verifies the possession of shares at the date of the shareholder verification;
- the shareholder should be effectively entered into the Company's Share Register
- the authorized representative should identify the shareholders being represented
- the ownership of the shares or the voting right relating to the ownership of the shares shall not violate the provisions of the By-Laws, which circumstance shall be verified through monitoring by the Company.

### **Dividend**

On 29 April 2011 OTP Bank Plc.'s General Meeting decided to pay dividend after fiscal year 2010.

Dividends will be HUF 72 per share, representing 72% of the face value of each share. The actual amount of dividends to be paid to the individual shareholders will be calculated and disbursed in accordance with the Company's Bylaws, that is, the Company will distribute the dividend calculated in respect of all the shares qualifying as treasury shares among the shareholders entitled to receive dividends. Dividends will be disbursed from 14 June 2011, in accordance with the procedural order set forth in the Bylaws.

### **Announcements**

OTP Bank Plc. fulfils its disclosure obligations related to corporate events and prescribed in Act CXX of 2001 on the website of the OTP Bank Plc. ([www.otpbank.hu](http://www.otpbank.hu)), on the website of the Budapest Stock Exchange ([www.bet.hu](http://www.bet.hu)), and on the website operated by HFSA ([www.kozzetetelek.hu](http://www.kozzetetelek.hu)).

### **Investor relations**

Institutional shareholders of OTP Bank Plc. should contact the following address if they require further information:

#### **OTP Bank Plc. Investor Relations & DCM**

H-1051 Budapest, Nádor utca 16.

Telephone: (+36-1) 473-5460

Fax: (+36-1) 473-5951

Email: [investor.relations@otpbank.hu](mailto:investor.relations@otpbank.hu)

# Declaration on Corporate Governance Practice

OTP Bank Plc.'s operation is in full compliance with the applicable statutory provisions, supervisory authority requirements and the regulations of the Budapest Stock Exchange (BSE). The Company's structure and the conditions for its operation are set out in the Company's Bylaws, which have been approved by the General Meeting.

## Executive bodies

The executive body of the Company is the Board of Directors. The scope of the Board of Directors' authority is determined in the effective laws, the Bank's Bylaws, General Meeting resolutions, and the procedural rules of the Board of Directors. The procedural rules set out the composition of the Board of Directors, the tasks relating to the preparation, implementation and drafting of resolutions at its meetings, as well as all other issues pertaining to the operation of the Board of Directors. The members of the Board of Directors are elected by the General Meeting for a term of five years. All the obligations and prohibitions specified for executive officers under Act CXII of 1996 on Credit Institutions and Financial Enterprises (Credit Institutions Act) apply to the members of the Board of Directors.

The Supervisory Board oversees the management and business operations of the Company. The Supervisory Board establishes its own procedural rules, which are approved by the General Meeting. Supervisory Board members are elected by the General Meeting with a mandate of three years. The proportion of independent Supervisory Board members (3 persons) within the entire Supervisory Board (5 persons) is 60%. In order to avoid any conflicts of interest, the General Meeting may not elect members of the Board of

Directors or their close relatives to the Supervisory Board. The rules applicable to the appointment and recall of the employee member of the Board of Directors are defined by the Works Council operating at the Company, and the Company does not consider such a member to be independent. The Supervisory Board is responsible for managing the internal audit function of the Company within the framework set by the Credit Institutions Act. The Supervisory Board exercises a preliminary right of consent in respect of decisions relating to the establishment and termination of the employment of the managers and employees of the internal audit department, and the determination of their remuneration.

In 2010 seven Board meetings, seven Supervisory Board meetings and four Audit Committee meetings were held.

Meetings of the Board of Directors are convened by the Chairman & CEO with a written invitation in accordance with the prevailing work schedule.

The Chairman & CEO is also obliged to call a meeting of the Board of Directors if

- the Board of Directors has passed a resolution calling for an extraordinary meeting of the Board of Directors;
- at least three Board members request it in writing, indicating the reason for the meeting and its objectives, specifying the items on the agenda, and making available a written proposal regarding the decision to be made;
- it is requested, in writing, by the Supervisory Board or the auditor;
- he is obliged to do so by the Hungarian Financial Supervisory Authority;
- pursuant to the statutory provisions a decision must be made regarding the convening of an Extraordinary General Meeting.

Meetings of the Supervisory Board are called by the chairman. A meeting must also be called if a member of the Supervisory Board or at least two members of the Board of Directors, or the auditor, requests it in writing indicating the objectives and reasons for the meeting.

Meetings of the Audit Committee are called by the chairman of the committee, indicating the objectives and reasons for the meeting; any member of the committee may also request, in writing that the chairman call a meeting.

Minutes are taken at the meetings of the Board of Directors and Supervisory Board, and all resolutions are documented.

The employer's rights towards the executive officers of the Company are exercised by the Board of Directors through the Chairman & CEO, with the proviso that the Board of Directors must be notified in advance for the appointment or dismissal of deputy CEOs.

The Board of Directors has prepared guidelines for evaluation of the management's work, and remuneration of the management. The Bank has launched a share option scheme for the evaluation and encouragement of management performance, based on the fulfilment of annual and medium-term targets. The detailed conditions of the share purchase program and the expectations with regard to performance are approved by the General Meeting of the Company. The Board of Directors provides information on the annual and medium-term targets and their performance, representing the basis for evaluation, at the Annual General Meeting.

The Company has separate committees for the maintenance of the Board of Directors and the Supervisory Board. These are: the Audit Committee, Management Committee, Subsidiary Integration and Management Committee, Management Coordination Committee, and Remuneration Committee. In addition, certain functions and tasks are performed by different permanent committees: the Ethics Committee, Asset Liability Committee, Credit and Limit Committee, Product Development, Sales and Pricing Committee, Work-Out Committee, Information Management Committee, the Investment Committee and the Group-Level Risk Management Committee.

## Audit

The most important function of internal audit is to safeguard the assets of the customers and the Company, and to protect the interests of shareholders.

To ensure effective auditing, the Company's internal control system is structured vertically and horizontally. The system is implemented at three interrelated, modular control levels, as well as being subdivided along departmental lines. The internal system of checks and balances is comprised of a combination of process-integrated, management and independent internal audit functions.

The independent internal audit organisation promotes the use of safe, well-considered business procedures, efficient operation and the minimising of risks, and also – together with the Compliance department – monitors compliance with the statutory provisions. Its most important characteristic is that it functions as an independent, professional, impartial organisation, which conducts its audits at all control levels. Professional oversight of the organisation is performed, within the framework defined by the Credit Institutions Act, by the Supervisory Board.

The independent internal audit department works to an annual audit schedule, which is approved by the Supervisory Board. The annual schedule is prepared in accordance with a risk-based methodology, and besides focusing on those areas of operation that carry a regulatory, business, operating and lending risk, also takes into consideration the changes in the economic environment at any given time.

The scope of the internal control system also extends to the owner's audits conducted at foreign and Hungarian subsidiaries, as well as the professional supervision of the subsidiaries' own internal audit organisations. To this end, standardised internal auditing protocols pertaining to the operation and activities of group members' internal audit departments are developed, enhanced and applied on a continuous basis. The internal audit department regularly prepares objective and impartial reports for the executive bodies at quarterly and annual intervals. As a part of its quarterly report, in a group-level summary report, it gives an account of the audits conducted in the given quarter, the risks identified and

performance of the measures implemented for their elimination. The audit department reports annually on the performance of tasks specified in the annual schedule, the audits performed and its other activities, as well as any changes that are made to the internal auditing system. Each year the department prepares an objective and independent report for the Supervisory Board on the operation of risk management, internal control mechanisms and corporate governance functions. In exceptional cases requiring immediate intervention, the audit department has the authority to summarily perform unscheduled audits. The General Meeting has the right to elect the business entity auditing the Company, and to approve the member of the audit company who will be responsible for the audit.

## Compliance

In keeping with the regulations of the European Union and the applicable Hungarian laws, the Company has established an independent organisational unit (Compliance Department), with the task of identifying and managing compliance-related risks. The appropriate regulatory documents, such as the compliance policy, strategy and work plan for the unit, have been drawn up. The objectives of the compliance policy are to determine the framework for compliance activities regarding the entire OTP Group, and to define compliance-related objectives and the duties and authority of the compliance function. Another essential document of compliance policy is the compliance strategy of the OTP Group. The compliance policy is approved by the Board of Directors of OTP Bank Plc. The Compliance Department prepares a comprehensive report once a year on the Bank Group's activities and position with regard to compliance, which is approved by the Bank's Board of Directors. The management of the Group is responsible for implementation of the compliance policy.

## Disclosure

The Company discloses its information in strict compliance with the provisions of Act CXX of 2001 on the Capital Market (Capital Market Act) and the

applicable regulations of the Budapest Stock Exchange. The Company also has an effective internal disclosure policy for ensuring fulfilment of its public disclosure obligations.

The regulations referred to above assure full, accurate and timely disclosure of all important information that may affect the Company or the price of the Company's shares and other securities. The Board of Directors discloses the Company's business and strategic targets for the current year, and its medium-term strategic plan, at each Annual General Meeting. The company discloses the proposals prepared for the General Meeting in compliance with the rules applicable to disclosure as posted on the Budapest Stock Exchange website, and with the provisions of the relevant regulations of the BSE.

The Company discloses information about the professional careers of the members of the Board of Directors, the Supervisory Board and the management on its website and in its annual report, in compliance with the effective legislation. The proposal for the remuneration of the chairman and members of the Board of Directors and chairman and members of the Supervisory Board is also a part of the proposals prepared for the General Meeting.

The Company has detailed risk management regulations applicable to all types of risks (liquidity, market and credit risks), which are in compliance with the legal regulations on prudential banking operations. The annual report contains information on the risk management practices of the Company, the applied limits and compliance with them. The Company has a detailed internal policy pertaining to persons that qualify as insiders and potential insiders, which is in full compliance with the limits and prohibitions regulated in detail under the effective provisions of the Capital Market Act. The Company discloses the transactions of the members of the Board of Directors, Supervisory Board and management involving the Company's shares, in compliance with the disclosure regulations, and indicates the holding of these individuals in the Company (number of shares) in its annual report.

The Board of Directors has assessed the effectiveness of the disclosure procedures for 2010, and found them to be satisfactory.

# Anti-money laundering measures

Money laundering is where criminals or their accomplices attempt to conceal the origins of money acquired from criminal acts by, for example, using the services of financial institutions.

In order to prevent the use of our bank for money-laundering purposes, we will do our best to ascertain the true identities of those who use our services, and OTP Bank will refuse to execute orders made by clients who fail to give evidence of their true identities in accordance with the relevant legal stipulations.

In keeping with the provisions of Act CXXXVI of 2007 on the prevention and impeding of money laundering and the financing of terrorism (hereinafter: Act on Money Laundering), OTP Bank has introduced, and applies, the following measures and rules:

- It operates an internal control and information system designed to prevent banking or financial operations that might enable, or in themselves constitute, money laundering.

- It has internal regulations, in accordance with Ministry of Finance Decree 35/2007. (XII. 29.) and the recommendations of the Hungarian Financial Supervisory Authority, that all employees of the bank must observe.

- The employees of the bank must fulfill their customer due diligence and reporting obligations.

- Compliance with the reporting obligations are not construed as a breach of bank, securities, insurance or trade secrets.

- Failure to fulfill the reporting obligation may result in prosecution under criminal law.

- OTP Bank cooperates with the criminal investigation authorities in the investigation of all circumstances suggestive of money laundering.

OTP Bank discloses the customer identification procedure applied by the bank in an Announcement posted in all rooms open for serving customers.

# Corporate Social Responsibility

*With trust and responsibility for each other*

In terms of OTP Bank's corporate social responsibility, 2010 was an exceptional year, which was sadly marred by several unforeseen events and environmental disasters. While providing immediate and comprehensive assistance to thousands of families who had been plunged into crisis, we also made efforts to maintain, and indeed develop, existing long-term partnerships.

In spring 2010 OTP Bank transferred its largest donation of the past 20 years, emergency assistance of half a billion forints, to the Hungarian Red Cross, to enable them to provide effective assistance for the victims of May's freak weather conditions, and also

that is paid into the Damage Restoration Fund, thus assisting those who had suffered damage with a total of HUF 100 million. The April floods and the red sludge catastrophe that occurred at the end of the year presented a complex set of challenges for the bank in terms of choosing the most responsible course of action to take. The bank's commitment to social responsibility is shown by the fact that beyond simply donating money it took the opportunity – resulting from the nature of its operations – to provide other forms of assistance to its customers affected by the catastrophe. Accordingly, shortly after the news of the sludge spillage the bank announced that it would not terminate a single loan contract in cases where the property serving as collateral had been damaged or destroyed. Besides this, under its borrower protection program the bank made an effort to find individual solutions using the means at its disposal (such as forgiving the loan debt, assuming the repayment instalments, extending the term of the loan, etc.) for each of its customers who found themselves in financial difficulties. OTP Bank's revised borrower protection program is significantly more effective than the government-prescribed measures, and offers solutions appropriate to every life situation. It has been a major challenge and a formidable task to coordinate the deployment of all the expertise accumulated by the credit institution over its many decades as a financial service provider and a socially responsible corporation. With respect to the company's core activity, we see it as a principal mission of ours to deepen the financial literacy and sophistication of the general public. This was why we set up the OTP Fáy András Foundation, which runs life-management, basic economics-skills, and

agreed to disburse the emergency loan requested by charitable organisations for the prefinancing of donations received via the 1752 Donation Hotline. In response to the tragedy in Devecser at the end of the year, the bank transferred HUF 50 million, and also pledged to double the next HUF 50 million



carrier-counselling programs for young people. In addition to its traditional, long-term programs, the Foundation has also launched the [mileszel.hu](http://mileszel.hu) online portal, aimed at assisting young people in their career selection and career orientation.

The other activities of the bank associated with its CSR commitments extend well beyond the world of finance. One of the main driving forces behind our sponsorship and donation strategy is community building, since together with its customers our bank is also part of a diverse, 4.5 million-strong community. In the area of culture, therefore, we work together with the Museum of Fine Arts and sponsor the Budapest Spring Festival, the Veszprém Summer Festival, and other initiatives such as Art Moments, which offers young fine artists an opportunity to display their works.

In 2010 Hungary played host to the Triathlon World Championships. OTP Bank was happy to support the event as its main sponsor, since Triathlon unites the three most popular branches of mass sport. The Budapest Triathlon World Championship was not only open to professionals, but amateurs also had the opportunity to compete under the age-group system, giving everybody a shot at becoming the world champion for their gender and age group. As a part of the event, OTP Bank pledged HUF 500,000 in special support which, jointly with the Hungarian Triathlon Association, it presented to the Hungarian Special Olympics Association.

Creating opportunities is a cornerstone of OTP Bank's donation policy. This year, as always, the bank donated large sums to causes such as the International Children Safety Service, to support its health programs, organised a large-scale children's event in Városliget (City Park), and operated a dental screening bus. Thanks to our support, the [adhat.hu](http://adhat.hu) portal is up and running with the purpose of bringing donors and beneficiaries together, and is the most complex service of its kind in Hungary.

Another important element of the bank's strategy is preserving traditions: this is what led to equestrian sports being included among the recipients of sponsorship. The OTP Bank

Budapest Horse Show has been put on for the fourth time now, to the delight of visitors attending the event and of those who followed it on television. In 2010 we continued to regard it as important, at this high-profile event, to emphasise not only the traditional and popular equestrian sports themselves, but also the therapeutic properties of the animals. Equestrian therapy can achieve excellent results with children living with mental and physical disabilities, as well as socialisation problems. We held an open competition to design the official T-shirt for the 2010 Budapest Horse Show, with the aim of drawing attention to the importance of therapeutic horse-riding. OTP Bank had 1,000 T-shirts manufactured with the winning design, and donated the proceeds from their sale to the Hungarian Equestrian Therapy Association. A part of the event was National Children's Horse-Riding Day, which we also made it possible for disadvantaged children to attend. It is important to OTP Bank to also ensure access to the event for children, and organisations that work with children, who would not otherwise have an opportunity to attend. Through the [www.adhat.hu](http://www.adhat.hu) website, we invited applications from public-benefit or key public-benefit non-governmental organisations that work with children from socially disadvantaged backgrounds, children from broken homes, and orphans. From the applicants, with the help of the Non-profit Information and Training Centre (NIOK) Foundation, we selected five rural institutions and supported their transportation to the show. A further 100 of the patients of Children's Clinic No. 2 at Semmelweis Medical University, and their parents, also took part in the free children's day event, with special entry tickets that made it easier for them to gain admittance to the site and take their seats.

The objective of our donation and sponsorship activities is to find as many points of contact as possible, and to strengthen our relationships with partners by supporting deserving causes, programs and events that service the interests, endeavours and needs of society as a whole. More details of OTP Bank's corporate social responsibility programs are contained in its Corporate Social Responsibility Report, which can be found on the website.



Publisher: OTP Bank Plc.  
Responsible: Investor Relations & DCM  
Cover Design: László Lelkes  
Graphic Design: Café Design Ltd.  
Production: Artemis Ltd.

