Message from the Chairman and Chief Executive Officer

DEAR SHAREHOLDERS,

In 2009 OTP Bank celebrated its 60th anniversary with decent results: inspite of the global economic and financial crisis the OTP Group managed to achieve outstanding profitability and efficiency ratio even in international comparison; its capital strength and liquidity improved steadily. Thus OTP Bank is ideally positioned to make use of the improvement of the operating environment through intensifying its business activity and further strengthening its market positions.

If I said in my evaluation of 2008 that it was the toughest year in the Company's history, I certainly won't be sparing with negative adjectives in my summary of the operating environment, economic conditions and domestic political uncertainty of the year that followed it either.
In 2009, the crisis which had begun in the USA before spreading torrentially throughout the banking systems of the developed world, also devastated the real economy on a scale that had not been witnessed for decades. Apart from a few developing countries that managed to display dynamic economic growth even over the past few years, virtually every national economy had to grapple with a marked fall in GDP, rising unemployment and a dramatic loss of business and consumer confidence. In the meantime the excessive risk assumption, which stemmed partly from the past laxity of regulators, led to losses and shortages of capital on a scale that could only be remedied by running budget deficits and pumping up state debt to alarming proportions.

The first few months of 2009 were virtually exclusively given over to the liquidity-boosting steps taken by leading western central banks, and the injections of capital and funds carried out with various government intervention measures and guarantees. These, however, were only sufficient to partially restore the interbank liquidity that had dried up at the end of 2008, for capital market investors to regain some of their appetite for risk, and for risk premiums, which had in the meantime ballooned to unrealistic levels, to return to something approaching normal. It would be premature, however, to speak of an upturn in the real economy, and the year ahead of us, 2010, also holds many uncertainties.

In the light of these circumstances we are satisfied with the OTP Group's performance in 2009, and the markets also gave the bank's business results a favourable reception. Despite the economic recession that impacted Hungary and all members of the group, although the achieved HUF 151 billion net profit for the period fell short of the previous year's figure by 31%, the Company closed every quarter with a positive result, which is more than can be said for most of our competitors. OTP's profitability (ROE), capital adequacy and liquidity position are not only exceptionally good even by international standards, but they also provide an excellent base for ensuring that as economic growth starts again we can continue to be a reliable partner for our retail and corporate customers, thus contributing to the stability of national economies and national banking systems.
In the year 2009 there was no growth that had previously been regarded as normal. Instead,

prudential risk management, safe operation and the capital and liquidity needed to achieve them, as well as strict cost management, lay in the focus of operations. Looking back it is clear that we successfully achieved all our objectives. Indeed, our net profit for the period exceeded both the preliminary targets of our management and the consensus of analysts' forecasts. Many take all this for obvious, but achieving these results required a huge effort, and we cannot thank our employees enough for their tireless work, or our customers for their trust. Our capital adequacy ratio, which is excellent even on international level and which continues to improve, was attained exclusively from our own profits, without the need to take a single forint from the taxpayer's pocket or to raise any external founds whatsoever. Last November we repaid half of the EUR 1.4 billion loan received from the State in March 2009 for the financing of Hungarian enterprises, and by the time this report is published we will have paid back the remainder amount. In the meantime we have disbursed loans totalling HUF 248 billion to Hungarian SMEs and large corporations, from our own funding sources. The Company's performance over the last year, therefore, should be judged in the light of the above mentioned facts.

Overview of the financial performance and business results in 2009

In 2009 the Bank Group's consolidated profit was HUF 151.3 billion, which is 31% lower than the previous year's figure, adjusted for one-off items, of HUF 219 billion. Operating profit, however, rose substantially, by 18%, mainly because of a 7% growth in income and a 4% reduction in operating costs. The fall in net profit for the period was attributable, first and foremost, to a more than doubling (+123%) in the allowance for loan losses. The revenue structure was exceptionally healthy: while net income from fees and commissions fell by 5% due to the slump in lending activity and decline in transaction revenues, net interest income rose by 14% due to a 38-basis-point improvement in the interest margin at annual level (2009: 6.17% vs. 2008: 5.79%). The good interest income can essentially be traced back to three causes: the environment of relatively high interest rates, the weaker forint exchange rate and the beneficial effect of the loan portfolio repricing carried out in 2008. Due to the marked fall in demand for loans, the gross consolidated loan portfolio fell by 2% (to HUF 6,907 billion), but deposits grew by 8% (to HUF 5,689 billion). The net profit for the period of these factors was a notable improvement in the Company's liquidity ratio (gross loans/deposits), which dropped to 121%. The Bank Group's total assets was HUF 9,755 billion, while its equity amounted to HUF 1,192 billion. Although the profitability ratios deteriorated to certain extent, they remain good even by international standards, with a consolidated return on assets (ROA) of 1.6% and a return on equity (ROE) of 13.4%. Operating costs were carefully controlled throughout the year, as a result of which the cost-to-income ratio came in at considerably below the 50% target figure (44.4%). The consolidated capital adequacy ratio calculated from IFRS data was 17.3%, and within this figure the extent of Tier-1 capital was 13.8%, which counts among the highest even by global standards.

The worldwide economic crisis, and the exchange rate shock that had a profound impact on numerous countries in which the Bank Group operates, led to a significant worsening in the quality of customer loan portfolios, as in 2009 the proportion of loans overdue by more than 90 days nearly doubled, reaching a level of 9.8% in December. A similar rise was seen in the allowance rate, which increased from 1.69% to 3.57%. Risk management operations not only focused on ensuring sufficient provision coverage (73.6% at the end of 2009) for the overdue loan portfolio, but also gave priority to assisting customers who are facing temporary payment difficulties. Accordingly, under the debtor protection programs retail portfolios were restructured in several countries. The extent of this restructuring was significant in Ukraine (38.5%), Romania (7.6%), Bulgaria (6.2%) and Hungary (4.4%). We believe that this kind of proactive approach creates an opportunity for most of our customers to weather the difficult times, and hopefully return to the original repayment terms once the crisis is over.

Within the Bank Group, core banking operations in Hungary performed superbly, generating a HUF 178.3 billion net profit for the period, which is 34% higher than in the base period. The negative impact of the considerable rise in the allowance for loan losses was compensated for by the high net interest income and strict cost controls. The loan

portfolio grew despite of the economic crisis (+1%), as the Bank did much to support the corporate sector in Hungary, disbursing loans totalling HUF 248 billion to SMEs and large companies in a period during which credit was in extremely short supply. Retail lending declined significantly in terms of both consumer loans and mortgage lending. At the same time, in line with the management's intentions, the share of loans denominated in forint within overall disbursements grew markedly.
On the savings side the Bank's performance was outstanding, as its deposit base grew by 8% an the retail bond sale program continued to be a success, with the volume of bonds rising by almost HUF 180 billion. OTP Fund Management, as market conditions became more favourable, increased its annual net profit for the period by 3% and grew its portfolio of managed assets by 35%, while also managing to improve its market positions. The Merkantil Group's negative result of HUF 1.8 billion was primarily due to the rising allowance for loan losses and the deterioration in the market environment.

While the foreign subsidiary banks' overall contribution to the Group's profit was negative in 2009, DSK Bank continued to perform superlatively, achieving net profit for the period of almost HUF 25 billion, while its efficiency ratio was also excellent (cost-to-income ratio: 36.1%). In Russia, mainly because of an upswing in consumer lending, from the second half of the year the bottom line and interest margin of our subsidiary improved dynamically. The Croatian subsidiary also achieved a stable net profit for the period of HUF 3.2 billion. Among the foreign subsidiaries, after Bulgaria, the rate of decline in profit was at its lowest here (–36%). The Romanian subsidiary, on the other hand, almost quintupled its profit and expanded the volume of deposits by a third. Given the fall of Ukraine's economy in 2009, the Ukrainian subsidiary's substantial loss of HUF 44 billion came as no surprise in view of the 259% increase in the allowance for loan losses. In the last quarter of 2009, however, the pace of deterioration in the loan portfolio slowed down, and the 74% coverage rate for overdue loans is safe at well above the market average. The Slovak subsidiary's HUF 6.4 billion loss is attributable partly to the rise in allowance for loan losses, and partly to a deliberate improvement in the coverage rate. In Serbia an exceptionally conservative program of portfolio valuation and portfolio cleaning resulted in a significant loss of HUF 9.0 billion. The Montenegrin subsidiary closed the year with a modest profit of HUF 0.4 billion.
For a long time the market was far from appreciative of our efforts to ensure stable operation, and the share price dropped to miserable levels in 2009. However, since April 2009 investor sentiment towards Hungary and the region underwent a significant change, an important factor in this was the tough stabilisation measures imposed by the Hungarian government, as well as the successful fulfilment of commitments made to the IMF. The expectations of analysts, initially unusually mistrustful and for a sustained period regarding the annual profit target as being unrealistic, also shifted in a positive direction. As a result of this, OTP shares clearly outperformed all of its competitors in the region, and the share price rose from its eight-year level of HUF 1,232 in March to HUF 5,456 at the end of 2009. Especially notable is the fact that even during the toughest period, domestic private investors continued to have faith in OTP shares, and their weight within the ownership structure rose to a top of 16.1% by the end of March 2009. I sincerely hope that they too have profited greatly from the increase in the share price.

For a good while the Bank's credit rating followed Hungary's sovereign debt rating. In spring 2009, both Moody's and S&P downgraded Hungary, to "Baa1" and "BBB-" respectively, a move that was automatically followed by a downgrading of the Bank. In September however, citing negative trends in the region, S&P lowered the Bank's rating by another level (to "BB+"). In the light of the Bank's performance in 2009, and as a result of the successful stabilisation measures introduced in Hungary, in 2010 we expect to see a further improvement in the rating, or at least a positive change to the outlook assigned by the rating agencies. In line with our expectations on 19 March 2010 Standard & Poor's changed the Bank's outlook for stable leaving the "BB+" rating unchanged.

The Bank Group's liquidity reserves grew steadily over the year, and exceeded EUR 6 billion at the end of December. This ensures stable coverage for the Bank to repay all its foreign-currency liabilities due until 2016. To the charge of our liquidity, in the course of the year we bought back approximately EUR 157 million in own liabilities (supplementary

capital) and made early repayment in two instalments (in November 2009 and March 2010) of the EUR 1.4 billion loan received from the State in March 2009. Taking advantage of the gradual improvement in market conditions, in December 2009 the Bank successfully arranged a EUR 220 million syndicated loan that was heavily oversubscribed, February 2010 saw OTP's first Swiss franc bond issue, in the amount of CHF 100 million, and in March 2010 OTP Mortgage Bank issued covered bonds in the amount of EUR 300 million and almost one-third of the amount was subscribed by investors out of the Group.

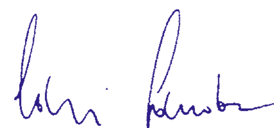
Notwithstanding the crisis, in 2009 projects aimed at improving the level of service, both in Hungary and abroad, continued to play an important role in the Bank's operations. Since the focus of attention was primarily on encouraging saving and continuously acquiring new deposits, numerous deposit-collecting initiatives were launched at group level. Besides these, under the "Lending and Selling to Companies" (HÉV) project, the Bank raised the efficiency of its sales operations and rationalised the costly lending processes, while we expanded the portfolio of products for micro and small enterprises. Under our debtor protection programs, we offered those of our customers who were facing temporary payment difficulties a range of sophisticated solutions to cover every life circumstance.

We again received a significant recognition of our professional work. For the 12th time, Global Finance chose OTP as the best bank in Hungary, and we earned the title of Bank of the Year from financial journals The Banker and Euromoney, and from MasterCard. Besides this, Euromoney named OTP Bank as the Hungarian financial institution offering the best private banking service, while MasterCard judged OTP to be the "Bank best managing the crisis". We accord a special importance to all of these titles, as they affirm us in our conviction that our Bank has good reason to celebrate its 60th anniversary, even in these trying times.

While we conduct ourselves with the utmost responsibility towards our shareholders, this year management has once again decided not to recommend paying dividends. In our opinion, amidst the extraordinary challenges of the past two years, the Company successfully fulfilled its main undertakings. However, the crisis has not yet passed, and managing the overdue loan portfolios could demand a great deal of energy, and indeed capital. For this reason, and due to the likely tightening of national and international legislation, it will be equally important to maintain a stable capital position. Our decision, therefore, was necessary to ensure future sustainable growth, and I am hopeful that the higher share value will make up for the lack of dividend. Then, once normal business operations are restored, the opportunity will arise to reinstate our previous shareholder remuneration policy.

Despite the difficulties of the past two years and the temporary losses of a few of our subsidiaries, I have to stress that OTP Bank continues to have faith in the Central and Eastern European region, and its growth potential. Although the post-crisis period is certain to be followed by more subdued economic growth and lending activity, the region has qualities that OTP Bank is ideally positioned to leverage, relying on its stable capital strength and liquidity and drawing on the experience of its own management team and those of its subsidiaries, the dedication of its staff and the trust of its customers.

Finally, I can state with conviction that it isn't a lack of problems that makes a good bank, but its ability to learn from them and overcome them, thus becoming even more successful in the process. As in past years, we intend to continue in this spirit during the period to come.



Dr. Sándor Csányi
Chairman & CEO

Macroeconomic and financial environment in 2009

MACROECONOMIC AND FINANCIAL TRENDS IN HUNGARY

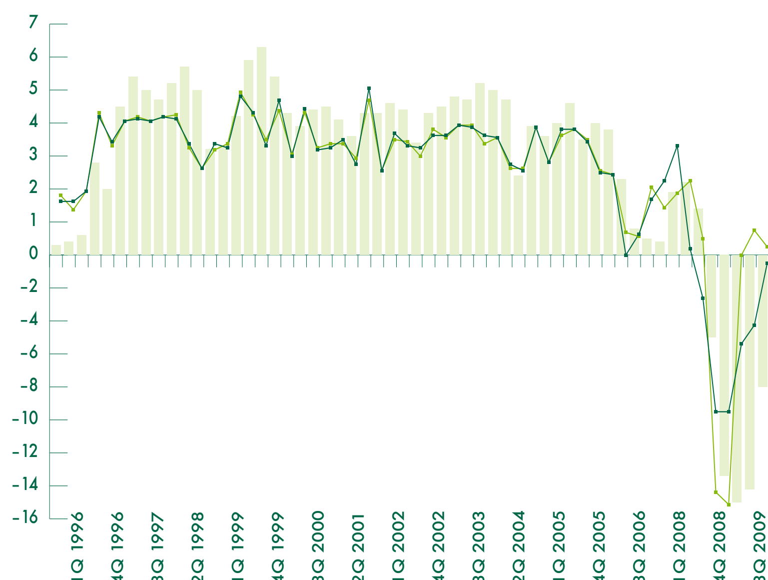
In 2009 the Central and Eastern European region faced some tough economic challenges. The financing crisis caused a considerable narrowing of both foreign direct investment and export opportunities, with the result that all the countries in the region – with the exception of Poland – suffered a substantial fall in GDP. Owing to the discernable improvement in the external environment in the second half of the year, the performance of the region's economies also picked up, and the pressure that had been exerted on their financial assets at the beginning of 2009 gradually let up over the course of the year.

In comparison with the other countries in the region, Hungary was in an especially difficult situation. Due to the flawed fiscal policy of previous years, there was no opportunity to pursue an anti-cyclical economic policy, and because of the high volume of foreign-currency loans monetary policy also had to be cautious with regard to any lifting of the strict conditions imposed after the 300-basis-point base-rate rise of October 2008. As a result of this, the Hungarian economy shrank by 6.3% last year, making it one of the worst performers in the region. (Only Romania displayed a greater fall, of 7.1%). In terms of output, the added value of all sectors declined relative to 2008 (the slump in industry was particularly substantial), while on the input side household consumption fell by 6.7%, and the volume of investments decreased by 6.5%. At the same time, the fact that domestic demand fell by more than external demand led to a foreign-trade surplus of unprecedented size.

According to our estimates, last year's government deficit could be 3.9%. In response to the increasingly bleak economic outlook the

Changes in real GDP

Annual growth of GDP
— Quarterly growth of GDP – annualized (HCSO)
— Quarterly growth of GDP – annualized (OTP)



budget was amended on no less than three occasions. Among these amendments, the package of austerity measures associated with Prime Minister Gordon Bajnai contains elements that will also alleviate the budget's burdens in the long term (abolition of "13 month's" wage and pension, change to pension indexing system, tightening of social benefits). In addition to this, the deficit target was met as the result of the good performance of the last months of the year, and presumably also due to the fact that certain revenue items were fulfilled in a high amount to the 2010 income account, while the majority of operative expenditures were deferred.

The income positions of both the corporate and household sectors developed exceptionally unfavourably. Companies reacted to the disappearance of demand for their products by slashing output, which led to a fall in employment and considerably dampened the rate of wage growth. The labour market's efforts to adapt to the circumstances further reduced domestic demand. Employment in the private sector fell by 250,000 persons in comparison to summer 2007, a tendency that was only slightly softened by the government's "Path to Work" program. The unemployment rate rose to above 10.5%, while the rate of growth in gross wages in the national economy slowed to 0.8%, from the 2008 figure of 7.0%. The disposable income of households shrank by 1.2%.

At the beginning of the year it still seemed that the negative business-activity outlook and pressure from the labour market would help to push inflation below the central bank's target, but the revenue-side measures of the budgetary adjustment package (VAT and excise tax hike in July) broke the downward trend in the consumer price index. At the end of the year the high fuel prices and the weak forint caused an additional rise in inflation, and thus in December the 12-month price index jumped to 5.6% (the annual average was 4.2%.)

After the rate cuts made – in error, as it later transpired – at the beginning of the year, the central bank adopted an exceptionally cautious stance, so that even when optimistic sentiment took hold in the market we still had to wait several months, right up until June, for an easing cycle to begin. Following this, however, the base rate was reduced in a series of predictable steps, to 6.25%, by the end of 2009. In the meantime, the prices of Hungarian instruments, which were regarded favourably due to the low budget deficit, rose almost continuously: the forint strengthened and bond yields fell.

Banking activity was highly subdued in 2009; the volume of households' loans effectively remained unchanged, while the corporate sector was unequivocally a net repayer of credit. In the first half of the year, in what was an extremely tough financing environment, the banks drastically cut their credit supply, while as time passed the weakness of the demand side became increasingly pronounced: households' expectations with regard to earnings deteriorated constantly, making them less and less willing to take on debt. In contrast to this, as a result of the banks' aggressive deposit-collecting campaigns and a growing awareness of the need for "precautionary saving", retail-sector savings grew by a substantial measure. This, combined with the zero net loan placements,

caused an improvement in the household sector's net financing capacity; and since the corporate sector's net financing capacity also improved, and the general government borrowing requirement declined, for the first time in many, many years the country's aggregate net financing position turned positive.

In the banking markets, the most important development of the past year was a shift in focus back to forint-based loans, while in the area of foreign-currency lending the euro has ousted the Swiss franc as the dominant currency.

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

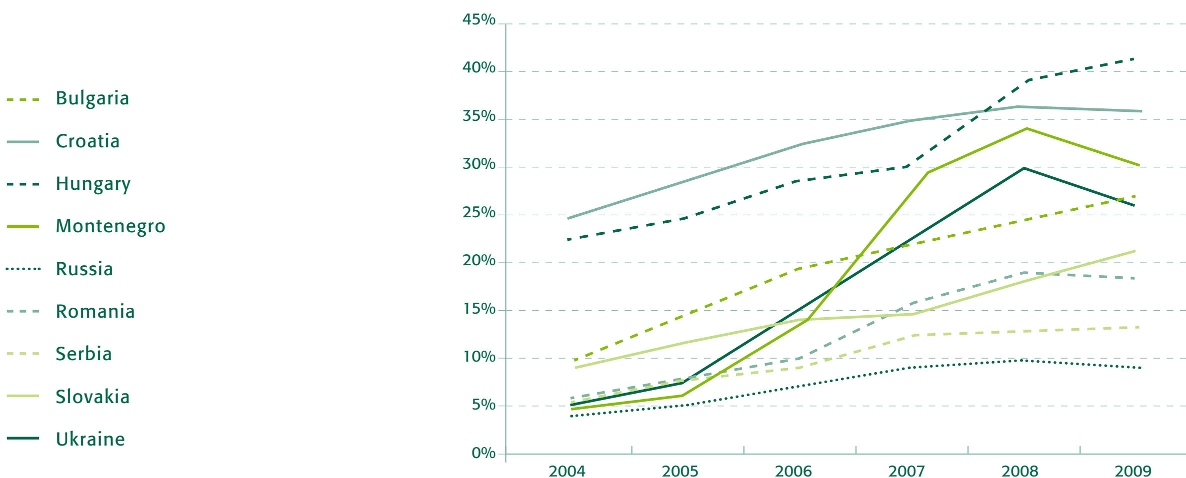
The current global banking crisis has placed the region in a difficult situation, because in past years growth was driven by exports to Western Europe and the related investments, which were financed through large-scale injections of foreign capital (FDI and foreign loans arriving through the banking system). The rise in productivity was accompanied by rapid growth in wages, and, confident that this trend would continue into the future, households brought forward

their purchase and home-related investments, which led to a rapid rise in indebtedness. Another important consequence of the rapid growth in productivity was the appreciation, in real terms, of the region's currencies.

The dwindling financing sources and the slump in external demand precipitated a sharp correction to the current account balance, which left its mark on domestic demand. Among the countries in which OTP Bank has subsidiaries, due to their fixed exchange rates Slovakia, Bulgaria and Montenegro were unable to even take advantage of the gains in competitiveness arising from the currency depreciation. On the other hand, they were able to profit from the stability surplus resulting from their euro-pegged exchange rates. In Ukraine, however, the steep fall in the exchange rate caused problems for the banking system, as the hrivnia weakened from its pre-crisis level of USD 4.5 to USD 8. In the case of foreign currency loans this led to a substantial rise in NPL rates, and despite a recession in excess of 10%, inflation came in at well above 10%.

Owing to the fact that net borrowing everywhere was close to zero, the retail loan penetration figures that had risen unabated until 2008 flattened out or fell last year, although significant rises were observed in Hungary, Bulgaria and Slovakia. However, while in Hungary's case the rise in penetration was caused by the revaluation of the mainly foreign currency-denominated portfolio, Bulgaria and Slovakia showed a positive credit flow, thanks to the stability of their euro-pegged monetary systems.

Bank sector retail loans as a percentage of GDP



The exceptionally unfavourable external environment and the sharp current account balance corrections resulting from the stalling of earlier engines of growth precipitated a slump in GDP in every country with an OTP subsidiary. Ukraine experienced the greatest (–15.2%) and Montenegro the smallest (–2.9%) fall in gross domestic product.