


# 2008
## Annual Report

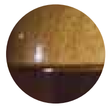
   

# 2008
# annual report

otpbank

# Contents

# Message from the Chairman and Chief Executive Officer



## DEAR SHAREHOLDERS,

*As Hungary's leading bank and one of the region's most important financial institutions, every year OTP is faced with a greater set of challenges. Looking back on the previous year, 2008 was in all respects the most difficult year in the Company's history, though certainly not in terms of the competition or holding our market positions.*

### Priorites adapted to changing environment

In 2007 the signs of a worldwide slowdown in economic growth had already begun to appear, but in 2008 the full scale of the crisis emerged, and the recession took on global proportions. It would be hard to list all the negative events that have occurred – the disappearance of venerable, centuries-old financial institutions, record losses, financial scams and mass redundancies – but the psychological tipping point was undoubtedly reached with the bankruptcy of Lehman Brothers in September, which led not only to a sharp fall in the price of bank shares and the immediate drying up of liquidity, but more importantly to a crisis of confidence at systemic level. All players in the bank sector suffered as a result of these factors. Investors suddenly turned away from the eastern-European region, which had formerly been regarded as safe, displaying dynamic growth and representing an attractive target for capital investment; and the currencies of these countries, dogged by weak external balance indicators and structural deficiencies, depreciated considerably in value. The last quarter of 2008 was characterised by a tangible drop in lending activity, temporary deposit withdrawals, and deteriorations in the quality of loan portfolios.

Amid such a substantial worsening of its operating environment, the management regards the OTP Group's performance in 2008 as an outstanding success: although the HUF 219 billion profit after tax was slightly below the original target, it exceeded market expectations. The 5.2% growth in net profits is an excellent result in light of the problems of the second half of the year, and the sharp rise in the foreign subsidiaries' contribution to the result also warrants a mention.

In response to the change in market circumstances the Group has had to rethink its priorities: first and foremost management has focused on ensuring the stable capital position and liquidity needed for safe operation, and on adhering to a prudent provisioning policy. Although the quality of the consolidated loan portfolio deteriorated tangibly, the 5.4% ratio of problematic loans is manageable under the new, stricter risk-management procedures, while the almost 60% coverage rate represents a satisfactory guarantee of security for the future.

The year 2008 was also a milestone in the Company's operation in the sense that, following the acquisitions of recent years, this was the first year in which a subsidiary was sold: in February an agreement was made between OTP Bank and the French Groupama, regarding the sale, to the latter, of 100% of the shares in Garancia Insurance. This well-timed deal, following the deduction of taxes and costs from the HUF 164 billion original purchase price, boosted the Group's profit and strengthened its capital position with a one-off revenue item of HUF 121.4 billion. As a part of the transaction, OTP Bank and Groupama concluded a long-term cooperation agreement with each other regarding the cross-selling of financial and insurance products. In the addition to this, Groupama appeared as a strategic owner among the shareholders of the Bank with its significant 8% share.

Aware of the importance of maintaining stable liquidity, the Bank used a diverse range of channels to procure funds. In the first half of 2008 two major international bond transactions were concluded by OTP Mortgage Bank and OTP Bank, in a value of EUR 1 billion and EUR 500 million respectively, while Bulgaria's DSK received a EUR 160 million syndicated loan. Following the drying up of the international capital markets, fundraising efforts began to focus on the targeted use of domestic savings, through the holding of major campaigns promoting deposit products, and retail bond issues. As a result, the Bank reliably met its liabilities as they fell due, and it continues to have a liquidity reserve sufficient to ensure its security, even with regard to the future.

## Stable capital position, outstanding profitablity and efficiency

Not any new acquisitions were made in 2008. However, consolidation of the Rostov-based DNB took place in May, while in Ukraine and Russia the expansion of the branch network continued, and to all intents and purposes the image change was completed at all the subsidiaries. The Subsidiary Integration and Management Committee, which was set up in 2007, as well as the Management Committee, effectively ensured the Group's ability to adapt and respond to the rapidly changing market conditions, through strengthening of the strategic management and controlling functions.

With regard to the Bank Group's performance last year, the consolidated net profit was a record of HUF 303.5 billion (+45.5%), to which the one-off profit items from the sale of Garancia Insurance made a substantial contribution. At the same time the management also decided to recognise significant goodwill impairment for the Ukrainian and Serbian subsidiaries, which lowered the result by HUF 92.6 billion. Adjusted for these two large one-off items, and for the HUF 4.7 billion non–realized loss incurred on strategic open positions, the OTP Group's profit after tax was HUF 219 billion, which was in line with the management's original expectations.

In 2008 the consolidated balance sheet total rose by 11.6%, to HUF 9,442 billion, while the gross loan portfolio grew at the considerably higher rate of 21.5% (to HUF 7,001 billion), in contrast to the 3.6% increase in deposits. At year-end the Bank's equity exceeded HUF 1,048 billion. By international standards the profitability and efficiency indicators continue to be outstanding: based on the HUF 219 billion profit after tax wich is adjusted with one–off items and reflect, the real business performance, the consolidated rate of return on assets was 2.4%, while the return on equity was 22.5%. As a result of the strict cost management policy, the cost-to-income ratio dropped below 50% (49.6%), which represents a 3% improvement year on year. The OTP Group's consolidated capital adequacy ratio, calculated from IFRS data, is 15.3%, and the share of tier-1 capital was 11.2%, which is well above the European average and significantly exceeds similar indicators at OTP's most important competitors.

Due to the more rapid increase in Bank penetration in the neighbouring countries on the one hand and to the fiscal adjustment measures in Hungary on the other hand, the foreign subsidiaries contribution to group-level results continued to grow in 2008, as 49.3% (+5.5%) of the consolidated loan portfolio, and 31% (+6%) of the profit after tax was generated by the foreign subsidiaries. Last year was the first in which all the foreign subsidiary banks turned profit.

The deterioration in the lending environment led to a significant increase in the Bank's funding costs, but the re-pricing of asset portfolios in several countries – notably Bulgaria and Ukraine – and the deliberate reduction in the Hungarian corporate loan portfolio, which has a lower margin, meant that the net interest margin remained stable.

As the most important player in the Hungarian banking system, OTP Bank's credit rating corresponds to Hungary's rating for sovereign debt. In the course of 2008, due to the worsening macroeconomic environment both Moody's and Standard & Poor's downgraded Hungary, with the result that OTP's credit rating also deteriorated. Moody's current rating for OTP is A3, while at S&P the Bank has a BBB rating, in both cases with a negative outlook.

Within the Bank Group, the profit after tax of core domestic banking operations (OTP Bank, OTP Mortgage Bank, OTP Building Society and OTP Faktoring), falling slightly short of the original target figure as a result of precauntious provisioning well over the plan, amounted to HUF 132.8* billion. Over the year the loan portfolio expanded by 8.8%, while retail loans grew by 25.6%. In the areas that are critical in terms of profitability (consumer loans, home loans), a number of measures aimed at improving the standard of service ensured that the Bank's market positions remained as strong as ever. On the savings side, retail deposit collection activities were complemented by a successful bond sale. OTP Fund Management's performance was negatively impacted by the global money and capital-market crisis, with both the profits and the asset-volumes of the managed funds showing a decline in comparison to 2007.

## Record profit despite of difficulties, increasing profit contribution of the subsidiaries

The Merkantil Group's profit also fell as a result of the worsening market environment; stricter lending conditions were imposed, but loan quality remained stable.
Among the foreign subsidiaries, it was once again DSK Bank that performed the most impressively, with a profit after tax of over HUF 30 billion, representing a rise of almost 17.47%. The bank continues to boast excellent profitability and efficiency indicators (ROE: 20.7%, cost-to-income: 36.7%). The second-largest contribution to profit was made by the Ukrainian subsidiary: the profit after tax of over HUF 16 billion (+16.5%) is particularly noteworthy in light of the simultaneous, substantial increase in provisioning. Despite a reduction in lending activity, the Russian subsidiary increased its profit by 26%, and its interest margins of almost 13% continue to be the highest in the Group. The greatest net profit increases were achieved by the Montenegrin and Croatian subsidiaries (+31.2% and +41.8% respectively), while the steepest rises in lending were recorded at the Romanian and Serbian operations. With Slovakia's adoption of the euro on 1 January 2009, OTP Banka Slovensko is now the first member of the Group in the eurozone; its profit before tax result was on target, and the switchover to euro-based operations went without a hitch.

The negative sentiment towards financial institutions, the region and Hungary, coupled with an increase aversion to risk, placed OTP's share price under a great deal of pressure, and following a 67.3% drop in value, shares in the Company were changing hands for HUF 2,875 at the close of the year. It comes as little consolation that all bank stocks have suffered similar, and some even greater corrections, especially as OTP's fundamentals continue to be good and its indicators are excellent. Nowadays, the valuation of the share is determined by expressly pessimistic expectations. The only positive development resulting from this marked undervaluing of the Bank's shares was that domestic private investors – most of them the Bank's customers – as a sign of their confidence in us, more than doubled their combined share in OTP Bank.

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

For the time being it is difficult to predict when the current crisis will end, and what further consequences it will have. At the same time, there are increasing signs that politicians and national governments have recognised that the only solution to the problem is wide-reaching cooperation, cross-border assistance and coordinated action.

In December 2008 the Hungarian Parliament passed an act aimed at assisting in the stabilisation of the financial sector; however, the specifics of how it will be implemented have yet to emerge, but it is obvious in the current situation that capital markets can be reached only with a strong state quarentee. As befits an institution of its size, OTP Bank remains committed to fulfilling an active role in domestic retail, corporate and municipal lending and, if supplementary funding available, helping to restore the Hungarian economy to a path of growth as soon as possible.

Irrespectively of the crisis, in 2008 a central role was assigned to domestic and foreign projects aimed at ensuring that our customers receive the most innovative products and flexible financing facilities. In Hungary, as a part of the JEGY project, the time needed for the disbursal of mortgage loans was significantly reduced, and as part of an initiative to promote long-term saving we now offer wealth-planning services in more than half of our branches, and have rationalised the sales and rating processes for medium-sized and large corporate customers. In the markets of our foreign subsidiaries, we have mainly shifted the emphasis towards broadening the range of products and of sales channels.

## Commitment to the CEE region and our customers

The high standard of our professional work, and the innovative approach of our employees, once again earned us several international accolades: Global Finance and Euromoney again selected OTP as the ‘Best Bank in Hungary’, while OTP was also awarded the title of 'Best Private Bank' for the first time.

The Ukrainian subsidiary was named by S&P as the 'Most Transparent Bank', while the local media named it the 'Most Professional Bank' and the 'Bank Providing the Best Service'. For several consecutive years DSK Bank has been awarded the title of 'Best Bank in Bulgaria' by Finance Central Europe, and its CEO was named 'Banker of the Year' in 2008.

As the financial and economic crisis deepens, we are doing all we can to help our customers surmount the temporary problems that they face, for example by restructuring existing loans (lengthening of term, optimisation of instalments), or by easing the conditions for making prepayments or changing the currencies of loans. We believe that we can only overcome the current crisis together, through mutual cooperation.

It is also important to emphasise that despite the transitory difficulties, OTP Bank remains committed to the Eastern and Central European region, and to supporting the operations of its subsidiaries. The region continues to have great potential for economic growth, and a high level of demand for banking services. Naturally, in the present situation the number one priority is to ensure safe operation, prudent risk management and a stable capital position.

The year 2009 marks the 60th anniversary of OTP Bank! The auspiciousness of this occasion, the successes and results we have achieved to date, and above all the trust placed in us by our customers and shareholders oblige us – even in the current difficult period – to stand by our primary objective of building a stable and reliable financial group. Our priorities may have changed, but we continue to regard our most important task as being to create shareholder value.

**Dr. Sándor Csányi**
Chairman and Chief Executive Officer

## *Financial highlights (IFRS, consolidated)*

| Profit and Loss Account (in HUF million)* | 2007**** | 2008 | Change |
|---|---|---|---|
| Net interest income (adjusted) | 438,436 | 515,900 | 17.7% |
| Non-interest income | 190,806 | 216,638 | 13.5% |
| Total income | 629,242 | 732,538 | 16.4% |
| Provision for possible loan losses (adjusted) | 42,085 | 108,043 | 156.7% |
| Other provision | 7,397 | 10,538 | 42.5% |
| Operating expenses | 331,089 | 363,664 | 9.8% |
| Profit before tax (adjusted) | 248,671 | 250,293 | 0.7% |
| Profit after tax (adjusted) | 208,147 | 218,691 | 5.1% |

| Balance Sheet** (in HUF billion) | 2007 | 2008 | Change |
|---|---|---|---|
| Total assets | 8,461.9 | 9,379.4 | 10.8% |
| Loans and advances to customers (gross) | 5,761.1 | 6,996.6 | 21.4% |
| Allowances for possible loan losses | (178,7) | (270,7) | 51.5% |
| Interbank loans advances | 654.8 | 593.5 | (9.4%) |
| Deposits from customers | 5,038.4 | 5,219.2 | 3.6% |
| Interbank deposits | 798.2 | 842.9 | 5.6% |
| Issued securities | 985.3 | 1,526.6 | 54.9% |
| Total receivables | 5,761.1 | 7,000.8 | 21.5% |
| Performing loans | 4,984.0 | 5,971.8 | 19.8% |
| Qualified loans | 777.1 | 1,029.0 | 32.4% |
| Non-Performing loans (NPLs) | 243.7 | 379.2 | 55.6% |
| Allowances for possible loan losses | 178.7 | 270.7 | 51.5% |
| Shareholders' equity | 895.6 | 1,049.0 | 17.1% |

| Performance Indicators | 2007**** | 2008 | Change |
|---|---|---|---|
| Cost/income ratio % (C/I) | 52.6% | 49.6% | (3.0%) |
| Return on average equity (ROAE) % | 24.8% | 22.5% | (2.3%) |
| Return on average assets (ROAA) % | 2.68% | 2.45% | (0.2%) |
| Capital adequacy ratio (unconsolidated, HAR) % | 11.0% | 12.0% | 1.0% |
| Undiluted EPS (HUF) | 796 | 938 | 142 |
| Diluted EPS (HUF) | 794 | 935 | 141 |

| Market share *** | 2007 | 2008 |
|---|---|---|
| Households' deposits, % | 31.3% | 30.4% |
| Households' loans, % | 31.1% | 29.6% |
| Corporate deposits, % | 11.9% | 13.2% |
| Corporate loans, % | 9.9% | 7.5% |
| Municipal deposits, % | 53.1% | 41.0% |
| Municipal loans, % | 55.0% | 48.1% |

* Figures presented in the statements could vary from the audited data because they were originated according to controlling methodology. The explanation of adjustments is included in the notes of the Management's analysis. (on pages 50 to 51)

** as at 31 December

*** as at 31 December, market share of the Hungarian members of OTP Group

**** Figures of the previous years could differ from figures presented in the Annual Report 2007, because the base period was also recalculated according to adjustments.

# Macroeconomic and financial environment in 2008

## MACROECONOMIC AND FINANCIAL TRENDS IN HUNGARY

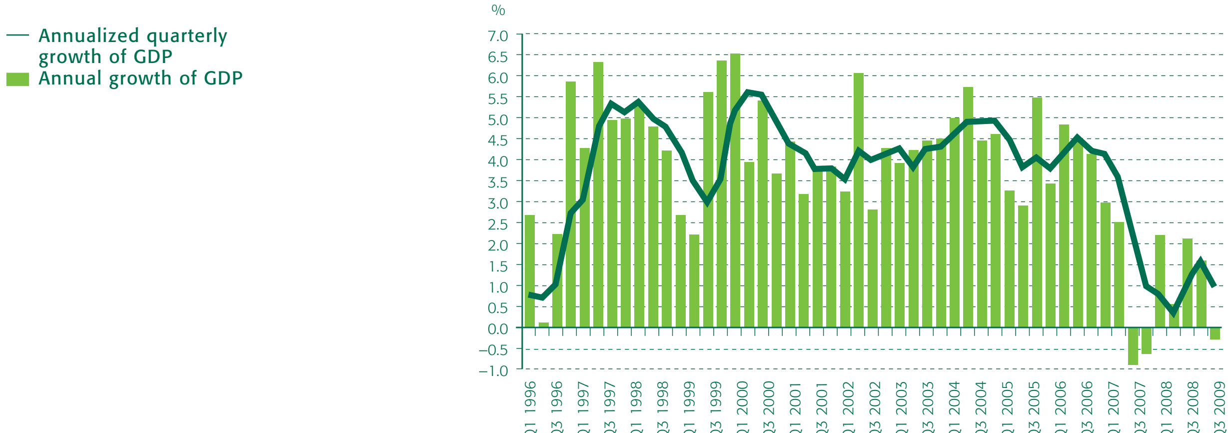
Hungary's economic performance in 2008 was characterised by continued budgetary stabilisation, a slowing inflation rate and as a consequence of global financial crisis in the last quarter of the year, a decline in export demand and a sharp drop in the availability of external funding sources for the bank system. While previous forecasts pertaining to the economies of the developed countries had predicted a slowing of economic growth accompanied by high levels of inflation, over the past few months the market has priced in a steep recession in all the mature economies, while risk premiums in the region have risen dramatically.

Owing to the recessions in Hungary's main foreign markets, the country's export performance has deteriorated substantially, and this has also had a negative impact on the domestic industrial sector.

Another unfavourable development from Hungary's perspective is that our largest export market, Germany – in a comparison with the other mature economies – suffered one of the greatest slumps in GDP during the fourth quarter.

Meanwhile, the indicators of domestic demand do not paint a better picture. The construction-industry output related to investments by companies in the private sector fell back to its 2001 level, although this was offset by an intensification of state investment activity during the year. The clock was also turned back two-and-a-half years with regard to the volume of domestic industrial sales, while retail turnover has been declining steadily since the government launched its package of budgetary stabilisation measures in 2006. Consequently, following the 1.1% GDP growth of 2007, in 2008 Hungary's gross domestic product expanded by only 0.5%.

***Changes in real GDP***



According to our estimate, based on actual data, the public finance deficit amounted to 3.2% at the close of last year. An even smaller deficit of less than 3% could have been achieved if the government had not decided in December to release unutilised reserves, and if the cabinet had not allocated all the revenues from the privatisation of the state railway's freight division, MÁV Cargo, in a manner that served to increase the deficit. Due to the economic slowdown, the effects of which were already being felt at the end of last year, the revenues from VAT, corporate income tax and social insurance contributions all fell short of their annual targets. Only personal income tax receipts were higher than target, which was largely down to the progressive income tax scale, as in the case of high salary increases (7.5% year-on-year for 2008) automatically raises budgetary revenues.

The income positions of both the corporate and household sectors developed exceptionally unfavourably. In the recession companies are trying to reduce their costs partly through by reining in salaries, and partly through layoffs. For the time being this process is particularly striking in the manufacturing industry, where the level of employment has fallen by 20,000 persons over a six-month period. With the freezing of lending channels the disposable incomes of households have also fallen back considerably, and thus the volume of trade in consumer goods that are largely financed through loans (e.g. cars) has also dropped substantially. The development of fourth-quarterly corporate income tax revenues and the corporate sector's financing positions – negative net borrowing and deposits – suggest that the trend in corporate incomes has also been particularly unfavourable. In the Hungarian economy as a whole, the annual average unemployment rate rose to 7.9%. Following the stabilisation measures introduced in 2007, net real earnings also grew by a further 0.7%.

The unfavourable inflation trend of the end of 2007 continued into the first half of the year; however, the falls in the prices of foodstuffs and raw materials had the same substantial inflation-reducing effect as in the other countries of the world: in the second half of 2008 the rate of inflation in Hungary dropped from 7.0% to 3.4%. As a result of these processes, the annual average inflation rate was 6.1%.

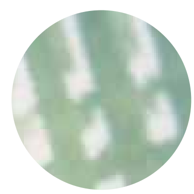
The base rate remained notably calm up to the end of the year, and was raised in three steps, from 7.5% to 8.5%. In response to the fallout from the collapse of Lehman Brothers, on 22 October, at an extraordinary meeting convened to prevent a further weakening of the forint, the National Bank of Hungary raised its benchmark interest rate by 300 basis points, to 11.5%. However, it subsequently embarked on an aggressive cycle of monetary loosening while communicating the need for a weaker exchange rate to soften the impact of the recession.

Following abolition of the exchange-rate intervention band on 25 February, the Hungarian currency gained strength in the first half of the year, but began to weaken in August. Following the bankruptcy of Lehman Brothers in September the forint depreciated considerably as investors judged it too risky and offloaded their forint-denominated investments. This was the first time that households were really confronted with the main drawback of foreign-currency loans: currency risk.

As a consequence of the weakening forint, loan instalments rose, but in 2008 the impacts of this were still limited.

Yields declined up until the end of the year, due to the freeze on new bond issues, as well as the bond purchases made by the national bank and fund managers, and the national bank's interest-rate reductions. However, the suspension of bond issues is unsustainable in the medium-term, since upon expiry of the recent International Monetary Fund (IMF) assistance package the Hungarian state will have to finance its maturing debt and the public finance deficit from its own resources. At the end of the year, as a result of the deterioration in the global economic environment, and in response to the news that the State Debt Management Centre plans to start issuing bonds again, yields shot up.

In the first three quarters the banking markets performed well, as lending continued apace. Just as in 2007, the main growth was seen in foreign currency-based and mortgage loans. However, in the fourth quarter CDS premiums rose by a considerable extent in the wake of the Lehman bankruptcy, as did the forward premiums calculated from swaps. Funds on the interbank markets were available only at extremely high cost – if at all – as the shortage of liquidity led to a fall in lending supply. The share of euro-based loans within new placements rose sharply, while the proportion of Swiss-franc based new loans dropped back. Although the total volume of forint loans declined over the year as a whole, in the final quarter seasonally adjusted net borrowing amounted to a positive figure in the case of forint-based placements too.



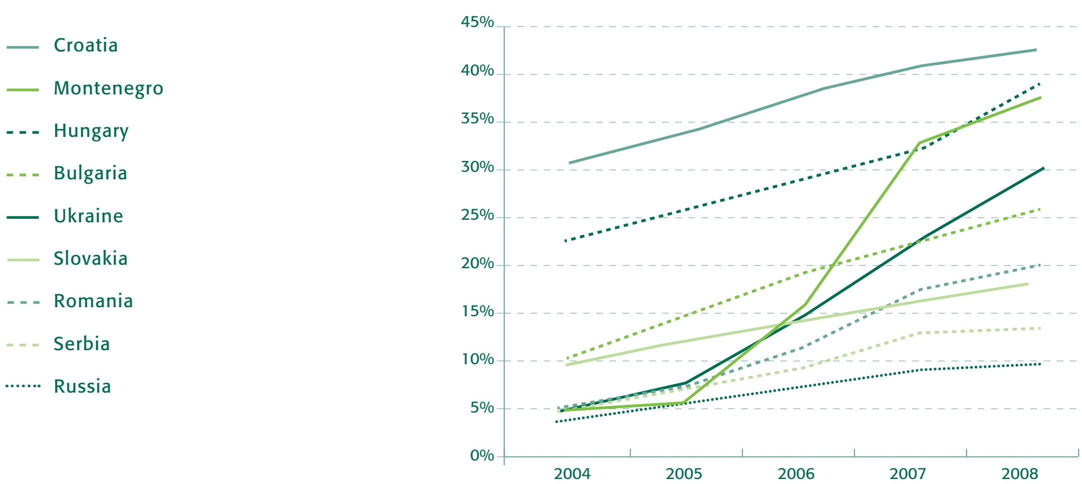
## Macroeconomic and financial trends in the countries of OTP Bank's foreign subsidiaries

The current global banking crisis has placed the whole region in a difficult situation, because in past 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 (although the rate of household debt to GDP still remains barely half of the average for western Europe). Another important consequence of the rapid growth in productivity was the appreciation, in real terms, of the region's currencies.

In the course of the first three quarters the countries of OTP's foreign subsidiaries also witnessed intensive lending, with the result that the retail loan penetration in most of these countries rose by around 12-15%. In Serbia and Croatia the ratio of retail loans to GDP grew by 4%, and in Russia by 8%, while in Ukraine the increase was 32%.

However, in the final quarter investors began to worry that the recession in the European Union states would stymie demand for exports from the region, which even in itself would act as a brake on the region's growth. These fears appear to have been justified: industrial output in the countries of the region fell sharply in the last quarter. The situation is exacerbated by the fact that, due to the stalling of the world's financial intermediation system, the main owners of the region's banking sector, the western-European banks, are themselves struggling with financing problems.

### *Bank sector retail loans as a percentage of GDP*




Due to the dwindling of external financing sources, in the last quarter the current account deficit began to shrink rapidly, accompanied by a reduction, or a slowing of growth, in those components of domestic demand that are partially reliant on foreign financing sources (consumption, investment).

As a result of the economic growth of the first three quarters, in 2008 the annual rate of GDP growth in real terms was around 5-7% in most of the countries where OTP has foreign subsidiaries.

# Business Reports

otpbank

# Activities and business results of the Bank Group in 2008

For OTP Bank Plc., 2008 was the most difficult year in its 60-year history. However, even in the midst of the deepening financial crisis and a recession that has taken on global proportions, it achieved profit growth that was almost in line with the original targets and exceeded analysts' expectations, while maintained a stable capital and liquidity position in 2008, accompanied by a marked expansion in business activity.

In response to the unfavourable operating environment (the fall in the rate of economic growth, record losses at leading US and western-European banks, difficulties in procuring external funding, sharp declines in share prices, the weakening of exchange rates, overall crisis of confidence), the Bank Group has had to rethink its priorities, placing the emphasis on ensuring the stable capital position and liquidity needed for safe operation, and on adhering to a prudent provisioning policy.

The year 2008 was also a milestone in the Company's operation in the sense that, following the acquisitions of recent years, this was the first year in which a subsidiary was sold. Based on the agreement concluded on 11 February 2008, and after obtaining all of the necessary permissions from the authorities and supervisions, OTP Bank sold the 100% stake of OTP Garancia Insurance Ltd. and the minority stakes of the Bank's local subsidiaries in the Romanian, Slovakian and Bulgarian subsidiaries of OTP Garancia Insurance Ltd. to the French Groupama S.A. The Hungarian part of the Garancia-transaction was closed on 17 September 2008. OTP Garancia Insurance Ltd. realized HUF 13.4 billion net insurance premium as a Group member, and its contribution to the after-tax profit of the Group amounted to HUF 5.3 billion. (Together with the foreign insurance subsidiaries, the total contribution of the insurance business to the Group's after tax profit came out at HUF 4.0 billion in 2008.)

As a part of the transaction, OTP Bank and Groupama S.A. concluded long-term cooperation agreements regarding the cross-selling of each others' financial and insurance products. These agreements facilitate the sale of insurance and banking products through the counterparties' Hungarian, Slovakian, Romanian, Bulgarian, Ukrainian, Russian, Serbian, Montenegrin and Croatian branch network (exclusively in certain countries). As a part of this transaction the Groupama Group purchased an 8.00% package of shares in OTP Bank, for which purpose the Bank did not issue any new shares. The sale of the 100% stake in OTP Garancia Insurance boosted the Group's after-tax profit and strengthened its capital position with a one-off revenue item of HUF 117.3 billion. No new acquisitions were made in 2008, but from May the Rostov-based subsidiary Donskoy Narodny Bank was included in the circle of fully consolidated subsidiaries.

## Share price developments in 2008

The negative sentiment towards financial institutions, the region and Hungary, coupled with an increased aversion to risk, placed the share prices of all banks, including OTP's, under a great deal of pressure, and following a 67.3% drop in value the Bank's shares were changing hands for HUF 2,785 at the close of the year, despite the fact that OTP's fundamentals continue to be good and its indicators excellent. All bank stocks suffered similar or even greater corrections. The Bank's market value at the end of December 2008 was HUF 805 billion, or approximately EUR 3.0 billion, which represented 0.7 times the book value of the Bank Group's equity (P/BV), while the price-to-earnings ratio (P/E) was 3.7.

## Sales network, customer headcount and employee headcount at Bank Group level

As a result of the acquisitions carried out over the past years, the OTP Group now maintains a presence in nine countries across the region. Internationally, the number of customers served by the Bank Group as at 31 December 2008 exceeded 11.8 million. At the end of the year, the parent bank had a clientele numbering almost 4.8 million, of whom 4.6 million were retail banking customers. The total number of customers of the Bank Group's foreign subsidiaries continued to rise, approaching 7.1 million by the end of 2008. OTP's Ukrainian subsidiary, CJSC OTP Bank achieved a substantial – over 40% – increase in the number of its customers.

The Bank Group expanded its sales network substantially in 2008: by the end of the year nearly 1,600 branches (compared to 1,500 in 2007), almost 4,000 ATMs and nearly 48,000 POS terminals were in operation to ensure that customers were served as efficiently as possible. Besides these, the range of channels is also complemented by a call centre, mobile and internet banking services, business customer terminals and a network of sales agents.

In the regional network OTP Bank continues to operate the highest number of branches – 403 units – followed by DSK Bank with its network of 379 branches. The greatest expansion of the branch network was achieved by the Ukrainian subsidiary, which increased the number of its outlets by almost 45%, from 158 to 229, in the course of 2008. The number of units in the Russian network also rose considerably (+26 branches).

A highly qualified team of dedicated and sale-oriented customer service operatives is the key to ensuring a high standard of service, which is why OTP Bank treats as a priority the ongoing training of its staff, and the retention of talented professionals. On 31 December 2008, the OTP Group's employee headcount approached 31,000, of which 9,000 were employed by OTP Bank and its subsidiaries in Hungary, while approximately 22,000 worked at foreign group members. The headcount of OTP Bank exceeded 8,000 at the end of 2008.

## Key development projects of 2008

In compliance with the SEPA (Single European Payment Area) standard, on 27 January 2008 – concurrently with SEPA's pan-European live launch – OTP Bank also commenced the receipt and sending of SEPA items.

The SafeWatch system represents an indispensable means of complying with anti-money laundering regulations and screening out suspected terrorist organisations in the course of international payment transactions (SWIFT messages). The Bank has made the centralised system accessible to the Slovakian (OBS) and Croatian (OBH) subsidiaries, while stand-alone SafeWatch systems have been installed in Bulgaria (DSK) and Romania (OBR), where they went live in 2008.

The year 2008 also saw the introduction of the 'KANYAR' bond portfolio recording subledger system, for the liabilities-side recording of bonds issued by OTP. It manages bond events (issue, reissue, withdrawal, expiry), and sends data to the general ledger and reporting systems.

As a part of the IRIS project, within the corporate risk management system, support for credit controlling processes was implemented in respect of both the corporate and municipality banking segments. The Portfolio rating – data reporting (Port_Hos system) function went live. Numerous IT projects, supporting retail division product developments, were also implemented in 2008. The completed projects included: integration into the Prelak system of the low-instalment 'Forrás' loan, and the 'Világ' loan, which is bundled with repayment insurance; introduction of the option to set up direct debits from credit card accounts; establishment of the technical infrastructure for the launch of the 'Profit' structured deposit product; and modernisation of the technology used to produce securities account statements. The development of OTP Bank's bank card systems enabled the launch of multifunctional 'cafeteria' cards, which led to a more transparent and easier handling of fringe benefits by our corporate clients.

At companies in the Merkantil Group introduction of the enterprise resource management system (OLGA) continued, and adaptation of the system for the Ukrainian leasing subsidiary began. In order to increase the volume of cross-selling, the range of products managed in the OLGA system was expanded with the addition of OTP Garancia Insurance's Integrated 'CASCO' comprehensive vehicle insurance product.

Standardisation of the central address database in the Transactional Data Warehouse has been completed. The range of input data has been expanded, with the loading of data pertaining to ATMs, third-party card transactions and same-day changes to customer data.

The developments aimed at boosting branch sales performance included the centralised diary management function implemented in the FIÓKÉRT system under the 'Proactive Branch Sales Support' project, the introduction of personalised capacity-based and activity-based selling, the completion of the first phase of the new Network Performance Management System, and the launch of the Supercalculator, a tool that simplifies and accelerates the process of mortgage lending, which is accessible via the Bank's Intranet.

The Wealth Planning System (WPS) has been introduced both in the branch network and made available through the electronic channels. In addition to improving customer satisfaction this system will also assist in achieving the investment banking division's long-term business objectives. Besides the online wealth planning function, the Home Bank also offers customers an opportunity to fix deposits subject to conditions, with progressive, timelinked interest.

As a part of the SAP Travel Management project, a consistent and transparent travel request and settlement system has been developed.

## Foreign subsidiaries

Use of the centralised SWIFT system (for international interbank payments) was extended to the Croatian subsidiary (OBH), in place of the local TurboSWIFT system.

Under the euro-adoption project, at the Slovak subsidiary (OBS) the technical infrastructure for the changeover to euro-based operation took place was developed, and could also form the basis for Hungary's future conversion to the euro.

The SAP system was introduced at several foreign and Hungarian subsidiaries, thus paving the way for standardised data reporting at Bank Group level.

Among the foreign subsidiaries, the Slovakian, Ukrainian and Romanian banks can now report data from the installed SAP R/3 modules through their own, specially developed portals.

The international version of the system providing CRM support for commercial banking, private banking and key SME accounts has been developed.

Among OTP Bank's foreign subsidiaries, following a similar project in Bulgaria, Transactional Data Warehouses were developed in Croatia and Ukraine in 2008.

At the Ukrainian subsidiary the OTPdirekt service was launched, and the IT infrastructure necessary for handling electronic company documents was put in place.

At DSK a central marketing system – for the generation of campaign management and sales reports – was introduced.

## Environmental policy, environmental projects

Taking an environmentally-aware approach entails recognising the environmental impacts of the Bank's operations, and reducing its environmental footprint. To this end, OTP Bank strives to minimise the environmental burden related to its activities, and to put in place the background infrastructure necessary to ensure the protection of the environment.

OTP Bank's objectives include the institutionalisation, as soon as possible, of environmentally sound practices, and their propagation within the Bank and among the other members of the Bank Group – endeavours in which significant progress has been made.

A substantial broadening of information-gathering activities in 2008 served to raise the overall level of environmental awareness and facilitate measurement of the results achieved in this area. Although the information-gathering performed at the Bank and the Bank Group in Hungary is not yet fully comprehensive, it represents a major advance in terms of our ability to determine the quantities of energy, natural resources and materials used.

In 2008 the Environmental Protection Guidelines were drafted and approved, with their introduction and propagation among the employees scheduled to take place in early 2009.

In the interests of reducing $CO_2$ emissions, the Bank has taken steps to reduce the amount of paper and natural gas used and kilometres travelled per employee. This latter objective was also served by completion of the video conferencing suite in 2008.

A reduction in paper consumption is assisted by the drafting of regulations on printing, and their dissemination among employees, the more widespread use of electronic banking channels (intranet, management information portal, shared directories, etc.), and efforts to encourage customers to request electronic bank statements instead of paper-based ones. Since 2008 the Bank has made payslips available to its employees in electronic form, which – in the case of almost 8,000 staff – has led to a substantial reduction in paper usage. As a result of these and other measures the average paper usage per head-office employee fell by 25% in 2008. In the case of printed marketing materials the Bank is phasing in the use of recycled paper. In the first stage of this process the larger publications (Annual Report and Corporate Social Responsibility Report), as well as greetings cards and packaging materials, were already being printed on this environmentally friendly medium in 2008. According to plans, in 2009 a substantial proportion of marketing publications will be made from recycled paper, while a longer-term objective is for other publications and forms to also be made from such material.

As in previous years, the selective disposal of waste paper continues to be the most widespread form of environmentally friendly waste management. Increasing the proportion of waste that is collected selectively and sent for recycling or energy production remains an ongoing objective for the Bank.

In the area of energy and water consumption, the measures implemented in previous years (operation of power factor correction equipment, the use of energy-saving appliances and energy-efficient light bulbs) ensure the Bank's efficient operation and rational resource usage.

When making procurements, during the supplier selection process particular emphasis is placed on enforcing environmental and ethical standards.

The Bank monitors technological and technical developments on an ongoing basis, and in its new investments and renovation projects endeavours to apply the most efficient solutions, taking environmental aspects into consideration and ensuring that they are complied with.

# Operations of Group Members in Hungary

## BASIC RETAIL SERVICES

OTP Bank continues to be the largest player in Hungary's retail banking market. At the end of 2008 the OTP Bank Group had a market share – in terms of the combined balance sheet total of financial institutions – of 30.4% in household deposits (OTP Bank: 28.0%), and a 29.6% share of household loans (OTP Bank: 7.9%).

The Bank focused on the lending activity in the first half of 2008, and then in the second half, because of the global liquidity crisis, it put more emphasis on the collection of deposits and other funds, supported by product developments and campaigns.

The expansion and modernization of the multi-channel sales network and the development of products and processes in order to improve customer service quality were on the agenda in the full course of 2008.

The Bank's efforts and results were recognized in 2008 by both domestic and foreign public opinion. Global Finance and Euromoney awarded the Best Hungarian Bank title to OTP Bank again, and the Bank won the Best Private Bank title for the first time.

### Account management, banking transactions and channels

On 31 December 2008, OTP Bank had close to 4.6 million retail banking customers, almost 2.9 million of whom held a forint current account. In order to provide a modern, quick and convenient banking service, OTP Bank is accessible to its customers via several, mutually reinforcing channels.

The Bank has succeeded in maintaining its dominant market position with respect to electronic channels. With regard to customers who use telephone-based customer services, the Bank commands approximately 30% of the market; in the case of those who bank over the internet its market share was an average of around 35% for the year, while it serves 46% of all customers that use mobile phone-based services.

The number of OTPdirekt customers rose by 10% in the course of 2008, to exceed 1.6 million persons by the end of the year. The number of customers with contracts for the use of telephone-based banking services only increased moderately – by 0.8% – in 2008, to almost 947,000, while the number of customers using mobile phone-based services continued to grow dynamically – by more than 13% – to exceed 1.2 million at the end of the year. The increase in the number of customers subscribing to internet banking services was 17%, with a total of over 787,000 active contracts in December 2008. The total number of SMS messages had grown 14% by the end of the year, to exceed 179 million, while the number of internet transactions rose by one-third in 2008, reaching a total for the year of 30.7 million by December.

OTPdirekt continues to offer the widest selection of services in the Hungarian e-banking market. As a result of its development projects, OTP Bank has introduced unique convenience e-services in Hungary, placing a greater emphasis on customisation and online sales in the e-channels and on its website.
The circle of e-bill service providers has recently expanded to include a third consolidator, as

customers that are registered with Díjnet can now also settle their utility and other bills free of charge via the OTPdirekt internet bank. In the course of the year additional securities functions were introduced, creating the opportunity to reallocate and reinvest investment fund units via OTPdirekt.

OTP Bank is also making efforts to meet the growing demand for online micro-payments, and as the first step in achieving this it is now possible for customers to make secure purchases over the internet using the Abaqoos service. Customers can pay at 13 internet acceptance points using their Abaqoos purse, without the need to give their bank card details. The list of acceptance points is continuously being added to.

The Bank's Wealth Planning service is accessible both via the Bank's website and its internet banking portal. Using this calculator, customers can view charts that illustrate the expected performance of their savings, and if required can arrange an appointment to receive personalised investment advice.

By continuing to develop its website the Bank strives to satisfy its customer's requirements as fully as possible; and now customers who register for the service can also download their bank statements free of charge, using the specially designed user interface, with a few clicks of the mouse. The new improved loan calculator gives a more transparent overview of the terms of available loans.

In the course of the year the websites of several Hungarian subsidiaries were also standardised, bringing them into line with the OTP Group's corporate image.

Besides this, 2008 saw a continuation of the information Call Centre project, which has served to centralise the management of branch telephone calls, supporting more effective operations by easing the workload of the branches and increasing the quality of telephone services.

The issue of providing technical support to the foreign subsidiary banks is growing in importance, especially since an objective of the OTP Group is to make OTPdirekt an internationally recognised brand, representing a guarantee of uniform functionality and quality in all countries where OTP has a market presence.

Expansion and modernisation of the sales network continued apace. As a part of the branch refurbishment process commenced in 2005 under the Infrastructure and Network Optimisation Project, a total of 47 branches were renovated and modernised in 2008. In the course of the branch renovations the objective was to improve the branches' interior layout, level of equipment and efficiency of operation, with special attention paid to achieving the largest possible customer area and raising the level of comfort experienced by customers.

In 2008 the Bank opened two new branches in Budapest and five in the provinces, establishing a presence in regions that were not covered in previous rounds of branch openings, and in emerging urban districts, where the availability of banking services was below the national average. Besides these a training branch also commenced operation, designed specifically to provide staff at the beginning of their career with hands-on experience and training in a genuine work setting, thus helping to ensure a supply of high-quality employees for the branches.

In order to raise the efficiency with which the existing branch network is utilised, the services of the new divisions were made available at a growing number of branches. Uniquely in Hungary, we provide securities services in more than 350 branches, thereby broadening the range of savings and investment options available to our customers. In the OTP branches, due to the high standard of customer service, enhanced work management procedures and technical developments, waiting times have been further reduced and the quality of in-branch sales work has improved. In 2008 children's play areas were created in several more branches, and plasma TV screens were installed in order to improve customer communication.

Concurrently with the branch network expansion, the number of the Bank's contracted sales partners also rose further, to 2,054 at the end of the year. The majority of products sold through the network of agents – similarly to previous years – were home and mortgage loans. The share of agent sales within the total contracted portfolio exceeded 52%, and displayed a 36% increase in volume compared to 2007.

The Bank's sales partners accounted for a more than 40% of the total sales of OTP Building Society contracts, and also brokered some three quarters of the volume of home leasing transactions. The share of this sales channel within lending to condominiums grew by more than 25%.

OTP Bank has always placed particular emphasis on expanding the range of products available through its network of agents. In this spirit, taking market requirements into consideration, the selection of products offered to micro and small enterprises via the agent network has been broadened with the addition of the 'Lendület' (Momentum) Current Account Overdraft, Lombard Credit and the Electronic HUF Account Package, while condominiums can now also request the 'Alap' (Basic) and 'Mozaik' (Mosaic) account packages through this channel.

## Bank card business

As of 31 December 2008 the number of cards issued by OTP Bank stood at 3,968,000. The number of retail deposit and credit cards in circulation at the end of 2008 exceeded 3,822,000. Within this category, the number of retail debit cards stood at close to 3,507,000. The number of the highly popular Multipont (Multipoint) debit cards was close to 380,000, and the number of the dynamically growing retail FX cards – having achieved an increase of nearly 35% – reached 23,500 on 31 December 2008. OTP Bank's retail credit cards continue to be extremely popular. At the end of 2008 the number of these cards grew by 14.7%, reaching 315,000. Nearly two-thirds of the retail credit cards consist of the very popular Amex Blue card. The Amex Gold credit card, designed for affluent customers, has also grown continuously, with the number of such cards reaching 6,400 in December 2008.

On 31 December 2008, the number of business cards in circulation was 145,000. The number of Széchenyi Cards, similarly to previous years, continued to fall, and currently stands at 5,600. In the course of 2008, the business FX-card was introduced.

As of December 2008, OTP Bank was operating a network of 2,003 ATMs for the convenience of its customers. In 2008, 79.3 million transactions were realised through the Bank's ATM network, in a total volume of HUF 2,575 billion. The Bank's customers performed nearly 69.5 million ATM transactions using cards issued by OTP Bank in 2008, in a total value of HUF 2,194 billion.

The average value per transaction rose from HUF 31,300 to HUF 32,500.

In 2008, the number of POS terminals of OTP Bank located in commercial outlets increased by 4,155 compared to the previous year, reaching a total of 26,808. The number of POS terminals located in the Bank's branches stood at 3,686 at year-end. The number of purchase transactions performed on the Bank's own commercial POS terminals increased by 20%, to 125 million, while the value of the performed transactions also increased by 17%, to HUF 989.6 billion. The number of POS transactions performed with cards issued by OTP Bank was close to 87 million, while the value of the turnover stood at close to HUF 691 billion in 2008.

## Savings and investments

OTP Bank continues to be the largest player in the Hungarian retail banking market. At the end of 2008 the OTP Bank Group's market share within the credit institution system – based on the combined balance sheet total of monetary institutions – was 30.4% of household deposits (OTP Bank: 28.0%). Within the group, Merkantil Bank and the OTP Building Society, in addition to OTP Bank, offer deposit products for households. In addition, OTP Fund Management, the OTP Funds, as well as OTP Bank itself offer a full range of savings products.

## Bank savings

By year-end 2008, the retail deposits' volume of OTP Core* expanded to HUF 2,168.6 billion. At the same time, the volume of retail deposits placed with OTP Bank reached HUF 2,027.4 billion, which represents an approximately 10% increase over the previous year's figure.

Within retail deposits, retail forint deposits grew by 8%, amounting to HUF 1,753.2 billion at the end of 2008. This gave OTP Bank a share of 26.6% in household forint deposits (OTP Group: 29.4%). Within retail deposits, the share of current account deposits was 80%, which represents a 11.5% increase since December 2007, and amounted to close to HUF 1,348.5 billion in December 2008. The Bank's share of demand deposits in the banking sector remained outstandingly high, at 42.0% in December 2008. The total value of passbook deposits continued to decrease – by a further 3.4% – within forint deposits, representing slightly more than 14% of the total portfolio in December 2008, and amounting to HUF 220.5 billion.

Foreign-currency deposits rose by HUF 63.9 billion, or by 18.2%, in 2008 compared to December 2007; thus the portfolio reached HUF 415.5 billion by the end of 2008. As a result, the share of FX deposits within the total portfolio of retail deposits was 20.5% in December 2008, representing a 1.4% increase over the previous year's figure. The share of OTP Bank in household FX deposits was 36.0% as of 31 December 2008.

OTP Building Society offers the widest range of products in the building society savings market. This product is especially useful for customers who are saving in order to pay for renovation or modernisation work, but it can also be sold in conjunction with OTP Bank's housing or multipurpose mortgage loans which in this way offer lower instalments for customers in the first years of the loan repayment period compared to facilities with evenly distributed repayment instalments.

As a combined result of deposit payments related to contracts that are in the savings phase and the payments made in respect of contracts in the redemption phase, the volume of OTP Building Society's deposits grew by 17.5% to 154 billion in 2008, 92% of which came from retail customers (HUF 141.6 billion). In the course of the year OTP Building Society concluded close to 100,000 contracts with a contract amount of HUF 174 billion, and its estimated market share, based on the deposit portfolio, is approximately 50%.

* OTP Bank, OTP Mortgage Bank, OTP Building Sociaty and OTP Faktoring

## Investment funds, securities

The trends on the securities market in 2008 can be divided into two phases: in quarters one to three, the volume of investment funds and shares slightly fell while the volume of bond-type securities (government bonds and mortgage bonds) increased. However, as a result of the market events in the autumn, investors attempted to offload virtually all their investment assets, which sent the price of securities into freefall. Overall, shares and investment funds lost the most value, but bond-type securities also suffered considerable losses due to yield increases.

In the investment fund market, 2008 saw varying degrees of contraction in the individual customer segments (households: 25.8%, non-financial companies: 17.9% and municipalities: 19.3%) which, overall, resulted in a drastic reduction in the portfolios managed by the funds (HUF 663 billion). The decrease can be explained by the loss in value of the funds' portfolios, a reduction in realised returns and the subsequent considerable withdrawal of cash, especially from real estate funds, and liquidity and short bond funds that had not yet suffered capital losses.

The Bank's market share in the household investment fund market fell from 29.5% in 2007 to 27.0% at the end of 2008 (in 2006 it stood at 24.6%). In 2007 and partly at the beginning of 2008, due to the Hozamduó (Yield Duo) Savings Program the Bank considerably increased its portfolio; however, the changes that took place in the 4th quarter of 2008 had the greatest negative impact in terms of capital withdrawal on bond and real estate funds, in which instruments the Bank has a higher than average share. In respect of the entire customer base, the market share in 2008 fell slightly from 30.2% to 28.2%. In the securities fund market OTP Fund Manager's market share stood at 30.9% at the end of 2008, which represents a 1.5 percentage point change compared to 2007.

The securities portfolio of the Bank's customers in 2008 fell by 43.2%, to HUF 1,188 billion. At the same time, bond-type products classed as the Bank's own sources of funds also grew in absolute terms: the OTP's Own Bond and the OTP Mortgage Bond increased their combined portfolio by HUF 82 billion. The portfolio representing the Bank's entire volume of own funds increased from 26.3% at the end of 2007 to 44.7% at the end of 2008 within the securities customer portfolio. In a period when funds are typically difficult to come by this may be regarded as an excellent achievement, because these products, unlike deposits, represent a source of funds for the Bank Group not for just 2-3 months but for at least a year.

The number of securities accounts grew by 5.8%, to 326,000, in 2008. The best month was October, when 5,300 accounts, representing 30% of the annual growth, were opened. The promotion of self-help on the part of retail customers continues to be an important objective of the Bank Group, as clearly shown by the fact that the number of Pension Saving Scheme (NYESZ) accounts grew by 48%, to reach 28,600.

In 2008 OTP Bank successfully implemented the provisions of the EU Capital Markets Directive (MiFID), which has become an integral and daily part of the Bank's customer management activities.

At the end of 2007 OTP Bank launched its new Premium Wealth Planning Service in 63 branches across the country, the purpose of which is to help with the investment decisions of customers who are more active and have more savings than average. At the end of 2008, customers had access to one of the most important components of the Bank's increasingly expansive segmented customer management practices and premium services. The Premium Wealth Planning Service was very well received, as evidenced by the fact that it was used by more than 34,000 customers nationally in 2008, and indicates that in a highly competitive market environment, cultivating a long-term personal relationship between customers and the Bank based on consultation and counselling is especially important. In 2009 we will continue to focus on reaching active premium customers and offering high quality services to them, in addition to focusing on the 'after sales' care of existing wealth planning customers and the review and adjustment of their portfolio.

In 2008, OTP Fund Manager launched a total of 22 new funds in the market.

The most activity took place in the 2nd quarter, in which the fund manager launched 8, mainly yield and capital guaranteed funds.

It was in the second half of the year that the impact of the global money and capital market crisis came to be felt in the volume of managed funds. The net asset value of the investment funds managed by the Fund Manager fell from HUF 813.1 in 2007 to 641.1 by the end of 2008. The market share of OTP Fund Management in the securities fund market stood at 28.2% (compared to 32.4% at the end of 2007).

The Fund Manager's assets in the fund segment fell by 14.0%, to HUF 549.0 billion. Within the framework of other portfolio management activities, it managed HUF 184.5 billion in assets, which was 4.2% more than in the previous year.

In 2008 the Fund Manager achieved an after-tax profit of HUF 4,994.0 million according to IFRS, which resulted in return on average assets (ROAA) of 51.4% and a 61.3% return on average equity (ROAE). The Company's cost-to-income ratio in 2008 was 26.2%.

## Pension and health fund services

The management of fund assets within the Bank Group is performed by OTP Fund Management, while the related administrative tasks and member recruitment activities are performed by OTP Funds Servicing and Consulting.

The OTP Funds continue to play a decisive role in the funds market both in terms of fund assets and the number of members. However, at the end of 2008, as was the case with the assets in the funds of the other market players, the aggregate assets of the OTP Funds fell – by 14.2%, to HUF 538.8 billion – due to a fall in the market value of the securities in their portfolios, a consequence of the financial crisis.

The assets of the OTP Private Pension Fund fell by 15.4%, to HUF 436.7 billion, while its membership grew from 805,000 to 835,000. In 2008 the assets of the OTP Voluntary Pension Fund fell from HUF 106.2 billion to HUF 95.4 billion – representing a decline of 10.6% – while it had close to 250,000 members , 10.71% fewer than in the previous year.

The assets of the OTP Health Fund stood at HUF 6.8 billion, with the number of its members exceeding 134,000.

## Retail loans

The consolidated retail loan portfolio of OTP Core[1], which comprises all core operations in Hungary, was HUF 2.179,2 billion at the end of 2008 (+25.6% compared to 2007).

## Mortgage loans, residential property leasing

In the first three quarters of 2008 the trends of previous years continued in Hungary's real estate and mortgage market. In the autumn, the impact of the global financial crisis was felt in the Hungarian markets as well, especially in the credit markets, where a major change in trend occurred.

The volume of home construction – based on newly submitted building permit applications and the number of completed construction projects – stagnated throughout the year in 2008, and actually fell by 10% in the last two months of the year. The residential market experienced an even greater decline than this, with this decline also becoming more pronounced towards the end of the year.

The demand for housing loans and mortgage loans grew in the first three quarters of 2008 and exceeded, by more than 26%, the level in the same period of the previous year. As a result of the economic crisis, funds became more expensive and less readily available, which led to a fall in the supply of credit, a fact that, from November, began to be reflected in the contracted loan volumes. Sales in the last two moths of the year fell by 37% compared to the previous year.

[1] Consolidated IFRS loan volume of OTP Bank, OTP Mortgage Bank, OTP Building Society and OTP Faktoring containing also the retail and micro and small enterprises, less the loans taken over from the foreign subsidiaries

Increased interest rates and more stringent conditions, due to the lack of foreign currency funds as well as the considerable devaluation of the forint, led to a foreign currency credit crunch which caused a decrease in the disbursement of FX-based loans from 93% at the beginning of the year to 85% at the end of the year.

Trends in the market also determined the mortgage lending practices of the OTP Bank Group. In the first three quarters of the year, the contract volume of mortgage loans grew by 66% compared to the same period of 2007 while sales in the last two months of the year fell to one quarter. Overall, the Bank Group realised a 20% growth in new mortgage loan contracts, which represents double the rate of growth of the market, primarily as a result of the dynamic – 35% – growth in multipurpose mortgage loan volumes.

In 2008 the Bank continued the renewal of its property-backed lending activities, implementing several developments to increase the efficiency and speed of the lending process and taking further measures to make its branch sales operations more customer-focused. The implementation will be completed in March 2009.

The outstanding product development achievement of the year was a real estate loan combined with the OTP Generation Credit life insurance, launched in August 2008, where the amount of the principal instalment is paid into the capital-protected endowment life insurance policy selected by the customer from a range of available options throughout the first 10 years of the term. The facility was acknowledged by the industry and received the 'Retail Loan Product of the Year' award in the 2008 MasterCard competition. In 2008 the Bank launched housing and mortgage loans for non-resident customers as well.

The consolidated mortgage loan portfolio of the Hungarian OTP Core – which, in addition to housing loans, also contains multipurpose mortgage loans – stood at HUF 1,660.7 billion on 31 December 2008, 23% more than in the previous year. Within this category, the portfolio of housing loans grew by 10.4%, to HUF 1,268.6 at year-end, while the portfolio of multipurpose mortgage loans almost doubled to reach HUF 392.0 billion. Close to half of the portfolio consisted of FX-based loans.

The portfolio market share of mortgage loans at group level[2] fell by 4%, to 27.8%, by the end of 2008, despite the fact that the Group achieved a growth of 3.1% in its share of the multipurpose mortgage loan market; however, this was not sufficient to counterbalance the 4.3% loss in the housing loan portfolio, which fell to 32.3%.

Similarly to the growth seen in the retail mortgage-lending market, the residential property leasing market also grew dynamically up until October 2008. Despite the drastically negative changes in October, OTP Home Leasing increased its closing portfolio by close to 90% in 2008 and continues to be a major player in the two key market segments. By making use of the opportunities presented by lease-financing in the market for new-build residential properties intended for sale the Company offers its customers favourable home-leasing products, while in the market for used homes it is supplementing and expanding its range of mortgage lending products by leveraging the special advantages inherent in the market. Through an exceptionally successful sales drive, OTP Home Leasing maintained its outstanding market share, and secured close to 60% of new contracts in 2008 on the market where there are now 12 participants competing for business. Home leasing products are being sold in 300 branches of the Bank, and besides third-party agent sales, relations with property developers have also been extended further.

[2] OTP Bank, OTP Mortgage Bank, and OTP Building Society combined, based on Supervisory Balance Sheet, according to HAS, and based on credit institution housing loans.

### Consumer loans

OTP Core had a consumer loan portfolio[3] of HUF 391.4 billion at the end of 2008, 28.7% higher than at the end of 2007.

After housing loans, personal loan products now also offer instalment payment insurance with a monthly premium, which was well received by customers.

The Bank Group's market share[4] in household consumer and other loans – including home equities – improved by 2 percentage points compared with year-end 2007, and was 26.8% on 31 December 2008.

## PRIVATE BANKING SERVICES

In 2008, the OTP Private Banking Division once again maintained the dynamic growth achieved in previous years in terms of customer acquisition, reaching a total of 15,000 private banking contracts by the end of the year, which, together with co-account holders, represents a private banking clientele of close to 23,000 individuals. In 2008 the number of private banking contracts grew by 1,207 (from 13,748 to 14,955) representing a growth of 8.8%. At the same time, the ratio of higher income bracket segments continued to increase within the customer base.

In the most difficult period, October 2008, a record number of new customers, exceeding twice the average number, became members of OTP Private Banking, which indicates the heightened value of relationship management.

The joint private banking/corporate 'value offer' and the related service model were further enhanced, offering a unique opportunity on the market for a high-standard, one-stop solution for private and corporate banking transactions. Since the introduction in July 2006 of the SME Gold Account product, the number of contracts opened under the joint corporate/private banking offer – together with approximately 400 new members – exceeded 2,000 by the end of 2008.

The extraordinary market circumstances – the unparalleled market setbacks of 2008, involving virtually every investment asset class – had a marked impact on the assets managed by the Private Banking Division as well.

The market-price decrease, which was most pronounced in the last quarter, resulted in close to HUF 65.7 billion in revaluation losses in the managed portfolio, yet by year-end the assets of the division had nonetheless reached HUF 452 billion. This represents a slight increase compared to the closing assets in 2007 despite strikingly unfavourable market influences – a result to which few asset managers could lay claim in 2008 – and which was due to a very dynamic growth in new assets. OTP Bank maintains a solid market leading position in this segment as well.

As a result of global market events and a decrease in risk appetite, money-market instruments came to the fore within the managed portfolio. Primarily as a result of a robust growth in the overall deposit portfolio, the portfolio that provides the Private Banking Division's own funds grew by HUF 82.1 billion (36.4%) in 2008, while the division's loan-to-deposit ratio fell significantly. OTP Private Banking also made a significant contribution to the further strengthening of the Bank's liquidity position. With respect to profitability, the division's contribution to profits is solid despite the unfavourable market events, and its interest and non-interest revenues grew by 6.6% compared to 2007.

As further indication of the quality of the division, OTP Bank Private Banking, based on a thorough analysis of several quantitative and qualitative factors in 2008, has been awarded the coveted and internationally recognised title of Best Private Banking Service Provider in Hungary in 2009 by Euromoney magazine.

[3] Consolidated IFRS loan volume of OTP Bank, OTP Mortgage Bank, OTP Building Society and OTP Faktoring containing also the retail and micro and small enterprises, less the loans taken over from the foreign subsidiaries.
[4] Based on Supervisory Balance Sheet, according to HAS, including loan volume of Merkantil Bank.

# COMMERCIAL BANKING SERVICES

## Corporate services

The volume of OTP Bank's deposits from corporate clients accounted for 12.4% of the national total as of 31 December 2008, and its corporate loan portfolio for 7.0%.

OTP Core's corporate deposit portfolio[5] fell by 7%, to HUF 824.0 billion, while the corporate loan portfolio fell by 13%, to reach HUF 1,169.7 billion at the end of 2008.

In order to meet the challenges of the financial and economic crisis which began in 2008 and has since steadily deepened, and to mitigate and evade the negative effects of the crisis, a change of strategy was implemented in the commercial banking division.

The division's focus in terms of target customers shifted to small and medium-sized enterprises, the borrowing requirements of which pose a more moderate burden in terms of the Bank's own funds, which accept priced-in banking costs, and which use several banking products, while the previous loan-oriented policy in respect of large corporations and municipalities gave way to a service-intensive and cross-selling-oriented business policy.

The corporate, syndicated, project and international trade finance activity, which provides low returns, is credit intensive and poses concentrated risk, was scaled back.

While in previous years and in the first half of 2008 new loan placements grew steadily, in the second half, as the financial crisis unfolded, resource management and pricing became predominant considerations – concerns that reflected the change in the money markets and the rise in the cost of funding. Increasing the net interest margin meant scaling back and eliminating low-margin placements while taking greater account of individual customer profitability.

At the same time, the use of refinanced funds became more prevalent. Loans from refinanced (mainly MFB) funds can be used for virtually all investment and development loan purposes and are well suited for EU tenders, which are of key importance for the division, and this meant that customers' needs could be met even though the funds available to the Bank decreased. In addition, refinanced working capital loan facilities also became available in 2008, but only in the agricultural sector.

Accordingly, product development efforts focused on refinancing loans and on facilities aimed at stimulating deposit collection:

- OTP Bank increased its placements through the programs that had been announced by Magyar Fejlesztési Bank (Hungarian Development Bank) previously, and it also joined new ones,
- the division prepared a complex business offer for new medium-sized corporate customers ('Contact' business package), and for agricultural customers ('Terra' account package),
- flexible, customised time deposit conditions were offered with regard to larger deposits.

2008 also saw the development and enhancement of services and products for the Bank's micro and small-enterprise (MSE) customers. The Standard DevizaPlusz (FX Plus) and E-devizaPlusz (e-FX Plus) account packages were introduced for small enterprises which, in addition to a forint current account and the related services, also offer an FX account. At the beginning of September 2008 the Bank launched the Takaros ('Thrifty') account package, which is an economical account management solution for condominiums and residential cooperatives that execute only a small number of transactions per month. In addition, the division launched its first account package designed exclusively for non-profit companies which, in addition to providing electronic services, also offers preferential monthly account management fees provided the closing savings balance is of a predetermined level.

[5] Sum of MSE and MLE volumes

In the course of the year the Bank launched several deposit promotion campaigns, which offered competitive interest rates, in many cases the best in the market, on new forint and foreign-currency funds brought into the Bank. In order to protect the deposit portfolio collected in the course of the campaign, two additional time deposit facilities with interest rates that were better than the standard deposit interest rates were offered to customers. Only companies with an 'e-account' package and non-profit companies can fix their free funds electronically in the two-month 'NET' deposit, while the Pyramid Deposit, which has a term of eight months and consists of two-month interest periods where interest is calculated in progressive temporal bands, was designed primarily to suit the saving patterns of condominiums and non-profit customers, although it is also available to corporate customers.

Also introduced was the OTP Ambition Enterprise Development Loan, which enables several investment loan objectives of more than a year to be implemented in a standard process, without having to submit a business plan, and which requires no real estate collateral if it is used for purchasing machines and equipment.

OTP Bank joined the Széchenyi Card 2 credit program, with the key new feature here being the elimination of the quarterly top-up obligation.

In November 2008, OTP Bank indicated to Magyar Vállalkozásfinanszírozási Zrt. (Hungary Enterprise Finance) its intention to join the partially refinanced New Hungary Microcredit program, which as a result has also been available to customers at OTP Bank since January 2009.

In response to the financial crisis, the terms and conditions of lending to small enterprises were reviewed. In order to facilitate the repayment in instalments – over a period of as much as three years – of overdraft liabilities that are excessive relative to a customer's current account turnover, or that otherwise prove difficult for the customer to pay back, the Bank developed, and in February 2009 launched, the OTP Balance Loan.

All the above products are 80% backed by an unconditional guarantee from Garantiqa Hitelgarancia Zrt. (except for the OTP Balance Loan, if the original transaction being refinanced was not guaranteed under a surety undertaking from Garantiqa Hitelgarancia Zrt.).

By simplifying the internal processes involved in lending to condominiums and by revising the associated risk conditions, sales were significantly increased. Most placements were made in respect of the renovation of prefabricated high-rises.

At the end of 2008, the number of OTP Bank's medium and large corporate customers stood at 15,000, and the number of corporate, non-profit, condominium and residential housing-cooperative customers managed by the SME division exceeded 177,000.

The Bank once again succeeded in retaining its leading role in municipality banking in 2008. By the end of 2008, 67% of the client base, 2,143 municipalities and their institutions, were having their current accounts managed at OTP Bank which, amid conditions of fierce competition, represented a fall in market share of 3% over 2007. At the end of 2008, the total volume of municipality deposits was HUF 247.9 billion, which was 2.2% more than at the end of 2007, while the portfolio municipality loans was nearly 16.8% lower, at HUF 194.4 billion. Due to the intensive efforts of the competitors to gain market share, the Bank's market share decreased both in terms of deposits and lending (from 53.1% to 41.0%, and from 54.9% to 48.1% respectively).

## Leasing

The Bank Group offers its corporate leasing services through the Merkantil Group. The total vehicle and production-equipment leasing portfolio in Merkantil Car's books rose from HUF 20.2 billion in 2007 to HUF 27.0 billion.

The Bank Group is present on the real estate leasing market through Merkantil Real Estate Leasing Ltd. (MIL Ltd.). At the end of 2008 the balance sheet total of MIL Ltd. stood at HUF 8.1 billion, and its receivables from real estate leasing reached HUF 7.8 billion. Nearly half of the real estate leasing contract portfolio is accounted for in the books of project companies, and the aggregate leasing receivables portfolio of MIL Ltd. and the project companies reached HUF 15.6 billion, representing a 2.5% decrease compared to the end of the previous year.

## Project financing

As at 31 December 2008, the value of the project finance portfolio was HUF 358.6 billion. The combined amount of net interest and commission income exceeded HUF 7.1 billion, which represents an increase of 57.7% compared to the previous year.

The contracts concluded in the first half of the year were the result of negotiations that had been initiated earlier. Perhaps most notable among them are the transactions that are being financed in Bulgaria, such as the Sandrose Holidays project and the shopping centres in Varna.

As a result of the economic crisis, for reasons of liquidity management no opportunities presented themselves for entering into new transactions in the second half of 2008, while the already existing projects are being repriced and financing is being abandoned. Consequently, several large repayments and prepayments were made in respect of several projects such as, for example, in the case of the loans extended to finance SCD Holding, Bankcenter, Mátra Power Plant and Csepeli Áramtermelő.

## Loan and capital market operations

On the international credit market, on 28 April 2008 OTP Bank drew down a EUR 73 million, 10-year loan from the EIB in CHF at a very favourable premium of less than 10 bp over the CHF LIBOR interest rate. Within the framework of its EMTN program launched to raise funds from foreign capital markets, OTP Bank issued a 3-year bond with fixed 5.75% interest rate for EUR 500 million, at a value date of 16 May 2008, with the participation of DZ and Morgan Stanley as arrangers and distributors. At the time of issuance the interest rate corresponded to a very favourable 140 bp premium over the 3 year midswap rate.

Due to the general international credit crisis and the negative economic trends caused by the subprime mortgage crisis in the summer of 2007, opportunities for raising funds on the capital markets fell to virtually zero. A significant increase in CDS premiums, the lack of a Hungarian benchmark issue and the effective ‘dumping’ of state-guaranteed international AAA bonds prevented OTP from entering the international capital market.

Municipal bond issuances continued in 2008, although at a slower pace than during the upswing of 2007. OTP Bank took part in the bond issuance programs of a total of 18 municipalities and companies owned by municipalities as arranger, executor and underwriter in a total nominal value of nearly HUF 23 billion.

## International syndication and commercial financing

In the second half of 2008, after the global economic crisis took hold, a significant change occurred in the syndicated loans market. Both the primary and the secondary market gradually contracted, the abundance of liquidity seen in previous years disappeared, and risk premiums grew dramatically. As a result, there were no more new syndicated transactions in the primary market, and buyers disappeared from the secondary market. The situation became especially critical by the end of the year. Banks adopted a wait-and-see attitude and attempted to restructure and strengthen their portfolios and focus on monitoring activity.

In response to the change in the economy, OTP Bank also rethought its market strategy and its previous objectives, and its focus on growth was replaced by active portfolio management. Within the framework of active portfolio management, the Bank successfully sold a considerable portion of its assets, and a portion of the remaining assets were re-priced in keeping with the changed market conditions. A key objective of the Bank was to preserve the quality of the portfolio, and therefore monitoring activity was strengthened. Thanks to prudent lending and investment policies, the classification of the portfolio did not deteriorate significantly despite the widening economic crisis, and there were no non-performing or insolvent transactions in the portfolio by the end of the year.

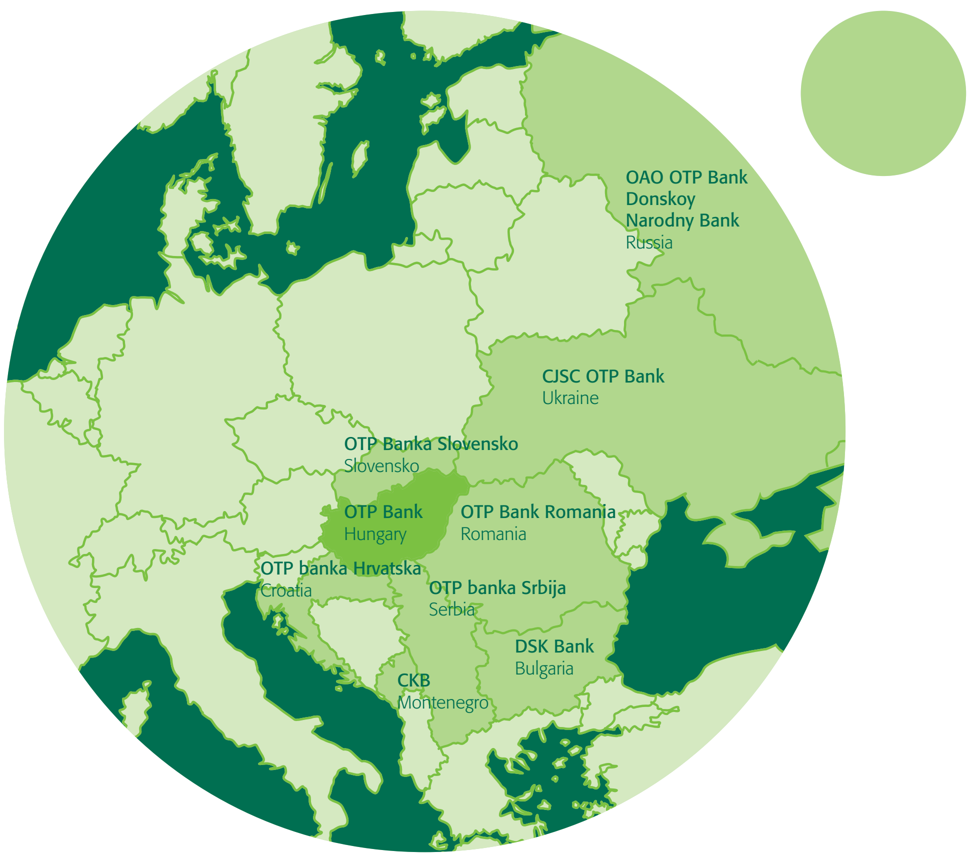
# Operations of the foreign subsidiaries*

## DSK GROUP

DSK Bank remains one of the market-leader bank in Bulgaria in terms of total assets. The DSK Group's total assets based on IFRS on 31 December 2008 stood at HUF 1,171.6 billion, of which deposits from customers accounted for 62%, or HUF 722.9 billion. This portfolio grew by 11.2% on a year-to-year basis. The gross customer loan portfolio (including SPVs) increased by 33% year to year, and exceeded HUF 1,014 billion, representing approximately 87% of the total assets.

The share of retail loans (including SME loans) in the gross loan portfolio was 80%.

The consolidated profit before tax of the DSK Group (corrected for SPVs**) was HUF 34.5 billion, while its profit after tax was HUF 31.0 billion, which represented a 17.5% increase on a year-to-year basis. The close to HUF 84.0 billion in interest income realised in 2008 and the nearly HUF 30.9 billion interest expense together resulted in net interest income of nearly HUF 53.1 billion. The Group's non-interest income rose by 22.4%, coming close to HUF 17 billion.




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

** Asset Management AD (SPV)

In 2008 DSK Group's net interest margin to average total assets were 4.82%.

In 2008, the Group's cost/income ratio was 36.7%; the Group achieved a ROAA of 2.82% and a ROAE of 21.5%.

At the end of December 2008, the Bank's market share based on total assets was 12.7%. Its share of retail deposits was 19.9%. The Bank's share of the home loan market was 28.4%, and its share of retail customer loans was 33.5%.

At the end of 2008, the Bank had a total of 850 ATMs, 3,481 POS terminals and 379 branch offices. The number of employees at DSK Group was 4,279 as at 31 December 2008.

## OTP Bank Russia

The acquisition of the Russian Investsberbank (ISB) was completed on 30 October 2006 and the Bank was fully consolidated in 2007. The name of Investsberbank was changed to OAO OTP Bank in the first quarter of 2008. We assessed the operation of the Russian subsidiary on the basis of OAO OTP Bank's stand-alone financial statements in the first quarter of 2008. From the second quarter of 2008 onward, the assessment was based on the combined financial statements of OAO OTP Bank and the newly acquired Donskoy Narodny Bank (jointly referred to as OTP Bank Russia).

On 31 December 2008, OTP Bank Russia's total assets were HUF 529 billion, 72.4% of which was gross loans. Within the HUF 383.1 billion gross loan portfolio, the portion of the corporate loans decreased further, to 29.6%, while retail loans and SME loans rose to 70.4%. Within retail and SME loans, mortgage-backed loans accounted for 26.3%. Consumer loans continue to account for a predominant, 72.3% share. Customer deposits accounted for 42.4% of the total liabilities; within this total, retail deposits amounting to HUF 137.3 billion represented 61.2%, and corporate deposits amounting to HUF 86.9 billion accounted for 38.8%.

At year-end, OTP Bank Russia's equity stood at over HUF 60.7 billion. In 2008 the Russian subsidiary generated HUF 11.7 billion in profit before tax and slightly over HUF 8.9 billion in profit after tax, which, net of one-off items, translates into an annual 26% growth. The Bank's cost/income ratio was 59.5%.

The market share of the Bank is not significant in the Russian market, and only regarding to the consumer loans is above 1%.

At the end of 2008 the Bank operated 176 branches and 192 ATMs, and had a staff of 8,449 employees.

## CJSC OTP BANK

In December 2008, CJSC OTP Bank was the 9th largest bank in Ukraine based on its total assets, with a market share of 3.8% based on total assets. On 31 December 2008 the Bank's total assets according to IFRS was HUF 847.0 billion; 90.2% of the assets consisted of loan receivables and 7.5% consisted of placements with other banks. In contrast with an outstanding, 43.9%, the growth over the year in loans, customer deposits declined by 1.4%, due to a significant withdrawal of deposits that occurred in the last quarter of 2008, as a result of which they accounted for 20.1% of the Bank's total assets at the end of 2008.

The almost to HUF 89.0 billion of interest income realised in 2008 and the nearly HUF 39.9 billion interest expense together resulted in net interest income of nearly HUF 49.1 billion, which translates into a noteworthy 67% increase on a year-to-year basis. In 2008 the Bank's net interest margin to average total assets improved further, to 6.67%. Due to its conservative provisioning policy, CJSC OTP Bank generated HUF 26.4 billion loan provision in 2008, as against a HUF 60 million release in 2007.

In 2008 the Ukrainian subsidiary generated HUF 23.1 billion in profit before tax and HUF 16.4 billion in profit after tax, which translates into a 16.5% growth on a year-to-year basis. The adjusted cost/income ratio improved from 45.6% in 2007 to 35.1%, due to tight cost controls.

CJSC OTP Bank's share of retail deposits was 1.3% as at 31 December 2008, among which it had a 1.9% share in foreign-currency deposits. The Bank's market share in respect of retail loans was 4.6%.

The Bank increased the number of its branches from 158 to 229 in 2008, and operated a total of 208 ATMs and 362 POS terminals as of 31 December 2008. The number of its employees was 4,392 at the end of 2008.

The Bank's ROAE was 22.5%, and its ROAA was 2.23%.

## OTP Bank Romania

The total assets of OTP Bank Romania (OBR), including the retail and corporate receivables sold to OTP Bank, exceeded HUF 367.5 billion as at 31 December 2008, which represented 23.5% rise compared to the year-end figure of 2007. The Bank's market share based on total assets was 1.2% at the end of 2008. Its total equity was HUF 23.2 billion on 31 December 2008.

The Bank's gross loans rose by 50.5%, to HUF 316.8 billion, in 2008. Customer deposits rose by 2.1%, to HUF 72.2 billion, with the Bank's loan-to-deposit ratio reaching 439%. Non-performing loans as a proportion of the total loan portfolio fell from 8.1% in 2007 to 6.9% in 2008. The Bank increased its market share of retail loans from 2.2% as at the end of 2007 to 2.8%, while in the area of corporate loans its market share stood at 2.0%. On the housing and mortgage loans market the Bank had a 4.1% share, while in terms of retail deposits its share was 0.7% at the end of 2008.

OTP Bank Romania closed 2008 as its first profitable business year: it realised close to HUF 241 million net profit of one-off items, dividends and contribution kind. OBR's income grew dynamically, by 65.6%, while there was only a minor increase, of 7.8%, in operating costs due to tight cost control, as a result of which the cost/income ratio improved significantly, from 120.7% to 78.5%. Loan provision increased from HUF 0.8 billion to HUF 3.0 billion.

The number of the Bank's customers grew from 140,000 to 178,000 over the course of 2008, and the number of issued bankcards increased more than 1.5 times over the previous year, reaching 116,000. The number of retail current accounts managed by the Bank came close to 144,000 at year-end, while the number of corporate accounts surpassed 17,000.

The Bank did not expand its branch network significantly. It only opened 1 new branch in 2008 and was operating a total of 105 branches at year-end. In contrast, the number of the Bank's ATMs and POS terminals rose substantially, reaching 132 and 681 respectively by the end of the year. The number of employees stood at 1,096 at year-end 2008, which was 98 more than a year earlier.

## OTP banka Hrvatska

On 31 December 2008 the consolidated total assets of OTP banka Hrvatska (OBH) was HUF 463 billion, as a result of which the Bank's share of the Croatian market was 3.5%. The Bank's gross loans grew by 24.4%, amounting to HUF 309.6 billion at the end of 2008, giving it a year-end market share of 3.6%. Deposits from customers reached HUF 315.3 billion at the end of 2008, corresponding to a market share of 4.1%. The Bank's cost/income ratio was 62.9%.

The Bank increased its market share of retail loans from 4.1% at the end of 2007 to 4.4%, while in respect of corporate loans its market share was 3.1%. In the home loans market the Bank had a share of 5.1% at the end of 2008, while its share of the consumer loans segment was 4.0%, of the retail loans market, 5.3%, and of corporate loans, 1.7%.

At the end of 2008 OTP banka Hrvatska had more than 447,000 customers for whom it was managing close to 422,000 retail accounts and 24,000 corporate accounts. The number of bankcards issued in 2008 grew by 10.5%, to 357,000. Within this, the number of credit cards grew by close to 28.8% during the year, to over 47,000.

OBH's profit after tax in 2008 was HUF 5,0 billion, up by 41.8% over the previous year. This growth was attributable to 17.4% increase in interest income, 14.7% increase in commission fees, 206% rise in other non-interest income and a strict cost control policy.

The Bank's sales network was expanded further in 2008. The program that was aimed at expanding and developing the network of branches and ATMs, which had been launched in 2007, continued in 2008, and as a part of this, 5 new branches were opened and 44 ATMs were installed during the year. As a result, OBH had 105 branches, 163 ATMs and 1,172 POS terminals by the end of 2008. The Group's headcount was 1,047 by the end of 2008, 31 people more than by the end of 2007.

OBH's ROAA was 10.6% at the end of 2008, and its ROAA was 1.14%.

## OTP Banka Slovensko

On 1 January 2009, second from the former socialist countries, Slovakia joined the eurozone as its 16th member. The European Union's ministers of finance set the conversion rate of the Slovak currency at a level of SKK 30.126 to EUR 1, effective from the second half of 2008.

The total assets of OTP Banka Slovensko, a.s. (OBS) was HUF 429.1 billion as at year-end 2008, which represents a 16.6% rise compared to year-end 2007, and which secured it a 2.7% share of the banking market in Slovakia. The Bank's shareholders' equity rose by 29.5%, to HUF 30.6 billion, in the reporting period. OBS's profit after tax for 2008 (adjusted by one-off items) amounted to HUF 1.4 billion, which translates into a HUF 1.2 billion decrease compared to the profit of the previous year. The Bank's ROAA at the end of 2008 was 0.39%, its ROAE was 5.7%, and its cost/income ratio was 72.3%.

At the end of 2008, due to an increase of 35.4%, OBS's credit portfolio amounted to HUF 314.4 billion, which enabled it to retain its 4.0% market share. Its deposit portfolio rose by 15.7%, to HUF 262.8 billion, in 2008, and its market share was 2.6% as of 31 December 2008.

During the year of 2008 the number of the Bank's customers increased by 19,000, to 188,000. Within this, the number of retail customers was nearly 170,000 and out of which corporate customers more than 18,000.

The number of bankcards issued by OBS was nearly 120,000 at the end of 2008, which represents 12.1% increase compared to the end of 2007. The number of retail cards grew by more than 12,000, to 107,000, and the number of corporate cards grew to nearly 13,000. The Bank's ATMs numbered 119 and the number of proprietary POS terminals was 602 at the end of the year.

The Slovakian bank was serving customers through a total of 89 branches at the end of 2008. The Bank's headcount was 839 as at 31 December 2008.

## OTP banka Srbija

At the end of 2008, OTP banka Srbija's total assets of HUF 143 billion represented a 2.5% market share on the Serbian market.

The loan portfolio amounted to HUF 94.7 billion, representing 50% increase on a year-to-year basis, which secured the Bank 2.8% market share. Within total loans, the share of corporate loans increased further, to 73.8%. The Bank's HUF 33.9 billion deposit portfolio meant 11% decrease compared to 2007, securing a market share of 1.4% in deposits at the end of 2008.

The Bank achieved HUF 1.7 billion in after-tax profit in 2008 as compared with HUF 594 million in 2007, which was due, in part, to one-off items. The cost/income ratio rose by 3.7 percentage points, to 85.4%.

At the end of 2008 the number of the Bank's customers exceeded 362,000, of whom 337,000 were retail customers. The number of bankcards was 94,200 at the end of December, and within this, the number of credit cards exceeded 32,000. The Bank installed 33 new ATMs in 2008, and thus their total number rose to 204. The number of POS terminals was 3,356 at the end of the year. At year-end 2008 the Bank had 95 branches, 5 offices fewer than at the end of 2007. The Bank employed 1,183 people at the end of 2008.

## Crnogorska komercijalna banka

As at 31 December 2008, the Bank's total assets were HUF 308.1 billion. From the gross loan portfolio, 30.3% consisted of retail loans, 32% of MSE loans, 34.5% of corporate loans, and 3.2% of municipal loans. Customer deposits amounted to HUF 205.4 billion, nearly half of which, 45.6%, were retail deposits. Customer deposits made up 67% of the total assets and the loan-to-deposit ratio reached 124%. The Montenegrin subsidiary realised HUF 3.12 billion in profit before tax and HUF 2.95 billion in profit after tax in 2008. The cost/income ratio was 49.4% in 2008, with a ROAA of 1.0% and a ROAE of 20.5%.

At the end of 2008 the Bank had 40 branches and operated 105 ATMs. The number of its customers exceeded 303,000. The number of its employees was 483.

# Management's Analysis

# Management's analysis of developments in the Bank's financial position

## CONSOLIDATED FINANCIAL PERFORMANCE OF OTP BANK

### Consolidated balance sheet[1]

OTP Group's consolidated balance sheet total as at 31 December 2008 was HUF 9,379.4 billion, up by 10.8%, or HUF 917.6 billion, on a year earlier.

The Bank's consolidated equity was HUF 1,049.0 billion, representing an increase of HUF 153.4 billion, or 17.1%, over the previous year, and which was 35.8% higher than the Bank's non-consolidated equity.

***OTP Bank's consolidated balance sheet of (audited)***

| | 31/12/2007 in HUF mn | 31/12/2008 in HUF mn | Change in HUF mn | Change % |
|---|---|---|---|---|
| Cash, due from banks and balances with the NBH | 353,243 | 348,849 | (4,394) | (1.2%) |
| Placements with other banks, net of allowance for placement losses | 654,788 | 593,542 | (61,246) | (9.4%) |
| Financial assets at fair value through profit or loss | 285,895 | 129,332 | (156,563) | (54.8%) |
| Securities available-for-sale | 473,925 | 481,257 | 7,332 | 1.5% |
| Gross loans and advances to customers | 5,761,095 | 7,000,850 | 1,239,755 | 21.5% |
| Allowances for loan losses | (178,658) | (270,680) | (92,022) | 51.5% |
| Loans, net of allowance for loan losses | 5,582,437 | 6,730,170 | 1,147,733 | 20.6% |
| Accrued interest | 63,459 | 87,793 | 24,334 | 38.3% |
| Associates and other investments | 9,892 | 10,467 | 575 | 5.8% |
| Securities held-to-maturity | 317,557 | 321,733 | 4,176 | 1.3% |
| Premises, equipment and intangible assets | 541,909 | 469,701 | (72,208) | (13.3%) |
| Other assets | 178,769 | 206,592 | 27,823 | 15.6% |
| **TOTAL ASSETS** | **8,461,874** | **9,379,436** | **917,562** | **10.8%** |
| Amounts due to banks and deposits from the NBH and other banks | 798,154 | 842,867 | 44,713 | 5.6% |
| Deposits from customers | 5,038,372 | 5,219,226 | 180,854 | 3.6% |
| Liabilities from issued securities | 985,265 | 1,526,639 | 541,374 | 54.9% |
| Accrued interest payable | 60,153 | 99,141 | 38,988 | 64.8% |
| Other liabilities | 383,189 | 326,444 | (56,745) | (14.8%) |
| Subordinated bonds and loans | 301,164 | 316,148 | 14,984 | 5.0% |
| **TOTAL LIABILITIES** | **7,566,297** | **8,330,465** | **764,168** | **10.1%** |
| **Total shareholders' equity** | **895,577** | **1,048,971** | **153,394** | **17.1%** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **8,461,874** | **9,379,436** | **917,562** | **10.8%** |

The ratio of consolidated equity to total assets increased from 10.6% at year-end 2007 to 11.2%. The book value of OTP shares (BVPS) was HUF 3,746 on 31 December 2008, which was HUF 548 higher than at the end of the previous year.

On the asset side, cash, due from banks and balances with the National Bank of Hungary were 1.2% lower than a year earlier. Placements with other banks fell by 9.4% from the end of December 2007, amounting to HUF 593.5 billion on 31 December 2008.

[1] According to IFRS statements (audited)

Note: data in the tables of this analysis do not equal in every cases with the sum of the parts due to rounding. In the addition to this, because of rounding, figures in different tables with the same meaning can show some difference.

Financial assets and fair value through profit or loss, as recognised in the profit and loss account, fell by HUF 156.6 billion to HUF 129.3 billion by the end of the year.

The value of securities held for sale increased by 1.5%, or HUF 481.3 billion, over the course of the year.

Retail loans, net of allowances for loan losses, rose by 20.6%, i.e. from HUF 5,582.4 billion on 31 December 2007 to HUF 6,730.2 billion. Net loans represented 71.7% of total assets on 31 December 2008. The consolidated gross retail portfolio increased by 21.5% and amounted to HUF 7,000.9 billion at the end of 2008. The share of the foreign subsidiary banks within the consolidated loan portfolio as at 31 December 2008 was 44%.

## Consolidated gross loans*

| | 31/12/2007 | 31/12/2008 | Change | |
|---|---|---|---|---|
| | in HUF mn | in HUF mn | in HUF mn | % |
| OTP CORE | 3,078,806 | 3,348,950 | 270,144 | 8.8% |
| OTP Bank Russia | 304,410 | 383,118 | 78,708 | 25.9% |
| CJSC OTP Bank | 530,659 | 763,758 | 233,099 | 43.9% |
| DSK Group | 779,835 | 1,014,894 | 235,059 | 30.1% |
| OBR | 210,520 | 316,809 | 106,289 | 50.5% |
| OTP banka Srbija | 63,306 | 94,744 | 31,438 | 49.7% |
| OBH | 248,819 | 309,567 | 60,748 | 24.4% |
| OBS | 232,286 | 314,422 | 82,136 | 35.4% |
| CKB | 183,497 | 249,344 | 65,837 | 35.9% |
| Merkantil Bank+Merkantil Car (aggregated) | 273,286 | 323,202 | 49,916 | 18.3% |
| **Total** | **5,905,424** | **7,118,798** | **1,213,374** | |
| **OTP Group (consolidated)** | **5,755,520** | **7,000,849** | **1,245,329** | **21.6%** |

Of the total of loans, retail loans accounted for 60.7% (HUF 4,249.9 billion, annual change +31.6%), corporate loans 33.7% (HUF 2,361.9 billion, annual change +7.8%) and loans for vehicle financing accounted for 5.6% (HUF 389,8 billion, annual change +15.9%). Within retail loans, housing and mortgage loans represented HUF 2,707.4 billion (annual change +35.4%), and consumer loans represented HUF 1,148.0 billion (annual change +19.1%).

The gross loan portfolio increased most dynamically at OBR in Romania (+50.5%), at the subsidiary in Serbia (+49.7%), and at the subsidiary in Ukraine (+43.9%). Of the total growth increment in the loan portfolio, the largest contributions came from OTP Bank's core operations (HUF +270.1 billion), the DSK Group (HUF +235.1 billion), and the Ukrainian CJSC (HUF +233.1 billion).

## Classification of the consolidated gross loan portfolio*

| | 31/12/2007 | | 31/12/2008 | | Change | | |
|---|---|---|---|---|---|---|---|
| | HUF mn | share | HUF mn | share | HUF mn | % | share |
| Performing | 4,983,954 | 86.5% | 5,971,837 | 85.3% | 987,883 | 19.8% | (1.2%) |
| Qualified | 777,140 | 13.5% | 1,029,012 | 14.7% | 251,871 | 32.4% | 1.2% |
| To-be-monitored | 533,425 | 9.3% | 649,827 | 9.3% | 116,402 | 21.8% | 0.0% |
| NPLs | 243,715 | 4.2% | 379,184 | 5.4% | 135,469 | 55.6% | 1.2% |
| Below average | 53,765 | 0.9% | 104,504 | 1.5% | 50,739 | 94.4% | 0.6% |
| Doutful | 70,253 | 1.2% | 99,951 | 1.4% | 29,698 | 42.3% | 0.2% |
| Bad | 119,697 | 2.1% | 174,729 | 2.5% | 55,032 | 46.0% | 0.4% |
| **Total** | **5,761,094** | **100.0%** | **7,000,849** | **100.0%** | **1,239,754** | **21.5%** | |

* The breakdown of the credit- and deposit volumes is not an audited figure, but rather reflects the circumstances described in the information material prepared on the results of 2008.

Though there was a dynamic increase in the loan portfolio, the quality of the portfolio deteriorated: the proportion of non-performing loans was 5.4% of the gross loan portfolio at the end of 2008, compared with 4.2% at the end of the previous year. 55.0% of the consolidated non-performing loan portfolio was recorded on the balance sheet of the bank's foreign subsidiaries.

## *Coverage of the qualified portfolio*

| | 31/12/2007 | 31/12/2008 | Change |
|---|---|---|---|
| Qualified volume (HUF mn) | 777,140 | 1,029,012 | 32.4% |
| Provision (HUF mn) | 165,725 | 257,660 | 55.5% |
| **Coverage** | **21,3%** | **25,0%** | **3.7%** |
| NPLs (HUF mn) | 243,715 | 379,184 | 55.6% |
| Povisions (HUF mn) | 150,827 | 242,064 | 60.5% |
| Coverage | 61,9% | 63,8% | 1.9% |
| **Total loan provision** | **178,658** | **270,680** | **51.5%** |

IFRS consolidated provisions/allowances for loan losses were HUF 270.7 billion, from which HUF 257.7 billion was related to the qualified portfolio; this resulted in a coverage ratio of 24.8%. Within this, HUF 242.1 billion had been set aside to cover a portfolio of HUF 379.2 billion of non-performing loans, which resulted in a coverage ratio of 63.8% (61.9% in the previous year).

The portfolio of held-to-maturity securities rose by 1.3% in 2008, with the total value of such securities reaching HUF 321.7 billion on 31 December. The securities portfolio of the Bank contained virtually no structured products or investments carrying a significant exchange rate risk.

On the liabilities side, deposits from customers amounted to HUF 5,219.2 billion as at 31 December 2008, up by 3.6% (or HUF 180.9 billion) on a year earlier. The deposits collected by the Bank's foreign subsidiaries accounted for 38.2% of the consolidated deposit portfolio. Their customer deposit portfolio grew by 2%, reaching HUF 2,006.5 billion at the end of 2008.

## *Consolidated customer deposits*

| | 12/31/07 | 12/31/08 | Change | |
|---|---|---|---|---|
| | HUF mn | HUF mn | HUF mn | % |
| OTP CORE | 3,086,052 | 3,244,482 | 158,430 | 5.1% |
| OTP Bank Russia | 291,155 | 224,152 | (67,003) | (23.0%) |
| CJSC OTP Bank | 172,264 | 169,888 | (2,376) | (1.4%) |
| DSK Group | 650,325 | 722,880 | 72,555 | 11.2% |
| OBR | 70,736 | 72,206 | 1,470 | 2.1% |
| OTP banka Srbija | 38,114 | 33,906 | (4,208) | (11.0%) |
| OBH | 307,541 | 315,253 | 7,713 | 2.5% |
| OBS | 227,126 | 262,787 | 35,661 | 15.7% |
| CKB | 211,110 | 205,410 | (5,700) | (2.7%) |
| Merkantil Bank+Merkantil Car (aggregated) | 6,745 | 8,118 | 1,373 | 20.3% |
| **OTP Group (consolidated)** | **5,038,372** | **5,219,226** | **180,854** | **3.6%** |

From total customer deposits, 73% came from retail customers, and 27% from corporate and municipality customers. The proportion of retail deposits within total customer deposits rose by 4 percentage points compared with 31 December 2007. The main contributors to the HUF 180.9 billion growth in deposits were OTP Core (+HUF 158.4 billion) and DSK (+HUF 72.6 billion), while the subsidiaries in Slovakia and Bulgaria experienced the most dynamic increase in deposits (+HUF 15.7% and +11.2% respectively). The deposit portfolio of the subsidiaries in Russia, Ukraine, Serbia and Montenegro shrank.

The portfolio of issued securities grew by 54.9% over the year, to HUF 1,526.6 billion. In 2008 OTP Bank issued mortgage bonds with a notional value of EUR 1 billion and a maturity of 2 years and bonds with a notional value of EUR 500 million and a maturity of 3 years. Due to the drastic worsening of conditions in the capital market, from the second half of 2008 on, only domestic bond issuances were implemented. The value of subordinated and Tier 2 loan capital increased by 5.0%, to HUF 316.1 billion.

## Consolidated results[2]

OTP Bank's audited and consolidated profit after tax for 2008 – based on IFRS – was HUF 241.1 billion, up by HUF 32.5 billion or by 15.6% from a year earlier. The consolidated profit before tax grew more moderately, by 10.2%, in 2008, reaching HUF 274.4 billion.

A major contributor to the results was the one-off HUF 117.3 billion proceeds, net of costs and taxes, from the sale of OTP Garancia Insurance and HUF 93.6 billion in goodwill impairment recognised on the subsidiaries in Serbia and Ukraine. The consolidated profit after tax, adjusted for the above one-off items, for the HUF 4.7 billion in losses incurred on the Bank's strategic open position, for dividend received and for contribution in kind, was HUF 218.7 billion, which exceeded that of 2007 by 5.1%.

### *Consolidated P&L of the OTP Group*

| Main components of P&L account | 2007 | 2008 | Change | |
|---|---|---|---|---|
| | HUF mn | HUF mn | HUF mn | % |
| **Consolidated profit after tax** | **208,548** | **241,068** | **32,520** | **15.6%** |
| Dividends and net cash transfers | 879 | 2,380 | 1,501 | 170.7% |
| **Profit of the strategic open FX position (after tax)** | **(479)** | **(4,720)** | **(4,241)** | **885.4%** |
| Pre tax result of strategic open FX position | (598) | (5,899) | (5,310) | 901.5% |
| Income taxes | 120 | 1,180 | 1,060 | 883.3% |
| Profit of the sale of OTP Garancia Group | – | 117,346 | 117,346 | – |
| Goodwill impairment charges (after tax) | – | (92,629) | (92,629) | – |
| Consolidated profit after tax without the result of strategic open FX position, consolidated dividend and net cash transfers, the result of the sale of OTP Garancia Group and goodwill impairment charges | 208,147 | 218,691 | 10,544 | 5.1% |
| **Profit before tax** | **248,671** | **250,293** | **1,622** | **0.7%** |
| Total income (adj.) | 629,242 | 732,538 | 103,296 | 16.4% |
| **Net interest income (adj.)** | **438,436** | **515,900** | **77,464** | **17.7%** |
| Net fees and commissions | 133,009 | 140,623 | 7,614 | 5.7% |
| **Other net non-interest income (adj.)** | **57,797** | **76,015** | **18,218** | **31.5%** |
| Foreign exchange gains, net (without the result of FX swaps and strategic open position) (adj.) | 16,992 | 44,393 | 27,401 | 161.3% |
| Gain or loss on securities, net (adj.) | 5,085 | –1,096 | –6,181 | – |
| Net insurance result | 14,387 | 13,255 | (1,132) | (7.9%) |
| Net other non-interest result (adj.) | 21,333 | 19,462 | (1,871) | (8.8%) |
| **Provision for loan losses (adj.)** | **(42,085)** | **(108,043)** | **(65,958)** | **156.7%** |
| Other provisions | (7,397) | (10,538) | (3,141) | 42.5% |
| **Operating costs (adj.)** | **(331,089)** | **(363,664)** | **(32,575)** | **9.8%** |
| Personnel expenses (adj.) | (147,830) | (167,461) | (19,631) | 13.3% |
| Depreciation (adj.) | (35,627) | (38,609) | (2,982) | 8.4% |
| Other non-interest expenses | (147,632) | (157,594) | (9,962) | 6.7% |
| From this: special banking tax | (6,525) | (5,711) | 814 | (12.5%) |
| **Income taxes (adj.)** | **(40,524)** | **(31,602)** | **8,922** | **(22.0%)** |

The net interest income adjusted by the non-interest type income from swap transactions was HUF 515.9 billion, which was 17.7% higher than in 2007. The interest margin on the average balance sheet total (HUF 8,920.7 billion) calculated on the basis of the end-of-the period data was 5.78% in 2008, or 15 basis points higher than in 2007.

[2] Figures presented in the statements are not consistent with the audited statements because they are presented according to controlling methodology. For a detailed description of the adjustments, see the Annex.

Adjusted non-interest income was in total 13.5% higher than one year earlier, and amounted to HUF 216.6 billion. Net fees and commissions totalled HUF 140.6 billion, representing a 5.7% increase over 2007. The net result of securities trading without swap transactions was a loss of HUF 1.1 billion, as compared to a gain of HUF 5.1 billion in 2007. The net exchange rate gain without swap transactions amounted to HUF 44.4 billion, compared to a HUF 17.0 billion gain in 2007. The net profit on insurance transactions was HUF 13.3 billion in 2008. Other non-interest income was HUF 19.5 billion, which is 8.8% lower than in the previous year.

Provisions for loans and loan losses amounted to HUF 108.0 billion. The ratio of provisions to the average gross loan portfolio was 1.69% compared to 0.82% in 2007.The two-fold rise in risk-related costs were attributable to a cautious forward-looking provisioning policy warranted by a significantly unfavourable macro-economic environment and the devaluation of several local currencies. Other risk-related costs amounted to HUF 10.5 billion, compared to HUF 7.4 billion in 2007.

The total income of OTP Group, including net fees, net insurance premium revenues and other net income, but less the revenues from the release of provisions set aside before the acquisitions, was in total 16.4% higher than one year earlier, and amounted to HUF 732.5 billion. Non-interest income as a percentage of total income was 29.6% in 2008, down by 0.7 of a percentage point on a year earlier.

Operating expenses, which amounted to HUF 363.7 billion, were 9.8% higher than in 2007. Within this, consolidated personnel expenses were 13.3% higher than a year earlier and amounted to HUF 167.5 billion.

Depreciation rose by HUF 3.0 billion over the 2007 figure, to HUF 38.6 billion. Other non-interest expenses grew by 6.7%, to HUF 157.6 billion.

In 2008, non-corporate taxes translated into HUF 30.0 billion in expenses, representing a 2.3% or HUF 0.7 billion decrease over 2007. Within this, HUF 5.7 billion in separate tax payable by credit institutions and financial enterprises ('special banking tax') was recognised as other expenses (in 2007: HUF 6.5 billion).

The Bank's cost/income ratio was 49.6%, 297 basis points lower than in 2007.

Consolidated return on average assets (ROAA) was 2.45% (in 2007: 2.68%), while consolidated return on average equity (ROAE) was 22.5%, which was 2.2 percentage points lower than in the previous year. Basic net earnings per ordinary share (basic EPS) were HUF 938 (in 2007: 796), while diluted EPS was HUF 935 (in 2007: HUF 794).

## Consolidated capital adequacy ratio (under Basel II)

The regulatory capital of OTP Bank Group on 31 December 2008 was HUF 1,087 billion; its adjusted balance sheet total was HUF 6,092 billion. The solvency ratio accommodating market and operational risks was 15.4% (+200 basis points). The Tier 1 ratio calculated on the basis of the core capital net of goodwill and intangible assets was 11.3% (+300 basis points). These ratios are high even by international standards, and exceed those of OTP Bank's major competitors. The increase in the ratios was due, in addition to the profit after tax for 2008, to proceeds from the sale of OTP Garancia Insurance.

# PERFORMANCE OF OTP BANK'S OPERATIONS[3] IN HUNGARY

## Balance sheet

The gross customer loan portfolio extended as a part of the core operations of OTP Bank in Hungary was 3,348.9 billion on 31 December 2008, which represents a significant, HUF 270.1 billion, or 8.8%, growth. Of this total, loans to retail customers grew dynamically, by 25.7%, to HUF 2,179.2 billion, while those to corporate customers – thanks to the Bank's consistent application of its business policy objectives – fell by 13.0%, to HUF 1,169.7 billion. Housing and mortgage loans accounted for 78.3% of the total retail loan portfolio, with the portfolio of such loans increasing by 23.9% during the year of 2008.

### *Loan portfolio of OTP Core*

| | 12/31/07 | 12/31/08 | Change | |
|---|---|---|---|---|
| | HUF mn | HUF mn | HUF mn | % |
| Retail loans | 1,734,392 | 2,179,217 | 444,825 | 25.6% |
| Mortgage and housing loans | 1,376,239 | 1,705,617 | 329,378 | 23.9% |
| Consumer loans | 304,204 | 391,393 | 87,189 | 28.7% |
| SME loans | 53,949 | 82,207 | 28,258 | 52.4% |
| Corporate loans | 1,344,414 | 1,169,733 | (174,681) | (13.0%) |
| MLE loans | 1,110,772 | 975,307 | (135,465) | (12.2%) |
| Municipal loans | 233,642 | 194,426 | (39,216) | (16.8%) |
| **Total customer loans** | **3,078,806** | **3,348,950** | **270,144** | **8.8%** |

The quality of the portfolio deteriorated over the previous year in terms of the proportion of non-performing loans. 5.2% of the gross loan portfolio was non-performing as at the end of 2008, while in 2007 the comparative figure had been 3.8%. It was in the corporate segment that the deterioration in the loan portfolio occurred, with the main reason for this being the pursuit of strict rating and provisioning practices, though the rate of payment default also increased. Despite the substantial provisioning that took place, the coverage of non-performing loans with provisions fell from 71.6% in 2007 to 62.6%, which was due to the fact that the proportion of corporate loans rated as 'below average', which require lower provisions, grew within the portfolio. The ratio of provisioning to the average gross loan portfolio rose from 0.52% to 0.77%.

The Group had a market share of 7.5% in corporate loans, 29.6% in housing loans, and 48.1% in municipality loans in Hungary at the end of 2008. The Hungarian credit institution members of the Group had a share of 23.8% of the total assets of the banking sector at the end of 2008.

### *Customer deposits of OTP Core*

| | 12/31/07 | 12/31/08 | Change | |
|---|---|---|---|---|
| | HUF mn | HUF mn | HUF mn | % |
| Retail and SME deposits | 2,200,298 | 2,420,480 | 220,182 | 10.0% |
| Retail deposits | 1,965,934 | 2,168,597 | 202,663 | 10.3% |
| SME deposits | 234,365 | 251,882 | 17,517 | 7.5% |
| Corporate deposits | 885,753 | 824,002 | (61,751) | (7.0%) |
| MLE deposits | 643,296 | 576,114 | (67,182) | (10.4%) |
| Municipal deposits | 242,457 | 247,898 | 5,431 | 2.2% |
| **Total customer deposits** | **3,086,051** | **3,244,482** | **158,431** | **5.1%** |

[3] Consolidated and adjusted figures of OTP Bank, OTP Mortgage Bank, OTP Building Society and OTP Faktoring

The total of customer deposits collected as part of the core operations of OTP Bank in Hungary was HUF 3,244.5 billion at the end of 2008, HUF 158.4 billion or 5.1% higher than in 2007. Of the total customer deposits, 74.6% came from the retail segment, with growth in retail deposits amounting to 10.0%. Declining by 7.0%, corporate deposits amounted to HUF 824.0 billion at the end of 2008. The Core loan-to-deposit ratio increased from 99.8% in 2007 to 103.2% in 2008.

The Bank Group had a 24.1% market share of Hungarian credit institution deposits, and within this total, it had a 30.4% share of household deposits, a 41% share of municipality deposits and a 13.2% share of corporate deposits.

## Results

In order to provide a true and fair picture of business processes, we have presented the results of the Hungarian core operations based on the consolidated audited IFRS figures of OTP Bank, OTP Mortgage Bank, OTP Building Society and OTP Faktoring, with the following adjustments[4]:

The net interest income has been stripped of the interest expense related to subordinated and Tier 2 loan capital as well as of the reported net interest income from the financing of subsidiaries.

Other non-interest income has been stripped of the exchange rate gain on the strategic open position and the non-interest income earned on the financing of subsidiaries.

The non-interest income from foreign currency swaps has been presented among net interest income.

Other expenses have been stripped of other risk costs, which we have recorded as a separate item in the profit and loss account.

Non-interest income has been stripped of the revenue from the sale of Garancia Insurance, dividend received from the subsidiaries and liquid assets definitively transferred.

We have highlighted the impairment recognised on the subsidiaries OTP banka Srbija and CJSC OTP Bank from the profit and loss account, and presented it separately.

The annual profit before tax from core operations decreased by 12.0%, to HUF 146.1 billion, and the profit after tax fell by 5.3%, to HUF 132.8 billion. The decline in profit was primarily attributable to a HUF 28.4 billion increase in lending costs and other risk expenses; total income grew by 4.3%, outstripping the growth in operating costs. The increase in recognised allowances was partially offset by the fall in the tax burden.

Net interest income – as a result of the increasing competition in the retail market, the continuing repricing of subsidised housing loans, and intensive fundraising campaigns – rose, despite a 16-basis point decline in interest rate margin, by 3.7%, and amounted to HUF 270.9 billion. The net interest margin was 5.66%.

From non-interest income, the net commission income, which represents a decisive share of the total, increased by 7.0%, while other non-interest income fell by 1.9%.

The allowance for loan losses – as a result of the deteriorating economic outlook and the conservative rating practice – rose by HUF 10.0 billion, to HUF 24.9 billion. Other provision amounted to HUF 20.1 billion, a significant part of which consisted of provisions set aside for OTP Bank's guarantee undertakings related to loans.

Operating expenses associated with core activities were 3.7% higher than in 2007. Within this category, personnel expenses increased by

[4] For a detailed description of the adjustments, see the Annex.

9.0%, while depreciation was 4.9% higher than in the previous year. Material expenses fell by 0.5%. The cost-to-income ratio decreased from 48.8% at year-end 2007 to 48.5%.

## Capital adequacy (based on the institutions ACT)[5]

As of 31 December 2008, the equity of OTP Bank according to HAS amounted to HUF 729.1 billion, representing a growth of 8.3% year on year. The HUF 56.1 billion increase was a net result of the HUF 5.4 billion growth in the general reserve, the HUF 110.7 billion increase in the profit reserve, the HUF 1.0 billion reduction in the allocated reserve and the balance sheet profit for the year of HUF 48.8 billion. Equity per share of nominal value HUF 100 was HUF 2,604 (at end-2007: HUF 2,404).

The portfolio of repurchased treasury shares amounted to HUF 53.8 billion at the end of 2008, i.e. HUF 0.5 billion lower than a year before.

The regulatory capital of the Bank on 31 December 2008 was HUF 485.8 billion; its adjusted balance sheet total was HUF 3,468.3 billion.

As of 31 December 2008, the solvency ratio calculated according to Hungarian regulations was 12.0%, which is 4 percentage points in excess of the 8% required by the Credit Institutions Act.

The Bank's non-consolidated 2008 profit before tax according to HAS was HUF 57.4 billion, 59.6% or HUF 84.6 billion lower than in 2007. With a decrease (from 15.6% to 5.5%) in the actual tax rate compared to 2007, the Bank's after-tax profit was HUF 54.2 billion, or 54.8% less than in 2007.

After the HUF 5.4 billion in general risk provisioning, the balance sheet profit of OTP Bank for the year 2008 amounted to HUF 48.8 billion (the Bank will not be paying dividends on its profits of 2008).

[5] According to HAS

# RESULTS OF THE MAIN SUBSIDIARIES*

In 2008, the profit after tax (without dividend and net cash transfer) of the fully consolidated foreign subsidiaries reached HUF 66.4 billion, representing HUF 13.7 billion, or 26.0% growth compared to 2007; as a consequence, the foreign group members' contribution to the adjusted profit after tax increased from 25.3% to 30.4%. The adjusted profit after tax of the Hungarian Group members amounted to HUF 152.3 billion, reflecting a decrease of HUF 3.2 billion or 2.0% on yearly basis. The aggregated result of the banking group members expanded by 15.6 billion or 8.4%, while the profit contribution of leasing, insurance and asset management businesses fell back significantly, partly as a result of the financial crisis, partly as a result of the sale of the insurance business in 2008.

### *The Group members' contribution to the consolidated profit*

| in HUF million | 2007** | 2008 | Change | |
|---|---|---|---|---|
| **Consolidated profit after tax** | **208,548** | **241,068** | **32,521** | **15.6%** |
| Profit of the strategic short position (after tax) | (479) | (4,720) | (4,241) | 885.4% |
| Dividend and total net cash transfers (outside of Group) | 879 | 2,380 | 1,501 | 170.8% |
| Profit of the sale of OTP Garancia Group (after tax) | 0 | 117,346 | 117,346 | – |
| Goodwill impairment charges in connection with subsidiaries (after tax) | 0 | (92,629) | (92,629) | – |
| Consolidated after tax profit without the result of strategic open FX position, consolidated dividend and net cash transfers, the result of the sale of OTP Garancia Group and goodwill impairment charges | 208,147 | 218,691 | 10,544 | 5.1% |
| **Banks total without one-off items** | **185,738** | **201,371** | **15,633** | **8.4%** |
| OTP CORE (Hungary) | 140,314 | 132,831 | (7,484) | (5.3%) |
| Corporate Centre | (8,165) | 2,159 | 10,324 | – |
| OAO OTP Bank (Russia) | 7,590 | 8,916 | 1,326 | 17.5% |
| CJSC OTP Bank (Ukraine) | 14,089 | 16,414 | 2,325 | 16.5% |
| DSK+SPV (Bulgaria) | 26,408 | 31,021 | 4,613 | 17.5% |
| OBR (Romania) | (2,990) | 241 | 3,231 | – |
| OTP banka Srbija (Serbia) | 594 | 1,670 | 1,076 | 181.1% |
| OBH (Croatia) | 3,554 | 5,041 | 1,487 | 41.8% |
| OBS (Slovakia) | 2,600 | 1,431 | (1,169) | (45.0%) |
| CKB (Montenegro) | 2,247 | 2,949 | 702 | 31.2% |
| **Leasing** | **7,781** | **3,497** | **(4,284)** | **(55.1%)** |
| **Insurance companies** | **6,230** | **4,030** | **(2,200)** | **(35.3%)** |
| **Asset Management** | **6,223** | **4,743** | **(1,480)** | **(23.8%)** |
| **Other Hungarian subsidiaries** | **(115)** | **1,526** | **1,641** | **–** |
| **Other foreign subsidiaries** | **54** | **25** | **(29)** | **(53.7%)** |
| **Eliminations** | **1,734** | **2,199** | **465** | **26.8%** |
| **Total Hungarian subsidiaries (without result of strategic open FX position, dividend and net cash transfers)** | **155,448** | **152,285** | **(3,163)** | **(2.0%)** |
| **Total foreign subsidiaries (without result of strategic open FX position, dividend and net cash transfers)** | **52,699** | **66,406** | **13,707** | **26.0%** |
| **Profit contribution of foreign Group members (%)** | **25.3%** | **30.4%** | | |

* Figures presented in the statements are not consistent with the audited statements because they are presented according to controlling methodoly.

** Figures of the previous years could differ from figures presented in the Annual Report 2007, because the base period was also recalculated according to adjustments.

### *Main indicators of DSK Group:*

| | 2007 | 2008 | Change |
|---|---|---|---|
| ROAA | 2.92% | 2.82% | (0.10%) |
| ROAE | 24.7% | 21.5% | (3.20%) |
| Cost/income ratio | 35.6% | 36.7% | 1.1% |
| Gross loans/deposit ratio | 119.9% | 140.4% | 20.5% |
| Allowance/average gross loans | 1.4% | 1.1% | (0.3%) |
| Net interest margin | 4.91% | 4.82% | (0.09%) |

### *Main financial data of DSK Group:*

| | 31/12/2007* | 31/12/2008 | Change | |
|---|---|---|---|---|
| | HUF mn | HUF mn | HUF mn | % |
| Gross loans | 779,835 | 1,014,894 | 235,059 | 30.1% |
| Retail loans | 615,878 | 816,257 | 200,379 | 32.5% |
| Corporate loans | 163,956 | 198,636 | 34,680 | 21.2% |
| Allowances for loan losses | (27,925) | (39,074) | (11,149) | 39.9% |
| Loans, net of allowance for loan losses | 751,910 | 975,819 | 223,909 | 29.8% |
| Deposits from customers | 650,325 | 722,880 | 72,555 | 11.2% |
| Retail | 520,865 | 626,576 | 105,711 | 20.3% |
| Corporate | 129,460 | 96,304 | (33,156) | (25.6%) |
| Liabilities to credit institutions | 193,290 | 175,126 | (18,164) | (9.4%) |
| Shareholders' equity | 124,062 | 165,045 | 40,983 | 33.0% |
| Subscribed capital | 22,101 | 22,101 | 0 | 0.0% |
| Total assets | 1,029,528 | 1,171,645 | 142,117 | 13.8% |
| **Profit before tax** | **29,162** | **34,481** | **5,319** | **18.2%** |
| **Profit after tax** | **26,408** | **31,021** | **4,613** | **17.5%** |

## DSK Group

- Total assets of DSK Group amounted to HUF 1,171.6 billion on 31 December 2008, increased by 13.8% compared to 2007. With a yearly growth rate of 33.0%, the total shareholders' equity reached HUF 165 billion, and represented 14.1% of the total liabilities.
- Gross loans expanded by 30.1% and amounted to HUF 1,014.9 billion, within the, retail loans showed a growth rate of 32.5%, while the corporate loan portfolio expanded by 21.1%. The proportion of retail loans increased from 79.0% at the end of 2007 to 80.4% at year-end 2008.
- The quality of loan portfolio did not change significantly; the non-performing part of the total loan outstandings came out at 4.0% in 2008. Coverage of non-performing loans with provisions stood above 80%.
- Total customer deposit base grew to HUF 722.9 billion, an increase of 11.2%. 86.7% of the total deposits came from the retail segment. Customer deposits covered 61.7% of the total liabilities, which corresponds with a loan/deposit ratio of 140.4%.
- Interest income came out at HUF 84.0 billion in 2008; this, together with interest expenses amounting to HUF 30.9 billion, resulted in HUF 53.1 billion net interest income. Net interest margin/average total assets reached 4.82%, at the year-ends.
- DSK Group realized net fee and commission income of nearly HUF 17 billion, showing dynamic expansion of 22.4%.
- Operating costs amounted to HUF 26.2 billion; personnel costs reached HUF 9.3 billion. The Bank's cost/income ratio remained one of the lowest in the Group (36.7% in 2008).
- DSK Group posted a profit after tax of HUF 31.0 billion in 2008 (+17.5% on a yearly basis). Return on average assets (ROAA) was 2.82% and return on average equity (ROAE) came out at 21.5%.

* Figures of the previous years could differ from figures presented in the Annual Report 2007, because the base period was also recalculated according to adjustments.

### *Main indicators of CJSC OTP Bank:*

| | 2007 | 2008 | Change |
|---|---|---|---|
| ROAA | 2.67% | 2.23% | (0.44%) |
| ROAE | 25.9% | 22.5% | (3.4%) |
| Cost/income ratio | 45.6% | 35.1% | (10.5%) |
| Gross loans/deposit ratio | (0.13%) | 4.08% | 4.21% |
| Allowance/average gross loans | 5.57% | 6.67% | 1.11% |
| Net interest margin | 308.1% | 449.6% | 141.5% |

### *Main financial data of CJSC OTP Bank:*

| | 31/12/2007* | 31/12/2008 | Change | |
|---|---|---|---|---|
| | HUF mn | HUF mn | HUF mn | % |
| Gross loans | 530,659 | 763,758 | 233,099 | 43.9% |
| Retail loans | 222,574 | 351,838 | 129,265 | 58.1% |
| Corporate loans | 251,696 | 331,880 | 80,184 | 31.9% |
| Car-financing | 56,389 | 80,040 | 23,651 | 41.9% |
| Allowances for loan losses | (3,431) | (22,882) | (19,451) | 566.9% |
| Loans, net of allowance for loan losses | 527,228 | 740,876 | 213,648 | 40.5% |
| Deposits from customers | 172,264 | 169,888 | (2,376) | (1.4%) |
| Retail | 96,212 | 77,745 | (18,467) | (19.2%) |
| Corporate | 73,539 | 89,486 | 15,947 | 21.7% |
| Liabilities to credit institutions | 371,622 | 551,030 | 179,408 | 48.3% |
| Shareholders' equity | 65,613 | 80,098 | 14,485 | 22.1% |
| Subscribed capital | 34,327 | 74,217 | 39,890 | 116.2% |
| Total assets | 624,585 | 847,008 | 222,423 | 35.6% |
| **Profit before tax** | **19,317** | **23,077** | **3,760** | **19.5%** |
| **Profit after tax** | **14,089** | **16,414** | **2,326** | **16.5%** |

## CJSC OTP Bank

- Total assets of CJSC OTP Bank reached HUF 847 billion on 31 December 2008, exceeding previous year's figure by 35.6%. With 22.1% growth in 2008, total shareholder's equity stood at HUF 80.1 billion.
- In 2008, loan outstandings expanded by 43.9% and reached HUF 764 billion. The growth rate of corporate loan portfolio was 31.9%, the rate of the retail loan outstandings was 58.1%. The share of retail loans in the total loan portfolio was close to 46%, while the proportion of SME loans stood at around 34% within retail loans.
- The number of customer deposits decreased by 1.4% and dropped to HUF 169.9 billion as a consequence of countrywide deposit withdrawals in the fourth quarter in 2008. More than half of the deposit base was from corporate customers. The bank's deposit funds accounted for 20% of total funds; the loan/deposit ratio was 449.6%, since the majority of the sources, at around 65%, were procured on the interbank market.
- The Bank's adjusted cost/income ratio improved from 45.6% by 10.5%-point to 35.1%, due to the strict cost control carried out by the management.
- The unfavourable market conditions led to significant provisioning; on the one hand, it was partly justified by the deterioration of the loan portfolio quality, but on the other hand, the majority of the increment of the allowance was set aside due to local rules. The allowance to average gross loans indicator went up 4.1% in 2008. Non-performing loans accounted for 3.6% of the total gross loan portfolio; the NPL-coverage exceeded 82%.
- CJSC OTP Bank closed the 2008 business year with a profit after tax of HUF 16.4 billion, thus achieving a return on average assets (ROAA) of 2.23% a return on average equity (ROAE) of 22.5%.

* Figures of the previous years could differ from figures presented in the Annual Report 2007, because the base period was also recalculated according to adjustments.

## *Main financial data of OTP Bank Russia:*

| | 2007 | 2008 | Change |
|---|---|---|---|
| ROAA | 1.86% | 1.86% | – |
| ROAE | 17.7% | 17.4% | (0.3%) |
| Cost/income ratio | 62.7% | 59.5% | (3.2%) |
| Gross loans/deposit ratio | 4.3% | 5.5% | 1.2% |
| Allowance/average gross loans | 10.68% | 12.92% | 2.24% |
| Net interest margin | 104.6% | 170.9% | 66.3% |

## *Main financial data of OTP Bank Russia:*

| | 31/12/2007* | 31/12/2008 | Change | |
|---|---|---|---|---|
| | HUF mn | HUF mn | HUF mn | % |
| Gross loans | 304,410 | 383,118 | 78,708 | 25.9% |
| Retail loans | 183,148 | 247,927 | 64,779 | 35.4% |
| Corporate loans | 110,859 | 113,375 | 2,516 | 2.3% |
| Car-financing | 10,403 | 21,813 | 11,410 | 109.7% |
| Allowances for loan losses | (18,323) | (30,389) | (12,066) | 65.9% |
| Loans, net of allowance for loan losses | 286,087 | 352,729 | 66,642 | 23.3% |
| Deposits from customers | 291,154 | 224,152 | (67,002) | (23.0%) |
| Retail | 167,406 | 137,252 | (30,154) | (18.0%) |
| Corporate | 123,777 | 86,901 | (36,876) | (29.8%) |
| Liabilities to credit institutions | 72,765 | 214,001 | 141,236 | 194.1% |
| Shareholders' equity | 41,546 | 60,665 | 19,119 | 46.0% |
| Subscribed capital | 28,995 | 33,344 | 4,349 | 15.0% |
| **Total assets** | **432,000** | **529,019** | **97,019** | **22.5%** |
| **Profit before tax** | **10,047** | **11,688** | **1,641** | **16.3%** |
| **Profit after tax** | **7,088** | **8,916** | **1,828** | **25.8%** |

## OTP Bank Russia

- In the first quarter of 2008, the Russian subsidiary's activity was analysed based on the financial statements of OAO OTP Bank, but from Q2 2008, the aggregated financial statements of OAO OTP Bank and the newly acquired Donskoy Narodny Bank is the subject of the analysis (named OTP Bank Russia). The acquisition of Donskoy Narodny Bank was contracted on 12 November 2007, while the closing of the purchase transaction was completed on 6 May 2008 (HUF 6.7 billion).
- The total assets of OTP Bank Russia as at 31 December 2008 amounted to HUF 529 billion, increased by 22.5% from the end of 2007. The equity reached HUF 60.6 billion, representing 46.0% increase over the previous year.
- OTP Bank raised capital in OAO OTP Bank in September 2008 at the amount of RUB 2,501 million.
- Gross loan volume grew by 25.9%, within which the volume of retail loans expanded by 35.4%, but at the same time, the corporate portfolio increased only by 2.3%.
- The ratio of non-performing loans to the total loan outstandings went up slightly from 9.7% at the end of 2007 to 10.3% in 2008; the NPL coverage ratio also increased from 50.1% to 68.3%. Allowance on losses to average gross loans increased in 2008 to 5.5% from the previous year's 4.3%.
- Customer deposits dropped by 23%, to HUF 224.2 billion. 61.23% of deposits were from retail customers. Deposits represented 42.4% of the total funding sources, while the loan/deposit ratio was 170.9%.
- The Bank's cost/income ratio improved from 62.7% in 2007 to 59.5% in 2008.
- OTP Bank Russia closed the 2008 business year with a profit after tax of HUF 8.9 billion, thus achieving a return on average assets (ROAA) of 1.95 and a return on average equity (ROAE) of 17.4%.

* Figures of the previous years could differ from figures presented in the Annual Report 2007, because the base period was also recalculated according to adjustments.

# EXPLANATION OF THE ADJUSTMENTS MADE TO THE IFRS PROFIT AND LOSS ACCOUNT CONTAINED IN THE ANNUAL REPORT

To ensure that the OTP Group's performance is presented in a form that fairly reflects the underlying processes, we have performed the following structural adjustments to the consolidated and individual profit and loss account contained in the annual report. The explanation of the adjustments is as follows.

**Adjustments:**

The received dividends together with the contribution in kind transactions, as well as the profit after tax arising from strategic open FX positions, the profit after tax from the sale of the Garancia Group in the third quarter of 2008, and the goodwill impairment recognised in respect of the Serbian OTP banka Srbija and the Ukrainian CJSC OTP Bank in the fourth quarter of 2008 have been taken out of the profit and loss hierarchy, and analysed separately from the other profit after tax arising from the operations of the Group and the individual group members.

In the case of FX swaps, the exchange rate result arising from the revaluation of the swaps' spot rate is presented as part of the net interest income.

The net foreign exchange gain or loss coming from the FX swap transactions has also been reported as a part of the net interest income.

At OTP Mortgage Bank, the effective interest method related to commissions was changed in the fourth quarter of 2008. To ensure comparability of the data between time periods, we have presented the interest accrual related to these commissions for the fourth quarter of 2008 as for previous periods (both at consolidated and at OTP Core level).

Insurance premiums are presented in net together with insurance expenses, as other non-interest income.

The other non-interest revenues arising from the release of provisions/allowances set aside prior to acquisitions in the reporting period are not reported as other revenues, but among the allowances related to loans, which are reduced by the sum of released pre-acquisition provisions.

Other non-interest income is presented on the same line with the gain/losses on real estate transactions, from which the aforementioned released pre-acquisition provisions, as well as the received contributions in kind have been reallocated; however the other expenses related to non-financial operations are reported as adjusted net other non-interest income, thereby presenting the result of non-financial operations as a net figure, called other non-interest income.

From the other expenses we have presented separately the other provisions in the corrected profit and loss account. Other provisions in the IFRS profit and loss account account are mainly the provisions for contingent and future liabilities as well as for litigation, the impairment for investments and securities, and impairment for other assets in a similar way, the contributed in kind expenses – except for the subvention for the movies –, and expenses related to the other non-financial operations are also presented separately.

The remaining other expenses line mostly contains material costs.

The provision for impairment on accrued interest in OAO OTP Bank (Russia) are presented as part of the net interest income both in the consolidated financial statements and in the individual financial statements of OAO OTP Bank.

The contribution in kind executed by OTP Core because of the completion of a legal case, and the release of other provisions recorded in the same amount in the other provisions, are presented in net both in the consolidated and the OTP Core profit and loss accounts. (The transaction had a neutral impact on the net income in the first quarter of 2008.)

The cost/income ratios, the net interest margins and the risk allowance/gross loan portfolio ratios, as well as the ROA and ROE, were calculated from the profit and loss account after adjustments, excluding the dividend income, the net contribution in kind and the result of strategic open positions. In the case of the C/I ratio, the expenses do not include other provisions.

# ASSET-LIABILITY MANAGEMENT

**Asset-liability management of the OTP Group focused on two main areas in 2008:**

- *Maintaining the liquidity of the OTP Group at a secure level*
- *Reducing the risks that can be assumed by the various business lines*

## *Maintaining the liquidity of the OTP Group at a secure level*

The primary objective of the OTP Group in terms of asset-liability management has been to ensure that the Group's liquidity is maintained at a secure level. Given that external sources of financing became significantly more expensive in the first half of 2008, while the available options shrank in the second half of the year, the various areas of business needed to adapt in order to ensure that a safe level of liquidity could be maintained. By restricting the lending activity in proper time, the Group managed to prevent the situation of inadequate financing leading to a deficit in liquidity. With external financing becoming limited, the Group shifted to a course where growth in its balance sheet total was significantly slower than previously planned. Thanks to this, it managed – despite the economic crisis – to maintain a level of liquidity that provides adequate protection against even unanticipated shocks.

## *Reducing the risks that can be taken on in various areas of business*

In the course of 2008, the Bank experienced increased volatility in all its instruments exposed to the major market risks. The Bank on several occasions reduced the level of risk that the individual lines of its business would be permitted to bear, lest these increased risks lead to losses of a magnitude that would be irreconcilable with the Bank's business policy. Responding to the changed market environment, the Bank also reduced the levels of interest-rate and foreign exchange risk that had been undertaken in furtherance of its strategic objectives in the course of asset-liability management.

## *Liquidity and market risk exposure of the OTP Bank Group*

Under Government Decree 244/2000, the capital requirement for trading book positions, counterparty risks and forex risk must be consolidated for OTP Mortgage Bank Ltd., OTP Building Society Ltd., Merkantil Bank Ltd., OTP Banka Slovensko, DSK Bank, OTP Bank Romania, OTP banka Hrvatska, CJSC OTP Bank, OAO OTP Bank, OTP banka Srbija and CKB. By the end of 2008, the consolidated capital requirement was HUF 29.5 billion, which was due primarily to the forex position (HUF 24.6 billion).

Exposure of the various Group members' forex positions is restricted to individual and global net open position limits (overnight and intraday), and to stop-loss limits. Forex exposure at Group level was concentrated at OTP Bank, while the open positions of foreign Group members were negligible measured against either the balance sheet total or regulatory capital. The exposure arising at OTP Bank derived from holdings acquired in foreign subsidiaries, as well as from strategic positions opened as cover for forex-dependent revenues featuring in the Bank's profit projection.

In the first half of 2008, the liquidity requirement of the OTP Bank Group followed the dynamics of previous years, as the Group was able to draw on fresh resources of EUR 1.5 billion from the capital market. In the second half, opportunities for securing financing on the capital market narrowed, and consequently the Bank's various business units adapted rapidly to the changed environment, thus ensuring that the Group would close the year with operative liquid funds considerably in excess of its liabilities falling due in 2009. OTP Mortgage Bank raises the funds required for mortgage lending through issuing bonds, which are bought by the parent bank, institutional investors and retail clients. In 2008, the volume of issued mortgage bonds grew by HUF 340 billion.

In 2008, the OTP Bank Group's interest risk exposure was essentially determined by the positions of OTP Bank Plc, OTP Mortgage Bank Ltd., CJSC OTP Bank and DSK Bank.

## Changes in the liquidity position of OTP Bank Plc.

The long-term liquidity position was influenced significantly by the issuing of mortgage bonds in the value of EUR 1 billion, as well as a further EUR 500 million in senior bonds, carried out during the first half of the year. Credit for non-refinancing purposes raised by OTP on the capital market totalled EUR 4.3 billion at the end of 2008. The Bank is able to generate US dollar and Swiss franc financing in the form of forex swap transactions using surplus forint and euro liquidity.

By the end of 2008, the volume of forex loans had grown by 28.75% compared to the end of 2007. A significant portion of these loans was provided by the Bank to its subsidiaries. Coverage for forex loans by forex client deposits was 16.5%, and 49% in the euro-based segment. In 2008, the value of client forex deposits increased by 17%.

The Bank proceeds more strictly than is stipulated by the applicable statutory regulations: while the latter define large deposits as those exceeding 15% of regulatory capital, the Bank classifies any deposits in excess of 6% of regulatory capital (i.e. greater than HUF 32 billion) as such. The ratio of these deposits to the balance sheet total was 2.1% at the end of 2008.

Based on interpretation of the 'Dependence on Large Depositors' indicator applied by OTP Bank, the volume of liquid assets is 6.2 times the large depositors' portfolio. However, if we disregard the deposits in funds managed by OTP Fund Management, this ratio jumps to 14.3, which is far higher than the limit of 2 stipulated in OTP Bank's regulations.

## Interest-rate risk exposure of OTP Bank Plc.

By constantly gauging its exposure to interest risk, the Bank aims to minimize potential losses arising from unfavourable shifts in market interest rates, which might become apparent in declining net interest income or a fall in the market value of the portfolio. In all events, management will be informed of any overstepping of risk limits.

Without hedging transactions, the Bank has significant interest risk exposure in Hungarian forint, given that – taking into account the proportion of variable items subject to re-pricing – it has HUF 600 billion more forint assets reacting to market yield fluctuations than liabilities. Due to its portfolio of off-balance-sheet forex swaps creating foreign currency liquidity from forint liquidity, the Bank's portfolio of variable-rate assets exceeds by some HUF 1,400 billion the volume of its variable-rate liabilities. In order to reduce risk, in the course of 2008 the Bank carried out interest-rate swaps for hedging purposes and purchased fixed-rate government bonds.

In the case of the EUR and USD portfolios, the Bank carried out fixed-rate EUR-USD forex swaps in order to significantly reduce its exposure to risk at Group level. The EUR exposure was due to the fact that the Bank finances a portion of its variable-rate and short-term fixed-rate euro placements with long-term, fixed-rate subordinated or auxiliary loan capital. The open USD position, on the other hand, is due to the floating-rate liabilities hedging the fixed-rate mortgage loans extended by the foreign subsidiaries.

## Foreign exchange risk exposure of OTP Bank Plc.

The Bank is an active player of the international forex and derivatives markets. As a consequence of its foreign interests, OTP Bank Plc.'s average net open position was HUF 168.2 billion in 2008. The dealing room held an average net open position of HUF 3.3 billion.

In 2008, the forint weakened by 4.5% against the euro. The US dollar strengthened against the euro by 4%, and the forint thus weakened against the dollar by 8.8% in total. OTP Bank Plc. successfully exploited the opportunities offered by market movements, and its profit from forex trading activity thus increased considerably.

## Capital requirement of OTP Bank Plc.'s market risk exposure

Since the second quarter of 2001, in line with Government Decree 244/2000, the Bank has been reporting to the Hungarian Financial Supervisory Authority on a daily basis on the capital required to cover the risk of its trading book positions, determined according to the 'standard' method. In addition, in accordance with regulatory changes from the first quarter of 2008, the Bank reports to the Supervisory Authority monthly on the capital requirement for its trading position risks, counterparty risks and forex risk, determined according to the Basel II method. From 28 November 2008, with the approval of the Bank's Board of Directors and the Supervisory Authority, the forex risk is determined according to the standard method. In 2008, the average capital requirement was HUF 45.6 billion, of which a value equivalent to HUF 11.2 billion was required by the trading position risk, HUF 4.8 billion by the counterparty risk, and HUF 29.6 billion by the forex risk.

## *FINANCIAL SUMMARY (consolidated, IFRS data)*[1]

**Balance sheet (as at 31 December, in HUF billion)**

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| Cash due from banks and balances with the National Bank of Hungary | 465,9 | 483,2 | 532,6 | 353,2 | 348,8 |
| Placements with other banks, net of allowance for placement losses | 286,2 | 438,8 | 602,6 | 654,8 | 593,5 |
| Financial assets at fair value through statements of operations | 70,6 | 48,1 | 110,6 | 285,9 | 129,3 |
| Securities available-for-sale | 295,8 | 409,9 | 489,3 | 473,9 | 481,3 |
| Loans and advances to customers (gross) | 2,586,1 | 3,297,2 | 4,474,7 | 5,761,1 | 7,000,9 |
| Allowances for loan losses | (79,3) | (105,9) | (127,6) | (178,7) | (270,7) |
| Loans, net of allowance for placement losses | 2,506,8 | 3,191,3 | 4,347,1 | 5,582,4 | 6,730,2 |
| Equity investments | 9,4 | 12,4 | 70,9 | 9,9 | 10,5 |
| Securities held-to-maturity | 247,3 | 289,8 | 268,3 | 317,6 | 321,7 |
| Premises, equipment and intangible assets, net | 174,8 | 233,2 | 464,7 | 541,9 | 469,7 |
| Other assets | 105,6 | 109,2 | 211,3 | 242,2 | 294,4 |
| **TOTAL ASSETS** | **4,162,4** | **5,215,9** | **7,097,4** | **8,461,9** | **9,379,4** |
| Due to banks and deposits from the National Bank of Hungary and other banks | 254,1 | 364,1 | 660,4 | 798,2 | 842,9 |
| Deposits from customers | 2,902,2 | 3,428,2 | 4,232,2 | 5,038,4 | 5,219,2 |
| Liabilities from issued securities | 317,2 | 543,5 | 781,3 | 985,3 | 1,526,6 |
| Other liabilities | 240,8 | 285,6 | 384,6 | 443,3 | 425,6 |
| Subordinated bonds and loans | 14,3 | 47,0 | 250,7 | 301,2 | 316,1 |
| **TOTAL LIABILITIES** | **3,728,7** | **4,668,4** | **6,309,2** | **7,566,3** | **8,330,5** |
| **TOTAL SHAREHOLDERS' EQUITY** | **433,7** | **547,5** | **788,2** | **895,6** | **1,049,0** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **4,162,4** | **5,215,9** | **7,097,4** | **8,461,9** | **9,379,4** |
| Net asset value per share (NAV)[2] (HUF, based on total number of shares) | 1,486,6 | 1,862,8 | 2,815,0 | 3,198,5 | 3,746,3 |

**Profit and loss account (for the years ended 31 December, in HUF billion)**

| | 2004[3] | 2005[3] | 2006[4] | 2007[2] | 2008[2] |
|---|---|---|---|---|---|
| Net interest income | 260,9 | 297,2 | 355,9 | 438,4 | 515,9 |
| Provision for loan and placement losses | 16,0 | 28,0 | 28,6 | 42,1 | 108,0 |
| Net interest income after provision for loan and placement losses | 244,8 | 269,2 | 327,4 | 396,3 | 407,9 |
| Fee and commission income | 91,6 | 118,9 | 145,0 | 133,0 | 140,6 |
| Other non-interest income | 70,1 | 97,6 | 97,7 | 57,8 | 76,0 |
| Total non-interest income | 161,8 | 216,5 | 242,7 | 190,8 | 216,6 |
| Fee and commission expenses | 20,6 | 19,9 | – | – | – |
| Personnel expenses | 79,5 | 95,2 | 106,8 | 147,8 | 167,5 |
| Depreciation and amortization | 29,2 | 21,9 | 26,5 | 35,6 | 38,6 |
| Insurance expenses[5] | 40,3 | 58,5 | 60,9 | – | – |
| Other expenses | 81,0 | 98,1 | 125,3 | 155,0 | 168,1 |
| Total non-interest expenses | 250,6 | 293,6 | 351,5 | 338,4 | 374,2 |
| **Profit before tax** | **156,0** | **192,1** | **218,6** | **248,7** | **250,3** |
| **Profit after tax** | **131,5** | **158,3** | **187,1** | **208,1** | **218,7** |
| Earnings per share (EPS)[2] | | | | | |
| Base HUF | 501 | 603 | 722 | 796 | 941 |
| Diluted HUF | 499 | 599 | 714 | 794 | 938 |

| **KEY INDICATORS** | | | | | |
|---|---|---|---|---|---|
| Loan to deposit ratio % | 69.4 | 70.6 | 105.7 | 113.8 | 134.1 |
| Cost/income ratio % | 57.2 | 55.4 | 56.4 | – | – |
| Cost/income ratio (adjusted) %[6] | – | – | 56.8 | 58.9 | – |
| Coast/income ratio (adjusted) %[7] | – | – | – | 52.6 | 49.6 |
| Capital adequacy ratio %[8] | 11.19 | 10.55 | 9.88 | 10.97 | 12.02 |
| ROAA % | 3.45 | 3.38 | 3.04 | 2.68 | 2.45 |
| ROAE % | 35.3 | 32.3 | 28.0 | 24.7 | 22.5 |
| Dividend per share HUF | 146 | 197 | 144 | 0 | 0 |
| Per capita profit after tax (HUF million) | 7,7 | 9,0 | 7,6 | 6,7 | 7,1 |

[1] Figures presented in the statements are not consistent with the audited data because they were originated according to controlling methodology.
[2] The profit and loss accounts of the year 2007 and 2008 are not comparable with previous years' data, the adjustments of the audited data are included in the annex of the Management's Analysis.
[3] Due to the changes of accounting standards figures are not comparable with previous years' data.
[4] From the year 2006 adjusted by the release of pre-acquisition provision and by the non-interest result of FX swap transactions, while fee and commission income was shown on a net base.
[5] Figures are not indicated in the base and the current year because of the Garancia transaction.
[6] Adjustment of the year 2007.
[7] Adjustment of the year 2008.
[8] OTP Bank unconsolidated, according to "HPT".


2006
2007
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# Financial Reports

# Deloitte

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of OTP Bank Plc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2008, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 60 to 108 of this Annual Report.

*Management's Responsibility for the 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 entity's preparation and fair presentation of the 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of OTP Bank Plc. and its subsidiaries as of December 31, 2008, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest, March 20, 2009

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Nagyváradiné Szépfalvi Zsuzsanna
Registered Auditor
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## *Balance Sheet*

(consolidated, based on IFRS, as at 31 December 2008, in HUF million)

| | Note | 2008 | 2007 |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 4. | 348,849 | 353,243 |
| Placements with other banks, net of allowance for placement losses | 5. | 593,542 | 654,788 |
| Financial assets at fair value through profit or loss | 6. | 129,332 | 285,895 |
| Securities available-for-sale | 7. | 481,257 | 473,925 |
| Loans, net of allowance for loan losses | 8. | 6,730,170 | 5,582,437 |
| Accrued interest | | 87,793 | 63,459 |
| Associates and other investments | 9. | 10,467 | 9,892 |
| Securities held-to-maturity | 10. | 321,733 | 317,557 |
| Property and equipment | 11. | 200,359 | 188,486 |
| Intangible assets | 11. | 269,342 | 353,423 |
| Other assets | 12. | 206,592 | 178,769 |
| **TOTAL ASSETS** | | **9,379,436** | **8,461,874** |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | 13. | 842,867 | 798,154 |
| Deposits from customers | 14. | 5,219,226 | 5,038,372 |
| Liabilities from issued securities | 15. | 1,526,639 | 985,265 |
| Accrued interest payable | | 99,141 | 60,153 |
| Fair value of derivative financial instruments designated as held for trading | | 125,487 | 12,920 |
| Other liabilities | 16. | 200,957 | 370,269 |
| Subordinated bonds and loans | 17. | 316,148 | 301,164 |
| **TOTAL LIABILITIES** | | **8,330,465** | **7,566,297** |
| Share capital | 18. | 28,000 | 28,000 |
| Retained earnings and reserves | 19. | 1,160,935 | 976,225 |
| Treasury shares | 20. | (146,749) | (114,001) |
| Minority interest | 21. | 6,785 | 5,353 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **1,048,971** | **895,577** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **9,379,436** | **8,461,874** |

The accompanying notes to consolidated financial statements on pages 64 to 108 form an integral part of these consolidated financial statements.

## ***Statements of Operations***

(consolidated based on IFRS, for the year ended 31 December 2008, in HUF million)

| | Note | 2008 | 2007 |
|---|---|---|---|
| Interest Income: | | | |
| Loans | | 720,650 | 586,883 |
| Placements with other banks | | 172,586 | 95,793 |
| Amounts due from banks and balances with the National Bank of Hungary | | 16,161 | 12,824 |
| Securities held for trading | | 7,029 | 7,272 |
| Securities available-for-sale | | 32,402 | 34,145 |
| Securities held-to-maturity | | 26,624 | 29,938 |
| Total Interest Income | | 975,452 | 766,855 |
| Interest Expense: | | | |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | | 226,809 | 76,147 |
| Deposits from customers | | 221,607 | 172,506 |
| Liabilities from issued securities | | 72,750 | 50,197 |
| Subordinated bonds and loans | | 17,009 | 16,438 |
| Total Interest Expense | | 538,175 | 315,288 |
| **NET INTEREST INCOME** | | **437,277** | **451,567** |
| Provision for impairment on loan and placement losses | 5., 8. | 111,449 | 58,184 |
| **NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES** | | **325,828** | **393,383** |
| Non-Interest Income: | | | |
| Fees and commissions | | 181,765 | 168,913 |
| Foreign exchange gains, net | | 130,527 | 8,399 |
| (Losses)/gains on securities, net | | (1,096) | 5,085 |
| Gains on real estate transactions | | 1,807 | 1,371 |
| Dividend income and gains and losses of associated companies | | 2,466 | 993 |
| Insurance premiums | | 60,432 | 83,591 |
| Gain on sale of insurance business line | 40. | 121,186 | – |
| Other | | 27,801 | 40,067 |
| Total Non-Interest Income | | 524,888 | 308,419 |
| Non-Interest Expenses: | | | |
| Fees and commissions | | 46,534 | 35,903 |
| Personnel expenses | | 167,461 | 147,831 |
| Depreciation and amortization | 11. | 132,201 | 35,627 |
| Insurance expenses | | 47,178 | 69,204 |
| Administration expenses | | 116,783 | 106,484 |
| Other | 22. | 66,192 | 57,801 |
| Total Non-Interest Expense | | 576,349 | 452,850 |
| **PROFIT BEFORE INCOME TAX** | | **274,367** | **248,952** |
| Income tax | 23. | (33,299) | (40,404) |
| **NET PROFIT FOR THE YEAR** | | **241,068** | **208,548** |
| From this, attributable to: | | | |
| Minority interest | | 596 | 340 |
| Equity holders | | 240,472 | 208,208 |
| Consolidated earnings per share (in HUF) | | | |
| Basic | 36. | 938 | 796 |
| Diluted | 36. | 935 | 794 |

The accompanying notes to consolidated financial statements on pages 64 to 108 form an integral part of these consolidated financial statements.

## *Statement of Cash Flows*

(consolidated, based on IFRS, for the year ended 31 December 2008, in HUF million)

| OPERATING ACTIVITIES | Note | 2008 | 2007 |
|---|---|---|---|
| **Profit before income tax** | | **274,367** | **248,952** |
| Income tax paid | | (35,475) | (45,005) |
| Goodwill impairment | 11. | 93,592 | – |
| Depreciation and amortization | 11. | 38,609 | 35,627 |
| Provision for impairment on loan and placement losses | 5., 8. | 111,449 | 58,184 |
| Provision for impairment on permanent diminution in value of equity investments | 9. | 463 | 131 |
| Provision for impairment on other assets | 22. | 11,290 | 8,386 |
| Provision for impairment on off-balance sheet commitments and contingent liabilities | 16. | 4,731 | 4,018 |
| Net (decrease)/increase in insurance reserves | | (183,211) | 20,604 |
| Share-based payment | 2., 26. | 28 | 5,123 |
| Changes in fair value adjustment of securities held for trading | | (5,010) | 695 |
| Unrealised gains/(losses) on fair value adjustment of derivative financial instruments | | 78,937 | (44,522) |
| Changes in financial assets at fair value through profit or loss | | 168,518 | (32,298) |
| Increase in accrued interest | | (24,259) | (8,338) |
| Increase in other assets, excluding advances for investments and before provisions for losses | | (37,808) | (18,649) |
| Increase in accrued interest payable | | 38,886 | 14,021 |
| (Decrease)/increase in other liabilities | | (66,897) | 4,072 |
| **Net Cash Provided by Operating Activities** | | **468,210** | **251,001** |
| **INVESTING ACTIVITIES** | | | |
| Net decrease in placement with other banks before provision for placements losses | | 61,922 | 16,315 |
| Net increase in securities available-for-sale | | (31,827) | (94,121) |
| Net (increase)/decrease in equity investments, before provision | | (990) | 61,133 |
| Net cash outflow from acquisition of subsidiaries | 29. | (4,806) | (58,303) |
| Net increase in securities held-to-maturity | | (4,169) | (47,990) |
| Net (increase)/decrease in advances for investments, included in other assets | | (246) | 254 |
| Net increase in loans, net of allowance for loan losses | | (1,175,078) | (1,179,630) |
| Net additions to property, equipment and intangible assets | | (53,126) | (66,744) |
| **Net Cash Provided by Investing Activities** | | **(1,208,320)** | **(1,369,086)** |
| **FINANCING ACTIVITIES** | | | |
| Net increase in amounts due to banks and deposits from the National Bank of Hungary and other banks | | 44,713 | 118,469 |
| Net increase in deposits from customers | | 160,449 | 671,271 |
| Net increase in liabilities from issued securities | | 591,307 | 203,950 |
| Increase in subordinated bonds and loans | | 14,723 | 50,438 |
| Increase of minority interest | | 1,432 | 127 |
| Foreign currency translation losses | | (21,978) | (5,579) |
| Effect on ICES – exchangeable bond transaction recognised through equity | | (11,202) | (5,640) |
| Effect of Treasury share transactions | | (7,499) | – |
| Net change in Treasury shares | | (36,172) | (54,182) |
| Net decrease/(increase) in compulsory reserves at National Bank of Hungary | 4. | 87,857 | (22,416) |
| Dividends paid | | (57) | (40,151) |
| **Net Cash Provided by Financing Activities** | | **823,573** | **916,287** |
| **Net Increase in Cash and cash equivalents** | | **83,463** | **(201,798)** |
| Cash and cash equivalents as at 1 January | | 194,860 | 396,658 |
| **Cash and cash equivalents as at 31 December** | | **278,323** | **194,860** |
| **Analysis of cash and cash equivalents opening and closing balance** | | | |
| Cash, amounts due from banks and balances with the National Bank of Hungary | | 353,243 | 532,625 |
| Compulsory reserve established by the National Bank of Hungary | | (158,383) | (135,967) |
| **Cash and cash equivalents as at 1 January** | | **194,860** | **396,658** |
| Cash, amounts due from banks and balances with the National Bank of Hungary | | 348,849 | 353,243 |
| Compulsory reserve established by the National Bank of Hungary | | (70,526) | (158,383) |
| **Cash and cash equivalents as at 31 December** | | **278,323** | **194,860** |

The accompanying notes to consolidated financial statements on pages 64 to 108 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 2008, in HUF million)

| | Note | Share Capital | Retained Earnings and Reserves | Treasury shares | Minority interest | Total |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2007** | | **28,000** | **820,819** | **(63,716)** | **3,110** | **788,213** |
| Net profit for the year | | – | 208,548 | – | (340) | 208,208 |
| Fair value adjustment of securities available-for-sale recognised directly through equity | | – | (858) | – | – | (858) |
| Fair value adjustment of derivatives on equity instruments recognised through equity | | – | (387) | – | – | (387) |
| Share-based payment | 26. | – | 5,123 | – | – | 5,123 |
| Dividend for the year 2006 | | – | (40,320) | – | – | (40,320) |
| Loss on sale of Treasury shares | | – | (3,897) | – | – | (3,897) |
| Acquisition of Treasury shares | | – | – | (50,285) | – | (50,285) |
| Derivative financial instruments designated as cash flow hedge | | – | (1,196) | – | – | (1,196) |
| Dividend on equity instrument (ICES) | | – | (5,640) | – | – | (5,640) |
| Foreign currency translation gain | 19. | – | (5,627) | – | – | (5,627) |
| Minority interest | | – | (340) | – | 2,583 | 2,243 |
| **Balance as at 31 December 2007** | | **28,000** | **976,225** | **(114,001)** | **5,353** | **895,577** |
| Net profit for the year | | – | 241,068 | – | (596) | 240,472 |
| Fair value adjustment of securities available-for-sale recognised directly through equity | | – | (12,862) | – | – | (12,862) |
| Fair value adjustment of derivatives on equity instruments recognised through equity | | – | 387 | – | – | 387 |
| Share-based payment | 26. | – | 28 | – | – | 28 |
| Effect of Treasury shares transaction | | – | (7,499) | – | – | (7,499) |
| Loss on sale of Treasury shares | | – | (3,424) | – | – | (3,424) |
| Acquisition of Treasury shares | | – | – | (32,748) | – | (32,748) |
| Derivative financial instruments designated as cash flow hedge | | – | 788 | – | – | 788 |
| Dividend on equity instrument (ICES) | 19. | – | (11,202) | – | – | (11,202) |
| Foreign currency translation gain | | – | (21,978) | – | – | (21,978) |
| Minority interest | | – | (596) | – | 2,028 | 1,432 |
| **Balance as at 31 December 2008** | | **28,000** | **1,160,935** | **(146,749)** | **6,785** | **1,048,971** |

The accompanying notes to consolidated financial statements on pages 64 to 108 form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

## 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.

As at 31 December 2008 approximately 91% of the shares of the Bank were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (2%) and the Bank itself (7%).

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 1,601 branches. The Group has operations in Hungary, Bulgaria, Slovakia, Romania, Croatia, Serbia, Ukraine, Russia and Montenegro.

As at 31 December 2008 the number of employees at the Group was 30,776. The average number of employees for year ended 31 December 2008 was 30,710.

### 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 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 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.

The Financial Statements were authorised for issue on 20 March 2009.

### *1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2008*

Four Standards and Interpretations issued by the IASB and International Financial Reporting Interpretations Committee ('IFRIC') are effective for the current period. These are:

- IAS 39 (Amendment) Financial Instruments: Recognition and Measurement and IFRS 7: Reclassification of Financial Assets (effective from 1 July 2008)
- IFRIC 11 IFRS 2: – Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007)
- IFRIC 12: Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008)
- IFRIC 14 IAS 19: – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008)

The adoption of the above presented Amendment and Interpretations had no significant impact on the consolidated financial statements of the Group. IFRIC 12 is not yet endorsed by the EU.

### *1.2.2. Amendments to IFRSs effective from 1 January 2009, not yet adopted*

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

- IAS 1 (Revised): Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009)
- IAS 23 (Revised): Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 27 (Amendment) Consolidated and Separate Financial Statements (effective from 1 July 2009)
- IAS 32 (Amendment) Financial Instruments: Presentation (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39 (Amendment) Financial Instruments: Recognition and Measurement (effective for accounting periods on or after 1 July 2009)
- IFRS 2 (Amendment): Share-based Payment (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 3 (Revised) Business Combinations (effective from 1 July 2009)*
- IFRS 5 (Amendment) Non-current Assets Held for Sale and Discontinued Operations (and Consequental Amendment to IFRS 1: First-Time Adoption) (effective from 1 July 2009)*
- IFRS 7 (Amendment) Financial Instruments: Disclosures (effective for accounting periods beginning on or after 1 January 2009)*
- IFRS 8: Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
- IFRIC 13: Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008)
- IFRIC 15: Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009)*
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008)*
- IFRIC 17: Distributions of Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009)*
- IFRIC 18: Transfers of Assets from Customers (effective from 1 January 2009)*
- Improvements to International Financial Reporting Standards 2008 (effective for accounting periods beginning on or after 1 January 2009)

The adoption of the above presented Amendment and Interpretations would have no significant impact on the consolidated financial statements of the Group.

*Not yet endorsed by the EU.

# NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Statements of Operations.

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 Balance Sheet.

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

## 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 30. 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.).

## 2.4. Accounting for acquisitions

Upon acquisition, subsidiaries are accounted for under the purchase method of accounting. Any goodwill arising on acquisition is recognized in the Consolidated Balance Sheet and accounted for as indicated below.

The Group has applied IFRS 3 Business Combinations since 31 March 2004 for acquisitions after that date. Goodwill, which represents the residual cost of the acquisition after recognizing the acquirer's interest 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 losses control of a subsidiary, derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognises any difference as a gain or loss on the sale attributable to the parent in Statement of Operation.

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.

OTP Group calculates the fair value of the goodwill using a discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which OTP Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

OTP Group, in its strategic plan, has taken into consideration the effects of the present global economic crisis, 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 acquierer in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statements of Operations 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 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.

Held-to-maturity securities include securities, which the Group has the ability and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government and NBH and mortgage 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. Held for trading investments 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 included in the Consolidated Statements of Operations for the period. Such securities consist of Hungarian and foreign discounted and interest bearing Treasury bills, Hungarian government bonds, mortgage bonds, corporate bonds and other securities. Other securities include shares in commercial companies and shares in investment funds.

### *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 recognised in profit or loss and included in the Consolidated Statements of Operations 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 Statements of Operations 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 Statements of Operations.

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 recognised in the reserve among Consolidated Shareholders' Equity. Amounts deferred in equity are transferred to the Consolidated Statements of Operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Consolidated Statements of Operations for the period. The ineffective element of the hedge is charged directly to the Consolidated Statements of Operations.

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 Statements of Operations.

## 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 investments 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. Such securities consist of Hungarian and foreign discounted and interest bearing Treasury bills, government bonds, mortgage bonds and other securities. Other securities include shares in investment funds, shares in commercial companies, municipality bonds, foreign government bonds. Available-for-sale securities 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 any unquoted equity instruments are measured at cost.

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.

## 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, 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 reversed and accruals are stopped.

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 assesment 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 operations. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income.

## 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 balance sheet and the consideration received is recorded in Other liabilities or Amounts due to banks and deposits from the NBH and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Other assets. Interest is accrued evenly over the life of the repurchase agreement.

## 2.10. Associates and other investments

Companies where the Bank has the ability to exercise significant influence 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 or significant interest are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate.

Gains and losses on the sale of equity 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:

| | |
|---|---|
| Property | 1–10% |
| Office equipment | 2.5–64% |
| Vehicles | 3–33.33% |
| Leased assets | 1.2–33% |
| Software | 4–50% |
| Property rights | 10–50% |

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 tangible 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 disclosed 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 presented 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 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 recognised on a straight-line basis over the term of the relevant lease.

*The Group as 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 capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Consolidated Statements of Operations 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 Consolidated Statements of Operations 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 recognised as an expense in the period in which termination takes place.

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## 2.14. Insurance reserves

The insurance business line was sold in September 2008.

Insurance reserves are accrued for liabilities from life and non-life insurance contracts and are included in Other liabilities. The level of such reserves reflects the amount of future liabilities expected as at the date of the Consolidated Financial Statements. The provision for outstanding claims and claim settlement expenses for non-life policies are based upon estimates of the expected losses for all classes of business. The reserve includes reported claims, claims incurred but not reported and claim adjustment expenses. This provision takes into account mortality factors within Hungary and other countries where insurance operations are conducted and is based upon mortality tables approved by regulatory authorities.

## 2.15. 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 Balance Sheet at acquisiton 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.

### 2.16. Interest income and interest expense

The interest income and expense are recognised on the accrual basis and based on the IAS 18 Revenue, referring to IAS 39.

### 2.17. Fees and Commissions

Fees and commissions are recognised in the Consolidated Statements of Operations on an accrual basis based on IAS 18, referring to IAS 39 fees and commissions are recognised using the effective interest method.

### 2.18. Income taxes

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 realised 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 has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of 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 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.

### 2.20. 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 date of grant. 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.

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 cash flows, cash and cash equivalents include cash, due from banks and balances with the NBH, excluding the compulsory reserve established by the NBH. Consolidated cash flows from hedging activities are classified in the same category as the item being hedged. The unrealised 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 items being hedged.

### 2.22. Segment reporting

Segment information is based on two segments formats. The primary format represents the geographical markets of the Group. The secondary format represents three business segments – banking (finance), insurance and other. The insurance business line was sold in September 2008.

Segment results include revenue and expenses directly attributable to a segment and the revelant portion of revenue and expenses that can be allocated to a segment, whether from external transactions or from transactions with other segments of the Group.

Unallocated items mainly comprise administrative expenses. Segment results are determined before any adjustments for minority interest.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment on a resonable basis. Segment assets are determined after deducting related adjustments that are reported as direct offsets in the balance sheet of the Group.

### 2.23. Comparative figures

Certain amounts in the consolidated financial statements for the year ended 31 December 2007 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 advances

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 recognised 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 16.).

A provision is recognised 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.

### 3.4. Insurance liabilities

The insurance business line was sold in September 2008. See Note 40.

Insurance liabilities for life and non-life insurance contracts reflect the amount of future liabilities expected at the date of the consolidated financial statements. Such reserves are based on past experience, mortality tables and management estimates. Changes in these assumptions may affect the level of such liabilities.

## NOTE 4: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Cash on hand:** | | |
| In HUF | 67,012 | 51,038 |
| In foreign currency | 101,946 | 90,850 |
| | **168,958** | **141,888** |
| **Amounts due from banks and balances with the NBH:** | | |
| Within one year: | | |
| In HUF | 73,909 | 170,019 |
| In foreign currency | 105,982 | 41,336 |
| | **179,891** | **211,355** |
| **Total** | **348,849** | **353,243** |

Based on the requirements for compulsory reserve, set by the NBH, the balance of compulsory reserves maintained by the Group amounted to HUF 70,526 million and HUF 158,383 million for the years ended 31 December 2008 and 2007, respectively.

## NOTE 5: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Within one year:** | | |
| In HUF | 65,873 | 22,721 |
| In foreign currency | 510,219 | 594,408 |
| | **576,092** | **617,129** |
| **Over one year:** | | |
| In HUF | 2,000 | 2,700 |
| In foreign currency | 15,820 | 35,001 |
| | **17,820** | **37,701** |
| Provision for impairment on placement losses | (370) | (42) |
| **Total** | **593,542** | **654,788** |

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

| | 2008 | 2007 |
|---|---|---|
| **Balance as at 1 January** | **42** | **–** |
| Provision for the year | 329 | 40 |
| Foreign currency translation difference | (1) | 2 |
| **Balance as at 31 December** | **370** | **42** |

Placements by foreign subsidiaries with their respective National Banks amounted to HUF 180,547 million and HUF 284,885 million for the years ended 31 December 2008 and 2007, respectively.

Placements with other banks in foreign currency bear interest rates in the range of 0.02% to 30% and of 0.05% to 11.99% as at 31 December 2008 and 2007, respectively.

Placements with other banks in HUF bear interest rates in the range of 5.7% to 16.0% and of 3.9% to 14.13% as at 31 December 2008 and 2007, respectively.

The provision for impairment on placement losses amounted to HUF 370 million and HUF 42 million as at 31 December 2008 and 2007, respectively.

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

| | 2008 | 2007 |
|---|---|---|
| **Securities held for trading:** | | |
| Government bonds | 48,388 | 90,330 |
| Hungarian government interest bearing Treasury bills | 2,608 | 2,406 |
| Treasury bills | 1,373 | 24,143 |
| Mortgage bonds | 422 | 807 |
| Corporate bonds | 352 | 72,443 |
| Other securities | 3,530 | 31,828 |
| | **56,673** | **221,957** |
| **Derivative financial instruments designated as held for trading** | **72,659** | **63,938** |
| **Total** | **129,332** | **285,895** |

Securities held for trading are measured at fair value in the financial statements of the Group which approximates book value.

Approximately 13% and 17% of the government bonds were denominated in foreign currency as at 31 December 2008 and 2007, respectively. Approximately 29%, 24%, 33% and 14% of this portfolio was denominated in EUR, BGN, RUB and RON as at 31 December 2008, and 10%, 22%, 17%, and 51% of this portfolio was denominated in USD, EUR, BGN and RUB as at 31 December 2007.
Interest rates on securities held for trading ranges from 2.8% to 13.7% and from 2% to 12.1% as at 31 December 2008 and 2007, respectively.

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

| | 2008 | 2007 |
|---|---|---|
| **Within five years** | | |
| with variable interest | 401 | 25,803 |
| with fixed interest | 34,362 | 138,752 |
| | **34,763** | **164,555** |
| **Over five years** | | |
| with variable interest | 1,208 | – |
| with fixed interest | 17,822 | 51,820 |
| | **19,030** | **51,820** |
| **Non-interest bearing securities** | **2,880** | **5,582** |
| **Total** | **56,673** | **221,957** |

## NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Securities available-for-sale:** | | |
| Government bonds | 298,558 | 271,111 |
| Corporate bonds | 141,878 | 133,778 |
| Treasury bills | 19,792 | 25,247 |
| Mortgage bonds | 415 | 264 |
| Other securities | 23,977 | 43,555 |
| | **484,620** | **473,955** |
| **Provision for impairment on securities available-for-sale** | **(3,363)** | **(30)** |
| **Total** | **481,257** | **473,925** |

Securities available-for-sale are measured at fair value in the financial statements of the Group which approximates book value. Except when these is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity were reclassified from equity to Statement of Operations.

Approximately 57% and 60% of the available-for-sale securities portfolio was denominated in HUF as at 31 December 2008 and 2007, respectively.

Approximately 19% of the government bonds were denominated in foreign currency as at 31 December 2008 and 2007. Approximately 8%, 12%, 30%, 24%, 6%, 20% of this portfolio was denominated in USD, EUR, HRK, BGN, UAH and SKK as at 31 December 2008 , and 7%, 35%, 29%, 16%, 11% and 2% of this portfolio was denominated in USD, EUR, HRK, BGN, UAH and other foreign currencies as at 31 December 2007.

Interest rates on securities available-for-sale ranges from 1% to 26% and from 2% to 16.5% as at 31 December 2008 and 2007, respectively.

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

| | 2008 | 2007 |
|---|---|---|
| **Within five years** | | |
| with variable interest | 154,598 | 30,672 |
| with fixed interest | 163,571 | 256,643 |
| | **318,169** | **287,315** |
| **Over five years** | | |
| with variable interest | 82,736 | 66,247 |
| with fixed interest | 63,330 | 85,137 |
| | **146,066** | **151,384** |
| **Non-interest bearing securities** | **20,385** | **35,256** |
| **Total** | **484,620** | **473,955** |

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

| | 2008 | 2007 |
|---|---|---|
| **Balance as at 1 January** | **30** | **29** |
| Provision for the year | 3,332 | 1 |
| Foreign currency translation difference | 1 | – |
| **Balance as at 31 December** | **3,363** | **30** |

Certain fixed-rate corporate bonds and other securities mainly denominated in foreign currency are hedged by derivative financial instruments to reduce the exposure to interest rate risk or the changes in fair value of these assets. Where the hedging relationships are designated and a HUF 1,102 million gain and HUF 308 million net loss that had been recognised directly in equity was removed from equity and recognised in net profit and loss as at 31 December 2008 and 2007, respectively in line with IAS 39.

The fair value of the hedged bonds was HUF 20,335 million and HUF 29,457 million as at 31 December 2008 and 2007, respectively.

## NOTE 8: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Short-term loans and trade bills (within one year) | 1,776,696 | 1,640,455 |
| Long-term loans and trade bills (over one year) | 5,224,154 | 4,120,640 |
| | **7,000,850** | **5,761,095** |
| Provision for impairment on loan losses | (270,680) | (178,658) |
| **Total** | **6,730,170** | **5,582,437** |

Approximately 77% and 69% of total loan portfolio represent foreign currency loans, before allowance for losses as at 31 December 2008 and 2007, respectively.

Short-term loans and bills denominated in HUF bear interest rates in the range of 6% to 30% as at 31 December 2008 and 2007, respectively.

Long-term loans and trade bills denominated in HUF bear interest rates in the range of 2% to 25% and of 4% to 23% as at 31 December 2008 and 2007, respectively.

Foreign currency loans bear interest rates in the range of 1% to 66% and of 1% to 40% as at 31 December 2008 and 2007, respectively.

Approximately 4% and 3% of the gross loan portfolio represented loans on which interest is not being accrued as at 31 December 2008 and 2007, respectively.

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

| | 2008 | | 2007 | |
|---|---|---|---|---|
| Corporate loans | 2,535,027 | 36% | 2,227,693 | 39% |
| Retail loans | 2,194,562 | 31% | 1,536,364 | 27% |
| Housing loans | 2,061,881 | 30% | 1,766,219 | 30% |
| Municipality loans | 209,380 | 3% | 230,819 | 4% |
| **Total** | **7,000,850** | **100%** | **5,761,095** | **100%** |

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

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | 178,658 | 127,611 |
| Provision for the year | 110,933 | 58,144 |
| Write-offs | (10,537) | (6,274) |
| Foreign currency translation difference | (8,374) | (823) |
| **Balance as at 31 December** | **270,680** | **178,658** |

The Group issued fixed rate mortgage bonds with the face value of EUR 1,000 million to finance its mortgage lending activity. Since the Group grants most of its mortgage loans in CHF, the Group entered into cross currency interest rate swap (CCIRS) contracts to hedge its exchange rate risk exposure. The hedging relationship is proved and documented.

According to IAS 39 an amount of HUF 9,173 million was recognised on hedging derivative instruments as a positive fair value adjustment and the same amount is recognised as a negative adjustment on mortgage bonds as at 31 December 2008. The nominal value of loans as designated hedged items is CHF 1,294 million and JPY 31,720 million.

## NOTE 9: ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Equity investments:** | | |
| Unconsolidated subsidiaries | 7,529 | 6,741 |
| Associated companies (non-listed) | 987 | 998 |
| Other investments (non-listed) | 2,830 | 2,495 |
| | **11,346** | **10,234** |
| Provision for impairment on equity investment | (879) | (342) |
| **Total** | **10,467** | **9,892** |

| | 2008 | 2007 |
|---|---|---|
| **Total assets of unconsolidated subsidiaries** | **122.597** | **69.265** |

### *An analysis of the change in the provision for impairment on equity investment is as follows:*

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | 342 | 207 |
| Provision for the year | 463 | 131 |
| Foreign currency translation difference | 74 | 4 |
| **Balance as at 31 December** | **879** | **342** |

## NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Government securities | 172,753 | 201,670 |
| Bonds issued by NBH | 109,684 | 97,085 |
| Mortgage bonds | 15,171 | 13,022 |
| Hungarian government discounted Treasury bills | 4,545 | 1,140 |
| Other securities | 19,692 | 4,688 |
| Total | 321,845 | 317,605 |
| Provision for impairment on securities held-to-maturity | (112) | (48) |
| **Total** | **321,733** | **317,557** |

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

| | 2008 | 2007 |
|---|---|---|
| **Within five years** | | |
| with variable interest | 34,118 | 30,304 |
| with fixed interest | 244,157 | 228,191 |
| | **278,275** | **258,495** |
| **Over five years** | | |
| with variable interest | 17,280 | 32,856 |
| with fixed interest | 26,290 | 26,254 |
| | **43,570** | **59,110** |
| **Total** | **321,845** | **317,605** |

Approximately 83% and 85% of the securities held-to-maturity portfolio was denominated in HUF as at 31 December 2008 and 2007, respectively. 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 rates on fixed interest securities denominated in HUF ranges from 2.8% to 13.8% and from 2.5% to 9.5% as at 31 December 2008 and 2007, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

The fair value of securities held-to-maturity was HUF 310,723 million and HUF 310,513 million as at 31 December 2008 and 2007, respectively.

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

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | 48 | – |
| Provision for the year | 173 | 168 |
| Release of provision | (102) | (120) |
| Foreign currency translation difference | (7) | – |
| **Balance as at 31 December** | **112** | **48** |

## NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

### *For the year ended 31 December 2008:*

| | Intangible assets and goodwill | Land and buildings | Office equipments | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January | 409,437 | 129,034 | 131,647 | 16,544 | 686,662 |
| Acquisition of subsidiary | 17 | 1,714 | 246 | 9 | 1,986 |
| Additions | 22,833 | 18,615 | 22,971 | 24,057 | 88,476 |
| Foreign currency translation differences | 2,444 | (887) | 1,601 | 540 | 3,698 |
| **Disposals** | **(22,407)** | **(6,155)** | **(12,759)** | **(25,502)** | **(66,823)** |
| **Balance as at 31 December** | **412,324** | **142,321** | **143,706** | **15,648** | **713,999** |
| **Depreciation and Amortization** | | | | | |
| Balance as at 1 January | 56,014 | 17,108 | 71,631 | – | 144,753 |
| Charge for the year (except for Goodwill impairment) | 16,447 | 4,594 | 16,968 | – | 38,009 |
| Goodwill impairment | 93,592 | – | – | – | 93,592 |
| **Foreign currency translation differences** | **(182)** | **(78)** | **762** | **–** | **502** |
| **Disposals** | **(22,889)** | **(1,325)** | **(8,344)** | **–** | **(32,558)** |
| **Balance as at 31 December** | **142,982** | **20,299** | **81,017** | **–** | **244,298** |
| **Net book value** | | | | | |
| Balance as at 1 January | 353,423 | 111,926 | 60,016 | 16,544 | 541,909 |
| **Balance as at 31 December** | **269,342** | **122,022** | **62,689** | **15,648** | **469,701** |

### *An analysis of the changes in the goodwill for the year ended 31 December 2008 is as follows:*

| | Goodwill |
|---|---|
| **Cost** | |
| Balance as at 1 January | 296,336 |
| Additions | 6,956 |
| Foreign currency translation difference | 3,115 |
| Decrease | (322) |
| **Balance as at 31 December** | **306,085** |
| **Net book value** | |
| Balance as at 1 January | 296,336 |
| **Balance as at 31 December** | **212,493** |

The Bank performed impairment tests to investigate, whether it is necessary to impair any goodwill for its cash generating units. Based on the result of the tests, HUF 21,118 million goodwill impairment was booked for OTP banka Srbija a.d. (Serbia) and HUF 72,474 million for CJSC OTP Bank (Ukraine), altogether HUF 93,592 million. As a result of the test, the goodwill for OTP banka Srbija a.d. was fully impaired as of 31 December 2008. The Bank performed the goodwill impairment test for all the cash generating units, but no further impairment was identified.

### *For the year ended 31 December 2007:*

| | Intangible assets and goodwill | Land and buildings | Office equipments | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January | 346,370 | 110,186 | 111,398 | 13,537 | 581,491 |
| Additions | 62,896 | 24,451 | 29,029 | 28,976 | 145,352 |
| Foreign currency translation differences | 752 | (487) | (167) | (61) | 37 |
| Disposals | (581) | (5,116) | (8,613) | (25,908) | (40,218) |
| **Balance as at 31 December** | **409,437** | **129,034** | **131,647** | **16,544** | **686,662** |
| **Depreciation and Amortization** | | | | | |
| Balance as at 1 January | 40,110 | 15,404 | 61,261 | – | 116,775 |
| Charge for the year | 15,956 | 3,575 | 15,882 | – | 35,413 |
| Foreign currency translation differences | (69) | (11) | 90 | – | 10 |
| Disposals | 17 | (1,860) | (5,602) | – | (7,445) |
| **Balance as at 31 December** | **56,014** | **17,108** | **71,631** | **–** | **144,753** |
| **Net book value** | | | | | |
| Balance as at 1 January | 306,260 | 94,782 | 50,137 | 13,537 | 464,716 |
| **Balance as at 31 December** | **353,423** | **111,926** | **60,016** | **16,544** | **541,909** |

### *An analysis of the changes in the goodwill for the year ended 31 December 2007 is as follows:*

| | Goodwill |
|---|---|
| **Cost** | |
| Balance as at 1 January | 256,685 |
| Additions | 38,442 |
| Foreign currency translation difference | 1,209 |
| **Balance as at 31 December** | **296,336** |
| **Net book value** | |
| Balance as at 1 January | 256,685 |
| **Balance as at 31 December** | **296,336** |

## NOTE 12: OTHER ASSETS (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Receivables from leasing activities | 69,195 | 48,908 |
| Current income tax receivable | 30,030 | 12,266 |
| Inventories | 29,521 | 23,372 |
| Receivables from trade refinancing | 15,033 | 29,213 |
| Trade receivables | 14,913 | 12,237 |
| Fair value of derivative financial instruments designated as hedge accounting relationships | 8,970 | 11,405 |
| Due from Hungarian government for interest subsidies | 7,630 | 3,552 |
| Prepayments and accrued income | 6,707 | 8,807 |
| Other advances | 6,188 | 8,538 |
| Receivables due from pension funds and fund management | 1,079 | 2,444 |
| Receivables from investment services | 929 | 1,425 |
| Advances for securities and investments | 758 | 512 |
| Receivables due from insurance bond holders* | – | 2,665 |
| Other | 22,334 | 20,086 |
| | 213,287 | 185,430 |
| **Provision for impairment on other assets** | **(6,695)** | **(6,661)** |
| **Total** | **206,592** | **178,769** |

* The insurance business line was sold in September 2008.

Provision for impairment on other assets mainly consists of provision for impairment on receivables from leasing activities and trade receivables.

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

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | 6,661 | 4,076 |
| Provision for the year | 117 | 2,726 |
| Write-offs | (58) | (129) |
| Foreign currency translation difference | (25) | (12) |
| **Balance as at 31 December** | **6,695** | **6,661** |

## NOTE 13: AMOUNTS DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Within one year:** | | |
| In HUF | 131,773 | 98,269 |
| In foreign currency | 467,211 | 349,777 |
| | **598,984** | **448,046** |
| **Over one year:** | | |
| In HUF | 88,865 | 70,185 |
| In foreign currency | 155,018 | 279,923 |
| | **243,883** | **350,108** |
| **Total** | **842,867** | **798,154** |

Amounts due to banks and deposits from the NBH and other banks payable in HUF within one year bear interest rates in the range of 7.5% to 11% and of 5.79% to 7.52% as at 31 December 2008 and 2007, respectively.

Amounts due to banks and deposits from the NBH and other banks payable in HUF over one year bear interest rates in the range of 3% to 9.9% and of 3% to 6.28% as at 31 December 2008 and 2007, respectively.

Amounts due to banks and deposits from the NBH and other banks payable in foreign currency within one year bear interest rates in the range of 0.01% to 18.9% and of 0.5% to 18.5% as at 31 December 2008 and 2007, respectively.

Amounts due to banks and deposits from the NBH and other banks payable in foreign currency over one year bear interest rates in the range of 0.5% to 8.9% and of 0.5% to 8% as at 31 December 2008 and 2007, respectively.

No assets are pledged as collateral against the amounts due to banks.

## NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Within one year:** | | |
| In HUF | 2,528,185 | 2,487,829 |
| In foreign currency | 2,452,147 | 2,385,075 |
| | **4,980,332** | **4,872,904** |
| **Over one year:** | | |
| In HUF | 131,651 | 107,279 |
| In foreign currency | 107,243 | 58,189 |
| | **238,894** | **165,468** |
| **Total** | **5,219,226** | **5,038,372** |

Deposits from customers payable in HUF within one year bear interest rates in the range of 0.2% to 13.8% and of 0.2% to 12% as at 31 December 2008 and 2007, respectively.

Deposits from customers payable in HUF over one year bear interest rates in the range of 0.2% to 11% and of 1.3% to 7.75% as at 31 December 2008 and 2007, respectively.

Deposits from customers payable in foreign currency within one year bear interest rates in the range of 0.05% to 30% and of 0.05% to 18%, as at 31 December 2008 and 2007, respectively.

Deposits from customers payable in foreign currency over one year bear interest rates in the range of 0.1% to 25% and of 0.1% to 19.6%, as at 31 December 2008 and 2007, respectively.

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

| | 2008 | | 2007 | |
|---|---|---|---|---|
| Retail deposits | 3,573,985 | 69% | 3,246,589 | 64% |
| Corporate deposits | 1,366,459 | 26% | 1,495,636 | 30% |
| Municipality deposits | 278,782 | 5% | 296,147 | 6% |
| **Total** | **5,219,226** | **100%** | **5,038,372** | **100%** |

## NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **With original maturity:** | | |
| **Within one year** | | |
| In HUF | 165,977 | 201,761 |
| In foreign currency | 238,394 | 20,110 |
| | 404,371 | 221,871 |
| **Over one year** | | |
| In HUF | 212,843 | 81,851 |
| In foreign currency | 909,425 | 681,543 |
| | 1,122,268 | 763,394 |
| **Total** | **1,526,639** | **985,265** |

Approximately 24% and 29% of the issued securities are denominated in HUF as at 31 December 2008 and 2007, respectively. They bear interest rates from 0.3% to 11% and from 0.3% to 10.5% as 31 December 2008 and 2007, respectively.
Liabilities from issued securities in foreign currency bear interest rates from 3.1% to 13.1% and from 2.6% to 10.5% as at 31 December 2008 and 2007, respectively.

The Bank issued variable-rate bonds with a face value of EUR 500 million on 1 July 2005 which are due on 1 July 2010, at 99.9%. Interest on these bonds is three month EURIBOR+0.16% that is payable quarterly.

The Bank issued variable-rate bonds with a face value of EUR 300 million on 20 December 2005 which are due on 20 December 2010, at 99.81%. Interest on these bonds is three months EURIBOR+0.15% that is payable quarterly.

On 26 February 2007, the Bank issued EUR 750 million floating rate notes due on 27 February 2009 at 99.87% under the European Medium Term Note Program (EMTN Program). Interest on these bonds is three month EURIBOR + 0.125% that is payable quarterly.

The Bank issued bonds with a nominal value of EUR 500 million at 99.812 % of the face value on 16 May 2008.

The bonds are fixed-rate senior bonds with a 3 year maturity. The bonds bear a coupon with a fixed rate of 5.75% interest paid annually. See Note 41. The price of the fixed rate senior bonds with 3 years maturity was set on 7 May 2008. The agents of the issue (which attracted approximately 30% oversubscription of the accepted amount) were DZ Bank AG and Morgan Stanley Ltd. The re-offer spread is 140 bps over the 3 year mid-swap, the bond bears a coupon of 5.75% fixed rate, with annual interest payments. The bonds were introduced to the Luxembourg Stock Exchange.

The Bank issued two series of bonds under HUF 100 billion bond issue program on 2 August 2007. The first series has a nominal value of HUF 7,143 million, and was issued between 16 June and 25 July 2008. The bonds are fixed-rate senior bonds with maturity as of 27 June 2009. The bonds bear a coupon of 8.7% fixed rate. The second series has a nominal value of HUF 50,984 million and was issued between 3 November and 31 December 2008. The bonds are fixed-rate senior bonds with maturity as of 31 October 2009. The bonds bear a coupon of 10% fixed rate.

OTP Mortgage Bank Ltd. issued fixed rate interest bearing mortgage bonds with a 5 year maturity denominated in EUR on 10 July 2006 with a value of EUR 750 million. Interest on these bonds is 4.25%.

OTP Mortgage Bank Ltd. issued fixed rate interest bearing mortgage bonds with a 2 year maturity denominated in EUR on 3 March 2008 with a value of EUR 1 billion. Interest on these bonds is 4.5%.

OTP Mortgage Bank Ltd. issued a fixed rate interest bearing mortgage bond with a 10 years maturity denominated in EUR on 15 December 2004 with a value of EUR 200 million. Interest on these bonds is 4%.

### *An analysis of significant issued securities by type is as follows:*

| | 2008 | 2007 |
|---|---|---|
| Mortgage bonds | 877,266 | 540,753 |
| Variable-rate Euro Bonds | 550,187 | 392,557 |
| Other securities | 99,186 | 51,955 |
| **Total** | **1,526,639** | **985,265** |

## NOTE 16: OTHER LIABILITIES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Fair value of derivative financial instruments designated as hedge accounting relationship | 33,514 | 3,471 |
| Salaries and social security payable | 25,253 | 13,012 |
| Giro clearing accounts | 24,805 | 21,547 |
| Provision for impairment on off-balance sheet commitments and contingent liabilities | 24,234 | 19,759 |
| Accounts payable | 13,890 | 18,721 |
| Current income tax payable | 12,843 | 9,211 |
| Accrued expenses | 12,697 | 18,100 |
| Deferred tax liabilities | 5,352 | 5,373 |
| Liabilities from security trading | 2,829 | 20,697 |
| Advance for housing loans | 1,698 | 3,890 |
| Loans for collections | 1,340 | 1,523 |
| Dividends payable | 864 | 930 |
| Advances received from customers | 582 | 5,631 |
| Insurance liabilities* | – | 183,211 |
| Other | 41,056 | 45,193 |
| **Total** | **200,957** | **370,269** |

* The insurance business line was sold in September 2008.

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

| | 2008 | 2007 |
|---|---|---|
| Provision for litigation | 4,989 | 4,621 |
| Provision for expected pension commitments | 554 | 409 |
| Provision for losses on other off-balance sheet commitments and contingent liabilities | 16,720 | 9,456 |
| Other provision for expected liabilities | 1,971 | 5,273 |
| **Total** | **24,234** | **19,759** |

Provision for losses on other off-balance sheet commitments and contingent liabilities are recognized on guarantees and commitments on loan facilities given by the Group.

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

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | 19,759 | 15,156 |
| Provision for the year | 4,731 | 4,018 |
| Release of provision | (32) | – |
| Increase due to acquisitions | – | 659 |
| Foreign currency translation differences | (224) | (74) |
| **Balance as at 31 December** | **24,234** | **19,759** |

## NOTE 17: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and held by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interest is based on condition of interest of 2013/C credit consolidation government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 4.02% as at 20 June 2007, 3.76% as at 20 December 2007, 4.15% as at 20 June 2008 and 4.75% as at 20 December 2008. The maturity is 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

The Bank had a subordinated loan from the European Bank for Reconstruction and Development ('EBRD') that has been repaid in 2008. The Bank obtained it in December 1996 in the amount of USD 30 million and DEM 31.14 million (15.92 million in EUR) with an original maturity of 27 December 2006. The maturity date was modified to 27 August 2008 on 22 August 2003. The loan was unsecured, subordinated to the other liabilities and had a twelve-year maturity, with interest payable at six-month LIBOR + 1.35% from 28 December 2003 until 27 August 2008.

In December 1999, the CJSC OTP Bank obtained a USD 10 million subordinated loan from the EBRD with the maturity date of 23 December 2009. The interest on this subordinated loan is six-month LIBOR + 2.75%. The loan is secured by a bank guarantee of the Bank. The repayment of the loan will be completed semi-annually, in five equal instalments, the first repayment date was 23 December 2007.

On 3 July 2003, CJSC OTP Bank obtained a USD 5 million subordinated loan from the EBRD with the maturity date of 23 June 2010. The interest on subordinated loan is three-month LIBOR + 2.75%. The repayment of the loan will be completed semi-annually in four equal instalments, the first repayment date is 3 January 2009.
On 4 March 2005, the Bank issued EUR 125 million in bonds, which are subordinated to the

other liabilities of the Bank. Interest on subordinated bonds is variable and payable at three-month EURIBOR + 0.55% quarterly. The maturity of the bonds is 10 years.

On 31 October 2006, the Bank issued perpetual subordinated (UT2) bonds to finance acquisitions. The 500 EUR million nominal value bonds were issued at 99.375% of the face value with 7 November 2006 as payment date. The re-offer spread is 200 basis points over 10 year mid-swap. The bonds are perpetual and callable after year 10. The bonds bear a fixed coupon of 5.875%, with annual interest payments in the first 10 years, and a floating (variable) coupon of 3 months EURIBOR + 3%, quarterly thereafter. The bonds were listed on the Luxembourg Stock Exchange.

On 30 August 2006, the Bank updated the EMTN Program and increased its amount from EUR 1 billion to EUR 3 billion.

Under the EMTN Program on 12 September 2006 the Bank issued fixed rate subordinated bonds in a total nominal value of EUR 300 million to finance acquisitions. The EUR 300 million nominal value bonds were issued at 100% of the face value with 19 September 2016 as maturity date. The bonds bear a coupon of 5.27%, interest is paid annually.
On 26 February 2007, the Bank also issued EUR 200 million subordinated bonds due on 19 September 2016 under the same program.

On 21 April 2008, the CJSC OTP Bank obtained a USD 65 million subordinated loan from the EBRD with a maturity date of 13 October 2015 which is covered by a bank guarantee of the Bank. The interest on this subordinated loan is payable at six-month LIBOR + 2.75% with 7 years maturity. The repayment of the loan will be completed semi-annually in four equal instalments, the first repayment date was on 13 October 2008.

OOO Donskoy Narodny Bank obtained a RUB 38.12 million subordinated loan from Russian third party lenders 12 times. The original maturity of the loans varies between 10 and 12 years, the interest rate fixed at 13%. The interest is to be paid on 31 December annually, the principal is to be repaid at the maturity date. The first loan was granted on 15 June 2001 and the last is to be repaid on 30 November 2016.

## NOTE 18: SHARE CAPITAL (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Authorized, issued and fully paid:** | | |
| Ordinary shares | 28,000 | 28,000 |
| **Total** | **28,000** | **28,000** |

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 19: RETAINED EARNINGS AND RESERVES (in HUF mn)

The reserves of the Bank under Hungarian Accounting Standards were HUF 652,297 million and HUF 537,211 million as at 31 December 2008 and 2007, respectively. Of these amounts, legal reserves represent HUF 156,975 million and HUF 152,569 million as at 31 December 2008 and 2007, respectively. The legal reserves 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 according to the Hungarian Accounting Standards.
Dividends of HUF 40,320 million for the year 2006 were approved by the Annual General Meeting on 28 April 2007.
According to the decision made at the Annual General Meeting on 25 April 2008, the Bank did not pay dividend for the year 2007.

These Financial Statements will be approved by the Annual General Meeting in April 2009. No dividend is proposed.

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 the Bank, and 4.5 million 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., 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 without final maturity 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 buy back the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%.
If the Bank pays a dividend for the ordinary shares, the Bank under a subordinated swap contract, will pay the interest of ICES payable to Opus and receives the same amount of money from Opus as the dividend that is payable for the shares held by Opus.

## NOTE 20: TREASURY SHARES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Nominal value (Ordinary shares) | 3,402 | 2,340 |
| **Carrying value at acquisition cost** | **146,749** | **114,001** |

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

## NOTE 21: MINORITY INTEREST (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | 5,353 | 3,110 |
| Minority interest purchased | – | 2,116 |
| Foreign currency translation difference | (434) | 171 |
| Changes due to ownership structure | 1,270 | (384) |
| Minority interest included in net profit for the year | 596 | 340 |
| **Balance as at 31 December** | **6,785** | **5,353** |

## NOTE 22: OTHER EXPENSES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Taxes, other than income taxes | 29,955 | 30,664 |
| Provision for impairment on accrued interest | 7,770 | 5,612 |
| Provision for impairment on off-balance sheet commitments and contingent liabilities | 4,731 | 4,018 |
| Provision for impairment on securities available-for-sale | 3,332 | 1 |
| Provision for impairment on securities held-to-maturity | 71 | 47 |
| Provision for impairment on equity investments | 463 | 131 |
| Provision for impairment on other assets | 117 | 2,726 |
| Other | 19,753 | 14,602 |
| **Total** | **66,192** | **57,801** |

## NOTE 23: INCOME TAXES (in HUF mn)

The Group is presently liable for income tax at rates between 9% and 28.5% of taxable income.

Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria and Serbia, 16% in Hungary and Romania, 19% in Slovakia, 20% in Croatia and 24% in Russia and 25% in Ukraine.

In Hungary an additional 4% of special tax is to be paid. In the calculation below, 20% tax rate was taken into account for entities operating in Hungary.

### *A reconciliation of the income tax charges is as follows:*

| | 2008 | 2007 |
|---|---|---|
| Current tax | 29,356 | 42,134 |
| Deferred tax | 3,943 | (1,730) |
| **Total** | **33,299** | **40,404** |

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

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | (5,373) | (8,337) |
| Acquisition of subsidiaries | 111 | (165) |
| Foreign currency translation difference | 362 | 202 |
| Deferred tax (charge)/credit | (3,943) | 1,730 |
| Recognised in equity | 3,491 | 1,197 |
| **Balance as at 31 December** | **(5,352)** | **(5,373)** |

### *A reconciliation of the income tax charges is as follows:*

| | 2008 | 2007 |
|---|---|---|
| Profit before income tax | 274,367 | 248,952 |
| Income tax at statutory tax rates | 45,001 | 41,923 |
| **Special tax** | **5,351** | **7,445** |

## *Income tax adjustments are as follows:*

| | 2008 | 2007 |
|---|---|---|
| Reversal of statutory general provision | (188) | (1,896) |
| Tax effect of provision for loan losses | (268) | – |
| Tax effect of amortization of statutory goodwill | 4,608 | (1,762) |
| Revaluation of investments denominated in foreign currency to historical cost | (2,826) | (2,514) |
| Profit on sale of Treasury shares | – | (779) |
| Fair value of share-based payment | 6 | 1,025 |
| Treasury share transactions | (10,283) | – |
| Profit on disposal of shares and equities | (19,619) | – |
| Other | 11,517 | (3,038) |
| **Income tax** | **33,299** | **40,404** |
| **Effective tax rate** | **12.1%** | **16.2%** |

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

| | 2008 | 2007 |
|---|---|---|
| Premium and discount amortization on bonds | 395 | – |
| Difference in accounting for leases | – | 322 |
| Provision for losses on off-balance sheet commitments and contingent liabilities on derivative financial instruments | – | 55 |
| Fair value adjustment of securities held for trading, securities available-for-sale and equity investments | 356 | – |
| Fair value adjustment of derivative financial instruments | – | 1,115 |
| Repurchase agreements | – | 1,818 |
| Temporary differences arising on consolidation | 746 | 633 |
| Provision for impairment on equity investments | 3,184 | – |
| Other | 2,807 | 1,177 |
| **Deferred tax asset** | **7,488** | **5,120** |

| | 2008 | 2007 |
|---|---|---|
| Premium and discount amortization on bonds | – | (233) |
| Provision for impairment on off-balance sheet commitments and contingent liabilities on derivative financial instruments | (10) | – |
| Difference in accounting for leases | (278) | – |
| Fair value adjustment of securities held for trading, securities available-for-sale and equity investments | – | (301) |
| Fair value adjustment of derivative financial instruments | (451) | – |
| Repurchase agreements | (2,498) | – |
| Valuation of equity instrument (ICES) | (1,964) | (2,760) |
| Difference in depreciation and amortization | (3,726) | (3,882) |
| **Accrued losses** | **(3,913)** | **(3,317)** |
| **Deferred tax liabilities** | **(12,840)** | **(10,493)** |

## NOTE 24: FINANCIAL RISK MANAGEMENT

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:

### *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 industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one 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 capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

### *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.

### *Liquidity risk*

See Note 33.

### *Foreign currency risk*

See Note 34.

### *Interest rate risk*

See Note 35.

## NOTE 25: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the balance sheet 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.

### (a) Contingent liabilities

| | 2008 | 2007 |
|---|---|---|
| Commitments to extend credit | 792,042 | 999,639 |
| Guarantees arising from banking activities | 260,175 | 224,616 |
| Confirmed letters of credit | 20,890 | 12,757 |
| Legal disputes | 6,798 | 6,558 |
| Other | 61,035 | 53,772 |
| **Total** | **1,140,940** | **1,297,342** |

*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 to be minimal.

*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 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 4,989 million and HUF 4,621 million as at 31 December 2008 and 2007, respectively. (See Note 16.)

### (b) Derivatives and other options (nominal amount, unless otherwise stated)

| | 2008 | 2007 |
|---|---|---|
| **Foreign currency contracts** | | |
| Off-balance sheet assets | 134,190 | 145,810 |
| Off-balance sheet liabilities | 138,778 | 146,795 |
| Net | (4,588) | (985) |
| Net fair value | (3,422) | (119) |
| **Foreign currency contracts designated as hedge accounting relationships** | | |
| Off-balance sheet assets | 59,883 | 41,858 |
| Off-balance sheet liabilities | 59,883 | 41,857 |
| Net | – | 1 |
| Net fair value | 12 | – |
| **Foreign exchange swaps and interest rate swaps designated as held for trading** | | |
| Off-balance sheet assets | 3,244,043 | 1,947,648 |
| Off-balance sheet liabilities | 3,065,336 | 1,849,946 |
| Net | 178,707 | 97,702 |
| Net fair value | (32,286) | 2,033 |
| **Foreign exchange swaps and interest rate swaps designated as hedge accounting relationships** | | |
| Off-balance sheet assets | 499,242 | 260,777 |
| Off-balance sheet liabilities | 534,938 | 245,626 |
| Net | (35,696) | 15,151 |
| Net fair value | 16,597 | (5,071) |
| **Option contracts** | | |
| Off-balance sheet assets | 9,945 | 119,004 |
| Off-balance sheet liabilities | 9,716 | 119,467 |
| Net | 229 | (463) |
| Net fair value | 210 | 25,910 |
| **Forward rate agreements designated as held for trading** | | |
| Off-balance sheet assets | 37 | – |
| Off-balance sheet liabilities | – | – |
| Net | 37 | – |
| Net fair value | 33 | – |
| **Forward security agreements designated as held for trading** | | |
| Off-balance sheet assets | 2,101 | 175 |
| Off-balance sheet liabilities | 2,101 | 175 |
| Net | – | – |
| Net fair value | 52 | (1) |

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.

As at 31 December 2008, the Group has derivative instruments with positive fair values of HUF 81,629 million and negative fair values of HUF 159,001 million. Positive fair values of derivative instruments designated as hedge accounting relationships are included in Other assets, while positive fair values of derivative instruments designated as held for trading are included in Financial assets at fair value through profit or loss. Negative fair values of hedgeing derivative instruments are included in Other liabilities. Corresponding figures as at 31 December 2007 were HUF 75,343 million and HUF 16,391 million, respectively.

*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 against exchange rate fluctuations on loans and advances 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. 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 of the Group were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

*Cross-currency interest rate swap*

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

*Forward rate agreements*

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 26: SHARE-BASED PAYMENT

The terms of the options relating to the years of 2005 to 2009 were approved by the Annual General Meeting of 2005. The grant date of these options is 29 April 2005. The maximum number of shares which are available is 2.92 million.

The 2006 Annual General Meeting approved a five year share option program for the years from 2006 to 2010. In the framework of the program, the options are granted annually. The current grant dates of these options are 28 April 2006 and 27 April 2007, the dates of the Annual

General Meetings of the Bank. At this second Annual General Meeting, the amount provided in the program has been increased.

The exercise price of the options of 2005 is calculated as the average of the market price of OTP shares quoted by the Budapest Stock Exchange ('BSE') daily during the two month period ending on the last day of the month of the Annual General Meeting.

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.

To be able to practice the option program, two of the following conditions should be fulfilled:

- the growth of the net income should be 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 prolongated 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.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **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 | 6,678,130 | 7,957 | 4,799,825 | 7,231 |
| Granted during the period | – | – | 3,510,000 | 8,419 |
| Forfeited during the period | 965,050 | 6,484 | 187,250 | 7,648 |
| Exercised during the period | 257,500 | 6,536 | 1,444,445 | 6,706 |
| Outstanding at the end of the period | 2,534,950 | 6,484 | 6,678,130 | 7,957 |
| **Exercisable at the end of the period** | **1,774,466** | **8,424** | **2,334,304** | **7,369** |

For the year ended 31 December 2008 the key vesting conditions are not met, in accordance with the option program the Bank did not recognise any personnel expense.

The options outstanding as at 31 December 2008 and 2007 had a weighted average exercise price of HUF 6,484 and HUF 7,957 with a weighted average remaining contractual life of 18 and 22 months, respectively.

### *The inputs into the Binomial model at grant date were as follows:*

| | 2008 | 2007 |
|---|---|---|
| Weighted average share price (HUF) | 7,828 | 7,663 |
| Weighted average exercise price (HUF) | 7,941 | 7,594 |
| Expected volatility (%) | 29 | 29 |
| Expected life (average year) | 3.56 | 3.18 |
| Risk free rate (%) | 6.84 | 7.01 |
| **Expected dividends (%)** | **2.31** | **2.45** |

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.

In connection with the share-based payment programs approved by the Bank and applying IFRS 2, HUF 28 million and HUF 5,123 million has been recognised as expense as at 31 December 2008 and 2007, respectively.

## NOTE 27: RELATED PARTY TRANSACTIONS (in HUF mn)

The members of the Board of Directors and the Supervisory Board had credit lines of HUF 121 million and HUF 169.3 million as at 31 December 2008 and 2007, respectively. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other subsidiaries at normal market conditions. The amount of these loans was HUF 27,366 million and HUF 3,862 million, with commitments to extend credit and guarantees of HUF 121 million and HUF 5,456 million as at 31 December 2008 and 2007, respectively.

The amount of loans extended to unconsolidated subsidiaries was HUF 65,643 million and HUF 41,899 million as at 31 December 2008 and 2007, respectively.

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 according to the compensation categories defined in IAS 24 Related party disclosures, is summarised below:

| | 2008 | 2007 |
|---|---|---|
| Short-term employee benefits | 12,642 | 7,545 |
| Redundancy payments | 57 | – |
| Other long-term employee benefits | 71 | 41 |
| Termination benefits | 13 | 1,519 |
| Share-based payment | 16 | 2,459 |
| **Total** | **12,799** | **11,564** |

## NOTE 28: CASH AND CASH EQUIVALENTS (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Cash, amounts due from banks and balances with the NBH | 348,849 | 353,243 |
| Compulsory reserve established by the NBH | (70,526) | (158,383) |
| **Total** | **278,323** | **194,860** |

The compulsory reserve is not considered to be a part of cash and cash equivalents due to restrictions placed on its use by the NBH.

## NOTE 29: ACQUISITIONS (in HUF mn)

### *(a) Purchase and consolidation of subsidiary undertakings*

On 12 November 2007 the Bank signed the purchase agreement on acquiring 100% interest in the Russian OOO Donskoy Narodny Bank. The sale and purchase transaction of the 100% stake of OOO Donskoy Narodny Bank was completed on 6 May 2008.

The total purchase price was USD 40.95 million. On 29 August 2006 the Bank signed the purchase agreement on acquiring 100% interest in Crnogorska komerčijalna banka a.d. The total price was EUR 104 million. The control over this company is exercised from 1 January 2007.

### *The fair value of the assets and liabilities acquired, and related goodwill is as follows:*

| | **2008**<br>**At acquisition date**<br>OOO Donskoy Narodny Bank | **2007**<br>**At acquisition date**<br>CKB a.d. |
|---|---|---|
| Cash, amounts due from banks, and balances with the National Bank | (1,880) | (11,095) |
| Placements with other banks, net of allowance for placement losses | (1,192) | (68,528) |
| Securities held for trading | (1,021) | (119) |
| Securities available-for-sale | – | (585) |
| Loans, net of allowance for loan losses | (16,454) | (113,860) |
| Accrued interest | (75) | (898) |
| Associates and other investments | (48) | (217) |
| Securities held-to-maturity | (7) | (1,287) |
| Property, equipment and intangible assets | (1,555) | (9,378) |
| Other assets | (91) | (2,303) |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | – | 19,268 |
| Deposits from customers | 20,405 | 134,948 |
| Liabilities from issued securities | 2 | – |
| Accrued interest payable | 102 | 121 |
| Other liabilities | 179 | 19,117 |
| Subordinated bonds and loans | 261 | – |
| Minority Interest | – | 2,116 |
| Net assets | (1,374) | (32,700) |
| Goodwill | (5,312) | (36,698) |
| **Cash consideration** | **(6,686)** | **(69,398)** |

### *(b) Analysis of net outflow of cash in respect of purchase of subsidiaries*

| | **2008** | **2007** |
|---|---|---|
| Cash consideration | (6,686) | (69,398) |
| Cash acquired | 1,880 | 11,095 |
| **Net cash outflow** | **(4,806)** | **(58,303)** |

## NOTE 30: MAJOR SUBSIDIARIES

Equity investments in companies in which the Bank has a controlling interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless indicated otherwise.

| Name | Ownership (Direct and Indirect) | | Activity |
|---|---|---|---|
| | 2008 | 2007 | |
| 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 |
| Bank Center No. 1. Ltd. | 100.00% | 100.00% | real estate lease |
| OTP Factoring Ltd. | 100.00% | 100.00% | work-out |
| Inga Two Commercial Ltd. | 100.00% | 100.00% | property management |
| OTP Fund Management Ltd. | 100.00% | 100.00% | fund management |
| OTP Mortgage Bank Ltd. | 100.00% | 100.00% | mortgage lending |
| OTP Funds Servicing and Consulting Ltd. | 100.00% | 100.00% | fund services |
| TradeNova Commercial Ltd. (former OTP Trade Ltd.) | 100.00% | 100.00% | trade finance |
| OTP Real Estate Leasing Ltd. | 100.00% | 100.00% | real estate leasing |
| OTP Life Annuity Ltd. | 100.00% | 100.00% | life annuity services |
| OTP Garancia Insurance Ltd. | – | 100.00% | insurance |
| OTP Banka Slovensko a. s. (Slovakia) | 97.23% | 97.23% | commercial banking services |
| DSK Bank EAD (Bulgaria) | 100.00% | 100.00% | commercial banking services |
| OTP Bank Romania S.A. (Romania) | 100.00% | 100.00% | commercial banking services |
| OTP banka Hrvatska d.d. (Croatia) | 100.00% | 100.00% | commercial banking services |
| OTP banka Srbija a.d. (Serbia) | 91.43% | 91.43% | commercial banking services |
| Crnogorska komerčijalna banka a.d. (Montenegro) | 100.00% | 100.00% | commercial banking services |
| CJSC OTP Bank (Ukraine) | 100.00% | 100.00% | commercial banking services |
| OAO OTP Bank (Russia) (former OAO Investsberbank) | 95.51% | 97.22% | commercial banking services |
| OOO Donskoy Narodny Bank (Russia) | 100.00% | – | commercial banking services |
| OTP Holding Ltd. (Cyprus) | 100.00% | – | holding activity |
| OTP Financing Netherlands B.V. (Netherlands) | 100.00% | 100.00% | refinancing activities |
| OTP Financing Cyprus Ltd. (Cyprus) | 100.00% | 100.00% | refinancing activities |

## NOTE 31: 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 Consolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 45,196 million and HUF 45,081 million as at 31 December 2008 and 2007, respectively.

## NOTE 32: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 7% and 9% of the total assets of the Group consist of receivables from, or securities issued by the Hungarian Government or the NBH as at 31 December 2008 and 2007, respectively. There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2008 and 2007.

## NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn)

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 balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

### *As at 31 December 2008*

| | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Total |
|---|---|---|---|---|---|
| Cash, due from banks and balances with the National Bank of Hungary | 348,623 | 226 | – | – | 348,849 |
| Placements with other banks, net of allowance for placements losses | 522,611 | 53,365 | 16,941 | 625 | 593,542 |
| Financial assets at fair value through profit or loss | 16,183 | 16,446 | 68,895 | 27,808 | 129,332 |
| Securities available-for-sale | 21,143 | 65,472 | 237,743 | 156,899 | 481,257 |
| Loans, net of allowance for loan losses | 615,529 | 1,071,120 | 1,781,483 | 3,262,038 | 6,730,170 |
| Accrued interest receivable | 83,575 | 3,693 | 340 | 185 | 87,793 |
| Associates and other investments | – | – | – | 10,467 | 10,467 |
| Securities held-to-maturity | 131,078 | 36,792 | 110,294 | 43,569 | 321,733 |
| Property and equipment, Intangible assets | 874 | 2,693 | 111,454 | 354,680 | 469,701 |
| Other assets | 50,555 | 58,984 | 40,324 | 56,729 | 206,592 |
| **TOTAL ASSETS** | **1,790,171** | **1,308,791** | **2,367,474** | **3,913,000** | **9,379,436** |
| Due to banks and deposits from the National Bank of Hungary and other banks | 159,172 | 439,813 | 153,472 | 90,410 | 842,867 |
| Deposits from customers | 3,897,230 | 1,083,102 | 213,473 | 25,421 | 5,219,226 |
| Liabilities from issued securities | 300,563 | 103,808 | 1,000,065 | 122,203 | 1,526,639 |
| Accrued interest payable | 90,110 | 5,548 | 3,122 | 361 | 99,141 |
| Fair value of derivative financial instruments designated as held for trading | 29,313 | 10,989 | 78,475 | 6,710 | 125,487 |
| Other liabilities | 150,551 | 15,010 | 27,036 | 8,360 | 200,957 |
| Subordinated bonds and loans | – | 745 | 5,993 | 309,410 | 316,148 |
| **TOTAL LIABILITIES** | **4,626,939** | **1,659,015** | **1,481,636** | **562,875** | **8,330,465** |
| Share capital | – | – | – | 28,000 | 28,000 |
| Retained earnings and reserves | – | – | – | 1,160,935 | 1,160,935 |
| Treasury shares | – | – | (67,407) | (79,342) | (146,749) |
| Minority interest | – | – | – | 6,785 | 6,785 |
| **TOTAL SHAREHOLDERS' EQUITY** | **–** | **–** | **(67,407)** | **1,116,378** | **1,048,971** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **4,626,939** | **1,659,015** | **1,414,229** | **1,679,253** | **9,379,436** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(2,836,768)** | **(350,224)** | **953,245** | **2,233,747** | **–** |

## *As at 31 December 2007*

| | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Total |
|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the NBH | 348,281 | 4,962 | – | – | 353,243 |
| Placements with other banks, net of allowance for placements losses | 540,504 | 72,025 | 42,127 | 132 | 654,788 |
| Financial assets at fair value through profit or loss | 65,732 | 35,038 | 124,691 | 60,434 | 285,895 |
| Securities available-for-sale | 27,493 | 95,423 | 182,848 | 168,161 | 473,925 |
| Loans, net of allowance for loan losses | 601,781 | 957,762 | 1,637,614 | 2,385,280 | 5,582,437 |
| Accrued interest | 56,873 | 3,898 | 1,276 | 1,412 | 63,459 |
| Associates and other investments | – | – | – | 9,892 | 9,892 |
| Securities held-to-maturity | 111,014 | 25,278 | 124,808 | 56,457 | 317,557 |
| Property and equipment, Intangible assets | 1,258 | 6,533 | 118,433 | 415,685 | 541,909 |
| Other assets | 84,043 | 29,079 | 27,999 | 37,648 | 178,769 |
| **TOTAL ASSETS** | **1,836,979** | **1,229,998** | **2,259,796** | **3,135,101** | **8,461,874** |
| Amount due to banks and deposits from the National Bank of Hungary and other banks | 338,051 | 108,821 | 253,228 | 98,054 | 798,154 |
| Deposits from customers | 4,326,480 | 529,282 | 164,351 | 18,259 | 5,038,372 |
| Liabilities from issued securities | 18,796 | 71,194 | 757,493 | 137,782 | 985,265 |
| Accrued interest payable | 54,178 | 2,409 | 3,332 | 234 | 60,153 |
| Fair value of derivative financial instruments designated as held for trading | 4,377 | 4,170 | 2,380 | 1,993 | 12,920 |
| Other liabilities | 147,464 | 24,474 | 74,273 | 124,058 | 370,269 |
| Subordinated bonds and loans | – | 10,111 | 1,339 | 289,714 | 301,164 |
| **TOTAL LIABILITIES** | **4,889,346** | **750,461** | **1,256,396** | **670,094** | **7,566,297** |
| Share capital | – | – | – | 28,000 | 28,000 |
| Retained earnings and reserves | – | – | – | 976,225 | 976,225 |
| Treasury shares | (3,554) | (14,217) | (36,437) | (59,793) | (114,001) |
| Minority interest | – | – | – | 5,353 | 5,353 |
| **TOTAL SHAREHOLDERS' EQUITY** | **(3,554)** | **(14,217)** | **(36,437)** | **949,785** | **895,577** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **4,885,792** | **736,244** | **1,219,959** | **1,619,879** | **8,461,874** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(3,048,813)** | **493,754** | **1,039,837** | **1,515,222** | **–** |

## NOTE 34: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

### As at 31 December 2008

| | USD | EUR | CHF | Others | Total |
|---|---|---|---|---|---|
| Assets | 1,080,932 | 2,128,718 | 1,674,082 | 2,107,467 | 6,991,199 |
| Liabilities | (302,851) | (3,099,310) | (157,686) | (1,596,545) | (5,156,392) |
| Off-balance sheet assets and liabilities, net | (777,603) | 1,046,251 | (1,495,153) | (462,828) | (1,689,333) |
| **Net position** | **478** | **75,659** | **21,243** | **48,094** | **145,474** |

### As at 31 December 2007

| | USD | EUR | CHF | Others | Total |
|---|---|---|---|---|---|
| Assets | 705,470 | 1,744,616 | 1,076,700 | 1,941,768 | 5,468,554 |
| Liabilities | (281,588) | (2,297,282) | (141,825) | (1,533,702) | (4,254,397) |
| Off-balance sheet assets and liabilities, net | (464,046) | 507,759 | (943,333) | (8,162) | (907,782) |
| **Net position** | **(40,164)** | **(44,907)** | **(8,458)** | **399,904** | **306,375** |

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within 'Others'. Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurment 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 35: INTEREST RATE RISK MANAGEMENT (in HUF mn)

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 of the Group 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 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 according to their next repricing date. Fixed income assets and liabilities have been reported according to their maturity.

### As at 31 December 2008

| | within 1 month | | over 1 month and within 3 month | | over 3 month and within 12 month | | over 1 year and within 2 years | | over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | |
| ASSETS | | | | | | | | | | | | | | | |
| **Cash, amounts due from banks and balances with the National Bank of Hungary** | 74,058 | 37,890 | 2 | 189 | 3 | – | – | – | – | – | 66,859 | 169,848 | 140,922 | 207,927 | 348,849 |
| fixed rate | 72,069 | 34,896 | 2 | – | 3 | – | – | – | – | – | – | – | 72,074 | 34,896 | 106,970 |
| variable rate | 1,989 | 2,994 | – | 189 | – | – | – | – | – | – | – | – | 1,989 | 3,183 | 5,172 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 66,859 | 169,848 | 66,859 | 169,848 | 236,707 |
| **Placements with other banks, net of allowance for placements losses** | 66,142 | 321,855 | 2,506 | 10,826 | – | 90,734 | – | – | – | 6,656 | 1 | 94,822 | 68,649 | 524,893 | 593,542 |
| fixed rate | 65,751 | 264,125 | 2,506 | 10,826 | – | 21 | – | – | – | 6,521 | – | – | 68,257 | 281,493 | 349,750 |
| variable rate | 391 | 57,730 | – | – | – | 90,713 | – | – | – | 135 | – | – | 391 | 148,578 | 148,969 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 1 | 94,822 | 1 | 94,822 | 94,823 |
| **Securities held for trading** | 1,093 | 1,805 | 1,059 | 214 | 7,972 | 421 | 10,531 | 876 | 26,263 | 3,589 | 2,299 | 551 | 49,217 | 7,456 | 56,673 |
| fixed rate | 1,093 | 597 | 903 | 201 | 7,900 | 262 | 10,531 | 876 | 26,263 | 3,559 | – | – | 46,690 | 5,495 | 52,823 |
| variable rate | – | 1,208 | 156 | 13 | 72 | 159 | – | – | – | 30 | – | – | 228 | 1,410 | 1,638 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 2,299 | 551 | 2,299 | 551 | 2,850 |
| **Securities available-for-sale** | 9,277 | 2,531 | 5,935 | 101,306 | 48,461 | 14,938 | 36,961 | 14,113 | 158,283 | 69,391 | 15,874 | 4,187 | 274,791 | 206,466 | 481,257 |
| fixed rate | 9,277 | – | 1,500 | 3,241 | 47,935 | 14,935 | 36,961 | 13,534 | 158,283 | 67,594 | – | – | 253,956 | 99,307 | 353,263 |
| variable rate | – | 2,531 | 4,435 | 98,065 | 526 | – | – | 579 | – | 1,797 | – | – | 4,961 | 102,972 | 107,933 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 15,874 | 4,187 | 15,874 | 4,187 | 20,061 |
| **Loans, net of allowance for loan losses** | 812,804 | 3,796,739 | 84,325 | 350,728 | 119,661 | 714,209 | 56,516 | 67,318 | 380,973 | 297,118 | 10,753 | 39,026 | 1,465,032 | 5,265,138 | 6,730,170 |
| fixed rate | 8,656 | 37,847 | 2,515 | 91,129 | 3,140 | 173,389 | 1,604 | 30,442 | 11,737 | 175,038 | – | – | 27,652 | 507,845 | 535,497 |
| variable rate | 804,148 | 3,461,667 | 81,810 | 198,231 | 116,521 | 355,496 | 54,912 | 34,953 | 369,236 | 122,080 | – | – | 1,426,627 | 4,172,427 | 5,599,054 |
| non-interest-bearing | – | 297,225 | – | 61,368 | – | 185,324 | – | 1,923 | – | – | 10,753 | 39,026 | 10,753 | 584,866 | 595,619 |
| **Securities held-to-maturity** | 114,963 | 8,553 | 20,670 | 1,310 | 64,331 | 7,,386 | 38,930 | 11,777 | 27,057 | 26,756 | – | – | 265,951 | 55,782 | 321,733 |
| fixed rate | 114,963 | 3,558 | 12,670 | 806 | 26,862 | 7,336 | 38,930 | 11,777 | 27,057 | 26,756 | – | – | 220,482 | 50,233 | 270,715 |
| variable rate | – | 4,995 | 8,000 | 504 | 37,469 | 50 | – | – | – | – | – | – | 45,469 | 5,549 | 51,018 |
| Fair value of derivative financial instruments | 10,266 | 827,755 | 13,306 | 274,293 | 97,434 | 131,782 | 94,099 | 443,479 | 712,125 | 368,637 | – | 8,839 | 927,230 | 2,054,785 | 2,982,015 |
| fixed rate | 10,266 | 826,457 | 13,306 | 274,274 | 95,523 | 129,863 | 93,805 | 441,380 | 708,625 | 367,563 | – | – | 921,525 | 2,039,537 | 2,961,062 |
| variable rate | – | 1,298 | – | 19 | 1,911 | 1,919 | 294 | 2,099 | 3,500 | 1,074 | – | – | 5,705 | 6,409 | 12,114 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | 8,839 | – | 8,839 | 8,839 |

## As at 31 December 2008

| | within 1 month | | over 1 month and within 3 month | | over 3 month and within 12 month | | over 1 year and within 2 years | | over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | |
| LIABILITIES | | | | | | | | | | | | | | | |
| Amounts due to banks and deposits from the National bank of Hungary and other banks | 2,442 | 341,082 | 7,287 | 192,395 | 212,210 | 78,268 | 1 | 699 | 559 | 5,649 | – | 2,275 | 222,499 | 620,368 | 842,867 |
| fixed rate | 1,755 | 183,627 | 1,746 | 26,511 | 118,618 | 18,823 | – | 699 | – | 5,619 | – | 92 | 122,119 | 235,371 | 357,490 |
| variable rate | 687 | 157,455 | 5,541 | 165,884 | 93,592 | 59,445 | 1 | – | 559 | 30 | – | – | 100,380 | 382,814 | 483,194 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | 2,183 | – | 2,183 | 2,183 |
| Deposits from customers | 1,146,698 | 1,640,823 | 474,388 | 298,603 | 376,758 | 369,806 | 27,029 | 48,831 | 633,399 | 96,450 | 1,178 | 105,263 | 2,659,450 | 2,559,776 | 5,219,226 |
| fixed rate | 468,786 | 502,881 | 445,811 | 298,593 | 376,169 | 369,806 | 27,029 | 48,774 | 80,071 | 68,285 | – | – | 1,398,866 | 1,288,339 | 2,687,205 |
| variable rate | 676,912 | 1,137,942 | 28,577 | 10 | 589 | – | – | 57 | 533,328 | 28,165 | – | – | 1,259,406 | 1,166,174 | 2,425,580 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 1,178 | 105,263 | 1,178 | 105,263 | 106,441 |
| Liabilities from issued securities | 20,260 | 4,272 | 46,891 | 445,658 | 124,232 | 20,123 | 47,226 | 281,207 | 139,013 | 396,894 | 511 | 352 | 378,133 | 1,148,506 | 1,526,639 |
| fixed rate | 9,253 | 4,272 | 27,735 | 1,866 | 124,232 | 11,333 | 47,226 | 281,207 | 139,013 | 396,894 | – | – | 347,459 | 695,572 | 1,043,031 |
| variable rate | 11,007 | – | 19,156 | 443,792 | – | 8,790 | – | – | – | – | – | – | 30,163 | 452,582 | 482,745 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 511 | 352 | 511 | 352 | 863 |
| Fair value of derivative financial instruments | 433,865 | 621,519 | 107,118 | 487,413 | 63,840 | 163,285 | 9,894 | 263,533 | 8,956 | 898,303 | – | 96 | 623,673 | 2,434,149 | 3,057,822 |
| fixed rate | 433,865 | 411,583 | 107,118 | 191,386 | 62,589 | 161,395 | 8,656 | 261,452 | 6,364 | 896,870 | – | 88 | 618,592 | 1,922,774 | 2,541,366 |
| variable rate | – | 209,936 | – | 296,027 | 1,251 | 1,890 | 1,238 | 2,081 | 2,592 | 1,433 | – | – | 5,081 | 511,367 | 516,448 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | 8 | – | 8 | 8 |
| Subordinated bonds and loans | – | 942 | 5,000 | 28,551 | – | 12,999 | – | – | – | 268,411 | – | 245 | 5,000 | 311,148 | 316,148 |
| fixed rate | – | – | – | – | – | – | – | – | – | 268,411 | – | – | – | 268,411 | 268,411 |
| variable rate | – | 942 | 5,000 | 28,551 | – | 12,999 | – | – | – | – | – | – | 5,000 | 42,492 | 47,492 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | 245 | – | 245 | 245 |
| Net position | (514,662) | 2,388,490 | (512,881) | (713,754) | (439,178) | 314,989 | 152,887 | (56,707) | 522,774 | (893,560) | 94,097 | 209,042 | (696,963) | 1,248,500 | 551,537 |

## As at 31 December 2007

| | within 1 month | | over 1 month and within 3 month | | over 3 month and within 12 month | | over 1 year and within 2 years | | over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | |
| ASSETS | | | | | | | | | | | | | | | |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 176,105 | 18,694 | 490 | 7,718 | 12 | 16 | – | – | – | – | 44,451 | 105,757 | 221,058 | 132,185 | 353,243 |
| fixed rate | 174,741 | 13,448 | – | 58 | – | – | – | – | – | – | – | – | 174,741 | 13,506 | 188,247 |
| variable rate | 1,359 | 5,245 | 490 | 7,660 | 12 | 16 | – | – | – | – | – | – | 1,861 | 12,921 | 14,782 |
| non-interest-bearing | 5 | 1 | – | – | – | – | – | – | – | – | 44,451 | 105,757 | 44,456 | 105,758 | 150,214 |
| Placements with other banks, net of allowance for placements losses | 21,284 | 303,762 | 3,000 | 6,973 | 550 | 115,691 | – | 1,927 | – | 165 | 6 | 200,850 | 25,420 | 629,368 | 654,788 |
| fixed rate | 21,859 | 296,252 | – | 3,967 | 550 | 58,868 | – | 1,927 | – | 135 | – | – | 22,409 | 361,149 | 383,558 |
| variable rate | 5 | 7,510 | 3,000 | 3,006 | – | 56,823 | – | – | – | 30 | – | – | 3,005 | 67,369 | 70,374 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 6 | 200,850 | 6 | 200,850 | 200,856 |
| Securities held for trading | 24,149 | 1,225 | 36,648 | 1,476 | 9,270 | 4,649 | 7,587 | 8,241 | 82,675 | 40,456 | 4,688 | 893 | 165,017 | 56,940 | 221,957 |
| fixed rate | 23,165 | 24 | 15,141 | 1,388 | 9,199 | 4,339 | 7,586 | 8,241 | 82,675 | 40,456 | – | – | 137,766 | 54,448 | 192,214 |
| variable rate | 984 | 1,201 | 21,507 | 88 | 71 | 310 | 1 | – | – | – | – | – | 22,563 | 1,599 | 24,162 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 4,688 | 893 | 4,688 | 893 | 5,581 |
| Securities available-for-sale | 14,090 | 22,813 | 4,922 | 59,726 | 77,433 | 22,436 | 45,753 | 5,160 | 112,590 | 73,776 | 28,109 | 7,117 | 282,897 | 191,028 | 473,925 |
| fixed rate | 12,342 | 767 | 1,952 | 1,717 | 77,194 | 10,947 | 45,753 | 5,160 | 112,590 | 73,776 | – | – | 249,831 | 92,367 | 342,198 |
| variable rate | 1,748 | 22,046 | 2,970 | 58,009 | 239 | 11,489 | – | – | – | – | – | – | 4,957 | 91,544 | 96,501 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 28,109 | 7,117 | 28,109 | 7,117 | 35,226 |
| Loans, net of allowance for loan losses | 899,026 | 2,431,583 | 220,358 | 744,860 | 192,480 | 275,535 | 94,539 | 96,759 | 237,070 | 336,337 | 17,081 | 36,809 | 1,660,554 | 3,921,883 | 5,582,437 |
| fixed rate | 9,616 | 132,870 | 6,903 | 115,980 | 3,801 | 223,218 | 1,235 | 87,918 | 4,769 | 299,691 | – | – | 26,324 | 859,677 | 886,001 |
| variable rate | 889,410 | 2,298,713 | 213,455 | 628,880 | 188,679 | 52,317 | 93,304 | 8,841 | 232,301 | 36,646 | – | – | 1,617,149 | 3,025,397 | 4,642,546 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 17,081 | 36,809 | 17,081 | 36,809 | 53,890 |
| Securities held-to-maturity | 97,085 | 15,961 | 38,035 | 2,286 | 31,040 | 1,999 | 39,882 | 10,048 | 65,413 | 15,808 | – | – | 271,455 | 46,102 | 317,557 |
| fixed rate | 97,085 | 3,460 | – | 1,999 | 20,249 | 1,068 | 39,882 | 9,826 | 65,413 | 15,327 | – | – | 222,629 | 31,590 | 254,219 |
| variable rate | – | 12,501 | 38,035 | 377 | 10,791 | 931 | – | 222 | – | 481 | – | – | 48,826 | 14,512 | 63,338 |
| Fair value of derivative financial instruments | 366,501 | 454,187 | 645,215 | 356,623 | 38,095 | 33,924 | 1,237 | 34,016 | 1,770 | 241,366 | – | – | 1,052,818 | 1,120,116 | 2,172,934 |
| fixed rate | 273,123 | 343,091 | 212,118 | 182,451 | 37,545 | 32,838 | 1,237 | 34,016 | 1,770 | 241,366 | – | – | 525,793 | 833,762 | 1,359,555 |
| variable rate | 93,378 | 111,096 | 433,097 | 174,172 | 550 | 1,086 | – | – | – | – | – | – | 527,025 | 286,354 | 813,379 |

### As at 31 December 2007

| | within 1 month | | over 1 month and within 3 month | | over 3 month and within 12 month | | over 1 year and within 2 years | | over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | |
| LIABILITIES | | | | | | | | | | | | | | | |
| **Due to banks and deposits from the National bank of Hungary and other banks** | 59,664 | 287,216 | 26,138 | 141,177 | 81,840 | 70,053 | 298 | 37,633 | 514 | 90,195 | – | 3,426 | 168,454 | 629,700 | 798,154 |
| fixed rate | 59,313 | 207,136 | 24,936 | 48,041 | 156 | 61,755 | 29 | 17,988 | 1 | 72,131 | – | – | 84,435 | 407,051 | 491,486 |
| variable rate | 351 | 80,080 | 1,202 | 93,136 | 81,684 | 8,298 | 269 | 19,645 | 513 | 18,064 | – | – | 84,019 | 219,223 | 303,242 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | 3,426 | – | 3,426 | 3,426 |
| **Deposits from customers** | 2,081,493 | 1,758,308 | 364,691 | 231,818 | 49,870 | 268,089 | 28,520 | 36,213 | 68,984 | 34,203 | 1,551 | 114,632 | 2,595,109 | 2,443,263 | 5,038,372 |
| fixed rate | 659,069 | 740,215 | 360,674 | 231,818 | 49,870 | 268,089 | 28,520 | 36,213 | 68,984 | 34,203 | – | – | 1,167,117 | 1,310,538 | 2,477,655 |
| variable rate | 1,422,424 | 1,018,093 | 4,017 | – | – | – | – | – | – | – | – | – | 1,426,441 | 1,018,093 | 2,444,534 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 1,551 | 114,632 | 1,551 | 114,632 | 116,183 |
| **Liabilities from issued securities** | 13,155 | 137,539 | 27,023 | 300,178 | 35,409 | 10,012 | 77,342 | 4,819 | 130,158 | 248,516 | 3 | 1,111 | 283,090 | 702,175 | 985,265 |
| fixed rate | 6 | 7,229 | 7,257 | 1,781 | 34,988 | 2,472 | 77,342 | 4,819 | 130,158 | 248,516 | – | – | 249,751 | 264,817 | 514,568 |
| variable rate | 13,149 | 130,310 | 19,766 | 298,397 | 421 | 7,540 | – | – | – | – | – | – | 33,336 | 436,247 | 469,583 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 3 | 1,111 | 3 | 1,111 | 1,114 |
| **Fair value of derivative financial instruments** | 116,423 | 878,365 | 33,849 | 943,177 | 23,878 | 19,971 | 11,796 | 25,072 | 5,179 | 49,559 | – | – | 191,125 | 1,916,144 | 2,107,269 |
| fixed rate | 104,131 | 509,689 | 26,017 | 366,880 | 23,687 | 19,927 | 11,796 | 25,072 | 5,179 | 49,559 | – | – | 170,810 | 971,127 | 1,141,937 |
| variable rate | 12,292 | 368,676 | 7,832 | 567,297 | 191 | 44 | – | – | – | – | – | – | 20,315 | 945,017 | 965,332 |
| Subordinated bonds and loans | – | 856 | 5,000 | 33,015 | – | 9,202 | – | – | – | 253,091 | – | – | 5,000 | 296,164 | 301,164 |
| fixed rate | – | – | – | – | – | – | – | – | – | 253,091 | – | – | – | 253,091 | 253,091 |
| variable rate | – | 856 | 5,000 | 33,015 | – | 9,202 | – | – | – | – | – | – | 5,000 | 43,073 | 48,073 |
| **Net position** | (671,915) | 185,941 | 491,967 | (469,703) | 157,883 | 76,923 | 71,042 | 52,414 | 294,683 | 32,344 | 92,781 | 232,257 | 436,441 | 110,176 | 546,617 |

## NOTE 36: 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, by the weighted average number of ordinary shares outstanding during the year.

| | 2008 | 2007 |
|---|---|---|
| Consolidated Net profit for the year (in HUF mn) | 240,472 | 208,208 |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number) | 256,317,324 | 261,699,756 |
| Consolidated Basic Earnings per share (in HUF) | 938 | 796 |
| Weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number) | 257,117,270 | 262,326,040 |
| **Consolidated Diluted Earnings per share (in HUF)** | **935** | **794** |

The weighted average number of ordinary shares outstanding during the period does not include Treasury shares.

Diluted Earnings per share are determined after additionally taking into consideration the option rights granted.

## NOTE 37: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS(in HUF mn)

### *As at 31 December 2008*

| | Net interest gain and loss | Net non-interest gain and loss | Provision | Equity |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 16,161 | – | – | – |
| Placements with other banks, net of allowance for placements losses | 21,837 | – | (516) | – |
| Securities held for trading | 7,029 | (4,668) | – | – |
| Securities available-for-sale | 32,402 | (1,958) | – | (16,078) |
| Loans, net of allowance for loan losses | 710,869 | 7,708 | (110,933) | – |
| Securities held-to-maturity | 26,624 | 2,513 | – | – |
| Derivative financial instruments | (27,048) | (7,313) | – | – |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | (44,957) | – | – | – |
| Deposits from customers | (215,881) | 109,360 | – | – |
| Liabilities from issued securities | (72,750) | – | – | – |
| Subordinated bonds and loans | (17,009) | – | – | – |
| **Total** | **437,277** | **105,642** | **(111,449)** | **(16,078)** |

### *As at 31 December 2007*

| | Net interest gain and loss | Net non-interest gain and loss | Provision | Equity |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 12,825 | – | – | – |
| Placements with other banks, net of allowance for placements losses | 22,729 | – | (41) | – |
| Securities held for trading | 7,272 | (353) | – | – |
| Securities available-for-sale | 34,145 | 1,345 | – | (1,073) |
| Loans, net of allowance for loan losses | 561,391 | 28,985 | (58,144) | – |
| Securities held-to-maturity | 29,938 | – | – | – |
| Derivative financial instruments | 30,174 | (2,040) | – | – |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | (31,294) | – | – | – |
| Deposits from customers | (168,853) | 101,991 | – | – |
| Liabilities from issued securities | (50,197) | – | – | – |
| Subordinated bonds and loans | (16,438) | 54 | – | – |
| **Total** | **431,692** | **129,982** | **(58,185)** | **(1,073)** |

## NOTE 38: SENSITIVITY ANALYSIS (in HUF mn)

### 38.1. 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 employed 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:*

| Historical VaR (99%, one-day) by risk type | Average 2008 | 2007 |
|---|---|---|
| Foreign exchange | 1,254 | 443 |
| Interest rate | 728 | 559 |
| Equity instruments | 68 | 96 |
| Diversification | (373) | (262) |
| **Total VaR exposure** | **1,677** | **836** |

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 38.2., for interest rate risk, in 38.3. and for equity price sensitivity analysis, in 38.4 below.

## 38.2. 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 were EUR (300) million and USD (75) million as of 31 December 2008 and EUR 570 million as of 31 December 2007. 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 Consolidated Statements of Operations in 3 months period (in HUF billion) 2008 | 2007 |
|---|---|---|
| 1% | (8.6) | (16.4) |
| 5% | (5.4) | (11.0) |
| 25% | (1.3) | (4.2) |
| 50% | 1.3 | 0.3 |
| 25% | 3.8 | 3.7 |
| 5% | 7.1 | 6.4 |
| 1% | 9.5 | 6.9 |

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) Considerable decrease in estimated VaR is due to the decrease of foreign exchange exposure.

(3) Monte Carlo simulation is based on the empirical distribution of the exchange rate movements. Recent market turmoil can result in extreme price movements not observable in the past, and so VaR might underestimate short term risk.

### 38.3 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 was prepared by assuming only adverse interest rate changes. The main assumptions were as follows:

- Floating rate assets and liabilities were repriced to the modeled benchmark yields at the repricing dates assuming the unchanged marge 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:

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

(2) 1%–1.50% decrease in average HUF yields (alternative scenario)

The Net interest income in a one year period after 31 December 2008 would be decreased by HUF 845 million (probable scenario) and HUF 4,316 million (alternative scenario) as a result of these simulation.

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

| Description | Effects to the net interest income in one year period (in HUF million) 2008 | 2007 |
|---|---|---|
| HUF (0.1%) parallel shift | (242) | (354) |
| EUR (0.1%) parallel shift | (33) | (41) |
| USD 0.1% parallel shift | (20) | (79) |
| **Total** | **(295)** | **(474)** |

### 38.4 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 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 scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

| Description | 2008 | 2007 |
|---|---|---|
| VaR (99%, one day, million HUF) | 68 | 96 |
| Stress test (million HUF) | (287) | (73) |

## NOTE 39: SEGMENT REPORTING (in HUF mn)

Geographical segments provide products or services within a particular economic environment that is subject to different risks and rewards that are different to those of components operating in other economic environments. The Group has chosen geographical segments as primary reporting segments.

Business segments are distinguishable components of the Group that provide products or services that are subject to risks and rewards that are different to those of other business segments. Business segments are the secondary reporting segments.

### 39.1. Primary reporting format by geographical segments

| | Hungary | Slovakia | Montenegro | Bulgaria | Romania | Croatia | Serbia | Russia | Ukraine | Cyprus | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Interest income** | | | | | | | | | | | | |
| External | 612,676 | 23,686 | 18,482 | 83,795 | 19,625 | 25,711 | 11,278 | 91,219 | 88,977 | – | – | 975,452 |
| Intersegment | 65,049 | 34 | – | 224 | – | 76 | – | 99 | – | 502 | (65,984) | – |
| **Total** | **677,725** | **23,723** | **18,482** | **84,019** | **19,625** | **25,787** | **11,278** | **91,318** | **88,977** | **502** | **(65,984)** | **975,452** |
| **Non-interest income** | | | | | | | | | | | | |
| External | 390,508 | 10,222 | 7,115 | 24,607 | 20,416 | 8,143 | 10,572 | 19,361 | 30,132 | 3,812 | – | 524,888 |
| Intersegment | 21,693 | 2,636 | – | 890 | 3,057 | – | – | 68 | – | – | (28,344) | – |
| **Total** | **412,201** | **12,858** | **7,115** | **25,497** | **23,473** | **8,143** | **10,572** | **19,429** | **30,132** | **3,812** | **(28,344)** | **524,888** |
| Segment profit before income tax | 67,066 | 8,040 | 3,116 | 39,116 | 1,586 | 6,593 | 4,519 | 11,689 | 22,945 | 4,187 | 105,327 | 274,367 |
| Income tax | – | – | – | – | – | – | – | – | – | – | – | (33,299) |
| **Net profit for the year** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **241,068** |
| Segment assets | 6,356,989 | 431,715 | 308,140 | 1,197,862 | 218,856 | 498,841 | 147,798 | 582,003 | 969,327 | 37,874 | (1,369,696) | 9,379,436 |
| Segment liabilities | 6,189,660 | 401,099 | 289,970 | 1,006,599 | 190,065 | 407,481 | 104,557 | 465,603 | 766,626 | 4,829 | (1,496,024) | 8,330,465 |
| Capital expenditures | 3,131 | 5,356 | – | 8,191 | 3,412 | 3,524 | 336 | 36 | 17 | 33 | – | 24,036 |
| Depreciation | 117,294 | 1,258 | 498 | 3,797 | 1,331 | 993 | 870 | 4,312 | 1,848 | – | – | 132,201 |
| **Allowance for loan and placement losses** | **42,339** | **2,559** | **2,836** | **9,625** | **3,021** | **1,717** | **2,144** | **20,735** | **26,473** | **–** | **–** | **111,449** |

### 39.2. Secondary segment information by business segments

| | Banking segment | Insurance segment* | Other segment | Total |
|---|---|---|---|---|
| Total segment income | 1,386,750 | 80,495 | 33,095 | 1,500,340 |
| Segment profit before income tax | 242,881 | 12,917 | 18,569 | 274,367 |
| Segment assets | 9,290,966 | – | 88,470 | 9,379,436 |
| Capital expenditure | 21,2434 | – | 2,793 | 24,036 |

* The insurance segment includes OTP Garancia Insurance Ltd. and its insurance subsidiaries. See Note 40.

## NOTE 40: SALE OF THE INSURANCE BUSINESS LINE (in HUF mn)

On 11 February 2008, Groupama S.A. signed a contractual agreement to buy 100 % of the shares in OTP Garancia Insurance Ltd. as well as to acquire the minority shares held by the local subsidiaries of the Bank in the Romanian, Slovakian and Bulgarian subsidiaries of OTP Garancia Insurance Ltd. The purchase price was paid and the transaction settled on 17 September 2008. Furthermore, the Bank and Groupama S.A. entered into a mutual co-operation agreement about (in some of the countries exclusive) cross-selling of banking and insurance products in the branch networks of the parties in Hungary, Slovakia, Romania, Bulgaria, Ukraine, Russia, Serbia, Montenegro and Croatia. In the framework of this strategic co-operation, Groupama S.A. bought 7.99% of the shares of the Bank. New shares have not been issued.

### *The main figures of the transaction is as follows:*

| | 2008 |
|---|---|
| Sales price | 160,161 |
| Carrying amount of the net assets | (29,872) |
| Expenses arising in connection with the transaction | (9,103) |
| **Recognized net income** | **121,186** |
| Corporate tax recognized | (3,840) |
| Gain on sale of insurance business line | 117,346 |

## NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2008

The Bank purchased the 100% of the participation interests of OOO Donskoy Narodny Bank on 12 November 2007. In possession of the necessary approvals the closing of the sale and purchase transaction of OOO Donskoy Narodny Bank was completed on 6 May 2008. According to this fact the financial closing (deal value USD 40.95 million, (HUF 6,687 million) was also completed.

The Bank issued bonds in nominal value of EUR 500 million on 16 May 2008. See Note 15.

The Bank has launched a bond issue program in amount of HUF 300 billion on 31 July 2008, approved by the Hungarian Financial Supervisory Authority. The Bank does not intend to introduce the bonds to the stock exchange.

As at 31 December 2008 the direct and indirect stake of the Bank in MOL Plc. are 7,094,302 shares, meaning 6.47% interest. From these shares 6,987,362 were obtained in the framework of a security lending agreement.

On 21 February 2008 the General Meeting of OTP banka Hrvatska d.d. has increased the registered capital of its subsidiary by HRK 217 million. The capital increase has been registered on 6 March 2008.

On 7 March 2008 the Bank, the 100% owner of CJSC OTP Bank has increased the registered capital of its subsidiary by UAH 204 million corresponding with the retained earnings.

On 4 April 2008 the Bank, the 100% owner of Crnogorska komerčijalna banka a.d. has increased the registered capital of its subsidiary by EUR 15 million. The capital increase has been registered on 8 May 2008.

On 14 August 2008 the Bank, the 100% owner of CJSC OTP Bank has increased the registered capital of its subsidiary by UAH 861 million. The capital increase has been registered on 25 November 2008.

In September 2008 the Bank, the 95.51% owner of OAO OTP Bank has increased the registered capital of its subsidiary by RUB 2,501 million.

## NOTE 42: POST BALANCE SHEET EVENTS

On 9 February 2009 Board of Directors of the Bank has approved the increase of the registered capital of CJSC OTP Bank by UAH 800 million (USD 100 million).

## NOTE 43: EFFECT OF THE FINANCIAL CRISIS ON THE GROUP

The lack of trust and liquidity problems pursuant to the bankruptcy of Lehman Brothers on 15 September 2008 seriously hit Hungary in October 2008, having a high level of external debt and a banking system with a considerable debt denominated in foreign currencies, but the situation was mitigated and turned better after a 25.1 billion USD financial aid in form of a stand-by loan agreement with International Monetary Fund. The lack of trust caused the course of the forint to fall, accompanied by the fall of the other currencies in the region. The government bond yields raised sharply by hunderds of basis points. To stabilise the situation, the National Bank of Hungary raised the interest rates by 300 basis points, moreover – similarly to other central banks in the region – took various measures to resolve the lack of liquidity and to increase the stability of the banking sector.

The operations and profitability of the Group have been influenced by the following factors, generated by the financial crisis:

- The Bank met a HUF 4.7 billion revaluation loss on the strategic open foreign currency position held for hedging the net profit of the foreign subsidiaries, due to the fall of the forint exchange rate. The management has reduced the hedged position in the last quarter of 2008, as the contribution of the subsidiaries to the consolidated net profit of OTP Group is expected to be lower than previously planned.
- The management, based on the deteriorating economic and financial sector outlook, decided for a HUF 93,592 million of goodwill impairment for the Ukranian (CJSC OTP Bank) and Serbian (OTP banka Srbija a.d.) subsidaries, which has considerably reduced the net profit of the Bank in 2008.
- The deteriorating macroeconomic situation in the region and the devaluation of most of the regional currencies made necessary an even more conservative provisionning for the loans. Besides the constantly raising loan risk costs, the Group took a wide range of measures to minimise the risk in its clients because of the devaluating currencies in the region.

  The measures taken – affecting the risk costs in Hungary – are the following:
  - Based on the agreement of the Hungarian Bank Association and the Ministry of Finance, the transformation of loans from foreign currencies and other types of transactions for the customers having foreign currency loans were free of any commission or charge until 28 February 2009,
  - In March 2009, a law came into force about the state guarantee for the retail customers having lost their employment in consequence of the crisis.

- The global lack of liquidity caused the market to appreciate those having stable liquidity and sufficient own funds. As a consequence, the management put considerable emphasis on deposit collection or other types of activities generating own funds (i.e. issuing retail securities) and set up stricter conditions in loan origination. The Group made higher deposit interest-rate offers for the customers and introduced some innovative products based on the customer demands (i.e. multicurrency deposits).

The increasing refinancing costs were partially devolved to customers, and stricter conditions in loan origination were introduced:

– decrease in the available contract limits
– suspension of the purely collateral based mortgage loans
– suspension of the disbursements in some segments

As a consequence of the above measures, the volume of the loans disbursed reduced significantly in the fourth quarter.

- The possibility of receiving new funds from the capital markets have decreased considerably, and no other external fund has been received by the Group. However, the Bank could preserve its stable liquidity position. The Bank has a stable liquid asset surplus beyond its liquid funds, furthermore the National Bank of Hungary took several new measures to enhance the liquidity and stability of the banking sector parallel to the similar measures of the central banks in the region.
- The swap markets potential to provide the necessary liqudity for the lending activity in foreign currencies, have shrinked significantly in 2008, mainly in the last quarter. Despite this, the renewal of the swap transactions were continous, although accompanied by decreasing spreads. The increasing loss on the swap deals is partially compensated by the devolution of the costs to customers in the form of higher interest rates on loans.

For 2009, the management expects a slackening market in the regional banking sector. Due to the shrinkening interbank funds, potential growth of the loan portfolio will only be possible if the growth in the deposits remains stable.

Deloitte

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# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying unconsolidated financial statements of OTP Bank Plc., which comprise the unconsolidated balance sheet as at December 31, 2008, and the related unconsolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 111 to 155 of this Annual Report.

*Management's Responsibility for the 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*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 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 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, 2008, 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.

Without qualifying our opinion, we draw attention to Note 2.3 to the unconsolidated financial statements which states that the consolidated financial statements of OTP Group prepared in accordance with International Financial Reporting Standards have been issued separately. The consolidated financial statements of OTP Group as of and for the year ended December 31, 2008 were audited by us and our report dated March 20, 2009 expressed an unqualified opinion.

Budapest, March 20, 2009

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Gion Gábor
Deloitte Auditing and Consulting Ltd.

## *Balance Sheet*

(unconsolidated, based on IFRS, as at 31 December 2008 in, HUF million)

| | Note | 2008 | 2007 |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 3. | 157,437 | 229,644 |
| Placements with other banks, net of allowance for placement losses | 4. | 920,455 | 725,458 |
| Financial assets at fair value through profit or loss | 5. | 151,716 | 123,371 |
| Securities available-for-sale | 6. | 549,911 | 320,615 |
| Loans, net of allowance for loan losses | 7. | 2,715,382 | 2,188,632 |
| Accrued interest | | 60,360 | 46,421 |
| Investments in subsidiaries | 8. | 596,244 | 630,703 |
| Securities held-to-maturity | 9. | 437,535 | 558,510 |
| Property and equipment | 10. | 72,844 | 74,007 |
| Intangible assets | 10. | 39,539 | 36,266 |
| Other assets | 11. | 70,892 | 177,047 |
| **TOTAL ASSETS** | | **5,772,315** | **5,110,674** |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | 12. | 705,565 | 590,748 |
| Deposits from customers | 13. | 3,090,762 | 2,955,035 |
| Liabilities from issued securities | 14. | 601,791 | 394,196 |
| Accrued interest payable | | 36,428 | 18,411 |
| Fair value of derivative financial instruments designated as held for trading | 15. | 127,061 | 22,543 |
| Other liabilities | 16. | 136,284 | 115,568 |
| Subordinated bonds and loans | 17. | 301,951 | 298,914 |
| **TOTAL LIABILITIES** | | **4,999,842** | **4,395,415** |
| Share capital | 18. | 28,000 | 28,000 |
| Retained earnings and reserves | 19. | 842,318 | 741,467 |
| Treasury shares | 20. | (97,845) | (54,208) |
| **TOTAL SHAREHOLDERS' EQUITY** | | **772,473** | **715,259** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **5,772,315** | **5,110,674** |

The accompanying notes to unconsolidated financial statements on pages 115 to 155 form an integral part of these unconsolidated financial statements

## *Statements of Operations*

(unconsolidated, based on IFRS, for the year ended 31 December 2008, in HUF million)

| | Note | 2008 | 2007 |
|---|---|---|---|
| Interest Income: | | | |
| Loans | | 243,170 | 199,770 |
| Placements with other banks | | 203,352 | 104,968 |
| Amounts due from banks and balances with the National Bank of Hungary | | 14,147 | 11,754 |
| Securities held for trading | | 4,979 | 2,808 |
| Securities available-for sale | | 23,959 | 24,952 |
| Securities held-to-maturity | | 42,695 | 51,298 |
| Total Interest Income | | 532,302 | 395,550 |
| Interest Expense: | | | |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | | 206,208 | 65,939 |
| Deposits from customers | | 150,729 | 110,504 |
| Liabilities from issued securities | | 25,079 | 16,151 |
| Subordinated bonds and loans | | 16,444 | 16,086 |
| Total Interest Expense | | 398,460 | 208,680 |
| **NET INTEREST INCOME** | | **133,842** | **186,870** |
| Provision for impairment on loan and placement losses | 4.,7., | 29,211 | 21,453 |
| **NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES** | | **104,631** | **165,417** |
| Non-Interest Income: | | | |
| Fees and commissions | | 157,575 | 153,449 |
| Foreign exchange gains, net | | 58,228 | 633 |
| Gains on securities, net | | 118 | 2,232 |
| Dividend income | 39. | 138,264 | 18,920 |
| Other | | 21,497 | 4,663 |
| Total Non-Interest Income | | 375,682 | 179,897 |
| Non-Interest Expenses: | | | |
| Fees and commissions | | 24,535 | 20,611 |
| Personnel expenses | | 77,354 | 71,018 |
| Depreciation and amortization | | 21,032 | 20,035 |
| Other | 21. | 215,850 | 71,868 |
| – from this: provision for impairment on investments in subsidiaries | | 124,880 | 56 |
| Total Non-Interest Expenses | | 338,771 | 183,532 |
| **PROFIT BEFORE INCOME TAX** | | **141,542** | **161,782** |
| Income tax | 22. | 7,587 | 20,101 |
| **NET PROFIT FOR THE YEAR** | | **133,955** | **141,681** |
| Earnings per share (in HUF) | | | |
| Basic | 33. | 495 | 508 |
| Diluted | 33. | 493 | 507 |

The accompanying notes to unconsolidated financial statements on pages 115 to 155 form an integral part of these unconsolidated financial statements

## ***Statement of Cash Flows***

(unconsolidated, based on IFRS, for the year ended 31 December 2008, in HUF million)

| OPERATING ACTIVITIES | Note | 2008 | 2007 |
|---|---|---|---|
| **Profit before income tax** | | **141,542** | **161,782** |
| Income tax paid | | (14,566) | (24,101) |
| Depreciation and amortization | | 21,032 | 20,035 |
| Provision for impairment on securities available-for-sale | | 2,769 | – |
| Provision for impairment on loan and placement losses | | 29,211 | 21,453 |
| Provision for impairment on investments in subsidiaries | 8. | 124,880 | 56 |
| Provision for impairment on other assets | 11. | (731) | 351 |
| Provision for impairment on off-balance sheet commitments and contingent liabilities | 16. | 14,012 | 512 |
| Share-based payment | 25. | 28 | 5,123 |
| Unrealised losses on fair value adjustment of securities held for trading | | (7,673) | 688 |
| Unrealised losses on fair value adjustment of derivative financial instruments | | (8,676) | (1,620) |
| Changes in financial assets at fair value through profit or loss | | 6,238 | (24,698 |
| Increase in accrued interest | | (11,915) | (2,023) |
| Decrease/ (increase) in other assets, excluding advances for investments and before provisions for losses | | 11,528 | (45,697) |
| Increase in accrued interest payable | | 18,017 | 2,236 |
| (Decrease)/ increase in other liabilities | | (15,362) | 8,070 |
| **Net cash provided by operating activities** | | **310,334** | **122,167** |
| **INVESTING ACTIVITIES** | | | |
| Net increase in placements with other banks, before provision for placement losses | | (66,389) | (199,711) |
| Net (increase)/ decrease in securities available-for-sale | | (249,769) | 25,422 |
| Net increase in investments in subsidiaries, before provision | | (90,421) | (47,461) |
| Net decrease/(increase) in securities held-to-maturity | | 121,451 | (54,399) |
| Net increase in advances for investments included in other assets | | (23) | (2) |
| Net increase in loans, net of allowance for loan losses | | (501,171) | (458,407) |
| Net disposal/ (additions) to property, equipment and intangible assets | | 9,524 | (29,088) |
| **Net cash provided by investing activities** | | **(776,798)** | **(763,646)** |
| **FINANCING ACTIVITIES** | | | |
| Net increase in amounts due to banks and deposits from the National Bank of Hungary and other banks | | 114,817 | 32,891 |
| Net increase in deposits from customers | | 136,302 | 264,937 |
| Net increase in liabilities from issued securities | | 199,921 | 192,146 |
| Increase in subordinated bonds and loans | | 3,037 | 51,049 |
| Effect on ICES - exchangeable bond transaction recognised through equity | | (5,203) | (2,715) |
| Effect of treasury share transaction | | (7,499) | – |
| Net change in Treasury shares | | (47,061) | (56,359) |
| Net decrease/ (increase) in the compulsory reserve established by the National Bank of Hungary | | 91,832 | (21,459) |
| Dividends paid | | (57) | (40,151) |
| **Net cash provided by financing activities** | | **486,089** | **420,339** |
| **Net increase/ (decrease) in cash and cash equivalents** | | **19,625** | **(221,140)** |
| Cash and cash equivalents at the beginning of the year | | 73,441 | 294,581 |
| **Cash and cash equivalents at the end of the year** | | **93,066** | **73,441** |
| **Analysis of cash and cash equivalents** | | | |
| Cash, amounts due from banks and balances with the National Bank of Hungary | | 229,644 | 429,325 |
| Compulsory reserve established by the National Bank of Hungary | | (156,203) | (134,744) |
| **Cash and cash equivalents at the beginning of the year** | | **73,441** | **294,581** |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 3., 27. | 157,437 | 229,644 |
| Compulsory reserve established by the National Bank of Hungary | 3., 27. | (64,371) | (156,203) |
| **Cash and cash equivalents at the end of the year** | | **93,066** | **73,441** |

The accompanying notes to unconsolidated financial statements on pages 115 to 155 form an integral part of these unconsolidated financial statements

## *Statement of Changes in Shareholders' Equity*

(unconsolidated, based on IFRS, for the year ended 31 December 2008, in HUF million)

| | Note | Share Capital | Retained Earnings and Reserves | Treasury Shares | Total |
|---|---|---|---|---|---|
| **Balance as at 1 January 2007** | | **28,000** | **644,000** | **(1,746)** | **670,254** |
| Net profit for the year | | – | 141,681 | – | 141,681 |
| Fair value adjustment of securities available-for-sale recognised directly through equity | | – | (2,018) | – | (2,018) |
| Fair value adjustment of derivatives on equity instruments recognised through equity | | – | (387) | – | (387) |
| Share-based payment | | | 5,123 | | 5,123 |
| Effect on ICES - exchangeable bond transaction recognised through equity | | – | (2,715) | – | (2,715) |
| Dividend for the year 2006 | | | (40,320) | | (40,320) |
| Aquisition of Treasury shares | | – | (3,897) | – | (3,897) |
| Change in carrying value of Treasury shares | | – | – | (52,462) | (52,462) |
| **Balance as at 31 December 2007** | | **28,000** | **741,467** | **(54,208)** | **715,259** |
| Net profit for the year | | – | 133,955 | – | 133,955 |
| Fair value adjustment of securities available-for-sale recognised directly through equity | | – | (17,393) | – | (17,393) |
| Fair value adjustment of derivatives on equity instruments recognised through equity | | – | 387 | – | 387 |
| Share-based payment | 25. | – | 28 | – | 28 |
| Effect on ICES - exchangeable bond transaction recognised through equity | | – | (5,203) | – | (5,203) |
| Effect of Treasury share transaction | | – | (7,499) | – | (7,499) |
| Loss on sale of Treasury shares | | – | (3,424) | – | (3,424) |
| Change in carrying value of Treasury shares | | – | – | (43,637) | (43,637) |
| **Balance as at 31 December 2008** | | **28,000** | **842,318** | **(97,845)** | **772,473** |

The accompanying notes to unconsolidated financial statements on pages 115 to 155 form an integral part of these unconsolidated financial statements

# NOTES TO UNCONSOLIDATED IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

## 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.

As at 31 December 2008, approximately 91% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (2%) and the Bank itself (7%).

The Bank provides a full range of commercial banking services through a nationwide network of 382 branches in Hungary.

As at 31 December 2008, the number of employees at the Bank was 8,297. The average number of employees in the year ended 31 December 2008 was 8,333.

### 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 36), 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 International Financial Reporting Standards .

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.

The Financial Statements were authorised for issue on 20 March 2009.

### *1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2008*

Four Standards and Interpretations issued by the IASB and International Financial Reporting Interpretations Committee ('IFRIC') are effective for the current period.

These are:

- IAS 39 (Amendment) Financial Instruments: Recognition and Measurement and IFRS 7: Reclassification of Financial Assets (effective from 1 July 2008)
- IFRIC 11 IFRS 2: – Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007)
- IFRIC 12: Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008)
- IFRIC 14 IAS 19: – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008)

The adoption of the above presented Amendments and Interpretations had no significant impact on the unconsolidated financial statements of the Bank. IFRIC 12 is not yet endorsed by the EU.

### *1.2.2. Amendments to IFRSs effective from 1 January 2009, not yet adopted*

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

- IAS 1 (Revised): Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009)
- IAS 23 (Revised): Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 27 (Amendment): Consolidated and Separate Financial Statements (effective from 1 July 2009)
- IAS 32 (Amendment) Financial Instruments: Presentation (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39 (Amendment) Financial Instruments: Recognition and Measurement (effective for accounting periods on or after 1 July 2009)
- IFRS 2 (Amendment) Share-based Payment (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 3 (Revised) Business Combinations (effective from 1 July 2009)*
- IFRS 5 (Amendment): Non-current Assets Held for Sale and Discontinued Operations (and Consequental Amendment to IFRS 1: First-Time Adoption) (effective from 1 July 2009)*
- IFRS 7 (Amendment) Financial Instruments: Disclosures (effective for accounting periods beginning on or after 1 January 2009)*
- IFRS 8: Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
- IFRIC 13: Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008)
- IFRIC 15: Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009)*
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008)*
- IFRIC 17: Distributions of Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009)*
- IFRIC 18: Transfers of Assets from Customers (effective from 1 January 2009)*
- Improvements to International Financial Reporting Standards 2008 (effective for accounting periods beginning on or after 1 January 2009)

The adoption of the above presented Amendments and Interpretations would have no significant impact on the unconsolidated financial statements of the Bank.

*Not yet endorsed by the EU.

## 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.

### 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 statements of operations.

### 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 2.8. 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 unconsolitated financial statements will be published on the same date.

### 2.4. 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 express 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.

Securities held-to-maturity include securities, which the Bank has the ability and intention to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government and NBH and mortgage bonds.

## 2.5. Financial assets at fair value through profit or loss

### *2.5.1. Securities held for trading*

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Held for trading investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognised in profit/loss and included in the unconsolidated statements of operations for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in commercial companies and shares in investment funds.

### *2.5.2. Derivative financial instruments*

In the normal course of business, the Bank 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 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/loss and included in the unconsolidated statements of operations for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### *2.5.3. 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 statements of operations 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 statements of operations.

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 in the reserve among shareholders' equity. Amounts deferred in equity are transferred to the unconsolidated statements of operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the unconsolidated statement of operation for the period. The ineffective element of the hedge is charged directly to the unconsolidated statements of operations.

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 statements of operations.

## 2.6. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are 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. Such securities consist of discounted Treasury bills, Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in investment funds, bonds issued by NBH, companies or municipalities and foreign government bonds.

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 measured at cost.

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.

## 2.7. 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, 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 reversed and accruals are stopped.

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 assesment 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 operations. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income.

## 2.8. 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.

If the Group loses control of a subsidiary, derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognises any difference as a gain or loss on the sale attributable to the parent in Statement of Operation.

Investments in subsidiaries are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate. Allowance is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

OTP calculates the fair value of the investment in subsidiaries using 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 effects of the present global economic crisis, 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.

## 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 balance sheet and the consideration received is recorded in Other liabilities or Amounts due to banks and deposits from the NBH and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in placement with other Banks. Interest is accrued evenly over the life of the repurchase agreement.

## 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:

| | |
|---|---|
| Property | 1–2% |
| Office equipment | 8–33.3% |
| Leased assets | 16.7–33.3% |
| Vehicles | 15–20% |
| Software | 20–33.3% |
| Property rights | 16.7% |

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 disclosed 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 discloses 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 statements of operations 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 statements of operations 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

Balance Sheet at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of Treasury shares are credited or charged directly to retained earnings and reserves. 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, referring to IAS 39.

## 2.15. Fees and Commissions

Fees and commissions are recognised in the unconsolidated statements of operations on an accrual basis based on IAS 18, fees and commissions are recognised using the effective interest method referring to IAS 39.

## 2.16. Income taxes

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 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.

## 2.17. 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 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 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.

## 2.18. 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 date of grant. 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.

## 2.19. 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 items being hedged.

## 2.20. Comparative figures

Certain amounts in the unconsolidated financial statements for the year ended 31 December 2007 have been reclassified to conform with the current year presentation. These reclassifications were not material.

## 2.21. Significant accounting estimates and decisions in the application of accounting policies

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

### *(a) Impairment on loans and advances*

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.

### *(b) 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.

### *(c) 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 16). A provision recognised by the Bank when it has a present obligation as 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.

## NOTE 3: CASH AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Cash on hand:** | | |
| In HUF | 66,542 | 50,601 |
| In foreign currency | 8,120 | 3,486 |
| | **74,662** | **54,087** |
| **Amounts due from banks and balances with NBH:** | | |
| Within one year: | | |
| In HUF | 71,857 | 162,268 |
| In foreign currency | 10,918 | 13,289 |
| | **82,775** | **175,557** |
| **Total** | **157,437** | **229,644** |

Based on the requirements for compulsory reserves set by the NBH, the balance of the compulsory reserves amounted to HUF 64,371 million and HUF 156,203 million as at 31 December 2008 and 2007 respectively. The rate of the compulsory reserve decreased from 5% to 2% at 1 December 2008.

## NOTE 4: PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Within one year:** | | |
| In HUF | 157,903 | 35,330 |
| In foreign currency | 389,055 | 289,789 |
| | **546,958** | **325,119** |
| **Over one year:** | | |
| In HUF | 2,300 | 3,000 |
| In foreign currency | 371,559 | 397,339 |
| | **373,859** | **400,339** |
| **Total placements** | **920,817** | **725,458** |
| **Provision for impairment on placement losses** | **(362)** | **–** |
| **Total** | **920,455** | **725,458** |

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

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | – | – |
| Provision for the year | 362 | – |
| **Balance as at 31 December** | **362** | **–** |

Placements with other banks in foreign currency bear interest rates in the range of 1% to 10.7% and of 1% to 11.99% as at 31 December 2008 and 2007 respectively.

Placements with other banks in HUF bear interest rates in the range of 8.94% to 12.67% and of 6.7% to 8.94% as at 31 December 2008 and 2007 respectively.

## NOTE 5: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Securities held for trading | | |
| Government bonds | 43,031 | 47,964 |
| Mortgage bonds | 5,057 | 3,549 |
| Hungarian government interest bearing Treasury bills | 2,608 | 2,406 |
| Hungarian government discounted Treasury Bills | 1,373 | 2,147 |
| Other securities | 2,750 | 4,318 |
| | **54,819** | **60,384** |
| Derivative financial instruments designated as held for trading | 96,897 | 62,987 |
| **Total** | **151,716** | **123,371** |

Securities held for trading are measured at fair value in the financial statements of the Bank which approximates book value.

Mortgage bonds issued by OTP Mortgage Bank Ltd. was HUF 4,635 million and HUF 2,976 million as at 31 December 2008 and 2007 respectively.

Approximately 94% and 100% of the held for trading securities portfolio was denominated in HUF as at 31 December 2008 and 2007 respectively.

The 98% and 100% of the government bond portfolio was denominated in HUF as at 31 December 2008 and 2007 respectively.

Interest rates on securities held for trading on interest bearing securities ranged from 3.7% to 12.2% and from 5.5% to 11.1% as at 31 December 2008 and 2007 respectively.

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

| | 2008 | 2007 |
|---|---|---|
| **Within five years:** | | |
| variable interest | 228 | 369 |
| fixed interest | 34,779 | 33,918 |
| | **35,007** | **34,287** |
| **Over five years:** | | |
| variable interest | – | – |
| fixed interest | 17,514 | 21,779 |
| | **17,514** | **21,779** |
| **Non-interest bearing securities** | **2,298** | **4,318** |
| **Total** | **54,819** | **60,384** |

## NOTE 6: SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Mortgage bonds | 290,820 | 161,545 |
| Government bonds | 126,177 | 41,773 |
| Other securities | 135,683 | 117,297 |
| | 552,680 | 320,615 |
| Provision for impairment on securities available-for-sale | (2,769) | – |
| **Total** | **549,911** | **320,615** |

### *An analysis of the changes in the provision for impairment is as follows:*

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | – | – |
| Provision for the year | 2,769 | – |
| Balance as at 31 December | 2,769 | – |

Mortgage bonds are issued by OTP Mortgage Bank Ltd.

Securities available-for-sale are measured at fair value in the financial statements of the Bank which approximates book value, except when there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity were reclassified from equity to Statement of Operations.

Approximately 78% and 67% of the available-for-sale securities portfolio was denominated in HUF as at 31 December 2008 and 2007 respectively. The 100% and 88% of the government bonds were denominated in HUF as at 31 December 2008 and 2007 respectively. The entire foreign currency denominated government bond portfolio was denominated in EUR as at 31 December 2007.

Interest rates on avaible-for-sale securities ranged from 1% to 11% and from 3% to 10% as at 31 December 2008 and 2007 respectively.

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

| | 2008 | 2007 |
|---|---|---|
| **Within five years:** | | |
| variable interest | 360,460 | 63,187 |
| fixed interest | 90,213 | 171,723 |
| | **450,673** | **234,910** |
| **Over five years:** | | |
| variable interest | 79,758 | 56,519 |
| fixed interest | 8,666 | 17,240 |
| | **88,424** | **73,759** |
| **Non-interest bearing securities** | **10,814** | **11,946** |
| **Total** | **549,911** | **320,615** |

Certain fixed-rate mortgage bonds and other securities mainly denominated in foreign currency are hedged by derivative financial instruments – interest rate swap – to reduce the exposure to interest rate risk or the changes in fair value of these assets. Where the hedging relationships are designated and a HUF 934 million and HUF 298 million net loss that had been recognised directly in the equity. It was removed from equity and recognised through profit or loss as at 31 December 2008 and 2007 respectively in line with IAS 39.

The fair value of the hedged mortgage bonds was HUF 16,841 million and HUF 16,557 million as at 31 December 2008 and 2007 respectively. The fair value of the other hedged bonds was HUF 20,335 million and HUF 30,491 million as at 31 December 2008 and 2007 respectively.

## NOTE 7: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Short-term loans and trade bills (within one year) | 650,160 | 563,007 |
| Long-term loans and trade bills (over one year) | 2,110,541 | 1,654,445 |
| | **2,760,701** | **2,217,452** |
| Provision of impairment on loan losses | (45,319) | (28,820) |
| **Total** | **2,715,382** | **2,188,632** |

Loans denominated in foreign currency represent approximately 70% and 58% of the loan portfolio, before provision for impairment on loan losses as at 31 December 2008 and 2007 respectively.

Loans denominated in HUF, with a maturity within one year bear interest rates in the range of 14% to 30% and of 10% to 30% as at 31 December 2008 and 2007 respectively.

Loans denominated in HUF with a maturity over one year bear interest rates in the range of 3% to 24.8% and of 4% to 22.8% as at 31 December 2008 and 2007 respectively.

Foreign currency loans bear interest rates in the range of 1.8% to 22% and of 2% to 18% as at 31 December 2008 and 2007 respectively.

Approximately 3% and 2% of the gross loan portfolio represented loans on which interest is not being accrued as at 31 December 2008 and 2007 respectively.

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

| | 2008 | | 2007 | |
|---|---|---|---|---|
| Commercial loans | 1,862,963 | 67.00% | 1,446,354 | 64.00% |
| Consumer loans | 361,148 | 13.00% | 280,925 | 13.00% |
| Housing loans | 235,375 | 9.00% | 211,504 | 10.00% |
| Municipality loans | 180,670 | 7.00% | 214,428 | 10.00% |
| Mortgage backed loans | 120,545 | 4.00% | 64,241 | 3.00% |
| **Total** | **2,760,701** | **100.00%** | **2,217,452** | **100.00%** |

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

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | 28,820 | 31,021 |
| Provision for the year | 28,849 | 21,453 |
| Release / write-offs for the year | (12,350) | (23,654) |
| **Balance as at 31 December** | **45,319** | **28,820** |

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (See Note 26).

## NOTE 8: INVESTMENTS IN SUBSIDIARIES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Investments in subsidiaries:** | | |
| Controlling interest | 721,180 | 630,805 |
| Significant interest | 72 | 75 |
| Other | 987 | 938 |
| | **722,239** | **631,818** |
| **Provision for impairment** | **(125,995)** | **(1,115)** |
| **Total** | **596,244** | **630,703** |

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

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | 1,115 | 1,059 |
| Provision for the year | 124,880 | 56 |
| **Balance as at 31 December** | **125,995** | **1,115** |

The provision for impairment on CJSC OTP Bank (Ukraine) was HUF 97,526, for OTP banka Srbija a.d. was HUF 25,284 million as at 31 December 2008.

Investments in companies in which the Bank has a controlling interest are detailed below. All companies are incorporated in Hungary unless indicated otherwise.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | % Held (direct and indirect) | Cost | % Held (direct and indirect) | Cost |
| CJSC OTP Bank (Ukraine) | 100.00% | 210,673 | 100.00% | 182,537 |
| DSK Bank EAD (Bulgaria) | 100.00% | 86,831 | 100.00% | 86,831 |
| OTP banka Hrvatska d.d. (Croatia) | 100.00% | 72,940 | 100.00% | 65,065 |
| OAO OTP Bank (Russia) (former OAO Investsberbank) | 95.51% | 66,723 | 97.22% | 50,078 |
| OTP banka Srbija a.d. (Serbia) | 91.43% | 55,997 | 91.43% | 55,997 |
| OTP Bank Romania S.A. (Romania) | 100.00% | 38,117 | 100.00% | 38,117 |
| Crnogorska komerčijalna banka a.d. (Montenegro) | 100.00% | 32,988 | 100.00% | 29,130 |
| OTP Holding Ltd. (Cyprus) | 100.00% | 29,000 | – | – |
| OTP Mortgage Bank Ltd. | 100.00% | 27,000 | 100.00% | 27,000 |
| OOO Invest Oil (Russia) | 100.00% | 21,224 | 100.00% | 21,224 |
| OOO Megaform Inter (Russia) | 100.00% | 17,704 | 100.00% | 17,704 |
| OOO AlyansReserv (Russia) | 100.00% | 11,147 | 100.00% | 11,147 |
| OTP Banka Slovensko a.s. (Slovakia) | 97.23% | 10,038 | 97.23% | 10,038 |
| Air-Invest Ltd. | 100.00% | 7,948 | 100.00% | 3,854 |
| Bank Center No. 1. Ltd. | 100.00% | 7,330 | 100.00% | 7,330 |
| OOO Donskoy Narodny Bank (Russia) | 100.00% | 6,687 | – | – |
| Inga Two Ltd. | 100.00% | 5,892 | 100.00% | 5,892 |
| OTP Funds Servicing and Consulting Ltd. | 100.00% | 2,469 | 100.00% | 2,392 |
| 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 |
| TradeNova Commercial Ltd. (former OTP Trade Ltd.) | 100.00% | 1,258 | 100.00% | 30 |
| OTP Life Annuity Ltd. | 100.00% | 1,250 | 100.00% | 1,250 |
| S.C. OTP Fond de Pensii (Romania) | 100.00% | 885 | – | – |
| OTP Financing Netherlands B.V. (Netherlands) | 100.00% | 481 | 100.00% | 5 |
| 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% | 150 |
| OTP Garancia Insurance Ltd. | – | – | 100.00% | 7,472 |
| OTP Real Estate Ltd. | – | – | 100.00% | 1,228 |
| Other | – | 310 | – | 271 |
| **Total** | | **721,180** | | **630,805** |

## NOTE 9: SECURITIES HELD-TO-MATURITY (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Mortgage bonds | 172,988 | 288,959 |
| Government securities | 150,573 | 172,125 |
| Bonds issued by NBH | 109,684 | 97,085 |
| Hungarian government discounted Treasury bills | 4,290 | 341 |
| **Total** | **437,535** | **588,510** |

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

| | 2008 | 2007 |
|---|---|---|
| **Within five years:** | | |
| variable interest | 29,118 | 16,765 |
| fixed interest | 369,624 | 485,475 |
| | **398,742** | **502,240** |
| **Over five years:** | | |
| variable interest | 15,023 | 30,657 |
| fixed interest | 23,770 | 25,613 |
| | **38,793** | **56,270** |
| **Total** | **437,535** | **558,510** |

100% of the securities portfolio was denominated in HUF as at 31 December 2008 and 2007. 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 rates on fixed interest securities denominated in HUF ranged from 5.5% to 19.2% and from 5.5% to 10% as at 31 December 2008 and 2007 respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

The fair value of securities held-to-maturity was HUF 428,571 million and HUF 562,404 million as at 31 December 2008 and 2007 respectively.

## NOTE 10: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

### *For the year ended 31 December 2008:*

| | Intangible assets | Land and buildings | Office equipments | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January 2008 | 80,272 | 55,301 | 69,115 | 6,173 | 210,861 |
| Additions | 9,329 | 3,902 | 6,408 | - | 19,639 |
| Disposals | (14,915) | (849) | (3,082) | (1,304) | (20,150) |
| **Balance as at 31 December 2008** | **74,686** | **58,354** | **72,441** | **4,869** | **210,350** |
| **Depreciation and Amortization** | | | | | |
| Balance as at 1 January 2008 | 44,006 | 9,411 | 47,171 | – | 100,588 |
| Charge for the year | 11,609 | 1,813 | 8,172 | – | 21,594 |
| Disposals | (20,468) | (639) | (3,108) | – | (24,215) |
| **Balance as at 31 December 2008** | **35,147** | **10,585** | **52,235** | **–** | **97,967** |
| **Net book value** | | | | | |
| Balance as at 1 January 2008 | 36,266 | 45,890 | 21,944 | 6,173 | 110,273 |
| **Balance as at 31 December 2008** | **39,539** | **47,769** | **20,206** | **4,869** | **112,383** |

### *For the year ended 31 December 2007:*

| | Intangible assets | Land and buildings | Office equipments | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January 2007 | 64,186 | 49,624 | 67,653 | 5,998 | 187,461 |
| Additions | 16,108 | 7,107 | 7,390 | 175 | 30,780 |
| Disposals | (22) | (1,430) | (5,928) | – | (7,380) |
| **Balance as at 31 December 2007** | **80,272** | **55,301** | **69,115** | **6,173** | **210,861** |
| **Depreciation and Amortization** | | | | | |
| Balance as at 1 January 2007 | 33,342 | 8,443 | 44,955 | – | 86,740 |
| Charge for the year | 10,669 | 1,288 | 8,078 | – | 20,035 |
| Disposals | (5) | (320) | (5,862) | – | (6,187) |
| **Balance as at 31 December 2007** | **44,006** | **9,411** | **47,171** | **–** | **100,588** |
| **Net book value** | | | | | |
| Balance as at 1 January 2007 | 30,844 | 41,181 | 22,698 | 5,998 | 100,721 |
| **Balance as at 31 December 2007** | **36,266** | **45,890** | **21,944** | **6,173** | **110,273** |

## NOTE 11: OTHER ASSETS (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Current income tax receivable | 23,882 | 7,279 |
| Receivables from OTP Mortgage Bank Company Ltd.* | 17,012 | 144,927 |
| Fair value of derivative financial instruments designated as hedge accounting relationships | 8,871 | 2,309 |
| Trade receivables | 5,791 | 5,649 |
| Prepayments and accrued income | 5,645 | 6,441 |
| Due from government for interest subsidies | 3,128 | 2,860 |
| Receivables from investment services | 929 | 1,425 |
| Inventories | 602 | 473 |
| Advances for securities and investments | 533 | 510 |
| Credits sold under deferred payment scheme | 420 | 119 |
| Other advances | 162 | 1,767 |
| Other | 4,527 | 4,663 |
| | **71,502** | **178,422** |
| **Provision for impairment on other assets** | **(610)** | **(1,375)** |
| **Total** | **70,892** | **177,047** |

* The Bank, under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Ltd. Provision for impairment on other assets mainly consists of provision for trade receivables, advances and inventories.

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

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | 1,375 | 1,046 |
| (Release)/charge for the year | (731) | 351 |
| Write-offs | (34) | (22) |
| **Balance as at 31 December** | **610** | **1,375** |

## NOTE 12: AMOUNTS DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Within one year:** | | |
| In HUF | 207,354 | 124,641 |
| In foreign currency | 353,971 | 173,276 |
| | **561,325** | **297,917** |
| **Over one year:** | | |
| In HUF | 88,577 | 70,065 |
| In foreign currency | 55,663 | 222,766 |
| | **144,240** | **292,831** |
| **Total** | **705,565** | **590,748** |

Amounts due to banks and deposits from the NBH and other banks payable in HUF within one year bear interest rates in the range of 9.4% to 10.8% and of 6.5% to 7.52% as at 31 December 2008 and 2007 respectively.

Amounts due to banks and deposits from the NBH and other banks payable in HUF over one year bear interest rates in the range of 3% to 9.18% and of 3% to 6.28% as at 31 December 2008 and 2007 respectively.

Amounts due to banks and deposits from the NBH and other banks payable in foreign currency within one year bear interest rates in the range of 0.5% to 13.75% and of 1% to 10.5% as at 31 December 2008 and 2007 respectively.

Amounts due to banks and deposits from the NBH and other banks payable in foreign currency over one year bear interest rates in the range of 1.4% to 6.3% and of 2.69% to 6.15% as at 31 December 2008 and 2007 respectively. No assets are pledged as collaterals against the amounts due to banks.

## NOTE 13: DEPOSITS FROM CUSTOMERS (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Within one year:** | | |
| In HUF | 2,508,553 | 2,462,047 |
| In foreign currency | 556,332 | 483,208 |
| | **3,064,885** | **2,945,255** |
| **Over one year:** | | |
| In HUF | 24,553 | 9,780 |
| **In foreign currency** | **1,324** | **–** |
| | **25,877** | **9,780** |
| **Total** | **3,090,762** | **2,955,035** |

Deposits from customers payable in HUF within one year bear interest rates in the range of 0.2% to 13.8% and of 0.2% to 12% as at 31 December 2008 and 2007 respectively.

Deposits from customers payable in HUF over one year bear interest rates in the range of 0.2% to 11% and of 1.3% to 7% as at 31 December 2008 and 2007 respectively.

Deposits from customers payable in foreign currency bear interest rates in the range of 0.1% to 21.5% and of 0.1% to 6% as at 31 December 2008 and 2007 respectively.

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

| | 2008 | | 2007 | |
|---|---|---|---|---|
| Retail deposits | 2,027,357 | 66,00% | 1,844,330 | 62.00% |
| Corporate deposits | 836,781 | 27,00% | 906,160 | 31.00% |
| Municipality deposits | 226,624 | 7,00% | 204,545 | 7.00% |
| **Total** | **3,090,762** | **100,00%** | **2,955,035** | **100.00%** |

## NOTE 14: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Within one year: | | |
| In HUF | 57,548 | 245 |
| In foreign currency | 198,585 | – |
| | 256,133 | 245 |
| Over one year: | | |
| In HUF | 1,863 | 1,393 |
| In foreign currency | 343,795 | 392,558 |
| | 345,658 | 393,951 |
| **Total** | **601,791** | **394,196** |

Liabilities from issued securities denominated in HUF bear interest rates in the range of 0.3% to 9% as at 31 December 2008 and 2007.

Liabilities from issued securities denominated in foreign currency bear interest rates in the range of 3.1% to 5.8% and of 4.8% to 5% as at 31 December 2008 and 2007 respectively.

The Bank issued variable-rate bonds with a face value of EUR 500 million on 1 July 2005 which are due on 1 July 2010 at 99.9%. Interest on these bonds is three month EURIBOR + 0.16% that is payable quarterly.

The Bank issued variable-rate bonds with a face value of EUR 300 million on 20 December 2005, which are due on 20 December 2010 at

99.81%. Interest on these bonds is three month EURIBOR + 0.15% that is payable quarterly.

On 26 February 2007, the Bank issued EUR 750 million of floating rate notes due on 27 February 2009 at 99.87% under the European Medium Term Note Program (EMTN Program). Interest on these bonds is three month EURIBOR + 0.125% that is payable quarterly.

The Bank issued bonds with a nominal value of EUR 500 million at 99.812 % of the face value on 16 May 2008. The price of the fixed rate senior bonds with a 3 year maturity was set on 7 May 2008. The Lead Managers of the successful bond issue (which attracted approximately 30% oversubscription of the accepted amount) were DZ Bank and Morgan Stanley. The re-offer spread is 140 bps over 3 year mid-swap, the bonds bear a coupon of 5.75% fixed rate, with annual interest payments. The bonds will be introduced to the Luxembourg Stock Exchange.

The Bank has launched a bond issue program of HUF 100,000 million on 2 August 2007.

The Bank issued bonds with a nominal value of HUF 7,143 million face value between 16 June and 25 July 2008 under the above mentioned 100,000 million HUF Bond Issuance Program. The bonds are fixed-rate senior bonds with 1 year maturity. The bonds bear a coupon of 8.7 % fixed rate.

The Bank issued bonds with a nominal value of HUF 50,984 million face value between 3 November and 31 December 2008 under the 100,000 million HUF Bond Issuance Program. The bonds are fixed-rate senior bonds with 1 year maturity. The bonds bear a coupon of 10 % fixed rate.

## NOTE 15: FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HELD FOR TRADING (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Futures contracts | 10 | 115 |
| Forward contracts | 5,829 | 1,205 |
| Foreign exchange swap contracts | 88,657 | 2,644 |
| Interest rate swap contracts | 32,565 | 18,579 |
| **Total** | **127,061** | **22,543** |

## NOTE 16: OTHER LIABILITIES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Accrued expenses | 36,052 | 11,245 |
| Provision for losses on off-balance sheet commitments, contingent liabilities | 28,233 | 14,221 |
| Giro clearing accounts | 20,129 | 19,017 |
| Salaries and social security payable | 19,789 | 8,372 |
| Accounts payable | 6,616 | 10,902 |
| Taxes payable | 4,493 | 4,269 |
| Liabilities from security trading | 2,828 | 20,697 |
| Advance of Government grants for housing purposes | 1,698 | 3,666 |
| Loans for collection | 1,340 | 1,523 |
| Fair value of derivative financial instruments designated as hedge accounting relationships | 1,268 | 612 |
| Deferred tax liabilities | 759 | 2,969 |
| Dividends payable | 735 | 792 |
| Other | 12,344 | 17,283 |
| **Total** | **136,284** | **115,568** |

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

| | 2008 | 2007 |
|---|---|---|
| Provision for litigation* | 3,038 | 2,845 |
| Provision for losses on other off-balance sheet commitments and contingent liabilities | 23,924 | 6,524 |
| Other provision (for expected liabilities) | 1,271 | 4,852 |
| **Total** | **28,233** | **14,221** |

* The provision for losses on other off-balance sheet commitments and contingent liabilities primarily relates to commitments stemming from guarantees and credit lines issued by the Bank.

### *Movements in the provision for losses on commitments and contingent liabilities can be summarized as follows:*

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | 14,221 | 13,709 |
| Provision for the year | 21,292 | 2,742 |
| Write-offs | (7,280) | (2,230) |
| **Balance as at 31 December** | **28,233** | **14,221** |

## NOTE 17: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and held by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interest is based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 4.02% as at 20 June 2007, 3.76% as at 20 December 2007 and 4.15% as at 20 June 2008 and 4.75% as at 20 December 2008. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

In December 1996, the Bank obtained a USD 30 million and DEM 31.14 million (15.92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development with an original mauturity of 27 December 2006. The maturity date was modified to 27 August 2008 on 22 August 2003. The loan is unsecured, subordinate to the other liabilities and has a twelve-year maturity, with interest payable at six-month LIBOR + 1.35% from 28 December 2003 until 27 August 2008. The loan has already been repayed in 2008.

On 4 March 2005, the Bank issued EUR 125 million in bonds, which are subordinated to the other liabilities of the Bank. Interest on subordinated bonds is variable and payable at three-month EURIBOR + 0.55% quarterly. The original maturity of the bonds is 10 years.

On 31 October 2006, the Bank issued perpetual subordinated (UT2) bonds to finance acquisitions. The 500 EUR million nominal value bonds were issued at 99.375 % of the face value with 7 November 2006 as payment date. The re-offer spread is 200 basis points over the 10 year mid-swap. The bonds are perpetual and callable after year 10. The bonds bear a fixed coupon of 5.875%, with annual interest payments in the first 10 years, and a floater (variable) coupon of 3 months EURIBOR + 300 basis points per annum, quaterly thereafter. The bonds were listed on the Luxembourg Stock Exchange.

On 30 August 2006, the Bank updated EMTN Program and increased the Program amount from EUR 1 billion to EUR 3 billion. Under the EMTN Program on 12 September 2006 the Bank issued fixed rate subordinated bonds in a total nominal value of EUR 300 million to finance acquisitions. The EUR 300 million nominal value bonds were issued at 100% of the face value with 19 September 2016 as maturity date. The bonds bear a coupon of 5.27%, interests are paid annually.
On 26 February 2007 the Bank also issued EUR 200 million subordinated notes due on 19 September 2016 under the same program.

## NOTE 18: SHARE CAPITAL (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| **Authorized, issued and fully paid:** | | |
| Ordinary shares | 28,000 | 28,000 |
| **Total** | **28,000** | **28,000** |

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 19: RETAINED EARNINGS AND RESERVES (in HUF mn)

The reserves of the Bank under Hungarian Accounting Standards were HUF 652,297 million and HUF 537,211 million as at 31 December 2008 and 2007 respectively. Of these amounts, legal reserves represent HUF 156,975 million and HUF 152,569 million as at 31 December 2008 and 2007 respectively. The legal reserves are not available for distribution. Dividends of HUF 40,320 million for the year 2006 were approved by the Annual General Meeting on 28 April 2007.
According to the decision made at the Annual General Meeting on 25 April 2008, the Bank did not pay dividends for the year 2007.

These Financial Statements will be approved by the Annual General Meeting in April 2009. No dividends are proposed.

On 19 October 2006 the Bank sold 14.5 million Treasury shares owned by OTP Bank through an issue of Income Certificates Exchangeable for Shares ('ICES'). Within the transaction 10 million shares owned by OTP Bank, and 4.5 million 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., 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 without final maturity 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 buy back the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%.
Under a subordinated swap contract, the Bank pays the interest of ICES payable to Opus and if the Bank pays dividend for the ordinary shares, receives the same amount of money from Opus than the dividend that is payable for the shares held by Opus.

## NOTE 20: TREASURY SHARES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Nominal value (ordinary shares) | 1,742 | 610 |
| **Carrying value at aquisition cost** | **97,845** | **54,208** |

## NOTE 21: OTHER EXPENSES (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Provision for impairment on investments in subsidiaries | 124,880 | 56 |
| Administration expenses, including rental fees | 24,534 | 23,996 |
| Services | 21,188 | 17,803 |
| Taxes, other than income tax | 15,707 | 16,903 |
| Provision for impairment on off-balance sheet commitments and contingent liabilities | 14,012 | 512 |
| Advertising | 5,670 | 5,129 |
| Provision for impairment on securities available-for-sale | 2,769 | – |
| Professional fees | 2,216 | 2,762 |
| (Release)/provision for impairment on other assets | –731 | 351 |
| Other | 5,605 | 4,356 |
| **Total** | **215,850** | **71,868** |

## NOTE 22: INCOME TAXES (in HUF mn)

The Bank is presently liable for income tax at a rate of 16% of taxable income.

In Hungary, an additional 4% of special tax is to be paid.

In the calculation of deferred tax the 20% tax rate was taken into account.

### *A breakdown of the income tax expense is:*

| | 2008 | 2007 |
|---|---|---|
| Current tax | 4,749 | 22,169 |
| Deferred tax | 2,838 | (2,068) |
| **Total** | **7,587** | **20,101** |

### *A reconciliation of the deferred tax liability is as follows:*

| | 2008 | 2007 |
|---|---|---|
| Balance as at 1 January | (2,969) | (5,831) |
| Deferred tax charge | (2,838) | 2,068 |
| Tax effect of fair value adjustment of available-for-sale securities and ICES recognised through equity | 5,048 | 794 |
| **Balance as at 31 December** | **(759)** | **(2,969)** |

## *A breakdown of the deferred tax liability is as follows:*

| | 2008 | 2007 |
|---|---|---|
| Difference in accounting for finance leases | 669 | 510 |
| Fair value adjustment of held for trading and available-for-sale securities | 2,347 | – |
| Repurchase agreements | – | 1,818 |
| Fair value adjustment of derivative financial instruments | – | 378 |
| Provision for impairment on investments in subsidiaries | 3,183 | – |
| Deferred tax asset | 6,199 | 2,706 |
| Fair value adjustment of held for trading and available-for-sale financial assets | – | (1,021) |
| Premium and discount amortization on bonds | (365) | (339) |
| Repurchase agreements | (2,498) | – |
| Fair value adjustment of derivative financial instruments | (555) | – |
| Valuation of equity instrument (ICES) | (1,964) | (2,760) |
| Difference in depreciation and amortization | (1,576) | (1,555) |
| Deferred tax liabilities | (6,958) | (5,675) |
| **Net deferred tax liabilities** | **(759)** | **(2,969)** |

## *A reconciliation of the income tax charge is as follows:*

| | 2008 | 2007 |
|---|---|---|
| Profit before income tax | 141,542 | 161,782 |
| Income tax at statutory tax rate (16%) | 22,647 | 25,885 |
| **Special tax (4%)** | **3,366** | **5,763** |

## *Income tax adjustments are as follows:*

| | 2008 | 2007 |
|---|---|---|
| Reversal of statutory general provision | (15) | (1,819) |
| Provision for impairment on loan losses | (268 | – |
| Change in statutory goodwill and negative goodwill | 4,608 | (1,762) |
| Revaluation of investments denominated in foreign currency to historical cost | (2,828) | (2,514) |
| Fair value of share-based payment | 6 | 1,025 |
| Permanent differences related to issued equity instruments (ICES) | (404) | (389) |
| Treasury share transaction | (10,319) | – |
| Dividend income | (22,122) | (3,027) |
| Other | 12,916 | (3,061) |
| Income tax | 7,587 | 20,101 |
| **Effective tax rate** | **5.4%** | **12.4%** |

## NOTE 23: FINANCIAL RISK MANAGEMENT

A financial instrument is any contract that gives rise to a financial asset of one entity and 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:

*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 and industry segments. Such risks are monitored on a revolving 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 where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

*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.

*Liquidity risk*

See Note 30.

*Foreign currency risk*

See Note 31.

*Interest rate risk*

See Note 32.

## NOTE 24: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the balance sheet 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.

### *(a) Contingent liabilities and commitments*

| | 2008 | 2007 |
|---|---|---|
| Commitments to extend credit | 604,348 | 749,015 |
| Guarantees arising from banking activities | 222,554 | 255,406 |
| Contingent liabilities related to OTP Mortgage Bank Ltd. | 68,336 | 38,702 |
| Confirmed letters of credit | 9,267 | 5,892 |
| Legal disputes | 6,332 | 5,708 |
| Other | 669 | 5,178 |
| **Total** | **911,506** | **1,059,901** |

*Commitments to extend 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 to be minimal.

*Contingent liabilities related to OTP Mortgage Bank Ltd.*

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank guarantees, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. OTP Mortgage Bank Ltd. utilises credit risk granting and monitoring policies similar to those used by the Bank.

Provision for the year due to recourse agreements were HUF 6,834 million and HUF 3,870 million as at 31 December 2008 and 2007 respectively.

*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 correspond to the level of claims and legal proceedings in previous years.

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 3,038 million and HUF 2,845 million as at 31 December 2008 and 2007 respectively. (See Note 16)

### (b) Derivatives (nominal amount, unless otherwise stated)

| | 2008 | 2007 |
|---|---|---|
| **Foreign currency contracts designated as held for trading** | | |
| Off-balance sheet assets | 150,461 | 97,699 |
| Off-balance sheet liabilities | 153,867 | 99,161 |
| Net | (3,406) | (1,462) |
| Net fair value | (2,158) | (649) |
| **Foreign exchange swaps and interest rate swaps designated as held for trading** | | |
| Off-balance sheet assets | 3,701,859 | 2,063,109 |
| Off-balance sheet liabilities | 3,540,780 | 1,980,414 |
| Net | 161,079 | 82,695 |
| Net fair value | (28,091) | 15,413 |
| **Interest rate swaps designated in hedge accounting relationships** | | |
| Off-balance sheet assets | 35,077 | 20,041 |
| Off-balance sheet liabilities | 29,441 | 17,320 |
| Net | 5,636 | 2,721 |
| Net fair value | 7,424 | 1,478 |
| **Option contracts** | | |
| Off-balance sheet assets | 10,927 | 123,467 |
| Off-balance sheet liabilities | 10,792 | 123,520 |
| Net | 135 | (53) |
| Net fair value | 180 | 25,900 |
| **Forward security agreements designated as held for trading** | | |
| Off-balance sheet assets | 2,101 | 175 |
| Off-balance sheet liabilities | 2,101 | 175 |
| Net | – | – |
| Net fair value | 52 | (1) |
| **Forward rate agreements designated as held for trading** | | |
| Off-balance sheet assets | 37 | – |
| Off-balance sheet liabilities | – | – |
| Net | 37 | – |
| Net fair value | 33 | – |

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.

As at 31 December 2008 the Bank has derivative instruments with positive fair values of HUF 105,768 million and negative fair values of HUF 128,328 million. Positive fair values of derivative instruments designated as hedge accounting relationships are included in other assets, while positive fair values of derivative instruments designated as held for trading are included in financial assets at fair value through profit or loss. Negative fair values of hedging derivative instruments are included in other liabilities. Corresponding figures as at 31 December 2007 are HUF 65,296 million and HUF 23,155 million.

*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 against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

*Foreign exchange swaps and interest rate swaps*

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

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

*Cross-currency interest rate swap*

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

*Forward rate agreements*

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 and have been accounted for at mark-to-market fair value.

## NOTE 25: SHARE-BASED PAYMENT

The terms of the options relating to the years of 2005 to 2009 were approved by the Annual General Meeting of 2005. The grant date of these options is 29 April 2005. The maximum number of shares which are available is 2.92 million.

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 amount increased under the modified program.

The exercise price of the options of 2005 is calculated as the average of the market price of OTP shares quoted by the Budapest Stock Exchange ('BSE') daily during the two month period ending on the last day of the month of the Annual General Meeting.

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.

To be able to practice the option program, two of following conditions should be fulfilled:

– the growth of the net income obtains 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 prolongated 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.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **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 | 6,678,130 | 7,957 | 4,799,825 | 7,231 |
| Granted during the period | – | – | 3,510,000 | 8,419 |
| Forfeited during the period | 965,050 | 6,484 | 187,250 | 7,648 |
| Exercised during the period | 257,500 | 6,536 | 1,444,445 | 6,706 |
| Outstanding at the end of the period | 2,534,950 | 6,484 | 6,678,130 | 7,957 |
| **Exercisable at the end of the period** | **1,774,466** | **8,424** | **2,334,304** | **7,369** |

For the year ended 31 December 2008 the key accomplishment factors – which are preconditions of the option program – are not fulfilled, in accordance of the option program the Bank did not recognise any personnel expense.

The options outstanding as at 31 December 2008 and 2007 had a weighted average exercise price of HUF 6,484 and HUF 7,957 with a weighted average remaining contractual life of 18 and 22 months, respectively.

### *The inputs into the Binominal model are as follows:*

| | 2008 | 2007 |
|---|---|---|
| Weighted average share price (HUF) | 7,828 | 7,663 |
| Weighted average exercise price (HUF) | 7,941 | 7,594 |
| Expected volatility (%) | 29 | 29 |
| Expected life (average year) | 3,56 | 3,18 |
| Risk free rate (%) | 6.84 | 7.01 |
| **Expected dividends (%)** | **2.31** | **2.45** |

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.

In connection with the share-based payment programs approved by the Bank and applying IFRS 2, HUF 28 million and HUF 5,123 million has been recognised as an expense as at 31 December 2008 and 2007 respectively.

## NOTE 26: RELATED PARTY TRANSACTIONS

Transactions with related parties, other than increases in share capital, are summarized below:

The Bank under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Company Ltd. of HUF 57,418 million and HUF 269,300 million during the years ended 31 December 2008 and 2007 (including interest). The book value of these receivables were HUF 57,347 million and 269,205 million.

During the year ended 31 December 2008 the Bank received HUF 38,715 million fees and commission from OTP Mortgage Bank Company Ltd. For the year ended 31 December 2007 such fees and commissions were HUF 50,493 million. Such fees and commissions are related to loans originated by the Bank and sold to OTP Mortgage Bank Company Ltd.

Provision for the year due to recourse agreements were HUF 6,834 million and HUF 3,870 million as at 31 December 2008 and 2007 respectively. During the years ended 31 December 2008 and 2007 the Bank sold, without recourse, non-performing loans and the related accrued interest receivable to OTP Factoring Ltd. for HUF 12,419 million and HUF 8,479 million respectively. The gross book value of such credits were HUF 23,838 million and HUF 29,873 million respectively, with a corresponding allowance for loan losses of HUF 9,149 million and HUF 19,547 million respectively. The underlying mortgage rights were also transferred to OTP Factoring Ltd. Provision for losses related to such transactions are recorded in the unconsolidated financial statements, among for loans and placement losses, which were HUF 2,270 million and HUF 1,847 million as at 31 December 2008 and 2007 respectively.

### *Commissions received by the Bank from related parties and commissions paid by the Bank to related parties are summarized below:*

### *a) Commissions received by the Bank*

| | 2008 | 2007 |
|---|---|---|
| Commissions received by the Bank from OTP Building Society Ltd. in relation to finalised customer contracts | 2,384 | 1,949 |
| Commissions received by the Bank from OTP Fund Management Ltd. in relation to trading activity | 6,095 | 5,066 |
| Commissions received by the Bank from OTP Fund Management Ltd. in relation to custody activity | 406 | 437 |
| **Total** | **8,885** | **7,452** |

### *b) Commissions paid by the Bank*

| | 2008 | 2007 |
|---|---|---|
| Commissions paid by the Bank to OTP Real Estate Leasing Ltd. in relation to its activity | 353 | 1,413 |
| **Total** | **353** | **1,413** |

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. The Bank provides loans to subsidiaries, and collects deposits.

## c) Loans provided to subsidiaries

| | 2008 | 2007 |
|---|---|---|
| OTP Financing Cyprus Co. Ltd. (Cyprus) | 535,636 | 258,621 |
| OTP Financing Netherlands B. V. (Netherlands) | 245,721 | 50,670 |
| Merkantil Bank Ltd. | 225,377 | 175,567 |
| OAO OTP Bank (Russia) (former OAO Investsberbank) | 155,443 | 63,675 |
| DSK Bank EAD (Bulgaria) | 114,380 | 139,671 |
| Merkantil Car Ltd. | 39,212 | 41,896 |
| OTP Banka Hrvatska Group (Croatia) | 35,810 | 30,478 |
| OTP Real Estate Leasing Ltd. | 29,363 | 15,458 |
| Crnogorska komerčijalna banka a.d. (Montenegro) | 22,572 | 11,907 |
| OTP banka Srbija a.d. (Serbia) | 21,447 | 22,889 |
| TradeNova Commercial Ltd. (former OTP Trade Ltd.) | 18,974 | 29,584 |
| OTP Bank Romania S.A. (Romania) | 7,874 | 98,525 |
| CJSC OTP Bank* (Ukraine) | – | 61,692 |
| **Total** | **1,451,809** | **1,000,633** |

*CJSC OTP Bank is financed by OTP Financing Cyprus Co. Ltd. from 2008.

## d) Deposits from subsidiaries

| | 2008 | 2007 |
|---|---|---|
| OTP Building Society Ltd. | 28,222 | 17,622 |
| DSK Bank EAD (Bulgaria) | 6,450 | 58,741 |
| **Total** | **34,672** | **76,363** |

The members of the Board of Directors and the Supervisory Board have credit lines of HUF 121 million and HUF 169.3 million as at 31 December 2008 and 2007 respectively. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other subsidiaries at normal market conditions. The amount of these loans was HUF 27,366 million and HUF 3,862 million, with commitments to extend credit and guarantees of HUF 121 million and HUF 5,456 million as at 31 December 2008 and 2007 respectively.

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 according to the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

| Compensations | 2008 | 2007 |
|---|---|---|
| Short-term employee benefits | 8,153 | 2,700 |
| Redundancy payments | – | 1,500 |
| Share-based compensations | 16 | 2,459 |
| **Total** | **8,169** | **6,659** |

## NOTE 27: CASH AND CASH EQUIVALENTS (in HUF mn)

| | 2008 | 2007 |
|---|---|---|
| Cash, amounts due from banks and balances with the NBH | 157,437 | 229,644 |
| Compulsory reserve established by the NBH | (64,371) | (156,203) |
| **Total** | **93,066** | **73,441** |

The management does not consider the compulsory reserve to be a part of cash and cash equivalent due to restrictions placed on its use by the NBH.

## NOTE 28: 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 Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 45,196 million and HUF 45,081 million as at 31 December 2008 and 2007 respectively.

## NOTE 29: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 9% and 10% of the total assets of the Bank consisted of receivables from, or securities issued by the Hungarian Government or the National Bank of Hungary as at 31 December 2008 and 2007 respectively. Approximately 8% and 9% of the Banks total assets consisted of securities issued by the OTP Mortgage Bank Ltd. as at 31 December 2008 and 2007 respectively. There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2008 and 2007 respectively.

## NOTE 30: 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.

## *As at 31 December 2008*

| | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Total |
|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 157,437 | – | – | – | 157,437 |
| Placements with other banks, net of allowance for placement losses | 431,339 | 115,510 | 359,000 | 14,606 | 920,455 |
| Financial assets at fair value through profit or loss | 32,809 | 16,795 | 75,822 | 26,290 | 151,716 |
| Securities available-for-sale | 123 | 34,351 | 416,199 | 99,238 | 549,911 |
| Loans, net of allowance for loan losses | 178,823 | 446,352 | 1,251,158 | 839,049 | 2,715,382 |
| Accrued interest | 60,340 | 16 | 3 | 1 | 60,360 |
| Investments in subsidiaries | – | – | – | 596,244 | 596,244 |
| Securities held-to-maturity | 131,418 | 98,504 | 168,820 | 38,793 | 437,535 |
| Property and equipment | – | – | 38,766 | 34,078 | 72,844 |
| Intangible assets | – | – | 39,539 | – | 39,539 |
| Other assets | 17,668 | 44,600 | 7,945 | 679 | 70,892 |
| **TOTAL ASSETS** | **1,009,957** | **756,128** | **2,357,252** | **1,648,978** | **5,772,315** |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | 253,561 | 307,764 | 80,380 | 63,860 | 705,565 |
| Deposits from customers | 2,459,062 | 605,823 | 24,256 | 1,621 | 3,090,762 |
| Liabilities from issued securities | 256,133 | – | 345,658 | – | 601,791 |
| Accrued interest payable | 36,428 | – | – | – | 36,428 |
| Fair value of derivative financial instruments designated as held for trading | 30,885 | 10,989 | 78,476 | 6,711 | 127,061 |
| Other liabilities | 132,757 | 2,815 | 712 | – | 136,284 |
| Subordinated bonds and loans | – | – | 5,000 | 296,951 | 301,951 |
| **TOTAL LIABILITIES** | **3,168,826** | **927,391** | **534,482** | **369,143** | **4,999,842** |
| Share capital | – | – | – | 28,000 | 28,000 |
| Retained earnings and reserves | – | – | – | 842,318 | 842,318 |
| Treasury shares | – | – | (67,407) | (30,438) | (97,845) |
| **TOTAL SHAREHOLDERS' EQUITY** | **–** | **–** | **(67,407)** | **839,880** | **772,473** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **3,168,826** | **927,391** | **467,075** | **1,209,023** | **5,772,315** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(2,158,869)** | **(171,263)** | **1,890,177** | **439,955** | **–** |

## *As at 31 December 2007*

| | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Total |
|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 229,644 | – | – | – | 229,644 |
| Placements with other banks, net of allowance for placement losses | 254,245 | 70,874 | 388,037 | 12,302 | 725,458 |
| Financial assets at fair value through profit or loss | 26,396 | 22,485 | 45,624 | 28,866 | 123,371 |
| Securities available-for-sale | 95 | 35,149 | 199,665 | 85,706 | 320,615 |
| Loans, net of allowance for loan losses | 131,755 | 414,334 | 1,012,213 | 630,330 | 2,188,632 |
| Accrued interest | 46,071 | 300 | 48 | 2, | 46,421 |
| Investments in subsidiaries | – | – | – | 630,703 | 630,703 |
| Securities held-to-maturity | 97,920 | 142,583 | 261,737 | 56,270 | 558,510 |
| Property, equipment and intangible assets | – | – | 92,622 | 17,651 | 110,273 |
| Other assets | 164,111 | 10,820 | 77 | 2,039 | 177,047 |
| **TOTAL ASSETS** | **950,237** | **696,545** | **2,000,023** | **1,463,869** | **5,110,674** |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | 294,010 | 3,907 | 228,722 | 64,109 | 590,748 |
| Deposits from customers | 2,794,724 | 150,531 | 8,948 | 832 | 2,955,035 |
| Liabilities from issued securities | 245 | – | 393,951 | – | 394,196 |
| Accrued interest payable | 18,411 | – | – | – | 18,411 |
| Fair value of derivative financial instruments designated as held for trading | 4,347 | 4,170 | 12,033 | 1,993 | 22,543 |
| Other liabilities | 93,970 | 18,017 | 3,581 | – | 115,568 |
| Subordinated bonds and loans | – | 9,212 | – | 289,702 | 298,914 |
| **TOTAL LIABILITIES** | **3,205,707** | **185,837** | **647,235** | **356,636** | **4,395,415** |
| Share capital | – | – | – | 28,000 | 28,000 |
| Retained earnings and reserves | – | – | – | 741,467 | 741,467 |
| Treasury shares | (3,554) | (14,217) | (36,437) | – | (54,208) |
| **TOTAL SHAREHOLDERS' EQUITY** | **(3,554)** | **(14,217)** | **(36,437)** | **769,467** | **715,259** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **3,202,153** | **171,620** | **610,798** | **1,126,103** | **5,110,674** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(2,251,916)** | **524,925** | **1,389,225** | **337,766** | **–** |

## NOTE 31: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

### As at 31 December 2008

| | USD | EUR | CHF | Others | Total |
|---|---|---|---|---|---|
| Assets* | 813,638 | 1,083,198 | 931,192 | 580,837 | 3,408,865 |
| Investments in subsidiaries | – | (61,988) | – | (476,524) | (538,512) |
| Liabilities | (110,033) | (1,583,773) | (134,322) | (24,319) | (1,852,447) |
| Off-balance sheet assets and liabilities, net | (789,408) | 442,961 | (859,969) | (144,318) | (1,350,734) |
| **Net position** | **(85,803)** | **(119,602)** | **(63,099)** | **(64,324)** | **(332,828)** |

* The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

### As at 31 December 2007

| | USD | EUR | CHF | Others | Total |
|---|---|---|---|---|---|
| Assets | 542,607 | 982,164 | 715,792 | 565,159 | 2,805,722 |
| Investments in subsidiaries | – | (29,135) | – | (538,821) | (567,956) |
| Liabilities | (109,108) | (1,309,605) | (135,431) | (30,368) | (1,584,512) |
| Off-balance sheet assets and liabilities, net | (479,265) | 97,133 | (574,874) | 10,748 | (946,258) |
| **Net position** | **(45,766)** | **(259,443)** | **5,487** | **6,718** | **(293,004)** |

The table above provides an analysis of the Bank's main foreign currency exposures. The remaining foreing currencies are shown within 'Others'. Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the National Bank of Hungary 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' ('VaR')limit on the foreign exchange exposure of the Bank.

## NOTE 32: INTEREST RATE RISK MANAGEMENT (in HUF mn)

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 according to their next repricing date. Fixed income assets and liabilities have been reported according to their maturity.

## As at 31 December 2008

| | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | |
| ASSETS | | | | | | | | | | | | | | | |
| Cash, amounts due from banks and balances with the national Bank of Hungary | 71,857 | 10,919 | – | – | – | – | – | – | – | – | 66,542 | 8,119 | 138,399 | 19,038 | 157,437 |
| fixed interest | 71,857 | 10,919 | – | – | – | – | – | – | – | – | – | – | 71,857 | 10,919 | 82,776 |
| variable interest | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 66,542 | 8,119 | 66,542 | 8,119 | 74,661 |
| Placements with other banks | 157,697 | 310,556 | 2,506 | 139,481 | – | 136,232 | – | 47,894 | – | 126,089 | – | – | 160,203 | 760,252 | 920,455 |
| fixed interest | 157,009 | 167,699 | 2,506 | 9,694 | – | –37,867 | – | 47,894 | – | 126,089 | – | – | 159,515 | 389,243 | 548,758 |
| variable interest | 688 | 142,857 | – | 129,787 | – | 98,365 | – | – | – | – | – | – | 688 | 371,009 | 371,697 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Securities held for trading | 1,454 | – | 1,496 | – | 8,850 | 1 | 10,564 | 875 | 27,071 | 2,210 | 2,298 | – | 51,733 | 3,086 | 54,819 |
| fixed interest | 1,454 | – | 1,340 | – | 8,778 | 1 | 10,564 | 875 | 27,071 | 2,210 | – | – | 49,207 | 3,086 | 52,293 |
| variable interest | – | – | 156 | – | 72 | 159 | – | – | – | – | – | – | 228 | – | 228 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 2,298 | – | 2,298 | – | 2,298 |
| Securities available-for-sale | – | – | 217,002 | 97,039 | 27,707 | 5,852 | 22,078 | 3,311 | 156,387 | 9,720 | 10,543 | 272 | 433,717 | 116,194 | 549,911 |
| fixed interest | – | – | – | – | 27,707 | 5,852 | 22,078 | 3,311 | 156,387 | 9,720 | – | – | 206,172 | 18,883 | 225,055 |
| variable interest | – | – | 217,002 | 97,039 | – | – | – | – | – | – | – | – | 217,002 | 97,039 | 314,041 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 10,543 | 272 | 10,543 | 272 | 10,815 |
| Loans, net of allowance for loan losses | 651,042 | 1,097,469 | 40,190 | 304,205 | 97,416 | 514,201 | 487 | 196 | 9,980 | 196 | – | – | 799,115 | 1,916,267 | 2,715,382 |
| fixed interest | 6,419 | – | 26 | 98 | 326 | 98 | 487 | 196 | 9,980 | 196 | – | – | 17,238 | 588 | 17,826 |
| variable interest | 644,623 | 1,097,469 | 40,164 | 304,107 | 97,090 | 514,103 | – | – | – | – | – | – | 781,877 | 1,915,679 | 2,697,556 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Securities held-to-maturity | 119,263 | – | 19,935 | – | 132,772 | – | 38,930 | – | 126,635 | – | – | – | 437,535 | – | 437,535 |
| fixed interest | 117,914 | – | 12,670 | – | 95,971 | – | 38,930 | – | 126,635 | – | – | – | 392,120 | – | 392,120 |
| variable interest | 1,349 | – | 7,265 | – | 36,801 | – | – | – | – | – | – | – | 45,415 | – | 45,415 |
| Fair value of derivative financial instruments | 10,266 | 827,730 | 15,811 | 524,591 | 97,434 | 131,770 | 94,099 | 178,698 | 712,125 | 170,052 | – | – | 929,735 | 1,832,841 | 2,762,576 |
| fixed interest | 10,266 | 826,457 | 15,811 | 524,591 | 95,523 | 129,863 | 93,805 | 176,600 | 708,625 | 168,978 | – | – | 924,030 | 1,826,489 | 2,750,519 |
| variable interest | – | 1,273 | – | – | 1,911 | 1,907 | 294 | 2,098 | 3,500 | 1,074 | – | – | 5,705 | 6,352 | 12,057 |

## As at 31 December 2008

| | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | |
| LIABILITIES | | | | | | | | | | | | | | | |
| Amounts due to banks and deposits with the National Bank of Hungary | 77,435 | 252,583 | 7,287 | 151,120 | 211,209 | 1,492 | – | – | – | 4,439 | – | – | 295,931 | 409,634 | 705,565 |
| fixed interest | 77,062 | 128,125 | 1,746 | 15,051 | 118,618 | 1,404 | – | – | – | 4,439 | – | – | 197,426 | 149,019 | 346,445 |
| variable interest | 373 | 124,458 | 5,541 | 136,069 | 92,591 | 88 | – | – | – | – | – | – | 98,505 | 260,615 | 359,120 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Deposits from customers | 1,173,542 | 269,453 | 457,665 | 161,007 | 348,569 | 83,475 | – | 153 | 553,330 | 43,568 | – | – | 2,533,106 | 557,656 | 3,090,762 |
| fixed interest | 472,460 | 220,469 | 428,956 | 160,997 | 345,646 | 83,475 | – | 153 | 2 | 15,753 | – | – | 1,247,064 | 480,847 | 1,727,911 |
| variable interest | 701,082 | 48,984 | 28,709 | 10 | 2,923 | – | – | – | 553,328 | 27,815 | – | – | 1,286,042 | 76,809 | 1,362,851 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Liabilities from issued securities | – | – | – | 409,652 | 59,410 | – | – | – | – | 132,729 | – | – | 59,410 | 542,381 | 601,791 |
| fixed interest | – | – | – | – | 59,410 | – | – | – | – | 132,729 | – | – | 59,410 | 132,729 | 192,139 |
| variable interest | – | – | – | 409,652 | – | – | – | – | – | – | – | – | – | 409,652 | 409,652 |
| Financial instruments | 433,865 | 412,929 | 344,277 | 193,970 | 63,840 | 163,285 | 9,894 | 263,533 | 8,956 | 898,303 | – | – | 860,832 | 1,932,020 | 2,792,852 |
| fix kamatozású | 433,865 | 411,662 | 344,277 | 193,970 | 62,589 | 161,395 | 8,656 | 261,452 | 6,364 | 896,870 | – | – | 855,751 | 1,925,349 | 2,781,100 |
| variable interest | – | 1,267 | – | – | 1,251 | 1,890 | 1,238 | 2,081 | 2,592 | 1,433 | – | – | 5,081 | 6,671 | 11,752 |
| Subordinated bonds and loans | – | – | 5,000 | 28,550 | – | – | – | – | – | 268,401 | – | – | 5,000 | 296,951 | 301,951 |
| fixed interest | – | – | – | – | – | – | – | – | – | 268,401 | – | – | – | 268,401 | 268,401 |
| variable interest | – | – | 5,000 | 28,550 | – | – | – | – | – | – | – | – | 5,000 | 28,550 | 33,550 |
| Net position | –673,263 | 1,311,709 | –517,289 | 121,017 | –318,849 | 539,804 | 156,264 | –32,712 | 469,912 | –1,039,173 | 79,383 | 8,391 | -803,842 | 909,036 | 105,194 |

## As at 31 December 2007

| | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | |
| ASSETS | | | | | | | | | | | | | | | |
| Cash, amounts due from banks and balances with the national Bank of Hungary | 168,212 | 13,289 | – | – | – | – | – | – | – | – | 44,657 | 3,486 | 212,869 | 16,775 | 229,644 |
| fixed interest | 168,212 | 13,289 | – | – | – | – | – | – | – | – | – | – | 168,212 | 13,289 | 181,501 |
| variable interest | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 44,657 | 3,486 | 44,657 | 3,486 | 48,143 |
| Placements with other banks | 34,780 | 385,154 | 3,000 | 188,622 | 550 | 113,352 | – | – | – | – | – | – | 38,330 | 687,128 | 725,458 |
| fixed interest | 34,780 | 192,056 | – | 63 | 550 | 32,984 | – | – | – | – | – | – | 35,330 | 225,103 | 260,433 |
| variable interest | – | 193,098 | 3,000 | 188,559 | – | 80,368 | – | – | – | – | – | – | 3,000 | 462,025 | 465,025 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Securities held for trading | 401 | – | 2,432 | – | 6,865 | – | 12,245 | – | 34,123 | – | 4,317 | 1 | 60,383 | 1 | 60,384 |
| fixed interest | 401 | – | 2,135 | – | 6,794 | – | 12,244 | – | 34,123 | – | – | – | 55,697 | – | 55,697 |
| variable interest | – | – | 297 | – | 71 | – | 1 | – | – | – | – | – | 369 | – | 369 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 4,317 | 1 | 4,317 | 1 | 4,318 |
| Securities available-for-sale | 22,727 | 6,540 | 2,119 | 57,838 | 31,452 | 12,342 | – | 4,653 | 148,330 | 22,668 | 11,200 | 746 | 215,828 | 104,787 | 320,615 |
| fixed interest | – | – | – | – | 12,458 | 853 | – | 4,653 | 148,330 | 22,668 | – | – | 160,788 | 28,174 | 188,962 |
| variable interest | 22,727 | 6,540 | 2,119 | 57,838 | 18,994 | 11,489 | – | – | – | – | – | – | 43,840 | 75,867 | 119,707 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 11,200 | 746 | 11,200 | 476 | 11,946 |
| Loans, net of allowance for loan losses | 718,099 | 609,275 | 186,173 | 638,107 | 1,367 | 31,007 | 278 | 123 | 3,958 | 245 | – | – | 909,875 | 1,278,757 | 2,188,632 |
| fixed interest | 5,533 | – | 44 | 62 | 184 | 62 | 278 | 123 | 3 958 | 245 | – | – | 9,997 | 492 | 10,489 |
| variable interest | 712,566 | 609,275 | 186,129 | 638,045 | 1,183 | 30,945 | – | – | – | – | – | – | 899,878 | 1,278,265 | 2,178,143 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Securities held-to-maturity | 97,085 | – | 37,300 | – | 150,174 | – | 108,344 | – | 165,607 | – | – | – | 558,510 | – | 558,510 |
| fixed interest | 97,085 | – | – | – | 140,051 | – | 108,344 | – | 165,607 | – | – | – | 511,087 | – | 511,087 |
| variable interest | – | – | 37,300 | – | 10,123 | – | – | – | – | – | – | – | 47,423 | – | 47,423 |
| Fair value of derivative financial instruments | 288,643 | 453,246 | 645,215 | 347,062 | 38,095 | 33,901 | 1,237 | 33,994 | 1,770 | 683 | – | – | 974,960 | 868,886 | 1,843,846 |
| fixed interest | 195,265 | 342,150 | 212,118 | 182,451 | 37,545 | 32,815 | 1,237 | 33,994 | 1,770 | 683 | – | – | 447,935 | 592,093 | 1,040,028 |
| variable interest | 93,378 | 111,096 | 433,097 | 164,611 | 550 | 1,086 | – | – | – | – | – | – | 527,025 | 276,793 | 803,818 |

## As at 31 December 2007

| | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | HUF | Deviza | |
| LIABILITIES | | | | | | | | | | | | | | | |
| Amounts due to banks and deposits with the National Bank of Hungary | 86,054 | 223,769 | 26,138 | 167,446 | 82,487 | 1,265 | 26 | – | 1 | 3,562 | – | – | 194,706 | 396,042 | 590,748 |
| fix kamatozású | 84,188 | 130,829 | 24,935 | 659 | 153 | 1,265 | 26 | – | 1 | 3,562 | – | – | 109,303 | 136,315 | 245,618 |
| változó kamatozású | 1,866 | 92,940 | 1,203 | 166,787 | 82,334 | – | – | – | – | – | – | – | 85,403 | 259,727 | 345,130 |
| Nem kamatozó | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Deposits from customers | 2,090,732 | 321,364 | 349,174 | 107,262 | 31,915 | 54,212 | 6 | 370 | – | – | – | – | 2,471,827 | 483,208 | 2,955,035 |
| fix kamatozású | 688,459 | 243,725 | 344,667 | 107,262 | 31,915 | 54,212 | 6 | 370 | – | – | – | – | 1,045,047 | 405,569 | 1,450,616 |
| változó kamatozású | 1,422,273 | 77,639 | 4,507 | – | – | – | – | – | – | – | – | – | 1,426,780 | 77,639 | 1,504,419 |
| Nem kamatozó | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Liabilities from issued securities | 1,639 | 126,540 | – | 266,017 | – | – | – | – | – | – | – | – | 1,639 | 392,557 | 394,196 |
| fix kamatozású | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| változó kamatozású | 1,639 | 126,540 | – | 266,017 | – | – | – | – | – | – | – | – | 1,639 | 392,557 | 394,196 |
| Fair value of derivative financial instruments | 39,191 | 699,462 | 33,849 | 943,177 | 23,878 | 19,903 | 11,796 | 25,051 | 5,179 | 219 | – | – | 113,893 | 1,687,812 | 1,801,705 |
| fix kamatozású | 26,899 | 509,689 | 26,017 | 366,880 | 23,687 | 19,903 | 11,796 | 25,051 | 5,179 | 219 | – | – | 93,578 | 921,742 | 1,015,320 |
| változó kamatozású | 12,292 | 189,773 | 7,832 | 576,297 | 191 | – | – | – | – | – | – | – | 20,315 | 766,070 | 786,385 |
| Subordinated bonds and loans | – | – | 5,000 | 31,635 | – | 9,202 | – | – | – | 253,077 | – | – | 5,000 | 293,914 | 298,914 |
| fix kamatozású | – | – | – | – | – | – | – | – | – | 253,077 | – | – | – | 253,077 | 253,077 |
| változú kamatozású | – | – | 5,000 | 31,635 | – | 9,202 | – | – | – | – | – | – | 5,000 | 40,837 | 45,837 |
| Net position | –887,669 | 96,369 | 462,078 | –283,908 | 90,223 | 106,020 | 110,276 | 13,349 | 348,608 | –233,262 | 60,174 | 4,233 | 183,690 | –297,199 | –113,509 |

## NOTE 33: 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.

| | 2008 | 2007 |
|---|---|---|
| Net profit for the year (in HUF mn) | 133,955 | 141,681 |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share) | 270,758,317 | 278,742,688 |
| Basic Earnings per share (in HUF) | 495 | 508 |
| Weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share) | 271,558,263 | 279,368,972 |
| **Diluted Earnings per share (in HUF)** | **493** | **507** |

The weighted average number of ordinary shares outstanding during the period does not include Treasury shares.

Diluted Earnings per share are determined after additionally taking into consideration the option rights granted.

## NOTE 34: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

### *As at 31 December 2008*

| | Net interest income and expense | Net non-interest gain and loss | Provision | Equity |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 14,147 | – | – | – |
| Placements with other banks, net of allowance for placement losses | 43,622 | – | – | – |
| Securities held for trading | 4,978 | (4,668) | (362) | – |
| Securities available-for-sale | 23,960 | 1,958 | – | (21,742) |
| Loans, net of allowance for loan losses | 233,388 | 45,630 | (28,849) | – |
| Securities held-to-maturity | 42,695 | 2,513 | – | – |
| Derivative financial instruments | (6,609) | (7,438) | – | – |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | (35,802) | – | – | – |
| Deposits from customers | (145,014) | 55,402 | – | – |
| Liabilities from issued securities | (25,079) | – | – | – |
| Subordinated bonds and loans | (16,444) | – | – | – |
| **Total** | **133,842** | **89,481** | **(29,211)** | **(21,742)** |

### *As at 31 December 2007*

| | Net interest income and expense | Net non-interest gain and loss | Provision | Equity |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 11,754 | – | – | – |
| Placements with other banks, net of allowance for placement losses | 41,920 | – | – | – |
| Securities held for trading | 2,807 | (353) | – | – |
| Securities available-for-sale | 24,952 | 1,345 | – | (2,523) |
| Loans, net of allowance for loan losses | 194,803 | 51,326 | (21,453) | – |
| Securities held-to-maturity | 51,298 | – | – | – |
| Derivative financial instruments | 20,928 | (1,853) | – | (484) |
| Amounts due to banks and deposits from the National Bank of Hungary and other banks | (22,471) | – | – | – |
| Deposits from customers | (106,884) | 73,850 | – | – |
| Liabilities from issued securities | (16,151) | – | – | – |
| Subordinated bonds and loans | (16,086) | 54 | – | – |
| **Total** | **186,870** | **124,369** | **(21,453)** | **(3,007)** |

## NOTE 35: SENSITIVITY ANALYSIS

### 35.1. 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 employed 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:*

| Historical VaR (99%, one-day) by risk type | Average (in HUF mn) 2008 | 2007 |
|---|---|---|
| Foreign exchange | 178 | 158 |
| Interest rate | 435 | 130 |
| Equity instruments | 68 | 96 |
| Diversification | (202) | (141) |
| **Total VaR exposure** | **479** | **243** |

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 35.2 below and, for interest rate risk, in 35.3 below.

## 35.2. Foreign currency sensitivity analysis

The following table details the Bank'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 were EUR 300 million and USD 75 million loss as of 31 December 2008 and EUR 570 million profit as of 31 December 2007 respectively. 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) | |
|---|---|---|
| | 2008 | 2007 |
| 1% | (8.6) | (16.7) |
| 5% | (5.4) | (11.3) |
| 25% | (1.3) | (4.3) |
| 50% | 1.3 | 0.3 |
| 25% | 3.8 | 3.8 |
| 5% | 7.1 | 6.5 |
| 1% | 9.5 | 7.0 |

**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) Considerable decrease in estimated VaR is due to the decrease of foreign exchange exposure.

(3) Monte Carlo simulation is based on the empirical distribution of the exchange rate movements. Recent market turmoil can result in extreme price movements not observable in the past, and so VaR might underestimate short term risk.

### 35.3. 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 was prepared by assuming only adverse interest rate changes. The main assumptions were as follows:

- 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 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:

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

The net interest income in a one year period after 31 December 2008 would be decreased by HUF 551 million (probable scenario) and HUF 3,094 million (alternative scenario) as a result of these simulation.

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

| Description | Effects to the net interest income in one year period (in HUF million) | |
|---|---|---|
| | 2008 | 2007 |
| HUF –0.1% parallel shift | (192) | (195) |
| EUR –0.1% parallel shift | (85) | (36) |
| USD +0.1% parallel shift | (149) | 18 |
| **Total** | **(426)** | **(213)** |

### 35.4. 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 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 scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

| Description | 2008 | 2007 |
|---|---|---|
| VaR (99%, one day, million HUF) | 68 | 96 |
| Stress test (million HUF) | (287) | (73) |

## NOTE 36: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS ('HAS') AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF mn)

| | Retained Earnings and Reserves | Net profit for the year ended | Direct Movements on Reserves | Retained Earnings and Reserves |
|---|---|---|---|---|
| **Financial Statements according to HAS** | **645,037** | **54,211** | **1,839** | **701,087** |
| Reversal of statutory general provision | 43,269 | 75 | – | 43,344 |
| Premium and discount amortization of financial instruments measured at amortised cost | 1,694 | 134 | – | 1,828 |
| Allowance for loan losses | (1,340) | 1,340 | – | – |
| Differences in carrying value of subsidiaries | 799 | – | 1,227 | 2,026 |
| Difference in accounting for finance leases | (2,551) | (795) | – | (3,346) |
| Fair value adjustment of held for trading and available-for-sale financial assets | 5,104 | 4,903 | (21,742) | (11,735) |
| Fair value adjustment of derivative financial instruments | (1,888) | 4,180 | 484 | 2,776 |
| Loss on sale of Treasury shares | – | 3,424 | (3,424) | – |
| Reversal of statutory goodwill | 33,632 | (23,047) | – | 10,585 |
| Revaluation of investments denominated in foreign currency to historical cost | 15,967 | 14,141 | – | 30,108 |
| Difference in accounting of repo transactions | (9,089) | 21,577 | – | 12,488 |
| Treasury share transaction | – | 51,594 | (7,499) | 44,095 |
| Reclassification of direct charges | – | 3,066 | (3,066) | – |
| Share-based payment | – | (28) | 28 | – |
| Effect on ICES - exchangeabled bond transaction recognised through equity | 13,802 | 2,018 | (5,999) | 9,821 |
| Deferred taxation | (2,969) | (2,838) | 5,048 | (759) |
| **Financial Statements according to IFRS** | **741,467** | **133,955** | **(33,104)** | **842,318** |

## NOTE 37: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2008

The Bank purchased 100% of OOO Donskoy Narodny Bank on 12 November 2007. In possession of the necessary approvals the closing of the sale and purchase transaction of OOO Donskoy Narodny Bank was completed on 6 May 2008. According to this fact the financial closing deal value USD 40.95 million (HUF 6,687 million) was also completed.

The Bank issued bonds in nominal value of EUR 500 million at 99.812% of the face value on 16 May 2008 (See Note 14.).

The Bank has launched a bond issue program of HUF 300,000 million.
The Committee for Product Development, Marketing and Pricing of OTP Bank Plc. adopted the resolution no. 456/2008 about the bond issue program on 31 July 2008. The Information Memorandum related to the program and this announcement were approved by the Hungarian Financial Supervisory Authority. The Bank does not intend to introduce the bonds on the market.

The Bank announces that as at 31 December 2008, its current direct and indirect stake in MOL Hungarian Oil and Gas Plc. are 7,094,302 shares. The direct and indirect interest of the Bank in MOL Hungarian Oil and Gas Company is 6.47% , it is under 10%. 6,987,362 shares of the Banks total stake were obtained in a framework of a securities lending agreement with the aim of developing this new business activity at the Bank.

During the year 2008, due to the OAO OTP Banks continuous share purchasing program the Bank purchased shares of RUB 45.17 million. The direct and indirect interest of the Bank in OAO OTP Bank has increased to 61.62%.

On 21 February 2008 OTP Bank Plc., the 100% owner of OTP banka Hrvatska d.d. has increased the registered capital of its subsidiary by HRK 217 million.

On 4 April 2008 OTP Bank Plc., the 100% owner of Crnogorska komerčijalna banka a.d. has increased the registered capital of its subsidiary by EUR 15 million.

OTP Bank Plc. announces that – according to the approval of National Bank of Ukraine on 31 October 2008 and the Ukrainian State Registry on 6 November 2008 – it increased the registered capital of CJSC OTP Bank by EUR 120 million (UAH 861.4 million).

According to the approval of Annual General Meeting of CJSC OTP Bank on 7 March 2008 CJSC OTP Bank increased the registered capital from its retained earnings by UAH 304.27 million.

In September 2008 OTP Bank Plc., the 95.51% owner of OAO OTP Bank has increased the registered capital of its subsidiary by RUB 2,501.18 million.

## NOTE 38: POST BALANCE SHEET EVENTS

On 9 February 2009 the Bank, 100.00% owner of CJSC OTP Bank has increased the registered capital of its subsidiary by UAH 800 million (USD 100 million).

## NOTE 39: SALE OF THE INSURANCE BUSINESS LINE (in HUF mn)

On 11 February 2008, Groupama S.A. has signed a contractual agreement to buy 100 % of the shares in OTP Garancia Insurance Ltd. as well as to acquire the minority shares held by the local subsidiaries of OTP Bank Plc. in the Romanian, Slovakian and Bulgarian subsidiaries of OTP Garancia Insurance Ltd. The purchase price was paid and the transaction settled on 17 September 2008.

Furthermore, OTP and Groupama S.A. entered into a mutual co-operation agreement about (in some of the countries exclusive) cross-selling of banking and insurance products in the branch networks of the parties in Hungary, Slovakia, Romania, Bulgaria, Ukraine, Russia, Serbia, Montenegro and Croatia. In the framework of this strategic co-operation, Groupama S.A. bought 7.99% of the shares of OTP Bank. New shares have not been issued.

The net result of the transaction is recognized in the unconsolidated statements of operations as income.

### *The main figures of the transaction the follows:*

| | 2008 |
|---|---|
| **Apport to OTP Holding Ltd.** | |
| Book value | (7,472) |
| Purchase price | 23,009 |
| | 15,537 |
| **Purchase to Groupama SA** | |
| Dividend income from OTP Holding Ltd. (result of the transaction) | 120,000 |
| Transaction costs | (2,103) |
| **Net gain** | **133,434** |

## NOTE 40: THE EFFECT OF THE FINANCIAL SITUATION ON THE BANK

The lack of trust and liquidity problems pursuant to the bankruptcy of Lehman Brothers on 15 September 2008 seriously hit Hungary in October 2008, having a high level of external debt and a banking system with a considerable debt denominated in foreign currencies, but the situation was mitigated and turned better after a 25.1 billion USD financial aid in form of a stand-by loan agreement with International Monetary Fund. The lack of trust caused the course of the forint to fall, accompanied by the fall of the other currencies in the region. The government bond yields raised sharply by hunderds of basis points. To stabilise the situation, the National Bank of Hungary raised the interest rates by 300 basis points, moreover – similarly to other central banks in the region – took various measures to resolve the lack of liquidity and to increase the stability of the banking sector.

The operations and profitability of the Bank have been influenced by the following factors, generated by the financial crisis:

- The Bank met a HUF 4.7 billion revaluation loss on the strategic open foreign currency position held for hedging the net profit of the foreign subsidiaries, due to the fall of the forint exchange rate. The management has reduced the hedged position in the last quarter of 2008, as the contribution of the subsidiaries to the consolidated net profit of OTP Group is expected to be lower than previously planned.
- The management, based on the deteriorating economic and financial sector outlook, decided for a HUF 122,810 million of goodwill impairment for the Ukranian (CJSC OTP Bank) and Serbian (OTP banka Srbija a.d.) subsidaries, which has considerably reduced the net profit of the Bank in 2008.
- The deteriorating macroeconomic situation in the region and the devaluation of most of the regional currencies made necessary an even more conservative provisionning for the loans. Besides the constantly raising loan risk costs, the Bank took a wide range of measures to minimise the risk in its clients because of the devaluating currencies in the region.

  The measures taken – affecting the risk costs in Hungary – are the following:
  - Based on the agreement of the Hungarian Bank Association and the Ministry of Finance, the transformation of loans from foreign currencies and other types of transactions for the customers having foreign currency loans were free of any commission or charge until 28 February 2009.
  - In March 2009, a law came into force about the state guarantee for the retail customers having lost their employment in consequence of the crisis.
- The worsening economic situation led to the deterioration of the loan portfolio: the ratio of the non-performing loans reached 3.23%.
- The global lack of liquidity caused the market to appreciate those having stable liquidity and sufficient own funds. As a consequence, the management put considerable emphasis on deposit collection or other types of activities generating own funds (i.e. issuing retail securities) and set up stricter conditions in loan origination. The Bank made higher deposit interest-rate offers for the customers and introduced some innovative products based on the customer demands (i.e. multicurrency deposits). The increasing refinancing costs were partially devolved to customers, and stricter conditions in loan origination were introduced:
  - decrease in the available contract limits
  - suspension of the purely collateral based mortgage loans
  - suspension of the disbursements in some segments

As a consequence of the above measures, the volume of the loans disbursed reduced significantly in the fourth quarter.

- The possibility of receiving new funds from the capital markets have decreased considerably, and no other external fund has been received by the Bank. However, the Bank could preserve its stable liquidity position. The Bank has a stable liquid asset surplus beyond its liquid funds, furthermore the National Bank of Hungary took several new measures to enhance the liquidity and stability of the banking sector parallel to the similar measures of the central banks in the region.

- The swap markets potential to provide the necessary liqudity for the lending activity in foreign currencies, have shrinked significantly in 2008, mainly in the last quarter. Despite this, the renewal of the swap transactions were continous, although accompanied by decreasing spreads.

The increasing loss on the swap deals is partially compensated by the devolution of the costs to customers in the form of higher interest rates on loans.

For 2009, the management expects a slackening market in the regional banking sector. Due to the shrinkening interbank funds, potential growth of the loan portfolio will only be possible if the growth in the deposits remains stable.

Corporate Governance

otpbank

# Senior management of OTP Bank and executive members of the Board of Directors

## Dr. Sándor Csányi
*Chaiman & CEO*

Dr. Sándor Csányi (56) graduated from the College of Finance and Accounting in 1974 with a bachelor's degree in business administration and in 1980 from the Budapest University of Economics 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 he was Head of Department at the Ministry of Agriculture and Food Industry between 1983 and 1986. Between 1986 and 1989 he worked as Head of Department at Magyar Hitel Bank. He was deputy CEO of K&H Bank from 1989–92. Since 1992 he has been Chairman & CEO of OTP Bank, where he is responsible for the Bank's strategy and overall operation. He is a member of the European Board of MasterCard, one of the world's leading payment card companies, and is vice president of the Board of the Hungarian Oil and Gas Company (MOL), co-chairman of the National Association of Entrepreneurs and Employers (VOSZ). As of 31 December 2008 he owned 200,000 ordinary OTP shares (while the total number of OTP shares held by him directly and indirectly was 3,302,000).

## Dr. István Gresa
*Deputy CEO*
*Credit Approval and Risk Management Division*

Dr. István Gresa (56) graduated from the College of Finance and Accounting in 1974 and received a degree in economics from the Budapest University of Economics in 1980. He earned a Ph.D. 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 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 of OTP Factoring, and from 22 May 2007 chairman of the Board of Directors of OTP National Health Fund.
As of 31 December 2008 he held 63,758 ordinary OTP shares.

## Antal Kovács
*Member of the Supervisory Board*
*Deputy CEO*
*Retail Division*

Mr. Antal Kovács (56) graduated from the Budapest University of Economics with a degree in economics in 1985. He started his professional career in 1990 at the Nagyatád branch of K&H Bank where he worked as a branch manager between 1993 and 1995. From 1995 he started working for OTP Bank Plc., first as a county director and from 1998 as the managing director of OTP Bank's South Transdanubian Region. He received additional training at the International Bankers' School and the World Trade Institute. He has been a member of OTP Bank's Supervisory Board since 2004.
As of 31 December 2008 he held 33,000 ordinary OTP shares.

## Dr. Antal Pongrácz
*Member of the Board of Directors*
*Deputy CAO*
*Staff Division*

Dr. Antal Pongrácz (63) graduated from the Budapest University of Economics and earned a Ph.D. 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 worked in various management positions at the Ministry of Finance. From 1986 to 1987 he was the first Deputy Chairman of the State Office for Youth and Sports. Between 1988 and 1990 he was the first Deputy CEO of OTP Bank. Between 1991 and 1994 he was the CEO, and then Chairman & CEO, of the European Commercial Bank. Between 1994 and 1998 he was the Chairman and CEO of Szerencsejáték, then in 1998–99 he served as CEO of Hungarian flagship carrier, Malév. Since 2001 he has worked as the managing director of OTP Bank's Central Management Division and more recently as Deputy CEO. He has been a member of OTP Bank's Board of Directors since 2002.
As of 31 December 2008 he held 230,000 ordinary OTP shares.

## Ákos Takáts
*Deputy CEO*
*IT and Bank Operations Division*

Mr. Ákos Takáts (49) 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, then, from 1995, he was managing 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 Logistics Division.
As of 31 December 2008 he held 153,347 ordinary OTP shares.

## Dr. László Urbán
*Member of the Board of Directors*
*Deputy CEO*
*Strategic and Financial Division*

Dr. László Urbán (50), economist, graduated from the Budapest University of Economics with a specialisation in finance in 1982.
He has worked in the financial sector since 1995. He worked in Washington D.C. for the World Bank, and then served as ABN-AMRO Bank's director for planning and controlling.
Between 1998 and 2000 he was Deputy CEO of Business Affairs at Postabank, and from 2000–2005 he was a manager at Citigroup New York, responsible for global product development. From 2005 he served as the director of the Hungarian National Bank. Since 15 January 2007 he has been OTP Bank's Deputy CEO, and head of the Strategy and Finance Division. From 25 April 2008 he is a member of OTP Bank's Board of Directors.
As of 31 December 2008 he held 1,549 ordinary OTP shares.

## László Wolf
*Deputy CEO*
*Commercial Banking Division*

Mr. László Wolf (49) graduated from the Budapest University of Economics in 1983. After graduation he worked at the Bank Relations Department of the Hungarian National Bank for 8 years, after which he served as head of Treasury at BNP-KH-Dresdner Bank between 1991 and 1993. From April 1993 he was managing director of OTP Bank's Treasury Directorate, and since 1994 he has been Deputy CEO of the Commercial Banking Division.
As of 31 December 2008 he held 717,640 ordinary OTP shares.

## Dr. László Utassy
*Adviser to the Chairman*
*OTP Bank*

Dr. László Utassy (57) graduated from the Law Faculty of ELTE in 1978, and earned a further degree in economics, with a specialisation in insurance, from the Budapest University of Economics in 1995. He held various positions at the State Insurance Company and then at ÁB-AEGON Rt. between 1978 and 1995. Between 1996–2008 he was the CEO of OTP Garancia Insurance, and then its Chairman & CEO. He has been a member of OTP Bank's Board of Directors since 2001. He has been a Adviser to the Chairman since 2008.
As of 31 December 2008 he held 250,000 ordinary OTP shares.

# Non-executive members of the Board of Directors

## Mihály Baumstark

*Chairman & CEO*
*Csányi Vinery Ltd.*

Mr. Mihály Baumstark (60) holds degrees in agricultural engineering and agricultural economics. He was employed by the Ministry of Agriculture and Food Industry between 1978 and 1989. Prior to leaving the Ministry he worked as deputy head of the Accounting Department. He went on to join Hubertus as its managing director, and from 1999 he was the deputy CEO, and then Chairman & CEO, of Villányi Vinery (now Csányi Vinery Ltd.). Between 1992 and 1999 he was a non-executive member of OTP Bank's Supervisory Committee, and since 1999 a non-executive member of its Board of Directors.
As of 31 December 2008 he held 50,000 ordinary OTP shares.

## Dr. Tibor Bíró

*Head of Department*
*Budapest College of Business*

Dr. Tibor Bíró (57) graduated from the Budapest University of Economics with a degree in business administration. He was the Head of the Financial Department of the City Council of Tatabánya from 1978 to 1982. He began teaching at the College of Finance and Accounting in 1982 and has been head of department since 1992. He is a chartered public accountant and a registered auditor. He is a member of the Budapest Directorate of the Hungarian Chamber of Auditors. He has been a non-executive member of OTP Bank's Board of Directors since 1999.
As of 31 December 2008 he held 47,000 ordinary OTP shares.

## Péter Braun

*Electrical Engineer*
*Former Deputy CEO*
*OTP Bank*

Mr. Péter Braun (73) earned a degree in electrical engineering from the Budapest Technical University. 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, 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. He has been a member of OTP Bank's Board of Directors since 1997.
As of 31 December 2008 he held 587,905 ordinary OTP shares.

## Dr. István Kocsis

*CEO*
*Budapest Public Transport Company*

Dr. István Kocsis (57) graduated from the Budapest Technical University as a mechanical engineer, and earned his PhD from the same institution in 1985. Career highlights: 1976–1978 Budapest University of Technology, Faculty of Mechanical Engineering, Mechanical Components Department, Assistant Lecturer; 1978–1979 VEGYTERV, chief planner; 1979–1991 Budapest University of Technology, Faculty of Mechanical Engineering, Department of Structural Mechanics, Assistant Professor, 1985–1991 Faculty of Mechanical Engineering, Kármán Tódor Campus, director (part-time); 1991 FÉG Machine Factory, chief engineer; 1991–1993 Ministry of Trade and Industry, Head of Department and later Undersecretary of State; 1993–1997 State Holding Company/State Privatisation and Holding Co. (ÁV Rt/ÁPV Rt.), Deputy CEO, CEO; 1998-2000 RWE Energie, Head of Department (Germany); 2000–2001 ÉMÁSZ Rt., General Director; 2001–2002 RWE-EnBW Magyarország Kft., Director; 2002–2005 Paks Atomic Power Plant, CEO; 2005–2008 Hungarian Power Companies Ltd., CEO; from 1 September 2008 CEO of the Budapest Public Transport Company (BKV Zrt.); a non-executive member of OTP Bank's Board of Directors since 1997.
As of 31 December 2008 he held 94,600 ordinary OTP shares.

## Dr. Sándor Pintér

*Chairman & CEO*
*CIVIL Security Service Ltd.*

Dr. Sándor Pintér (61) graduated from the Police Academy in 1978 and earned a degree in law from the Law Faculty of Eötvös Loránd University of Arts and Sciences (ELTE) in 1986. From 1970 he held various positions at the Ministry of the Interior, and in December 1996 he retired as National Police Chief. Between 1998 and 2002 he was Hungary's Minister of Internal Affairs. Between 29 April 1997 and 7 July 1998 he was a member of OTP Bank's Board of Directors. Between 2003 and 2006 he was a member of OTP Bank's Supervisory Board, and since 28 April 2006 he has been a member OTP Bank's Board of Directors. As of 31 December 2008 he held 101,350 ordinary OTP shares.

## Dr. György Szapáry

*Professor*
*Economic Faculty*
*of the Central European University*

Dr. György Szapáry (70) economist, graduated from the Louvain Catholic University (Belgium) in 1961 and gained a PhD in economics there in 1966. During 1965–66, he worked at the European Commission in Brussels. From 1966 to1990, he worked at the IMF in Washington as an analyst, senior analyst and assistant director, and during 1990–1993 he was the Resident Representative of the IMF in Hungary.

From 1993 to 2007 – with a short break when he was an advisor to the Governor – he served as Deputy Governor of the National Bank of Hungary, also being member of the Monetary Council. He is the author of a book and of numerous journal articles.

Currently he is visiting professor at the Economic Faculty of the Central European University, Budapest.

From 25 April 2008 he is a member of OTP Bank's Board of Directors.

As of 31 December 2008 he held no ordinary OTP shares.

## Dr. József Vörös

*Professor*
*Chairman of the Board of Trustees*
*at the University of Pécs*

Dr. József Vörös (58), graduate of the Budapest University of Economics, 1974. In 1984 he earned his PhD in economics at the Hungarian Academy of Sciences, while the Doctor of Science degree in 1993. Between 1990 and 1993 he was the dean of the Faculty of Business and Economics, Janus Pannonius University (JPTE). In 1993 he attended the Advanced Management Program (AMP) at Harvard Business School, and a special course in Operations Management at M.I.T. From 1994 he has been the professor of JPTE, and was the senior Vice Rector of the University between 2003–2007, and currently is the chairman of the Board of Trustees. Since 1992 he has been a non-executive member of OTP Bank's Board of Directors.

As of 31 December 2008 he held 117,200 ordinary OTP shares.

# Members of the Supervisory Board*

## Tibor Tolnay

*Chairman of the Supervisory Board*
*Chairman & CEO*
*Magyar Építők Ltd.*

Mr. Tibor Tolnay (58) graduated from the Budapest University of Technology with a degree in architecture and received a second degree from the Budapest University of Economics. In 1992 he was appointed CEO of Magyar Építők Ltd. He has been Chairman of OTP Bank's Supervisory Board since 1992. He has been a member of the Audit Committee since 27 April 2007. As of 31 December 2008 he held 80,580 ordinary OTP shares.

## Dr. Gábor Horváth

*Lawyer*

Dr. Gábor Horváth (53) earned a degree in law in Budapest from ELTE. 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 financing and corporate governance. He has been member of the Board of Directors of MOL since 1999, and a member of OTP Bank's Supervisory Board since 1995. From 27 April 2007 he is deputy chairman of OTP Bank's Supervisory Board, and chairman of the Audit Committee. As of 31 December 2008 he held 10,000 ordinary OTP shares.

## Jean-Francois Lemoux

*Head of International*
*Groupama SA*

Mr. Jean-Francois Lemoux (61) After graduating from the school of 'Hautes Etudes Commerciales' (HEC), Jean François Lemoux, began his career in 1971 with the VIA Assurances Group, where he was successively Head of Marketing, Management Controller, 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 steering committee of the Group.
In 1998, after GAN's acquisition by Groupama, he was appointed to the Management Board of GAN SA in charge of life and non-life business with agents and brokers.
In September 2000, according to the new organisation in Groupama-Gan, he is also entrusted with common departments for non-life and distribution networks.
Since July 2003, Mr. Lemoux has been appointed as Groupama's Head of International. He has been a member of the OTP Bank's Supervisory Board since 2008.
As of 31 December 2008 he held 0 ordinary OTP shares.

## András Michnai

*Director*
*Compliance Department*
*OTP Bank*

Mr. András Michnai (54), who represents the employees of OTP Bank, graduated from the College of Finance and Accounting.
He has been an employee of the Bank since 1974, and until 1981 held a variety of posts in the branch network. From 1981 he worked as an instructor in the central network coordination department, before being appointed district deputy director and later director in the branch network. From 1994, as deputy management director, he participated in the central coordination of the branch network. Since 2005 he has headed the Bank's Compliance Department. He further expanded his professional skills, earning a masters degree at the College of Finance and Accounting, and is a registered tax advisor.
From 25 April 2008 he is a member of OTP Bank's Supervisory Board.
As of 31 December 2008 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 2008 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 2008:*

| Shareholder | Ownership (%) | Voting rights (%) |
|---|---|---|
| OTP Bank Plc. | 7.0 | 0.0 |
| Government held owner | 0.3 | 0.3 |
| Foreign institution | 76.9 | 82.7 |
| Foreign individual | 0.1 | 0.1 |
| Domestic institution | 5.7 | 6.1 |
| Domestic individual | 10.0 | 10.8 |
| **TOTAL** | **100.0** | **100.0** |

## 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 to 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

Shareholders may exercise their right of participation and their voting rights at the General Meeting in person or by proxy.
The letters of proxy must be set forth in a notarised deed or a private document of full probative force. In the event that a shareholder is represented at the General Meeting by its legal representative (e.g. director, managing director, mayor etc.), the deed issued by the court or court of registration concerning the right of representation, or a certificate testifying to the election of the mayor, must be presented at the venue of the General Meeting.

The letters of proxy must be handed over during the period and at the location specified in the invitation to the General Meeting. If the letter of proxy was issued outside Hungary, it must satisfy, in terms of its form, the statutory provisions pertaining to the authentication or counter-authentication of documents issued outside Hungary. Information on the subject can be obtained from the Hungarian representation offices abroad.

**Participation in the General Meeting and exercising of voting rights is subject to the following preconditions:**

- the holder of the registered shares has been effectively entered into the company's Share Register;
- the voting right associated with ownership of the shares does not violate the provisions of the Company's Articles of Association, which the Company ascertains through a check following receipt of an owner's data reconciliation notice from KELER Ltd.;
- the rules on participation in the General Meeting and the exercising of voting rights on the part of GDR holders are contained in the Custody Agreement concluded between the Bank of New York and OTP Bank Plc.

## Dividend

On 24 April 2009 OTP Bank Plc.'s General Meeting decided not to pay dividend after fiscal year 2008.

## 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), on the website of the Budapest Stock Exchange (www.bet.hu), and on the website operated by HFSA (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
e-mail: investor.relations@otpbank.hu

# Declaration on Corporate Governance practice

OTP Bank Plc.'s operation is in full compliance with the applicable laws, supervisory provisions and Budapest Stock Exchange (BSE) regulations. The structure and conditions of operation of the Company are contained in the Company's Bylaws.

## 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 Company'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 ratio of independent (non-executive) Supervisory Board members (3 persons) to the entire membership of the 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 the management of 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, and well as the determination of the remuneration of, the managers and employees of the internal audit department.

The Board of Directors holds meetings as frequently as is necessary, or at least on eight occasions a year, while the Supervisory Board must hold at least six meetings a year. In 2008 eight Board meetings, eight Supervisory Board meetings and four Audit Committee meetings were held.

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.

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.

The meetings of the Board of Directors and Supervisory Board are recorded in minutes, 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 withdrawal of appointment of deputy CEOs. The Board of Directors has prepared guidelines for the evaluation of the work and the 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 in terms of 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 of evaluation, at the Annual General Meeting.
The Company has separate committees for the maintenance of the Board of Directors and the Supervisory Board: Audit Committee, Management Committee, Subsidiary Integration and Management Committee. Additionally, certain functions and tasks are performed by different permanent committees: 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 reason for operating a control mechanism 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 monitors compliance with the statutory provisions. Its most important characteristic is that it functions as an independent, professional, impartial organisation, which conducts it 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 internal audit department regularly prepares objective and impartial reports on the operation of risk management, internal control mechanisms and corporate governance functions, for the Supervisory Board and the management. In exceptional cases that require immediate intervention, the audit department has the authority to summarily perform unscheduled audits.

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 implemented on an ongoing basis.

The Supervisory Board exercises a preliminary right of consent in respect of decisions relating to the establishment and termination of the employment, and well as definition of remuneration of the managers and employees of the internal audit organisation.

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 personally responsible for the audit.

## Compliance

In accordance with the regulations of the European Union and the applicable Hungarian laws, the Company has established an independent organisational unit (the Compliance Department) tasked with identifying and managing compliance-related risks. The appropriate regulatory documents, such as the compliance policy, strategy and work plan for the unit, have been adopted. Objectives of the compliance policy include determining the framework for the compliance activities regarding the entire OTP Group, and defining compliance-related objectives, as well as the duties and authority of the compliance function. The compliance strategy of the OTP Group is also an essential document related to its overall compliance policy. The compliance policy is approved by the Board of Directors. The Compliance Department prepares a comprehensive report once a year about 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.
The regulations indicated 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 career 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.

# 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

*We regard it as our mission to pursue a corporate social responsibility practice of a high standard that meets the expectations of investors, customers and society.*

Our credit institution, which will be celebrating its 60th anniversary in 2009, has, for decades, paid close attention to its environment and to the values espoused by the communities it serves. The bank positions its corporate social responsibility (CSR) activities within a structured and carefully planned framework. In full knowledge of our responsibilities in this regard, our main objective is to launch long-term programs aimed at ensuring sustainability, to make certain that we always operate in a socially responsible manner, and to support worthwhile causes, while taking full account of the opinion and needs of our stakeholders.

We continue to implement the goals that are defined in our corporate social responsibility strategy, in accordance with the CSR targets worked out for each year. Among our main objectives for 2008 was the improvement of CSR management within the bank. The activities aimed at achieving this objective are presented in detail in our Corporate Social Responsibility Report, which is also available on our website.

As part of our commitment to continuous improvement, we enable the preparation of a consolidated report that shows the performance of all group members in terms of sustainability. As compared to last year's report, in 2008 the data-gathering process was extended to include the domestic subsidiaries as well, and also in 2008, we presented the best practice of the foreign banks: moreover we were the first in the domestic financial sector to have our report certified by an external agency.

In 2008 some of our programs were aimed at enhancing the **quality of customer service**. The barrier-free conversion of branches has continued, designated play areas for children have been created in 52 of the branches, and we now use a simpler customer guidance system in order to serve our clients faster and more efficiently, and, in addition, a special product has been designed for civil organisations (the 'non-profit account package').

Another group of our programs is intended specifically to support the bank's internal operations, with some of the programs concerned aimed at **reducing our environmental load**. It was in this context that we issued a set of Environmental Regulations in 2008, that an internal campaign promoting energy saving was launched, that video conference rooms were established in our central buildings and at our foreign subsidiaries, and that we are continuously expanding the use of environmentally-friendly paper across the various departments of the bank. As a result of this latter program, last year we used recycled paper for producing reports, season's greetings and other paper products, and our goal is to ensure that from 2009 onwards the major part of our marketing publications are made from recycled paper.

## Attitude formation among our staff – CSR training

OTP Bank is a major employer in Hungary that is why, the responsibility we evince towards our employees is an important aspect of our CSR commitment. The bank plays a part in the lives of thousands of people by providing them with a living and by largely determining their quality of their life.

In line with our CSR strategy we are attempting to ensure that the principle of sustainability is firmly embedded in the fabric of the company's core activities, but in order that this become an integral part of our operations, it is essential to involve our employees in our CSR initiatives. In our strategy formulated in 2007 we expressed this idea as follows: 'Our objective is for corporate responsibility to become a natural part of the thinking of the company's employees, and for the workplace environment to be such as to ensure this occurs.'
The bank is striving to create these conditions across as broad a terrain as possible, and to make available the tools that are required for it, although besides the material and other conditions that are needed, we regard the promotion of the right attitude and of responsible thinking as being equally important.

For this reason, in the bank's newsletter last year we regularly published CSR-related articles and covered the bank's main CSR-related events and initiatives. In 2008 organisations that the bank favours in its sponsorship were invited to our annual Family Day. Children and adults alike were able to gain an insight, through play, into some of the difficulties faced by their peers with special needs, and by playing together with them they were able to learn how to help such children with the daily challenges they face.

In 2008 we launched a CSR training course. The primary purpose of the training is to give all employees of the bank a comprehensive overview of OTP Bank's corporate social responsibility strategy and the steps the bank is taking to put such strategy into practice. It provides general knowledge that helps employees adopt a more purposeful way of life on the one hand, and on the other hand, it provides the possibility to pay attention to sustainability aspects through their work, thus contributing to the successful implementation of OTP Bank's CSR strategy. We have attempted to implement this by harnessing the benefits offered by e-learning method, using clear layman's language and through as many practical and interactive exercises as possible. The training was praised by the industry as a high-quality, unique initiative and was awarded first prize for excellence at the eFestival awards ceremony. We aim to involve subsidiaries into CSR training programmes in the course of 2009.

## Education – OTP Fáy András Foundation

A participant of major influence in both the economy and the social environment, OTP Bank pursues its sponsorship and social support activities with the aim of supporting, outside the scope of financial services, the highest possible number of worthwhile programs and causes that serve the interests and the needs of society as a whole.

As a market-leading company we feel obliged to help social groups that must overcome a disadvantage of some kind in order to get on in life, or that are only at the start of the path that will lead them there. For this reason, in the context of the 'OTP Chance' Program we support initiatives aimed at assisting disadvantaged or sick children, as well as the promotion of the social acceptance of persons with special needs and the education of the youth.

From a social point of view we pay particular attention to the development of economic and financial literacy among the general public, and among young people in particular. In 1992 we established the Fáy András Foundation, a non-profit organization run by OTP Bank itself, in order to provide a financial support for such programmes.

With a view to improving the quality of financial education, 2008 was the third consecutive year in which we donated **textbooks and supplementary teaching materials to the libraries of secondary**

**schools that teach economics**. In the context of this program, so far more than **10,000 students have received economic literature free of charge**, while 15,000 books and 100 desktop computers and laptops have been given to various libraries and 760 annual journal subscriptions made for them, in a total value of over HUF 50 million. The assistance is of great help to the schools, as it ensures some of the basic conditions they need for functioning effectively, and improves learning opportunities for all grammar-school students. In 2008 this support program was announced nation-wide and extended to all establishments of secondary education. Applications were received from almost 600 schools and we were able to support 150 of them by offering them the possibility of selecting a range of books worth a total of HUF 140,000 from a significantly extended list of technical books: this year the winning schools were able to choose from nearly 3,000 technical books.

In addition, over the past few years the OTP Fáy András Foundation has developed a special independent training course, called the BASICS Program, that provides **economics, life-skills and career-related know-how to secondary-school graduates,** and ensures that the program is available across the country by issuing a competitive tender for the course in a different county each year. This popular program utilises interactive training that teaches basic financial, economics and business concepts to young people through situational games and role plays. The schools that receive the training provide the venue for the two-day course while the trainers and teaching materials, as well as the accommodation and catering for the students, are paid for by the Foundation.
Encouraged by the success of this training, in 2008 we made preparations and obtained accreditation for **the adult-training version of the BASICS Program**. Through this training course we teach secondary-school teachers how to convey to students some basic financial and career-related know-how that the students will need in their future jobs and everyday life. By launching this country-wide train-the-trainer program we wish to increase the financial literacy and career awareness of as many students as possible.

As for the future, the bank continues to regard the optimization of the impact it exercises on the environment, the continuous improvement in the quality and composition of the services provided to customers, the increasing of employee satisfaction, and, in the case of local communities and social groups, the support of efforts aimed at the creation of equal opportunities, as tasks of strategic importance.

**Every year, Accountability Rating Hungary ranks, based on international methods, companies that are providing the most noteworthy solutions to economic, social and environmental challenges. In 2008 OTP Bank ranked first in the financial sector in this respect and sixth among all Hungarian companies, thanks to the inclusion of evaluation criteria such as the emphasis the company places on the effective management of the social, economic and environmental challenges it faces, the way in which such challenges are addressed in the company's business strategy, and the extent to which stakeholders are involved in the company's decision-making processes.**

In case you would like to have a better overview on our CSR activities, please take a look at the sustainability report on our homepage or contact us (csr@otpbank.hu).

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