
otpbank

# annual report
2009


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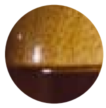
# Contents

# Message from the Chairman and Chief Executive Officer



## DEAR SHAREHOLDERS,

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

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

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

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

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

## Overview of the financial performance and business results in 2009

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

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

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

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

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

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

The Bank Group's liquidity reserves grew steadily over the year, and exceeded EUR 6 billion at the end of December. This ensures stable coverage for the Bank to repay all its foreign-currency liabilities due until 2016. To the charge of our liquidity, in the course of the year we bought back approximately EUR 157 million in own liabilities (supplementary capital) and made early repayment in two instalments (in November 2009 and March 2010) of the EUR 1.4 billion loan received from the State in March 2009. Taking advantage of the gradual improvement in market conditions, in December 2009 the Bank successfully arranged a EUR 220 million syndicated loan that was heavily oversubscribed, February 2010 saw OTP's first Swiss franc bond issue, in the amount of CHF 100 million, and in March 2010 OTP Mortgage Bank issued covered bonds in the amount of EUR 300 million and almost one-third of the amount was subscribed by investors out of the Group.

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

We again received a significant recognition of our professional work. For the 12th time, Global Finance chose OTP as the best bank in Hungary, and we earned the title of Bank of the Year from financial journals The Banker and Euromoney, and from MasterCard. Besides this, Euromoney named OTP Bank as the Hungarian financial institution offering the best private banking service, while MasterCard judged OTP to be the "Bank best managing the crisis". We accord a special importance to all of these titles, as they affirm us in our conviction that our Bank has good reason to celebrate its 60th anniversary, even in these trying times.
While we conduct ourselves with the utmost responsibility towards our shareholders, this year management has once again decided not to recommend paying dividends. In our opinion, amidst the extraordinary challenges of the past two years, the Company successfully fulfilled its main undertakings. However, the crisis has not yet passed, and managing the overdue loan portfolios could demand a great deal of energy, and indeed capital. For this reason, and due to the likely tightening of national and international legislation, it will be equally important to maintain a stable capital position. Our decision, therefore, was necessary to ensure future sustainable growth, and I am hopeful that the higher share value will make up for the lack of dividend. Then, once normal business operations are restored, the opportunity will arise to reinstate our previous shareholder remuneration policy.

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

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

**Dr. Sándor Csányi**
Chairman & CEO

# Macroeconomic and financial environment in 2009

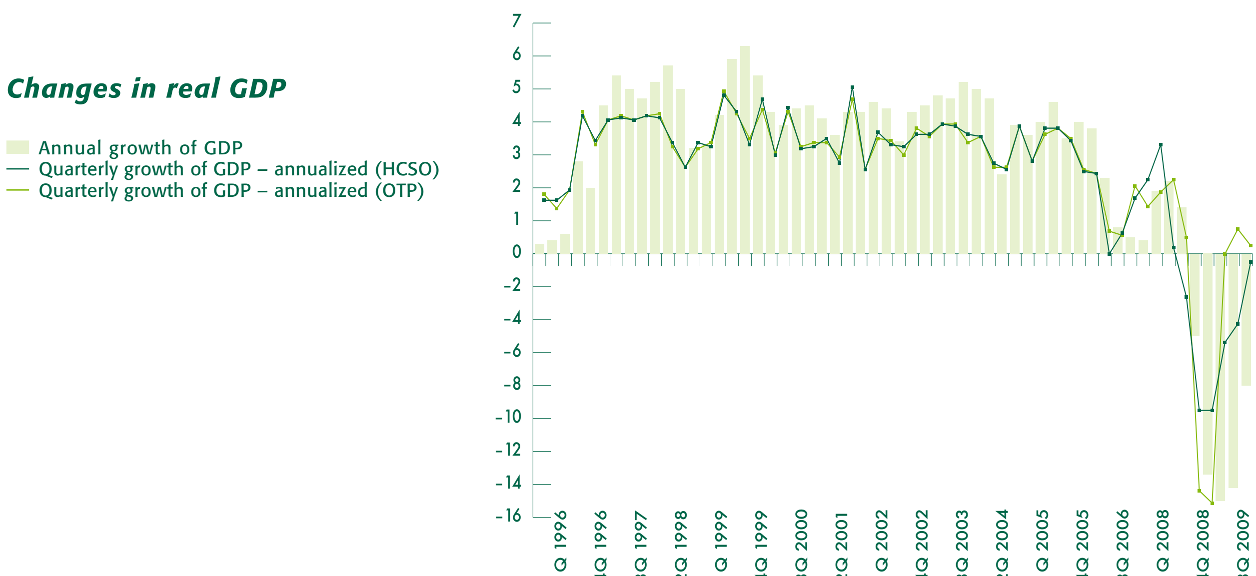
## MACROECONOMIC AND FINANCIAL TRENDS IN HUNGARY

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

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

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

***Changes in real GDP***



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

The income positions of both the corporate and household sectors developed exceptionally unfavourably. Companies reacted to the disappearance of demand for their products by slashing output, which led to a fall in employment and considerably dampened the rate of wage growth. The labour market's efforts to adapt to the circumstances further reduced domestic demand. Employment in the private sector fell by 250,000 persons in comparison to


summer 2007, a tendency that was only slightly softened by the government's "Path to Work" program. The unemployment rate rose to above 10.5%, while the rate of growth in gross wages in the national economy slowed to 0.8%, from the 2008 figure of 7.0%. The disposable income of households shrank by 1.2%.

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

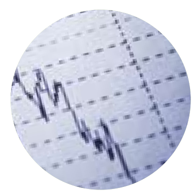
After the rate cuts made – in error, as it later transpired – at the beginning of the year, the central bank adopted an exceptionally cautious stance, so that even when optimistic sentiment took hold in the market we still had to wait several months, right up until June, for an easing cycle to begin.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

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

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

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

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

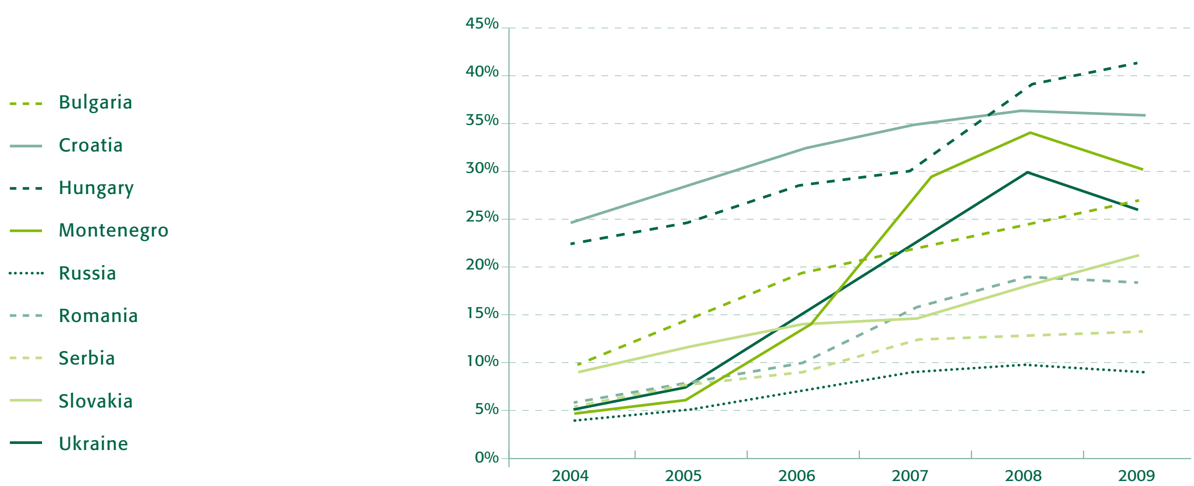



their purchase and home-related investments, which led to a rapid rise in indebtedness. Another important consequence of the rapid growth in productivity was the appreciation, in real terms, of the region's currencies.

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

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

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




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


# management's analysis

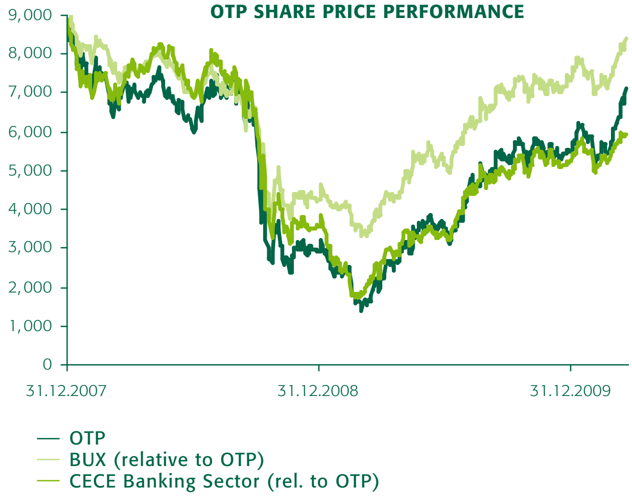
# Management's analysis of the full-year 2009 results of OTP Group*

## CONSOLIDATED FINANCIAL HIGHLIGHTS[1] AND SHARE DATA

| Statement of recognised income | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| Consolidated net profit for the period | 241,068 | 150,206 | (38) |
| Consolidated net profit for the period 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 | 218,691 | 151,326 | (31) |
| Profit before income tax | 250,293 | 172,080 | (31) |
| Operating profit | 368,920 | 437,059 | 18 |
| Total income | 732,584 | 786,084 | 7 |
| Net interest income (adj.) | 515,946 | 589,780 | 14 |
| Net profit from fees and commissions | 140,623 | 132,913 | (5) |
| Total other non-interest income (adj.) | 76,015 | 63,390 | (17) |
| Operating expenses (adj.) | (363,664) | (349,024) | (4) |
| Provision for impairment on loan and placement losses (adj.) | (108,043) | (246,935) | 129 |
| Other allowance for loan losses | (10,584) | (18,044) | 70 |
| **Main components of the Statement of Financial Position** | **2008** | **2009** | **%** |
| Total assets | 9,367,724 | 9,755,132 | 4 |
| Placements with other banks and securities | 415,656 | 440,850 | 6 |
| Total customer loans and advances (gross) | 7,049,381 | 6,907,094 | (2) |
| Allowance for loan losses | (270,680) | (494,378) | 83 |
| Liabilities to credit institutions | 848,730 | 802,749 | (5) |
| Total customer deposits | 5,258,167 | 5,688,887 | 8 |
| Issued securities | 1,565,947 | 1,410,348 | (10) |
| Subordinated loans | 320,050 | 280,834 | (12) |
| Total shareholders' equity | 1,048,971 | 1,191,606 | 14 |
| **Indicators** | **%** | **%** | **%-point** |
| ROA (adj.) | 2.5% | 1.6% | (0.9) |
| ROE (adj.) | 22.5% | 13.4% | (9.1) |
| Operating profit margin | 4.14% | 4.57% | 0.43 |
| Total income margin | 8.22% | 8.22% | 0.00 |
| Net interest margin (adj.) | 5.79% | 6.17% | 0.38 |
| Allowance for loan losses to average gross loans (adj.) | 1.69% | 3.57% | 1.88 |
| Cost/income ratio (adj.) | 49.6% | 44.4% | (5.2) |
| Net loan/(deposit+retail bond) ratio (%) | 128% | 108% | (19) |
| Gross loan/deposit ratio (%) | 134% | 121% | (13) |
| Capital adequacy ratio (consolidated, IFRS) | 15.4% | 17.3% | 1.9 |
| Tier1 ratio | 11.3% | 13.8% | 2.5 |
| Core Tier1 ratio | 9.5% | 12.1% | 2.6 |
| **Share information** | **2008** | **2009** | **%** |
| EPS diluted (HUF) | 935 | 572 | (39) |
| Closing price (HUF) | 2,875 | 5,456 | 90 |
| High (HUF) | 8,874 | 5,790 | (35) |
| Low (HUF) | 2,320 | 1,355 | (42) |
| Market Capitalization (EUR billion) | 3.00 | 5.6 | 86 |

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

[1] Structural adjustments made on consolidated IFRS statements of recognized income together with the calculation methodology of adjusted indicators are detailed in the Supplementary data section of the Report.




| MOODY'S RATINGS | |
|---|---|
| **OTP Bank** | |
| Foreign currency long term deposits | Baa1 |
| Local currency long term deposits | Baa1 |
| Financial strength | D+ |
| **OTP Mortgage Bank** | |
| Covered mortgage bond | A2 |
| Foreign currency long term deposits | Baa1 |
| Financial strength | D+ |
| **DSK Bank** | |
| Long term deposits | Baa3 |
| Local currency long term deposits | Baa3 |
| Financial strength | D+ |
| **STANDARD & POOR'S RATING** | |
| **OTP Bank and OTP Morgage** | |
| Long term credit rating | BB+ |

# MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2009 RESULTS OF OTP GROUP

## Successful crisis management

In 2009 OTP Group successfully managed all the challenges induced first by the US subprime crisis and later by the global fiscal and lending turmoil. It also met the major preliminary targets of the management. The Bank's strong performance helped a lot to preserve the stability of the Hungarian banking sector.
Even though operating conditions have already deteriorated in 2008, last year required further radical business adjustments from the Company. The strong underlying profitability, in particular the robust net interest income as well as the continuously strict cost control, enabled the Bank to realize positive earnings in each consecutive quarters in spite of heavily increasing provisioning. As a result the Bank managed to strengthen both its consolidated and stand-alone capital adequacy to such levels (IFRS CAR: 17.3%, Tier1 ratio: 13.8%) that are outstanding even in international comparison. It was achieved without any governmental or bilateral support or equity increase. The economic crisis and the fiscal adjustment resulted in serious business adjustment: loan demand shrank a lot and risk management required a more cautious lending practice.
At the same time the Group paid particular attention to deposit collection, as a result the consolidated loan-to-deposit ratio improved a lot throughout the year. Due to the successful business adjustment both in Hungary and abroad, and also to newly attracted external funding sources (retail targeted bonds, syndicated loan), OTP's liquidity reserves reached record levels (EUR 6 billion in December 2009) despite prepaying half of the State loan in the amount of EUR 700 million in November. The year-end liquidity reserve is enough to cover the Group's total FX-denominated senior and covered bonds obligations, as well as the rest of the State loan.
In order to ease the negative effects of the crisis the Bank actively participated in the debtor protection programmes and initiated several other measures aimed at assisting its clients facing temporary fiscal difficulties. Besides, the Bank persistently looked at those lending segments where it could meet demands at the expense of its own sources, but also utilizing the State loan. Even though 2009 was not the year of a steady loan growth, the strong capital position, as well as the stable liquidity reserves

enabled the Bank to increase its corporate loan book in Hungary by 4% through originating HUF 248 billion new loans to the sector. In Russia, the growing customer demand helped the bank to revitalize its POS-lending and even strengthen its market position.

## Straightforward business adjustments, stable capital positions, gradually improving macroeconomic environment in the second half across the region

While 1H 2009 was quite challenging as for the general macroeconomic conditions, from 2H it became clear that despite earlier concern most of the East European economies in spite of existing problems were more resistant towards the crisis. The local banking sectors were decently capitalized, and local governments were brave enough to introduce fiscal restrictions or in case of Russia and Slovakia used anticyclical measures to boost local consumption. The only exception was Ukraine, where markets are expecting consolidation after the presidential elections in early 2010.

Beginning from April market sentiments changed to be more favourable, investors' risk appetite returned, liquidity enhancing measures by the major central banks helped risk spreads to drop significantly; 2H already witnessed successful bond transactions from the CEE region. As for fiscal adjustment and economic stabilization the most remarkable turnaround was achieved by Hungary, but Bulgaria and Croatia were also amongst the frontrunners in implementing rigorous budgetary policy.

From 3Q and more so from 4Q there were more and more signs of the bottoming out in the region: export performance improved, industrial production started to recover, the current account balances previously being in the danger zone rebounded, the currency and stabilization reserves kept increasing.

In Hungary the NBH gradually brought down the base rate from 10% to 6.25% by end-2009, whereas the local currency remained stable.

As a result of those positive developments, in October 2009 Standard & Poor's improved Hungary's sovereign outlook from negative to stable, whereas Moody's and Fitch did so in early 2010 in case of Bulgaria and Romania, respectively. Given that most of the countries but again Ukraine, met their commitments to IMF, further tranches became available. Hungary, on the other hand announced that it did not need the remaining of the IMF package.

In spite of all economies suffered heavy, somewhere even double-digit economic setbacks in terms of real GDP, loan volume shrinkage started easing, and in 2H already slight recovery might be experienced.

In Russia, however, POS-lending accelerated so nicely that in 4Q new origination even exceeded the so far record period of last quarter 2007.

## Successful deposit collection, substantially improving loan-to-deposit ratio

Due to modest loan demand throughout the most of 2009 the consolidated gross loan portfolio dropped by 2% y-o-y (adjusted for the FX-effect, this decrease was 3%). Despite the remarkable 4% y-o-y corporate loan growth in Hungary, the consolidated corporate book declined by 4% y-o-y.

At the same time deposits expanded by 8% (7% adjusted for the FX-effect). As a result, loan-to-deposit ratio improved a lot (to 121%, –13%-points y-o-y). In case of Croatia and Hungary the ratio was below 100%, but Romania, Russia and Ukraine also pushed down those levels substantially, true from high basis.

## Strong operating income, adjusted full year results exceeding both the management forecast and market consensus

In spite of the sharp (nearly 2.5-fold) increase in allowance for loan losses as a result of worsening operating conditions, the Group realized HUF 151.3 billion adjusted net profit for the period. It was by 31% lower y-o-y, but exceeded market consensus by about HUF 6 billion.

## Main drivers of the consolidated result: stable net interest income, (NII) increasing allowance for loan losses, strict cost control

In 2009 net interest income grew by 14% y-o-y. The HUF 590 billion net interest result was influenced by several factors: the asset repricing measures of the pre-crisis period (mainly in the corporate sector) exerted a positive effect; net interest income was supported by increased interest rates in case of the Hungarian mortgage loan portfolio as well (higher funding costs were partly levied on clients in 4Q 2008, after the beginning of the crisis); and the higher overall Hungarian interest rate environment led to higher margins and consequently, higher net interest income. The yearly net interest margin (6.17%) improved significantly (+38 bps y-o-y)The net fee and commission income declined by 5% y-o-y in line with preliminary expectations and reflected the decrease of business activity and the transaction income. Other adjusted non-interest income decreased by 17% y-o-y. The biggest profit change was on net FX gain and loss line: around HUF 6 billion loss in 2009 compared to HUF 44.4 billion profit in 2008. Note that the high profit of the base period was basically influenced by the 4Q 2008 revaluation of the Ukrainian provisions while 2009 results were significantly driven by the 1Q 2009 losses on the other open FX-positions on the top of the strategic position due to HUF depreciation. Given that these positions have been closed down in the meantime this income line showed a gradually improving trend in 2009. On securities portfolio HUF 7.5 billion profit was realized, mainly due to the sharp decline of HUF yields. The other net non-interest income more than tripled in 2009, due to the HUF 27.7 billion before tax gains realized on the repurchase of Upper Tier2 Capital. Total volume of operating expenses dropped by HUF 14.6 billion in 2009 compared to the previous year. The Bank has been implementing very strict cost control throughout the year. Within operational costs other expenses lagged behind the basic period by 6%, whereas personal expenses dropped by 7% y-o-y (mainly as a result of staff reduction, suspending branch network expansion and closing down branches in Serbia, Slovakia and in the Ukraine, as well as rationalizing operation). The yearly Cost/Income Ratio (CIR) improved by 5.2%-points to 44.4%.
The deteriorating macroeconomic environment equally hitting the household and corporate sectors resulted in a significant portfolio quality deterioration. The ratio of DPD90+ loans increased from 4.5% to 9.8%, but in the second half of 2009 the pace of the portfolio quality deterioration showed a slowdown as the macroeconomic environment improved. This required a massive provisioning which was comfortably met due to the robust operating result. Provisions for potential loan losses and other provisions added up to HUF 265 billion, +123% y-o-y. The provision coverage of DPD90+ loans reached 73.6% (–12.4%-point y-o-y).

## Outstandingly strong consolidated and stand-alone capital adequacy ratio (CAR)

The consolidated IFRS CAR improved by 1.9%-points y-o-y and reached 17.3%, the Tier1 ratio (13.8%) grew by 2.5%-points. Both levels are significantly higher than that of for OTP's main competitors.
The unconsolidated, HAS based CAR of OTP Bank stood at 16.2% (+4.2%-points y-o-y). Since OTP did not draw down the EUR 200 million subordinated loan facility offered by EBRD by the December 2009 deadline, the contract was prolonged until 20 June 2010.

## Excellent Hungarian net interest income, moderating decline in lending due to growing corporate volumes, successful funding

Within the Banking group 2009 net profit for the period of OTP Core (basic activity in Hungary) reached HUF 178.3 billion, marking an increase of 34% y-o-y.

The key driver of the strong income was the good net interest income performance (+18% y-o-y). Net F&C remained flat y-o-y. Total revenues reached HUF 446 billion (+20% y-o-y). The strong earnings were also supported by the one-off HUF 28 billion profit before income tax of supplementary core capital (Upper Tier2 Capital) buy back and the positive effect of lower tax burdens. Allowance for loan losses grew by 59% compared to the base period. The share of DPD90+ loans increased to 7.4% (+3.1%-points y-o-y), the coverage ratio declined somewhat in 2Q 2009, but in the second half it remained stable; its year-end level came out at 74.9%.
The loan portfolio grew by 1% y-o-y in spite of the crisis, that was mainly the result of a strong corporate lending activity where volumes grew by 4% y-o-y. In the retail segment new loan origination was only the fraction of the corresponding period: mortgage loan origination dropped by 82%, the personal loans by 54% respectively, true there was some pick up since the bottom in 1Q 2009. In line with the efforts of the management the share of HUF denomination increased within new disbursements: in case of mortgages and personal loans it was 55% and 96% in 2009 respectively.
The deposit portfolio on a yearly base expanded by a remarkable 8%. At the same time the local bond issuance targeted at household savings continued successfully: during 2009 its volumes increased by HUF 179 billion and reached HUF 237 billion by the end of December.
The loan-to-deposit ratio improved by 6%-points y-o-y, dropping again below 100% (from 103% of 2008 to 97% in 2009). Including the volume of the retail bonds which are practically a form of extended term deposits, the adjusted "net loan/(deposit + retail bond)" ratio was 86% (–12%-points y-o-y).
In March 2009, EUR 1.4 billion loan facility was provided by the Hungarian State to OTP Bank for supporting its domestic corporate lending activity. The Bank has prepaid half of the facility (EUR 0.7 billion) in November 2009, and the remaining amount (EUR 0.7 billion) was paid back in March 2010. Due to the conditions of the loan facility, namely the interest rate level and maturity, the Bank could satisfy the demand of only a limited group of entrepreneurs, thus OTP Bank could support a wider range of potential client interest from its own liquidity.
The volume of issued securities were affected by the retail bond issuance on one hand and by the repayment of EUR 750 million senior bonds, as well as by HUF 120 billion volume decrease of issued mortgage bonds on the other. There was no international capital market transaction in 2009, however in December the Bank arranged a EUR 220 million syndicated loan and in February 2010 OTP had a successful debut with a CHF 100 million senior issue.
Of domestic Group members Merkantil Group realized HUF 1.8 billion loss in 2009 being almost equal to the provisioning in the fourth quarter for the losses of newly consolidated leasing firms. Without that Merkantil Group's net profit for the period would be around zero. Risk costs for loan losses increased by 156% which turned to be too much to be compensated by stringent cost control (–15% y-o-y). OTP Fund Management posted HUF 5.1 billion net profit for the period. Both total assets and managed funds expanded nicely (+32% and +38% y-o-y respectively). Its market position improved by 1.8%-points y-o-y reaching 32.3% by the end of December.

## Performance of foreign subsidiaries: excellent Bulgarian, stable Croatian, dynamically improving Russian and Romanian results; substantial losses in Ukraine, portfolio cleaning in Slovakia and Serbia

Regional economies shrank severely in 2009 – in the Ukraine a double-digit GDP setback was observed. In 2009 the macroeconomic uncertainity and growing unemployment coupled with weak loan demand, except for the Russian POS lending. Apart from the Russian POS lending there was no meaningful expansion of loan books in any countries. On the other hand all the

subsidiaries launched deposit campaigns, as a result loan-to-deposit ratio improved at each subsidiary. Besides Ukraine, debtor protection programmes in Bulgaria and Romania also gained momentum; their positive impact was already evident in the last quarter of 2009.
DSK Group posted HUF 25 billion net profit for the period in 2009, the result was 20% lower than a year ago. The outstandingly strong net interest revenues (+27% y-o-y) to a certain extent could mitigate the negative impact of the sharp increase of allowance for loan losses (+169% y-o-y).
As a result of loan portfolio repricing NIM (5.68%) was higher by 86 bps compared to the base period. Despite the increase of operating expenses (+17% y-o-y), cost income ratio level still represents one of the most efficient operations within the Group (36.1% in 2009). The gross loan portfolio remained flat compared to 2008, at the same time deposit volumes grew nicely (+11% y-o-y). As a result DSK's loan-to-deposit ratio improved by 12%-points (4Q 2009: 128%), whereas the Bank could stabilize its market position in the major segments. The ratio of DPD90+ loans grew by 4.0%-points in 2009, but improved in the last quarter. The coverage ratio remained well above the Group members' average and reached 86%.
As a result of sharply increasing allowance for loan losses the Ukrainian subsidiary accumulated a total HUF 44 billion loss in 2009 vs. the HUF 16.4 billion net profit for the base period. Despite the sharply increasing allowance for loan losses (+259%) operating income still improved (+2%). There were two waves of the portfolio quality deterioration, in the first and third quarter of 2009, but in 4Q the pace of deterioration became moderate. The ratio of DPD90+ ratio reached 22.3% (+17.6%-points y-o-y). In line with the earlier commitment of the management, special attention was paid to increase the coverage ratio, accordingly in 2009 OTP Bank JSC (Ukraine) recorded HUF 95.0 billion provisions; as a result the coverage ratio grew to 74%. The share of the restructured loan portfolio increased gradually but in a declining pace during the year and reached 39% at end-December in the retail segment.
Given that within the Group Ukraine suffered the single biggest economic depression, customers' demand for loans was fairly weak. Parallel, the bank also considerably reduced the lending activity, having an impact on loan volumes. On the other hand, deposit erosion stopped in 2Q, and from 3Q volumes started to grow again. As a result, the loan-to-deposit ratio improved significantly.
In Russia, 2H 2009 already witnessed a recovery in lending. While total loan volumes dropped by 3% y-o-y, in 4Q OTP Bank Russia (OBRu) posted a remarkable 9% increase. It was mainly the result of the significant revival in POS-lending, that's why the retail loan book grew by 1% y-o-y. The bank had significant deposit collection results (+37% y-o-y). The loan-to-deposit ratio improved massively (–50%-points y-o-y). Because of the weak 1H, and also the y-o-y higher allowance for loan losses (+11%), the 2009 net profit for the period was only one third of that a year ago.
Apart from the POS-growth another positive development was that despite the crisis allowance for loan losses rate basically remained flat (5.59%). The ratio of DPD90+ loans – mainly due to NPL write-offs – declined in the second half, but grew by 4.0%-points on a yearly basis. The coverage ratio was stable, around 84% and its level surpassed the average of the Group members.
Of smaller subsidiaries OTP banka Hrvatska (OBH in Croatia) in every quarter posted positive results and despite of the doubling allowance for loan losses realized a yearly net profit of HUF 3.2 billion. Due to the successful deposit collection (+7% y-o-y) the bank has a favourable liquidity position and the lowest loan-to-deposit ratio within the Group (94%).
OTP Bank Romania (OBR) achieved HUF 1.1 billion net profit for the period that was more than five times higher than in 2008. The two major drivers of the improving results were the strong core banking revenue generating capability and the stringent cost control.
The portfolio quality of OBR is the best in the Group (DPD90+ ratio was at 3.4% only). Deposits grew by more than 30%, loan portfolio shrank by 7%, as a result loan-to-deposit ratio improved by 135%-points to 304% y-o-y.

The improving results showed that systematic business development coupled with efficient operation and excellent management could make a greenfield investment a great success. In Montenegro, CKB posted a moderate HUF 0.4 billion net profit for the period for the full year (-85% y-o-y). Even though net interest income showed an excellent picture (+58% y-o-y), the sharply increasing allowance for loan losses, as well as the declining net profit from fees and commissions (F&C) results (–38% y-o-y) took their toll through weaker earnings. Total assets shrank by 24%, the loan-to-deposit ratio declined to 110%.
The Slovakian subsidiary posted an all-time high negative result of HUF 6.4 billion in 2009, stemming mainly from soaring risk costs as the Bank intentionally improved the coverage ratio, and on the other hand, the loan quality continued to deteriorate. Loan volumes contracted by 13% y-o-y, deposits by 4% respectively, though retail deposits slightly grew by 3% y-o-y.
Because of the conservative portfolio classification and portfolio clean up, the Serbian subsidiary posted a significant cumulative loss of HUF 9 billion in 2009. All major income lines showed weak results – NII dropped by 40%, net F&C by 16% –, operating costs were basically flat (–2%) and allowance for loan losses grew by 250%.
In line with the moderate business activity significant network rationalization and stuff reduction took place; the total network was reduced by 45 branches (–47%), whereas the employees number by 399 people (–34%).
By the end of 2009 OTP Group had 1,514 branches (–79 branches y-o-y, -26 branches q-o-q). The largest decline was realized in Serbia: 45 branches were closed down. Also, in Ukraine 23 branches, in Slovakia 12 branches were closed down during 2009.

## Credit ratings, shareholder structure

In March 2009 both Moody's and S&P downgraded Hungary's debt rating. The rating of OTP Bank changed similarly to the sovereign rating (from "A3" to "Baa1") in case of Moody's, but the S&P downgraded OTP Bank's rating by two notches (from "BBB" to "BB+"), which led to a split rating. In October S&P affirmed the sovereign rating and changed the outlook of the sovereign rating from negative to stable.
Regarding the ownership structure, in 2009 MOL appeared as a shareholder above the 5% threshold after a share swap agreement with OTP Bank in 2Q 2009: the company's stake in OTP reached 8.6%. In the course of 2009 neither Groupama's (9.2%) nor Rahimkulov family's (8.7%) shareholding changed significantly, while the stake of Artio Global Management (former Julius Baer, the biggest institutional owner for a long time in earlier years) dropped below 5%.

# POST BALANCE SHEET EVENTS

## Hungary

- The Hungarian government approved a decree on the conditions of prudent retail lending and the assessment of credit – worthiness. The aim of the decree is to promote responsible lending practice, to limit the risks of foreign currency loans as well as to support financial stability in the Hungarian financial system.
- The decree will require lenders to establish, as part of their internal regulatory systems, a way to calculate the maximum amount a client is capable to repay each month (the so called "lending limit") based on an evaluation of the client's income. Lenders will be allowed to sign contracts for no more than 80% of this monthly "lending limit" in case of euro-denominated loans and for no more than 60% in case of loans denominated in other foreign currencies.
- The regulation caps the amount for which lenders may sign a housing mortgage contract at 75% of the home's value for forint loans, 60% for euro-denominated loans and 45% for loans denominated in other currencies. The limits are 80%, 65% and 50% respectively in the case of financial leasing.The maximum contractual period of car-financing loans will be set at seven years. Car financing loans will be capped at 75% of the value of the vehicle for forint loans, 60% for euro-denominated loans and 45% for loans denominated in other currencies. The limits for car lease are 80%, 65% and 45% respectively.
- The rules governing the calculation of the lending limit are to come into effect on 11 June 2010, whereas the rules in relation to mortgage and car financing are to enter into force from 1 March 2010.
- On 25 January the Monetary Council decided to reduce the central bank base rate by 25 basis points from 6.25% to 6.00%, with effect from 26 January 2010. On 22 February Hungarian National Bank cut benchmark interest rate to 5.75%, effective from 23 February. On 29 March the central bank cut benchmark interest rate to the ever lowest 5.50%, effective from 30 March.
- On 29 January, in the course of its general methodology review, Moody's Investors Service downgraded OTP Bank's Upper Tier2 ratings to "Ba1" from "Baa2" with negative outlook.
- On 8 February, the National Bank of Hungary announced a new monetary policy tool to support the development of the domestic HUF denominated mortgage lending and mortgage bond markets. Under the programme, the National Bank will purchase forint mortgage bonds and undertake regulatory initiatives to develop the domestic HUF mortgage lending market. The first step of the programme is to improve the conditions for forint-based financing for banks and their customers by stimulating a reduction in liquidity premium in the mortgage bond market. This may contribute to an increase in the supply of HUF mortgage loans and a further reduction in the interest differential vs. foreign currency loans. On 10 March the central bank declined all offers in the first secondary market mortgage bond buyback tender, but on 11 March the tender was successful.
- OTP Bank issued bonds in nominal value of CHF 100 million at 100.633 per cent of the face value with value date 24th February 2010. The issue serves general funding purposes. The price of the fixed rate senior bonds with 2 years maturity was set on 22nd January 2010. The Sole Bookrunner of the successful bond issue was BNP Paribas with OTP Bank as Co-Lead Manager. The re-offer spread is 305 bps over 2 year mid-swap, the bond bears a coupon of 4 per cent fixed rate, with annual interest payments and will be introduced to the Swiss Exchange (SIX).

- On 19 March Standard & Poor's changed OTP Bank's and OTP Mortgage Bank's outlook for stable leaving the "BB+" rating unchanged.
- On 19 March OTP Bank paid back an equivalent of EUR 700 million to the Hungarian State. The amount is the remaining part of a loan agreement of EUR 1.4 billion in total between the Hungarian State and OTP Bank signed on 26 March 2009.
- OTP Mortgage Bank issued a covered bond in the amount of EUR 300 million on 25 March 2010, within the frame of its EUR 3 billion international covered bond issuance program authorized by the Luxembourgian stock exchange supervision. The maturity of the covered bond with 4.125% fixed coupon and annual interest payments is 5 December 2011, while the yield spread reached 200 bps over the mid-swap.

## Bulgaria

- On 21 January Moody's raised the outlook on the Bulgarian government's "Baa3" ratings to positive from stable suggesting a potential upgrade.

## Russia

- Donskoy Narodny Bank was merged into OAO OTP Bank. The merger has been registered by the Court of Registration on 5 February 2010, thus the core capital of OAO OTP Bank (OTP Russia) reached RUB 2,797 million.

## Ukraine

- The first round of the Ukrainian presidential election of 2010 was held on 17 January 2010. Viktor Yanukovich won the first round of the elections receiving the highest share (35%), while Timosenko won the second place with 25% of votes. Since none of the candidates received absolute majority the second round was held on 7 February. Yanukovich was officially declared a winner of the elections with 49% versus Tymosenko's 46%.
- On 3 March 2010 Yulia Tymoshenko lost a confidence vote in the parliament. On 11 March Ukraine formed a parliamentary coalition sympathetic to President Viktor Yanukovych. The prime minister is Mykola Azarov.
- On 11 March Standard & Poor's rating agency raised Ukraine's sovereign long term foreign currency credit rating to "B-" (with positive outlook) from "CCC+" after the appointment of a new government reduced political risk and improved prospects for the country to unfreeze the bailout loan.
- On 17 March Fitch Ratings revised Ukraine's outlook to stable from negative, and simultaneously affirmed its "B-" rating. Prior to this, Fitch said on 9 March that Ukraine may see a positive rating action in the second half if a parliamentary majority that backs the president passes a budget that the International Monetary Fund approves.
- According to the announcement, an IMF mission visits Ukraine from 24 March to 2 April 2010 in order to resume talks on the IMF loan.

## Romania

- On 14 January the parliament approved the 2010 state budget that will cut spending significantly: freezes state wages and cuts investments in order to narrow the budget deficit to 5.9% in 2010.
- On 21 January the capital increase – in the amount of RON 30 million – into OTP Bank's Romanian subsidiary has been registered by the court of registration. Accordingly the statutory capital of OTP Bank Romania has reached RON 463 million.
- On 27 January the IMF delegation announced that they will recommend the release of the bailout loan's next tranche (EUR 2.3 billion). The loan was locked in 2009 because of the lack of approved 2010 budget due to political turmoil.

On 23 February the IMF's board of directors agreed to resume payments to Romania.

- Fitch Ratings raised the outlook on Romania's "BB+" credit rating to "stable" from "negative" on 2 February. On 13 January the credit rating agency S&P announced that Romania's credit rating outlook may be raised after the parliamentary approval of the 2010 budget and the unfreeze of the IMF loan.
- Due to the improvement of the countries' risk perception, the central bank cut the benchmark rate three times, in January, February and March 2010 (by 150 bps to 6.50%).
- On 10 March Romania's credit rating outlook was raised to stable at Standard & Poor's after the International Monetary Fund resumed a bailout loan to the country and the government passed an austerity budget.
- Romania maintained its target to adopt the European common currency in January 2015, the government said in a statement on 22 March 2010.

## Croatia

- On 12 January the World Bank approved a loan of EUR 200 million to Croatia for the development of the fiscal, social and financial sector.
- Effective from 10 February 2010 the Croatian Central Bank lowered the obligatory reserve ratio of commercial banks from 14% to 13%.

## Serbia

- The Serbian national bank intervened several times in the first two months of 2010 to support the dinar by selling Euro on the currency market.
- The Ministry of Economy released a lending stimulus plan on 15 January. Under this program, the government plans to allocate 8.6 billion dinars to subsidize interest rates on bank loans to businesses and individuals. The ministry expects the economic stimulus plan to generate 900 million euros in loans.
- The IMF announced on 23 February that the third tranche of the IMF loan to Serbia has been preliminarily approved and the IMF expects Serbia to receive the EUR 350 million instalments in April.
- In March 2010 the central bank lowered the reserve requirement for commercial banks to 25% from 40% and cut the benchmark two-week repurchase rate by half a percentage point to an ever lowest rate of 9.0%.

## Slovakia

- The government is preparing a constitutional amendment to cap state debt. According to the Finance Minister, the ceiling will be set below the current European Union rule of 60% of GDP.
- The Finance Ministry released new economic forecasts on 10 February. The 2010 GDP growth was revised upward from 1.9% to 2.8% but 2011 growth forecast was reduced to 3.3%.

# CONSOLIDATED NET PROFIT FOR THE PERIOD BREAKDOWN BY SUBSIDIARIES (IFRS)[2]

| | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| Consolidated net profit for the period | 241,068 | 150,206 | (38) |
| Profit of the strategic short position[1] (after tax) | (4,720) | (1,912) | (59) |
| Dividend and total net cash transfers (consolidated) | 2,380 | 792 | (67) |
| Profit of the sale of OTP Garancia Group (after tax) | 117,346 | 0 | (100) |
| Goodwill impairment charges (after tax)[2] | (92,629) | 0 | (100) |
| Consolidated net profit for the period 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 | 218,691 | 151,326 | (31) |
| Banks total without one-off items[3] | 201,371 | 145,844 | (28) |
| OTP CORE (Hungary)[4] | 132,831 | 178,289 | 34 |
| Corporate Centre[5] (net profit for the period) | 2,159 | (6,067) | (381) |
| o/w Net profit for the period of subsidiary financing[6] | 15,314 | 8,288 | (46) |
| Interest expense of Tier2 Capital | (13,155) | (14,115) | 7 |
| OTP Bank Russia | 8,916 | 3,086 | (65) |
| OTP Bank JSC (Ukraine) | 16,414 | (43,650) | (366) |
| DSK+SPV (Bulgaria) | 31,021 | 24,797 | (20) |
| OBR adj. (Romania)[7] | 241 | 1,136 | 372 |
| OTP banka Srbija (Serbia) | 1,670 | (8,990) | (638) |
| OTP banka Srbija, adj. | 262 | (8,990) | |
| OTP banka Srbija one-off items[8] | 1,408 | – | (100) |
| OBH (Croatia) | 5,041 | 3,245 | (36) |
| OBS (Slovakia) | 1,431 | (6,673) | (566) |
| OBS, adj. | 1,538 | (6,429) | (518) |
| OBS one-off items[9] | (108) | (244) | 126 |
| CKB (Montenegro) | 2,949 | 428 | (85) |
| Leasing | 3,497 | (3,009) | (186) |
| Merkantil Bank + Car, adj. (Hungary)[10] | 3,835 | (1,830) | (148) |
| Merkantil Bank + Car one-off items[11] | (402) | 12 | (103) |
| Foreign leasing companies (Slovakia, Croatia, Bulgaria, Romania)[12] | 64 | (1,191) | |
| Insurance companies | 4,029 | 0 | (100) |
| OTP Garancia (Hungary) | 5,149 | 0 | (100) |
| OTP Garancia, adj. | 5,338 | 0 | (100) |
| OTP Garancia one-off items[13] | (189) | 0 | (100) |
| Foreign insurance companies (Bulgaria, Slovakia, Romania)[14] | (1,120) | 0 | (100) |
| Asset Management | 4,743 | 5,104 | 8 |
| OTP Asset Management (Hungary) | 4,988 | 5,124 | 3 |
| Value creation of OTP Asset Management (after-tax)[15] | 10,196 | 9,681 | (5) |
| Foreign Asset Management Companies (Ukraine, Romania)[16] | (244) | (20) | (92) |
| Other Hungarian Subsidiaries | 1,526 | (2,148) | (241) |
| Other Foreign Subsidiaries (Slovakia, United Kingdom, Cyprus)[17] | 25 | 3,404 | |
| Eliminations | 2,199 | 2,374 | 8 |
| Total net profit for the period of HUNGARIAN subsidiaries[18] | 152,285 | 175,754 | 15 |
| Total net profit for the period of FOREIGN subsidiaries[19] | 66,406 | (24,428) | (137) |
| Share of foreign profit contribution, % | 30% | (16%) | (47) |

[2]Belonging footnotes are in the Supplementary data section of the Report.

# CONSOLIDATED STATEMENT OF RECOGNIZED INCOME[3]

| Statement of recognized income | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| Consolidated net profit for the period | 241,068 | 150,206 | (38) |
| Dividends and net cash transfers (after tax) | 2,380 | 792 | (67) |
| Profit of the strategic open FX position (after tax) | (4,720) | (1,912) | (59) |
| Pre tax result of strategic open FX position | (5,899) | (2,390) | (59) |
| Income taxes | 1,180 | 478 | (59) |
| Profit of the sale of OTP Garancia Group (after tax) | 117,346 | 0 | (100) |
| Consolidated net profit for the period 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 | 218,691 | 151,326 | (31) |
| Profit before income tax | 250,293 | 172,080 | (31) |
| Operating profit | 368,920 | 437,059 | 18 |
| Total income | 732,584 | 786,084 | 7 |
| Net interest income (adj.) | 515,946 | 589,780 | 14 |
| Net profit from fees and commissions | 140,623 | 132,913 | (5) |
| Other net non-interest income (with net insurance result and net other, other non-interest result) (adj.) | 76,015 | 63,390 | (17) |
| Foreign exchange result, net (adj.) | 44,393 | (5,919) | (113) |
| Gain/loss on securities, net (adj.) | (1,096) | 7,459 | (781) |
| Net insurance result | 13,255 | 0 | (100) |
| Insurance premiums | 60,432 | 0 | (100) |
| Insurance expenses | (7,178) | 0 | (100) |
| Net other non-interest result (adj.) | 19,462 | 61,851 | 218 |
| Operating expenses | (363,664) | (349,024) | (4) |
| Personnel expenses | (167,461) | (155,516) | (7) |
| Depreciation (adj.) | (38,609) | (45,141) | 17 |
| Other expenses (adj.) | (157,594) | (148,367) | (6) |
| Provision for impairment on loan and placement losses (adj.) | (108,043) | (246,935) | 129 |
| Other provision | (10,584) | (18,044) | 70 |
| Corporate taxes | (31,602) | (20,754) | (34) |
| **Indicators** | **2008** | **2009** | **%-point** |
| ROA (adj.) | 2.5% | 1.6% | (0.9) |
| ROE (adj.) | 22.5% | 13.04% | (9.1) |
| Operating profit margin | 4.14% | 4.57% | 0.43 |
| Total income margin | 7.75% | 8.22% | 0.67 |
| Net interest margin (adj.) | 5.79% | 6.17% | 0.38 |
| Net fee and commission margin | 1.58% | 1.39% | (0.19) |
| Net other non-interest income margin | 0.81% | 0.65% | (0.16) |
| Allowance for loan losses to average gross loans (adj.) | 1.69% | 3.57% | 1.88 |
| Cost/income ratio (adj.) | 49.6% | 44.4% | (5.2) |
| Effective tax rate | 12.6% | 12.1% | (0.5) |
| **Comprehensive income statement** | **2008** | **2009** | **%** |
| Net comprehensive income | 206,807 | 151,661 | (27) |
| Net profit attributable to equity holders | 240,472 | 151,045 | (37) |
| Consolidated net profit for the period | 241,068 | 150,206 | (38) |
| (–) Net profit attributable to non-controlling interest | 597 | (839) | (241) |
| Fair value adjustment of securities available-for-sale (recognised directly through equity) | (12,475) | 9,941 | (180) |
| Fair value adjustment of derivative financial instruments designated as cash-flow hedge | 788 | 431 | (45) |
| Fair value adjustment of strategic open FX position hedging net investment in foreign operations | 0 | (1,543) | |
| Foreign currency translation difference | (21,978) | (8,213) | (63) |

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

- Dynamically increasing full year operating profit reaching HUF 437 billion (+18% y-o-y), HUF 151 billion adjusted PAT (–31% y-o-y) exceeded consensus
- Strong net interest income (+14% y-o-y), improving NIM (6.17%, +38 bps), 5% decline of net profit from fees and commissions
- Stringent cost control, outstanding efficiency (2009 CIR: 44.4%)
- Significant increase in allowance for loan losses (+123% y-o-y)
- Stable ROE at 13.4% inspite of deteriorating operating environment

The 2009 adjusted consolidated IFRS net profit for the period of OTP Group reached HUF 151.3 billion which is in line with the preliminary targets of the management. It represents 31% decline y-o-y.

Adjusted net interest income reached HUF 590 billion, 14% higher than in the base period, 6.17% NIM is by 38 bps higher than that of the base period.

Within non-interest income net F&C dropped by 5% y-o-y, which was in line with preliminary expectations and reflected the decrease of business activity and the transaction income. Other adjusted non-interest income decreased by 17% y-o-y. The biggest profit change was on net FX gain and loss line: around HUF 6 billion loss in 2009 compared to HUF 44.4 billion profit in 2008. Note that the high profit of the base period was principally influenced by the 4Q 2008 revaluation of the Ukrainian provisions while 2009 results were significantly influenced by the 1Q 2009 losses on other open FX-positions above the strategic position due to the depreciation of the forint. Given that these position in the meantime have been closed down this income line showed gradual improvement since 2Q 2009. HUF 7.5 billion profit was realized on the securities portfolio of the Group, mainly due to the sharp decline of HUF yields. In 2009 OTP Core concluded repurchase transactions of its own Upper Tier2 Capital. HUF 28 billion profit before income tax – booked on other net non-interest income line – was realised on these transactions.

Within total income the non-interest income represented 25%, a decline of 5%-points y-o-y.

The Group has been implementing very strict cost control throughout the year. Within operational costs other expenses lagged behind the base period by 6%, whereas personal expenses dropped by 7% y-o-y (mainly as a result of staff reduction, rationalization of operation, suspending branch network expansion and even closing down branches in Serbia, Slovakia and in the Ukraine). The yearly cost/income ratio (CIR) improved by 5.3%-points to 44.4%, well below the 2009 management target.

The deteriorating macroeconomic environment equally hitting the households and corporates resulted in a significant portfolio quality deterioration. This required a massive provisioning which was comfortably met due to the robust operating result. Provisions for potential loan losses and other provisions added up to HUF 265 billion (+123% y-o-y), of which loan loss provisions amounted to HUF 246.9 billion, but other provisions were also mainly lending related ones. As a result the consolidated allowance for loan losses rate grew to 3.57% from 1.69% y-o-y.

Consolidated ROA (1.6%) decreased by 0.9%-points, while ROE (13.4%) shrank by 9.1%-points in 2009. The diluted earnings per share (EPS) amounted to HUF 572 in 2009.

The Net Comprehensive Income of the Group was HUF 151.7 billion, 27% lower than in 2008. Apart from net profits attributable to the shareholders of the Bank, this income category includes all the fair value adjustments, which are directly recorded in equity rather than through the statement of recognised income.

# ASSET-LIABILITY MANAGEMENT

Asset-liability management of the OTP Group focused on two main areas in 2009: maintaining the prudential liquidity reserves of the OTP Group, and keeping interest-rate risk exposures low.

### *Maintaining the prudential liquidity reserves of the OTP Group*

The primary objective of the OTP Group in terms of asset-liability management has been to ensure that the Group's liquidity reserves are maintained at a suitably secure level. Given that external sources of financing shrank since the last quarter of 2008, the Group shifted to a course where growth in its statement of financial position total was significantly slower than in earlier years, while the financing need of expiring capital market liabilities was covered by the surplus liquidity generated by the business areas. At the end of 2009, the Bank's liquidity reserves less the capital market liabilities expiring in 2010 exceeded EUR 4.8 billion. Besides the generation of liquidity by the business areas, a further contribution to the creation of these liquidity reserves came from the fact that the Group significantly reduced its net financing to the foreign subsidiaries, and that it received additional funds of EUR 1.4 billion from the Hungarian State, of which EUR 700 million was still on the Bank's balance sheet at the end of the year. The Bank's liquidity reserves at the end of 2009 are sufficient to provide coverage not only for the expiries mentioned above, but also for any liquidity shocks that may occur in the business areas or as a result of exchange rate risk.

### *Keeping interest-rate risk exposure low*

Due to the HUF liabilities on the Group's balance sheet, which respond to yield changes only to a moderate extent, the Bank has an interest-rate risk exposure resulting from its business operations. The Bank treats the reduction and closing of this exposure as a strategic matter. Taking advantage of the significantly higher HUF yield levels in the first half of 2009, the Bank reduced its interest-rate risk exposure through the purchase of fixed-rate government securities in order to offset the negative impact of falling yields on net interest income.

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

Under Government Decree 244/2000, the capital requirement for trading book positions, counterparty risks and FX risk must be consolidated for OTP Mortgage Bank, OTP Building Society, Merkantil Bank, OTP Banka Slovensko, DSK, OTP Bank Romania, OTP banka Hrvatska, OTP Bank JSC (Ukraine), OAO OTP Bank (Russia), OTP banka Srbija and CKB. By the end of 2009, the consolidated capital requirement was HUF 29.5 billion, which was primarily due to the FX position (HUF 27.9 billion).
Exposure of the various Group members' FX positions is restricted to individual and global net open position limits (overnight and intraday), and to stop-loss limits. The FX exposure at Group level was concentrated at OTP Bank, while the open positions of Group members abroad were negligible measured against either the balance sheet total or regulatory capital.
Under IFRS standards, the FX exposure arising at OTP Bank derived from the strategic open FX position opened to hedge the currency risk of FX-dependent net earnings of four foreign subsidiaries. The size of the strategic open short EUR position amounted to EUR 310 million and was equal to 2 years' expected net profits of the subsidiaries. Apart from this strategic short position, the average net open position held by the dealing room of central Treasury Department was a negligible HUF 0.3 billion.
In 2010, the liquidity requirement of OTP Group developed differently from the dynamics of previous years. The business areas generated liquidity of approximately HUF 900 billion at

group level, ensuring the repayment of liabilities expiring in 2009, as well as contributing to the generation of liquidity reserves exceeding EUR 6 billion at the end of the year. Liquidity reserves at the end of the year significantly exceeded the combined amount of the liabilities expiring in 2010 and the liquidity requirement arising from any conceivable liquidity shocks. OTP Mortgage Bank raises the funds required for mortgage lending by issuing covered bonds, which are typically bought by the parent bank. Since these securities can be used as collateral in refinancing transactions of both the National Bank of Hungary (MNB) and the European Central Bank, the Mortgage Bank's liability expiries do not reduce the Group's liquidity reserves. In 2009, OTP Bank Group's interest rate risk exposure was essentially determined by the positions of OTP Bank, OTP Mortgage Bank, OTP Bank JSC (Ukraine) and DSK Bank.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| Main components of statement of financial position | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| **Total assets** | **9,367,724** | **9,755,132** | **4** |
| Cash and amount due from banks | 530,007 | 505,649 | (5) |
| Placements with other banks | 415,656 | 440,851 | 6 |
| Financial assets at fair value | 131,288 | 256,100 | 95 |
| Securities available-for-sale | 486,878 | 1,354,285 | 178 |
| Gross customer loans | 7,049,381 | 6,907,094 | (2) |
| o/w Retail loans | 4,353,189 | 4,291,847 | (1) |
| Corporate loans | 2,258,579 | 2,161,903 | (4) |
| Car financing loans | 389,767 | 387,431 | (1) |
| Bills and accrued interest receivables related to loans | 52,819 | 65,968 | 25 |
| Allowance for loan losses | (270,680) | (494,378) | 83 |
| Equity investments | 10,467 | 18,834 | 80 |
| Securities held-to-maturity | 330,158 | 188,853 | (43) |
| Intangible assets | 469,701 | 476,358 | 1 |
| Other assets | 214,868 | 101,486 | (53) |
| **Total liabilities and shareholders' equity** | **9,367,724** | **9,755,132** | **4** |
| Liabilities to credit institutions and governments | 848,730 | 802,749 | (5) |
| Customer deposits | 5,258,167 | 5,688,887 | 8 |
| o/w Retail | 3,914,944 | 4,161,910 | 6 |
| Corporate | 1,299,904 | 1,483,984 | 14 |
| Accrued interest payable related to customer deposits | 38,941 | 42,997 | 10 |
| Issued securities | 1,565,947 | 1,410,348 | (10) |
| Other liabilities | 325,859 | 380,708 | 17 |
| Subordinated bonds and loans | 320,050 | 280,834 | (12) |
| Total shareholders' equity | 1,048,971 | 1,191,606 | 14 |
| **Indicators** | **2008** | **2009** | **%-point** |
| Loan/deposit ratio | 134% | 121% | (13) |
| Net loan/(deposit + retail bond) ratio | 128% | 108% | (19) |
| Net loans | 6,778,701 | 6,412,716 | (5) |
| Customer deposits | 5,258,167 | 5,688,887 | 8 |
| Retail bonds | 58,073 | 236,733 | 308 |
| 90+ days past due loans/gross customer loans | 4.5% | 9.8% | 5.3 |
| Total allowance for loan losses/90+ days past due loans | 86.0% | 73.6% | (12.4) |
| Capital adequacy ratio (consolidated, IFRS) | 15.4% | 17.3% | 2.0 |
| Tier1 ratio | 11.3% | 13.8% | 2.6 |
| Core Tier1 ratio | 9.5% | 12.1% | 2.6 |
| Leverage (Shareholder's Equity/Total Assets) | 11.2% | 12.2% | 1.0 |

- Decreasing loan volumes y-o-y (–2%)
- Increasing deposit base (+8% y-o-y) improving loan-to-deposit ratio (121%, –13%-points q-o-q)
- Significant but slowing deterioration of loan quality, DPD90+ loans at 9.8% (+5.3%-points y-o-y, but in 4Q 2009 only +0.9%-point q-o-q)
- Stable, further improving capital position, consolidated IFRS CAR stood at 17.3% with Tier1 at 13.8%

IFRS consolidated total assets increased by 4% in the last year and reached HUF 9,755 billion. The Group's consolidated shareholder equity grew to HUF 1,192 billion (+14% y-o-y), representing 12% of balance sheet total. Due to the more conservative lending policy and the moderate loan demand the volume of gross consolidated loans decreased by 2% y-o-y. Closing amount of the portfolio was HUF 6,907 billion. Within the gross loan portfolio the single most important part was the retail one (HUF 4,292 billion, 62%), the corporate book (HUF 2,162 billion) represented a smaller portion (31%). Car financing amounted to HUF 387 billion (6%). Out of retail loans mortgages represented HUF 2,703 billion, while consumer loans stood at HUF 1,149 billion.
Throughout 2009 HUF-based loan portfolio increase was experienced only in Croatia (+3%) Bulgaria (+1%) and in case of OTP Core (+1%), elsewhere the portfolio decreased. The most significant portfolio contraction was experienced in Montenegro (-29%), Slovakia (-13%) and Ukraine (-12%). In the previous 12 months, parallel with the moderate lending activity the portfolio quality deteriorated in all markets; the share of DPD90+ loans grew to 9.8% at consolidated level. Within the Group the Ukrainian and Serbian subsidiary has constantly represented the worst portfolio quality, the share of DPD90+ loans stood at 22.3% and 33.7% respectively. It was a positive development that in case of OTP Core – mainly due to the HUF appreciation and the actively applied debtor protection program – the speed of the Hungarian loan portfolio deterioration moderated from the pace seen in 2Q 2009; the DPD90+ ratio reached 7.4% at the end of 2009.
Consolidated allowance for loan losses was around HUF 494 billion at the end of December 2009 (+83% y-o-y). DPD90+ loans reached HUF 671 billion, accordingly the coverage ratio remained high (73.6%).
Consolidated deposits grew by 8% on a yearly base. In the past 12 months the most significant deposit growth was captured in Russia (+37%), Romania (+33%) Bulgaria (+11%) and in Croatia (+7%) and the deposit growth at OTP Core was outstanding as well (+8%). The strongest deposit withdrawal hit CKB (-20%).
As a result of the modest lending activity, the consolidated loan-to-deposit ratio (121%) improved on a yearly base by 13%-points. The net loan/(deposit+retail bond) ratio – a more refined way to capture the liquidity position of the Group – stood at 108%.
Issued securities dropped by 10% y-o-y. The maturing debt (EUR 750 million senior bonds and cca. HUF 120 billion HUF denominated mortgage bonds) exceeded the volume of collected domestic retail bonds. There was no international bond issuance in 2009.

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

On 31 December 2009 regulatory capital of OTP Group represented HUF 1,195 billion, while the risk weighted assets (RWA), taking into account the capital needs for market risk and operational risk too, stood at HUF 6,886 billion. CAR stood at 17.3% with Tier1 (after deducting goodwill and intangible assets) at 13.8% and Core Tier1 (further deducting hybrid instruments) at 12.1% respectively.
By the December deadline OTP Bank has not drawn down the EUR 200 million subordinated loan facility offered by EBRD; the utilization period of the contract has been prolonged to 20 June 2010.

# HUNGARIAN CORE BUSINESS OF OTP BANK[4]

## OTP Core's statement of recognized income:

| Statement of recognized income | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| OTP CORE net profit for the period w/o dividends and net cash transfer | 132,831 | 178,289 | 34 |
| OTP CORE profit before income tax | 146,085 | 194,153 | 33 |
| Operating profit | 191,112 | 265,970 | 39 |
| Total income | 371,392 | 445,574 | 20 |
| Net interest income | 270,910 | 320,579 | 18 |
| Net profit from fees and commissions | 88,322 | 88,379 | 0 |
| Other net non-interest income | 12,160 | 36,616 | 201 |
| Operating expenses | (180,280) | (179,604) | (0,4) |
| Total allowance for loan losses | (45,027) | (71,817) | 59 |
| Provision for impairment for loan and placement losses | (24,889) | (72,530) | 191 |
| Other provisions | (20,138) | 713 | (104) |
| **Revenues by Business Lines** | **2008** | **2009** | **%** |
| RETAIL | | | |
| Total income | 322,269 | 325,673 | 1 |
| Net interest income | 233,711 | 241,774 | 3 |
| Net profit from fees and commissions | 84,671 | 78,805 | (7) |
| Other net non-interest income | 3,887 | 5,094 | 31 |
| CORPORATE | | | |
| Total income | 41,036 | 32,335 | (21) |
| Net interest income | 31,052 | 20,094 | (35) |
| Net profit from fees and commissions | 8,847 | 10,751 | 22 |
| Other net non-interest income | 1,136 | 1,489 | 31 |
| Treasury ALM | | | |
| Total income | 10,975 | 84,901 | 674 |
| Net interest income | 6,147 | 58,711 | 855 |
| Net profit from fees and commissions | 105 | 1274 | 1118 |
| Other net non-interest income | 4,724 | 24,917 | 427 |
| **Indicators** | **2008** | **2009** | **%-point** |
| ROA | 2.8% | 3.4% | 0.6 |
| ROE | 16.9% | 19.6% | 2.7 |
| Total income margin | 7.75% | 8.27% | 0.52 |
| Net interest margin | 5.66% | 5.95% | 0.29 |
| Allowance for loan losses/average gross loans | 0.77% | 2.15% | 1.38 |
| Cost/income ratio | 48.5% | 40.3% | (8.2) |
| Effective tax rate | 9.1% | 8.2% | (0.9) |

- Rising corporate lending, 4% volume growth on a yearly base
- Successful deposit collection and retail bond issuance: net loans / (deposit + retail loans) ratio at 86% (–12%-points y-o-y)
- Increasing NII (+18% y-o-y), stable net F&C income (+0.1% y-o-y) and strict cost control: nominal operating costs below the level of 2008 (–0.4% y-o-y)
- 2009 net profit for the period (including one-offs)at HUF 178 billion

[4] This section is based on unconsolidated, audited IFRS financial statements of the following subsidiaries: OTP Bank, OTP Mortgage Bank, OTP Building Society, OTP Faktoring, OTP Financing Netherlands B.V., OTP Financing Cyprus and Projekt 1. Ltd. The consolidated net profit for the periods were adjusted by the net profit for the period on open FX-position, by dividends and by one-off cash transfers, as well as by the net interest income of subsidiary financing and by the interest expenses of Lower and Upper Tier2 funding. Those two items are shown as part of the Corporate Centre. Also, the net profit for the period of interest swaps concluded with OTP Bank Romania (OBR) as part of its financing were booked within the adjusted net profit for the period of OBR.

## Earnings developments

In 2009 the net profit for the period of OTP Core is HUF 178.3 billion, representing a growth of 34% y-o-y. The result on one hand represents an outstandingly strong core operating profitability: net interest income increased by 18% y-o-y, F&C income remained stable nominally and strong cost control was applied (operating costs were below the base level, cost/income ratio dropped from 49% to 40% y-o-y). The improvement of profitability was positively affected by the approximately HUF 27.7 billion (before tax) trading profit realised on the repurchase of Upper Tier2 Capital (UT2)[5] accounted within the other non-interest income (latter trebled y-o-y). Additional positive effect was due to the lower tax burden (effective tax rate 8% in 2009 vs. 9% in 2008). Low 2009 effective tax burden reflected the one-off effect of a change in the Hungarian regulation: significant portion of the goodwill impairment in 2008 could not be accounted as part of the corporate tax base that time, but a legal change in 2009 stipulated that under IFRS the Bank can account that in a single amount in the current year, whereas under HAS in four equal tranches in the next four years. That move trimmed the IFRS tax burden by HUF 11.7 billion in 2009.

In 2009 the allowance for loan losses of OTP Core increased by 59% (allowance for loan losses rate rose from 0.77% to 2.15%). The DPD90+ rate stood at 7.4% at the end of the year, whereas the provision coverage of the non-performing portfolio was 74.9%. In addition the positive effects of the debtor protection programme on portfolio quality and allowance for loan losses became visible in the second half of 2009. The household loans involved in the program represented approx. 4.4% of the retail portfolio by end-2009. The pace of the restructuring decelerated significantly in November and December.

Net interest income increased by 18% y-o-y as a result of the 0.30%-points growth of NIM (2009: 5.95% vs. 2008: 5.66%). The good performance is resulted on one hand from the repricing of assets since the end of 2008: interest on existing mortgage- and consumer loans was raised in 4Q 2008 (about 100–150 bps in case of FX-mortgages) and the interest for new retail loans were higher, too. Furthermore spreads of new corporate disbursements were also above the pre-crisis levels. Net interest income in 2H 2009 also improved since the Bank's funding costs started moderating together with the sinking HUF base rate and the calm down of competition in the deposit market. The yearly increase in the net interest income was however supported by a remarkable one-off item: revaluation result of derivative transactions resulted a significant profit in the NII in 4Q 2009, which was counterbalanced by about the same amount of losses booked on the revaluation result of securities line.

Net profit from fees and commissions stagnated on a yearly basis (+0.1%). Good performance was supported by the fact that both deposit- and cash transfer commissions (representing 48% of total commissions in 2009) and card commissions (2009: 37% of total) were relatively stable: income resulting from these items decreased by 3% and 5% y-o-y respectively. The ratio of loan related commissions being hit by the crisis the most is relatively low (5%), the y-o-y drop in this category was 29%. In case of loan related commissions it is important to mention that according to IFRS these commissions are accrued during the constractual period of the loans, thus the decline in new disbursements resulted only a gradual moderation of this type of F&C income. Securities commissions (11% share of total in 2009) declined only by a mere 3% y-o-y.

Control of operating costs remained continuously strict: the yearly cost amount was nominally below the level of that in the previous year (–0.4% y-o-y). At OTP Bank, closing number of the headcount diminished by 477 persons to 7,820 during 2009 (–6% y-o-y), while number of branches remained flat (382 at the end of the year).

[5] As a result of the repurchases the volume of Upper- and Lower Tier2 capital declined by 6% compared to YE 2008 (2008: HUF 303 billion, 2009: HUF 284 billion). From the originally issued EUR 500 million UT2 capital altogether EUR 157 million was repurchased during 2009.

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

| Main components of statement of financial position | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| Total assets | 4,964,333 | 5,805,466 | 17 |
| Gross customer loans | 3,348,931 | 3,396,769 | 1 |
| Retail loans | 2,189,514 | 2,186,022 | 0 |
| Corporate loans | 1,159,416 | 1,210,747 | 4 |
| Allowance for loan losses | (117,635) | (188,501) | 60 |
| Deposits from customers | 3,244,482 | 3,496,796 | 8 |
| Deposits from customers + retail bonds | 3,302,554 | 3,733,529 | 13 |
| Retail deposits | 2,420,480 | 2,470,161 | 2 |
| Retail deposits + retail bonds | 2,478,552 | 2,706,894 | 9 |
| Corporate deposits | 824,002 | 1,026,635 | 25 |
| Liabilities to credit institutions and governments | 598,386 | 823,211 | 38 |
| Issued securities | 1,412,929 | 1,305,525 | (8) |
| o/w retail bonds | 58,073 | 236,733 | 308 |
| Total shareholders' equity | 832,333 | 990,236 | 19 |
| **Loan Quality** | **2008** | **2009** | **%-point** |
| 90+ days past due loans/gross customer loans | 4.3% | 7.4% | 3.1 |
| Total allowance for loan losses/90+ days past due loans | 82.5% | 74.9% | 7.6 |
| **Market Share** | **2008** | **2009** | **%-point** |
| Loans | 17.6% | 17.8% | 0.2 |
| Deposits | 24.1% | 24.2% | 0.1 |
| Total assets | 23.8% | 26.3% | 2.5 |
| **Indicators** | **2008** | **2009** | **%-point** |
| Gross loans to deposits | 103% | 97% | (6) |
| Net loans to (deposits+retail bonds) | 98% | 86% | (12) |

### Statement of financial position trends

During 2009 the economic crisis and the fiscal measurements in Hungary induced a strong adjustment in the statement of financial position of OTP Core. Since the beginning of 2009 loan-to-deposit ratio has been on a downward track (4Q 2009: 97%, –6%-points y-o-y), net loan-to- (deposit+retail bond ratio) – taking into account the proxy-deposit savings too – shows an even stronger adjustment (year-end 2009: 86%, –12%-points y-o-y).

The FX-adjusted customer loan portfolio has stagnated in 2009 (+0.4% y-o-y, w/o FX-adjustment +1% y-o-y) due to the materially lower loan demand. In 2009 within the FX-adjusted retail loans the portfolio of consumer and SME loans demonstrated a slight increase (+6% and +5% y-o-y respectively). The consumer loan growth primarily is the result of the portfolio growth of overdrafts. Mortgage loan portfolio had been decreasing during the year (–3% y-o-y, –1% q-o-q). Corporate loans increased by 3% y-o-y.

Disbursement of retail loans dropped significantly in 2009 partially due to the tightening of lending conditions from mid-November 2008 and partially as a negative effect of the financial crisis on loan demand. Disbursement of mortgage loans decreased by 82% y-o-y to HUF 64 billion while the origination of personal loans – representing the biggest part within consumer loans – dropped by 54% (disbursement in 2009: HUF 55 billion).

In case of both types of loans after their deepest point in 1Q 2009 following quarters already showed a slight improvement in the disbursement activity (mortgage loan disbursement in HUF billion: 1Q: 11.8; 2Q: 16.8; 3Q: 19.6; 4Q: 16.0; personal loan disbursement in HUF billion: 1Q: 12.0; 2Q: 15.1; 3Q: 15.5; 4Q: 12.1).

During the year with the aim of boosting loan disbursements the Bank cut the offered interest rate of its market-priced mortgage loans several times (both in case of HUF and FX loans), and in accordance with the recommendations of the Code of Conduct in retail lending it stopped selling adjustable rate mortgages and launched new floating rate mortgage products. For the outstanding portfolio the type of interest payment has not changed automatically, but customers were enabled to refinance themselves with new mortgages. Results of these movements were experienced through continuously increasing disbursement of EUR denominated loans during the year.

Disbursement of subsidised HUF loans were negatively influenced by the amendment of the subsidy scheme (between the suspension of the former system in July and the introduction of the new system in October in the interim period there was not any available subsidised mortgage loan product on the market).
In line with the intention of the management both within the disbursement of mortgage loans and personal loans the ratio of HUF denomination grew remarkably in 2009: in case of mortgage loans from 12% to 55%, in case of personal loans from 31% to 96% respectively. Simultaneously, amongst FX denominated disbursements EUR became dominant (42% of newly disbursed mortgage loans and 4% of personal loans were EUR denominated in 2009).
OTP Core's deposit base grew by 8% y-o-y. The y-o-y growth is even higher taking into consideration the amount of retail bond portfolio considered as a proxy-deposit by the retail customers. Adjusted by the bond volumes the increase of customer deposits and retail deposits were 13% and 9% y-o-y respectively. Since 4Q 2008 the retail bond portfolio has been growing steadily, by the end of 2009 the outstanding portfolio amounted to HUF 237 billion (+HUF 179 billion y-o-y). Average maturity of the bonds (typically 1 year) exceeds that of term deposits (typically 3-6 months).
Other significant driver of the deposit growth was the increase in the deposits of medium and large corporates (+32% y-o-y, due to this the corporate deposit portfolio grew by 25% y-o-y). Within the medium and large corporate segment term deposits medium and large corporates grew nicely (+HUF 59 billion y-o-y) but significant increase was generated by the growing term deposit taking of the investment funds managed by OTP Fund Management as well (+HUF 112 billion). The municipal deposits produced a 7% increase y-o-y.
The outstanding bond portfolio of OTP Core (4Q 2009: HUF 1,306 billion, –8% y-o-y) was remarkably influenced during the year by the maturity and repayment of EUR 750 million senior note in February (q negative effect of approx. HUF 203 billion). This was significantly counterbalanced by the HUF 179 billion increase in retail bond volumes y-o-y. At the same time the outstanding volume of mortgage bonds decreased by approx. HUF 120 billion. New international transaction was issued only after closing of the statement of financial position: in February 2010 OTP returned to the international capital markets with a senior unsecured bond of CHF 100 million with 2 years tenor This issue was the first ever CHF denominated bond issue in the Bank's history. Furthermore OTP Mortgage Bank issued a mortgage bond of EUR 300 million in March 2010 under its European Medium Term Note (EMTN) program. Nearly one third of the total issued notional was underwritten by external investors.
Funding and liquidity position of OTP Core was influenced by the fact that the Hungarian State granted a facility to the Bank to enhance its lending activity to Hungarian corporations. As a result liabilities against the financial institutions and the state grew significantly (at end-2009 the portfolio amounted to HUF 823 billion, +38% y-o-y). The loan was drawn down in two tranches (EUR 1 billion on 1 April 2009, EUR 400 million on 30 June 2009). As a result, despite the crisis, OTP Bank could actively support the Hungarian corporate sector: the Bank approached more than 5 thousands entrepreneurships with relevant loan offers. Throughout 2009, loan facilities in the amount of HUF 248 billion have been originated, thus the FX-adjusted outstanding volume of micro, small, medium and large scale enterprise financing increased by 8% y-o-y. However half of the outstanding debt, EUR 700 million, was prepaid by the Bank on 5 November an the second half in March 2010. It was reasoned by the fact that because of the interest rate level and maturity of the state loan facility the Bank could satisfy the demand of only a limited Group of entrepreneurs, thus in the future OTP Bank is willing to support a wider range of potential client interest at the expense of its own liquidity reserve.
In 3Q 2009 an agreement was concluded between OTP and EBRD according to which the international financial institution granted an EUR 200 million subordinated debt facility. As part of the agreement EBRD provided CHF 500 million CHF/HUF swap-line for OTP Bank. The originally 6 months long commitment period has been extended in December 2009 for another 6 months but the subordinated loan facility

has not been drown down until now. If utilized, it could further improve the otherwise stable capital position of the Bank. Regarding the swaps: during 2009 several transactions have been concluded and by the end of October the facility has been almost fully used providing a continuous CHF liquidity for FX lending purposes.

### Unconsolidated capital adequacy of OTP Bank under Hungarian Accounting Standards

At end-2009, OTP Bank's capital adequacy ratio under the Hungarian regulation stood at 16.2%, which is 8.2%- points in excess of the 8% required by the Act on Credit Institutions.
The ratio is the quotient of a regulatory capital of HUF 626 billion and risk weighted total assets (RWA) of HUF 3.853 billion. Apart from covering credit risks, the RWA takes into account the capital needs for market risk and operational risk, too.
The profit before tax of OTP Bank under the Hungarian Accounting Standards was HUF 114.1 billion, by 99% (HUF 56.7 billion) higher than in 2008. The profit after tax stood at HUF 102.3 billion, by 89% or HUF 48.1 billion higher than in 2008.
After the HUF 10.2 billion general provisioning, the statement of financial position profit of OTP Bank for the year 2009 amounted to HUF 92.1 billion.

## OTP FUND MANAGEMENT

In 2009 OTP Fund Management realized HUF 5.1 billion net profit for the period (+3% y-o-y). The managed volume of securities funds increased by 35% y-o-y reaching HUF 863 billion, while the growth of total assets under management was somewhat lower (+32% y-o-y). In 2009 OTP Fund Management has charged HUF 10 billion management fee, which means 1.44% fee charges on the average portfolio. The wealth management fee amounted to HUF 3.3 billion, representing 10% decrease on a yearly base. It should be emphasized that as a result of strict control operating expenses decreased by 10% y-o-y.
By the end of December 2009 the net asset value of Pension Funds reached HUF 758 billion with a significant increase (+38% y-o-y), net asset value of other institutional funds expanded by about 7% on a yearly base.
OTP Fund Management kept and even improved its leading market position on the domestic fund management market, at the end of December its market share grew to 32.3%. The client base of the Company also increased significantly (at the end of 2009: 190,760, +8% y-o-y) in 2009, mainly due to the popularity of open-end funds.

## MERKANTIL GROUP

In 2009 the aggregated net profit for the period of Merkantil Bank and Car totalled to 1.8 billion loss compared to the profit of HUF 3.8 billion in 2008. The major reason of the loss was the significant increase of the allowance for loan losses. Net profi for the period was also negatively influenced by the HUF 1.8 billion provision made for the stake in the loss-making Romanian leasing unit. Portfolio quality deteriorated significantly y-o-y, the ratio of the DPD90+ loans increased from 7.7% to 12.3%. As a result of high provisioning the coverage of DPD90+ loans reached 89.4% (+5.9%-point y-o-y).
In 2009 operating income showed an 11% improvement due to curtailed operating costs (–15% y-o-y).
The total income grew by 1% in 2009. The net interest income fell by 3%. On the one hand the

margin of newly disbursed loans reflected the growing financing costs from the mother company; on the other hand the deferred interest income declined due to the debtor protection program. The incomes from fees came out at a lower level as a result of the moderate business activity, but the development of expenses from fees did not follow this decline because significant part of expenses from commissions occurs independently from business activity. The other net non-interest income more than doubled compared to the low base in 2008.

The car financing loan book decreased by 3% y-o-y, but it has to be taken into account that effective from 2Q 2009 car financing loans comprise car leasing volume, whereas corporate loans include big ticket leasing volume. The FX-adjusted car financing loan book showed a gradual decrease in 2009 and the new disbursements reached only the quarter of the volume of 2008.

# IFRS reports of the main subsidiaries*

## DSK GROUP

### Performance of DSK Group:

| Statement of recognized income | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| Net profit for the period w/o dividends, net cash transfers and one-offs | 31,021 | 24,797 | (20) |
| Profit before income tax | 34,481 | 27,693 | (20) |
| Operating profit | 45,056 | 54,200 | 20 |
| Total income | 71,207 | 84,757 | 19 |
| Net interest income | 53,064 | 67,615 | 27 |
| Net profit from fees and commissions | 16,983 | 15,555 | (8) |
| Other net non-interest income | 1,161 | 1,587 | 37 |
| Operating expenses | (26,151) | (30,557) | 17 |
| Provision for impairment on loan and placement losses | (9,625) | (25,855) | 169 |
| Other provision | (951) | (651) | (31) |
| **Main components of statement of financial position (closing balances)** | **2008** | **2009** | **%** |
| Total assets | 1,171,645 | 1,207,328 | 3 |
| Gross customer loans | 1,014,893 | 1,027,820 | 1 |
| Retail loans | 816,257 | 831,729 | 2 |
| Corporate loans | 198,636 | 196,091 | (1) |
| Allowance for loan losses | (39,074) | (61,810) | 58 |
| Deposits from customers | 722,880 | 801,112 | 11 |
| Retail deposits | 626,576 | 688,399 | 10 |
| Corporate deposits | 96,304 | 112,713 | 17 |
| Subordinated debt | 92,680 | 95,049 | 3 |
| Total shareholders' equity | 165,045 | 193,214 | 17 |
| **Indicators** | **2008** | **2009** | **%-point** |
| 90+ days past due loans/gross customer loans | 3.0% | 7.0% | 4.0 |
| Allowance for loan losses/average gross loans | 1.08% | 2.53% | 1.45 |
| Total allowance for loan losses/90+ days past due loans | 127.9% | 85.8% | (42.1) |
| ROA | 2.8% | 2.1% | (0.7) |
| ROE | 21.5% | 13.8% | (7.7) |
| Net interest margin | 4.82% | 5.68% | 0.86 |
| Cost/income ratio | 36.7% | 36.1% | (0.6) |
| Gross loans to deposits | 140% | 128% | (12) |

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

DSK Group's net profit for the period of HUF 24.8 billion represents 20% decline y-o-y. Decreasing profit is mainly the result of the 169% y-o-y growth of allowance for loan losses. At the same time operating profit without allowance for loan losses expanded by 20% compared to the base period as a combined effect of a strong net interest income (+27% y-o-y), slightly diminishing commissions (-8%) and operating costs growing by 17%. An intensive debtor protection programme was launched since August 2009 – altogethert 6.2% of the household loan book was involved in the programme by end-2009. Due to this process, the development of the allowance for loan losses was favourable in 2H 2009.
Ratio of DPD90+ loans increased from 3.0% to 7.0% y-o-y. There were favourable developments in 4Q, the DPD90+ ratio decreased in all segment but SME loans. Beside the rescheduling, the sale of HUF 3.1 billion DPD90+ loans (BGN 22.3 million) in 4Q also improved the DPD90+ ratio in the consumer loans segment. The financial result of the transaction was minimal, the HUF 0.2 billion profit on sale lowered the allowance for loan losses.
The provision coverage of DPD90+ loans dropped by 42%-points from the level of the last year (from 128% to 86%), due to the increasing non-performing portfolio, but this ratio is still considered to be relatively high among Group members.
With respect to profit development of DSK Bank in 2009, the strong growth of total revenue base was highly favourable (+19% y-o-y). Net interest income increased by 27% y-o-y: the repricing of the retail loan portfolio at the end of 2008 and the fallback of wholesale funding costs during the year 2009 counterbalanced the negative effect of increasing deposit costs, thus net interest margin increased by 86 bps y-o-y (2008: 4.82% vs. 2009: 5.68%). The decline of net commission income (–8% y-o-y) reflected the weaker lending activity: in case of the Bulgarian subsidiary the ratio of lending related commission income is relatively significant, representing almost 36% of total net F&C (2009) and showed a decrease of 33% y-o-y. As for the other two dominant commission types, i.e. deposit- and card-related commissions (their proportion is 37% and 16% respectively): 2009 income increased by 15% y-o-y in case of deposit-related income, while card-related income showed a 10% increase on a yearly base. The profit dinamics of the profit was mainly influenced by the weaker HUF exchange rate in 2009, because in BGN terms the change was more moderate on a yearly base (+4%, and –1% respectively).
Operating costs were under stringent control: cost-income ratio was lower than the level realized in 2008 (2009: 36.1%, –0.7%-points y-o-y). The growth of operating costs was much lower in BGN terms only 5% on a yearly base (+16% in HUF terms respectively): personnel expenses grew by 6%, while other expense and depreciation costs increased (+2% and +12%, respectively).
The tightening of lending conditions since autumn 2008 and the moderate credit demand resulted in a stagnating loan portfolio in 2009 (in BGN -1%). Significant portfolio shrinkage was observed only in the SME segment (–14%), where the negative effects of the credit crisis are still heavily influencing the credit demand. Mortgage loans however increased by 1%, whereas consumer and corporate loans dropped by 1% and 3% respectively in local currency. The reason for the shrinking market share of the household-loan portfolio (from 31.2% to 29.3% y-o-y) is that competitors tend to repurchase the previously outsourced portfolios in growing scales.
After slight erosion in 4Q 2008 and 1Q 2009, the deposit base of the Bank has been gradually expanding since 2Q 2009 (y-o-y +8% growth in BGN). The favourable trend is on one hand due to pricing steps, on the other hand to continuous product development and sales incentive programs. Thus the decrease of loan-to-deposit ratio has been going on since 1Q 2009 (2009: 128%, –12%-points y-o-y). Notwithstanding the fact that the retail deposit market showed signs of normalisation during 2H 2009 (the banking sector average of interest paid on retail deposits started sinking after 2Q 2009) the pace of DSK's household deposit base growth even accelerated in 2H 2009: altogether the portfolio grew by 9%

y-o-y (in BGN). Corporate deposits performed well in the first three quarters of 2009, mainly due to pension funds' deposit making, whereas in 4Q some deposits were withdrawn by municipalities, as a result the portfolio increased by 14% y-o-y in local currency.

As a consequence of these efforts and despite of the fierce competition, the Bank managed to keep its market share stable in the retail deposit segment, whereas in the corporate segment even managed to improve it.

On the liability side there was no major capital market transaction in 2009: the volume of subordinated debt remained flat y-o-y in BGN.

# OTP BANK RUSSIA[6]

## Performance of OTP Bank Russia:

| Statement of recognized income | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| Net profit for the period w/o dividends, net cash transfers and one-offs | 8,916 | 3,086 | (65) |
| Profit before income tax | 11,688 | 4,400 | (62) |
| Operating profit | 30,538 | 25,975 | (15) |
| Total income | 75,412 | 67,810 | (10) |
| Net interest income | 62,151 | 60,316 | (3) |
| Net profit from fees and commissions | 10,165 | 4,701 | (54) |
| Other net non-interest income | 3,097 | 2,793 | (10) |
| Operating expenses | (44,874) | (41,834) | (7) |
| Provision for impairment on loan and placement losses | (18,998) | (21,040) | 11 |
| Other provision | 147 | (535) | (463) |
| **Main components of statement of financial position (closing balances)** | **2008** | **2009** | **%** |
| Total assets | 529,019 | 579,941 | 10 |
| Gross customer loans | 383,118 | 369,877 | (3) |
| Retail loans | 247,927 | 250,463 | 1 |
| Corporate loans | 113,378 | 103,719 | (9) |
| Car financing loans | 21,813 | 15,695 | (28) |
| Allowance for loan losses | (30,389) | (38,493) | 27 |
| Deposits from customers | 224,152 | 306,646 | 37 |
| Retail deposits | 137,252 | 196,744 | 43 |
| Corporate deposits | 86,901 | 109,902 | 26 |
| Issued securities | 8,189 | 15,955 | 95 |
| Subordinated debt | 13,657 | 13,607 | 0 |
| Total shareholders' equity | 60,665 | 71,459 | 18 |
| **Indicators** | **2008** | **2009** | **%-point** |
| 90+ days past due loans/gross customer loans | 8.4% | 12.4% | 4.0 |
| Allowance for loan losses/average gross loans | 5.53% | 5.59% | 0.06 |
| Total allowance for loan losses/90+ days past due loans | 94.0% | 83.6% | (10.4) |
| ROA | 1.9% | 0.6% | (1.3) |
| ROE | 17.4% | 4.7% | (12.8) |
| Total income margin | 15.69% | 12.23% | (3.46) |
| Net interest margin | 12.93% | 10.88% | (2.06) |
| Cost/income ratio | 59.5% | 61.7% | 2.2 |
| Gross loans to deposits | 171% | 121% | (50) |

Net profit for the period of OTP Bank Russia in 2009 totalled to HUF 3.1 billion. The drop in net profits of HUF 5.8 billion is a result of the yearly 54% drop (HUF –5.5 billion) in commission income due to the moderating transaction activity, and the yearly 11%

[6] From 2Q 2008, figures are based on the aggregated financial statements of OAO OTP Bank and the newly acquired Donskoy Narodny Bank.

increase (HUF –2.0 billion) in allowance for loan losses. The latter is the result of the y-o-y higher average loan portfolio. The risk profile of the portfolio remained stable: as a result the allowance rate was unaffected by the crisis (2009: 5.59% vs. 2008: 5.53%). At the same time it is very positive that net interest income increased by 6% y-o-y in LCY (the 3% decrease in HUF terms is due to the strengthening of the HUF) and operating costs were declining by 7% in HUF, while being stable in local currency (+1% y-o-y in RUB). With respect to profitability, the financial crisis divided the year into two parts. In 1H 2009 the modest POS-lending resulted in the shrinkage of total income and net interest margins, and in parallel with the increase of provisioning had negative effect on the Bank's profitability (1H 2009 ROE: 0.1%). However, the second half of the year 2009 showed extremely positive developments as for net profit dynamics: two factors affected very positively both net interest and total income margins of OTP Bank Russia, furthermore allowance for loan losses development was also favourable. As a result of the above mentioned developments, the return on equity significantly surpassed the bottom in 1H 2009 (2009: 4.7%).

The first positive factor was the pick up in POS-lending and credit card loans. In case of POS-lending, following the decline in the winter/spring period, volumes started growing during the summer period as a result of renewed customer demand. In parallel, the Bank took measures to catch up with those developments through hiring agents and signing contracts with nationwide retailers. As a consequence, POS loan disbursement grew by 58% in 3Q 2009 and by 43% in 4Q 2009 q-o-q, respectively, thus resulting in a virtually unchanged level of the total yearly origination (+0% y-o-y). In 4Q 2009, POS disbursement was higher by 3% than the all time high level realised in 4Q 2007. In case of POS business, market share in new disbursements increased continuously over the year (2Q 2009: 15%, 3Q: 23%, 4Q: 24%), and OTP Russia became the second largest participant in the market. The success of credit card products was mainly due to the fine-tuned product-line launched in August and the marketing activity that was intensified afterwards. The number of newly activated cards of the fine-tuned product has exceeded the level realised in case of former campaigns.

Taking into consideration the low customer demand characterizing the whole market within other retail product categories, good performance of POS and credit card loans contributed to the fact that OTP Russia's retail loan portfolio was the third fastest growing one in the Russian market in October and November 2009. Consequently the volume of POS loans (which have the highest net interest margin content across OTP Group) and credit card loans increased dynamically (POS-loans: +23% y-o-y, credit card loans +8% y-o-y). Furthermore the growth rate was influenced by significant write-offs of non-performing loans during the year (in the amount of app. HUF 13.6 billion or RUB 2.2 billion). Adjusting the portfolio growth with these write-offs, it would be +33% y-o-y in case of POS-loans, and +18% y-o-y in case of credit card loans, respectively.

The other important factor influencing net interest margin was that due to the successful deposit collection efforts and after some regulatory changes, about USD 460 million excess liquidity collected during 2009 was invested into higher yielding securities and interbank loans in 2H 2009.

These two factors improved significantly OTP Russia's total income and net interest margins in 2H: the former grew to around 13.4% from 12.6% and 12.2% realised in the first two quarters, NIM increased to around 12% from 11% realised in the first half of the year. However, on a yearly base both margins are showing a significant decrease (total income margin: –3.46%-points, interest margin: –2.06%-points), mainly as a consequence of above mentioned factors (stagnating POS-lending in 1H, excess liquidity, and the negative impact of HUF appreciation during the year), while deposit campaigns also had a negative impact on funding costs. Another positive development was the decline of allowance for loan losses in the second half of the year 2009, mainly reasoned by the diminishing allowance for loan losses related to credit cards and POS loans. The Bank's allowance for loan losses rate remained stable over the year (2009: 5.59% vs. 2008: 5.53%). The ratio of DPD90+ loans has increased by +4.0%-points to 12.4% in 2009, but in the second half of the year the ratio improved, partly because of the previously mentioned write-offs, and partly due to the growing total loan book in 2H. DPD90+ coverage ratio deteriorated in 2009 (83.6%, –10.4%-points), but it's still higher than the average of the group members. Operating costs were henceforward under stringent control after the cut-back of the headcount by 600 in the last quarter of 2008 and the cut-down on marketing spending and administrative expenses (full year costs decreased by 7% y-o-y, which is virtually a stagnation in RUB terms (+1%)). After the stagnation in 1Q, the headcount grew in 2009 due to the measures taken to increase sales volumes (number of employees at end-2009 stood at 10,295, +1,846 people y-o-y, out of the total closing headcount 4,550 people were POS-loan agents). Number of contractual agents increased to 6,127 person over the year (+884 person y-o-y), therefore the headcount of the total agent network (including agents employed by the Bank as well) amounted to 10,677, representing a y-o-y growth of 2,385 people.

The increase in other provisions in 2009 (HUF –0.5 billion) is caused by provisions made for losses in the securities portfolio.

The liquidity position of the Bank continuously improved during 2009. On the lending side, despite the positive tendencies in POS-lending and credit card loans, other retail and corporate segments still suffered from poor sales performance. The corporate loan portfolio was shrinking during the year. The deposit base, on the contrary was continuously expanding: retail deposits grew by 43% y-o-y, due to the successful promotional campaigns and product developments. Corporate deposits increased for the first time in the second half of the year (+26% y-o-y). The practise of RUB/USD conversion, that characterised the deposit side in the last quarter of 2008 and the first quarter of 2009 has stopped: proportion of FX deposits shrank in 2H 2009 (share of FX deposits within total customer deposits: 3Q 2008: 12%, 4Q 2008: 27%, 4Q 2009: 30%).

As a result of the above mentioned developments, loan-to-deposit ratio of OTP Bank Russia dropped to 121% (–50%-points y-o-y). Parallel to the improvement in the liquidity position, in June 2009 the Bank paid back in full the deposit of National Bank of Russia placed at the end of last year in order to enhance the Bank's liquidity.

# OTP BANK JSC (UKRAINE)[7]

## Performance of OTP Bank JSC (Ukraine):

| Statement of recognized income | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| Net profit for the period w/o dividends, net cash transfers and one-offs | 16,414 | (43,650) | (366) |
| Profit before income tax | 23,077 | (44,646) | (293) |
| Operating profit | 49,987 | 51,033 | 2 |
| Total income | 77,052 | 74,948 | (3) |
| Net interest income | 49,110 | 62,759 | 28 |
| Net profit from fees and commissions | 5,736 | 7,442 | 30 |
| Other net non-interest income | 22,206 | 4,747 | (79) |
| Operating expenses | (27,065) | (23,916) | (12) |
| Provision for impairment on loan and placement losses | (26,433) | (94,974) | 259 |
| Other provision | (477) | (704) | 48 |
| **Main components of statement of financial position (closing balances)** | **2008** | **2009** | **%** |
| Total assets | 847,008 | 711,155 | (16) |
| Gross customer loans | 763,758 | 670,758 | (12) |
| Retail loans | 351,838 | 311,158 | (12) |
| Corporate loans | 331,880 | 300,795 | (9) |
| Car-financing | 80,040 | 58,806 | (27) |
| Allowance for loan losses | (22,882) | (110,583) | 383 |
| Deposits from customers | 169,888 | 165,764 | (2) |
| Retail deposits | 77,745 | 98,164 | 26 |
| Corporate deposits | 89,486 | 67,600 | (24) |
| Subordinated debt | 26,900 | 40,331 | 50 |
| Total shareholders' equity | 80,098 | 90,711 | 13 |
| **Indicators** | **2008** | **2009** | **%-point** |
| 90+ days past due loans/gross customer loans | 4.7% | 22.3% | 17.6 |
| Allowance for loan losses/average gross loans | 4.08% | 13.24% | 9.16 |
| Total allowance for loan losses/90+ days past due loans | 63.2% | 73.8% | 10.6 |
| ROA | 2.2% | (5.6%) | (7.8) |
| ROE | 22.5% | (51.1%) | (73.6) |
| Net interest margin | 6.67% | 8.06% | 1.39 |
| Cost/income ratio | 35.1% | 31.9% | (3.2) |
| Gross loans to deposits | 450% | 405% | (45) |

In 2009 OTP Bank JSC produced HUF 44.0 billion loss. The main reason for the loss is the higher provisioning for non-performing loans in order to boost coverage ratio, the favourable income dynamics could only partly offset this negative effect. However, when analysing the HUF denominated income statement items, one should note that the average exchange rate of UAH vs. HUF appreciated almost 24% compared to YE2008, while as for the portfolio asset classes, the closing rate of UAH shows weakening against USD as well (–4%).

The operating result without provisions equals the level of 2008: the income from core activities shaped well with stringent control on the cost side. The income dynamics was determined by the 28% growth of net interest income (+68% in UAH) and the 30% growth of net profit from fees and commissions (+71% in UAH). The significant yearly decrease of non-interest income is due to basis-effect (the previous year was determined by the positive revaluation result of provisions due to UAH/USD weakening and by the significant profit realized on foreign exchange transactions).

Net interest income (NII) shaped well on yearly basis (+28% y-o-y), but the accounting of interest income related to overdue debt payment still played a role in the growth of NII. The share of accrued but not paid interest within gross interest income on loans amounted to 14% at the end of December. The growth of interest expense on deposits (in LCY +32% y-o-y) was significantly lower than the growth of interest income on loans (in LCY +49% y-o-y), although from 3Q the deposit collection recovered due to more favourable offered interest rates.

[7] From 4Q 2008 figures are based on the aggregated financial statements of OTP Bank JSC and LLC OTP Leasing Ukraine, while from 4Q 2009 the result of LLC OTP Faktoring Ukraine was also aggregated.

The interest expense of Tier2 funding doubled on a yearly basis.

Net F&C income topped far beyond the base level (+71% y-o-y), primarily because of increasing fee income from the exchange of FX (EUR, USD) instalments of corporate customers (this revenue was stemming from the difference between the official exchange rates of the National Bank of Ukraine and the interbank rates). Within net income from commissions, the greatest proportion thereof, deposit and transaction related commission income jumped by 42% in LCY, while card related commissions grew by 18%; these elements offset the sluggish development of commissions on loans.

In 2009 the profitability of the Bank was mainly driven by the remarkable deterioration of loan portfolio resulting in a significant growth of provisioning.

The ratio of DPD90+ loans increased in two waves reaching 22.3% by the end of 2009 (+17.6%-point y-o-y). In 1Q 2009 retail loan portfolio experienced significant deterioration, while in 3Q 2009 the corporate loan portfolio was showing a deterioration, however in the last quarter of 2009 – partially as a consequence of the stabilization of macro environment – the portfolio deterioration was moderate. The Ukrainian Bank was the first among OTP Group members launching debtor protection programme, taking into consideration that the depreciation of UAH was significantly higher than the deprecation of other currencies in the region. Under its debtor protection program the Bank provided an opportunity to lower the monthly instalments temporarily or change the previously taken USD denominated mortgage and car loans into UAH, thus the program actively supported the decrease of portfolio dynamics of non-performing loans after 1Q 2009. The share of rescheduled retail loan portfolio was showing a gradual but decelerating increase during the year and stood at 39% at the end of December 2009.

The yearly allowance for loan losses of the Bank increased to HUF 95 billion – partially as a consequence of portfolio-deterioration and in line with the intention of increasing the provision coverage of the non-performing portfolio –, resulting an increase in coverage from 63% to 74%.

2009 was characterised by moderate lending activity: on one hand as a consequence of the measures taken by the National Bank of Ukraine the FX-lending practically stopped. On the other hand lending conditions were tightened by the Bank to protect the portfolio quality. In the retail segment due to moderate demand the portfolio in LCY was below of the level at year end-2008.

On the deposit side due to the retail deposit collection campaign launched in 2009 a moderate increase of the total book was experienced (+2% y-o-y in LCY, –2% y-o-y in HUF). The retail deposit campaign in autumn offered favourable interest rate for term deposits resulting an almost HUF 10 billion (UAH 422 million) increase and brought in about 1,280 new customers. As a consequence the retail deposit base increased by 26% y-o-y (in HUF terms). Deposits of large corporate clients declined in the firs half of 2009, and though the volumes were stagnating in the second half of the year, on a yearly base they showed a shrinkage of 24%.

As a result of the deposit collection program the market share also started to grow (at the end of December 2009: 1.80%, +0.55%-points y-o-y).

Loan-to-deposit ratio decreased by 45%-points to 405% y-o-y. Taking into consideration that the coverage of total loan portfolio reached 16.5% at the end of December, net loan-to-deposit ratio was significantly lower (2009: 338%).

Due to the effective cost management of the Bank the operating expenses in LCY showed a 10% increase y-o-y. As a result of firing 600 employees in the first half of the year personnel expenses were higher by 6% y-o-y, material expenses were under strict control.

At the end of December CAR of the Bank stood at 17.8% (the mandatory minimum level is 10%). USD 30 million subordinated debt capital granted in 3Q was registered in October 2009 by the Ukrainian Company Registry. In 2009 the Ukrainian subsidiary in total received USD 100 million capital injection and USD 80 million subordinated capital. Despite significant losses of the current year, shareholders' equity increased by 13% y-o-y. This capital increase was partly the result of the above mentioned capital injections, furthermore it stemmed from guarantees of OTP Bank covering exposures of the Ukrainian subsidiary. According to IFRS standards these guarantees should be accounted as capital injection to the Ukrainian Bank. The allowance for loan losses for these guarantees (causing a tax shield effect in case of OTP Core) however was reclassified from the books of OTP Core (where it emerged) to the books of the Ukrainian subsidiary.

## Performance of OTP Bank Romania:

| Statement of recognized income | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| Net profit for the period w/o dividends, net cash transfers and one-offs[1] | 241 | 1,136 | 371 |
| Profit before income tax | 392 | 1,489 | 280 |
| Operating profit | 3,609 | 6,947 | 92 |
| Total income | 16,810 | 20,237 | 20 |
| Net interest income | 7,137 | 15,876 | 122 |
| Net profit from fees and commissions | 3,937 | 2,013 | (49) |
| Other net non-interest income | 5,736 | 2,348 | (59) |
| Operating expenses | (13,201) | (13,290) | 1 |
| Provision for impairment on loan and placement losses | (3,021) | (5,332) | 76 |
| Other provision | (195) | (125) | (36) |
| **Main components of statement of financial position[2] (closing balances)** | **2008** | **2009** | **%** |
| Total assets | 367,521 | 365,743 | 0 |
| Gross customer loans | 316,809 | 293,116 | (7) |
| Retail loans | 207,933 | 200,738 | (3) |
| Corporate loans | 108,876 | 92,379 | (15) |
| Allowance for loan losses | (4,365) | (8,725) | 100 |
| Deposits from customers | 72,206 | 96,364 | 33 |
| Retail deposits | 52,582 | 81,998 | 56 |
| Corporate deposits | 19,624 | 14,366 | (27) |
| Total shareholders' equity | 23,245 | 25,513 | 10 |
| **Indicators** | **2008** | **2009** | **%-point** |
| 90+ days past due loans/gross customer loans | 1.3% | 3.4% | 2.1 |
| Allowance for loan losses/average gross loans | 1.15% | 1.75% | 0.60 |
| Total allowance for loan losses/90+ days past due loans | 103.6% | 87.8% | (15.8) |
| ROA | 0.1% | 0.3% | 0.2 |
| ROE | 1.0% | 4.7% | 3.7 |
| Net interest margin | 2.15% | 4.33% | 2.18 |
| Cost/income ratio | 78.5% | 65.7% | (12.8) |
| Gross loans to deposits | 439% | 304% | (135) |

In 2009 OTP Bank Romania posted net profit for the period of HUF 1.1 billion. The Bank that started up practically as a greenfield investment showed a gradually improving performance and closed its second consecutive profitable fiscal year in 2009 (what is more, profit in 2009 exceeded that in the previous year). Outstanding revenue generating capability, strict cost control and significantly growing allowance for loan losses were the main drivers of the 2009 results.

The Bank registered strong total income growth (+20%) while the quality of the revenue structure improved: core banking revenues (net interest income plus net profit from fees and commissions) showed an outstanding 60% increase (the time series of net interest income and NF&C income are not comparable to the 2008 numbers due to the methodological change effective from 2009). Operating expenses practically did not change in a yearly comparison, reflecting efficient cost control. Although the quality of the portfolio deteriorated somewhat because of the crisis, but the bad debt ratio is the lowest among Group members, thanks to the success of debtor protection program launched in 2Q 2009. The coverage remained above the average of the Group member banks. Deposits grew by one-third, gross loan volume dropped by 7%, so the loan to deposit ratio improved by 135%-points to 304% in 2009.

[1] From 2Q 2008 adjusted with result of swap transactions executed with OTP Bank in relation with interbank financing.

[2] Total assets and gross customer loans include both corporate and retail loans that have been transferred. Total shareholders' equity reflect statement of financial position numbers after loan transfers in 2008, but from 2009 statement of financial position figures before loan transfers are displayed.

# OTP BANKA HRVATSKA

## Performance of OTP banka Hrvatska:

| Statement of recognized income | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| Net profit for the period w/o dividends, net cash transfers and one-offs | 5,041 | 3,245 | (36) |
| Profit before income tax | 6,350 | 4,068 | (36) |
| Operating profit | 7,051 | 6,068 | (14) |
| Total income | 19,026 | 19,540 | 3 |
| Net interest income | 13,772 | 13,239 | (4) |
| Net profit from fees and commissions | 3,587 | 3,935 | 10 |
| Other net non-interest income | 1,667 | 2,366 | 42 |
| Operating expenses | (11,975) | (13,472) | 13 |
| Provision for impairment on loan and placement losses | (851) | (1,947) | 129 |
| Other provision | 150 | (52) | (135) |
| **Main components of statement of financial position (closing balances)** | **2008** | **2009** | **%** |
| Total assets | 462,576 | 469,304 | 1 |
| Gross customer loans | 309,564 | 318,477 | 3 |
| Retail loans | 191,496 | 194,021 | 1 |
| Corporate loans | 115,474 | 122,183 | 6 |
| Allowance for loan losses | (6,045) | (9,195) | 52 |
| Deposits from customers | 315,253 | 337,935 | 7 |
| Retail deposits | 268,837 | 294,348 | 9 |
| Corporate deposits | 46,416 | 43,588 | (6) |
| Subordinated debt | 0 | 4 | |
| Total shareholders' equity | 55,095 | 60,626 | 10 |
| **Indicators** | **2008** | **2009** | **%-point** |
| 90+ days past due loans/gross customer loans | 6.2% | 8.9% | 2.7 |
| Allowance for loan losses/average gross loans | 0.30% | 0.62% | 0.32 |
| Total allowance for loan losses/90+ days past due loans | 31.3% | 32.4% | 1.1 |
| ROA | 1.1% | 0.7% | (0.4) |
| ROE | 10.6% | 5.6% | (5.0) |
| Net interest margin | 3.11% | 2.84% | (0.27) |
| Cost/income ratio | 62.9% | 68.9% | 6.0 |
| Gross loans to deposits | 98% | 94% | (4) |

OTP banka Hrvatska in each quarter posted positive results and despite doubling allowance for loan losses realized a yearly net profit of HUF 3.2 billion. Thus the yearly profit-decline (–36%) was the second lowest among foreign Group members following DSK Bank.

2009 was characterized by modest lending activity and deposit campaigns focusing on retaining market positions. As a result of the successful deposit campaigns, deposit base grew by 7%.

The stagnation of the loan portfolio was the result of the insufficient market demand, the volume of retail loans remained at the level of year-end 2008. In 2009 both the SME and large corporate loan portfolios shrank, but that was in line with market trends. As a consequence, the loan-to-deposit ratio of the Bank remained under the balanced level (94%).

The headcount of the Bank decreased by 33 person (at the end of 2009 the number of employees was 1,014 person), the number of branches has not changed (105).

## Performance of OTP Banka Slovensko:

| Statement of recognized income | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| Net profit for the period w/o dividends and net cash transfer | 1,431 | (6,673) | (566) |
| One-off items, after-tax[1] | (108) | (244) | 126 |
| Net profit for the period w/o dividends, net cash transfers and one-offs | 1,538 | (6,429) | (518) |
| Profit before income tax | 1,762 | (6,633) | (476) |
| Operating profit | 4,017 | 3,289 | (18) |
| Total income | 14,496 | 13,731 | (5) |
| Net interest income | 10,119 | 10,485 | 4 |
| Net profit from fees and commissions | 3,027 | 2,705 | (11) |
| Other net non-interest income | 1,350 | 541 | (60) |
| Operating expenses | (10,480) | (10,442) | 0 |
| Provision for impairment on loan and placement losses | (2,304) | (9,029) | 292 |
| Other provision | 50 | (894) | |
| **Main components of statement of financial position (closing balances)** | **2008** | **2009** | **%** |
| Total assets | 429,122 | 375,008 | (13) |
| Gross customer loans | 314,422 | 273,269 | (13) |
| Retail loans | 158,234 | 163,779 | 4 |
| Corporate loans | 156,187 | 109,490 | (30) |
| Allowance for loan losses | (5,186) | (13,633) | 163 |
| Deposits from customers | 262,787 | 253,462 | (4) |
| Retail deposits | 212,412 | 219,597 | 3 |
| Corporate deposits | 50,375 | 33,865 | (33) |
| Issued securities | 75,137 | 55,457 | (26) |
| Subordinated debt | 7,679 | 7,876 | 3 |
| Total shareholders' equity | 30,595 | 24,767 | (19) |
| **Indicators** | **2008** | **2009** | **%-point** |
| 90+ days past due loans/gross customer loans | 3.6% | 8.9% | 5.3 |
| Allowance for loan losses/average gross loans | 0.84% | 3.07% | 2.23 |
| Total allowance for loan losses/90+ days past due loans | 46.3% | 56.1% | 9.8 |
| ROA | 0.4% | (1.6%) | (2.0) |
| ROE | 5.7% | (23.2%) | (28.9) |
| Net interest margin | 2.54% | 2.61% | 0.07 |
| Cost/income ratio | 72.3% | 76.0% | 3.8 |
| Gross loans to deposits | 120% | 108% | (12) |

In 2009 OTP Banka Slovensko produced a net profit for the period HUF 6.4 billion loss.

The results were influenced to a great extent by the 18% decrease of operating result. The other key driver of the results was the provision for impairment on loan and placement losses that increased to HUF 9 billion (partly as a consequence of the deteriorating loan portfolio quality, partly because the Bank intentionally improved the coverage ratio).

The 5% decline of 2009 total income is ttributable to the drop of currency exchange gain; revenues from core banking activities remained stable in HUF terms.

Gross loan volume decreased by 13% and deposits dropped by 4% in 2009, but within total customer deposits the retail deposit base expended by 3%.

In the course of 2009 the Bank has undergone significant organisational changes: the number of employees decreased by 132 persons (–18% y-o-y) to 607, the number of branches changed to 77 since 12 selling points were closed in 2009.

[1] In 2009 one-off loss booked in relation to loan transfers and exchange rate correction in relation to these loan transfers. In 2008 the sum of other provisioning, other non interest income and other non-interest expense booked in relation to the sale of OTP Leasing a.s.

# OTP BANKA SRBIJA

## Performance of OTP banka Srbija:

| Statement of recognized income | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| Net profit for the period w/o dividends and net cash transfer | 1,670 | (8,990) | (638) |
| One-off items. after-tax[1] | 1,408 | 0 | (100) |
| Net profit for the period w/o dividends. net cash transfers and one-offs | 262 | (8,990) | |
| Profit before income tax | 519 | (9,024) | |
| Operating profit | 1,796 | (2,277) | (227) |
| Total income | 12,316 | 8,010 | (35) |
| Net interest income | 6,756 | 4,051 | (40) |
| Net profit from fees and commissions | 2,329 | 1,954 | (16) |
| Other net non-interest income | 3,230 | 2,004 | (38) |
| Operating expenses | (10,520) | (10,287) | (2) |
| Provision for impairment on loan and placement losses | (1,743) | (6,277) | 260 |
| Other provision | 465 | (470) | (201) |
| **Main components of statement of financial position (closing balances)** | **2008** | **2009** | **%** |
| Total assets | 142,647 | 127,025 | (11) |
| Gross customer loans | 94,721 | 89,878 | (5) |
| Retail loans | 34,336 | 33,607 | (2) |
| Corporate loans | 60,408 | 56,271 | (7) |
| Allowance for loan losses | (5,989) | (12,189) | 104 |
| Deposits from customers | 33,906 | 32,395 | (4) |
| Retail deposits | 24,032 | 23,546 | (2) |
| Corporate deposits | 9,882 | 8,848 | (10) |
| Subordinated debt | 37,323 | 38,910 | 4 |
| Total shareholders' equity | 38,090 | 27,690 | (27) |
| **Indicators** | **2008** | **2009** | **%-point** |
| 90+ days past due loans/gross customer loans | 10.8% | 33.7% | 23.0 |
| Allowance for loan losses/average gross loans | 2.21% | 6.80% | 4.59 |
| Total allowance for loan losses/90+ days past due loans | 58.7% | 40.2% | (18.5) |
| ROA | 0.2% | (6.7%) | (6.9) |
| ROE | 0.7% | (27.3%) | (28) |
| Net interest margin | 5.30% | 3.00% | (2.30) |
| Cost/income ratio | 85.4% | 128.4% | 43.0 |
| Gross loans to deposits | 279% | 277% | (2) |

OTP banka Srbija realized HUF 9 billion loss in 2009. This loss was mainly caused by the increasing provision for impairment on loan and placement losses (+260% y-o-y) and on the other hand by the lower total income compared to the base period (net interest income dropped by 40%, net profit from fees and commissions by 16%), while operating costs decreased by 2% in 2009. The ratio of DPD90+ loans reached 33.7% at end-2009, as a result of the conservative portfolio classification and portfolio clean up in the last quarter of 2009. As a consequence, the interest income booked earlier than 2009 in relation to clients whose classification changed adversely during 2009 has been released in 4Q not through the reduction of interest income, but through the increase of other costs. The provision coverage of non-porforming loans declined to 40%.

Yearly decline of gross loans reached 5%, while customer deposit base shrank by 4% in 2009. Taking into account the moderating business activity, significant network rationalization measures have been put through in 2009: within the course of branch network rationalization 45 branches out of 95 were closed (–47%) and the headcount decreased by 399 persons to 784 (–34%) compared to YE 2008 figures.

[1] One-off gain on sale of investments in 2008

## Performance of CKB:

| Statement of recognized income | 2008 HUF million | 2009 HUF million | Change % |
|---|---|---|---|
| Net profit for the period w/o dividends, net cash transfers and one-offs | 2,949 | 428 | (85) |
| Profit before income tax | 3,116 | 430 | (86) |
| Operating profit | 5,774 | 7,227 | 25 |
| Total income | 11,407 | 13,400 | 17 |
| Net interest income | 6,396 | 10,136 | 58 |
| Net profit from fees and commissions | 4,749 | 2,946 | (38) |
| Other net non-interest income | 262 | 318 | 21 |
| Operating expenses | (5,634) | (6,173) | 10 |
| Provision for impairment on loan and placement losses | (2,495) | (6,730) | 170 |
| Other provision | (162) | (68) | (58) |
| **Main components of statement of financial position (closing balances)** | **2008** | **2009** | **%** |
| Total assets | 308,140 | 234,804 | (24) |
| Gross customer loans | 255,021 | 181,137 | (29) |
| Retail loans | 155,430 | 112,606 | (28) |
| Corporate loans | 93,904 | 68,531 | (27) |
| Allowance for loan losses | (4,350) | (10,362) | 138 |
| Deposits from customers | 205,410 | 164,317 | (20) |
| Retail deposits | 92,783 | 90,943 | (2) |
| Corporate deposits | 110,735 | 73,374 | (34) |
| Subordinated debt | 3,177 | 7,313 | 130 |
| Total shareholders' equity | 18,171 | 23,049 | 27 |
| **Indicators** | **2008** | **2009** | **%-point** |
| 90+ days past due loans/gross customer loans | 1.1% | 10.9% | 9.8 |
| Allowance for loan losses/average gross loans | 1.14% | 3.09% | 1.95 |
| Total allowance for loan losses/90+ days past due loans | 158.1% | 52.7% | (105.4) |
| ROA | 1.0% | 0.2% | (0.9) |
| ROE | 20.5% | 2.1% | (18.4) |
| Net interest margin | 2.25% | 3.73% | 1.48 |
| Cost/income ratio | 49.4% | 46.1% | (3.3) |
| Gross loans to deposits | 124% | 110% | (14) |

In Montenegro, Crnogorska komercijalna banka posted a moderate HUF 0.4 billion net profit for the period for the full year. Even though net interest income showed an excellent picture (+58% y-o-y), the sharply increasing allowance for loan losses (+170% y-o-y), as well as the declining F&C results (–38% y-o-y) took its toll through weaker earnings. Total assets shrank by 24%. After the fallback in 1H 2009 retail deposit volumes reached almost the levels of the beginning of the year (–2% y-o-y) due to successful promotional campaigns.

The loan portfolio shrank by 29% y-o-y explained by two major reasons. On the one hand new disbursement was practically stopped after the crisis due to the scarcity of liquidity; as a consequence outstanding household and SME exposures declined throughout the whole year (–14% y-o-y and –40% y-o-y respectively). The other factor is more of a technical nature, OTP Bank purchased a HUF 26 billion corporate loan portfolio from CKB. Due to the above mentioned reasons the loan-to-deposit ratio decreased significantly from 124% to 110%.

# STAFF LEVEL AND OTHER INFORMATION

The closing staff number of OTP Group was 31,337 as at 31 December 2009 (+453 people y-o-y). The most significant lay-off was carried through at the Ukrainian and the Serbian subsidiary (559 people, and 399 people respectively), mainly as a consequence of the moderated lending activity, but the headcount of OTP core also decreased significantly (–477 person). As for the closing headcount of the Russian subsidiary it was increased by 2,000 people (POS-selling agents) in order to boost new loan origination.

The Group's branch network included 1,514 branches at the end of December 2009 (–79 branches y-o-y). The most sizeable decline was realized in Serbia (45 branches) within the course of the rationalization of the branch network, but branches were closed in Ukraine (23) and even in Slovakia (12) in the last quarter.

| **OTP Bank** | **2008** | **2009** | **Change %** |
|---|---|---|---|
| Closing staff (persons) | 8,297 | 7,820 | (5.7) |
| Average staff (persons) | 8,333 | 7,977 | (4.3) |
| Per capita total assets (HUF mn) | 695,7 | 863,3 | 24.1 |
| Per capita net profit for the period (HUF mn) | 16.1 | 19.8 | 23.3 |
| **Group** | **2008** | **2009** | **%** |
| Closing staff (persons) | 30,884 | 31,337 | 1.5 |
| Average staff (persons) | 30,710 | 31,051 | 1.1 |
| Per capita consolidated total assets (HUF mn) | 303.7 | 311.3 | 2.5 |
| Per capita consolidated net profit for the period (HUF mn) | 7.8 | 4.8 | (38.3) |

| | **31 December 2009** | | | | | | **Y-o-Y** | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Bank branches | ATMs | POSs | Bank cards (th) | Number of banking clients (th) | Staff (closing) | *Bank branches* | *ATMs* | *POSs* | *Bank cards (th)* | *Number of clients* | *Staff (closing)* |
| OTP Bank | 382 | 1,995 | 34,270 | 3,812 | 4,625 | 7,820 | *0* | *(20)* | *718* | *(155)* | *(135)* | *(477)* |
| DSK Bank | 386 | 870 | 4,545 | 1,204 | 2,975 | 4,337 | *7* | *20* | *1,064* | *(399)* | *36* | *59* |
| OTP Banka Slovensko | 77 | 116 | 644 | 119 | 188 | 607 | *(12)* | *(3)* | *42* | *(1)* | *0* | *(132)* |
| OTP banka Hrvatska | 105 | 200 | 1,181 | 370 | 455 | 1,014 | *0* | *37* | *9* | *13* | *7* | *(33)* |
| OTP Bank Romania | 106 | 136 | 1,076 | 147 | 206 | 1,094 | *1* | *4* | *395* | *30* | *27* | *(2)* |
| OTP Bank JSC (Ukraine) | 206 | 215 | 403 | 86 | 282 | 3,833 | *(23)* | *7* | *41* | *16* | *44* | *(559)* |
| OTP Bank Russia | 162 | 251 | 2,257 | 3,466 | 2,838 | 10,295 | *(7)* | *59* | *88* | *430* | *19* | *1,846* |
| OTP banka Srbija | 50 | 195 | 3,595 | 154 | 356 | 784 | *(45)* | *(9)* | *239* | *60* | *6* | *(399)* |
| CKB | 40 | 105 | 3,535 | 179 | 320 | 507 | *0* | *0* | *512* | *(10)* | *17* | *24* |
| Subsidiaries total | 1,132 | 2,088 | 17,236 | 5,724 | 7,620 | 22,471 | *(79)* | *115* | *2,390* | *108* | *144* | *804* |
| Group total (aggregated) | 1,514 | 4,083 | 51,506 | 9,537 | 12,244 | 31,337 | *(79)* | *95* | *3,108* | *(47)* | *9* | *453* |

# FOOTNOTES FOR THE TABLE "CONSOLIDATED NET PROFIT FOR THE PERIOD BREAKDOWN BY SUBSIDIARIES (IFRS)"

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

(1) Revaluation result of the strategic open FX position. Size and denomination of the short position developed as follows:
01.01.2007–10.01.2008: EUR 570 million short position
21.01.2008: EUR 525 million short position plus USD 65 million short position
22.01.2008–07.09.2008: EUR 515 million short position plus USD 80 million short position
08.09.2008: EUR 495 million short position plus USD 108 million short position
09.09.2008–10.09.2008: EUR 485 million short position plus USD 122 million short position
11.09.2008–12.09.2008: EUR 465 million short position plus USD 150 million short position
13.09.2008–28.12.2008: EUR 315 million short position plus USD 150 million short position
29.12.2008–05.01.2009: EUR 300 million short position plus USD 75 million short position
06.01.2009–: EUR 310 million short position plus USD 61.5 million short position
Since the beginning of 2007, OTP Group has been holding a strategic open FX position in order to hedge its net profit's exposure to the exchange rate movements of the Hungarian forint, stemming from the translation of the foreign subsidiaries' statements of recognized income's from local currencies to HUF. Since 1Q 2009, the Bank re-qualified the strategic open FX-position as a hedge transaction. Consequently, going forward, the exchange rate effect of EUR 310 million short position equal to 2009 and 2010 yearly result of 4 subsidiaries (DSK, CKB, OTP banka Hrvatska and OTP Banka Slovensko) is to be recorded in equity. Accordingly in 1Q out of the total HUF 16.2 billion pre-tax revaluation loss generated on the whole strategic open position HUF 13.8 billion was recorded in equity and only HUF 2.4 billion debited profit before income tax.

(2) Goodwill impairment charges booked in relation to OTP banka Srbija (Serbia) and OTP Bank JSC (Ukraine) in 4Q 2008.

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

(4) Net profit for the period of OTP Core (consolidated result of OTP Bank Plc., OTP Mortgage Bank, OTP Building Society and OTP Faktoring) without the net profit for the period of strategic open FX position, dividend, net cash transfers, subsidiary financing and interest expense of Tier2 Capital. From 1Q 2008, adjusted net profit for the period of OTP Core also excludes the net interest income result of swap transactions realised by OTP Bank Romania in relation to subsidiary financing.

(5) Corporate Centre: Interest expense of Tier2 Capital plus net interest and non-interest income of foreign subsidiary financing realised by OTP Bank and OTP Financing Cyprus, plus net interest income of swap transactions made in relation to subsidiary financing.

(6) Net interest and non-interest income of subsidiary financing realised by OTP Bank and OTP Financing Cyprus, plus net interest income of swap transactions made in relation to subsidiary financing.

(7) From 1Q 2008, adjusted net profit for the period excludes the fair value adjustment result of swap transactions executed with OTP Bank in relation to interbank financing.

(8) One-off gains realised on the sale of investments in 1H 2008.

(9) One-off other provisioning, other non-interest income and other non-interest expense booked in relation to the sale of OTP Leasing a.s. in 4Q 2008.

(10) Aggregated net profit for the period of Merkantil Bank and Merkantil Car without dividends and net cash transfer.

(11) One-off other provisioning, other non interest income and other non-interest expense booked in relation to the sale of OTP Leasing a.s. in 4Q 2008.
(12) Until 4Q 2008: OTP Leasing a.s. (Slovakia), since 4Q 2009: OTP Leasing Romania IFN S.A. (Romania), Z plus d.o.o.(Croatia), OTP Leasing d.d. (Croatia), DSK Leasing AD (Bulgaria).
(13) Net profit for the period of provisioning on losses of foreign insurance subsidiaries.
(14) OTP Garancia poistovna, a.s. (Slovakia), OTP Garancia zivotna poistovna (Slovakia), a.s., DSK Garancia Insurance AD (Bulgaria), DSK Garancia Insurance Life AD (Bulgaria), Asigurarea CECCAR-ROMAS SA (Romania) aggregated
(15) Net profit for the period of OTP Asset Management without fees and commissions paid to OTP Bank
(16) LLC AMC OTP Capitol (Ukraine) and OTP Asset Management SAI S.A. (Romania)
(17) HIF Ltd. (United Kingdom), OTP Faktoring Slovensko (Slovakia), OTP Holding Limited (Cyprus)
(18) Total Hungarian subsidiaries: sum of net profit for the period of Hungarian group members including (Corporate Centre) and related eliminations.
(19) Total Foreign subsidiaries: sum of net profit for the period (without dividends and net cash transfers) of foreign subsidiaries.

# CALCULATION OF THE ADJUSTED LINES IN THE STATEMENT OF RECOGNIZED INCOME UNDER IFRS PRESENTED IN THE REPORT

In order to present Group level trends in a comprehensive way in the Management Report, the presented consolidated and unconsolidated statements of recognized income of the Report were adjusted in the following way, and the adjusted statements of recognized income's are shown and analysed in the Report. Consolidated accounting figures together with unconsolidated accounting figures of OTP Bank are still disclosed in the Financial Data section of the Report.

- Received dividends, received and paid cash transfers, together with the net profit for the period of strategic open FX position is shown separately and after tax payment on the adjusted statements of recognized income.
- Out of net Foreign exchange results, fair value adjustment (FVA) of the spot leg of FX swaps has been added to Net Interest Income.
- Any earnings within net gain/loss on securities related to FX swaps have been added to Net Interest Income.
- Insurance premiums and insurance expenses are netted and shown as part of other net non-interest income.
- Other non-interest income elements stemming from provision release in connection with loans originated before the acquisitions have been reclassified to and deducted from the volume of provisions loan losses in the statement of recognized income.
- Other non-interest income is shown together with gains/losses on real estate transactions, but without the above mentioned income from the release of pre-acquisition provisions and without received cash transfers. However other non-interest expenses stemming from non-financial activities are added to the adjusted net other non-interest income line, therefore the latter incorporates net other non-interest income from non-financial activities.
- Out of other expenses, other provisions are deducted and shown separately as other

allowance for loan losses on the adjusted statements of recognized income. Other provisions contain provision for impairment on off-balance sheet liabilities and on legal contests, provision for impariment on securities, shares and other investments as well as provision for impariment on other assets. Paid cash transfers – excluding movie subsidies – are also deducted from other expenses, together with the above mentioned other non-interest expenses stemming from non-financial activities.

- Provisioning accruals of NPLs' (non-performing loans) interest income at OAO OTP Bank (Russia) is reclassified from other allowance for loan losses to net interest income from 4Q 2007. The reclassification is carried out on both consolidated and non-consolidated level.
- In 1Q 2008, parallel cash transfer and provision release (having net 0 statements of recognized income effect) stemming from the closing of a legal case were netted both on OTP Group consolidated and OTP Core consolidated level.
- Cost/income ratio, net interest margin, provision for impairment to average gross loans as well as ROA and ROE ratios are calculated on the basis of the adjusted statement of recognized income, excluding one timers such as received dividends and net cash transfers, the net profit for the period of strategic open FX position, the net profit of the sale of OTP Garancia and the after tax effect of the goodwill write-downs. Cost/income ratio is calculated from operating costs, excluding other allowance for loan losses.
- Regarding consolidated ROA and ROE indicators, until the end of 2008 they are calculated from the adjusted net profit for the period of the Group, therefore they are excluding the effect of one-off items. However since the beginning of 2009, they are calculated from the accounting (unadjusted) net profit figures, because in 2009 the profit for the period was not affected significantly by one-off items.

# ADJUSTMENTS OF LINES IN THE CONSOLIDATED STATEMENT OF RECOGNIZED INCOME IN ACCORDANCE WITH IFRS

| HUF million | 2008 | 2009 |
|---|---|---|
| **Net interest income** | **437,277** | **589,780** |
| (+) Foreign exchange result of swap transactions | 92,033 | 0 |
| (+) Other provisioning accruals after NPLs' interest income (OTP Russia) | (7,971) | 0 |
| (–) Net interest accruals of agent fees (OTP Mortgage Bank) | 5,393 | 0 |
| **Net interest income (adjusted)** | **515,946** | **589,780** |
| **Net profit from fees and commissions** | **135,230** | **132,913** |
| (+) Net interest accruals of agent fees (OTP Mortgage Bank) | 5,393 | 0 |
| **Net profit from fees and commissions (adjusted)** | **140,623** | **132,913** |
| **Foreign exchange result on Consolidated IFRS statements of recognized income** | **130,527** | **(8,308)** |
| (–) Foreign exchange result of swap transactions | 92,033 | 0 |
| (–) Result of strategic open FX position | (5,899) | (2,390) |
| **Foreign exchange result (adjusted)** | **44,393** | **(5,918)** |
| **Gains and losses on real estate transactions** | **1,806** | **931** |
| **(+) Other non–interest income** | **27,801** | **66,309** |
| (–) Received cash transfers | 32 | 4 |
| (–) Non-interest income from the release of pre-acquisition provisions | 3,405 | 2,344 |
| (+) Other other non-interest expenses | (6,709) | (3,041) |
| **Net other non–interest result (adjusted)** | **19,461** | **61,851** |
| **Provision for impairment on loan and placement losses** | **(111,448)** | **(249,279)** |
| (+) Non-interest income from the release of pre-acquisition provisions | 3,405 | 2,344 |
| **Provision for impairment on loan and placement losses (adjusted)** | **(108,043)** | **(246,935)** |
| **Dividends and net cash transfers** | **(783)** | **(378)** |
| (–) Paid cash transfer due to Bagat transaction | (2,070) | 0 |
| (–) Movie subsidies | (1,092) | (1,170) |
| **Dividends and net cash transfers** | **2,379** | **792** |
| **Depreciation** | **(132,200)** | **(45,141)** |
| (–) Goodwill impairment charges (OTP banka Srbija (Serbia), OTP Bank JSC (Ukraine)) | (93,592) | 0 |
| **Depreciation (adjusted)** | **(38,608)** | **(45,141)** |
| **Other operating expense, net** | **(36,237)** | **(29,075)** |
| (–) Other costs and expenses | (9,764) | (6,714) |
| (–) Other non-interest expenses | (9,990) | (4,318) |
| (–) Other provisioning accruals (other allowance for loan losses) after interest income (OTP Russia) | (7,971) | 0 |
| (–) Other provision release of Bagat transaction | 2,070 | 0 |
| **Other provisions (adjusted)** | **(10,582)** | **(18,043)** |
| **Other administrative expenses** | **(146,738)** | **(140,482)** |
| (+) Other costs and expenses | (9,764) | (6,714) |
| (+) Other non-interest expenses | (9,990) | (4,318) |
| (–) Paid cash transfers | (3,281) | (1,277) |
| (+) Movie subsidies | (1,092) | (1,170) |
| (–) Other non-interest expenses | (6,709) | (3,041) |
| **Other non–interest expenses (adjusted)** | **(157,594)** | **(148,366)** |

# 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 statement of financial position as at December 31, 2009, and the related consolidated statement of recognized and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 56 to 119 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, 2009, 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, February 26, 2010

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## *Statement of financial position*

(consolidated, based on IFRS, as at 31 December 2009, in HUF million)

| | Note | 2009 | 2008 |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 4. | 505,649 | 530,007 |
| Placements with other banks, net of allowance for placement losses | 5. | 440,851 | 414,656 |
| Financial assets at fair value through profit or loss | 6. | 256,100 | 131,288 |
| Securities available-for-sale | 7. | 1,354,285 | 486,878 |
| Loans, net of allowance for loan losses | 8. | 6,412,716 | 6,778,701 |
| Associates and other investments | 9. | 18,834 | 10,467 |
| Securities held-to-maturity | 10. | 188,853 | 330,158 |
| Property and equipment | 11. | 208,730 | 200,359 |
| Intangible assets | 11. | 267,628 | 269,342 |
| Other assets | 12. | 101,486 | 214,868 |
| **TOTAL ASSETS** | | **9,755,132** | **9,367,724** |
| Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks | 13. | 802,749 | 848,730 |
| Deposits from customers | 14. | 5,688,887 | 5,258,167 |
| Liabilities from issued securities | 15. | 1,410,348 | 1,565,947 |
| Financial liabilities at fair value through profit or loss | 16. | 118,468 | 125,487 |
| Other liabilities | 17. | 262,240 | 200,372 |
| Subordinated bonds and loans | 18. | 280,834 | 320,050 |
| **TOTAL LIABILITIES** | | **8,563,526** | **8,318,753** |
| Share capital | 19. | 28,000 | 28,000 |
| Retained earnings and reserves | | 1,210,132 | 1,160,935 |
| Treasury shares | 21. | (52,678) | (146,749) |
| Non-controlling interest | 22. | 6,152 | 6,785 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **1,191,606** | **1,048,971** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **9,755,132** | **9,367,724** |

The accompaying notes to consolidated financial statements on pages 60 to 119 form on integral pont of these consolidated financial statements.

## *Statement of recognized income*

(consolidated, based on IFRS, for the year ended 31 December 2009, in HUF million)

| | Note | 2009 | 2008 |
|---|---|---|---|
| Interest Income: | | | |
| Loans | | 780,161 | 720,650 |
| Placements with other banks | | 350,742 | 172,586 |
| Securities available-for-sale | | 31,373 | 32,402 |
| Securities held-to-maturity | | 45,804 | 26,624 |
| Amounts due from banks and balances with the National Banks | | 7,514 | 16,161 |
| Securities held for trading | | 5,556 | 7,029 |
| Total Interest Income | | 1,221,150 | 975,452 |
| Interest Expense: | | | |
| Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks | | 244,744 | 226,809 |
| Deposits from customers | | 290,516 | 221,607 |
| Liabilities from issued securities | | 79,770 | 72,750 |
| Subordinated bonds and loans | | 16,340 | 17,009 |
| Total Interest Expense | | 631,370 | 538,175 |
| **NET INTEREST INCOME** | | **589,780** | **437,277** |
| Provision for impairment on loan and placement losses | 5., 8. | 249,278 | 111,449 |
| **NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES** | | **340,502** | **325,828** |
| Incomes from fees and commissions | | 170,335 | 181,765 |
| Expenses from fees and commissions | | 37,422 | 46,534 |
| **NET PROFIT FROM FEES AND COMMISSIONS** | **23.** | **132,913** | **135,231** |
| Foreign exchange (losses) and gains, net | | (8,308) | 130,570 |
| Gains and (losses) on securities, net | | 7,458 | (1,096) |
| Gains on real estate transactions | | 931 | 1,807 |
| Dividend income | | 894 | 2,466 |
| Insurance premiums, net | | – | 13,254 |
| Gain on sale of insurance business line | | – | 121,186 |
| Other operating income | | 66,308 | 27,801 |
| Other operating expense | 24. | (29,075) | (36,237) |
| **NET OPERATING INCOME** | | **38,208** | **259,708** |
| Personnel expenses | | 155,517 | 167,461 |
| Depreciation and amortization | 11. | 45,141 | 132,201 |
| Other administrative expenses | | 140,483 | 146,738 |
| **OTHER ADMINISTRATIVE EXPENSES** | **25.** | **341,141** | **446,400** |
| **PROFIT BEFORE INCOME TAX** | | **170,482** | **274,367** |
| Income tax | 26. | (20,276) | (33,299) |
| **NET PROFIT FOR THE PERIOD** | | **150,206** | **241,068** |
| From this, attributable to: | | | |
| Non-controlling interest | | (839) | 596 |
| Equity holders | | 151,045 | 240,472 |
| **Consolidated earnings per share (in HUF)** | | | |
| Basic | 37. | 577 | 938 |
| Diluted | 37. | 572 | 935 |

## *Statement of comprehensive income*

(consolidated, based on IFRS, for the year ended 31 December 2009, in HUF million)

| | 2009 | 2008 |
|---|---|---|
| **NET PROFIT FOR THE YEAR (EQUITY HOLDERS)** | **151,045** | **240,472** |
| Fair value adjustment of securities available-for-sale | 9,941 | (12,475) |
| Derivative financial instruments designated as Cash-flow hedge | 431 | 788 |
| Hedges of net investment in foreign operations | (1,543) | – |
| Foreign currency translation difference | (8,213) | (21,978) |
| **NET COMPREHENSIVE INCOME** | **151,661** | **206,807** |

The accompaying notes to consolidated financial statements on pages 60 to 119 form on integral pont of these consolidated financial statements.

## *Statement of cash flows*

(consolidated, based on IFRS, for the year ended 31 December 2009, in HUF million)

| Operating Activities | Note | 2009 | 2008 |
|---|---|---|---|
| **Profit before income tax** | | **170,482** | **274,367** |
| Income tax paid | | (34,273) | (35,475) |
| Goodwill impairment | 11. | – | 93,592 |
| Depreciation and amortization | 11. | 45,141 | 38,609 |
| Provision for impairment on loan and placement losses | 5., 8. | 249,278 | 111,449 |
| Net provision for impairment on securities | 7., 10. | 8,027 | 3,403 |
| Provision for impairment on permanent diminution in value of equity investments | 9. | 118 | 463 |
| Provision for impairment on other assets | 12. | 5,811 | 7,887 |
| Net provision on off-balance sheet commitments and contingent liabilities | 17. | 4,087 | 4,731 |
| Net decrease in insurance reserves | | – | (183,211) |
| Share-based payment | 2., 29. | 6,802 | 28 |
| Unrealized gains/(losses) on fair value adjustment of securities held for trading | | 4,579 | (5,010) |
| Unrealized gains on fair value adjustment of derivative financial instruments | | 9,891 | 71,673 |
| Changes in financial assets at fair value through profit or loss | | (123,644) | 166,562 |
| Decrease/(increase) in other assets before provisions for losses | | 111,857 | (38,596) |
| Increase/(decrease) in other liabilities | | 68,414 | (66,260) |
| **Net Cash Provided by Operating Activities** | | **526,570** | **444,212** |
| **INVESTING ACTIVITIES** | | | |
| Net increase in placement with other banks before allowance for placements losses | | (30,013) | (45,076) |
| Net increase in securities available-for-sale | | (856,007) | (32,100) |
| Net increase in equity investments, before Provision for impairment | | (8,485) | (990) |
| Net cash outflow from acquisition of subsidiaries | | – | (4,806) |
| Net decrease/(increase) in securities held-to-maturity | | 141,305 | (4,572) |
| Net increase in advances for investments, included in other assets | | (1,874) | (246) |
| Net decrease/(increase) in loans, net of allowance for loan losses | | 92,396 | (1,177,351) |
| Net additions to property, equipment and intangible assets | | (51,798) | (53,126) |
| **Net Cash Used in Investing Activities** | | **(714,476)** | **(1,318,267)** |
| **FINANCING ACTIVITIES** | | | |
| Net (decrease)/increase in amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks | | (45,981) | 50,576 |
| Net increase in deposits from customers | | 430,720 | 170,441 |
| Net (decrease)/increase in liabilities from issued securities | | (156,412) | 601,769 |
| (Decrease)/increase in subordinated bonds and loans | | (39,216) | 18,625 |
| (Decrease)/increase of non-controlling interest | | (633) | 1,432 |
| Foreign currency translation losses | | (8,213) | (21,978) |
| Payments to ICES holders | | (5,223) | (11,202) |
| Net effect of Treasury share transactions | | – | (7,499) |
| Net change in Treasury shares | | 44,513 | (36,172) |
| Written put option on ordinary shares | | (55,468) | – |
| Net (increase)/decrease in compulsory reserves at the National Bank of Hungary | | (11,035) | 192,194 |
| Dividends paid | | (539) | (57) |
| **Net cash Provided by Financing Activities** | | **152,513** | **958,129** |
| **Net decrease in cash and cash equivalents** | | **(35,393)** | **84,074** |
| Cash and cash equivalents at the beginning of the period | | 278,934 | 194,860 |
| **Cash and cash equivalents at the end of the period** | | **243,541** | **278,934** |
| **Analysis of cash and cash equivalents** | | | |
| Cash, amounts due from banks and balances with the National Banks | | 530,007 | 638,127 |
| Compulsory reserve established by the National Banks | | (251,073) | (443,267) |
| **Cash and cash equivalents at the beginning of the period** | | **278,934** | **194,860** |
| Cash, amounts due from banks and balances with the National Banks | 4. | 505,649 | 530,007 |
| Compulsory reserve established by the National Banks | 4. | (262,108) | (251,073) |
| **Cash and cash equivalents at the end of the period** | | **243,541** | **278,934** |

The accompaying notes to consolidated financial statements on pages 60 to 119 form on integral pont of these consolidated financial statements.

## ***Statement of changes in shareholders' equity***

(consolidated, based on IFRS, for the year ended 31 December 2009, in HUF million)

| | Note | Share capital | Capital reserve | Share-based payment reserve | Retained earnings and reserves | Put option reserve | Treeasury shares | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2008** | | **28,000** | **52** | **19,153** | **957,020** | **–** | **(114,001)** | **5,353** | **895,577** |
| Net comprehensive income | | – | – | – | 206,807 | – | – | – | 206,807 |
| Share-based payment | 29. | – | – | 28 | – | | – | – | 28 |
| Net effect of Treasury share transactions | | – | – | – | (7,499) | – | – | – | (7,499) |
| Treasury shares | | | | | | | | | |
| – loss on sale | | – | – | – | (3,424) | – | – | – | (3,424) |
| – acquisition | | – | – | – | – | – | (32,748) | – | (32,748) |
| Payments to ICES holders | 20. | – | – | – | (11,202) | – | – | – | (11,202) |
| Non-controlling interest | | – | – | – | – | – | – | 1,432 | 1,432 |
| **Balance as at 31 December 2008** | | **28,000** | **52** | **19,181** | **1,141,702** | **–** | **(146,749)** | **6,785** | **1,048,971** |
| Net comprehensive income | | – | | | 151,661 | – | – | – | 151,661 |
| Share-based payment | 29. | – | – | 6,802 | – | – | – | – | 6,802 |
| Closed share-based payment | | – | – | (19,153) | 19,153 | – | – | – | – |
| Sale of Treasury shares | | – | – | – | – | – | 110,637 | – | 110,637 |
| Written put option on ordinary shares | | – | – | – | – | (55,468) | – | – | (55,468) |
| Treasury shares | | | | | | | | | |
| – loss on sale | | – | – | – | (48,575) | – | – | – | (48,575) |
| – acquisition | | – | – | – | – | – | (16,566) | – | (16,566) |
| Payments to ICES holders | 20. | – | | | (5,223) | – | – | – | (5,223) |
| Non-controlling interest | | – | – | – | – | – | – | (633) | (633) |
| **Balance as at 31 December 2009** | | **28,000** | **52** | **6,830** | **1,258,718** | **(55,468)** | **(52,678)** | **6,152** | **1,191,606** |

The accompaying notes to consolidated financial statements on pages 60 to 119 form on integral pont of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 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.

| | 2009 | 2008 |
|---|---|---|
| **The structure of the Share capital by shareholders:** | | |
| Domestic and foreign private and institutional investors | 97% | 91% |
| Employees | 2% | 2% |
| Treasury shares | 1% | 7% |
| **Total** | **100%** | **100%** |

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 1,514 branches. The Group has operations in Hungary, Bulgaria, Croatia, Slovakia, Romania, Ukraine, Serbia, Russia and Montenegro.

| | 2009 | 2008 |
|---|---|---|
| **The number of employees at the Group:** | | |
| The number of employees at the Group | 31.337 | 30.776 |
| The average number of employees at the Group | 31.051 | 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 statement of financial position date.

### *1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2009*

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

– IAS 1 (Revised) Presentation of Financial Statements – a revised presentation (effective for annual periods beginning on or after 1 January 2009)
– IAS 23 (Revised) Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)
– IAS 32 (Amendment) Financial Instruments: Presentation and IAS 1 Presentation of Financial statements – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009)
– IFRS 1 (Amendment) First-time adoption of IFRS and IAS 27 (Amendment) Consolidated and Separate Financial Statements – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009)
– IFRS 2 (Amendment) Share-based Payment – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009)
– IFRS 7 (Amendment) Financial Instruments: Disclosures - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009)*
– IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009)
– IFRIC 9 (Amendment) Reassessment of Embedded Derivatives and IAS 39 (Amendment) Financial Instruments: Recognition and Measurement – Embedded derivatives (effective for annual periods ending on or after 30 June 2009)
– IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)
– IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009)*
– IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008)*
– Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009).

The adoption of the above presented Amendments and new Standards and Interpretations had no significant impact on the consolidated financial statements of the Group.

* Not yet endorsed by the EU.

### *1.2.2. Amendments to IFRSs effective on or after 1 January 2010, not yet adopted*

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

– IAS 24 (Amendment) Related party disclosures - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011)*
– IAS 27 (Amendment) Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009)
– IAS 32 (Amendment) Financial instruments: Presentation – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010)
– IAS 39 (Amendment) Financial Instruments: Recognition and Measurement – Eligible hedged items (effective for annual periods beginning on or after 1 July 2009)
– IFRS 1 (Amendment) First time adoption of IFRS – Additional exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010)*
– IFRS 2 (Amendment) Share based payment – Group cash-settled share based payment transactions (effective for annual periods beginning on or after 1 January 2010)*
– IFRS 3 (Revised) Business Combinations (effective for annual periods beginning on or after 1 July 2009)
– IFRS 9 Financial instruments (effective for annual periods beginning on or after 1 January 2013)*
– IFRIC 14 (Amendment) The Limit on a defined benefit Asset, Minimum Funding Requirements and their interaction – Prepayments of a minimum funding requirement (effective for annual periods beginning on or after 1 January 2011)*
– IFRIC 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)
– IFRIC 18 Transfers of Assets from Customers (effective for transfer of assets from customers received on or after 1 July 2009)
– IFRIC 19 Extinguishing Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)*
– Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010*

The adoption of the above presented Amendments and new Standards 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 Statement of Recognized Income.

Net differences resulting from translating foreign currency financial statements of consolidated subsidiaries are presented as an element of the Retained earnings and reserves in the Consolidated Statement of Financial Position.

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

### 2.3. Principles of consolidation

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

As the ultimate parent, the Bank is preparing consolidated financial statement of the Group.

### 2.4. Accounting for acquisitions

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

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

Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

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

The Group, in its strategic plan, has taken into consideration the effects of the present global economic situation, the probable economic decline and their possible influence on the financial sector as well as the limited external refinancing funds, the lower possibility of the expansion and the prospective effects of all these above mentioned factors.

Negative goodwill, when the interest of the acquirer in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statement of Recognized Income as other income.

## 2.5. Securities held-to-maturity

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment. Such securities comprise mainly securities issued by the Hungarian Government and NBH, mortgage bonds and foreign bonds.

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

### *2.6.1. Securities held for trading*

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Recognized Income for the period. Such securities consist of Hungarian and foreign government bonds, discounted and interest bearing Treasury bills, corporate bonds, mortgage 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 recognized in profit/loss and included in the Consolidated Statement of Recognized Income for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Statement of Recognized Income along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Consolidated Statement of Recognized Income.
The conditions of hedge accounting applied by the Bank are the following: formally designed as hedge, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is effective.

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

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

## 2.7. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities available-for-sale are measured at subsequent reporting dates at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized directly in equity, unless such available-for-sale security is part of an effective fair value hedge. Such gains and losses will be reported when realized in Consolidated Statement of Recognized Income for the applicable period. Such securities consist of Hungarian and foreign discounted and interest bearing Treasury bills, government bonds, corporate bonds, mortgage bonds and other securities. Other securities include shares in investment funds and shares in commercial companies. The provision is calculated based on discounted cash flow methodology, using the expected future cash flow and original effective interest rate.

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

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less provision for impairment, when appropriate.

## 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 impaired.

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

Allowance for losses on loans and placements with other banks represent management assessment for potential losses in relation to these activities.

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified and for potential losses which may be present based on portfolio performance.

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

The Group classifies the previously performing loans that have been renegotiated automatically to the to-be-monitored risk class and records at least 1 per cent provision for impairment on them.

## 2.9. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Statement of Financial Position and the consideration paid is recorded in Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement.

## 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 Provision for impairment on equity investment, 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:

| | |
|---|---|
| Intangible assets | |
| Software | 9.96–50% |
| Property rights | 10–50% |
| Property | 1–25% |
| Office equipments and vehicles | 2.5–50.04% |

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

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

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

## 2.12. Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. In connection to the financial liabilities at fair value through profit or loss, the Group presents the amount of change in their fair value originated from the changes of market conditions and business environment. In 2009 the Group has both financial liabilities measured at fair value and amortized cost in contrast with 2008 when the Group didn't have any financial liabilities measured at fair value.

## 2.13. Leases

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

### The Group as a lessor

Amounts due from lessees under finance leases are recorded as other receivables at the amount of the net investment in the lease of the Group. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the net investment outstanding of the Group in respect of the leases. Direct costs such as commissions are included in the initial measurement of the finance lease receivables. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

### The Group as a lessee

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

## 2.14. Treasury shares

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

## 2.15. Interest income and interest expense

The interest income and expense are recognized in the Consolidated Statement of Recognized Income on an accrual basis based on the IAS 18 Revenue Standard, referring to provision of IAS 39.

## 2.16. Fees and Commissions

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

## 2.17. Income tax

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation.

Deferred taxation is accounted for using the statement of financial position liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realized or the liability is settled.

Deferred tax assets are recognized by the Group for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

## 2.18. 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, letters of credit, commitments to extend credit and transactions with financial instruments. The provision for impairment on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses.

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

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

## 2.19. Share-based payment

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

The Bank issues equity-settled share-based 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. Share-based payment is recorded in Consolidated Statement of Recognized Income as Personnel expenses.

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

## 2.20. Consolidated Statement of Cash Flows

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

## 2.21. Segment reporting

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.
Based on the above, the segments identified by the Group are the geographical segments.
The Group's reportable segments under IFRS 8 are therefore as follows: Hungary, Slovakia, Montenegro, Bulgaria, Romania, Croatia, Serbia, Russia, Ukraine.

## 2.22. Comparative figures

Certain amounts in the Consolidated Financial Statements for the year ended 31 December 2008 have been reclassified to conform with the current year presentation. These mainly consist of reclassifications of accruals and prepayments from other assets/liabilities to the Statement of Financial Position items to which they are related. 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 recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 17)

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

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

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

| | 2009 | 2008 |
|---|---|---|
| **Cash on hand** | | |
| In HUF | 49,957 | 67,012 |
| In foreign currency | 108,121 | 101,946 |
| | **158,078** | **168,958** |
| **Amounts due from banks and balances with the National Banks** | | |
| Within one year: | | |
| In HUF | 96,282 | 73,909 |
| In foreign currency | 250,204 | 285,896 |
| | **346,486** | **359,805** |
| Over one year: | | |
| In HUF | – | – |
| In foreign currency | 661 | 632 |
| | **661** | **632** |
| Accrued interest | 424 | 612 |
| | **347,571** | **361,049** |
| **Total** | **505,649** | **530,007** |
| **Compulsory reserve set by the National Banks** | **262,108** | **251,073** |

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

| | 2009 | 2008 |
|---|---|---|
| Within one year | | |
| In HUF | 18,228 | 65,873 |
| In foreign currency | 414,925 | 330,305 |
| | **433,153** | **396,178** |
| Over one year | – | |
| In HUF | – | 2,000 |
| In foreign currency | 10,929 | 15,188 |
| | **10,929** | **17,188** |
| Accrued interest | 283 | 2,660 |
| Provision for impairment on placement losses | (3,514) | (370) |
| **Total** | **440,851** | **415,656** |

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 370 | 42 |
| Provision for the period | 4,819 | 516 |
| Write-off | (1,564) | (187) |
| Foreign currency translation difference | (111) | (1) |
| **Balance as at 31 December** | **3,514** | **370** |

### Interest conditions of placements with other banks:

| | 2009 | 2008 |
|---|---|---|
| In HUF | 0.14%–11.7% | 5.7%–16.0% |
| In foreign currency | 0.01%–22% | 0.02%–30% |

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

| | 2009 | 2008 |
|---|---|---|
| **Securities held for trading** | | |
| Corporate shares | 88,513 | 2,298 |
| Securities issued by the NBH | 49,887 | – |
| Government bonds | 32,965 | 48,388 |
| Treasury bills | 2,156 | 352 |
| Corporate bonds | 2,642 | 1,373 |
| Mortgage bonds | 183 | 2,608 |
| Hungarian government interest bearing Treasury bills | 184 | 422 |
| Other securities | 262 | 650 |
| Other non-interest bearing securities | 598 | 582 |
| | **177,390** | **56,673** |
| Accrued interest | 1,166 | 1,956 |
| **Total** | **178,556** | **58,629** |

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

| | 2009 | 2008 |
|---|---|---|
| Interest rate swaps designated as held for trading | 53,726 | 37,057 |
| CCIRS* and mark-to-market CCIRS designated as held for trading | 16,548 | 17,985 |
| Foreign exchange swaps designated as held for trading | 6,008 | 16,262 |
| Other transactions designated as held for trading | 1,262 | 1,355 |
| | 77,544 | 72,659 |
| **Total** | **256,100** | **131,288** |

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

| | 2009 | 2008 |
|---|---|---|
| Denominated in HUF (%) | 95.8% | 86.2% |
| Denominated in foreign currency (%) | 4.2% | 13.8% |
| **Total** | **100.0%** | **100.0%** |

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

| | 2009 | 2008 |
|---|---|---|
| Denominated in HUF (%) | 86.7% | 87.1% |
| Denominated in foreign currency (%) | 13.3% | 12.9% |
| **Total** | **100.0%** | **100.0%** |
| Interest rates on securities held for trading | 1.8%–12.2% | 2.8%–13.7% |

* CCIRS: Cross currency interest rate swaps

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

| | 2009 | 2008 |
|---|---|---|
| Within five years | | |
| With variable interest | 69 | 401 |
| With fixed interest | 70,747 | 34,362 |
| | **70,816** | **34,763** |
| Over five years | | |
| With variable interest | 1,124 | 1,208 |
| With fixed interest | 16,339 | 17,822 |
| | **17,463** | **19,030** |
| Non-interest bearing securities | 89,111 | 2,880 |
| **Total** | **177,390** | **56,673** |

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

| | 2009 | 2008 |
|---|---|---|
| **Securities available-for-sale** | | |
| Bonds issued by NBH | 724,752 | – |
| Government bonds | 437,070 | 298,558 |
| Corporate bonds | 142,264 | 141,878 |
| From this: | | |
| Listed securities: | | |
| In HUF | – | – |
| In foreign currency | 19,824 | 28,328 |
| | 19,824 | 28,328 |
| Non-listed securities: | | |
| In HUF | 6,131 | 6,176 |
| In foreign currency | 116,327 | 107,374 |
| Treasury bills | 7,919 | 19,792 |
| Mortgage bonds | 148 | 415 |
| Other non-interest bearing securities | 22,439 | 20,385 |
| From this: | | |
| Listed securities: | | |
| In HUF | 279 | 89 |
| In foreign currency | 683 | 615 |
| | 962 | 704 |
| Non-listed securities: | | |
| In HUF | 13,646 | 15,860 |
| In foreign currency | 7,831 | 3,821 |
| | 21,477 | 19,681 |
| Other Securities | 10,768 | 3,592 |
| | 1,345,360 | 484,620 |
| Accrued interest | 15,913 | 5,621 |
| Provision for impairment on securities available-for-sale | (6,988) | (3,363) |
| **Total** | **1,354,285** | **486,878** |

Securities available-for-sale are measured at fair value in the financial statements of the Group, except when there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity were reclassified from equity to Statement of Recognized Income.

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

| | 2009 | 2008 |
|---|---|---|
| Denominated in HUF (%) | 81.6% | 56.7% |
| Denominated in foreign currency (%) | 18.4% | 43.3% |
| **Total** | **100.0%** | **100.0%** |

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

| | 2009 | 2008 |
|---|---|---|
| Denominated in HUF (%) | 81.2% | 81.4% |
| Denominated in foreign currency (%) | 18.8% | 18.6% |
| **Total** | **100.0%** | **100.0%** |

| | 2009 | 2008 |
|---|---|---|
| Interest rates on securities available-for-sale denominated in HUF (%) | 5.5%–10.1% | 5.5%–11% |
| Interest rates on securities available-for-sale denominated in foreign currency (%) | 1%–22% | 1%–26% |

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

| | 2009 | 2008 |
|---|---|---|
| Within five years | | |
| With variable interest | 35,321 | 154,598 |
| With fixed interest | 1,057,965 | 163,571 |
| | 1,093,286 | 318,169 |
| Over five years | | |
| With variable interest | 74,138 | 82,736 |
| With fixed interest | 155,497 | 63,330 |
| | 229,635 | 146,066 |
| Non-interest bearing securities | 22,439 | 20,385 |
| **Total** | **1,345,360** | **484,620** |

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 3,363 | 30 |
| Provision for the period | 6,427 | 3,332 |
| Release of provision | (2,880) | – |
| Foreign currency translation difference | 78 | 1 |
| **Balance as at 31 December** | **6,988** | **3,363** |

Certain securities are hedged. See Note 39.

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

| | 2009 | 2008 |
|---|---|---|
| Short-term loans and trade bills (within one year) | 1,694,685 | 1,776,696 |
| Long-term loans and trade bills (over one year) | 5,149,322 | 5,224,154 |
| | **6,844,007** | **7,000,850** |
| Accrued interest | 63,087 | 48,531 |
| Provision for impairment on loan losses | (494,378) | (270,680) |
| **Total** | **6,412,716** | **6,778,701** |

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

| | 2009 | 2008 |
|---|---|---|
| In HUF | 24% | 23% |
| In foreign currency | 76% | 77% |
| **Total** | **100.0%** | **100.0%** |

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

| | 2009 | 2008 |
|---|---|---|
| Short-term loans denominated in HUF | 6%–32.2% | 6%–30% |
| Long-term loans denominated in HUF | 3%–35.2% | 2.2%–24.8% |
| Short-term loans denominated in foreign currency | 1%–66% | 1.8%–66% |
| Long-term loans denominated in foreign currency | 1%–66% | 1%–66% |
| Gross loan portfolio on which interest is not being accrued | 8.5% | 3.9% |

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Corporate loans | 2,466,413 | 36% | 2,535,027 | 36% |
| Retail loans | 2,108,915 | 31% | 2,194,562 | 31% |
| Housing loans | 2,043,336 | 30% | 2,061,881 | 30% |
| Municipality loans | 225,343 | 3% | 209,380 | 3% |
| **Total** | **6,884,007** | **100%** | **7,000,850** | **100%** |

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 270,680 | 178,658 |
| Provision for the period | 244,459 | 110,933 |
| Write-off | (14,087) | (10,537) |
| Foreign currency translation difference | (6,674) | (8,374) |
| **Balance as at 31 December** | **494,378** | **270,680** |

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

| | 2009 | 2008 |
|---|---|---|
| Equity investments | | |
| Unconsolidated subsidiaries | 16,503 | 7,529 |
| Associated companies (non-listed) | 384 | 987 |
| Other investments (non-listed) | 2,840 | 2,830 |
| | 19,727 | 11,346 |
| Provision for impairment on equity investments | (893) | (879) |
| **Total** | **18,834** | **10,467** |
| Total assets of unconsolidated subsidiaries | 47,236 | 122,597 |

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 879 | 342 |
| Provision for the period | 118 | 463 |
| Release of provision | (104) | – |
| Foreign currency translation difference | – | 74 |
| **Balance as at 31 December** | **893** | **879** |

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

| | 2009 | 2008 |
|---|---|---|
| Government bonds | 153,244 | 172,753 |
| Foreign bonds | 13,832 | 19,692 |
| Hungarian government discounted Treasury bills | 11,708 | 4,545 |
| Mortgage bonds | 11,013 | 15,171 |
| Bonds issued by NBH | – | 109,684 |
| Accrued interest | 3,579 | 8,425 |
| Provision for impairment on securities held-to-maturity | (4,523) | (112) |
| **Total** | **188,853** | **330,158** |

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

| | 2009 | 2008 |
|---|---|---|
| Within five years | | |
| With variable interest | 51,322 | 34,118 |
| With fixed interest | 109,743 | 244,157 |
| | 161,065 | 278,275 |
| Over five years | | |
| With variable interest | 8,900 | 17,280 |
| With fixed interest | 19,832 | 26,290 |
| | 28,732 | 43,570 |
| **Total** | **189,797** | **321,845** |

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

| | 2009 | 2008 |
|---|---|---|
| Denominated in HUF (%) | 59% | 83% |
| Denominated in foreign currency (%) | 41% | 17% |
| **Total** | **100.0%** | **100.0%** |

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

| | 2009 | 2008 |
|---|---|---|
| Interest rates of securities held-to-maturity with fixed interest | 1.7%–30% | 2.8%–13.8% |

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 112 | 48 |
| Provision for the period | 4,585 | 173 |
| Release of provision | (157) | (102) |
| Foreign currency translation difference | (17) | (7) |
| **Balance as at 31 December** | **4,523** | **112** |

Provision related to bonds denominated in foreign currency was issued in Kazakhstan and included in other securities. The amount of the provision is based on objective evidences and it reflects the best estimation of the management for the possible loss.

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

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

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

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

| | Goodwill |
|---|---|
| **Cost** | |
| Balance as at 1 January | 212,493 |
| Additions | – |
| Foreign currency translation difference | (2,264) |
| **Balance as at 31 December** | **210,229** |
| **Net book value** | |
| Balance as at 1 January | 212,493 |
| **Balance as at 31 December** | **210,229** |

The Bank performed impairment tests to investigate, whether it was necessary to impair any goodwill for its cash generating units. In 2008, 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. In 2009 as well the Bank performed the goodwill impairment test for all the cash generating units, but no further impairment need was identified.

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

| | Intangible assets and goodwill | Property | Office equipments and vehicles | 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 | (115,999) | (6,155) | (12,759) | (25,502) | (160,415) |
| **Balance as at 31 December** | **318,732** | **142,321** | **143,706** | **15,648** | **620,407** |
| **Depreciation and Amortization** | | | | | |
| Balance as at 1 January | 56,014 | 17,108 | 71,631 | – | 144,753 |
| Charge for the year | 110,039 | 4,594 | 16,968 | – | 131,601 |
| Foreign currency translation differences | (182) | (78) | 762 | – | 502 |
| Disposals | (116,481) | (1,325) | (8,344) | – | (126,150) |
| **Balance as at 31 December** | **49,390** | **20,299** | **81,017** | **–** | **150,706** |
| **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 | (93,914) |
| **Balance as at 31 December** | **212,493** |
| **Net book value** | |
| Balance as at 1 January | 296,336 |
| **Balance as at 31 December** | **212,493** |

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

| | 2009 | 2008 |
|---|---|---|
| Inventories | 30,945 | 29,521 |
| Fair value of derivative financial instrument designated as hedge accounting relationship | 14,181 | 8,970 |
| Current income tax receivable | 13,017 | 30,030 |
| Trade receivables | 10,912 | 14,913 |
| Prepayments and accrued income | 7,392 | 6,707 |
| Advances for securities and investments | 2,632 | 758 |
| Other advances | 2,128 | 6,188 |
| Other receivables from Hungarian Government | 2,059 | 7,630 |
| Receivables due from pension funds and investment funds | 1,744 | 1,079 |
| Receivables from investment services | 512 | 929 |
| Receivables from leasing activities | 496 | 69,195 |
| Dividend receivables | 283 | – |
| Receivables from trade refinancing | – | 15,033 |
| Other | 24,576 | 22,334 |
| | **110,877** | **213,287** |
| Accrued interest | 333 | 788 |
| Provision for impairment on other assets | (9,724) | (6,695) |
| **Total** | **101,486** | **207,380** |

### *An analisys of psitive fair value of derivative financial instruments designated as hedge accounting relatinship:*

| | 2009 | 2008 |
|---|---|---|
| Interest rate swaps designated as hedge accounting relationship | 14,148 | 8,692 |
| Foreign exchange swaps designated as hedge accounting relationship | 20 | – |
| Other transactions designated as hedge accounting relationship | 13 | 278 |
| **Total** | **14,181** | **8,970** |

Provision for impairment on other assets mainly consists of provision for impairment on inventories and trade receivables.

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 6,695 | 6,661 |
| Provision for the period | 5,811 | 117 |
| Release of provision | (1,848) | (58) |
| Foreign currency translation difference | (934) | (25) |
| **Balance as at 31 December** | **9,724** | **6,695** |

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

| | 2009 | 2008 |
|---|---|---|
| Within one year | | |
| In HUF | 37,444 | 131,773 |
| In foreign currency* | 345,315 | 467,211 |
| | **382,759** | **598,984** |
| Over one year | | |
| In HUF | 98,150 | 88,865 |
| In foreign currency | 319,814 | 155,018 |
| | **417,964** | **243,883** |
| Accrued interest | 2,026 | 5,863 |
| **Total** | **802,749** | **848,730** |

The Group has a mortgage bonds backed asset as collateral in relation to its branch in Frankfurt (EUR 435 million).

*The Hungarian State through the Government Debt Management Agency has rendered EUR 1.4 billion loan to the Bank in the framework of a loan agreement signed on 26 March 2009. The source of the facility is the IMF Loan Programme. The first disbursement was effected on 1 April 2009, the second on 30 June 2009 respectively. The maturity of the loan is 11 November 2012.
The loan facility has market conditions; the coupon paid by the Bank exceeds the relevant benchmark rates by 245-250 bps.
The loan agreement aims at providing liquidity for Hungarian corporations, as well as mitigating the negative effect of the current financial situation and stabilizing the local financial sector.
In order to contribute to the stimulation of the economy in Hungary, the Bank got the fund with the aim of re-channelling it to local corporate clients.
On 5 November 2009 the Bank has paid back an equivalent of EUR 700 million to the Hungarian State.

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

| | 2009 | 2008 |
|---|---|---|
| Within one year | | |
| In HUF | 8.9%–11% | 7.5%–10.8% |
| In foreign currency | 1.75%–8.5% | 0.01%–18.9% |
| Over one year | | |
| In HUF | 0.2%–15% | 3%–9.9% |
| In foreign currency | 0.1%–10.6% | 0.5%–8.9% |
| **Total** | **100.0%** | **100.0%** |

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

| | 2009 | 2008 |
|---|---|---|
| Within one year | | |
| In HUF | 2,773,407 | 2,528,185 |
| In foreign currency | 2,668,089 | 2,452,147 |
| | **5,441,496** | **4,980,332** |
| Over one year | | |
| In HUF | 98,716 | 131,651 |
| In foreign currency | 105,678 | 107,243 |
| | **204,394** | **238,894** |
| Accrued interest | 42,997 | 38,941 |
| **Total** | **5,688,887** | **5,258,167** |

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

| | 2009 | 2008 |
|---|---|---|
| Within one year | | |
| In HUF | 0.2%–12% | 0.2%–13.8% |
| In foreign currency | 0.05%–24% | 0.05%–30% |
| Over one year | | |
| In HUF | 0.2%–11.5% | 0.2%–11% |
| In foreign currency | 0.1%–19.3% | 0.1%–25% |

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Retail deposits | 3,796,097 | 68% | 3,573,985 | 69% |
| Corporate deposits | 1,549,026 | 27% | 1,366,459 | 26% |
| Municipality deposits | 300,767 | 5% | 278,782 | 5% |
| **Total** | **5,645,890** | **100%** | **5,219,226** | **100%** |

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

| | 2009 | 2008 |
|---|---|---|
| With original maturity | | |
| Within one year | | |
| In HUF | 249,809 | 165,977 |
| In foreign currency | 526,278 | 238,394 |
| | **776,087** | **404,371** |
| Over one year | | |
| In HUF | 219,780 | 212,843 |
| In foreign currency | 375,628 | 909,425 |
| | **595,408** | **1,122,268** |
| Accrued interest | 38,853 | 39,308 |
| **Total** | **1,410,348** | **1,565,947** |

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

| | 2009 | 2008 |
|---|---|---|
| Issued securities denominated in HUF | 0.25%–10.5% | 0.3%–11.0% |
| Issued securities denominated in foreign currency | 0.8%–15.5% | 3.1%–13.1% |

### *Issued securities denominated in HUF as at 31 December 2009 (in HUF mn)*

| | Name | Date of issue | Maturity | Nominal value (in origial currency) | Nominal value (in HUF) | Interest conditions (in % p.a.) | |
|---|---|---|---|---|---|---|---|
| 1. | OTP 2010/I | 10/01/2009–13/02/2009 | 22/01/2010 | 22,012 | 22,012 | 10 | fixed |
| 2. | OTP 2010/II | 20/02/2009–28/03/2009 | 20/02/2010 | 30,530 | 30,530 | 8 | fixed |
| 3. | OTP 2010/III | 03/04/2009–24/04/2009 | 03/04/2010 | 21,433 | 21,433 | 9 | fixed |
| 4. | OTP 2010/IV | 30/04/2009–08/05/2009 | 30/04/2010 | 8,424 | 8,424 | 9.5 | fixed |
| 5. | OTP 2010/V | 15/05/2009–22/05/2009 | 15/05/2010 | 6920 | 6,920 | 9.5 | fixed |
| 6. | OTP 2010/VI | 29/05/2009–05/06/2009 | 29/05/2010 | 5,492 | 5,492 | 9.5 | fixed |
| 7. | OTP 2010/VII | 12/06/2009–19/06/2009 | 12/06/2010 | 6,590 | 6,590 | 9.5 | fixed |
| 8. | OTP 2010/VIII | 26/06/2009–03/07/2009 | 26/06/2010 | 10,894 | 10,894 | 9.5 | fixed |
| 9. | OTP 2010/IX | 10/07/2009–17/07/2009 | 10/07/2010 | 8,538 | 8,538 | 9.5 | fixed |
| 10. | OTP 2010/X | 24/07/2009–31/07/2009 | 24/07/2010 | 9,602 | 9,602 | 9.5 | fixed |
| 11. | OTP 2010/XI | 07/08/2009–19/08/2009 | 07/08/2010 | 13,894 | 13,894 | 9 | fixed |
| 12. | OTP 2010/XII | 29/08/2009 | 29/08/2010 | 4,232 | 4,232 | 9 | fixed |
| 13. | OTP 2010/XIII | 04/09/2009–11/09/2009 | 04/09/2010 | 10,571 | 10571 | 7 | fixed |
| 14. | OTP 2010/XIV | 18/09/2009–25/09/2009 | 18/09/2010 | 7,899 | 7,899 | 7 | fixed |
| 15. | OTP 2010/XV | 02/10/2009–09/10/2009 | 02/10/2010 | 3,953 | 3,953 | 6.5 | fixed |
| 16. | OTP 2010/XVI | 16/10/2009–22/10/2009 | 16/10/2010 | 4,854 | 4,854 | 6.5 | fixed |
| 17. | OTP 2010/XVII | 30/10/2009–06/11/2009 | 30/10/2010 | 23,566 | 23,566 | 6.5 | fixed |
| 18. | OTP 2010/XVIII | 13/11/2009–20/11/2009 | 13/11/2010 | 8,290 | 8,290 | 6.5 | fixed |
| 19. | OTP 2010/XIX | 27/11/2009 | 27/11/2010 | 3,184 | 3,184 | 6.5 | fixed |
| 20. | OTP 2010/XX | 04/12/2009–11/12/2009 | 04/12/2010 | 6,096 | 6,096 | 6.5 | fixed |
| 21. | OTP 2010/XXI | 21/12/2009–30/12/2009 | 21/12/2010 | 7,452 | 7,452 | 5.5 | fixed |
| 22. | OTP 2011A | 13/10/2009 | 13/04/2011 | 3,000 | 3,000 | 9.5 | fixed |
| 23. | OTP 2011B | 28/10/2009 | 28/04/2011 | 1,000 | 1,000 | 7.55 | fixed |
| 24. | OTP 2011C | 09/11/2009 | 09/11/2011 | 2,000 | 2,000 | 7.5 | fixed |
| 25. | OTPX 2010A | 21/12/2007 | 21/12/2010 | 1,393 | 1,393 | indexed | floating |
| 26. | OTPX 2011A | 29/02/2008 | 01/03/2011 | 315 | 315 | indexed | floating |
| 27. | OTPX 2011B | 30/05/2008 | 30/05/2011 | 604 | 604 | indexed | floating |
| 28. | OTPX 2011C | 14/12/2009 | 20/12/2011 | 500 | 500 | indexed | floating |
| 29. | OTPX 2012A | 11/09/2009-25/09/2009 | 11/09/2012 | 1,686 | 1,686 | indexed | floating |
| 30. | OTPX 2014A | 25/06/2009 | 30/06/2014 | 65 | 65 | indexed | floating |
| 31. | OTPX 2014B | 05/10/2009 | 13/10/2014 | 5,000 | 5,000 | indexed | floating |
| 32. | OTPX 2014C | 14/12/2009 | 19/12/2014 | 4,600 | 4,600 | indexed | floating |
| 33. | OTPX 2019A | 25/06/2009 | 01/07/2019 | 3,709 | 3,709 | indexed | floating |
| 34. | OTPX 2019B | 05/10/2009 | 14/10/2019 | 437 | 437 | indexed | floating |
| 35. | OTPX 2019C | 14/12/2009 | 20/12/2019 | 430 | 430 | indexed | floating |
| 36. | OJB2010_I | 25/11/2002 | 31/03/2010 | 2,700 | 2,700 | 8 | fixed |
| 37. | OJB2010_II | 16/02/2007 | 16/02/2010 | 1,924 | 1,924 | 8.75 | fixed |

| | Name | Date of issue | Maturity | Nominal value (in origial currency) | Nominal value (in HUF) | Interest conditions (in % p.a.) | |
|---|---|---|---|---|---|---|---|
| 38. | OJB2010_III | 05/09/2008 | 06/09/2010 | 3,235 | 3,235 | 10 | fixed |
| 39. | OJB2011_I | 20/12/2002 | 12/02/2011 | 15,108 | 15,108 | 8 | fixed |
| 40. | OJB2011_II | 28/05/2004 | 12/09/2011 | 8,780 | 8,780 | 10 | fixed |
| 41. | OJB2011_III | 28/02/2005 | 30/11/2011 | 2 | 2 | 9 | fixed |
| 42. | OJB2011_IV | 31/08/2006 | 31/08/2011 | 7,458 | 7,458 | 8 | fixed |
| 43. | OJB2011_V | 08/02/2008 | 08/02/2011 | 1,057 | 1,057 | 7.5 | fixed |
| 44. | OJB2012_I | 17/03/2004 | 21/03/2012 | 13,870 | 13,870 | 9.83 | fixed |
| 45. | OJB2012_II | 14/04/2004 | 16/05/2012 | 36,257 | 36,257 | 10 | fixed |
| 46. | OJB2012_III | 19/11/2004 | 15/08/2012 | 14,353 | 14,353 | 10.5 | fixed |
| 47. | OJB2013_II | 20/12/2002 | 31/08/2013 | 13,433 | 13,433 | 8.25 | fixed |
| 48. | OJB2014_I | 14/11/2003 | 12/02/2014 | 13,468 | 13,468 | 8 | fixed |
| 49. | OJB2014_J | 17/09/2004 | 17/09/2014 | 595 | 595 | 8.69 | fixed |
| 50. | OJB2015_I | 10/06/2005 | 10/06/2015 | 2,986 | 2,986 | 7.7 | fixed |
| 51. | OJB2015_J | 28/01/2005 | 28/01/2015 | 310 | 310 | 8.69 | fixed |
| 52. | OJB2016_I | 03/02/2006 | 03/02/2016 | 1,132 | 1,132 | 7.5 | fixed |
| 53. | OJB2016_II | 31/08/2006 | 31/08/2016 | 4,536 | 4,536 | 10 | fixed |
| 53. | OJB2016_J | 18/04/2006 | 28/09/2016 | 368 | 368 | 7.59 | fixed |
| 55. | OJB2019_I | 17/03/2004 | 18/03/2019 | 35,575 | 32,575 | 9.48 | fixed |
| 56. | OJB2020_I | 19/11/2004 | 12/11/2020 | 6,990 | 6,990 | 9 | fixed |
| 57. | Other | | | | 30,353 | | |
| | **Total** | | | | **460,655** | | |
| | **Unamortized premium** | | | | **745** | | |
| | **Fair value adjustment** | | | | **(1,497)** | | |
| | **Total** | | | | **459,903** | | |

## *Issued securities denominated in foreign currency as at 31 December 2009 (in HUF mn)*

| | Name | Date of issue | Maturity | Nominal value EUR mn | Nominal value HUF mn | Interest conditions (in % p.a.) | |
|---|---|---|---|---|---|---|---|
| 1. | OTP HBFIXED 160511 | 16/05/2008 | 16/05/2011 | 432 | 117,071 | 5.75 | fixed |
| 2. | OTP HBFLOAT 010710 | 01/07/2005 | 01/07/2010 | 462 | 125,196 | 3 month Euribor + 0.16 | floating |
| 3. | OTP HBFLOAT 201210 | 20/12/2005 | 20/12/2010 | 283 | 76,770 | 3 month Euribor + 0.15 | floating |
| 4. | OMB2010_I* | 03/03/2008 | 04/03/2010 | 949 | 257,135 | 4.5 | fixed |
| 5. | OMB2011_I* | 10/07/2006 | 11/07/2011 | 718 | 194,517 | 4.25 | fixed |
| 6. | OMB2014_I* | 15/12/2004 | 15/12/2014 | 198 | 53,694 | 4 | fixed |
| 7. | Mortgage bands OTP* | 15/10/2003 | 15/10/2012 | 17 | 4,495 | 4.7 | fixed |
| 8. | Mortgage bands OTP V* | 29/09/2004 | 29/09/2010 | 33 | 8,990 | 4.5 | fixed |
| 9. | Mortgage bands OTP VII. | 21/12/2005 | 21/12/2015 | 22 | 6,086 | 3 month Bribor + 0.15% | floating |
| 10. | Mortgage bands OTP XI. | 30/03/2007 | 30/03/2010 | 33 | 8,990 | 6 month Bribor + 0.08% | floating |
| 11. | Mortgage bands OTP XII.* | 23/11/2007 | 23/11/2010 | 22 | 5,934 | 6 month Bribor + 0.08% | floating |
| 12. | Mortgage bands OTP XIII.* | 12/03/2008 | 12/03/2011 | 17 | 4,495 | 4.5 | fixed |
| 13. | Mortgage bands OTP XIV.* | 25/04/2008 | 25/04/2010 | 17 | 4,495 | 4.6 | fixed |
| 14. | Mortgage bands OTP XVII.* | 08/06/2009 | 08/06/2012 | 3 | 821 | 4.1 | fixed |
| 15. | Mortgage bands OTP XVIII.* | 18/09/2009 | 18/03/2010 | 1 | 244 | 3.5 | fixed |
| 16. | Mortgage bands OTP XIX.* | 02/11/2009 | 02/11/2012 | 4 | 995 | 4 | fixed |
| 17. | Other | | | | 24,857 | | |
| | **Total** | | | | **897,785** | | |
| | **Unamortized premium** | | | | **(695)** | | |
| | **Fair value adjustment** | | | | **17,502** | | |
| | **Total** | | | | **911,592** | | |

*1,443 HUF billion of mortgage loans are pledged as collaterals of mortgage bonds.

## NOTE 16: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

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

| | 2009 | 2008 |
|---|---|---|
| CCIRS and mark-to-market CCIRS designated as held for trading | 61,518 | 64,674 |
| Interest rate swaps designated as held for trading | 47,042 | 32,564 |
| Foreign exchange swaps designated as held for trading | 5,305 | 21,972 |
| Option contracts designated as held for trading | 2,346 | – |
| Foreign exchange forward contracts designated as held for trading | 1,910 | 6,268 |
| **Total** | **118,468** | **125,487** |

## NOTE 17: OTHER LIABILITIES (in HUF mn)

| | 2009 | 2008 |
|---|---|---|
| Financial liabilities from OTP-MOL share swap transaction* | 86,912 | – |
| Salaries and social security payable | 24,731 | 25,253 |
| Provision for impairment on off-balance sheet commitments and contingent liabilities | 23,598 | 24,234 |
| Fair value of derivative financial instruments designated as hedge accounting relationship | 22,249 | 24,804 |
| Giro clearing accounts | 15,634 | 24,805 |
| Accrued expenses | 15,355 | 12,697 |
| Accounts payable | 13,216 | 13,890 |
| Current income tax payable | 10,939 | 12,843 |
| Liabilities from custody accounts | 7,260 | 692 |
| Suspense accounts | 3,455 | 5,293 |
| Liabilities from investment services | 2,814 | 2,137 |
| Deferred tax liabilities | 2,229 | 12,840 |
| Liabilities related to housing loans | 1,803 | 1,698 |
| Advances received from customers | 1,754 | 582 |
| Liabilities connected to loans for collection | 1,426 | 1,340 |
| Dividends payable | 604 | 864 |
| Other | 28,166 | 35,763 |
| | **262,145** | **199,735** |
| Accrued interest | 95 | 637 |
| **Total** | **262,240** | **200,372** |

*On 16 April 2009 OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an american style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the lost of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity and a recognition of a corresponding liability. As at 31 December 2009 HUF 86,912 million liability is presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

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

| | 2009 | 2008 |
|---|---|---|
| Provision for losses on other off-balance sheet commitments and contingent liabilities | 14,550 | 16,720 |
| Provision for litigation | 6,084 | 4,989 |
| Provision for expected pension commitments | 659 | 554 |
| Provision for other liabilities | 2,305 | 1,971 |
| **Total** | **23,598** | **24,234** |

Provision for losses on other off-balance sheet commitments and contingent liabilities are recognized mainly on guarantees and commitments on loan facilities issued towards related party by the Bank.

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 24,234 | 19,759 |
| Provision for the year | 4,087 | 4,731 |
| Release of provision | (4,733) | (32) |
| Foreign currency translation differences | 10 | (224) |
| **Balance as at 31 December** | **23,598** | **24,234** |

### *Negative fair value of derivative financial instruments designated as hedge accounting relationship:*

| | 2009 | 2008 |
|---|---|---|
| CCIRS and mark-to-market CCIRS designated as hedge accounting relationship | 18,615 | 32,246 |
| Interest rate swaps designated as hedge accounting relationship | 3,571 | 1,268 |
| Forward security agreements designated as hedge accounting relationship | 63 | – |
| **Total** | **22,249** | **33,514** |

## NOTE 18: SUBORDINATED BONDS AND LOANS (in HUF mn)

| | 2009 | 2008 |
|---|---|---|
| Within one year: | | |
| In HUF | – | – |
| In foreign currency | 458 | 745 |
| | **458** | **745** |
| Over one year: | | |
| In HUF | 5,000 | 5,000 |
| In foreign currency | 271,652 | 310,403 |
| | **276,652** | **315,403** |
| Accrued interest | 3,724 | 3,902 |
| **Total** | **280,834** | **320,050** |

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

| | 2009 | 2008 |
|---|---|---|
| Issued securities denominated in HUF | 3.8% | 4.8% |
| Issued securities denominated in foreign currency | 1.3%–8.8% | 3.1%–13% |

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

| | |
|---|---|
| Type | Subordinated bond |
| Nominal value | HUF 5 billion |
| Date of issue | 20 December 1993 |
| Date of maturity | 20 December 2013 |
| Rate of issue | 100% |
| Interest conditions | frequency of payment is linked to 2013/C credit consolidation government bonds |
| Current interest rate | 3.8% |

| | |
|---|---|
| Type | Subordinated loan from the European Bank for Reconstruction and Development (the loan has already been repaid in 2008) |
| Nominal value | USD 30 million and DEM 31.14 million |
| Date of issue | December 1996 |
| Date of maturity | 27 August 2008 |
| Interest conditions | Six-month LIBOR +1.35% |

| | |
|---|---|
| Type | Subordinated bond |
| Nominal value | EUR 125 million |
| Date of issue | 4 March 2005 |
| Date of maturity | 4 March 2015 |
| Rate of issue | 100% |
| Interest conditions | three-month EURIBOR + 0.55% quarterly |

| | |
|---|---|
| Type | Subordinated bond |
| Nominal value | EUR 343 million |
| Date of issue | 7 November 2006 |
| Date of maturity | Perpetual, and callable after 10 years |
| Rate of issue | 99.375 % |
| Interest conditions | Fix 5.875 annually in the first 10 years (payable annually), 3 months EURIBOR + 3% after year 10 (payable quarterly) |

| | |
|---|---|
| Type | Subordinated bond (under EMTN* program) |
| Nominal value | EUR 300 million |
| Date of issue | 19 September 2006 |
| Date of maturity | 19 September 2016 |
| Rate of issue | 100.00% |
| Interest conditions | Fixed 5.27% |
| Frequency of payment | annually |

| | |
|---|---|
| Type | Subordinated bond (under EMTN* program) |
| Nominal value | EUR 200 million |
| Date of issue | 26 February 2007 |
| Date of maturity | 19 September 2016 |
| Rate of issue | 100.00% |
| Interest conditions | Fixed 5.27% |
| Frequency of payment | annually |

*European Medium Term Note Program on 30 August 2006 the Bank updated EMTN Program and increased the Program amount from EUR/1 billion to EUR 5 billion.

| | |
|---|---|
| Type | Subordinated loan for the OTP Bank JSC from the EBRD. The loan is secured by the guarantee of the Bank. |
| Nominal value | USD 65 million |
| Date of issue | 21 April 2008 |
| Date of maturity | 13 October 2015 |
| Rate of issue | 100.00% |
| Interest conditions | Floating, six-month LIBOR + 2% |

| | |
|---|---|
| Type | Subordinated loan for the OTP Bank JSC from the EBRD. The loan is secured by the Bank. |
| Nominal value | USD 5 million |
| Date of issue | 3 July 2003 |
| Date of maturity | 23 June 2010 |
| Rate of issue | 100.00% |
| Interest conditions | Floating, three-month LIBOR + 3.03% |

| | |
|---|---|
| Type | CJSC Donskoy Narodny Bank obtained total RUB 28.16 million subordinated loans from Russian third party lenders 8 times. |
| Nominal value | RUB 28.16 million |
| Date of issue | 15 June 2001–30 April 2004 |
| Date of maturity | 15 June 2013–21 June 2016 |
| Rate of issue | 100.00% |
| Interest conditions | Floating, interest rate is based on Russian National Bank's basic interest rate. On 12 December 2009 it was 8.75%. |

## NOTE 19: SHARE CAPITAL (in HUF mn)

| | 2009 | 2008 |
|---|---|---|
| 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 20: RETAINED EARNINGS AND RESERVES (in HUF mn)

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

| | 2009 | 2008 |
|---|---|---|
| Capital reserve | 52 | 52 |
| General reserve | 111,903 | 101,670 |
| Retained earnings | 598,133 | 495,270 |
| Tied-up reserve | 5,274 | 55,305 |
| **Total** | **715,362** | **652,297** |

The legal reserves (general reserve and tied-up reserve) are not available for distribution. The dividend has been determined on the basis of the net profit for the year determined in the unconsolidated financial statements according to the Hungarian Accounting Standards.
According to the decision made at the Annual General Meeting on 24 April 2009, the Bank did not pay dividend for the year 2008.

These Financial Statements subject to approval by the Board of Directors in the Annual General Meeting in April 2010 and no dividends are 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 OTP, and 4.5 million OTP shares were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. („OPUS”), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares.

The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years, thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP has discretional right to cancel the interest payments.
The interest payable is non-cumulative.
Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

## NOTE 21: TREASURY SHARES (in HUF mn)

| | 2009 | 2008 |
|---|---|---|
| Nominal value (Ordinary shares) | 1,879 | 3,402 |
| Carrying value at acquisition cost | 52,678 | 146,749 |

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

| **Change in number of shares:** | **2009** | **2008** |
|---|---|---|
| Number of shares as at 1 January | 34,017,196 | 23,399,788 |
| Additions | 10,355,980 | 12,903,260 |
| Disposals | (25,587,172) | (2,285,852) |
| **Number of shares as at 31 December** | **18,786,004** | **34,017,196** |

| **Change in carrying value:** | **2009** | **2008** |
|---|---|---|
| Balance as at 1 January | 146,749 | 114,001 |
| Additions | 16,566 | 99,254 |
| Disposals | (110,637) | (66,506) |
| **Balance as at 31 December** | **52,678** | **146,749** |

## NOTE 22: NON-CONTROLLING INTEREST (in HUF mn)

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 6,785 | 5,353 |
| Foreign currency translation difference | 223 | (434) |
| Changes due to ownership structure | (27) | 1,270 |
| Non-controlling interest included in net profit for the year | (839) | 596 |
| **Balance as at 31 December** | **6,152** | **6,785** |

## NOTE 23: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

### *Fees and commission incomes:*

| | 2009 | 2008 |
|---|---|---|
| Deposit and account maintenance fees and commissions | 65,626 | 70,546 |
| Fees and commissions related to the issued bank cards | 29,892 | 30,961 |
| Fees related to cash withdrawal | 25,162 | 26,965 |
| Fees and commissions related to lending | 16,145 | 20,002 |
| Fees and commissions relating to fund management | 13,512 | 14,706 |
| Fees and commissions related to security trading | 6,147 | 5,659 |
| Other | 13,851 | 12,926 |
| **Total** | **170,335** | **181,765** |

### *Fees and commission expenses:*

| | 2009 | 2008 |
|---|---|---|
| Fees and commissions paid on loans | 8,175 | 12,696 |
| Interchange fees | 6,999 | 7,746 |
| Other fees and commissions related to issued bank cards | 6,463 | 5,508 |
| Fees and commissions related to deposits | 2,502 | 3,166 |
| Cash withdrawal transaction fees | 2,175 | 2,692 |
| Fees and commissions related to lending | 1,788 | 439 |
| Money market transaction fees and commissions | 1,755 | 1,438 |
| Insurance fees | 1,535 | 332 |
| Postal fees | 842 | 957 |
| Fees and commissions related to security trading | 838 | 1,033 |
| Other | 4,350 | 10,527 |
| **Total** | **37,422** | **46,534** |
| **Net profit from fees and commissions** | **132,913** | **135,231** |

## NOTE 24: OTHER OPERATING EXPENSES (in HUF mn)

| | 2009 | 2008 |
|---|---|---|
| Provision for impairment on other assets | 5,811 | 117 |
| Provision for impairment on securities held-to-maturity | 4,428 | 71 |
| Provision for off-balance sheet commitments and contingent liabilities | 4,087 | 4,731 |
| Provision for impairment on securities available-for-sale | 3,599 | 3,332 |
| Provision for impairment on accruals | – | 7,770 |
| Provision for impairment on equity investments* | 118 | 463 |
| Other | 11,032 | 19,753 |
| **Total** | **29,075** | **36,237** |

*See details in Note 9

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

| | 2009 | 2008 |
|---|---|---|
| Wages | 113,266 | 120,535 |
| Taxes related to personnel expenses | 31,832 | 33,873 |
| Other personnel expenses | 10,419 | 13,053 |
| **Total personnel expenses** | **155,517** | **167,461** |
| **Depreciation and amortization** | **45,141** | **132,201** |
| Administration expenses, including rental fees | 51,361 | 54,435 |
| Services | 33,357 | 34,805 |
| Taxes, other than income tax | 29,623 | 29,955 |
| Professional fees | 14,995 | 14,137 |
| Advertising | 11,147 | 13,406 |
| **Other administrative expenses** | **140,483** | **146,738** |
| **Total** | **341,141** | **446,400** |

## NOTE 26: INCOME TAX (in HUF mn)

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

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

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

| | 2009 | 2008 |
|---|---|---|
| Current tax expense | 31,436 | 29,356 |
| Deferred tax (benefit)/expense | (11,160) | 3,943 |
| **Total** | **20,276** | **33,299** |

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | (5,352) | (5,373) |
| Acquisition of subsidiaries | 34 | 111 |
| Foreign currency translation difference | 24 | 362 |
| Deferred tax benefit/(expense) | 11,160 | (3,943) |
| Recognized in equity | (3,406) | 3,491 |
| **Balance as at 31 December** | **2,460** | **(5,352)** |

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

| | 2009 | 2008 |
|---|---|---|
| Profit before income tax | 170,482 | 274,367 |
| Income tax at statutory tax rates | 21,277 | 45,001 |
| Special tax (4%) | 7,299 | 5,351 |

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

| | 2009 | 2008 |
|---|---|---|
| Reversal of statutory general provision | 569 | (188) |
| Tax effect of provision for impairment on loan and placement losses | – | (268) |
| Tax effect of amortization of statutory goodwill | (108) | 4,608 |
| Revaluation of investments denominated in foreign currency to historical cost | (1,880) | (2,826) |
| Share-based payment | 1,292 | 6 |
| Accounting of equity instrument (ICES) | (199) | (404) |
| Treasury share transactions | – | (10,283) |
| Profit on disposal of shares and equities | – | (19,619) |
| Differences in carrying value of subsidiaries | (7,245) | – |
| Provision for impairment on investments in subsidiaries | (10,039) | – |
| Effect of change of income tax rate | (216) | – |
| Other | 9,526 | 11,921 |
| **Income tax expense** | **20,276** | **33,299** |
| **Effective tax rate** | **11.9%** | **12.1%** |

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

| | 2009 | 2008 |
|---|---|---|
| Premium and discount amortization on bonds | 384 | 395 |
| Difference in accounting for leases | 944 | 669 |
| Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments | 90 | 26 |
| Fair value adjustment of securities held for trading and securities available-for-sale | 4,849 | 3,643 |
| Fair value adjustment of derivative financial instruments | – | 110 |
| Repurchase agreement and security lending | 2,483 | – |
| Difference in depreciation and amortization | 75 | – |
| Tax loss carry forward | 4,024 | 1,324 |
| Temporary differences arising on consolidation | – | 746 |
| Provision for impairment on equity investments | 13,221 | 3,184 |
| Other | 3,420 | 4,794 |
| **Deferred tax asset** | **29,490** | **14,891** |

| | 2009 | 2008 |
|---|---|---|
| Premium and discount amortization on bonds | (48) | – |
| Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments | – | (36) |
| Difference in accounting for leases | (210) | (947) |
| Fair value adjustment of derivative financial instruments | (1,126) | (561) |
| Fair value adjustment of securities held for trading and securities available-for-sale | (7,251) | (3,287) |
| Repurchase agreement and security lending | – | (2,498) |
| Accounting of equity instrument (ICES) | (981) | (1,964) |
| Difference in depreciation and amortization | (4,340) | (3,726) |
| Accrued losses | – | (5,237) |
| Net effect of treasury share transactions | (4,913) | – |
| Temporary differences arising on consolidation | (707) | – |
| **Other** | **(7,454)** | **(1,987)** |
| **Deferred tax liabilities** | **(27,030)** | **(20,243)** |

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

## 27.1. Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and business lines. Such risks are monitored on a periodical 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 when appropriate. Exposure to credit risk is managed by obtaining collateral, corporate and personal guarantees.

### Analysis by business lines and risk classes

***An analysis of the gross loan portfolio by business lines and financial risk classes is as follows:***
***As at 31 December 2009***

| Business line | Performing | To-be monitored | Bellow average | Doubtful | Bad | Total carrying amount |
|---|---|---|---|---|---|---|
| Retail loans | 3,407,101 | 373,116 | 72,550 | 112,280 | 187,204 | 4,152,251 |
| Corporate loans | 1,765,731 | 345,709 | 107,322 | 89,422 | 158,229 | 2,466,413 |
| Placement with other banks | 431,785 | 4,717 | 6,370 | – | 1,210 | 444,082 |
| Municipal loans | 220,747 | 4,021 | 19 | 360 | 196 | 225,343 |
| **Total** | **5,825,364** | **727,563** | **186,261** | **202,062** | **346,839** | **7,288,089** |
| **Allowance** | **(17,135)** | **(66,827)** | **(30,775)** | **(99,621)** | **(283,534)** | **(497,892)** |
| **Total exposure** | **5,808,229** | **660,736** | **155,486** | **102,441** | **63,305** | **6,790,197** |

The total off-balance sheet liabilities connected to the lending activity were 976,053 million HUF as at 31 December 2009 which included 730,399 million HUF commitments to extend credit and 245,654 million HUF guarantees arising from banking activities.

***As at 31 December 2008***

| Business line | Performing | To-be monitored | Bellow average | Doubtful | Bad | Total carrying amount |
|---|---|---|---|---|---|---|
| Retail loans | 3,709,915 | 339,917 | 42,578 | 64,767 | 99,266 | 4,256,443 |
| Corporate loans | 2,056,499 | 307,777 | 60,256 | 35,133 | 75,362 | 2,535,027 |
| Placement with other banks | 406,020 | 7,346 | – | – | – | 413,366 |
| Municipal loans | 205,423 | 2,134 | 1,671 | 51 | 101 | 209,380 |
| **Total** | **6,377,857** | **657,174** | **104,505** | **99,951** | **174,729** | **7,414,216** |
| **Allowance** | **(13,020)** | **(15,966)** | **(30,338)** | **(57,224)** | **(154,502)** | **(271,050)** |
| **Total exposure** | **6,364,837** | **641,208** | **74,167** | **42,727** | **20,227** | **7,143,166** |

The total off-balance sheet liabilities connected to the lending activity were 1,052,217 million HUF as at 31 December 2008 which included 792,042 million HUF commitments to extend credit and 260,175 million HUF guarantees arising from banking activities.

In order to moderate the unfavourable effects of the economic situation, the Group made its lending policy stricter, and in consequence of this, its loan portfolio decreased by 1.7% in 2009. Analysing the contribution of business lines to the loan portfolio, the share of the retail and corporate business line slightly decreased while the share of other business lines either slightly increased. As a consequence of the economic situation, the qualification of the loan portfolio deteriorated, the ratio of the non-performing (doubtful and bad) loans compared to the gross loan portfolio increased from 3.7% to 7.5%. Among the qualified loan portfolio, the loans classified to the risk class of "doubtful" expanded at the fastest level.
In accordance with its prudent provisioning policy, the Group classifies the otherwise performing restructured loans as to be monitored as well as project finance loans being exposed to a bigger risk inherently because of the construction.

The Group has a prudent provisioning policy, the coverage of loans by provision for impairment on loans classified as doubtful or bad, the indicator was 69.8% as at 31 December 2009.

The off-balance sheet liabilities connected to the lending activity decreased by 7.2%, while the qualified loan portfolio increased by 41.1% in 2009.

## Classification into risk classes

Exposures of low (In corporate and municipality sector the limit is 50 million HUF, while in retail sector every exposure evaluated as low exposure.) amounts are subject to collective valuation method, which is a simplified assessment. The exposures subject to collective valuation method are classified to five risk classes (performing, to-be-monitored, below average, doubtful, bad). Depending on the days of delay, a specific percentage is assigned to each risk class, and the provision for impairment is calculated on all exposures based on previously determined rates.

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

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

## Collaterals

The values of collaterals held by the Group by types are as follows: **(to the extent of the exposures)**. The collaterals cover loans as well as off-balance sheet exposures.

| Types of collaterals | 2009 | 2008 |
|---|---|---|
| Mortgages | 7,795,345 | 7,638,827 |
| Guarantees of state or organizations owned by state | 328,366 | 327,411 |
| Bank guarantees and warranties | 163,700 | 192,547 |
| Assignments (revenue or other receivables) | 97,725 | 76,928 |
| Cash collaterals | 95,930 | 105,323 |
| Securities | 54,438 | 73,079 |
| Other | 2,749,527 | 2,898,432 |
| **Total** | **11,285,031** | **11,312,547** |

The values of collasterais by the Group by types are as follows: (so the extent of the receivables). The collaterais cover loans as well as off-balance sheet exponsuis.

| Types of collaterals | 2009 | 2008 |
|---|---|---|
| Mortgages | 3,420,732 | 3,494,409 |
| Assignments (revenue or other receivables) | 211,695 | 193,733 |
| Guarantees of state or organizations owned by state | 201,165 | 197,514 |
| Bank guarantees and warranties | 147,763 | 152,994 |
| Cash collaterals | 77,834 | 86,915 |
| Securities | 23,259 | 35,385 |
| Other | 820,493 | 801,451 |
| **Total** | **4,902,941** | **4,962,401** |

## Loans, neither past due, nor impaired

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

| Business line | 2009 | 2008 |
|---|---|---|
| Consumer loans | 2,432,593 | 2,779,445 |
| Corporate loans | 1,358,011 | 1,405,269 |
| Placement with other banks | 431,567 | 403,455 |
| Municipal loans | 212,309 | 202,888 |
| **Total** | **4,434,480** | **4,791,057** |

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio decreased from 65% to 61% in 2009.

## Renegotiated loans

An analysis of the gross value of the loans that would otherwise be past due or impaired and whose terms have been renegotiated as at 31 December 2008 and 31 December 2009 is as follows:

| Business line | 2009 | 2008 |
|---|---|---|
| Consumer loans | 496,549 | 400,564 |
| Corporate loans | 318,291 | 288,231 |
| Placement with other banks | 1,380 | – |
| Municipal loans | 6 | 1,306 |
| **Total** | **816,226** | **690,101** |

The gross amount of renegotiated loans increased by the end of 2009 in order to handle the effects of the economic situation.

## Past due, but not impaired loans

### *An analysis of the age of gross loans that are past due but not impaired as at 31 December 2009 and 31 December 2008 is as follows:*

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

| As at 31 December 2008 | Up to 90 days | 91-180 days | 181-365 days | Above 365 days | Total |
|---|---|---|---|---|---|
| Retail loans | 203,098 | 14,633 | 5,299 | 9,543 | 232,573 |
| Corporate loans | 76,131 | 7,351 | 1,895 | 1,964 | 87,341 |
| Municipality loans | 41 | 2 | – | – | 43 |
| **Total** | **279,270** | **21,986** | **7,194** | **11,507** | **319,957** |

## Loans determined individually to be impaired

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 31 December 2008 and 31 December 2009 is as follows. The individually rated exposures contain the loans. The rating has been performed based on the factors used at determining the provision for impairment for them.

### *As at 31 December 2009*

| Business line | Considered factors | Carrying value | Allowance | Coverage value, discounted |
|---|---|---|---|---|
| Corporate | Delay of payment | 120,141 | 54,555 | 44,336 |
| | Regularity of payment | 407 | 214 | 100 |
| | Renegotiation | 22,207 | 1,811 | 848 |
| | Legal proceedings | 23,514 | 16,258 | 8,218 |
| | Decrease of client classification | 19,443 | 2,779 | 18,280 |
| | Loan characteristics | 109,185 | 4,319 | 415 |
| | Critical industry classification | 99,935 | 10,425 | 1,975 |
| | Other | 10,510 | 1,003 | 5,056 |
| | Cross default | 73,209 | 8,709 | 1,371 |
| **Corporate total** | | **478,551** | **100,073** | **80,599** |
| Municipal | Delay of payment | 292 | 110 | 2,728 |
| | Regularity of payment | 145 | 116 | – |
| | Renegotiation | 80 | 1 | – |
| | Decrease of client classification | 120 | 8 | – |
| | Other | 2,882 | 350 | 30 |
| | Cross default | 33 | 26 | – |
| **Municipal total** | | **3,552** | **611** | **2,758** |
| **Placement with other banks** | | **10,916** | **1,697** | **–** |
| **Total** | | **493,019** | **102,381** | **83,357** |

### *As at 31 December 2008*

| Business line | Considered factors | Carrying value | Allowance | Coverage value, discounted |
|---|---|---|---|---|
| Corporate | Delay of payment | 38,779 | 15,288 | 23,018 |
| | Regularity of payment | 1,114 | 46 | 253 |
| | Legal proceedings | 12,288 | 10,237 | 3,084 |
| | Decrease of client classification | 9,941 | 3,624 | 5,987 |
| | Loan characteristics | 59,536 | 3,027 | 25,196 |
| | Critical industry classification | 37,217 | 4,599 | 1,478 |
| | Other | 6,121 | 2,324 | 6,670 |
| | Cross default | 29,457 | 1,776 | 1,913 |
| **Corporate total** | | **194,453** | **40,921** | **67,599** |
| Municipal | Delay of payment | 39 | 30 | 1,891 |
| | Renegotiation | 29 | – | – |
| | Legal proceedings | 95 | 80 | 15 |
| | Decrease of client classification | 647 | 9 | 200 |
| | Other | 1,275 | 156 | 7 |
| | Cross default | 54 | 1 | – |
| **Municipal total** | | **2,139** | **276** | **2,113** |
| **Placement with other banks** | | **7,346** | **362** | **–** |
| **Total** | | **203,938** | **41,559** | **69,712** |

## 27.2. Market risk

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

### *27.2.1. Market Risk sensitivity analysis*

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

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

| Historical VaR (99%, one-day) by risk type | Average in HUF million | |
|---|---|---|
| | 2009 | 2008 |
| Foreign exchange | 493 | 1,254 |
| Interest rate | 261 | 728 |
| Equity instruments | 15 | 68 |
| Diversification | (189) | (373) |
| **Total VaR exposure** | **580** | **1,677** |

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 27.2.2., for interest rate risk in Note 27.2.3., for equity price sensitivity analysis in Note 27.2.4. and for capital management in Note 27.2.5. below.

### *27.2.2. Foreign currency sensitivity analysis*

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was EUR (310) million as of 31 December 2009 and EUR (300) million and USD (75) million as of 31 December 2008. High portion of strategic positions is considered as effective hedge of future profit inflows of foreign subsidiaries, so FX risk alters the Group capital and not its earnings.
A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

| Probability | Effects to the Consolidated Statement of Recognized Income in 3 months period | |
|---|---|---|
| | 2009 in HUF billion | 2008 in HUF billion |
| 1% | (9.7) | (8.6) |
| 5% | (6.4) | (5.4) |
| 25% | (2.2) | (1.3) |
| 50% | 0.5 | 1.3 |
| 25% | 3.1 | 3.8 |
| 5% | 6.6 | 7.1 |
| 1% | 9.1 | 9.5 |

**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) Despite the decrease of the foreign exchange exposure the high volatility causes the increase of the estimated VaR.
(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.

### *27.2.3. Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the statement of financial position date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the statement of financial position date will be outstanding for the whole year. The analysis was prepared by assuming only adverse interest rate changes.
The main assumptions were as follows:
- Floating rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged 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:

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

The net interest income in a one year period after 31 December 2009 would be decreased by HUF 1,707 million (probable scenario) and HUF 8,421 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 845 million (probable scenario) and HUF 4,316 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2008.

This effect is counterbalanced by capital gains (HUF 4,560 million for probable scenario, HUF 6,900 million for alternative scenario) on the government bond portfolio held for hedging.

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| **Description** | **Effects to the net interest income (1 Year period)** | **Effects to capital (Price change of AFS goverment bonds)** | **Effects to the net interest income (1 Year period)** | **Effects to capital (Price change of AFS goverment bonds)** |
| HUF (0.1%) parallel shift | (551) | 812 | (242) | 139 |
| EUR (0.1%) parallel shift | (281) | 0 | (33) | 0 |
| USD 0.1% parallel shift | (147) | 0 | (20) | 0 |
| **Total** | **(979)** | **812** | **(295)** | **139** |

### *27.2.4. Equity price sensitivity analysis*

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

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

| Description | 2009 | 2008 |
|---|---|---|
| VaR (99%, one day, million HUF) | 15 | 68 |
| Stress test (million HUF) | (32) | (287) |

### *27.2.5. Capital management*

**Capital management**

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

The capital management of the Group members includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position. The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

**Capital adequacy**

The capital adequacy of the Group is supervised based on the financial statements data prepared according to the Hungarian Accounting Standards („HAS") applying the directives, rulings and indicators defined by the Basel Committee, that has been adopted in Hungary in 2008. The Group has entirely complied with the regulatory capital requirements in 2009 and in 2008.

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

## *Calculation on HAS basis:*

| | 2009 | 2008 |
|---|---|---|
| Core capital | 1,036,191 | 881,662 |
| Supplementary capital | 242,443 | 203,668 |
| Deductions | (7,461) | (6,149) |
| due to investments | (428) | (549) |
| due to limit branches | (7,033) | (5,600) |
| **Regulatory capital** | **1,271,173** | **1,079,181** |
| Credit risk capital requirement | 453,048 | 487,775 |
| Market risk capital requirement | 29,490 | 26,987 |
| Operational risk capital requirement | 68,315 | 51,364 |
| **Total eligible regulatory capital** | **550,853** | **566,126** |
| **Surplus capital** | **720,320** | **513,055** |
| Tier1 ratio | 15.0% | 12.4% |
| **Capital adequacy ratio** | **18.5%** | **15.3%** |

The positive components of the Core capital are the following: Issued capital, Capital reserve, Tied-up reserve, General reserve, Profit reserve, Changes in the equity, Changes due to consolidation, Non-controlling interest, Profit for the year, General risk reserve.

The negative components of the Core capital are the following: Treasury shares, Intangible assets.

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

The negative components of the Supplementary capital are the following: Changes due to consolidation of equity.

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

| Subsidiary bank | Countrys | Minimum prescribed CAR | 2009** | 2008 |
|---|---|---|---|---|
| OAO OTP Bank | Russia | 11% | 13.3% | 17.4% |
| OTP Bank JSC | Ukraine | 10% | 17.8% | 10.3% |
| DSK Bank EAD | Bulgaria | 12% | 21.9% | 18.0% |
| OTP Bank Romania S.A. | Romania | 8%/10%* | 14.3% | 14.0% |
| OTP banka Srbija a.d. | Serbia | 12% | 27.1% | 32.9% |
| OTP banka Hrvatska d.d. | Croatia | 10% | 13.4% | 12.3% |
| OTP Banka Slovensko a. s. | Slovakia | 8% | 10.7% | 10.5% |
| Crnogorska komercijalna banka a.d. | Montenegro | 12%/10%* | 13.4% | 12.1% |

* In 2009 the minimum prescribed CAR has changed.
** Values reported to the local regulators.

For international comparison purposes, the Group calculates the Regulatory capital according to the Basel II directive based on IFRS data, and the consolidated Capital adequacy ratio based on this. The Capital adequacy ratio of the Group was 17.3% as at 31 December 2009. The Regulatory capital was HUF 1,194,508 million, the Total eligible regulatory capital was HUF 550,853 million as at 31 December 2009.

### *Calculative on IFRS basic:*

| | 2009 | 2008 |
|---|---|---|
| Core capital | 952,416 | 797,841 |
| Positive components | 1,272,721 | 1,213,933 |
| Issued capital | 28,000 | 28,000 |
| Reserves | 1,126,443 | 1,061,449 |
| Other issued capital components | 118,278 | 124,484 |
| Negative components | (320,305) | (416,091) |
| Treasury shares | (52,678) | (146,749) |
| Goodwill and other intangible assets | (267,627) | (269,342) |
| Supplementary capital | 242,521 | 291,150 |
| Fair value corrections | (34,589) | (24,998) |
| Subordinated bonds and loans | 277,110 | 316,148 |
| Deductions | (428) | (549) |
| **Regulatory capital** | **1,194,508** | **1,088,442** |
| Credit risk capital requirement | 453,048 | 487,775 |
| Market risk capital requirement | 29,490 | 26,987 |
| Operational risk capital requirement | 68,315 | 51,364 |
| **Total eligible regulatory capital** | **550,853** | **566,126** |
| **Surplus capital** | **643,655** | **522,316** |
| Tier1 ratio | 13.8% | 11.3% |
| **Capital adequacy ratio** | **17.3%** | **15.4%** |

The positive components of the Core capital are the following: Issued capital, Profit reserve, Other reserves, Changes in the equity of subsidiaries, Profit for the year, Changes due to consolidation, Other issued capital components.

The negative components of the Core capital are the following: Treasury shares, Goodwill and other intangible assets.

The components of the Supplementary capital are the following: Revaluation reserve, Fair value adjustments, Share-based payment, Cash-flow hedge, Hedges of net investments in foreign operations, Other issued capital (in the Supplementary capital), Subordinated loan capital, Subsidiary loan capital.

The components of the Deductions: deductions due to investments.

## NOTE 28: 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 Consolidated Statement of Financial Position and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

| | 2009 | 2008 |
|---|---|---|
| Commitments to extend credit | 730,399 | 792,042 |
| Guarantees arising from banking activities | 245,654 | 260,175 |
| Legal disputes* | 32,566 | 6,798 |
| Confirmed letters of credit | 6,579 | 20,890 |
| Other | 91,916 | 61,035 |
| **Total** | **1,107,114** | **1,140,940** |

* The considerable increase the amount of legal disputes in 2009 is in connection with one company. The Bank has the opinion, that the case has no valid basis, so no provision is necessary for that.

## 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 statement of financial position date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. 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 6,084 million and HUF 4,989 million as at 31 December 2009 and 31 December 2008, respectively. (See Note 17.)

## Derivatives

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

## Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.
Foreign currency contracts are used by the Group for risk management and trading purposes. The risk management foreign currency contracts of the Group were used to hedge 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 (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.

The interest rate swaps 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 is 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 29: 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 increased amount of share options under the modified program.
The exercise prices of the options relating to the years of 2006 to 2010 are calculated as the average of the market price of OTP shares quoted by the BSE daily during the period between 30 April and 30 May in the actual year and decreased by HUF 1,000. In that case if the average price of the shares exceeds by more than HUF 3,000 the exercise price one day before the date of exercise, the exercise price would be increased by the amount above the HUF 3,000.
The 2007 Annual General Meeting approved a few changes in the program:
The exercise prices of the options relating to the years of 2006 to 2010 is calculated as the average of the market price of OTP shares quoted by the BSE daily during the three month period ended 31 March in the actual year and decreased by HUF 2,000. In that

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

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

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

The exercise period of the options granted for the year of 2005 is two years and for the years of 2006 to 2010 is 19 months. The exercise period of the option program for the years of 2006 to 2010 must be opened at 1 June in the actual year, the period can be 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. The options can only be settled by physical delivery, therefore the option program is accounted as equity-settled share based transaction.

In connection with the equity-settled share-based payment programs HUF 6,802 million and HUF 28 million has been recognised as an expense as at 31 December 2009 and as at 31 December 2008 respectively.

| | Options (number of shares) | Weighted average exercise price (in HUF) | Options (number of shares) | Weighted average exercise price (in HUF) |
|---|---|---|---|---|
| Outstanding at beginning of period | 2,534,950 | 6,484 | 6,678,130 | 7,957 |
| Granted during the period | – | – | – | – |
| Forfeited during the period | 2,534,950 | 6,484 | 965,050 | 6,484 |
| Exercised during the period | – | – | 257,500 | 6,536 |
| Outstanding at the end of the period | – | – | 2,534,950 | 6,484 |
| Exercisable at the end of the period | – | – | 1,774,466 | 8,424 |

For the year ended 31 December 2008 the key performance indicators-which are the vesting conditions of the option program - are not fulfilled, therefore the Bank did not recognize any personnel expense related to the option program. There were no option exercise during 2009.

| | 2009 | 2008 |
|---|---|---|
| Weighted average exercise price of the options outstanding | – | 6.484 |
| Weighted average remaining contractual life (month) | – | 18 |

3,500,000 share options related to 2009 will be available for exercise after the Annual General Meeting in April 2010, and the exercise price will be determined at that time, therefore they are not outstanding as of 31 December 2009.

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

| | 2009 | 2008 |
|---|---|---|
| Weighted average spot share price (HUF) | 8,272 | 7,828 |
| Weighted average exercise price (HUF)* | 8,875 | 7,941 |
| Expected volatility (%) | 32 | 29 |
| Expected life (average year) | 5,45 | 3,56 |
| Risk free rate (%) | 7,63 | 6,84 |
| Expected dividends (%) | 1,95 | 2,31 |
| Cap for the maximum gain (HUF/option) | 4,000 | 3,000 |

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

## NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn)

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:

| Compensations | 2009 | 2008 |
|---|---|---|
| Short-term employee benefits | 9,949 | 12,642 |
| Share-based payment | 3,139 | 16 |
| Other long-term employee benefits | 94 | 71 |
| Termination benefits | 31 | 13 |
| Redundancy payments | – | 57 |
| **Total** | **13,213** | **12,799** |

| | 2009 | 2008 |
|---|---|---|
| Loans provided to companies owned by the management (normal course of business) | 31,876 | 27,366 |
| Credit lines of the members of Board of Directors and the Supervisory Board (at normal market conditions) | 218 | 121 |
| Commitments to extend credit and guarantees | 103 | 121 |

| | 2009 | 2008 |
|---|---|---|
| Loans provided to unconsolidated subsidiaries | 40,027 | 65,643 |

## NOTE 31: 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 otherwise stated. The Bank considers the subsidiaries as cash generating units.

| Name | 2009 Ownership (Direct and Indirect) | 2008 Ownership (Direct and Indirect) | Activity |
|---|---|---|---|
| DSK Bank EAD (Bulgaria) | 100.00% | 100.00% | commercial banking services |
| OTP Bank JSC (Ukraine) | 100.00% | 100.00% | commercial banking services |
| OAO OTP Bank (Russia) | 95.55% | 95.51% | commercial banking services |
| CJSC Donskoy Narodny Bank (Russia) | 100.00% | 100.00% | commercial banking services |
| OTP banka Hrvatska d.d. (Croatia) | 100.00% | 100.00% | commercial banking services |
| OTP Bank Romania S.A. (Romania) | 100.00% | 100.00% | commercial banking services |
| OTP banka Srbija a.d. (Serbia) | 91.43% | 91.43% | commercial banking services |
| OTP Banka Slovensko a.s. (Slovakia) | 97.24% | 97.23% | commercial banking services |
| OTP Factoring Ltd. | 100.00% | 100.00% | work-out |
| OTP Mortgage Bank Ltd | 100.00% | 100.00% | mortgage lending |
| OTP Real Estate Ltd. | 100.00% | 100.00% | real estate management and development |
| Merkantil Bank Ltd. | 100.00% | 100.00% | finance lease |
| Merkantil Car Ltd. | 100.00% | 100.00% | finance lease |
| OTP Building Society Ltd. | 100.00% | 100.00% | flat finance and reconstruction |
| OTP Fund Management Ltd. | 100.00% | 100.00% | fund management |
| Crnogorska komercijalna banka a.d. (Montenegro) | 100.00% | 100.00% | commercial banking services |
| OTP Financing Nethetrlands B.V. (Netherlands) | 100.00% | 100.00% | refinancing activities |
| OTP Financing Cyprus (Cyprus) | 100.00% | 100.00% | refinancing activities |
| OTP Holding Ltd. (Cyprus) | 100.00% | 100.00% | holding activity |
| Bank Center No.1 Ltd. | 100.00% | 100.00% | real estate lease |
| Inga Two Commercial Ltd. | 100.00% | 100.00% | property management |
| OTP Funds Servicing and Consulting Ltd. | 100.00% | 100.00% | fund services |
| OTP Real Estate Leasing Ltd. | 100.00% | 100.00% | real estate leasing |
| OTP Life Annuity Ltd. | 100.00% | 100.00% | life annuity services |

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

| | 2009 | 2008 |
|---|---|---|
| Total assets | 3,246 | 2,501 |
| Total liabilities | 620 | 485 |
| Shareholders' equity | 2,623 | 1,983 |
| Reserves | 285 | 19 |
| Total revenues | 1,102 | 1,030 |
| Profit before income tax | 72 | 143 |
| Profit after income tax | 65 | 84 |

## NOTE 32: 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 Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

| | 2009 | 2008 |
|---|---|---|
| The amount of loans managed by the Group as a trustee | 179,570 | 45,196 |

## NOTE 33: CONCENTRATION OF ASSETS AND LIABILITIES

| | 2009 | 2008 |
|---|---|---|
| Receivables from, or securities issued by the Hungarian Government or the NBH | 14.2% | 6.6% |

There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2009 or as at 31 December 2008.

## NOTE 34: 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 period end to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

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

| 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 | Without maturity | Total |
|---|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 529.780 | 227 | – | – | – | 530.007 |
| Placements with other banks, net of allowance for placements losses | 344.725 | 53.365 | 16.941 | 625 | – | 415.656 |
| Financial assets at fair value through profit or loss | 18.134 | 16.451 | 68.895 | 27.808 | – | 131.288 |
| Securities available-for-sale | 24.349 | 67.866 | 237.761 | 156.902 | – | 486.878 |
| Loans, net of allowance for loan losses | 662.881 | 1.071.835 | 1.781.773 | 3.262.212 | – | 6.778.701 |
| Associates and other investments | – | – | – | – | 10.467 | 10.467 |
| Securities held-to-maturity | 139.041 | 37.214 | 110.326 | 43.577 | – | 330.158 |
| Property and equipment, Intangible assets | – | – | – | – | 469.701 | 469.701 |
| Other assets | 51.187 | 59.140 | 47.812 | 56.729 | – | 214.868 |
| **TOTAL ASSETS** | **1.770.097** | **1.306.098** | **2.263.508** | **3.547.853** | **480.168** | **9.367.724** |
| Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks | 163.475 | 440.568 | 154.277 | 90.410 | – | 848.730 |
| Deposits from customers | 3.932.050 | 1.086.050 | 214.285 | 25.782 | – | 5.258.167 |
| Liabilities from issued securities | 337.466 | 104.876 | 1.001.402 | 122.203 | – | 1.565.947 |
| Financial liabilities at fair value through profit or loss | 29.313 | 10.989 | 78.475 | 6.710 | | 125.487 |
| Other liabilities | 142.236 | 15.252 | 34.524 | 8.360 | – | 200.372 |
| Subordinated bonds and loans | 3.199 | 1.280 | 6.161 | 309.410 | – | 320.050 |
| **TOTAL LIABILITIES** | **4.607.739** | **1.659.015** | **1.489.124** | **562.875** | **–** | **8.318.753** |
| Share capital | – | – | – | – | 28.000 | 28.000 |
| Retained earnings and reserves | – | – | – | – | 1.160.935 | 1.160.935 |
| Treasury shares | – | – | – | – | (146.749) | (146.749) |
| Non-controlling interest | – | – | – | – | 6.785 | 6.785 |
| **TOTAL SHAREHOLDERS' EQUITY** | **–** | **–** | **–** | **–** | **1.048.971** | **1.048.971** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **4.607.739** | **1.659.015** | **1.489.124** | **562.875** | **1.048.971** | **9.367.724** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(2.837.642)** | **(352.917)** | **774.384** | **2.984.978** | **(568.803)** | **–** |

## NOTE 35: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

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

| 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** |

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within 'Others'. 'Others' category contains mainly foreign currencies in RON, UAH, RUB and BGN. Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Bank of Hungary and own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the 'value at risk' ("VaR") limit on the foreign exchange exposure of the Group.

## NOTE 36: INTEREST RATE RISK MANAGEMENT (in HUF 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 and liabilities of the Group are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

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

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

## As at 31 December 2009

| | Within 1 month | | Over 1 month and Within 3 monthx | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| ASSETS | | | | | | | | | | | | | | | |
| Cash, amounts due from banks and balances with the National Banks | 96.112 | 133.011 | 170 | – | – | – | – | – | – | – | 50.337 | 226.019 | 146.619 | 359.030 | 505.649 |
| fixed rate | 95.747 | 129.275 | – | – | – | – | – | – | – | – | – | – | 95.747 | 129.275 | 225.022 |
| variable rate | 365 | 3.736 | 170 | – | – | – | – | – | – | – | – | – | 535 | 3.736 | 4.271 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 50.337 | 226.019 | 50.337 | 226.019 | 276.356 |
| Placements with other banks, not of allowance for placements losses | 13.149 | 383.273 | – | 5.112 | – | 9.014 | – | 1.155 | – | 826 | 206 | 28.116 | 13.355 | 427..496 | 440.851 |
| fixed rate | 13.136 | 344.605 | – | 2.461 | – | 665 | – | 503 | – | 151 | – | – | 13.136 | 348.385 | 361.521 |
| variable rate | 13 | 38.668 | – | 2.621 | – | 8.349 | – | 652 | . | 675 | – | – | 13 | 50.995 | 51.008 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 206 | 28.116 | 206 | 28.116 | 28.322 |
| Securities held for trading | 49.773 | 863 | 170 | – | 3.476 | 462 | 1.780 | 249 | 14.318 | 2.901 | 87.278 | 1.595 | 156.795 | 6.070 | 162.865 |
| fixed rate | 49.773 | – | 152 | – | 3.476 | 411 | 1.780 | 249 | 14.318 | 2.901 | – | – | 69.499 | 3.561 | 73.060 |
| variable rate | – | 863 | 18 | – | – | 51 | – | – | – | – | – | – | 18 | 914 | 932 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 87.278 | 1.595 | 87.278 | 1.595 | 88.873 |
| Securities available-for-sale | 718.651 | 3.973 | 10.709 | 104.954 | 19.937 | 56.849 | 70.372 | 29.178 | 244.808 | 59.349 | 8.368 | 27.137 | 1.072.845 | 281.440 | 1.354.285 |
| fixed rate | 718.651 | 1.866 | 7.096 | 6.620 | 19.937 | 40.625 | 70.372 | 11.590 | 243.090 | 58.756 | – | – | 1.059.146 | 119.457 | 1.178.603 |
| variable rate | – | 2.107 | 3.613 | 98.334 | – | 16.224 | – | 17.588 | 1.718 | 593 | – | – | 5.331 | 134.846 | 140.177 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 8.368 | 27.137 | 8.368 | 27.137 | 35.505 |
| Loans, net of allowance for loan losses | 822.682 | 3.311.187 | 52.532 | 231.138 | 134.056 | 734.596 | 55.285 | 45.355 | 388.323 | 390.438 | 55.332 | 191.792 | 1.508.210 | 4.904.506 | 6.412.716 |
| fixed rate | 12.759 | 39.442 | 2.533 | 23.116 | 3.224 | 205.784 | 2.019 | 24.165 | 9.138 | 341.450 | – | – | 29.673 | 633.957 | 663.630 |
| variable rate | 809.923 | 3.271.745 | 49.999 | 208.022 | 130.832 | 528.812 | 53.266 | 21.190 | 379.185 | 48.988 | – | – | 1.423.205 | 4.078.757 | 5.501.962 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 55.332 | 191.792 | 55.332 | 191.792 | 247.124 |
| Securities held-to-maturaty | 23.349 | 13.379 | 7.973 | 9.984 | 27.750 | 16.480 | 29.202 | 2.838 | 20.964 | 33.173 | 2.178 | 1.592 | 111.416 | 77.439 | 188.853 |
| fixed rate | – | 8.450 | – | 8.865 | 16.885 | 16.480 | 29.202 | 2.838 | 20.964 | 33.173 | – | – | 67.051 | 69.806 | 136.857 |
| variable rate | 23.349 | 4.929 | 7.973 | 1.119 | 10.865 | – | – | – | – | – | – | – | 42.187 | 6.048 | 48.235 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 2.178 | 1.583 | 2.178 | 1.583 | 3.761 |
| Derivative financial instruments | 591.140 | 1.014.857 | 848.862 | 861.010 | 229.989 | 41.928 | 11.576 | 228.605 | 24.489 | 6.251 | – | 31 | 1.706.056 | 2.152.682 | 3.858.738 |
| fixed rate | 259.983 | 657.084 | 49.244 | 394.910 | 149.174 | 40.345 | 11.576 | 228.605 | 24.489 | 6.251 | – | – | 494.466 | 1.327.195 | 1.821.661 |
| variable rate | 331.157 | 357.773 | 799.618 | 466.100 | 80.815 | 1.583 | – | – | – | – | – | – | 1.211.590 | 825.456 | 2.037.046 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | 31 | – | 31 | 31 |

## As at 31 December 2009

| | Within 1 month | | Over 1 month and Within 3 monthx | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| LIABILITIES | | | | | | | | | | | | | | | |
| Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks | 25.709 | 104.424 | 25.554 | 331.360 | 82.148 | 137.762 | 1 | 22.798 | 48 | 70.838 | 1.952 | 155 | 135.412 | 667.337 | 802.749 |
| fixed rate | 21.394 | 64.747 | 19.668 | 5.562 | 1.949 | 111.624 | 1 | 944 | 48 | 47.407 | – | – | 43.060 | 230.284 | 273.344 |
| variable rate | 4.315 | 39.677 | 5.886 | 325.798 | 80.199 | 26.138 | – | 21.854 | – | 23.431 | – | – | 90.400 | 436.898 | 527.298 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 1.952 | 155 | 1.952 | 155 | 2.107 |
| Deposits from customers | 1.286.443 | 1.708.572 | 518.026 | 290.308 | 429.680 | 398.694 | 75.794 | 87.924 | 560.859 | 193.947 | 22.437 | 116.203 | 2.893.239 | 2.795.648 | 5.688.887 |
| fixed rate | 791.756 | 635.106 | 497.916 | 290.308 | 421.637 | 394.881 | 75.794 | 87.924 | 14.682 | 159.801 | – | – | 1.801.785 | 1.568.020 | 3.369.805 |
| variable rate | 494.687 | 1.073.466 | 20.110 | – | 8.043 | 3.813 | – | – | 546.177 | 34.146 | – | – | 1.069.017 | 1.111.425 | 2.180.442 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 22.437 | 116.203 | 22.437 | 116.203 | 138.640 |
| Liabilities from issued securities | 35.687 | 150.425 | 36.518 | 352.106 | 180.078 | 30.487 | 35.190 | 332.970 | 155.895 | 61.249 | 19.508 | 20.235 | 462.876 | 947.472 | 1.410.348 |
| fixed rate | 22.455 | 2.272 | 36.518 | 260.267 | 180.078 | 30.487 | 35.190 | 332.970 | 155.895 | 61.249 | – | – | 430.136 | 687.245 | 1.117.381 |
| variable rate | 13.232 | 148.153 | – | 91.839 | – | – | – | – | – | – | – | – | 13.232 | 239.992 | 253.224 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 19.508 | 20.235 | 19.508 | 20.235 | 39.743 |
| Derivative financial instruments | 927.406 | 914.113 | 1.416.108 | 335.906 | 247.120 | 19.530 | 15.283 | 17.577 | 10.835 | 12.137 | – | 65 | 2.616.752 | 1.299.328 | 3.916.080 |
| fixed rate | 217.783 | 700.092 | 139.647 | 35.282 | 166.547 | 19.526 | 15.283 | 17.577 | 10.835 | 12.137 | – | – | 550.095 | 784.614 | 1.334.709 |
| variable rate | 709.623 | 214.021 | 1.276.461 | 300.624 | 80.573 | 4 | – | – | – | – | – | – | 2.066.657 | 514.649 | 2.581.306 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | 65 | – | 65 | 65 |
| Subordinated bonds and loans | – | 588 | 5.000 | 17.293 | – | 11.530 | – | – | 13.325 | 229.375 | 61 | 3.662 | 18.386 | 262.448 | 280.834 |
| fixed rate | – | – | – | – | – | – | – | – | 13.325 | 229.375 | – | – | 13.325 | 229.375 | 242.700 |
| variable rate | – | 588 | 5.000 | 17.293 | – | 11.530 | – | – | – | – | – | – | 5.000 | 29.411 | 34.411 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 61 | 3.662 | 61 | 3.662 | 3.723 |
| Net position | 39.611 | 1.982.421 | (1.080.790) | (114.775) | (523.818) | 261.326 | 41.947 | (153.889) | (48.060) | (74.608) | 159.741 | 335.953 | (1.411.369) | 2.236.428 | 825.059 |

## As at 31 December 2008

| | Within 1 month | | Over 1 month and Within 3 monthx | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| ASSETS | | | | | | | | | | | | | | | |
| Cash, amounts due from banks and balances with the National Banks | 74.058 | 132.583 | 2 | 189 | 3 | – | – | 81 | – | 552 | 67.469 | 255.070 | 141.532 | 388.475 | 530.007 |
| fixed rate | 72.069 | 74.009 | 2 | – | 3 | – | – | 81 | – | 552 | – | – | 72.074 | 74.642 | 146.716 |
| variable rate | 1.989 | 58.574 | – | 189 | – | – | – | – | – | – | – | – | 1.989 | 58.763 | 60.752 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 67.469 | 255.070 | 67.469 | 255.070 | 322.539 |
| Placements with other banks, not of allowance for placements losses | 66.142 | 227.162 | 2.506 | 10.826 | – | 90.734 | – | – | – | 6.023 | 2.412 | 9.851 | 71.060 | 344.594 | 415.656 |
| fixed rate | 65.751 | 214.992 | 2.506 | 10.826 | – | 21 | – | – | – | 5.888 | – | – | 68.257 | 231.727 | 299.984 |
| variable rate | 391 | 12.170 | – | – | – | 90.713 | – | – | – | 135 | – | – | 391 | 103.018 | 103.409 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 2.412 | 9.851 | 2.412 | 9851 | 12.263 |
| Securities held for trading | 1.093 | 1.805 | 1.059 | 214 | 7.972 | 421 | 10.531 | 876 | 26.263 | 3.589 | 4.126 | 680 | 51.044 | 7.585 | 58.629 |
| fixed rate | 1.093 | 597 | 903 | 201 | 7.900 | 262 | 10.531 | 876 | 26.263 | 3.559 | – | – | 46.690 | 5.495 | 52.185 |
| variable rate | – | 1.208 | 156 | 13 | 72 | 159 | – | – | – | 30 | – | – | 228 | 1.410 | 1.638 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 4.126 | 680 | 4.126 | 680 | 4.806 |
| Securities available-for-sale | 9.277 | 2.531 | 5.935 | 101.306 | 48.461 | 14.938 | 36.961 | 14.113 | 158.283 | 69.391 | 19.971 | 5.711 | 278.888 | 207.990 | 486.878 |
| fixed rate | 9.277 | – | 1.500 | 3.241 | 47.935 | 14.938 | 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 | – | – | – | – | – | – | – | – | – | – | 19.971 | 5.711 | 19.971 | 5.711 | 25.682 |
| 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 | 37.103 | 61.207 | 1.491.382 | 5.287.139 | 6.778.701 |
| 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 | – | – | 37.103 | 61.207 | 37.103 | 607.047 | 644.150 |
| Securities held-to-maturaty | 114.963 | 8.553 | 20.670 | 1.310 | 64.331 | 7.386 | 38.930 | 11.777 | 27.057 | 26.756 | 6.859 | 1.566 | 272.810 | 57.348 | 330.158 |
| 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 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 6.859 | 1.566 | 6.859 | 1.566 | 8.425 |
| 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 monthx | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| LIABILITIES | | | | | | | | | | | | | | | |
| Amounts due to banks, the Hungarian Government, 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 | 7.985 | 153 | 230.484 | 618.246 | 848.730 |
| 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 | – | – | – | – | – | – | – | – | – | – | 7.985 | 61 | 7.985 | 61 | 8.046 |
| 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 | 21.939 | 123.443 | 2.680.211 | 2.577.956 | 5.258.167 |
| fixed rate | 469.786 | 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 | 1.137.943 | 28.577 | 10 | 589 | – | – | 57 | 553.328 | 28.165 | – | – | 1.259.406 | 1.166.174 | 2.425.580 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 21.939 | 123.443 | 21.939 | 123.443 | 145.382 |
| Liabilities from issued securities | 20.260 | 4.272 | 46.891 | 445.658 | 124.232 | 20.123 | 47.226 | 281.207 | 139.013 | 396.894 | 38.746 | 1.425 | 416.368 | 1.149.579 | 1.565.947 |
| 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 | – | – | – | – | – | – | – | – | – | – | 38.746 | 1.425 | 38.746 | 1.425 | 40.171 |
| 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 | 3.309 | 838 | 8.309 | 311.741 | 320.050 |
| 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 | – | – | – | – | – | – | – | – | – | – | 3.309 | 838 | 3.309 | 838 | 4.147 |
| Net position | (514.662) | 2.388.490 | (512.881) | (713.754) | (439.178) | 314.989 | 152.887 | (56.626) | 522.774 | (893.641) | 65.961 | 216.969 | (725.099) | 1.256.427 | 531.328 |

# NOTE 37: EARNINGS PER SHARE (in HUF mn)

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the year attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year.

| | 2009 | 2008 |
|---|---|---|
| Net profit for the year attributable to ordinary shareholders (in HUF mn) | 151,045 | 240,472 |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share) | 261,608,279 | 256,317,324 |
| **Basic Earnings per share (in HUF)** | **577** | **938** |
| Net profit for the year attributable to ordinary shareholders (in HUF mn) | 151,045 | 240,472 |
| Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share) | 263,929,565 | 257,117,270 |
| **Diluted Earnings per share (in HUF)** | **572** | **935** |

| | 2009 | 2008 |
|---|---|---|
| Weighted average number of ordinary shares | 280,000,010 | 280,000,010 |
| Average number of Treasury shares | 18,391,731 | 23,682,686 |
| **Weighted average number of ordinary shares outstanding during the year for calculating basic EPS** | **261,608,279** | **256,317,324** |
| Diluted effects of options issued in accordance with Management Option Program and convertible into ordinary shares | 2,321,286 | 799,946 |
| **The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS** | **263,929,565** | **257,117,270** |

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.

The Basic Earnings per share (Basic EPS) attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the period does not include the average number of Treasury shares.

For calculating diluted Earnings per share, Net profit for the year attributable to ordinary shareholders equals the Net profit used for calculating the basic EPS. The modified weighted average number of ordinary shares outstanding during the year contains the contingent diluted effects of options convertible into ordinary shares. Options are issued in accordance with the Management Option Program.

## NOTE 38: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

### *As at 31 December 2009*

| Name | Net interest gain and loss | Net non-interest gain and loss | Provision | Equity |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 7,515 | – | – | – |
| Placements with other banks, net of allowance for placements losses | 10,311 | – | (4,819) | – |
| Securities held for trading | 5,556 | 395 | – | – |
| Securities available-for-sale | 31,373 | (501) | – | 12,273 |
| Loans, net of allowance for loan losses | 766,747 | 8,188 | (244,460) | – |
| Securities held-to-maturity | 45,803 | (2,896) | – | – |
| Derivative financial instruments | 131,739 | (15,836) | – | – |
| Amounts due to banks , the Hungarian Government, deposits from the National Bank of Hungary and other banks | (36,535) | – | – | – |
| Deposits from customers | (276,619) | 102,541 | – | – |
| Liabilities from issued securities | (79,770) | – | – | – |
| Subordinated bonds and loans | (16,340) | – | – | – |
| **Total** | **589,780** | **91,891** | **(249,279)** | **12,273** |

### *As at 31 December 2008*

| Name | Net interest gain and loss | Net non-interest gain and loss | Provision | Equity |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 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 , the Hungarian Government, 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)** |

## NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

### a) Fair value of financial assets and liabilities

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash, amounts due from banks and balances with the National Banks | 505,649 | 505,844 | 530,007 | 530,007 |
| Placements with other banks, net of allowance for placements losses | 440,851 | 455,802 | 415,656 | 422,463 |
| Financial assets at fair value through profit or loss | 256,100 | 256,100 | 131,288 | 131,288 |
| Securities held for trading | 178,556 | 178,556 | 58,629 | 58,629 |
| FVA of derivative financial instruments designated as held for trading | 77,544 | 77,544 | 72,659 | 72,659 |
| Securities available-for-sale | 1,354,285 | 1,354,285 | 486,878 | 486,878 |
| Loans, net of allowance for loan losses | 6,412,716 | 6,679,949 | 6,778,701 | 7,011,312 |
| Securities held-to-maturity | 188,853 | 184,895 | 330,158 | 310,723 |
| FVA of derivative financial instruments designated as hedge accounting relationship | 14,181 | 14,181 | 8,970 | 8,970 |
| **Financial assets total** | **9,172,635** | **9,451,056** | **8,681,658** | **8,901,641** |
| Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungaryand other banks | 802,749 | 832,101 | 848,730 | 856,654 |
| Deposits from customers | 5,688,887 | 5,668,845 | 5,258,167 | 5,236,864 |
| Liabilities from issued securities | 1,410,348 | 1,399,933 | 1,565,947 | 1,471,048 |
| FVA of derivative financial instruments designated as hedge accounting relationship | 22,249 | 22,249 | 24,804 | 24,804 |
| FVA of derivative financial instruments designated as held for trading | 118,468 | 118,468 | 125,487 | 125,487 |
| Subordinated bonds and loans | 280,834 | 210,075 | 320,050 | 150,677 |
| **Financial liabilities total** | **224,593** | **8,251,671** | **8,143,185** | **7,865,534** |

### b) Fair value of derivative instruments

| | 2009 | 2008 | 2009 | 2008 |
|---|---|---|---|---|
| | Fair value | | Notional value, net | |
| **Interest rate swaps designated as held for trading** | | | | |
| Positive fair value of interest rate swaps designated as held for trading | 53,721 | 35,956 | 56,695 | 22,684 |
| Negative fair value of interest rate swaps designated as held for trading | (47,043) | (32,564) | (45,962) | (24,146) |
| **Foreign exchange swaps designated as held for trading** | | | | |
| Positive fair value of foreign exchange swaps designated as held for trading | 5,947 | 16,011 | 6,360 | (29,891) |
| Negative fair value of foreign exchange swaps designated as held for trading | (5,182) | (22,491) | (4,133) | (20,002) |
| **Interest rate swaps designated as hedge accounting relationship** | | | | |
| Positive fair value of interest rate swaps designated as hedge accounting relationship | 14,147 | 8,692 | 10,507 | 81,221 |
| Negative fair value of interest rate swaps designated as hedge accounting relationship | (3,569) | (1,268) | (3,740) | (75,585) |
| **CCIRS designated as held for trading** | | | | |
| Positive fair value of CCIRS designated as held for trading | 11,421 | 4,685 | 3,552 | 7,714 |
| Negative fair value of CCIRS designated as held for trading | (54,169) | (58,107) | (4,734) | 50,387 |
| **Mark-to-market CCIRS designated as held for trading** | | | | |
| Positive fair value of mark-to-market CCIRS designated as held for trading | 5,133 | 13,551 | 40,776 | 64,266 |
| Negative fair value of mark-to-market CCIRS designated as held for trading | (7,348) | (6,488) | 40,803 | 50,026 |
| **CCIRS designated as hedge accounting relationship** | | | | |
| Positive fair value of CCIRS designated as hedge accounting relationship | – | – | – | – |
| Negative fair value of CCIRS designated as hedge accounting relationship | (18,615) | (23,448) | (40,518) | (41,331) |
| **Other derivative contracts designated as hedge accounting relationship** | | | | |
| Positive fair value of other derivative contracts designated as hedge accounting relationship | 33 | 217 | 26 | 267 |
| Negative fair value of other derivative contracts designated as hedge accounting relationship | (65) | (88) | (65) | (88) |
| **Other derivative contracts designated as held for trading** | | | | |
| Positive fair value of other derivative contracts designated as held for trading | 1,323 | 2,517 | 773 | 17,011 |
| Negative fair value of other derivative contracts designated as held for trading | (4,726) | (5,837) | (12,189) | (21,218) |
| **Derivative financial assets total** | **91,725** | **81,629** | **118,689** | **163,272** |
| **Derivative financial liabilities total** | **(140,717)** | **(150,291)** | **(70,538)** | **(81,957)** |
| **Derivative financial instruments total** | **(48,992)** | **(68,662)** | **48,151** | **81,315** |

## c) Hedge accounting

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

## The summary of the hedging transactions of the Group are as follows:

### As at 31 December, 2009

| Types of the hedges | Desription of the hedging instrument | Fair value of the hedging instrument | The nature of the risk being hedged |
|---|---|---|---|
| Cash flow hedges | – | – | – |
| Fair value hedges | IRS | HUF 10,578 million | Interest rate |
| | Options | HUF 1 million | Foreign exchange |
| | CCIRS | HUF (18,615) million | Foreign exchange and interest rate |
| Hedges of a net investments in foreign operations | CCIRS | HUF (2,118) million | Foreign exchange |

### As at 31 December, 2008

| Types of the hedges | Desription of the hedging instrument | Fair value of the hedging instrument | The nature of the risk being hedged |
|---|---|---|---|
| Cash flow hedges | – | – | – |
| Fair value hedges | IRS | HUF 7,424 million | Interest rate |
| | Options | HUF 179 million | Foreign exchange |
| | CCIRS | HUF (23,448) million | Foreign exchange and interest rate |
| Hedges of a net investments in foreign operations | – | – | – |

## d) Fair value hedges

### 1. Deposits from customers

The interest payment cash-flows of some structured deposits of the Group denominated in HUF are exposed to the change of equity prices, equity indices or the change of EUR/HUF exchange rate. In order to hedge the interest rate risk of the interest payments the Group entered into interest rate swap transactions, where the risk of the cash-flow's from the structured deposits were swapped to payments linked to 3 or 6 months BUBOR, resulting in a decrease in the fair value exposure of the deposits from customers.

| | 2009 | 2008 |
|---|---|---|
| Fair value of the hedging instruments | 3,461 | (574) |

### 2. Securities available-for-sale

The Group holds fixed interest rate securities denominated in currencies within the available-for-sale portfolio. These fixed interest rate securities are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order to hedge the interest rate risk of the cash-flows the Bank entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 6 month LIBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

| | 2009 | 2008 |
|---|---|---|
| Fair value of the hedging instruments | 348 | 367 |

## 3. Loans to customers

### 3.1. Hedges of foreign exchange rate risk

The Group has some loans to customers denominated in foreign exchange, where the Group ensures during a part of the loan term, that the FX rate applied to the customer will not exceed a pre-defined cap limit. In order to hedge the foreign exchange risk of the translation of the cash-flows from the loan at a pre-determined rate the Group entered into FX options providing the right to the Group to purchase the foreign exchange on a pre-determined exercise price.

| | 2009 | 2008 |
|---|---|---|
| Fair value of the hedging instruments | 2 | 208 |

### 3.2. Hedges of interest rate risk

The Group has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows the Group entered into pay-fixed, receive-floater interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 or 6 month LIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.

| | 2009 | 2008 |
|---|---|---|
| Fair value of the hedging instruments | (1.335) | (43) |

## 4. Issued securities

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

| | 2009 | 2008 |
|---|---|---|
| Fair value of the hedging instruments | (10.511) | (15.774) |

| As at 31 December 2009 | | | | | |
|---|---|---|---|---|---|
| Types of hedged items | Types of hedging instruments | Fair value of the hedged items | Fair value of the hedging instruments | Gains/ Losses | |
| | | | | on the hedged items | on hedging instruments |
| Securities available-for-sale | IRS | HUF 15,557 million | HUF 348 million | HUF 197 million | HUF (197) million |
| Loans to customers | IRS | HUF 43,292 million | HUF (1,335) million | HUF 792 million | HUF (790) million |
| Loans to customers | Options | HUF 3,6 million | HUF 1 million | HUF (52) million | HUF 52 million |
| Deposits from customers | IRS | HUF 29,685 million | HUF 3,461 million | HUF 4,036 million | HUF (4,036) million |
| Liabilities from issued securities | IRS | HUF 154,164 million | HUF 8,104 million | HUF 429 million | HUF (429) million |
| EUR mortgage bonds | CCIRS | HUF 203,130 million | HUF 1,049 million | HUF (2,495) million | HUF 2,495 million |
| EUR mortgage bonds | CCIRS | HUF 216,672 million | HUF 11,229 million | HUF 23 million | HUF (23) million |
| EUR mortgage bonds | CCIRS | HUF 54,168 million | HUF (8,435) million | HUF (2,361) million | HUF 2,361 million |

| As at 31 December 2008 | | | | | |
|---|---|---|---|---|---|
| Types of hedged items | Types of hedging instruments | Fair value of the hedged items | Fair value of the hedging instruments | Gains/ Losses | |
| | | | | on the hedged items | on hedging instruments |
| Securities available-for-sale | IRS | HUF 35,230 million | HUF 367 million | HUF 934 million | HUF (934) million |
| Loans to customers | IRS | HUF 980 million | HUF (43) million | HUF (43) million | HUF (13) million |
| Loans to customers | Options | HUF 231 million | HUF 179 million | HUF (326) million | HUF 326 million |
| Deposits from customers | IRS | HUF 17,163 million | HUF 7,674 million | HUF 7,674 million | HUF (7,674) million |
| Liabilities from issued securities | IRS | HUF 134,706 million | HUF (574) million | HUF (574) million | HUF 574 million |
| EUR mortgage bonds | CCIRS | HUF 199 million | HUF (1,447) million | HUF 13,274 million | HUF (13,274) million |
| EUR mortgage bonds | CCIRS | HUF 212 million | HUF (11,206) million | HUF 11,206 million | HUF (11,206) million |
| EUR mortgage bonds | CCIRS | HUF 53 million | HUF (10,795) million | HUF 10,795 million | HUF (10,795) million |

## *e) Fair value classes*

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly;
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

| As at 31 December 2009 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 254,934 | 174,827 | 80,107 | – |
| from this: securities held for trading | 177,390 | 174,655 | 2,735 | – |
| from this: positive FVA of derivative financial instruments designated as held for trading | 77,544 | 172 | 77,372 | – |
| Securities available-for-sale | 1,338,371 | 1,159,740 | 75,790 | 102,841 |
| Positive FVA of derivative financial instruments designated as hedge accounting relationship | 14,181 | – | 14,181 | – |
| **Financial assets measured at fair value total** | **1,607,486** | **1,334,567** | **170,078** | **102,841** |
| Negative FVA of derivative financial instruments designated as held for trading | 118,468 | 76 | 118,392 | – |
| Negative FVA of derivative financial instruments designated as hedge accounting relationship | 22,249 | – | 22,249 | – |
| **Financial liabilities measured at fair value total** | **140,717** | **76** | **140,641** | **–** |

| As at 31 December 2008 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 129,332 | 56,883 | 72,449 | – |
| from this: securities held for trading | 56,673 | 56,673 | – | – |
| from this: positive FVA of derivative financial instruments designated as held for trading | 72,659 | 210 | 72,449 | – |
| Securities available-for-sale | 481,257 | 338,337 | 43,262 | 99,658 |
| Positive FVA of derivative financial instruments designated as hedge accounting relationship | 8,970 | – | 8,970 | – |
| **Financial assets measured at fair value total** | **619,559** | **395,220** | **124,681** | **99,658** |
| Negative FVA of derivative financial instruments designated as held for trading | 125,487 | 10 | 125,477 | – |
| Negative FVA of derivative financial instruments designated as hedge accounting relationship | 24,804 | – | 24,804 | – |
| **Financial liabilities measured at fair value total** | **150,291** | **10** | **150,281** | **–** |

### Movements in Level 3 financial instruments measured at fair value

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

| As at 31 December 2009 | Opening balance/ Balance as at 1 January 2009 | Additions | Closing balance | Total profit or loss as at 31 December 2009 |
|---|---|---|---|---|
| Securities available-for-sale | 99,658 | 3,183 | 102,841 | 3,183 |
| Financial assets measured at fair value total | 99,658 | 3,183 | 102,841 | 3,183 |

## NOTE 40: SEGMENT REPORTING BY GEOGRAPHICAL SEGMENTS (in HUF mn)

The Group operates in 9 principal geographical areas, the reportable segments are geographical segments. Information regarding the Group's reportable segments is presented below. Amounts reported for the prior year have been restated to conform to the requirements of IFRS 8.

### *As at 31 December 2009*

| | Hungary | Slovakia | Montenegro | Bulgaria | Romania | Croatia | Serbia | Russia | Ukraine | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Interest income** | | | | | | | | | | | |
| External | 827,614 | 18,294 | 21,312 | 108,011 | 22,177 | 28,678 | 7,863 | 86,542 | 100,,659 | – | 1,221,150 |
| Intersegment | 89,606 | 983 | 121 | 488 | 7,343 | 95 | – | 3,172 | 317 | (102,125) | – |
| **Total** | **917,220** | **19,277** | **21,433** | **108,499** | **29,520** | **28,773** | **7,863** | **89,714** | **100,976** | **(102,125)** | **1,221,150** |
| **Non-interest income** | | | | | | | | | | | |
| External | 159,116 | 3,836 | 5,475 | 18,516 | 5,739 | 13,892 | 4,632 | 12,654 | 13,758 | – | 237,618 |
| Intersegment | 15,282 | 842 | – | 344 | 3,436 | – | – | – | – | (19,904) | – |
| **Total** | **174,398** | **4,678** | **5,475** | **18,860** | **9,175** | **13,892** | **4,632** | **12,654** | **13,758** | **(19,904)** | **237,618** |
| **Interest expense** | | | | | | | | | | | |
| External | 522,407 | 7,683 | 9,108 | 32,453 | 8,988 | 13,901 | 1,616 | 21,074 | 14,140 | – | 631,370 |
| Intersegment | 47,191 | 775 | 2,189 | 6,734 | 10,195 | 1,233 | 2196 | 8,353 | 23,999 | (102,865) | – |
| **Total** | **569,598** | **8,458** | **11,297** | **39,187** | **19,183** | **15,134** | **3,812** | **29,427** | **38,139** | **(102,865)** | **631,370** |
| **Non-interest expense** | | | | | | | | | | | |
| External | 235,562 | 13,049 | 8,106 | 33,224 | 14,907 | 19,632 | 10,982 | 46,647 | 25,529 | – | 407,638 |
| Intersegment | 5,524 | – | – | – | 155 | 11 | – | 555 | 334 | (6,579) | – |
| **Total** | **241,086** | **13,049** | **8,106** | **33,224** | **15,062** | **19,643** | **10,982** | **47,202** | **25,863** | **(6,579)** | **407,638** |

## *As at 31 December 2009*

| | Hungary | Slovakia | Montenegro | Bulgaria | Romania | Croatia | Serbia | Russia | Ukraine | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Provision for impairment on loan and placement losses** | **73,402** | **9,350** | **7,075** | **26,701** | **6,884** | **3,559** | **6,583** | **21,338** | **95,376** | **(990)** | **249,278** |
| **Highlighted lines** | | | | | | | | | | | |
| Capital expenditures | 1,568 | 2,852 | – | 6,568 | 1,615 | 1,220 | 388 | – | 68 | – | 14,279 |
| Deppreciation and amortization | 24,447 | 1,668 | 684 | 4,717 | 1,541 | 4,242 | 1,064 | 4,520 | 2,258 | – | 45,141 |
| **Segment profit before income tax** | **207,532** | **(6,902)** | **430** | **28,247** | **(2,434)** | **4,329** | **(8,882)** | **4,401** | **(44,644)** | **(11,595)** | **170,482** |
| **Income tax** | **16,103** | **(204)** | **2** | **2,962** | **112** | **1,017** | **(34)** | **1,314** | **(996)** | **–** | **20,276** |
| **Net profit for the year** | **191,429** | **(6,698)** | **428** | **25,285** | **(2,546)** | **3,312** | **(8,848)** | **3,087** | **(43,648)** | **(11,595)** | **150,206** |
| **Segment assets** | **7,492,880** | **374,889** | **235,307** | **1,260,189** | **244,535** | **533,223** | **132,182** | **625,689** | **831,656** | **(1,975,418)** | **9,755,132** |
| **Segment liabilities** | **7,188,208** | **350,124** | **211,755** | **1,039,257** | **216,278** | **435,431** | **99,335** | **500,414** | **620,214** | **(2,097,490)** | **8,563,526** |

## *As at 31 December 2008*

| | Hungary | Slovakia | Montenegro | Bulgaria | Romania | Croatia | Serbia | Russia | Ukraine | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Interest income** | | | | | | | | | | | |
| External | 612,676 | 23,689 | 18,482 | 83,795 | 19,625 | 25,711 | 11,278 | 91,219 | 88,977 | – | 975,452 |
| Intersegment | 65,551 | 34 | – | 224 | – | 76 | – | 99 | – | (65,984) | – |
| **Total** | **678,227** | **23,723** | **18,482** | **84,019** | **19,625** | **25,787** | **11,278** | **91,318** | **88,977** | **(65,984)** | **978,452** |
| **Non-interest income** | | | | | | | | | | | |
| External | 394,320 | 10,222 | 7,115 | 24,607 | 20,416 | 8,143 | 10,572 | 19,361 | 30,132 | – | 524,888 |
| Intersegment | 21,693 | 2,636 | – | 890 | 3,057 | – | – | 68 | – | (28,344) | – |
| **Total** | **416,013** | **12,858** | **7,115** | **25,497** | **23,473** | **8,143** | **10,572** | **19,429** | **30,132** | **(28,344)** | **524,888** |
| **Interest expense** | | | | | | | | | | | |
| External | 443,858 | 10,870 | 10,780 | 21,626 | 8,530 | 10,658 | 2,150 | 15,205 | 14,498 | – | 538,175 |
| Intersegment | 11,822 | 1,348 | 1,307 | 9,272 | 13,278 | 1,357 | 2,372 | 5,991 | 25,358 | (72,105) | – |
| **Total** | **455,680** | **12,218** | **12,087** | **30,898** | **21,808** | **12,015** | **4,522** | **21,196** | **39,856** | **(72,105)** | **538,175** |
| **Non-interest expense** | | | | | | | | | | | |
| External | 398,419 | 13,696 | 7,555 | 29,677 | 16,545 | 13,521 | 10,666 | 57,127 | 29,143 | – | 576,349 |
| Intersegment | 144,330 | 69 | 4 | 17 | 136 | 84 | – | – | 692 | (145,332) | – |
| **Total** | **542,749** | **13,765** | **7,559** | **29,694** | **16,681** | **13,605** | **10,666** | **57,127** | **29,835** | **(145,332)** | **576,349** |

## *As at 31 December 2008*

| | Hungary | Slovakia | Montenegro | Bulgaria | Romania | Croatia | Serbia | Russia | Ukraine | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Provision for impairment on loan and placement losses** | **42,339** | **2,559** | **2,836** | **9,625** | **3,021** | **1,717** | **2,144** | **20,735** | **26,473** | **–** | **111,449** |
| **Highlighted lines** | | | | | | | | | | | |
| Capital expenditures | 3,164 | 5,356 | – | 8,191 | 3,412 | 3,524 | 336 | 36 | 17 | – | 24,036 |
| Deppreciation and amortization | 117,294 | 1,258 | 498 | 3,797 | 1,331 | 993 | 870 | 4,312 | 1,848 | – | 132,201 |
| **Segment profit before income tax** | **53,472** | **8,039** | **3,115** | **39,299** | **1,588** | **6,593** | **4,518** | **11,689** | **22,945** | **123,109** | **274,367** |
| **Income tax** | **20,474** | **451** | **166** | **3,800** | **153** | **1,310** | **256** | **2,773** | **6,662** | **(2,746)** | **33,299** |
| **Net profit for the year** | **32,998** | **7,588** | **2,949** | **35,498** | **1,435** | **5,283** | **4,262** | **8,916** | **16,283** | **125,856** | **241,068** |
| **Segment assets** | **6,394,860** | **431,715** | **308,140** | **1,197,862** | **218,586** | **498,841** | **147,798** | **582,003** | **969,327** | **(1,369,696)** | **9,379,436** |
| **Segment liabilities** | **6,194,489** | **401,099** | **289,970** | **1,006,599** | **190,065** | **407,481** | **104,557** | **465,603** | **766,626** | **(1,496,024)** | **8,330,465** |

## NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR

### MOL OTP share swap transaction

See details in Note 17.

### Hungarian Government loan facility

See details in Note 13.

### EBRD subordinated loan agreement

On 9 July 2009 Bank signed an agreement with EBRD according to which the London-based financial institution is providing EUR 200 million subordinated loan to the Bank and a further EUR 20 million is being used to acquire OTP treasury shares. The subordinated loan facility carries commercial terms and will be available for draw-down for a period of six months.

On 16 December 2009 the parties extended the period available for draw-down by 6 months. The EBRD subordinated loan is further strengthening the Bank's current robust capitalization and facilitating boosting the Bank's domestic banking operations as well as its activities in other Eastern European countries. Through the share purchase EBRD will increase its existing 1.5% stake in the Bank to around 2%. Details of the transaction will be reported to markets once the deal has been completed.

### Bond issue program

On 10 August 2009 the Bank has launched a HUF 500 billion Note Program. The Hungarian Financial Supervisory Authority approved the Base Prospectus relating to the program on 7 August 2009. During the issuance within frames of the program the Bank can initiate subscription of the bonds on the Stock Exchange.

The Commission de Surveillance du Sectuer Financier (CSSF) approved the Base Prospectus (dated 26 August 2009) relating to the Bank EUR 5 billion Medium Term Note Program under the C-08390 number.

### New Branch foundation

In December 2009 the Bank established a branch in Frankfurt in order to help the German appearance and activity of SME clients of the Bank and its subsidiaries – mainly the Russian, Ukranian and Romanian – as well as support the entering of German companies in Hungary. The Bank has an interest in participating in open-market activities of European Central Bank (ECB).

## NOTE 42: POST BALANCE SHEET EVENTS

CJSC Donskoy Narodny Bank was emerged into OAO OTP Bank. The merger has been registered by the Court of Registration on 5 February 2010, thus the core capital of OAO OTP Bank reached RUB 2,797,887,853.

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

In 2009, the Group focused its activity on the stable operation, including the robust capital position and liquidity, and in line with the deteriorating loan portfolio, on prudent risk management and monitoring. This year the Bank managed the effects of the crisis with success, complied with the preliminary objectives of the management.

The framework of operation and profitability of the Group in 2009 has been significantly influenced by the crisis and the measures taken by the management.

- The quality of the loan portfolio has deteriorated significantly compared to the previous years (See Note 27): the loans due over 90 days on Group level have increased to 9.8% by the end of 2009 from the 4.5% at the end of 2008. This caused a significant raise in the provision levels: on Group level, they were HUF 265 billion at the end of 2009, which is a 123% increase from the levels of the end of 2008, when the provision level was HUF 119 billion, and is significantly above the levels of the pre-crisis periods (HUF 49 billion in 2007 and HUF 30 billion in 2006). The portfolio deterioration had the following reasons: the population's disposable income in the countries of the Central and Eastern European region reduced due to the crisis (rising level of unemployment, devaluation of the currencies, restrictive fiscal measures had negative effect), and the business environment deteriorated (predominantly due to the reduced demand for export and domestic consumption). Moreover, Ukraine faced a foreign exchange rate shock, remarkably exceeding the level of foreign exchange rate devaluation of the surrounding countries, causing significantly higher credit charges to the Ukrainian clients of the Group.
- The factors listed above required on the one hand prudent provisioning: the coverage of loans due over 90 days by provision was 74% at the end of 2009. On the other hand based on the debtor compensation program in Ukraine, the Group has launched similar programs in Hungary, Bulgaria, Romania, which offered help for the clients having temporary problems with repayment, generally in form of temporary installment reductions, prolongation of the duration of the contracts, or the combination of these.
- The further enhancement of the stable capital adequacy was a priority for the Group in 2009 as well. Due to the profitable operation, the lending activity shrinking as a consequence of the crisis, and the shrinking of the risk weighted total assets, the capital adequacy ratio of the Group has risen to 17.3%.

  On 9 July 2009 an agreement has been concluded between the Bank and EBRD, providing the Bank a 6 months facility of subordinated loan of EUR 200 million, starting from the date of subscription. The facility has been prolonged in December 2009. There were no subordinated loans drawn from the facility in 2009. Based on the agreement, EBRD purchased 1.6 million OTP shares.
- Irrespective of the fundamental performance of the Bank, its share prices and prices of other financial assets issued by the Bank, fell to the price level of year 2001 due to the risk evasive investor attitudes. In 2009 the Bank, seeing the low share and financial asset prices, repurchased bonds, being components of its Supplementary Capital, the gain on these transactions was HUF 27.7 billion for 2009. In the first quarter, the Bank purchased treasury shares on low market prices. A stock of the treasury shares has been transferred to MOL in the framework of a share swap agreement, that has enhanced the capital adequacy of the Bank.
- From the first quarter of 2009, the Bank classifies the strategic open foreign currency positions as hedge deals and the foreign

exchange gains and losses on the short positions in EUR amounting to EUR 310 million (83% of the total strategic position, approximating the sum of the Net profit for the year 2009 and 2010 of 4 subsidiaries (DSK, CKB, OTP banka Hrvatska and OTP Banka Slovensko) have been recorded in equity (HUF 1.5 billion loss in 2009). Moreover, in the first quarter of 2009, HUF 11.3 billion negative Profit before income tax has been realized because of the devaluation of the forint on the foreign currency positions excluding the strategic open positions. These positions have been closed in the second quarter of the year, as the course of the forint strengthened, so they had no influence on the profit of the further quarters.

- On 26 March 2009 the Hungarian Government and the Bank entered into an agreement. The Hungarian Government provides an EUR 1.4 billion facility in order to provide liquidity for the Hungarian corporate sector. At the same time the Bank has pre-paid EUR 700 million in November 2009. The reason of the pre-payment is that the Bank would like to finance the corporate sector from its own liquidity. The Bank, independently from the loan received from the government, constantly sought the market segments, for which it could provide loans, either for own funds or from the loan provided by the Hungarian Government. In Hungary the stable capital position and the liquidity puffer made possible the 4% growth of the corporate loans. (In Hungary a HUF 248 billion new corporate loans have been provided in 2009.)
- Parallel to the shrinking demand for loans on the market and to the more cautious lending activity, the Group has taken special attention to the collection of deposits. The successful deposit collection activity contributed considerably to the 13 % points decrease of the loan-deposit ratio in 2009 (at the end of 2009 it was 121%). By its conservative business policy, the Bank accumulated a liquidity puffer (as at the end of 2009 it amounted to EUR 6 billion), which securely covers all the liabilities denominated in foreign currencies (senior debt and mortgage bonds), the repayment of the state loans, and supports managing any unanticipated liquidity and foreign exchange rate shocks.
- The possibility of raising funds from the capital markets has shrunk significantly in the first part of 2009. The Moody`s and the S&P credit rating agencies have downgraded the rating of the debt of Hungary in March. The rating of the Bank has moved parallel to the Hungarian sovereign rating at the Moody`s (from A3 to Baa1), while the S&P has downgraded the rating of the Bank by two levels (from BBB to BB+), so the rating of the Bank and the country are not on the same level. S&P has changed the outlook from negative to stable, leaving the credit rating on the same level.
- Both the lending activity and the demand for loans have reduced considerably: the population's and the corporate sector's disposable income in Hungary reduced due to the crisis (rising level of unemployment, devaluation of the currencies, restrictive fiscal measures had negative effect), the demand for loans reduced. The Bank has made its credit policy stricter already in 2008, and the higher cost of raising funds has been partially charged to the clients in the form of higher interest margins. Based on management decision, the portion of the HUF denominated loans grew significantly among the loans originated in 2009, both for mortgage loans and personal loans. This year, there were initiatives and bills in Hungary, that aimed at cutting foreign currency denominated lending, and setting up other barriers to it, furthermore, a law has been codified to help the retail clients having mortgage loans, touched by the crisis. On 16 September, the Bank joined the Code of Ethics of retail lending institutions, which is about the

fair treatment of the retail clients. On 30 December, a government decree has been issued on the conditions of prudent retail lending, providing loans and credit scoring, to be applied from 2010.

- The swap markets for raising the necessary liquidity in foreign currencies for the lending in foreign currencies, have shrunk in 2008 (particularly in the last quarter), though the renewal of the transactions has been ensured continuously accompanied by raising premiums. In the third quarter of 2009 in the framework of the contract with the EBRD, the international credit institution provided a CHF 500 million CHF/HUF swap facility for the Group. In the past year more transactions were contracted with EBRD, by which the swap facility has been almost completely used. The Group could charge to its clients in several lending business lines the expense of the swaps, being higher in amount, partially counterbalancing its effect on the Statement of Recognized Income.
- The lending activity decreased due to the lower level of liquidity and the reduced demand for loans. As a consequence of the lower level of business activity, there were cost-cutting programs at each subsidiary, having in all cases effect on the number of employees, and some branches have been closed. The rationalization of the branches was the largest scale in Serbia, Ukraine and Slovakia. In these countries, 45 branches have been closed in Serbia, 23 in Ukraine, 12 in Slovakia, furthermore, the number of employees has decreased in Serbia by 34%, in Ukraine by 13%, in Slovakia by 18%.

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 statement of financial position as at December 31, 2009, and the related unconsolidated statement of recognised and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 122-183 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.

Member of **Deloitte Touche Tohmatsu**

*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, 2009, 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 BankPlc. prepared in accordance with International Financial Reporting Standards have been issued separately. The consolidated financial statements of OTP Bank Plc. as of and for the year ended December 31, 2009 were audited by us and our report dated February 26, 2010 expressed an unqualified opinion.

Budapest, February 26, 2010

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Gion Gábor
Deloitte Auditing and Consulting Ltd.

## *Statement of financial position*

(unconsolidated, based on IFRS, as at 31 December 2009, in HUF million)

| | Note | 2009 | 2008 |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 4. | 178,217 | 158,022 |
| Placements with other banks, net of allowance for placement losses | 5. | 962,063 | 925,713 |
| Financial assets at fair value through profit or loss | 6. | 273,652 | 153,543 |
| Securities available-for-sale | 7. | 1,652,747 | 561,041 |
| Loans, net of allowance for loan losses | 8. | 2,622,895 | 2,737,605 |
| Investments in subsidiaries | 9. | 643,907 | 596,244 |
| Securities held-to-maturity | 10. | 216,563 | 451,178 |
| Property and equipment | 11. | 69,654 | 72,844 |
| Intangible assets | 11. | 38,909 | 39,539 |
| Other assets | 12. | 92,085 | 71,277 |
| **TOTAL ASSETS** | | **6,750,692** | **5,767,006** |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 13. | 1,152,131 | 711,077 |
| Deposits from customers | 14. | 3,368,752 | 3,108,428 |
| Liabilities from issued securities | 15. | 618,303 | 606,465 |
| Financial liabilities at fair value through profit or loss | 16. | 119,353 | 127,061 |
| Other liabilities | 17. | 252,988 | 136,284 |
| Subordinated bonds and loans | 18. | 287,321 | 305,218 |
| **TOTAL LIABILITIES** | | **5,798,848** | **4,994,533** |
| Share capital | 19. | 28,000 | 28,000 |
| Retained earnings and reserves | 20. | 927,618 | 842,318 |
| Treasury shares | 21. | (3,774) | (97,845) |
| **TOTAL SHAREHOLDERS' EQUITY** | | **951,844** | **772,473** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **6,750,692** | **5,767,006** |

The accompanying notes to unconsolidated financial statements on pages 126 to 183 form an integral part of these unconsolidated financial statements.

## *Statement of recognised income*

(unconsolidated, based on IFRS, for the year ended 31 December 2009, in HUF million)

| | Note | 2009 | 2008 |
|---|---|---|---|
| Interest Income: | | | |
| Loans | | 253,822 | 243,170 |
| Placements with other banks | | 353,911 | 203,352 |
| Securities available-for-sale | | 54,087 | 23,959 |
| Securities held-to-maturity | | 52,934 | 42,695 |
| Amounts due from banks and balances with National Bank of Hungary | | 7,026 | 14,147 |
| Securities held for trading | | 5,297 | 4,979 |
| Total Interest Income | | 727,077 | 532,302 |
| Interest Expense: | | | |
| Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government | | 265,205 | 206,208 |
| Deposits from customers | | 197,585 | 150,729 |
| Liabilities from issued securities | | 32,474 | 25,079 |
| Subordinated bonds and loans | | 17,446 | 16,444 |
| Total Interest Expense | | 512,710 | 133,842 |
| **NET INTEREST INCOME** | | **214,367** | **133,842** |
| Provision for impairment on loan and placement losses | 5., 8. | 78,462 | 29,211 |
| **NET INTEREST INCOME AFTER PROVISON FOR LOAN AND PLACEMENT LOSSES** | | **135,905** | **104,631** |
| Income from fees and commissions | 22. | 160,881 | 157,575 |
| Expenses from fees and commissions | 22. | 22,080 | 24,535 |
| **NET PROFIT FROM FEES AND COMMISSIONS** | | **138,801** | **133,040** |
| Foreign exchange (losses) and gains | | (18,487) | 58,228 |
| (Losses) and gains on securities, net | | (1,085) | 118 |
| Dividend income | | 32,986 | 138,264 |
| Other operating income | 23. | 41,350 | 21,497 |
| Other operating expenses | 23. | (2,713) | (146,502) |
| from this: provision for impairment on investments in subsidiaries | | 575 | 124,880 |
| **NET OPERATING INCOME** | | **52,051** | **71,605** |
| Personnel expenses | 24. | 77,677 | 77,354 |
| Depreciation and amortization | 24. | 22,262 | 21,032 |
| Other administrative expenses | 24. | 65,449 | 69,348 |
| **OTHER ADMINISTRATIVE EXPENSES** | | **165,338** | **167,734** |
| **PROFIT BEFORE INCOME TAX** | | **161,369** | **141,542** |
| Income tax | 25. | 3,231 | 7,587 |
| **NET PROFIT FOR THE YEAR** | | **158,138** | **133,955** |
| Earnings per share (in HUF) | | | |
| Basic | 35. | 582 | 495 |
| Diluted | 35. | 577 | 935 |

## *Statement of comprehensive income*

(unconsolidated, based on IFRS, for the year ended 31 December 2009, in HUF million)

| | 2009 | 2008 |
|---|---|---|
| **NET PROFIT FOR THE YEAR** | **158,138** | **133,955** |
| Fair value adjustment of securities available-for-sale | 29,126 | (17,393) |
| Cash Flow hedge | – | 387 |
| **NET COMPREHENSIVE INCOME** | **187,264** | **116,949** |

The accompanying notes to unconsolidated financial statements on pages 126 to 183 form an integral part of these unconsolidated financial statements.

## *Statement of cash flows*

(unconsolidated, based on IFRS, for the year ended 31 December 2009, in HUF million)

| Operating activities | Note | 2009 | 2008 |
|---|---|---|---|
| **Profit before income tax** | | **161,369** | **141,542** |
| Income tax paid | | (13,278) | (14,566) |
| Depreciation and amortization | | 22,262 | 21,032 |
| Net provision for impairment on securities available-for-sale | 7. | 2,451 | 2,769 |
| Provision for impairment on securities held-to-maturity | | 4,164 | – |
| Provision for impairment on loan and placement losses | 8. | 78,462 | 29,211 |
| Provision for impairment on investments in subsidiaries | 9. | 575 | 124,880 |
| Provision for impairment/(release of provision) on other assets | 12. | 1,370 | (731) |
| (Release of provision)/provision on off-balance sheet commitments and contingent liabilities | 17. | (9,500) | 14,012 |
| Share-based payment | 28. | 6,802 | 28 |
| Unrealised gains/(losses) on fair value adjustment of securities available-for-sale and held for trading | | 1,634 | (7,673) |
| Unrealised gains/(losses) on fair value adjustment of derivative financial instruments | | 34,568 | (8,676) |
| **Net changes in assets and liabilities in operating activities:** | | | |
| Changes in financial assets at fair value through profit or loss | | (124,995) | 6,358 |
| Changes in financial liabilities at fair value through profit or loss | | (224) | – |
| Increase in other assets, excluding advances for investments and before provisions for losses | | 1,533 | 11,535 |
| Increase/(decrease) in other liabilities | | 93,307 | (15,362) |
| **Net cash provided by operating activities** | | **260,500** | **304,359** |
| **FINANCING ACTIVITIES** | | | |
| Net increase in placements with other banks before allowance for placement losses | | (66,321) | (67,684) |
| Net increase in securities available-for-sale | | (1,055,389) | (250,560) |
| Net increase in investments in subsidiaries before provision for impairment | | (10,107) | (90,421) |
| Net decrease in securities held-to-maturity | | 227,376 | 127,843 |
| Net increase in advances for investments included in other assets | | (13) | (23) |
| Net decrease/(increase) in loans, net of allowance for loan losses | | 10,026 | (512,642) |
| Net (additions)/disposals to property, equipment and intangible assets | | (20,515) | 9,524 |
| **Net cash used in investing activities** | | **(914,943)** | **(783,963)** |
| **FINANCING ACTIVITIES** | | | |
| Net increase in amounts due to banks and deposits from the National Bank of Hungary and other banks | | 441,054 | 117,677 |
| Net increase in deposits from customers | | 256,289 | 143,991 |
| Net increase in liabilities from issued securities | | 11,409 | 201,307 |
| (Decrease)/increase in subordinated bonds and loans | | (17,897) | 3,810 |
| Payments to ICES holders | | (4,723) | (5,203) |
| Written put option on ordinary shares | | (55,468) | – |
| Net change in Treasury shares | | 44,513 | (54,560) |
| Net (increase)/decrease in the compulsory reserve established by the National Bank of Hungary | | (8,167) | 91,832 |
| Dividends paid | | (539) | (57) |
| **Net cash provided by financing activities** | | **666,471** | **498,797** |
| **Net increase in cash and cash equivalents** | | **12,028** | **19,193** |
| **Cash and cash equivalents at the beginning of the year** | | **93,651** | **74,458** |
| **Cash and cash equivalents at the end of the year** | | **105,679** | **93,651** |
| Cash, amounts due from banks and balances with the National Bank of Hungary | | 158,022 | 230,661 |
| Compulsory reserve established by the National Bank of Hungary | | (64,371) | (156,203) |
| **Cash and cash equivalents at the beginning of the year** | | **93,651** | **74,458** |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 4. | 178,217 | 158,022 |
| Compulsory reserve established by the National Bank of Hungary | 4. | (72,538) | (64,371) |
| **Cash and cash equivalents at the end of the year** | | **105,679** | **93,651** |

The accompanying notes to unconsolidated financial statements on pages 126 to 183 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 2009, in HUF million)

| | Note | Share Capital | Capital reserve | Share-based payment reserve | Retained earnings and reserves | Put option reserve | Treasury Shares | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2008** | | **28,000** | **52** | **19,153** | **722,262** | **–** | **(54,208)** | **715,259** |
| Net comprehensive income for the year | | – | – | – | 116,949 | – | – | 116,949 |
| Share-based payment | 28. | – | – | 28 | – | – | – | 28 |
| Payments to ICES holders | | – | – | – | (5,203) | – | – | (5,203) |
| Effect of treasury share transactions | | – | – | – | (7,499) | – | – | (7,499) |
| Loss on sale of treasury shares | | – | – | – | (3,424) | – | – | (3,424) |
| Aquisition of treasury shares | | – | – | – | – | – | (43,637) | (43,637) |
| **Balance as at 31 December 2008** | | **28,000** | **52** | **19,181** | **823,085** | **–** | **(97,845)** | **772,473** |
| Net comprehensive income for the year | | – | – | – | 187,264 | – | – | 187,264 |
| Share-based payment | 28. | – | – | 6,802 | – | – | – | 6,802 |
| Closed share-based payment | | – | – | (19,153) | 19,153 | – | – | – |
| Payments to ICES holders | | – | – | – | (4,723) | – | – | (4,723) |
| Sale of treasury shares | | – | – | – | – | – | 110,637 | 110,637 |
| Written put option on ordinary shares | | – | – | – | – | (55,468) | – | (55,468) |
| Loss on sale of treasury shares | | – | – | – | (48,575) | – | – | (48,575) |
| Acquisition of treasury shares | | – | – | – | – | – | (16,566) | (16,566) |
| **Balance as at 31 December 2009** | | **28,000** | **52** | **6,830** | **976,204** | **(55,468)** | **(3,774)** | **951,844** |

The accompanying notes to unconsolidated financial statements on pages 126 to 183 form an integral part of these unconsolidated financial statements.

# NOTES TO UNCONSOLIDATED IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 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.

| | 2009 | 2008 |
|---|---|---|
| **The structure of the Share capital by shareholders (%):** | | |
| Domestic and foreign private and institutional investors | 97% | 91% |
| Employees | 2% | 2% |
| Treasury shares | 1% | 7% |
| **Total** | **100%** | **100%** |

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

| | 2009 | 2008 |
|---|---|---|
| **Number of the employees of the Bank:** | | |
| Number of employees | 7,820 | 8,297 |
| Average number of employees | 7,977 | 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 38), in order to present the unconsolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB"), which are referred to as 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 statement of financial position date.

### *1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2009*

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

– IAS 1 (Revised) Presentation of Financial Statements – a revised presentation (effective for annual periods beginning on or after 1 January 2009)
– IAS 23 (Revised) Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)
– IAS 32 (Amendment) Financial Instruments: Presentation and IAS 1 Presentation of Financial statements – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009)
– IFRS 1 (Amendment) First-time adoption of IFRS and IAS 27 (Amendment) Consolidated and Separate Financial Statements – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009)
– IFRS 2 (Amendment) Share-based Payment – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009)
– IFRS 7 (Amendment) Financial Instruments: Disclosures - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009)*
– IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009)
– IFRIC 9 (Amendment) Reassessment of Embedded Derivatives and IAS 39 (Amendment) Financial Instruments: Recognition and Measurement – Embedded derivatives (effective for annual periods ending on or after 30 June 2009)
– IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)
– IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009)*
– IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008)*
– Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009),

The adoption of the above presented Amendments and new Standards and Interpretations had no significant impact on the unconsolidated financial statements of the Bank.

### *1.2.2. Amendments to IFRSs effective on or after 1 January 2010, not yet adopted*

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

– IAS 24 (Amendment) Related party disclosures – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party

*Not yet endoresed by the Ell.

(effective for annual periods beginning on or after 1 January 2011)*
– IAS 27 (Amendment) Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009)
– IAS 32 (Amendment) Financial instruments: Presentation – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010)
– IAS 39 (Amendment) Financial Instruments: Recognition and Measurement – Eligible hedged items (effective for annual periods beginning on or after 1 July 2009)
– IFRS 1 (Amendment) First time adoption of IFRS – Additional exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010)*
– IFRS 2 (Amendment) Share based payment – Bank cash-settled share based payment transactions (effective for annual periods beginning on or after 1 January 2010)*
– IFRS 3 (Revised) Business Combinations (effective for annual periods beginning on or after 1 July 2009)
– IFRS 9 Financial instruments (effective for annual periods beginning on or after 1 January 2013)*
– IFRIC 14 (Amendment) The Limit on a defined benefit Asset, Minimum Funding Requirements and their interaction – Prepayments of a minimum funding requirement (effective for annual periods beginning on or after 1 January 2011)*
– IFRIC 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)
– IFRIC 18 Transfers of Assets from Customers (effective for transfer of assets from customers received on or after 1 July 2009)
– IFRIC 19 Extinguishing Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)*
– Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010*

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

## 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

*Not yet endorsed by the EU.

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 statement of recognised income.

## 2.3. Consolidated financial statements

These financial statements present the unconsolidated financial position and results of operations of the Bank. Consolidated financial statements are currently being prepared by the Bank and consolidated net profit for the year and shareholders' equity differs significantly from that presented in these unconsolidated financial statements. See Note 2.4 for the description of the method of accounting for investments in subsidiaries and associated companies in these unconsolidated financial statements. The consolidated financial statements and the unconsolitated financial statements will be published on the same date. As the ultimate parent, OTP is preparing consolidated financial statement of OTP Group.

## 2.4. Investments in subsidiaries

Investments in subsidiaries comprise those investments where the Bank, through direct and indirect ownership interest, controls the financial and operating policies of the investee.

The Bank recognizes the loss 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 recognised income.
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 value in use a discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash generating units.
OTP in its strategic plan, has taken into consideration the effects of the present global economic situation, the probable economic decline and their possible influence on the financial sector as well as the limited external refinancing funds, the lower possibility of the expansion and the prospective effects of all these above mentioned factors.

## 2.5. Securities held-to-maturity

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Bank has the 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.

Such securities comprise mainly securities issued by the Hungarian Government and NBH, mortgage bonds and foreign bonds.

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

### *2.6.1. Securities held for trading*

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognised in profit/loss and included in the unconsolidated statement of recognised income for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds 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 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 statement of recognised income for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

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

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the unconsolidated statement of recognised income.

## 2.7. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured

at fair value. Available-for-sale 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. Securities available-for-sale 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.
The provision is calculated based on discounted cash flow methodology, using the expected future cash flow and original effective interest rate.

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

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less provision for impairment when appropriate.

## 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 amounts outstanding. When a borrower is unable to meet payments as they fall due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest is impaired.

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

Allowance for losses on loans and placements with other banks represent management assessment for potential losses in relation to these activities.

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified and for potential losses which may be present based on portfolio performance.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provisions for impairment on loan and placement losses" in the statement of recognised income. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income.
The Bank classifies the previously performing loans that have been renegotiated automatically to the to-be-monitored risk class and records at least 1 per cent provision for impairment on them.

## 2.9. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the statement of financial position and the consideration received is recorded in Other liabilities or Amounts due to banks and

Hungarian Government, deposits from the National Bank of Hungary and other banks, or Deposits from customers. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the statement of financial position and the consideration paid is recorded in Placement with other Banks. Interest is accrued evenly over the life of the repurchase agreement.

## 2.10. Property, equipment and intangible assets

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

| | |
|---|---|
| Intangible assets | |
| Software | 20–33.3% |
| Property rights | 16.7% |
| Property | 1–2% |
| Office equipments and vehicles | 8–33.3% |

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

## 2.11. Financial liabilities

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

## 2.12. Leases

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

## 2.13. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the unconsolidated statement of financial position at acquisition cost as a deduction from shareholders' equity.
Gains and losses on the sale of Treasury shares are credited or charged directly to shareholder's equity in the trasury shares. Derecognition of Treasury shares is based on the FIFO method.

## 2.14. Interest income and interest expense

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

## 2.15. Fees and Commissions

Fees and commissions are recognised in the unconsolidated statement of recognised income on an accrual basis based on IAS 18 Revenue Standard, fees and commissions are recognised using the effective interest method referring to provisions IAS 39.

## 2.16. Income tax

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

## 2.17. 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 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 grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

## 2.19. 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. Segment reporting

The Bank has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.
Based on the above, the segments identified by the Bank are the geographical segments.

## 2.21. Comparative figures

Certain amounts in the unconsolidated financial statements for the year ended 31 December 2008 have been reclassified to conform with the current year presentation. These mainly consist of reclassifications of accruals and prepayments from the other assets/liabilities to the statement of financial position items to which they are related. 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 Bank to make judgement about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

## 3.1. Impairment on loans and 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.

## 3.2. Valuation of instruments without direct quotations

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

## 3.3. Provisions

Provision is recognised and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (see Note 17)
A provision is recognised by the Bank when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
Provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities, for commitments to extend credit, provision for warranties arising from banking activities and provision for Confirmed letter of credit.

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

| | 2009 | 2008 |
|---|---|---|
| **Cash on hand:** | | |
| In HUF | 49,237 | 66,542 |
| In foreign currency | 5,453 | 8,120 |
| | **54,690** | **74,662** |
| **Amounts due from banks and balances with National Bank of Hungary:** | | |
| Within one year: | | |
| In HUF | 95,389 | 71,857 |
| In foreign currency | 27,734 | 10,918 |
| | **123,123** | **82,775** |
| Accrued interest | 404 | 585 |
| **Total** | **178,217** | **158,022** |
| **Compulsory reserve** | **72,538** | **64,371** |
| **Rate of the compulsory reserve** | **2%** | **2%** |

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

| | 2009 | 2008 |
|---|---|---|
| Within one year: | | |
| In HUF | 230,804 | 157,903 |
| In foreign currency | 442,228 | 389,055 |
| | **673,032** | **546,958** |
| Over one year | | |
| In HUF | 300 | 2,300 |
| In foreign currency | 288,894 | 371,559 |
| | **289,194** | **373,859** |
| Total placements | 962,226 | 920,817 |
| Accrued interest | 1,534 | 5,258 |
| Provision for impairment on placement losses | (1,697) | (362) |
| **Total** | **962,063** | **925,713** |

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 362 | – |
| Provision for the period | 1600 | 362 |
| Release of provision | (265) | – |
| **Balance as at 31 December** | **1,697** | **362** |

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

| | 2009 | 2008 |
|---|---|---|
| Placements with other banks in HUF | 6.75%–10.89% | 8.94%–12.67% |
| Placements with other banks in foreign currency | 0.5%–10.5% | 1%–10.7% |

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

| | 2009 | 2008 |
|---|---|---|
| Held for trading securities: | | |
| Corporate shares | 88,513 | 2,298 |
| Securities issued by the NBH | 49,887 | – |
| Government bonds | 28,857 | 43,031 |
| Mortgage bonds | 8,689 | 5,057 |
| Hungarian government discounted Treasury Bills | 2,642 | 1,373 |
| Hungarian government interest bearing Treasury Bills | 183 | 452 |
| | **179,053** | **54,819** |
| Accrued interest | 1,363 | 1,827 |
| **Total** | **180,416** | **56,646** |

### *Derivative financial instruments designated as held for trading:*

| | 2009 | 2008 |
|---|---|---|
| Interest rate swaps designated as held for trading | 56,134 | 41,004 |
| CCIRS* and mark-to-market CCIRS swap designated as held for trading | 28,403 | 25,600 |
| Foreign currency swaps designated as held for trading | 7,439 | 26,527 |
| Other derivative transactions | 1,260 | 3,766 |
| **Subtotal** | **93,236** | **96,897** |
| **Total** | **273,652** | **153,543** |

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

| | 2009 | 2008 |
|---|---|---|
| Within five years: | | |
| variable interest | 18 | 228 |
| fixed interest | 74,670 | 34,779 |
| | **74,688** | **35,007** |
| Over five years: | | |
| variable interest | – | – |
| fixed interest | 15,832 | 17,514 |
| | **15,832** | **17,514** |
| Non-interest bearing securities | 88,533 | 2,298 |
| **Total** | **179,053** | **54,819** |

| | 2009 | 2008 |
|---|---|---|
| Held for trading securities denominated in HUF (%) | 96% | 94% |
| Held for trading securities denominated in Foreign currency (%) | 4% | 6% |
| **Held for trading securities total** | **100%** | **100%** |
| Government securities denominated in HUF (%) | 99% | 98% |
| Government securities denominated in foreign currency (%) | 1% | 2% |
| **Government securities total** | **100%** | **100%** |
| Interest rates on securities held for trading (%) | 3.9%–12.2% | 3.7%–12.2% |

* CCIRS: Cross Currency Interest Rate Swap

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

| | 2009 | 2008 |
|---|---|---|
| **Securities available-for-sale** | | |
| Mortgage bonds | 720,260 | 290,820 |
| Bonds issued by NBH | 504,172 | – |
| Government bonds | 257,571 | 126,177 |
| Other securities | 137,389 | 135,683 |
| Listed securities | 15,878 | 22,756 |
| in HUF | 0 | 0 |
| in foreign currency | 15,878 | 22,756 |
| Non-listed securities | 121,511 | 112,927 |
| in HUF | 14,580 | 16,719 |
| in foreign currency | 106,931 | 96,208 |
| Accrued interest | 38,575 | 11,130 |
| Provision for impairment | (5,220) | (2,769) |
| **Securities available-for-sale total** | **1,652,747** | **561,041** |

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 2,769 | – |
| Provision for the period | 5,220 | 2,769 |
| Use of provision | (2,769) | – |
| **Balance as at 31 December** | **5,220** | **2,769** |

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

| | 2009 | 2008 |
|---|---|---|
| Securities available-for-sale denominated in HUF (%) | 74% | 78% |
| Securities available-for-sale denominated in foreign currency (%) | 26% | 22% |
| **Securities available-for-sale total** | **100%** | **100%** |
| Interest rates on securities available-for-sale denominated in HUF (%) | 5.5%–12% | 6%–11% |
| Interest rates on securities available-for-sale denominated in foreign currency (%) | 1%–9.5% | 1%–9.75% |

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

| | 2009 | 2008 |
|---|---|---|
| Within five years: | | |
| variable interest | 29,140 | 363,229 |
| fixed interest | 1,066,194 | 90,213 |
| | **1,095,336** | **453,442** |
| Over five years: | | |
| variable interest | 72,030 | 79,758 |
| fixed interest | 443,589 | 8,666 |
| | **515,589** | **88,424** |
| Non-interest bearing securities | 8,467 | 10,814 |
| **Total** | **1,619,392** | **552,680** |

Certain fixed-rate mortgage bonds and other securities are hedged. See Note 37.

| | 2009 | 2008 |
|---|---|---|
| Net loss reclassified from equity to statement of recognised income | 197 | 934 |
| **Fair value of the hedged securities** | | |
| Mortgage bonds | – | 16,841 |
| Other securities | 17,286 | 20,335 |
| **Total** | **17,286** | **37,176** |

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

| | 2009 | 2008 |
|---|---|---|
| Short-term loans and trade bills (within one year) | 611,898 | 650,160 |
| Long-term loans and trade bills (over one year) | 2,078,523 | 2,110,541 |
| **Loans gross total** | **2,690,421** | **2,760,701** |
| Accrued interest | 22,061 | 22,223 |
| Provision of impairment on loan losses | (89,587) | (45,319) |
| **Total** | **2,622,895** | **2,737,605** |

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

| | 2009 | 2008 |
|---|---|---|
| In HUF | 33% | 30% |
| In foreign currency | 67% | 70% |
| **Total** | **100.0%** | **100.0%** |

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

| | 2009 | 2008 |
|---|---|---|
| Loans denominated in HUF, with a maturity within one year | 9.7%–30% | 14%–30% |
| Loans denominated in HUF, with a maturity over one year | 3%–24.8% | 3%–24.8% |
| Loans denominated in Foreign currency | 1.8%–24.1% | 1.8%–22% |
| Gross loan portfolio on which interest is not being accrued | 6.8% | 3% |

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Corporate loans | 1,921,905 | 70% | 1,862,963 | 67% |
| Consumption loans | 364,839 | 14% | 361,148 | 13% |
| Municipality loans | 178,224 | 7% | 180,670 | 7% |
| Housing loans | 149,851 | 6% | 235,375 | 9% |
| Mortgage backed loans | 75,602 | 3% | 120,545 | 4% |
| **Total** | **2,690,421** | **100%** | **2,760,701** | **100%** |

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 45,319 | 28,820 |
| Provision for the period | 76,862 | 28,849 |
| Release | (32,594) | (12,350) |
| **Balance as at 31 December** | **89,587** | **45,319** |

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (See Note 29.)

## NOTE 9: INVESTMENTS IN SUBSIDIARIES (in HUF mn)

| | 2009 | 2008 |
|---|---|---|
| Investments in subsidiaries: | | |
| Controlling interest | 769,477 | 721,180 |
| Significant interest | – | 72 |
| Other | 975 | 987 |
| | 770,452 | 722 239 |
| Provision for impairment | (126,545) | (125,995) |
| **Total** | **643,907** | **596,244** |

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 125,995 | 1,115 |
| Provision for the period | 575 | 124,880 |
| Release of provision | (25) | – |
| **Balance as at 31 December** | **126,545** | **125,995** |

The provision for impairment on OTP Bank JSC (Ukraine) was HUF 97,526 million, for OTP banka Srbija a.d. was HUF 25,284 million as at 31 December 2009 and no additional provision was provided for these subsidiaries.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **% Held (direct and indirect)** | **Gross book value** | **% Held (direct and indirect)** | **Gross book value** |
| OTP Bank JSC (Ukraine) | 100% | 271,677 | 100% | 210,673 |
| DSK Bank EAD (Bulgaria) | 100% | 86,831 | 100% | 86,831 |
| OTP banka Hrvatska d.d. (Croatia) | 100% | 72,940 | 100% | 72,940 |
| OAO OTP Bank (Russia) | 95.55% | 66,739 | 95.51% | 66,723 |
| OTP banka Srbija a.d. (Serbia) | 91.43% | 55,997 | 91.43% | 55,997 |
| OTP Bank Romania S.A. (Romania) | 100% | 40,058 | 100% | 38,117 |
| Crnogorska komercijalna banka a.d. (Montenegro) | 100% | 37,100 | 100% | 32,988 |
| OTP Mortgage Bank Ltd. | 100% | 27,000 | 100% | 27,000 |
| OOO Invest Oil (Russia) | 100% | 21,224 | 100% | 21,224 |
| OOO Megaform Inter (Russia) | 100% | 17,704 | 100% | 17,704 |
| OOO AlyansReserv (Russia) | 100% | 11,147 | 100% | 11,147 |
| OTP Banka Slovensko a.s. (Slovakia) | 97.23% | 10,038 | 97.23% | 10,038 |
| Air-Invest Ltd. | 100% | 8,298 | 100% | 7,948 |
| Bank Center No. 1. Ltd. | 100% | 7,330 | 100% | 7,330 |
| CJSC Donskoy Narodny Bank (Russia) | 100% | 6,687 | 100% | 6,687 |
| Inga Two Ltd. | 100% | 5,892 | 100% | 5,892 |
| OTP Funds Servicing and Consulting Ltd. | 100% | 2,469 | 100% | 2,469 |
| OTP Holding Ltd. (Cyprus) | 100% | 2,000 | 100% | 29,000 |
| OTP Building Society Ltd. | 100% | 1,950 | 100% | 1,950 |
| OTP Fund Management Ltd. | 100% | 1,653 | 100% | 1,653 |
| Merkantil Bank Ltd. | 100% | 1,600 | 100% | 1,600 |
| OTP Life Annuity Ltd. | 100% | 1,250 | 100% | 1,250 |
| S.C. OTP Fond de Pensii (Romania) | 100% | 885 | 100% | 885 |
| OTP Financing Netherlands B.V. (Netherlands) | 100% | 481 | 100% | 481 |
| OTP Card Factory Ltd. | 100% | 450 | 100% | 450 |
| OTP Real Estate Leasing Ltd. | 100% | 410 | 100% | 410 |
| OTP Factoring Ltd. | 100% | 225 | 100% | 225 |
| Other | – | 312 | – | 1,568 |
| **Subtotal** | | **760,347** | | **721,180** |

### *Investments in companies in which the Bank has a non-controlling interest as at 31 December 2009 are detailed below:*

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | % Held (direct and indirect) | Gross book value | % Held (direct and indirect) | Gross book value |
| Monicomp Ltd. | 100% | 3,800 | – | – |
| Monirent Ltd. | 100% | 1,520 | – | – |
| Omnilog Ltd. | 100% | 1,500 | – | – |
| D4 Tenant Ltd. | 100% | 1,020 | – | – |
| Pet-Real Ltd. | 100% | 808 | – | – |
| Dokulog Ltd. | 100% | 475 | – | – |
| CIL Babér Ltd. | 100% | 5 | – | – |
| Monopost Ltd. | 100% | 2 | – | – |
| **Subtotal** | | **9,130** | **–** | **–** |
| **Total** | | **769,477** | | **721,180** |

The Bank purchased these entities in December 2009 and the Bank has conrolling interest since 1 January 2010.

The Bank has 6 indirectly owned associates. The indirect ownership of the Bank does not exceed 50 per cent in either of them.

On 8 April 2009 the Bank, 100% owner of OTP Bank JSC has increased the registered capital of its subsidiary by UAH 800 million (USD 100 million). The registration of the capital increase has been accomplished on 6 October 2009. On 30 November 2009 the Bank concluded a purchase agreement and acquired CIL Babér Ltd. possessing the Danubius IV. office building and the tenant of the office building, D4 Tenant Ltd.

On 10 December 2009 the Bank, 100% owner of Crnogorska komercijalna banka a.d. (Montenegro) has increased the registered capital of its subsidiary by EUR 15 million thus the subsidiary's registered capital changed to EUR 62 million.

On 16 December 2009 the Bank concluded a purchase agreement and acquired Monirent Ltd. as well as Omnilog Ltd. and Dokulog Ltd. possessing a joint of storehouses and offices rented by Monirent Ltd. and Monopost Ltd. By acquiring Monirent Ltd. the Bank obtained the major of company share of Monopost Ltd.

On 21 December 2009 the Bank (100% owner of OTP Life Annuity Ltd.) has decreased the registered capital of OTP Life Annuity Ltd. by HUF 405 million. Thus the subsidiary's registered capital decreased from HUF 505 million to HUF 100 million, the capital decrease has been registered by the court.

On 22 December 2009 the Bank concluded a purchase agreement and acquired a computer and banking equipment trading company, Monicomp Ltd.

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

| | 2009 | 2008 |
|---|---|---|
| Government bonds | 107,447 | 150,573 |
| Mortgage bonds | 99,220 | 172,988 |
| Hungarian government discounted Treasury bills | 388 | 4,290 |
| Bonds issued by NBH | – | 109,684 |
| Foreign bonds | 5,250 | – |
| | **212,305** | **437,535** |
| Accrued interest | 8,422 | 13,643 |
| Provision for impairment | (4,164) | – |
| **Total** | **216,563** | **451,178** |

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | – | – |
| Provision for the period | 4,164 | – |
| **Balance as at 31 December** | **4,164** | **–** |

Provision relates to foreign currency denominated bonds issued in Kazakhstan which are included in other securities. The amount of the provision is based on objective evidences that the securities are impaired and reflects the best estimate of the management.

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

| | 2009 | 2008 |
|---|---|---|
| Within five years: | | |
| variable interest | 37,204 | 29,118 |
| fixed interest | 144,593 | 369,624 |
| | **181,797** | **398,742** |
| Over five years: | | |
| variable interest | 6,666 | 15,023 |
| fixed interest | 23,842 | 23,770 |
| | **30,508** | **38,793** |
| **Total** | **212,305** | **437,535** |

| | 2009 | 2008 |
|---|---|---|
| Securities held-to-maturity denominated in HUF (%) | 98% | 100% |
| Securities held-to-maturity denominated in foreign currency (%) | 2% | – |
| **Securities held-to maturity total** | **100.0%** | **100.0%** |

| | 2009 | 2008 |
|---|---|---|
| Interest rates on securities held-to-maturity (%) | 5.5%–19.2% | 5.5%–19.2% |

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

Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

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

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

| | Intangible assets | Property | Office equipments and vehicles | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January | 74,686 | 58,354 | 72,441 | 4,869 | 210,350 |
| Additions | 18,682 | 3,116 | 4,355 | – | 26,153 |
| Disposals | (5,633) | (1,506) | (5,675) | (1,037) | (13,851) |
| **Balance as at 31 December** | **87,735** | **59,964** | **71,121** | **3,832** | **222,652** |
| **Depreciation and amortization** | | | | | |
| Balance as at 1 January | 35,147 | 10,585 | 52,235 | – | 97,967 |
| Charge for the year | 13,730 | 1,475 | 7,057 | – | 22,262 |
| Disposals | (51) | (568) | (5,521) | – | (6,140) |
| **Balance as at 31 December** | **48,826** | **11,492** | **53,771** | **–** | **114,089** |
| **Net book value** | | | | | |
| Balance as at 1 January | 39,539 | 47,769 | 20,206 | 4,869 | 112,383 |
| **Balance as at 31 December** | **38,909** | **48,472** | **17,350** | **3,832** | **108,563** |

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

| | Intangible assets | Property | Office equipments and vehicles | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January | 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** | **74,686** | **58,354** | **72,441** | **4,869** | **210,350** |
| **Depreciation and amortization** | | | | | |
| Balance as at 1 January | 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** | **35,147** | **10,585** | **52,235** | **–** | **97,967** |
| **Net book value** | | | | | |
| Balance as at 1 January | 36,266 | 45,890 | 21,944 | 6,173 | 110,273 |
| **Balance as at 31 December** | **39,539** | **47,769** | **20,206** | **4,869** | **112,383** |

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

| | 2009 | 2008 |
|---|---|---|
| Receivables from OTP Mortgage Bank Ltd.* | 49,026 | 17,012 |
| Fair value of derivative financial instruments designated as hedge accounting relationship | 14,148 | 8,871 |
| Trade receivables | 6,010 | 5,791 |
| Receivables from decreasing share capital of OTP Holding Ltd. | 4,800 | – |
| Prepayments and accrued income | 4,506 | 6,028 |
| Deferred tax assets | 3,828 | – |
| Due from Hungarian Government from interest subsidies | 1,878 | 3,128 |
| Current income tax receivable | 1,400 | 23,882 |
| Credits sold under deferred payment scheme | 1,248 | 420 |
| Inventories | 705 | 602 |
| Advances for securities and investments | 546 | 533 |
| Receivables from investment services | 512 | 929 |
| Other advances | 192 | 162 |
| Other | 5,260 | 4,527 |
| | **94,059** | **71,885** |
| Accrued interest | 5 | 2 |
| Provision for impairment on other assets | (1,979) | (610) |
| **Total** | **92,085** | **71,277** |

### *Positive fair value of derivative financial instruments designated as hedge accounting relationship:*

| | 2009 | 2008 |
|---|---|---|
| Interest rate swaps designated as hedge accounting relationship | 14,147 | 8,692 |
| Other | 1 | 179 |
| **Total** | **14,148** | **8,871** |

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 610 | 1,375 |
| Charge/(release) for the period | 1,370 | (731) |
| Write-offs | (1) | (34) |
| **Balance as at 31 December** | **1,979** | **610** |

*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.

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

| | 2009 | 2008 |
|---|---|---|
| Within one year: | | |
| In HUF | 84,777 | 207,354 |
| In foreign currency* | 712,431 | 353,971 |
| | **797,208** | **561,325** |
| Over one year: | | |
| In HUF | 97,875 | 88,577 |
| In foreign currency | 254,377 | 55,663 |
| | **352,252** | **144,240** |
| Accrued interest | 2,671 | 5,512 |
| **Total** | **1,152,131** | **711,077** |

The Bank has a mortgage bonds backed asset as collateral in relation to its branch in Frankfurt (EUR 435 million).

*The Hungarian State through the Government Debt Management Agency has rendered EUR 1.4 billion loan to the Bank in the framework of a loan agreement signed on 26 March 2009. The source of the facility is the IMF Loan Programme. The first disbursement was effected on 1 April 2009, the second on 30 June 2009 respectively. The maturity of the loan is 11 November 2012.

The loan facility has market conditions; the coupon paid by the Bank exceeds the relevant benchmark rates by 245–250 bps.

The loan agreement aims at providing liquidity for Hungarian corporations, as well as mitigating the negative effect of the current financial situation and stabilizing the local financial sector.

In order to contribute to the stimulation of the economy in Hungary, the Bank got the fund with the aim of re-channelling it to local corporate clients.

On 5 November 2009 the Bank has paid back an equivalent of EUR 700 million to the Hungarian State.

### *Interest rates on amounts due to banks and deposits from the NBH are follows:*

| | 2009 | 2008 |
|---|---|---|
| Within one year: | | |
| In HUF | 8.94%–11% | 9.4%–10.8% |
| In foreign currency | 1%–5.9% | 0.5%–13.75% |
| Over one year: | | |
| In HUF | 1.75%–8.46% | 3%–9.18% |
| In foreign currency | 0.28%–10.56% | 1.4%–6.3% |

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

| | 2009 | 2008 |
|---|---|---|
| Within one year: | | |
| In HUF | 2,694,633 | 2,508,553 |
| In foreign currency | 630,457 | 556,332 |
| | **3,325,090** | **3,064,885** |
| Over one year: | | |
| In HUF | 16,860 | 24,553 |
| In foreign currency | 3,941 | 1,324 |
| | **20,801** | **25,877** |
| **Subtotal** | **3,345,891** | **3,090,762** |
| Accrued interest | 22,861 | 17,666 |
| **Total** | **3,368,752** | **3,108,428** |

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

| | 2009 | 2008 |
|---|---|---|
| Within one year in HUF | 0.2%–12% | 0.2%–13.8% |
| Over one year in HUF | 0.2%–11.5% | 0.2%–11% |
| In foreign currency | 0.1%–8.1% | 0.1%–21.5% |

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Retail deposits | 2,057,361 | 61% | 2,027,357 | 66% |
| Corporate deposits | 1,033,705 | 31% | 836,781 | 27% |
| Municipality deposits | 254,825 | 8% | 226,624 | 7% |
| **Total** | **3,345,891** | **100%** | **3,090,762** | **100%** |

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

| | 2009 | 2008 |
|---|---|---|
| Within one year: | | |
| In HUF | 227,834 | 57,548 |
| In foreign currency | 216,673 | 198,585 |
| | **444,507** | **256,133** |
| Over one year: | | |
| In HUF | 22,206 | 1,863 |
| In foreign currency | 140,540 | 343,795 |
| | **162,746** | **345,658** |
| **Subtotal** | **607,253** | **601,791** |
| Accrued interest | 11,050 | 4,674 |
| **Total** | **618,303** | **606,465** |

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

| | 2009 | 2008 |
|---|---|---|
| Issued securities denominated in HUF | 0.25%–10% | 0.3%–9% |
| Issued securities denominated in foreign currency | 0.86%–5.75% | 3.1%–5.8% |

## Information concerning issued securities:

### *Issued securities denominated in HUF as at 31 December 2009:*

| | Name | Date of issuance | Maturity | Nominal value in HUF million | Interest conditions (in % p.a.) | |
|---|---|---|---|---|---|---|
| 1. | OTP 2010/I | 2009.02.10–2009.02.13 | 22/01/2010 | 22,012 | 10 | fixed |
| 2. | OTP 2010/II | 2009.02.20–2009.03.28 | 20/02/2010 | 30,530 | 8 | fixed |
| 3. | OTP 2010/III | 2009.04.03–2009.04.24 | 03/04/2010 | 21,433 | 9 | fixed |
| 4. | OTP 2010/IV | 2009.04.30–2009–05.08 | 30/04/2010 | 8,424 | 9.5 | fixed |
| 5. | OTP 2010/V | 2009.05.15–2009.05.22 | 15/05/2010 | 6,920 | 9.5 | fixed |
| 6. | OTP 2010/VI | 2009.05.29–2009.06.05 | 29/05/2010 | 5,492 | 9.5 | fixed |
| 7. | OTP 2010/VII | 2009.06.12–2009.06.19 | 12/06/2010 | 6,590 | 9.5 | fixed |
| 8. | OTP 2010/VIII | 2009.06.26–2009.07.03 | 26/06/2010 | 10,894 | 9.5 | fixed |
| 9. | OTP 2010/IX | 2009.07.10–2009.07.17 | 10/07/2010 | 8,538 | 9.5 | fixed |
| 10. | OTP 2010/X | 2009.07.24–2009.07.31 | 24/07/2010 | 9,602 | 9.5 | fixed |
| 11. | OTP 2010/XI | 2009.08.07–2009.08.19 | 07/08/2010 | 13,894 | 9 | fixed |
| 12. | OTP 2010/XII | 2009.08.29 | 29/08/2010 | 4,232 | 9 | fixed |
| 13. | OTP 2010/XIII | 2009.09.04–2009.09.11 | 04/09/2010 | 10,571 | 7 | fixed |
| 14. | OTP 2010/XIV | 2009.09.18–2009.09.25 | 18/09/2010 | 7,899 | 7 | fixed |
| 15. | OTP 2010/XIX | 2009.11.27 | 27/11/2010 | 3,184 | 6.5 | fixed |
| 16. | OTP 2010/XV | 2009.10.02–2009.10.09 | 02/10/2010 | 3,953 | 6.5 | fixed |
| 17. | OTP 2010/XVI | 2009.10.16–2009.10.22 | 16/10/2010 | 4,854 | 6.5 | fixed |
| 18. | OTP 2010/XVII | 2009.10.30–2009.11.06 | 30/10/2010 | 23,566 | 6.5 | fixed |
| 19. | OTP 2010/XVIII | 2009.11.13–2009.11.20 | 13/11/2010 | 8,290 | 6.5 | fixed |
| 20. | OTP 2010/XX | 2009.12.04–2009.12.11 | 04/12/2010 | 6,096 | 6.5 | fixed |
| 21. | OTP 2010/XXI | 2009.12.21–2009.12.30 | 21/12/2010 | 7,452 | 5.5 | fixed |
| 22. | OTP 2011A | 2009.10.13 | 13/04/2011 | 3,000 | 9.5 | fixed |
| 23. | OTP 2011B | 2009.10.28 | 28/04/2011 | 1,000 | 7.55 | fixed |
| 24. | OTP 2011C | 2009.11.09 | 09/11/2011 | 2,000 | 7.5 | fixed |
| 25. | OTPX 2010A | 2007.12.21 | 21/12/2010 | 1,393 | indexed | floating |
| 26. | OTPX 2011A | 2009.02.29 | 01/03/2011 | 315 | indexed | floating |
| 27. | OTPX 2011B | 2009.05.30 | 30/05/2011 | 604 | indexed | floating |
| 28. | OTPX 2011C | 2009.12.14 | 20/12/2011 | 500 | indexed | floating |
| 29. | OTPX 2012A | 2009.09.11-2009.09.25 | 11/09/2012 | 1,686 | indexed | floating |
| 30. | OTPX 2014A | 2009.06.25 | 30/06/2014 | 65 | indexed | floating |
| 31. | OTPX 2014B | 2009.10.05 | 13/10/2014 | 5,000 | indexed | floating |
| 32. | OTPX 2014C | 2009.12.14 | 19/12/2014 | 4,600 | indexed | floating |
| 33. | OTPX 2019A | 2009.06.25 | 01/07/2019 | 3,709 | indexed | floating |
| 34. | OTPX 2019B | 2009.10.05 | 14/10/2019 | 437 | indexed | floating |
| 35. | OTPX 2019C | 2009.12.14 | 20/12/2019 | 430 | indexed | floating |
| | **Total** | | | **249,165** | | |
| | Unamortized premium | | | 309 | | |
| | Fair value hedge adjustment | | | (1,497) | | |
| | **Total** | | | **247,977** | | |

### *Issued securities denominated in foreign currency as at 31 December 2009:*

| | Name | Date of issuance | Maturity | Nominal value in EUR million | HUF million | Interest conditions (in % p.a.) | |
|---|---|---|---|---|---|---|---|
| 1. | OTP HBFIXED 160511 | 16/05/2008 | 16/05/2011 | 500 | 135,420 | 5,75 | fixed |
| 2. | OTP HBFLOAT 010710 | 01/07/2005 | 01/07/2010 | 500 | 135,420 | 3 month Euribor + 0.16 quarterly | floating |
| 3. | OTP HBFLOAT 201210 | 20/12/2005 | 20/12/2010 | 300 | 81,252 | 3 month Euribor + 0.15 quarterly | floating |
| | | | | **1.300** | **352,092** | | |
| | Unamortized premium | | | | (1,417) | | |
| | Fair value hedge adjustment | | | | 8,601 | | |
| | **Total** | | | | **359,276** | | |
| | **Accrued interest** | | | | **11,050** | | |
| | **Total** | | | | **618,303** | | |

## NOTE 16: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

### *Negative fair value of financial liabilities at fair value through profit or loss:*

| | 2009 | 2008 |
|---|---|---|
| CCIRS and mark-to-market CCIRS | 61,517 | 64,595 |
| Interest rate swaps | 47,065 | 32,564 |
| Foreign currency swaps | 6,168 | 24,063 |
| Other derivative contracts | 4,603 | 5,839 |
| **Total** | **119,353** | **127,061** |

## NOTE 17: OTHER LIABILITIES (in HUF mn)

| | 2009 | 2008 |
|---|---|---|
| Financial liabilities from OTP-MOL share swap transaction* | 86,912 | – |
| Financial liabilities from guaranteed loans of OTP Bank JSC by OTP Bank | 38,132 | – |
| Accrued expenses | 36,634 | 36,052 |
| Salaries and social security payable | 18,938 | 19,789 |
| Provision on off-balance sheet commitments, contingent liabilities | 18,733 | 28,233 |
| Giro clearing accounts | 11,330 | 20,129 |
| Liabilities from custody accounts | 7,260 | 692 |
| Accounts payable | 6,999 | 6,616 |
| Current income tax payable | 6,902 | 4,493 |
| Fair value of derivative financial instruments designated as hedge accounting relationship | 3,569 | 1,268 |
| Liabilities from investment services | 2,813 | 2,136 |
| Liabilities related to housing loans | 1,580 | 1,698 |
| Liabilities connected to loans for collection | 1,426 | 1,340 |
| Repurchase agreements | 895 | – |
| Dividends payable | 196 | 735 |
| Deferred tax liabilities | – | 759 |
| Other | 10,669 | 12,344 |
| **Total** | **252,988** | **136,284** |

*On 16 April 2009 OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an american style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the lost of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity and a recognition of a corresponding liability. As at 31 December 2009 HUF 86,912 million liability is presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

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

| | 2009 | 2008 |
|---|---|---|
| Provision for losses on other off-balance sheet commitments and contingent liabilities | 14,346 | 23,924 |
| From this: provision for the repurchase guarantee to OTP Mortgage Bank Ltd. | 6,619 | 6,834 |
| Provision for litigation | 3,116 | 3,038 |
| Provision on other liabilities | 1,271 | 1,271 |
| **Total** | **18,733** | **28,233** |

Provision on other off-balance sheet commitments and contingent liabilities primarily relates to commitments from guarantees and credit lines issued towards related parties by the Bank.

### *Negative fair value of derivative financial instruments designated as hedge accounting relationship:*

| | 2009 | 2008 |
|---|---|---|
| Interest-rate swap transactions designated as hedge accounting relationship | 3,569 | 1,268 |

### *Movements in the provision for losses on commitments and contingent liabilities can be summarized as follows:*

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 28,233 | 14,221 |
| Provision for the period | (9,500) | 14,012 |
| **Balance as at 31 December** | **18,733** | **28,233** |

## NOTE 18: SUBORDINATED BONDS AND LOANS (in HUF mn)

| | 2009 | 2008 |
|---|---|---|
| Over one year: | | |
| In HUF | 5,000 | 5,000 |
| In foreign currency | 278,863 | 296,951 |
| | **283,863** | **301,951** |
| Accrued interest | 3,458 | 3,267 |
| **Total** | **287,321** | **305,218** |

### *Interest rates on subordinates bonds and loans are as follows:*

| | 2009 | 2008 |
|---|---|---|
| Subordinated bonds and loans denominated in HUF | 3.8% | 4.75% |
| Subordinated bonds and loans denominated in foreign currency | 1.3%–5.9% | 4.3%–5.9% |

## *Subordinated loans and bonds are detailed as follows:*

| | |
|---|---|
| Type | Subordinated bond |
| Nominal value | HUF 5 billion |
| Date of issuance | 20 December 1993 |
| Date of maturity | 20 December 2013 |
| Issue price | 100% |
| Interest conditions | frequency of payment is based on the condition of interest of 2013/C credit consolidation government bonds |
| Current interest rate | 3.8% |

| | |
|---|---|
| Type | Subordinated loan from the European Bank for Reconstruction and Development (the loan has already been repaid in 2008. |
| Nominal value | USD 30 million and DEM 31.14 million |
| Date of issuance | December 1996 |
| Date of maturity | 27 August 2008 |
| Interest conditions | six-month LIBOR + 1.35% |

| | |
|---|---|
| Type | Subordinated bond |
| Nominal value | EUR 125 million |
| Date of issuance | 4 March 2005 |
| Date of maturity | 4 March 2015 |
| Issue price | 100% |
| Interest conditions | three-month EURIBOR + 0.55% quarterly |

| | |
|---|---|
| Type | Subordinated bond |
| Nominal value | EUR 498 million |
| Date of issuance | 7 November 2006 |
| Date of maturity | Perpetual, and callable after 10 years |
| Issue price | 99.375 % |
| Interest conditions | Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly) |

| | |
|---|---|
| Type | Subordinated bond (under EMTN* program) |
| Nominal value | EUR 300 million |
| Date of issuance | 19 September 2006 |
| Date of maturity | 19 September 2016 |
| Issue price | 100% |
| Interest conditions | Fixed 5.27% annual |

| | |
|---|---|
| Type | Subordinated bond (under EMTN program) |
| Nominal value | EUR 200 million |
| Date of issuance | 26 February 2007 |
| Date of maturity | 19 September 2016 |
| Issue price | 100% |
| Interest conditions | Fixed 5.27% annual |

*European Medium Term Note Program. On 30 August 2006 the Bank updated EMTN Program and increased the Program amount from EUR 1 billion to EUR 5 billion.

## NOTE 19: SHARE CAPITAL (in HUF mn)

| | 2009 | 2008 |
|---|---|---|
| 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 20: RETAINED EARNINGS AND RESERVES (in HUF mn)

### *The reserves of the Bank under Hungarian Accounting Standards:*

| | 2009 | 2008 |
|---|---|---|
| Capital reserve | 52 | 52 |
| General reserve | 111,903 | 101,670 |
| Retained earnings | 598,133 | 495,270 |
| Tied-up reserve | 5,274 | 55,305 |
| **Total** | **715,362** | **652,297** |

The legal reserves (general reserve and tied-up reserve) are not available for distribution.

According to the decision made at the Annual General Meeting on 24 April 2009 the Bank did not pay any dividend from the profit of 2008.

These Financial Statements subject to approval by the Board of Directors in the Annual General Meeting in April 2010 and no dividends are 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 OTP Bank, and 4.5 million OTP shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares.
The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP Bank has discretional right to cancel the payments. The interest payable is non-cumulative. Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

## NOTE 21: TREASURY SHARES (in HUF mn)

| | 2009 | 2008 |
|---|---|---|
| Nominal value (ordinary shares) | 219 | 1,742 |
| Carrying value at aquisition cost | 3,774 | 97,845 |

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

### *Change in number of shares:*

| | 2009 | 2008 |
|---|---|---|
| Number of shares as at 1 January | 17,418,636 | 6,100,768 |
| Additions | 10,355,980 | 13,603,720 |
| Disposals | (25,587,172) | (2,285,852) |
| **Number of shares as at 31 December** | **2,187,444** | **17,418,636** |

### *Change in carrying value:*

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | 97,845 | 54,208 |
| Additions | 16,566 | 99,254 |
| Disposals | (110,637) | (55,617) |
| **Balance as at 31 December** | **3,774** | **97,845** |

## NOTE 22: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

### *Fee and commission income:*

| | 2009 | 2008 |
|---|---|---|
| Fees and commissions paid by OTP Mortgage Bank Ltd. | 52,693 | 43,253 |
| Deposit and account maintenance fees and commissions | 42,231 | 43,273 |
| Fees and commissions related to the issued bank cards | 22,726, | 23,127 |
| Fees related to the cash withdrawal | 21,316 | 23,299 |
| Fees and commissions related to security trading | 11,513 | 11,708 |
| Fees and commissions related to lending | 4,702 | 3,994 |
| Other | 5,700 | 8,921 |
| **Total** | **160,881** | **157,575** |

### *Fee and commission expense:*

| | 2009 | 2008 |
|---|---|---|
| Interchange fee | 5,217 | 5,927 |
| Other fees and commissions related to issued bank cards | 4,339 | 4,069 |
| Fees and commissions related to lending | 1,903 | 1,617 |
| Money market transaction fees and commissions | 1,775 | 1,397 |
| Cash withdrawal transaction fees | 1,747 | 1,989 |
| Insurance fees | 1,505 | 1,068 |
| Fees and commissions relating to deposits | 684 | 946 |
| Fees and commissions related to security trading | 558 | 610 |
| Postal fees | 545 | 667 |
| Other | 3,807 | 6,245 |
| **Total** | **22,080** | **24,535** |
| **Net profit from fees and commissions** | **138,801** | **133,040** |

## NOTE 23: OTHER OPERATING INCOMES AND EXPENSES (in HUF mn)

### Other operating incomes:

| | 2009 | 2008 |
|---|---|---|
| Other income from redemption of issued securities | 38,600 | – |
| Other income from contribution in kind | – | 20,231 |
| Other | 2,750 | 1,266 |
| **Total** | **41,350** | **21,497** |

### Other operating expenses:

| | 2009 | 2008 |
|---|---|---|
| Provision for losses on securities available-for-sale | 6,615 | 2,769 |
| Provision/ (release of provision) for impairment on other assets | 1,370 | (731) |
| Provision for impairment on investments in subsidiaries | 575 | 124,880 |
| (Release of provision)/Provision for off-balance sheet commitments and contingent liabilities | (9,500) | 14,012 |
| Other | 3,653 | 5,572 |
| **Total** | **2,713** | **146,502** |

## NOTE 24: OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

### Personnel expenses:

| | 2009 | 2008 |
|---|---|---|
| Wages | 53,747 | 53,181 |
| Taxes related to personnel expenses | 16,651 | 15,809 |
| Other personnel expenses | 7,279 | 8,364 |
| **Subtotal** | **77,677** | **77,354** |
| **Depreciation and amortization** | **22,262** | **21,032** |

### Other administrative expenses:

| | 2009 | 2008 |
|---|---|---|
| Administration expenses, including rental fees | 22,549 | 24,534 |
| Services | 19,544 | 21,188 |
| Taxes, other than income tax | 15,232 | 15,740 |
| Advertising | 5,604 | 5,670 |
| Professional fees | 2,520 | 2,216 |
| **Subtotal** | **65,449** | **69,348** |
| **Total** | **165,388** | **167,734** |

## NOTE 25: INCOME TAX (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.

Deferred tax is calculated at 19%, which is the income tax rate effect from January 1, 2010. From 1 January 2010 in Hungary the additional banking tax (4%) was cancelled.

### *A breakdown of the income tax expense is:*

| | 2009 | 2008 |
|---|---|---|
| Current tax expense | 13,811 | 4,749 |
| Deferred tax (benefit)/expense | (10,580) | 2,838 |
| | **3,231** | **7,587** |

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

| | 2009 | 2008 |
|---|---|---|
| Balance as at 1 January | (759) | (2,969) |
| Deferred tax benefit/(expense) | 10,580 | (2,838) |
| Tax effect of fair value adjustment of available-for-sale securities and ICES recognised in comprehensive income | (5,993) | 5,048 |
| **Balance as at 31 December** | **3,828** | **(759)** |

### *A breakdown of the deferred tax asset/liability is as follows:*

| | 2009 | 2008 |
|---|---|---|
| **Provision for impairment on investments in subsidiaries** | **13,221** | **3,183** |
| Repurchase agreements | 2,483 | – |
| Difference in accounting for finance leases | 721 | 669 |
| Fair value adjustment of held for trading and available-for-sale securities | – | 2,347 |
| **Deferred tax assets** | **16,425** | **6,199** |

| | 2009 | 2008 |
|---|---|---|
| Effect of redemption of issued securities | (4,913) | – |
| Fair value adjustment of held for trading and available-for-sale securities | (3,854) | – |
| Difference in depreciation and amortization | (1,678) | (1,576) |
| Fair value adjustment of derivative financial instruments | (994) | (555) |
| Valuation of equity instrument (ICES) | (981) | (1,964) |
| Difference in depreciation and amortization | (177) | (365) |
| Repurchase agreements | – | (2,498) |
| **Deferred tax liabilities** | **(12,597)** | **(6,958)** |
| **Net deferred tax asset/(liabilities)** | **3,828** | **(759)** |

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

| | 2009 | 2008 |
|---|---|---|
| Profit before income tax | 161,369 | 141,542 |
| Income tax at statutory tax rate (16%) | 25,819 | 22,647 |
| Special tax (4%) | 5,116 | 3,366 |

### *Income tax adjustments due to permanent differencies are as follows:*

| | 2009 | 2008 |
|---|---|---|
| Provision for impairment on investments in subsidiaries | (10,039) | (3,183) |
| Differences in carrying value of subsidiaries | (7,245) | – |
| Dividend income | (5,278) | (22,122) |
| Revaluation of investments denominated in foreign currency to historical cost | (1,884) | (2,828) |
| Effect of change of income tax rate | (216) | – |
| Accounting of equity instrument (ICES) | (199) | (404) |
| Change in statutory goodwill and negative goodwill | (108) | 4,608 |
| Treasury share transaction | – | (10,319) |
| Reversal of statutory general provision | 497 | (15) |
| Share-based payment | 1,292 | 6 |
| Other | (4,524) | 15,831 |
| **Income tax** | **3,231** | **7,587** |
| Effective tax rate | 2.0% | 5.4% |

# NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

## 26.1. Credit risk

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and business lines. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

### Analysis by business lines and risk classes

***An analysis of the gross loan portfolio by business lines and financial risk classes is as follows:***
***As at 31 December 2009***

| Business line | Performing | To-be-monitored | Below avarage | Doubtful | Bad | Total carrying amount /allowance |
|---|---|---|---|---|---|---|
| Corporate loans | 1,337,671 | 383,054 | 52,893 | 47,985 | 18,683 | 1,840,286 |
| Allowance | – | 9,709 | 10,108 | 21,440 | 17,149 | 58,406 |
| Placements with other banks | 951,310 | 4,717 | 5,642 | – | 557 | 962,226 |
| Allowance | – | 123 | 1,128 | – | 446 | 1,697 |
| Retail loans | 499,821 | 34,604 | 5,415 | 44,325 | 6,127 | 590,292 |
| Allowance | – | 353 | 596 | 19,689 | 5,970 | 26,608 |
| Municipal loans | 174,909 | 2,761 | – | 360 | 194 | 178,224 |
| Allowance | – | 130 | – | 245 | 159 | 534 |
| SME loans | 70,595 | 3,975 | 1,204 | 4,950 | 895 | 81,619 |
| Allowance | – | 41 | 133 | 2,970 | 895 | 4,039 |
| **Gross loan portfolio total** | **3,034,306** | **429,111** | **65,154** | **97,620** | **26,456** | **3,652,647** |
| **Allowance total** | **–** | **10,356** | **11,965** | **44,344** | **24,619** | **91,284** |
| **Net loan portfolio total** | **3,034,306** | **418,755** | **53,189** | **53,276** | **1,837** | **3,561,363** |

The total off-balance sheet liabilities connected to the lending activity were 846,564 million HUF as at 31 December 2009 which included 613,496 million HUF commitments to extend credit and 233,068 million HUF guarantees arising from banking activities.

## *As at 31 December 2008*

| Business line | Performing | To-be-monitored | Below avarage | Doubtful | Bad | Total carrying amount /allowance |
|---|---|---|---|---|---|---|
| Corporate loans | 1,618,493 | 113,934 | 28,596 | 14,848 | 7,706 | 1,783,577 |
| Allowance | – | 4,164 | 5,001 | 6,369 | 7,112 | 22,646 |
| Placements with other banks | 913,471 | 7,346 | – | – | – | 920,817 |
| Allowance | – | 362 | – | – | – | 362 |
| Retail loans | 672,719 | 9,778 | 5,156 | 21,072 | 8,343 | 717,068 |
| Allowance | – | 123 | 583 | 11,388 | 8,295 | 20,389 |
| Municipal loans | 178,347 | 2,013 | 186 | 23 | 101 | 180,670 |
| Allowance | – | 128 | 58 | 23 | 85 | 294 |
| SME loans | 74,811 | 1,479 | 295 | 2,144 | 657 | 79,386 |
| Allowance | – | 15 | 32 | 1,286 | 657 | 1,990 |
| **Gross loan portfolio total** | **3,457,841** | **134,550** | **34,233** | **38,087** | **16,807** | **3,681,518** |
| **Allowance total** | **–** | **4,792** | **5,674** | **19,066** | **16,149** | **45,681** |
| **Net loan portfolio total** | **3,457,841** | **129,758** | **28,559** | **19,021** | **658** | **3,635,837** |

The total off-balance sheet liabilities connected to the lending activity were 826,902 million HUF as at 31 December 2008 which included 604,348 million HUF commitments to extend credit and 222,554 million HUF guarantees arising from banking activities.

In order to moderate the unfavourable effects of the economic situation, the Bank made its lending policy stricter, and in consequence of this, its loan portfolio increased only by 0.9% in 2009. Analysing the contribution of business lines to the loan portfolio, the share of the retail business line decreased while the share of other business lines either stagnated or slightly increased. As a consequence of the economic situation, the qualification of the loan portfolio deteriorated, the ratio of the non-performing (doubtful and bad) loans compared to the gross loan portfolio increased from 1.5% to 3.3%. Among the qualified loan portfolio, the loans classified to the risk class of "to-be-monitored" expanded at the fastest level. This is attributable to the fact that in accordance with its prudent provisioning policy, the Bank classifies the otherwise performing restructured loans as 'to-be-monitored' as well as project finance loans being exposed to a bigger risk inherently because of the construction.

The Bank has a prudent provisioning policy, the coverage of loans by provision for impairment on loans classified as doubtful or bad, the coverage was 74.3% as at 31 December 2009. The off-balance sheet liabilities connected to the lending activity increased by 9%, while the qualified loan portfolio decreased by 1% in 2009.

## Classification into risk classes

Exposures of low (In corporate and municipality sector the limit is 50 million HUF, while in retail sector and SME sector every exposure evaluated as low exposure.) amounts are subject to collective valuation method, which is a simplified assesment. The exposures subject to collective valuation method are classified to five risk classes (performing, to-be-monitored, below average, doubtful, bad). Depending on the days of delay, a specific percentage is assigned to each risk class, and the provision for impairment is calculated on all previously determined rates.

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

- the credit rating of the customer or the partner: the financial position, stability and income-generating capacity affected by the financial or investment service and issuer of the security, and any changes thereto;
- compliance with the rules of repayment (delay): delays in the repayment of the loan principal and its interests;
- the country risk relating to the customer (both political and transfer risks) and any changes thereto;
- the value of collaterals, their liquidity and

accessibility, and any changes therein;

- the transferabilty and liquidity of the exposures (the market conditions of supply and demand, the available market prices and participation in the shareholders` equity of the issuer in proportion to the investment);
- the future payment obligation recognized as a loss arising from the exposure.

## Loan portfolio by countries

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| **Country** | **Carrying amount of the qualified gross loan portfolio** | **Allowance** | **Carrying amount of the qualified gross loan portfolio** | **Allowance** |
| Hungary | 323,895 | 57,018 | 151,396 | 41,117 |
| Netherlands | 113,822 | 654 | – | – |
| Cyprus | 58,852 | 5,022 | 7,192 | 77 |
| Serbia-Montenegro | 26,858 | 15,401 | 10,052 | 2,126 |
| Bulgaria | 24,361 | 735 | 12,744 | 332 |
| Romania | 17,990 | 2,966 | 8,789 | 1,283 |
| Ukraine | 12,085 | 2,584 | 565 | 57 |
| Slovakia | 9,218 | 319 | 34 | 13 |
| Montenegro | 8,831 | 2,601 | – | – |
| Kazahstan | 5,637 | 1,127 | – | – |
| Seychelles | 4,563 | 411 | – | – |
| Croatia | 3,387 | 313 | – | – |
| United Kingdom | 2,783 | 1,392 | 23,830 | 238 |
| Georgia | 2,255 | 23 | 4,134 | 41 |
| Lithuania | 1,894 | 95 | 2,648 | 265 |
| Russia | 812 | 536 | 794 | 25 |
| Other | 1,100 | 88 | 1,532 | 131 |
| **Total** | **618,343** | **91,285** | **223,710** | **45,705** |

The non-performing loans connected to the Netherlands are related to the refinancing of retail loans at the subsidiaries, the actual exposure of non-performing loans is HUF 9.3 billion as at 31 December 2009.

## Collaterals

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

| Types of collateral | 2009 | 2008 |
|---|---|---|
| Mortgages | 1,026,159 | 1,268,847 |
| Garantees and warranties | 101,174 | 148,619 |
| Cash | 52,999 | 25,805 |
| Other | 193,835 | 177,603 |
| **Total** | **1,374,167** | **1,620,874** |

The values of collaterals held by the Bank by types are as follows: (to the extent of the receivables). The collaterals cover loans as well as off-balance sheet exposures.

| Types of collateral | 2009 | 2008 |
|---|---|---|
| Mortgages | 336,930 | 459,482 |
| Garantees and warranties | 89,557 | 106,911 |
| Cash | 33,748 | 12,781 |
| Other | 55,414 | 61,091 |
| **Total** | **515,649** | **640,265** |

## Loans, neither past due, nor impaired

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

| Business line | 2009 | 2008 |
|---|---|---|
| Corporate loans | 1,335,628 | 1,604,482 |
| Placements with other banks | 951,310 | 913,471 |
| Retail loans | 401,895 | 594,168 |
| Municipal loans | 174,814 | 178,347 |
| SME loans | 69,525 | 68,307 |
| **Total** | **2,933,172** | **3,358,775** |

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio decreased from 91% to 81 % in 2009. The changes in the business lines are in line with the movements of the performing portfolios, except for retail loans. The loans covered by state guarantee have a lower risk and therefore a higher amount of them are in the performing risk class.

## Renegotiated loans

An analysis of the gross value of the loans that would otherwise be past due or impaired and whose terms have been renegotiated as at 31 December 2008 and 31 December 2009 is as follows:

| Business line | 2009 | 2008 |
|---|---|---|
| Retail loans | 41,238 | 1,808 |
| Corporate loans | 28,557 | 12,724 |
| SME loans | 60 | 24 |
| Municipal loans | 6 | 26 |
| **Total** | **69,861** | **14,582** |

The gross amount of renegotiated loans increased considerably by the end of 2009, which is a consequence of the debtor compensation program launched in June 2009 in order to handle the effects of the economic situation. The growth is mainly connected to the retail loans. There were no renegotiated loans among the Placements with other banks.

## Past due, but not impaired loans

### *An analysis of the age of gross loans that are past due but not impaired as at 31 December 2009 and 31 December 2008 is as follows:*

| As at 31 December 2009 | Up to 90 | 91 days | 181 days | Above 365 days | Total |
|---|---|---|---|---|---|
| Retail loans | 91,124 | 737 | 459 | 5,606 | 97,926 |
| Corporate loans | 1,053 | 938 | 12 | 40 | 2,043 |
| SME loans | 1,036 | 28 | 5 | 1 | 1,070 |
| Municipal loans | 95 | – | – | – | 95 |
| **Total** | **93,308** | **1,703** | **476** | **5,647** | **101,134** |

| As at 31 December 2008 | Up to 90 | 91 days | 181 days | Above 365 days | Total |
|---|---|---|---|---|---|
| Retail loans | 72,149 | 473 | 59 | 5,870 | 78,551 |
| Corporate loans | 12,286 | 1,655 | – | 70 | 14,011 |
| SME loans | 4,550 | 1,213 | 690 | 51 | 6,504 |
| Municipal loans | – | – | – | – | – |
| **Total** | **88,985** | **3,341** | **749** | **5,991** | **99,066** |

The loans that are past due but not impaired are concentrated in the retail business line because the state guaranteed housing loans up to a 90 day delay in the repayment are classified to the performing category. In the other business lines the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank.

## Loans determined individually to be impaired

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assesment, the provision for impairment for them and the collaterals considered as at 31 December 2008 and 31 December 2009 is as follows. The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.

### *As at 31 December 2009*

| Business line | Considered factors | Carrying value | Allowance | Coverage value, discounted | Off-balance sheet commitments | Provision for inpairment on losses on off-balance sheet contingent liabilities |
|---|---|---|---|---|---|---|
| Corporate | Delay of repayment | 55,985 | 26,485 | 5,048 | 4,868 | 797 |
| | Regularity of payment | 407 | 214 | 100 | – | – |
| | Renegotiation | 22,207 | 1,811 | 848 | 418 | 38 |
| | Legal proceedings | 3,232 | 2,567 | 655 | 129 | 66 |
| | Decrease of client classification | 6,046 | 773 | 681 | 4,197 | 158 |
| | Loan characteristics | 109,185 | 4,319 | 415 | 11,813 | 896 |
| | Critital industry classifiacation | 99,935 | 10,425 | 1,975 | 16,837 | 1,360 |
| | County risk | – | – | – | 63,145 | 39,615 |
| | Refinancing of subsidaiaries portfolio | 113,921 | 654 | – | – | – |
| | Cross default | 70,209 | 7,956 | 1,109 | 21,721 | 2,732 |
| | Other | 21,358 | 2,629 | 1,484 | 6,564 | 315 |
| **Corporate total** | | **502,485** | **57,833** | **12,315** | **129,692** | **45,977** |
| Municipal loans | Delay of repayment | – | – | – | – | – |
| | Regularity of payment | 145 | 116 | – | – | – |
| | Renegotiation | 80 | 1 | – | – | – |
| | Legal proceedings | – | – | – | – | – |
| | Decrease of client classification | 120 | 8 | – | 22 | 2 |
| | Other | 2,882 | 350 | 30 | 346 | 18 |
| | Cross default | 33 | 26 | – | – | – |
| **Municipal total** | | **3,260** | **501** | **30** | **368** | **20** |
| Placements with other banks | | 10,916 | 1,697 | – | – | – |
| **Total** | | **516,661** | **60,031** | **12,345** | **130,060** | **45,997** |

### *As at 31 December 2008*

| Business line | Considered factors | Carrying value | Allowance | Coverage value, discounted | Off-balance sheet commitments | Provision for inpairment on losses on off-balance sheet contingent liabilities |
|---|---|---|---|---|---|---|
| | Delay of repayment | 10,822 | 5,570 | 2,907 | 164 | 49 |
| | Regularity of payment | 1,114 | 46 | 253 | – | – |
| | Renegotiation | – | – | – | – | – |
| | Legal proceedings | 2,622 | 2,470 | 153 | – | – |
| | Decrease of client classification | 7,403 | 2,064 | 1,280 | 92 | 22 |
| Corporate | Loan characteristics | 59,536 | 3,027 | 25,196 | 25,156 | 521 |
| | Critital industry classifiacation | 37,217 | 4,599 | 1,478 | 2,962 | 120 |
| | County risk | – | – | – | 48,754 | 11,726 |
| | Refinancing of subsidaiaries portfolio | – | – | – | – | – |
| | Cross default | 26,449 | 1,073 | 1,851 | 2,051 | 31 |
| | Other | 12,723 | 2,427 | 877 | 4,900 | 333 |
| **Corporate total** | | **157,886** | **21,276** | **33,995** | **84,079** | **12,802** |
| | Delay of repayment | – | – | – | – | – |
| | Regularity of payment | – | – | – | – | – |
| | Renegotiation | 29 | – | – | 1 | – |
| Municipal loans | Legal proceedings | 95 | 80 | 15 | – | – |
| | Decrease of client classification | 647 | 9 | 200 | 22 | – |
| | Other | 1,275 | 156 | 7 | 92 | 10 |
| | Cross default | 54 | 1 | – | – | – |
| **Municipal total** | | **2,100** | **246** | **222** | **115** | **10** |
| Placements with other banks | | 7,346 | 362 | – | – | |
| **Total** | | **167,332** | **21,884** | **34,217** | **84,194** | **12,812** |

By 31 December 2009 the volume the individually rated portfolio significantly increased in the corporate business line. The reason for it is the refinancing of the loans of the subsidiaries by the Bank. This portfolio was HUF 113.9 billion as at 31 December 2009, from which the volume of really non performing loans was HUF 9.3 billion. In 2009, among the rating factors of the corporate business line, the ratio of the loans determined to be impaired based on the delayed repayment and the fact of renegotiation, increased.

## 26.2. Market risk

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

### *26.2.1. Market risk sensitivity analysis*

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by 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 Bank reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future risk.

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

| Historical VaR (99%, one-day) by risk type | Average in HUF million | |
|---|---|---|
| | 2009 | 2008 |
| Foreign exchange | 529 | 178 |
| Interest rate | 255 | 435 |
| Equity instruments | 15 | 68 |
| Diversification | (181) | (202) |
| **Total VaR exposure** | **618** | **479** |

While VaR captures the Bank's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Bank to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 26.2.2 below and, for interest rate risk, in Note 26.2.3 below.

### *26.2.2. Foreign currency sensitivity analysis*

The following table details the Bank's sensitivity to an increase and decrease in the HUF exchange rate against EUR, over a three-month period. Monte Carlo simulation is used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations were EUR (310) million as of 31 December 2009. High portion of strategic positions are considered as effective hedge of future profit inflows of foreign subsidiaries, and so FX risk alters the Bank's capital and not its earnings. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening, 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 statements of recognized income in 3 months period | |
|---|---|---|
| | 2009 in HUF billion | 2008 in HUF billion |
| 1% | (9.7) | (8.6) |
| 5% | (6.4) | (5.4) |
| 25% | (2.2) | (1.3) |
| 50% | 0.5 | 1.3 |
| 25% | 3.1 | 3.8 |
| 5% | 6.6 | 7.1 |
| 1% | 9.1 | 9.5 |

**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. Free floating currency regime introduced in 2008 coupled with recent market turmoil has resulted in a more symmetric probability of profits and losses at the current levels.

### *26.2.3. Interest rate sensitivity analysis*

The sensitivity analysis below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the statement of financial position date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the statement of financial position date was outstanding for the whole year. The analysis was prepared by assuming only the adversine 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 feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.

The simulation were prepared by assuming two scenarios:

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

The net interest income in a one year period after 31 December 2009 would be decreased by HUF 630 million (probable scenario) and HUF 3,561 million (alternative scenario) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 4,560 million for probable scenario, HUF 6,900 million for alternative scenario) on the government bond portfolio held for hedging.

### *The effects of the parallel shifts of the yield-curves to the net interest income and the equity can be summarized as follows (in HUF mn):*

| | 2009 | | 2008 | |
|---|---|---|---|---|
| **Description** | **Effects to the net interest income (1Year period)** | **Effects to equity (Price change of AFS government bonds)** | **Effects to the net interest income (1Year period)** | **Effects to equity (Price change of AFS government bonds)** |
| HUF (0.1%) parallel shift | (206) | 812 | (192) | 139 |
| EUR (0.1%) parallel shift | 6 | – | (85) | – |
| USD 0.1% parallel shift | (184) | – | (149) | – |
| **Total** | **(384)** | **812** | **(426)** | **139** |

## *26.2.4. Equity price sensitivity analysis*

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability. The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

| Description | 2009 | 2008 |
|---|---|---|
| VaR (99%, one day, million HUF) | 15 | 68 |
| Stress test (million HUF) | (32) | (287) |

## *26.2.5. Capital management*

**Capital management**

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

The capital management of the Bank includes the management and evaluation of the shareholders` equity avalialble for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

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

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

**Capital adequacy**

The capital adequacy of the Bank is supervised based on the finacial statements data prepared according to the Hungarian Accounting Standards („HAS") applying the directives, rulings and indicators defined by the Basel Committee, that has been adopted in Hungary in 2008. The Bank has entirely complied with the regulatory capital requirements in 2009 and in 2008. The capital adequacy calculations of the Bank for the year 2009 are prepared based on the data of the audited financial statements prepared according to HAS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and the alternative standard method in case of the opeartional risk.

| | 2009 | 2008 |
|---|---|---|
| Core capital | 691,064 | 544,763 |
| Supplementary capital | 308,695 | 302,878 |
| Deductions | (373,823) | (361,818) |
| Deductions due to PIBB* investments | (340,108) | (314,932) |
| Deductions due to limit branches | (33,715) | (46,886) |
| **Regulatory capital** | **625,936** | **485,823** |
| Credit risk capital requirement | 260,665 | 277,498 |
| Market risk capital requirement | 18,374, | 18,963 |
| Operational risk capital requirement | 29,231 | 26,795 |
| **Total eligible regulatory capital** | **308,270** | **323,256** |
| **Surplus capital** | **317,666** | **162,567** |
| Tier1 ratio | 13.1% | 9.0% |
| **Capital adequacy ratio** | **16.2%** | **12.0%** |

The positive components of the Core capital are the following: Issued capital, Capital reserve, Tied-up reserve, Profit reserve, Profit for the year, General risk reserve. The negative components of the Core capital are the following: Treasury shares, Intangible assets. The positive components of the Supplementary capital are the following: Subsidiary loan capital, Subordinated loan capital.

## NOTE 27: 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 statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

### Contingent liabilities and commitments

| | 2009 | 2008 |
|---|---|---|
| Commitments to extend credit | 613,496 | 604,348 |
| Guarantees arising from banking activities | 233,068 | 222,554 |
| Contingent liabilities related to OTP Mortgage Bank Ltd. | 75,215 | 68,336 |
| Legal disputes (disputed value)** | 32,012 | 6,332 |
| Confirmed letters of credit | 3,865 | 9,267 |
| Other | 1,586 | 669 |
| **Total** | **959,242** | **911,506** |

*PIBB: Financial Institutions, Investing Entreprises, Insurance Companies

** The considerable increase the amount of legal disputes in 2009 is in connetction with one company. The Bank has the opinion, that the case has no valid basis so no provision is necessary for that.

## 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.

## Legal disputes

At the statement of financial position date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The 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 3,116 million and HUF 3,038 million as at 31 December 2009 and 2008 respectively. (See Note 17)

## Derivatives

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

## Foreign currency contracts

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

Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge 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

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 counterparties. 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 28: 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 increased amount of share options under the modified program.

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

The 2007 Annual General Meeting approved a few changes in the program:
The exercise prices of the options relating to the years of 2006 to 2010 is calculated as the average of the market price of OTP shares quoted by the BSE daily during the three month period ended 31 March in the actual year and decreased by HUF 2,000. In that case if the average price of the shares exceeds by more than HUF 4,000 the exercise price one day before the date of exercise, the exercise price would be increased by the amount above the HUF 4,000.

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

– The growth of the net income reach 10%
– The ROA indicator for the actual year ended 31 December should be at least 2.1%
– The ROE indicator for the actual year ended 31 December should be at least 20%

The exercise period of the options granted for the year of 2005 is two years and for the years of 2006 to 2010 is 19 months. The exercise period of the option program for the years of 2006 to 2010 must be opened at 1 June in the actual year, the period can be 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. The options can only be settled by physical delivery, therefore the option program is accounted as equity-settled share based transaction.

In connection with the equity-settled share-based payment programs HUF 6,802 million and HUF 28 million has been recognised as an expense as at 31 December 2009 and as at 31 December 2008 respectively.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Options** (number of shares) | **Weighted average exercise price** (in HUF) | **Options** (number of shares) | **Weighted average exercise price** (in HUF) |
| Outstanding at beginning of period | 2,534,950 | 6,484 | 6,678,130 | 7,957 |
| Granted during the period | – | – | – | – |
| Forfeited during the period | 2,534,950 | 6,484 | 965,050 | 6,484 |
| Exercised during the period | – | – | 257,500 | 6,536 |
| Outstanding at the end of the period | – | – | 2,534,950 | 6,484 |
| **Exercisable at the end of the period** | **–** | **–** | **1,774,466** | **8,424** |

For the year ended 31 December 2008 the key performance indicators — which are the vesting conditions of the option program — are not fulfilled, therefore the Bank did not recognise any personnel expense related to the option program. There were no option exercise during 2009.

| | 2009 | 2008 |
|---|---|---|
| Weighted average exercise price of options outstanding | – | 6,484 |
| Weighted average remaining contractual life (month) | – | 18 |

3,500,000 share options related to 2009 will be available for exercise after the Annual General Meeting in April 2010, and the exercise price will be determined at that time, therefore they are not outstanding as of 31 December 2009.

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

| | 2009 | 2008 |
|---|---|---|
| Weighted average spot share price (HUF) | 8,272 | 7,828 |
| Weighted average exercise price (HUF)* | 8,875 | 7,941 |
| Expected volatility (%) | 32 | 29 |
| Expected life (average year) | 5,45 | 3,56 |
| Risk free rate (%) | 7,63 | 6,84 |
| Expected dividends (%) | 1,95 | 2,31 |
| Cap for the maximum gain (HUF/option) | 4,000 | 3,000 |

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

## NOTE 29: RELATED PARTY TRANSACTIONS

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.

### *Transactions with related parties, other than increases in share capital, are summarized below:*

| **Transactions related to OTP Mortgage Bank Ltd.:** | **2009** | **2008** |
|---|---|---|
| Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest) | 64,164 | 57,418 |
| The gross book value of the loans sold | 64,090 | 57,347 |
| Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans | 51,440 | 38,715 |
| Provision for the repurchase guarantee of non-performing loans | 2,850 | 4,631 |
| Provision for the purchase obligation of the non-performing loans originated by OTP Mortgage Bank Ltd. | 3,769 | 2,203 |

| Transactions related to OTP Factoring Ltd.: | 2009 | 2008 |
|---|---|---|
| Loans sold to OTP Factoring Ltd. without recourse (including interest) | 19,868 | 12,419 |
| The gross book value of the loans | 49,351 | 23,838 |
| Provision for impairment on loan and placement losses on the loans sold | 26,482 | 9,149 |
| Loss on these transaction (recorded in the unconsolidated financial statements as loan and placement loss) | 3,001 | 2,270 |

The underlying mortgage rights were also transferred to OTP Factoring Ltd.

Commissions received by the Bank from related parties and commissions paid by the Bank to related parties are summarized below in addition to above mentioned transactions:

## a) Interests received by the Bank

| | 2009 | 2008 |
|---|---|---|
| OTP Mortgage Bank Ltd. | 58,957 | 43,090 |
| OAO OTP Bank (Russia) | 8,187 | 5,880 |
| Merkantil Lease Ltd. | 2,639 | 2,688 |
| Merkantil Bank Ltd. | 2,350 | 26,992 |
| DSK Bank EAD (Bulgaria) | 2,246 | 5,579 |
| **Total** | **74,379** | **84,229** |

## b) Interests paid by the Bank

| | 2009 | 2008 |
|---|---|---|
| OTP Mortgage Bank Ltd. | 15,963 | 8,406 |
| OTP Bank Romania S.A. (Romania) | 7,213 | – |
| Merkantil Lease Ltd. | 3,641 | 3,031 |
| Merkantil Bank Ltd. | 3,553 | 7,426 |
| OAO OTP Bank (Russia) | 3,131 | 99 |
| **Total** | **33,501** | **18,962** |

## c) Commissions received by the Bank

| | 2009 | 2008 |
|---|---|---|
| From OTP Fund Management Ltd. in relation to trading activity | 5,309 | 6,095 |
| From OTP Building Society Ltd. in relation to finalised customer contracts | 1,802 | 2,384 |
| From OTP Fund Management Ltd. in relation to custody activity | 378 | 406 |
| **Total** | **7,489** | **8,885** |

## d) Commissions paid by the Bank

| | 2009 | 2008 |
|---|---|---|
| OTP Bank Romania S.A. (Romania) related to loan portfolio handling | 2,920 | 2,124 |
| **Total** | **2,920** | **2,124** |

## e) Loans provided to subsidiaries

| | 2009 | 2008 |
|---|---|---|
| OTP Financing Cyprus Co. Ltd. (Cyprus) | 428,900 | 535,636 |
| OTP Financing Netherlands B. V. (The Netherlands) | 260,823 | 245,721 |
| OTP Mortgage Bank Ltd. | 215,235 | 92,000 |
| Merkantil Bank Ltd. | 201,022 | 225,377 |
| OAO OTP Bank (Russia) | 153,969 | 155,443 |
| OTP Financing Solutions B.V. (The Netherlands) | 130,843 | – |
| DSK Bank EAD (Bulgaria) | 54,398 | 114,380 |
| OTP Factoring Ltd. | 34,100 | 14,582 |
| Merkantil Car Ltd. | 32,080 | 39,212 |
| Merkantil Lease Ltd. | 30,366 | 33,480 |
| OTP Real Estate Leasing Ltd. | 30,036 | 29,363 |
| OTP Banka Hrvatska Group (Croatia) | 28,445 | 35,810 |
| OTP banka Srbija a.d. (Serbia) | 24,674 | 21,447 |
| DSK Leasing AD (Bulgaria) | 23,834 | 24,889 |
| OTP Leasing d.d. (Croatia) | 21,773 | – |
| OTF Life Annuity Ltd. | 9,432 | 7,577 |
| OTP Real Estate Ltd. | 5,554 | 7,488 |
| Crnogorska komerčijalna banka a.d. (Montenegro) | 3,250 | 22,572 |
| OTP Bank Romania S.A. (Romania) | 614 | 7,874 |
| Z plus d.o.o. (Croatia) | 325 | – |
| OTP Banka Slovensko a.s. (Slovakia) | 24 | 41,214 |
| OTP Bank JSC (Ukraine) | – | 61,692 |
| **Total** | **1,689,697** | **1,715,757** |

## f) Deposits from subsidiaries

| | 2009 | 2008 |
|---|---|---|
| OTP Mortgage Bank Ltd. | 299,562 | 81,203 |
| OAO OTP Bank (Russia) | 86,526 | 11 |
| DSK Bank EAD (Bulgaria) | 42,520 | 6,450 |
| OTP Building Society Ltd. | 26,152 | 28,222 |
| Crnogorska komerčijalna banka a.d. (Montenegro) | 23,045 | 1 |
| Merkantil Bank Ltd. | 20,379 | 8,531 |
| OTP banka Hrvatska d.d. (Croatia) | 4,586 | 3,795 |
| OTP Financing Netherlands B. V. (The Netherlands) | 4,419 | 213 |
| OTP Real Estate Leasing Ltd. | 1,212 | 511 |
| OTP Holding Ltd. (Cyprus) | 1,105 | 25,450 |
| Concordia Info Ltd. | 596 | 319 |
| OTP banka Srbija a.d. (Serbia) | 188 | – |
| Merkantil Lease Ltd. | 171 | 2,372 |
| OTP Factoring Ltd. | 49 | 22 |
| OTP Banka Slovensko a.s. (Slovakia) | 2 | 13,155 |
| OTP Bank JSC (Ukraine) | – | 14,728 |
| **Total** | **510,512** | **184,983** |

## g) Related party transactions with key management

The compensation of key management, such as the members of the Board of Directors, the members of the Supervisory Board and the employees involved in the decision-making process according to the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

| Compensations | 2009 | 2008 |
|---|---|---|
| Short-term employee benefits | 5,128 | 8,153 |
| Share-based payment | 3,139 | 16 |
| **Total** | **8,267** | **8,169** |

| | 2009 | 2008 |
|---|---|---|
| Loans provided to companies owned by the management (in the normal cousre of business) | 31,876 | 27,366 |
| Credit lines of the members of Board of Directors and the Supervisory Board and their family members (at normal market conditions) | 218 | 121 |
| Commitments to extend credit and bank guarantees | 103 | 121 |

## NOTE 30: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying unconsolidated statement of financial position.

| | 2009 | 2008 |
|---|---|---|
| Loans managed by the Bank as a trustee | 45,037 | 45,196 |

## NOTE 31: CONCENTRATION OF ASSETS AND LIABILITIES

| In the percentage of the total assets | 2009 | 2008 |
|---|---|---|
| Receivables from, or securities issued by the Hungarian Government or the NBH | 16% | 9% |
| Securities issued by the OTP Mortgage Bank Ltd. | 12% | 8% |

There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2009 or as at 31 December 2008.

## NOTE 32: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn)

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the NBH The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the statement of financial position 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 2009 | Within 3 months | Within one year and over 3 months | Within 5 years and over one year | Over 5 years | Without maturity | Total |
|---|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 178,217 | – | – | – | – | 178,217 |
| Placements with other banks, net of allowance for placement losses | 537,234 | 135,635 | 289,194 | – | – | 962,063 |
| Financial assets at fair value through profit or loss | 75,115 | 29,283 | 56,090 | 24,651 | 88,513 | 273,652 |
| Securities available-for-sale | 543,025 | 30,938 | 554,728 | 524,056 | – | 1,652,747 |
| Loans, net of allowance for loan losses | 163,511 | 458,165 | 1,362,862 | 638,357 | – | 2,622,895 |
| Investments in subsidiaries | – | – | – | – | 643,907 | 643,907 |
| Securities held-to-maturity | 48,082 | 19,417 | 118,556 | 30,508 | – | 216,563 |
| Property and equipment | – | – | – | – | 69,654 | 69,654 |
| Intangible assets | – | – | – | – | 38,909 | 38,909 |
| Other assets | 62,904 | 14,293 | 14,261 | 627 | – | 92,085 |
| **TOTAL ASSETS** | **1,608,088** | **687,731** | **2,395,691** | **1,218,199** | **840,983** | **6,750,692** |
| Amounts due to banks and the Hungarian Government, National Bank of Hungary and other banks | 586,506 | 213,373 | 84,738 | 267,514 | – | 1,152,131 |
| Deposits from customers | 2,836,297 | 511,654 | 16,349 | 4,452 | – | 3,368,752 |
| Liabilities from issued securities | 455,557 | – | – | 162,746 | – | 618,303 |
| Financial liabilities at fair value through profit or loss | 37,301 | 16,203 | 59,659 | 6,190 | – | 119,353 |
| Other liabilities | 247,323 | 2,152 | 3,052 | 461 | – | 252,988 |
| Subordinated bonds and loans | – | – | 4,391 | 169,009 | 113,921 | 287,321 |
| **TOTAL LIABILITIES** | **4,162,984** | **743,382** | **168,189** | **610,372** | **113,921** | **5,798,848** |
| Share capital | – | – | – | – | 28,000 | 28,000 |
| Retained earnings and reserves | – | – | – | – | 927,618 | 927,618 |
| Treasury shares | – | – | – | – | (3,774) | (3,774) |
| TOTAL SHAREHOLDERS EQUITY | – | – | – | – | 951,844 | 951,844 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **4,162,984** | **743,382** | **168,189** | **610,372** | **1,065,765** | **6,750,692** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(2,554,896)** | **(55,651)** | **2,227,502** | **607,827** | **(224,782)** | **–** |

| 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 | Without maturity | Total |
|---|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 158,022 | – | – | – | – | 158,022 |
| Placements with other banks, net of allowance for placement losses | 436,597 | 115,510 | 359,000 | 14,606 | – | 925,713 |
| Financial assets at fair value through profit or loss | 34,636 | 16,795 | 75,822 | 23,992 | 2,298 | 153,543 |
| Securities available-for-sale | 11,253 | 34,351 | 416,199 | 99,238 | – | 561,041 |
| Loans, net of allowance for loan losses | 201,046 | 446,352 | 1,251,158 | 839,049 | – | 2,737,605 |
| Investments in subsidiaries | – | – | – | – | 596,244 | 596,244 |
| Securities held-to-maturity | 145,061 | 98,504 | 168,820 | 38,793 | – | 451,178 |
| Property and equipment | – | – | – | – | 72,844 | 72,844 |
| Intangible assets | – | – | – | – | 39,539 | 39,539 |
| Other assets | 18,073 | 44,584 | 7,940 | 680 | – | 71,277 |
| **TOTAL ASSETS** | **1,004,688** | **756,096** | **2,278,939** | **1,016,358** | **710,925** | **5,767,006** |
| Amounts due to banks and the Hungarian Government, National Bank of Hungary and other banks | 259,073 | 307,764 | 80,380 | 63,860 | – | 711,077 |
| Deposits from customers | 2,476,728 | 605,823 | 24,256 | 1,621 | – | 3,108,428 |
| Liabilities from issued securities | 260,807 | – | 345,658 | – | – | 606,465 |
| Financial liabilities at fair value through profit or loss | 30,885 | 11,039 | 78,426 | 6,711 | – | 127,061 |
| Other liabilities | 132,757 | 2,765 | 762 | – | – | 136,284 |
| Subordinated bonds and loans | 3,267 | – | 5,000 | 165,210 | 131,741 | 305,218 |
| **TOTAL LIABILITIES** | **3,163,517** | **927,391** | **534,482** | **237,402** | **131,741** | **4,994,533** |
| Share capital | – | – | – | – | 28,000 | 28,000 |
| Retained earnings and reserves | – | – | – | – | 842,318 | 842,318 |
| Treasury shares | – | – | – | – | (97,845) | (97,845) |
| TOTAL SHAREHOLDERS EQUITY | – | – | – | – | 772,473 | 772,473 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **3,163,517** | **927,391** | **534,482** | **237,402** | **904,214** | **5,767,006** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(2,158,829)** | **(171,295)** | **1,744,457** | **778,956** | **(193,289)** | **–** |

## NOTE 33: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

| As at 31 December 2009 | USD | EUR | CHF | Others | Total |
|---|---|---|---|---|---|
| Assets* | 642,210 | 1,348,116 | 918,302 | 111,247 | 3,019,875 |
| Liabilities | (334,040) | (1,831,848) | (95,582) | (101,180) | (2,362,650) |
| Off-balance sheet assets and liabilities, net | (341,452) | 291,886 | (840,978) | (57,690) | (948,234) |
| **Net position** | **(33,282)** | **(191,846)** | **(18,258)** | **(47,623)** | **(291,009)** |

| As at 31 December 2008 | USD | EUR | CHF | Others | Total |
|---|---|---|---|---|---|
| Assets* | 813,638 | 1,021,210 | 931,192 | 104,313 | 2,870,353 |
| 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.

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 34: INTEREST RATE RISK MANAGEMENT

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

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

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

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

## As at 31 December 2009

| | Within 1 month | | Over 1 month and Within 3 monthx | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| ASSETS | | | | | | | | | | | | | | | |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 95,389 | 27,734 | – | – | – | – | – | – | – | – | 49,566 | 5,528 | 144,955 | 33,262 | 178,217 |
| fixed interest | 95,389 | 27,734 | – | – | – | – | – | – | – | – | – | – | 95,389 | 27,734 | 123,123 |
| variable interest | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 49,566 | 5,528 | 49,566 | 5,528 | 55,094 |
| Placements with other banks | 231,104 | 729,425 | – | – | – | – | – | – | – | – | 369 | 1,165 | 231,473 | 730,590 | 962,063 |
| fixed interest | 231,104 | 729,425 | – | – | – | – | – | – | – | – | – | – | 231,104 | 729,425 | 960,529 |
| variable interest | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 369 | 1,165 | 369 | 1,165 | 1,534 |
| Securities held for trading | 49,888 | – | 237 | 2,221 | 3,521 | 274 | 2,027 | 5,155 | 26,936 | 262 | 89,835 | 60 | 172,444 | 7,972 | 180,416 |
| fixed interest | 49,888 | – | 219 | 2,221 | 3,521 | 274 | 2,027 | 5,155 | 26,936 | 262 | – | – | 82,591 | 7,912 | 90,503 |
| variable interest | – | – | 18 | – | – | – | – | – | – | – | – | – | 18 | – | 18 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 89,835 | 60 | 89,835 | 60 | 89,895 |
| Securities available-for-sale | 504,172 | – | 3,613 | 109,038 | – | 22,407 | 59,702 | 285,571 | 593,041 | 28,161 | 28,837 | 18,205 | 1,189,365 | 463,382 | 1,652,747 |
| fixed interest | 504,172 | – | – | 11,481 | – | 22,407 | 59,702 | 285,571 | 593,041 | 28,161 | – | – | 1,156,915 | 347,620 | 1,504,535 |
| variable interest | – | – | 3,613 | 97,557 | – | – | – | – | – | – | – | – | 3,613 | 97,557 | 101,170 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 28,837 | 18,205 | 28,837 | 18,205 | 47,042 |
| Loans, net of allowance for loan losses | 680,599 | 865,022 | 38,428 | 248,481 | 117,078 | 643,676 | 528 | 192 | 6,830 | – | 7,154 | 14,907 | 850,617 | 1,772,278 | 2,622,895 |
| fixed interest | 7,816 | – | 26 | 96 | 336 | 96 | 528 | 192 | 6,830 | – | – | – | 15,536 | 384 | 15,920 |
| variable interest | 672,783 | 865,022 | 38,402 | 248,385 | 116,742 | 643,580 | – | – | – | – | – | – | 827,927 | 1,756,987 | 2,584,914 |
| non-interest-bearing | | | | | | | | | | | 7,154 | 14,907 | 7,154 | 14,907 | 22,061 |
| Securities held-to-maturity | 23,349 | – | 46,062 | 620 | 27,082 | – | 29,202 | – | 81,360 | 466 | 8,254 | 168 | 215,309 | 1,254 | 216,563 |
| fixed interest | – | – | 38,824 | – | 16,885 | – | 29,202 | – | 81,360 | 466 | – | – | 166,271 | 466 | 166,737 |
| variable interest | 23,349 | – | 7,238 | 620 | 10,197 | – | – | – | – | – | – | – | 40,784 | 620 | 41,404 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 8,254 | 168 | 8,254 | 168 | 8,422 |
| Derivative financial instruments | 401,743 | 1,014,857 | 848,862 | 590,028 | 229,989 | 41,928 | 11,576 | 25,475 | 24,489 | 6,251 | – | – | 1,516,659 | 1,678,539 | 3,195,198 |
| fixed interest | 70,586 | 657,084 | 49,244 | 123,928 | 149,174 | 40,345 | 11,576 | 25,475 | 24,489 | 6,251 | – | – | 305,069 | 853,083 | 1,158,152 |
| variable interest | 331,157 | 357,773 | 799,618 | 466,100 | 80,815 | 1,583 | – | – | – | – | – | – | 1,211,590 | 825,456 | 2,037,046 |

## As at 31 December 2009

| | Within 1 month | | Over 1 month and Within 3 monthx | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| LIABILITIES | | | | | | | | | | | | | | | |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 73,966 | 482,449 | 25,554 | 333,168 | 83,084 | 131,398 | 1 | – | 48 | 19,792 | 424 | 2,247 | 183,077 | 969,054 | 1,152,131 |
| fixed interest | 73,197 | 454,253 | 19,668 | 737 | 1,949 | 131,317 | 1 | – | 48 | 19,792 | – | – | 94,863 | 606,099 | 700,962 |
| variable interest | 769 | 28,196 | 5,886 | 332,431 | 81,135 | 81 | – | – | – | – | – | – | 87,790 | 360,708 | 448,498 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 424 | 2,247 | 424 | 2,247 | 2,671 |
| Deposits from customers | 1,291,546 | 304,706 | 483,353 | 103,964 | 381,795 | 95,247 | 7,611 | 1,664 | 547,188 | 128,817 | 18,526 | 4,335 | 2,730,019 | 638,733 | 3,368,752 |
| fixed interest | 796,626 | 267,555 | 463,243 | 103,964 | 373,752 | 95,247 | 7,611 | 1,664 | 1,011 | 94,671 | | | 1,642,243 | 563,101 | 2,205,344 |
| variable interest | 494,920 | 37,151 | 20,110 | – | 8,043 | – | – | – | 546,177 | 34,146 | | | 1,069,250 | 71,297 | 1,140,547 |
| non-interest-bearing | | | | | | | | | | | 18,526 | 4,335 | 18,526 | 4,335 | 22,861 |
| Liabilities from issued securities | 22,455 | 138,152 | 31,146 | 82,891 | 176,759 | – | 1,450 | 138,152 | 16,248 | – | 4,514 | 6,536 | 252,572 | 365,731 | 618,303 |
| fixed interest | 22,455 | – | 31,146 | – | 176,759 | – | 1,450 | 138,152 | 16,248 | – | – | – | 248,058 | 138,152 | 386,210 |
| variable interest | – | 138,152 | – | 82,891 | – | – | – | – | – | – | – | – | – | 221,043 | 221,043 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 4,514 | 6,536 | 4,514 | 6,536 | 11,050 |
| Derivative financial instruments | 927,406 | 509,441 | 1,415,969 | 35,440 | 247,120 | 19,528 | 15,283 | 17,577 | 10,835 | 12,137 | – | – | 2,616,613 | 594,123 | 3,210,736 |
| fixed interest | 217,783 | 509,441 | 139,508 | 35,282 | 166,547 | 19,524 | 15,283 | 17,577 | 10,835 | 12,137 | – | – | 549,956 | 593,961 | 1,143,917 |
| variable interest | 709,623 | – | 1,276,461 | 158 | 80,573 | 4 | – | – | – | – | – | – | 2,066,657 | 162 | 2,066,819 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Subordinated bonds and loans | – | – | 5,000 | 26,540 | – | – | – | – | – | 252,323 | 61 | 3,397 | 5,061 | 282,260 | 287,321 |
| fixed interest | – | – | – | – | – | – | – | – | – | 252,323 | – | – | – | 252,323 | 252,323 |
| variable interest | – | – | 5,000 | 26,540 | – | – | – | – | – | – | – | – | 5,000 | 26,540 | 31,540 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 61 | 3,397 | 61 | 3,397 | 3,458 |
| NET POSITION | (329,129) | 1,202,290 | (1,023,820) | 368,385 | –511,088 | 462,112 | 78,690 | 159,000 | 158,337 | (377,929) | 160,490 | 23,518 | (1,466,520) | 1,837,376 | 370,856 |

## As at 31 December 2008

| | Within 1 month | | Over 1 month and Within 3 monthx | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| ASSETS | | | | | | | | | | | | | | | |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 71,857 | 10,919 | – | – | – | – | – | – | – | – | 67,056 | 8,190 | 138,913 | 19,109 | 158,022 |
| fixed interest | 71,857 | 10,919 | – | – | – | – | – | – | – | – | – | – | 71,857 | 10,919 | 82,776 |
| variable interest | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 67,056 | 8,190 | 67,056 | 8,190 | 75,246 |
| Placements with other banks | 157,697 | 310,556 | 2,506 | 139,481 | – | 136,232 | – | 47,894 | – | 126,089 | 915 | 4,343 | 161,118 | 764,595 | 925,713 |
| 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 | – | – | – | – | – | – | – | – | – | – | 915 | 4,343 | 915 | 4,343 | 5,258 |
| Securities held for trading | 1,454 | – | 1,496 | – | 8,850 | 1 | 10,564 | 875 | 27,071 | 2,210 | 4,022 | 103 | 53,457 | 3,189 | 56,646 |
| 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 | – | – | – | – | – | – | – | 228 | – | 228 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 4,022 | 103 | 4,022 | 103 | 4,125 |
| Securities available-for-sale | – | – | 217,002 | 97,039 | 27,707 | 5,852 | 22,078 | 3,311 | 156,387 | 9,720 | 19,321 | 2,624 | 442,495 | 118,546 | 561,041 |
| 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 | – | – | – | – | – | – | – | – | – | – | 19,321 | 2,624 | 19,321 | 2,624 | 21,945 |
| 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 | 6,540 | 15,683 | 805,655 | 1,931,950 | 2,737,605 |
| 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 | | | | | | | | | | | 6,540 | 15,683 | 6,540 | 15,683 | 22,223 |
| Securities held-to-maturity | 119,263 | – | 19,935 | – | 132,772 | – | 38,930 | – | 126,635 | – | 13,643 | – | 451,178 | – | 451,178 |
| 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 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 13,643 | – | 13,643 | – | 13,643 |
| Derivative financial instruments | 10,266 | 827,730 | 15,811 | 524,591 | 97,434 | 131,770 | 94,099 | 178,698 | 719,840 | 170,052 | – | – | 937,450 | 1,832,841 | 2,770,291 |
| fixed interest | 10,266 | 826,457 | 15,811 | 524,591 | 95,523 | 129,863 | 93,805 | 176,600 | 716,340 | 168,978 | – | – | 931,745 | 1,826,489 | 2,758,234 |
| 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 | | Over 1 month and Within 3 monthx | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| LIABILITIES | | | | | | | | | | | | | | | |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 77,435 | 252,583 | 7,287 | 151,120 | 211,209 | 1,492 | – | – | – | 4,439 | 2,312 | 3,200 | 298,243 | 412,834 | 711,077 |
| 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 | – | – | – | – | – | – | – | – | – | – | 2,312 | 3,200 | 2,312 | 3,200 | 5,512 |
| Deposits from customers | 1,173,542 | 269,453 | 457,665 | 161,007 | 348,569 | 83,475 | – | 153 | 553,330 | 43,568 | 14,479 | 3,187 | 2,547,585 | 560,843 | 3,108,428 |
| 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 | – | – | – | – | – | – | – | – | – | – | 14,479 | 3,187 | 14,479 | 3,187 | 17,666 |
| Liabilities from issued securities | – | – | – | 409,652 | 59,411 | – | – | – | – | 132,729 | 461 | 4,213 | 59,872 | 546,593 | 606,465 |
| fixed interest | – | – | – | – | 59,411 | – | – | – | – | 132,729 | – | – | 59,411 | 132,728 | 192,139 |
| variable interest | – | – | – | 409,652 | – | – | – | – | – | – | – | – | – | 409,652 | 409,652 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 461 | 4,213 | 461 | 4,213 | 4,674 |
| Derivative 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 |
| fixed interest | 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 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Subordinated bonds and loans | – | – | 5,000 | 28,550 | – | – | – | – | – | 268,401 | 54 | 3,213 | 5,054 | 300,164 | 305,218 |
| fixed interest | – | – | – | – | – | – | – | – | – | 268,401 | – | – | – | 268,401 | 268,401 |
| variable interest | – | – | 5,000 | 28,550 | – | – | – | – | – | – | – | – | 5,000 | 28,550 | 33,550 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 54 | 3,213 | 54 | 3,213 | 3,267 |
| NET POSITION | (673,263) | 1,311,709 | (517,289) | 121,017 | (318,850) | 539,804 | 156,264 | (32,712) | 477,627 | (1,039,172) | 94,191 | 17,130 | (781,320) | 917,776 | 136,456 |

## NOTE 35: EARNINGS PER SHARE

Earnings per share attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year.

| | 2009 | 2008 |
|---|---|---|
| Net profit for the year attributable to ordinary shareholders (in HUF mn) | 158,138 | 133,955 |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share) | 271,732,001 | 270,758,317 |
| **Basic Earnings per share (in HUF)** | **582** | **495** |
| Net profit for the year attributable to ordinary shareholders (in HUF mn) | 158,138 | 133,955 |
| Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share) | 274,053,287 | 271,558,263 |
| **Diluted Earnings per share (in HUF)** | **577** | **493** |

| | 2009 | 2008 |
|---|---|---|
| Weighted average number of ordinary shares | 280,000,010 | 280,000,010 |
| Average number of Treasury shares | (8,268,009) | (9,241,693) |
| **Weighted average number of ordinary shares outstanding during the year for calculating basic EPS** | **271,732,001** | **270,758,317** |
| Diluted effects of options issued in accordance with Management Option Program and convertible into ordinary shares | 2,321,286 | 799,946 |
| **The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS** | **274,053,287** | **271,558,263** |

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.

The Basic Earnings per share (Basic EPS) attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the period does not include the average number of Treasury shares.

For calculating diluted Earnings per share, Net profit for the year attributable to ordinary shareholders equals the Net profit used for calculating the basic EPS. The modified weighted average number of ordinary shares outstanding during the year contains the contingent diluted effects of options convertible into ordinary shares. Options are issued in accordance with the Management Option Program.

## NOTE 36: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

### *As at 31 december 2009*

| Name | 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 | 7,026 | – | – | – |
| Placements with other banks, net of allowance for placement losses | 27,925 | – | (1,335) | – |
| Securities held for trading | 5,297 | 395 | – | – |
| Securities available-for-sale | 54,087 | 501 | (2,451) | 36,102 |
| Loans, net of allowance for loan losses | 240,408 | 55,492 | (44,268) | – |
| Securities held-to-maturity | 52,934 | (2,896) | (4,164) | – |
| Derivative financial instruments | 91,860 | (17,589) | – | – |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | (31,448) | – | – | – |
| Deposits from customers | (183,802) | 49,960 | – | – |
| Liabilities from issued securities | (32,474) | – | – | – |
| Subordinated bonds and loans | (17,446) | – | – | – |
| **Total** | **214,367** | **84,861** | **(52,218)** | **36,102** |

### *As at 31 december 2008*

| Name | 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 | – | (362) | – |
| Securities held for trading | 4,979 | (4,668) | – | – |
| Securities available-for-sale | 23,959 | (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 Hungarian Government, 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)** |

## NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

### a) Fair value of financial assets and liabilities

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 178,217 | 178,217 | 158,022 | 158,022 |
| Placements with other banks, net of allowance for placement losses | 962,063 | 969,344 | 925,713 | 932,520 |
| Financial assets at fair value through profit or loss | 273,652 | 273,652 | 153,543 | 153,543 |
| Held for trading securities | 180,416 | 180,416 | 56,646 | 56,646 |
| Derivative financial instruments designated as held for trading | 93,236 | 93,236 | 96,897 | 96,897 |
| Securities available-for-sale | 1,652,747 | 1,652,747 | 561,041 | 561,041 |
| Loans, net of allowance for loan losses | 2,622,895 | 2,884,329 | 2,737,605 | 2,970,216 |
| Securities held-to-maturity | 216,563 | 206,292 | 451,178 | 428,571 |
| Derivative financial instruments designated as hedging instruments | 14,148 | 14,148 | 8,871 | 8,871 |
| **FINANCIAL ASSETS TOTAL** | **5,920,285** | **6,178,729** | **4,995,973** | **5,212,784** |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 1,152,131 | 1,157,833 | 711,077 | 719,001 |
| Deposits from customers | 3,368,752 | 3,361,027 | 3,108,428 | 3,087,125 |
| Liabilities from issued securities | 618,303 | 607,199 | 606,465 | 510,879 |
| Derivative financial instruments designated as hedging instruments | 3,569 | 3,569 | 1,268 | 1,268 |
| Financial liabilities at fair value through profit or loss | 119,353 | 119,353 | 127,061 | 127,061 |
| Financial liabilities from OTP-MOL transaction | 86,912 | 86,912 | – | – |
| Financial liabilities from guaranteed loans of OTP Bank JSC by OTP Bank | 38,132 | 38,132 | – | – |
| Subordinated bonds and loans | 287,321 | 216,562 | 305,218 | 135,845 |
| **FINANCIAL LIABILITIES TOTAL** | **5,674,473** | **5,590,587** | **4,859,517** | **4,581,179** |

### b) Fair value of derivative instruments

| | 2009 | 2008 | 2009 | 2008 |
|---|---|---|---|---|
| | Fair value | | Notional value, net | |
| **Interest rate swaps designated as held for trading** | | | | |
| Positive fair value of interest rate swaps designated as held for trading | 56,134 | 41,004 | 58,203 | 25,956 |
| Negative fair value of interest rate swaps designated as held for trading | (47,065) | (32,564) | (45,983) | (24,146) |
| **Foreign exchange swaps designated as held for trading** | | | | |
| Positive fair value of foreign exchange swaps designated as held for trading | 7,439 | 26,527 | 7,790 | (21,064) |
| Negative fair value of foreign exchange swaps designated as held for trading | (6,168) | (24,063) | (5,154) | (22,041) |
| **Interest rate swaps designated as hedge accounting relationship** | | | | |
| Positive fair value of interest rate swaps designated in fair value hedge accounting relationships | 14,147 | 8,692 | 10,507 | 81,221 |
| Negative fair value of interest rate swaps designated in fair value hedge accounting relationships | (3,569) | (1,268) | (3,740) | (75,585) |
| **CCIRS designated as held for trading** | | | | |
| Positive fair value of CCIRS designated as held for trading | 23,270 | 12,049 | 14,951 | 37,695 |
| Negative fair value of CCIRS designated as held for trading | (54,169) | (58,107) | (4,734) | 50,387 |
| **Mark-to-market CCIRS designated as held for trading** | | | | |
| Positive fair value of mark-to-market CCIRS designated as held for trading | 5,133 | 13,551 | 40,776 | 64,266 |
| Negative fair value of mark-to-market CCIRS designated as held for trading | (7,348) | (6,488) | 40,803 | 50,026 |
| **Other derivative contracts designated as hedge accounting relationship** | | | | |
| Positive fair value of other derivative contracts designated in fair value hedge realtionship | 1 | 179 | (4) | 229 |
| Negative fair value of other derivative contracts designated in fair value hedge realtionship | – | – | – | – |
| **Other derivative contracts designated as held for trading** | | | | |
| Positive fair value of other derivative contracts designated as held for trading | 1,260 | 3,766 | 711 | 17,942 |
| Negative fair value of other derivative contracts designated as held for trading | (4,603) | (5,839) | (12,066) | (21,405) |
| **Derivative financial assets total** | **107,384** | **105,768** | **132,934** | **206,245** |
| **Derivative financial liabilities total** | **(122,922)** | **(128,329)** | **(30,874)** | **(42,764)** |
| **Derivative financial instruments total** | **(15,538)** | **(22,561)** | **102,060** | **163,481** |

## c) Hedge accounting

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

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

### As at 31 December 2009

| Types of the hedges | Description of the hedging instrument | Fair value of the hedging instrument | The nature of the risk being hedged |
|---|---|---|---|
| Cash flow hedges | – | – | – |
| Fair value hedges | IRS<br>Options | HUF 10,578 million<br>HUF 1 million | Interest rate<br>Foreign exchange |
| Hedges of net investments in foreign operations | – | – | – |

### As at 31 December 2008

| Types of the hedges | Description of the hedging instrument | Fair value of the hedging instrument | The nature of the risk being hedged |
|---|---|---|---|
| Cash flow hedges | – | – | – |
| Fair value hedges | IRS<br>Options | HUF 7,424 million<br>HUF 179 million | Interest rate<br>Foreign exchange |
| Hedges of net investments in foreign operations | – | – | – |

## d) Fair value hedges

### 1. Deposits from customers

The interest payment cash-flows of some structured deposits of the Bank denominated in HUF are exposed to the change of equity prices, equity indices or the change of EUR/HUF exchange rate. In order to hedge the interest rate risk of the interest payments the Bank entered into interest rate swap transactions, where the risk of the cash-flow's from the structured deposits were swapped to payments linked to 3 or 6 months BUBOR, resulting in a decrease in the fair value exposure of the deposits from customers.

| | 2009 | 2008 |
|---|---|---|
| Fair value of the hedging instruments | 3,461 | (574) |

### 2. Securities available-for-sale

The Bank holds fixed interest rate securities denominated in currencies within the available-for-sale portfolio. These fixed interest rate securities are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order to hedge the interest rate risk of the cash-flows the Bank entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 6 month LIBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

| | 2009 | 2008 |
|---|---|---|
| Fair value of the hedging instruments | 348 | 367 |

## 3. Loans to customers

### 3.1. Hedges of foreign exchange rate risk

The Bank has some loans to customers denominated in foreign exchange, where the Bank ensures during a part of the loan term, that the FX rate applied to the customer will not exceed a pre-defined cap limit. In order to hedge the foreign exchange risk of the translation of the cash-flows from the loan at a pre-determined rate the Bank entered into FX options providing the right to the Bank to purchase the foreign exchange on a pre-determined exercise price.

| | 2009 | 2008 |
|---|---|---|
| Fair value of the hedging instruments | 1 | 179 |

### 3.2. Hedges of interest rate risk

The Bank has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows the Bank entered into pay-fixed, receive-floater interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 or 6 month LIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.

| | 2009 | 2008 |
|---|---|---|
| Fair value of the hedging instruments | (1,335) | (43) |

## 4. Issued securities

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

| | 2009 | 2008 |
|---|---|---|
| Fair value of the hedging instruments | 8,104 | 7,674 |

**As at 31 December 2009**

| Types of hedged items | Types of hedging instruments | Fair value of the hedged items | Fair value of the hedging instruments | Gains/losses attributable to the hedged risk on the hedged items | Gains/losses attributable to the hedged risk on the hedged instruments |
|---|---|---|---|---|---|
| Securities available-for-sale | IRS | HUF 15,557 million | HUF 348 million | HUF 197 million | HUF (197) million |
| Loans to customers | IRS | HUF 43,292 million | HUF (1,335) million | HUF 792 million | HUF (790) million |
| Loans to customers | Options | HUF 3.6 million | HUF 1 million | HUF (52) million | HUF 52 million |
| Deposits from customers | IRS | HUF 29,685 million | HUF 3,461 million | HUF 4,036 million | HUF (4,036) million |
| Liabilities from issued securities | IRS | HUF 154,164 million | HUF 8,104 million | HUF 429 million | HUF (429) million |

**As at 31 December 2008**

| Types of hedged items | Types of hedging instruments | Fair value of the hedged items | Fair value of the hedging instruments | Gains/losses attributable to the hedged risk on the hedged items | Gains/losses attributable to the hedged risk on the hedged instruments |
|---|---|---|---|---|---|
| Securities available-for-sale | IRS | HUF 35,230 million | HUF 367 million | HUF 934 million | HUF (934) million |
| Loans to customers | IRS | HUF 980 million | HUF (43) million | HUF (43) million | HUF (13) million |
| Loans to customers | Options | HUF 231 million | HUF 179 million | HUF (326) million | HUF 326 million |
| Deposits from customers | IRS | HUF 17,163 million | HUF 7,674 million | HUF 7,674 million | HUF (7,674) million |
| Liabilities from issued securities | IRS | HUF 134,706 million | HUF (574) million | HUF (574) million | HUF 574 million |

## *e) Fair value classes*

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

1[th] Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;

2[nd] Level: inputs other than quoted prices included within Level 1, that are observable for the asset or liabilitiy either directly or indirectly;

3[rd] Level: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

| As at 31 December 2009 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 272,289 | 179,225 | 93,064 | – |
| from this: securities held for trading | 179,053 | 179,053 | – | – |
| from this: positive FVA of derivative financial instruments designated as held for trading | 93,236 | 172 | 93,064 | – |
| Securities available-for-sale | 1,614,172 | 1,473,253 | 38,078 | 102,841 |
| Positive FVA of derivative financial instruments designated as hedge accounting relationship | 14,148 | – | 14,148 | |
| **Financial assets measured at fair value total** | **1,900,609** | **1,670,478** | **145,290** | **102,841** |
| Negative FVA of derivative financial instruments designated as held for trading | 119,353 | 76 | 119,277 | – |
| **Negative FVA of derivative financial instruments designated as hedge accounting relationship** | **3,569** | **–** | **3,569** | **–** |
| **Financial liabilities measured at fair value total** | **122,922** | **76** | **122,846** | **–** |

| As at 31 December 2009 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 151,716 | 55,029 | 96,687 | – |
| from this: securities held for trading | 54,819 | 54,819 | – | – |
| from this: positive FVA of derivative financial instruments designated as held for trading | 96,897 | 210 | 96,687 | – |
| Securities available-for-sale | 549,911 | 436,984 | 13,269 | 99,658 |
| Positive FVA of derivative financial instruments designated as hedge accounting relationship | 8,871 | – | 8,871 | – |
| **Financial assets measured at fair value total** | **710,498** | **492,013** | **118,827** | **99,658** |
| Negative FVA of derivative financial instruments designated as held for trading | 127,061 | 10 | 127,051 | – |
| **Negative FVA of derivative financial instruments designated as hedge accounting relationship** | 1,268 | – | 1,268 | – |
| **Financial liabilities measured at fair value total** | **128,329** | **10** | **128,319** | **–** |

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

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

| Movements for the year | Opening balance | Additions | Balance as at 31 December 2009 | Total profit or loss as at 31 December 2009 |
|---|---|---|---|---|
| Securities available-for-sale | 99,658 | 3,183 | 102,841 | 3,183 |
| Financial assets measured at fair value total | 99,658 | 3,183 | 102,841 | 3,183 |

## NOTE 38: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS ("HAS") AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF mn)

| | Retained Earnings and Reserves 1 January 2009 | Net profit for the year ended 31 December 2009 | Direct Movements on Reserves | Retained Earnings and Reserves as at 31 December 2009 |
|---|---|---|---|---|
| **Financial Statements according to HAS** | **701,087** | **102,329** | **4,042** | **807,458** |
| Reversal of statutory general provision | 43,344 | (2,615) | – | 40,729 |
| Premium and discount amortization of financial instruments measured at amortised cost | 1,828 | (894) | – | 934 |
| Effect of redemption of issued securities | – | 25,860 | – | 25,860 |
| Differences in carrying value of subsidiaries | 2,026 | 38,131 | (877) | 39,280 |
| Difference in accounting for finance leases | (3,346) | (447) | – | (3,793) |
| Fair value adjustment of held for trading and available-for-sale financial assets | (11,735) | (4,085) | 36,102 | 20,282 |
| Fair value adjustment of derivative financial instruments | 2,776 | 2,457 | – | 5,233 |
| Reversal of statutory goodwill | 10,585 | 571 | – | 11,156 |
| Revaluation of investments denominated in foreign currency to historical cost | 30,108 | 9,917 | – | 40,025 |
| Difference in accounting of security lending | 12,488 | (25,556) | – | (13,068) |
| Treasury share transaction | 44,095 | 4,480 | (48,575) | – |
| Written put option on ordinary shares | – | – | (55,468) | (55,468) |
| Reclassification of direct charges to reserves | – | 3,166 | (3,166) | – |
| Share-based payment | – | (6,802) | 6,802 | – |
| Payments to ICES holders | 9,821 | 1,046 | (5,705) | 5,162 |
| Deferred taxation | (759) | 10,580 | (5,993) | 3,828 |
| **Financial Statements according to IFRS** | **842,318** | **158,138** | **–72,838** | **927,618** |

## NOTE 39: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2009

### MOL OTP share swap transaction

See details in Note 17.

### Hungarian Government loan facility

See details in Note 13.

### EBRD subordinated loan argreement

On 9 July 2009 the Bank signed an agreement with EBRD according to which the London-based financial institution is providing EUR 200 million subordinated loan to the Bank and further EUR 20 million is being used to acquire OTP treasury-shares. The subordinated loan facility carries commercial terms and will be available for draw-down for a period of six months.

On 16 December 2009 the parties extended the period available for draw-down by 6 months. The EBRD subordinated loan is further strengthening the Bank's current robust capitalization and facilitating boosting the Bank's domestic banking operations as well as its activities in other Eastern European countries. Through the share purchase EBRD will increase its existing 1.5% stake in the Bank to around 2%. Details of the transaction will be reported to markets once the deal has been completed.

### Bond issue program

On 10 August 2009 the Bank has launched a HUF 500 billion Note Program. The Hungarian Financial Supervisory Authority approved the Base Prospectus relating to the program on 7 August 2009. During the issuance within frames of the program, the Bank can initiate subscription of the bonds on the Stock Exchange.The Commission de Surveillance du Secteur Financier (CSSF) approved the Base Prospectus (dated 26 August 2009) relating to the Bank EUR 5 billion Medium Term Note Program under the C-08390 number.

### New Branch foundation

In December 2009 the Bank established a branch in Frankfurt in order to help the German appearance and activity of SME clients of the Bank and its subsidiaries – mainly the Russian, Ukranian and Romanian – as well as support the entering of German companies to Hungary. The Bank has an interest in participating in open-market activities of European Central Bank (ECB).

## NOTE 40: POST BALANCE SHEET EVENTS

On 21 January 2010 the capital increase of the Romanian subsidiary of the Bank has been registered by the Romanian Court of Registration. Accordingly the statutory capital of the OTP Bank Romania S.A. has been increased from RON 432,909,120 to RON 462,909,120.

On 25 January 2010 the Bank called its purchase right established on 29 June 2009 and acquired total 100% ownership of Sinvest Trust Ltd. as well as 49% of shares of OTP Building Society Ltd. that was owned by Sinvest Trust Ltd.

As a result of this transaction the ownership of the Bank in OTP Building Society Ltd. changed to 100%.

CJSC Donskoy Narodny Bank was merged to OAO OTP Bank. The merger has been registered by the Court of Registration on 5 February 2010, thus the core capital of OAO OTP Bank reached RUB 2,797,887,853.

On 25 February 2010 the Bank obtained 80% direct ownership in PortfoLion Venture Fund Management Ltd. The registered capital of the company is HUF 25 million.

## NOTE 41: THE EFFECT OF THE FINANCIAL SITUATION ON THE BANK

The framework of operation and profitability of the Bank in 2009 has been significantly influenced by the crisis and the measures taken by the management.

- The quality of the loan portfolio has deteriorated significantly compared to the previous years, (See Note 26) which made necessary on one hand prudent provisioning on the loans. On the other hand the Bank has launched a debtor compensation program, which offered help for the clients having temporary problems with repayment, generally in form of temporary instalment reductions, prolongation of the duration of the contracts, or the combination of these.
- The further enhancement of the stable capital adequacy was a priority for the Bank in 2009 as well. Due to the profitable operation, the lending activity shrinking as a consequence of the crisis, and the shrinking of the risk weighted total assets, the capital adequacy ratio of the Bank has risen to 16.2%.
- Irrespecive of the fundamental performance of the Bank, its share prices and prices of other financial assets issued by the Bank, fell to the price level of year 2001 due to the risk evasive investor attitudes. In 2009 the Bank, seeing the low share and financial asset prices, repurchased bonds, being components of its Supplementary Capital, the gain on these transactions was HUF 27.7 bn for 2009. In the first quarter, the Bank purchased treasury shares on low market prices. A stock of the treasury shares has been transferred to MOL in the framework of a share swap agreement, that has enhanced the capital adequacy of the Bank.
- Parallel to the shrinking demand for loans on the market and to the more cautious lending activity, the Bank has taken special attention to the collection of deposits. The successful deposit collection activity contributed considerably to the 9% points decrease of the loan-deposit ratio in 2009 (at the end of 2009 it was 80%). By its conservative business policy, the Bank accumulated a liquidity puffer (as at the end of 2009 it amounted to EUR 6 billion on Group level), which securely covers all the liabilities denominated in foreign currencies (senior debt and mortgage bonds), the repayment of the state loans, and supports managing any unanticipated liquidity and foreign exchange rate shocks.
- The possibility of raising funds from the capital markets has shrinked significantly in the second part of 2008, and the market conditions became worse at the beginning of 2009 as the Moody`s and the S&P credit rating agencies have downgraded the rating of the debt of Hungary. Though, the stable liquidity position of the Bank is still ensured, which is enhanced by the contracts with the EBRD and the Hungarian Government. (See Note 39).
- Both the lending activity and the demand for loans have reduced considerably. The credit

policy has been made stricter in 2008 already by the Bank, and the higher cost of raising funds has been partially charged to the clients in the form of higher interest margins. Based on management decision, the portion of the HUF denominated loans grew significantly among the loans originated in 2009, both for mortgage loans and personal loans. This year, there were initiaives and bills in Hungary, that aimed at cutting foreign currency denominated lending, and setting up other barriers to it, furthermore, a law has been codified to help the retail clients having mortgage loans, touched by the crisis.
On 16 September, the Bank joined the Code of Ethics of retail lending institutions, which is about the fair treatment of the retail clients. On 30 December, a government decree has been issued on the conditions of prudent retail lending, providing loans and credit scoring, to be applied from 2010.

- The swap markets for raising the necessary liquidity in foreign currencies for the lending in foreign currencies, have shrinked in 2008 (particularly in the last quarter), though the renewal of the transactions has been ensured continously accompanied by raising premiums. In the third quarter of 2009 in the framework of the contract with the EBRD, the international credit institution provided a CHF 500 mn CHF/HUF swap facility for the Bank. In the past year more transactions were contracted with EBRD, by which the swap facility has been almost completely used. The Bank could charge to its clients in several lending business lines the expense of the swaps, being higher in amount, partially counterbalancing its effect on the Statements of operations.

# corporate governance

# Senior management of OTP Bank and executive members of the Board of Directors

## Dr. Sándor Csányi
*Chairman & CEO*

Dr. Sándor Csányi (57) 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 Rt. He was deputy CEO of K&H Bank from 1989-92. Since 1992 he has been Chairman & CEO of OTP Bank Ltd., where he is responsible for the Bank's strategy and overall operation. He is a member of the Board of Directors for Europe of MasterCard, one of the largest international card companies, and is also a Board member and co-chairman of the Hungarian oil and gas company MOL, co-chairman of the National Association of Entrepreneurs and Employers (VOSZ), and a member of the Board of Directors of the Hungarian Banking Association.
As of 31 December 2009 he owned 200,000 ordinary OTP shares (while the total number of OTP shares held by him directly and indirectly was 2,700,000).

## Dr. Antal Pongrácz
*Deputy Chairman, Deputy CEO*
*Member of the Board of Director*
*Staff Division*

Dr. Antal Pongrácz (64) 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 Rt. Between 1994 and 1998 he was the Chairman & CEO of Szerencsejáték Rt., 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 Staff Division and more recently as Deputy CEO. He has been a member of OTP Bank Plc's Board of Directors since 2002. As of 31 December 2009 he held 200,000 ordinary OTP shares.

## László Bencsik
*CFO, Deputy CEO*
*Strategy and Finance Division*

László Bencsik (40) has been deputy CEO of OTP Bank Plc., and head of the Strategy and Finance Division, since August 2009.
He joined OTP Bank in September 2003, when he became managing director of the Bank Operations Management Directorate, and the manager with responsibility for controlling and planning tasks. From 2000 until he joined OTP Bank he was a project manager at the consulting firm McKinsey & Company Inc. Between 1996 and 2000 he worked as a consultant at Andersen Consulting (Accenture). In 1996 he graduated from the Faculty of Business Administration at the Budapest University of Economics, and in 1999 he obtained a Masters in Business Administration (MBA) from the INSEAD Business School in France. As of 31 December 2009 he held no ordinary OTP shares.

## Dr. István Gresa
*Deputy CEO*
*Credit Approval and Risk Management Division*

Dr. István Gresa (57) 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 Zrt., and from 22 May 2007 chairman of the Board of Directors of OTP Healthcare Fund Zrt. As of 31 December 2009 he held 63,758 ordinary OTP shares.

## Antal Kovács

*Member of the Supervisory Board,*
*Deputy CEO*
*Retail Division*

Antal Kovács (57) 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 Ltd., 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 2009 he held 23,000 ordinary OTP shares.

## Ákos Takáts

*Deputy CEO*
*IT and Bank Operations Division*

Ákos Takáts (50) graduated from the University of Horticulture and Food Industry in 1982 and earned a degree in engineering in 1985. He has worked in the banking sector since 1987. From 1993 he served as a deputy head of department at OTP Bank Plc., then, from 1995, he was 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 2009 he held 153,347 ordinary OTP shares.

## Dr. László Utassy

*Advisor to the Chairman,*
*Member of the Bard of Director*
*OTP Bank*

Dr. László Utassy (58) 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. From 1996 to 2008 he was the CEO, and later Chairman & CEO, of OTP Garancia Insurance. He has been a member of OTP Bank's Board of Directors since 2001. He has been an advisor to the chairman and an executive director since 2008.
As of 31 December 2009 he held 250,000 ordinary OTP shares.

## László Wolf

*Deputy CEO*
*Commercial Banking Division*

László Wolf (50) 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 2009 he held 677,640 ordinary OTP shares.

# Non-executive members of the Board of Directors

## Mihály Baumstark
*Chairman & CEO*
*Csányi Vinery Ltd.*

Mihály Baumstark (61) 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 Rt. as its managing director, and from 1999 he was the deputy CEO, and then Chairman & CEO, of Villányi Vinery Ltd. (now Csányi Vinery Ltd.). Between 1992 and 1999 he was a non-executive member of OTP Bank's Supervisory Board, and since 1999 a non-executive member of its Board of Directors. As of 31 December 2009 he held 0 ordinary OTP shares.

## Dr. Tibor Bíró
*Head of Department*
*Budapest College of Business*

Dr. Tibor Bíró (58) 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 2009 he held 40,681 ordinary OTP shares

## Péter Braun
*Electrical Engineer*
*Former Deputy CEO*
*OTP Bank*

Péter Braun (74) 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 Rt., working in its Computer and Information Centre. He is a member of GIRO Rt.'s Board of Directors, and was Deputy CEO of OTP Bank Ltd. from 1993 until his retirement in 2001. Since the second half of 2009 he has been chairman of the Hungarian Chief Information Officers' Association. He has been a member of OTP Bank's Board of Directors since 1997. As of 31 December 2009 he held 527,905 ordinary OTP shares.

## Dr. István Kocsis
*CEO*
*Budapest Public Transport Company*

Dr. István Kocsis (58) 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 2009 he held 81,600 ordinary OTP shares.

## Dr. Sándor Pintér
*Chairman & CEO*
*CIVIL Security Service Ltd.*

Dr. Sándor Pintér (62) 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 of OTP Bank's Board of Directors. As of 31 December 2009 he held 101,350 ordinary OTP shares.

## Dr. György Szapáry
*Professor*
*Central European University*
*Department of Economic Science*

Dr. György Szapáry (71) is an economist, who graduated from the Louvain Catholic University (Belgium) in 1961, earning his PhD in economic sciences from the same institution in 1966. Between 1965 and 1966 he worked at the European Commission. From 1966 to 1990 he was an analyst, chief analyst and finally deputy CEO at the International Monetary Fund in Washington, and then until 1993 he was the IMF's representative in Hungary. Between 1993 and 2007, except for a brief interval when he acted as advisor to the chairman of the National Bank of Hungary, he was deputy chairman of the National Bank of Hungary, and a member of the Monetary Council. He is currently a guest professor of the Department of Economic Science at the Central European University. He has published a book, and numerous essays in economic journals. From 25 April 2008 he is a member of OTP Bank's Board of Directors. As of 31 December 2009 he held no ordinary OTP shares.

## Dr. József Vörös
*Professor,*
*Chairman of the Economic Council of the University of Pécs*

Dr. József Vörös (59) graduated from the Budapest University of Economics in 1974. In 1984 he earned a masters degree and in 1993 a Ph.D. in economics from the Hungarian Academy of Sciences. Between 1990 and 1993 he was dean of the Faculty of Business and Economics of Janus Pannonius University (JPTE). In 1993 he attended a course in management for senior executives at Harvard University. From 1994 he was a professor at JPTE, and from 2003 until 2007 he was general Deputy Rector of Pécs University. He has been a non-executive member of OTP Bank's Board of Directors since 1992. As of 31 December 2009 he held 117,200 ordinary OTP shares.

# Members of the Supervisory Board*

## Tibor Tolnay
*Chairman of the Supervisory Board*
*Chairman & CEO*
*Magyar Építők Zrt.*

Tibor Tolnay (59) 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 Rt. 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 2009 he held no ordinary OTP shares.

## Dr. Gábor Horváth
*Lawyer*

Dr. Gábor Horváth (54) 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 Nyrt. since 1999, and a member of OTP Bank Plc.'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 2009 he held 10,000 ordinary OTP shares.

## Jean-Francois Lemoux
*Head of International*
*Groupama SA*

Jean-Francois Lemoux (62), after graduating from the 'Hautes Etudes Commerciales' (HEC) college, began his career in 1971 at the Via Assurances Group, working first as Marketing Director, later as Management Controller, and finally as Director of Sales and Life Insurance. In 1988 he moved to the Athena Group, where he first worked as CEO of the group's life insurance subsidiary, and then from 1990 to 1998 held the post of CEO at PFA Vie, as well as becoming a member of the Group's governing committee. In 1998, when Groupama acquired GAB, he was appointed to the Management Board of GAN SA, with the task of coordinating life and non-life insurance operations performed through agents and brokers. In September 2000, in keeping with Groupama-Gan's new corporate structure, he also took control of the non-life insurance divisions and the sales networks. Since his appointment in 2003 Mr. Lemoux has worked as CEO of Groupama International. From 25 April 2008 he is a member of OTP Bank's Supervisory Board. As of 31 December 2009 he held no ordinary OTP shares.

## András Michnai
*Director*
*Independent Compliance*
*Department*
*OTP Bank*

András Michnai (55), 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 independent 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 2009 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 2009:*

| Shareholder | Ownership (%) | Voting rights (%) |
|---|---|---|
| OTP Bank Plc. | 1.5 | 0.0 |
| Government held owner | 0.5 | 0.5 |
| Foreign institution | 72.2 | 73.4 |
| Foreign individual | 1.3 | 1.3 |
| Domestic institution | 15.3 | 15.5 |
| Domestic individual | 9.2 | 9.3 |
| **TOTAL** | **100.00** | **100.00** |

## Stock exchange listing

The ordinary shares of OTP Bank 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. (1 GDR represents to 2 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 (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 shareholder verification effectively verifies the possession of shares;
- the shareholder should sequester those shares by which he intends to exercise his voting right at the AGM from the date of shareholder verification until the day following the AGM;
- the shareholder should be effectively entered into the Company's Share Register by the deadline;
- the authorized representative should identify the shareholders being represented;
- the voting right relating to the ownership of the shares shall not violate the provisions of the By-Laws, which circumstance shall be verified through monitoring by the Company.

## Dividend

On 30 April 2010 OTP Bank's General Meeting decided not to pay dividend after fiscal year 2009.

## Announcements

OTP Bank fulfils its disclosure obligations related to corporate events and prescribed in Act CXX of 2001 on the website of the OTP Bank (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 should contact the following address if they require further information:
OTP Bank 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 set out 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 Bank's Bylaws, General Meeting resolutions, and the procedural rules of the Board of Directors. The procedural rules set out the composition of the Board of Directors, the tasks relating to the preparation, implementation and drafting of resolutions at its meetings, as well as all other issues pertaining to the operation of the Board of Directors.
The members of the Board of Directors are elected by the General Meeting for a term of five years. All the obligations and prohibitions specified for executive officers under Act CXII of 1996 on Credit Institutions and Financial Enterprises (Credit Institutions Act) apply to the members of the Board of Directors. The Supervisory Board oversees the management and business operations of the Company. The Supervisory Board establishes its own procedural rules, which are approved by the General Meeting.
Supervisory Board members are elected by the General Meeting with a mandate of three years. The proportion of independent Supervisory Board members (3 persons) within the entire Supervisory Board (5 persons) is 60%.
In order to avoid any conflicts of interest, the General Meeting may not elect members of the Board of Directors or their close relatives to the Supervisory Board. The rules applicable to the appointment and recall of the employee member of the Board of Directors are defined by the Works Council operating at the Company, and the Company does not consider such a member to be independent.
The Supervisory Board is responsible for 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 2009 eight Board meetings, eight Supervisory Board meetings and three Audit Committee meetings were held.

Meetings of the Board of Directors are convened by the Chairman & CEO with a written invitation in accordance with the prevailing work schedule.
The Chairman & CEO is also obliged to convene a meeting of the Board of Directors if
- the Board of Directors has passed a resolution convening for an extraordinary meeting of the Board of Directors;
- at least three Board members request it in writing, indicating the reason for the meeting and its objectives, specifying the items on the agenda, and making available a written proposal regarding the decision to be made;
- it is requested, in writing, by the Supervisory Board or the auditor;
- he is obliged to do so by the Hungarian Financial Supervisory Authority;
- pursuant to the statutory provisions a decision must be made regarding the convening of an Extraordinary General Meeting.

Meetings of the Supervisory Board are convened by the chairman. A meeting must also be convened 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 convened 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 convenes 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 provison that the Board of Directors must be notified in advance for the appointment or dismissal of deputy CEOs. The Board of Directors has prepared guidelines for evaluation of the management's work, and remuneration of the management. The Bank has launched a share option scheme for the evaluation and encouragement of management performance, based on the fulfilment of annual and medium-term targets. The detailed conditions of the share purchase program and the expectations with regard to performance are approved by the General Meeting of the Company. The Board of Directors provides information on the annual and medium-term targets and their performance, representing the basis for evaluation, at the Annual General Meeting. The Company has separate committees for the maintenance of the Board of Directors and the Supervisory Board. These are: the Audit Committee, Management Committee, Subsidiary Integration and Management Committee, and Remuneration Committee. In addition, certain functions and tasks are performed by different permanent committees: the Ethics Committee, Asset Liability Committee, Credit and Limit Committee, Product Development, Sales and Pricing Committee, Work-Out Committee, Information Management Committee, the Investment Committee and the Group-Level Risk Management Committee.

## Internal 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 internal auditing the Company's internal control system is structured vertically and horizontally. The system is implemented at three interrelated, modular control levels, as well as being subdivided along departmental lines. The internal system of checks and balances is comprised of a combination of process-integrated, management and independent internal audit functions.

The independent internal audit organisation promotes the use of safe, well-considered business procedures, efficient operation and the minimising of risks, and also – together with the Compliance department – monitors compliance with the statutory provisions. Its most important characteristic is that it functions as an independent, professional, impartial organisation, which conducts its audits at all control levels. Professional oversight of the organisation is performed, within the framework defined by the Credit Institutions Act, by the Supervisory Board. The independent internal audit department works to an annual internal 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 independent reports for the executive bodies at quarterly and annual intervals. In its quarterly report it gives an account of the audits conducted in the given quarter, the risks identified and performance of the measures implemented for their elimination. The internal audit department reports annually on the performance of tasks specified in the annual schedule, the audits performed and its other activities, as well as any changes that are made to the internal auditing system.

Each year the department prepares an objective and independent report for the Supervisory Board on the operation of risk management, internal control mechanisms and corporate governance functions. In exceptional cases requiring immediate intervention, the internal audit department has the authority to summarily perform unscheduled internal 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 applied on a continuous basis.

The Supervisory Board exercises a preliminary right of consent in respect of decisions relating to the establishment and termination of the employment of, as well as the determining the remuneration of, the managers and employees of the internal audit department. 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 line with the regulations of the European Union and the applicable Hungarian laws, the Company has established an independent organisational unit (Compliance Department), with the task of identifying and managing compliance-related risks. The appropriate regulatory documents, such as the compliance policy, strategy and work plan for the unit, have been drawn up. The objectives of the compliance policy are to determine the framework for compliance activities regarding the entire OTP Group, and to define compliance-related objectives and the duties and authority of the compliance function. Another essential document of compliance policy is the compliance strategy of the OTP Group. The compliance policy is approved by the Board of Directors of OTP Bank Plc. The Compliance Department prepares a comprehensive report once a year on the Bank Group's activities and position with regard to compliance, which is approved by the Bank's Board of Directors. The management of the Group is responsible for implementation of the compliance policy.

## Disclosure

The Company discloses its information in strict compliance with the provisions of Act CXX of 2001 on the Capital Market (Capital Market Act) and the applicable regulations of the Budapest Stock Exchange. The Company also has an effective internal disclosure policy for ensuring fulfilment of its public disclosure obligations.

The regulations 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 careers of the members of the Board of Directors, the Supervisory Board and the management on its website and in its annual report, in compliance with the effective legislation.

The proposal for the remuneration of the chairman and members of the Board of Directors and chairman and members of the Supervisory Board is also a part of the proposals prepared for the General Meeting.

The Company has detailed risk management regulations applicable to all types of risks (liquidity, market and credit risks), which are in compliance with the legal regulations on prudential banking operations. The annual report contains information on the risk management practices of the Company, the applied limits and compliance with them.

The Company has a detailed internal policy pertaining to persons that qualify as insiders and potential insiders, which is in full compliance with the limits and prohibitions regulated in detail under the effective provisions of the Capital Market Act.

The Company discloses the transactions of the members of the Board of Directors, Supervisory Board and management involving the Company's shares, in compliance with the disclosure regulations, and indicates the holding of these individuals in the Company (number of shares) in its annual report.

The Board of Directors has assessed the effectiveness of the disclosure procedures for 2009, and found them to be satisfactory. Besides this, it has also ordered a survey of external stakeholders in the interests of further raising the effectiveness of its disclosure procedures.

# 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 qualified as a breach of bank, securities, insurance or trade secrets.

- Failure to fulfill the reporting obligation may result in prosecution under criminal law.

- OTP Bank cooperates with the criminal investigation authorities in the investigation of all circumstances suggestive of money laundering.

OTP Bank discloses the customer identification procedure applied by the bank in an Announcement posted in all rooms open for serving customers.

# Corporate social responsibility

## *With trust and responsibility for each other*

OTP Bank bears a considerable burden of responsibility as the largest independent regional participant in Central and Eastern Europe, not least because the domestic and foreign subsidiaries also look to the Hungarian parent bank for examples of corporate social responsibility. Over the past years the Bank has continuously developed its corporate social responsibility operations at its subsidiaries too, supporting the companies in the strengthening of their sustainability principles and approach.

Besides this the Bank considers it an important duty to take into consideration the various banks' special local and cultural characteristics, and to keep these in mind when articulating the CSR expectations applicable to the Bank Group as a whole.

Last year the financial institution continued apace its efforts to fulfil the objectives set forth in its corporate social responsibility (CSR) strategy, since for OTP Bank sustainability remains synonymous with:

- Social progress, which facilitates the promotion of a sophisticated financial culture, the provision of appropriate customer information, and equal opportunities for all stakeholders
- Economic development, which enables it to create products and services that are important from a social perspective, each satisfying the financial needs of a specific group
- Environmental protection, in the course of which it uses the means at its disposal to safeguard our natural heritage, and through its day-to-day operations to encourage its stakeholders to adopt an environmentally aware attitude.

### Responsibility for our customers

During the year numerous initiatives were implemented that served to strengthen the personal relationship between customers and customer service staff, and to ensure that customers have smooth access to the services offered by OTP Bank. Through customer satisfaction surveys, regular mystery shopping and the processing of feedback received from our own employees, the financial institution endeavours to improve and develop its services in line with the needs of customers.

For its retail, corporate and municipality customers, in Hungary OTP Bank was among the first to begin disbursing the new type of interest-subsidised forint home loans. The Bank continuously, and in the form of coherent programs, offers favourable savings opportunities and, in an important move, has overhauled and extended its Debtor Protection Program. To alleviate repayment difficulties experienced by forint and foreign-currency borrowers the Bank has introduced payment easing measures, and also provided individual solutions designed to cover every life circumstance, for those customers who were facing repayment problems due to the loss of their job, a fall in their household's income or a substantial rise in currency exchange rates. The new, expanded range of debtor protection measures offers solutions that fit in with the Bank's broad product range, and which are flexible and matched to the customer's given life circumstances.

OTP Bank received recognition from its own industry in the form of gold medals in two important categories of the MasterCard awards. In addition the "Bank of the Year" award, OTP Bank was also named the "Bank best managing the crisis". In the opinion of the judging panel, in its management of the crisis the Bank, heeding the situation of its retail customers, conducted itself in a cooperative, helpful manner.

## Responsibility for society

The Bank Group interacts with civil organisations both as a financial service provider and as a sponsor, as it endeavours to forge purposeful, active and long-term cooperative partnerships with the third sector and local communities.
To promote equal opportunities and community building, in 2009 it provided financial assistance for several hundred initiatives countrywide, in a total value of HUF 303 million.

One of these was a new type of initiative, launched two years ago by OTP Bank and the Nonprofit Information and Training Centre (NIOK) Foundation.
Jointly with NIOK, the Bank invited applications for civil organisations to join an online donation-collecting system.
As a result of this tender, the winning organisations can now also accept donations online via the www.adhat.hu internet site.
This makes it simple for donors, at the touch of a button, to ensure that their pledged donations reach those who need them as fast as possible. The Bank also assists in the donation activities by substantially reducing the costs of the transactions.

Through the financial institution's own OTP Fáy András Foundation, since 2006 more than 1,000 secondary-school pupils have completed economics, life-skills and career-related training courses, and since 2009 teachers trained by the foundation have also been imparting financial, business, career and life skills to their students.
A part of the initiative, known as the BASICS Program, involves the passing on of labour-market, employment and business skills, as well as the provision of basic financial training and individual self-awareness and career counselling. Since its launch, the program has received more than HUF 200 million in assistance.
As a result of the foundation's "Bookwave" program, every year 150 schools have been granted a HUF 100,000 package of books, selected by the schools themselves in line with their individual needs, from a list of some 3,000 titles. Last year, to mark the "Year of the Hungarian language", works of Hungarian literature also featured prominently in the offering.

In 2009 priority continued to be given to supporting the Hand-in-Hand Foundation's "Accept them, accept me" campaign to shape public opinion regarding people with disabilities, the operation of a mobile dental screening facility in cooperation with the National Children's Safety Service, and the work of the Hungarian Therapeutic Horse Riding Association.

Besides cash donations, the Bank also made contributions in kind (voluntary work by employees, giving blood, loan of vehicles etc.) to assist the civil organisations, training institutions and local communities that it supports. In 2009 a total of 510 employees gave blood on 861 occasions on blood-giving days held by the Red Cross.

## Responsibility for our environment

OTP Bank considers it important for environmentally-aware and responsible conduct to be reflected in the operation of the Company as a whole, and to be communicated to the broadest cross-section of stakeholder groups comprehensibly and via a diverse range of channels. For the financial institution, instilling a sense of individual responsibility is crucial for encouraging environmentally aware behaviour, and it is clear from the in-house training programs, the developed interactive teaching materials and the efforts made to reduce our environmental footprint that OTP Bank intends its environmental protection initiatives to stand as a positive example to both its immediate and broader environment.

The year 2009 brought an expansion in the range of environmentally friendly promotional products as, following the Christmas greetings cards, gift bags, calendars, diaries, notepads and annual reports, now all branch product brochures are also made entirely from recycled paper. As a result, in 2009, some 45 tons of brochures were made from environmentally friendly material. In another initiative to promote recycling, in the branches publications that are no longer needed are gathered up and sent for reuse.

An important part of OTP Bank's responsibility towards the environment is its efforts to protect our immediate surroundings, to set an example, and – no less importantly – to encourage others to be environmentally aware. For this reason the Bank and the World Wildlife Fund (WWF) have conducted a national campaign to draw the public's attention to the need to protect trees and forests. As a part of this cooperation people were reminded that by switching to green bank statements, fewer trees will be felled. The objective of the campaign was to persuade customers to request electronic bank statements, instead of printed statements sent by mail. In this way, in addition to preserving nature, every time a responsibly-minded customer of the bank agreed not to receive a paper-based account statement, a contribution of HUF 40 was made to the WWF's Forest Protection Program in accordance with a pledge made by OTP Bank. As a result of this initiative more than 38,000 of our customers have switched over to or selected the "green" bank statement.

In 2009 OTP Bank celebrated its 60th anniversary. Over the past six decades the financial institution has successfully adapted to continuous economic and social changes, while maintaining its stability, its values and the trust of its customers. Our aim is to continue serving the best interests of our customers and investors, as well as to pursue exemplary corporate social responsibility practices.

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.

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OTP Bank – Responsible for our environment