OTP BANK PLC.

CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY THE EUROPEAN UNION

FOR THE YEAR ENDED
31 DECEMBER 2010

OTP BANK PLC.
CONSOLIDATED FINANCIAL STATEMENTS

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Clause (Opinion)

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

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

Other Reporting Obligation on the Consolidated Business Report

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

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

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

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

Budapest, February 25, 2011

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OTP BANK PLC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010
(in HUF mn)

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

Budapest, 25 February 2011

Dr. Sándor Csányi
Chairman and Chief Executive Officer

OTP BANK PLC.
CONSOLIDATED STATEMENT OF RECOGNIZED INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(in HUF mn)

	Note	*2010*	*2009*
Interest Income:			
Loans		741,708	780,161
Placements with other banks		301,259	350,742
Securities available-for-sale		73,247	31,373
Securities held-to-maturity		11,991	45,804
Amounts due from banks and balances with the National Banks		5,052	7,514
Securities held for trading		2,091	5,556
Total Interest Income		*1,135,348*	*1,221,150*
Interest Expense:			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		216,654	244,744
Deposits from customers		227,781	290,516
Liabilities from issued securities		61,877	79,770
Subordinated bonds and loans		12,611	16,340
Total Interest Expense		*518,923*	*631,370*
NET INTEREST INCOME		**616,425**	**589,780**
Provision for impairment on loan and placement losses	*5., 8.*	273,024	249,278
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES		**343,401**	**340,502**
Income from fees and commissions		177,252	170,335
Expense from fees and commissions		36,621	37,422
Net profit from fees and commissions	*23.*	**140,631**	**132,913**
Foreign exchange gains and (losses), net		31,811	(8,308)
Net gains on securities		5,445	7,458
Gains on real estate transactions		845	931
Dividend income		951	894
Provision for impairment / Provision on securities available-for-sale and securities held-to-maturity		9,924	(8,027)
Other operating income		20,890	66,308
Other operating expense	*24.*	(14,435)	(21,048)
Net operating income		**55,431**	**38,208**
Personnel expenses		160,725	155,517
Depreciation and amortization	*11.*	67,324	45,141
Other administrative expenses		171,231	140,483
Other administrative expenses	*25.*	**399,280**	**341,141**
PROFIT BEFORE INCOME TAX		**140,183**	**170,482**
Income tax	*26.*	(22,057)	(20,276)
NET PROFIT FOR THE PERIOD		**118,126**	**150,206**
From this, attributable to:			
Non-controlling interest		**196**	**(839)**
Equity holders		**117,930**	**151,045**
Consolidated earnings per share (in HUF)			
Basic	*37.*	**443**	**577**
Diluted	*37.*	**437**	**572**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(in HUF mn)

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

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(in HUF mn)

OPERATING ACTIVITIES	*Note*	*2010*	*2009*
Profit before income tax		**140,183**	**170,482**
Goodwill impairment	*11.*	18,519	-
Depreciation and amortization	*11.*	48,805	45,141
(Release of provision)/ provision for impairment on securities	*7.,10.*	(9,754)	8,027
Provision for impairment on loan and placement losses	*5.,8.*	273,024	249,278
Provision for impairment on permanent diminution in value of investments	*9.*	425	118
Provision for impairment on other assets	*12.*	3,808	5,811
(Release of provision) / provision on off-balance sheet commitments and contingent liabilities	*17.*	(3,977)	4,087
Share-based payment	*2.,29.*	(11,821)	6,802
Unrealized gains on fair value adjustment of securities held for trading		3,428	4,579
Unrealized gains on fair value adjustment of derivative financial instruments		106,972	9,891
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		22,243	(123,644)
Net (increase)/decrease in loans, net of allowance for loan losses		(474,804)	92,396
(Increase)/decrease in other assets before provisions for impairment		(16,572)	111,857
Net increase in deposits from customers		132,602	430,720
(Decrease)/increase in other liabilities		(44,352)	13,073
Net decrease/(increase) in compulsory reserves at the National Banks		4,114	(11,035)
Dividend income		(951)	(894)
Income tax paid		(21,748)	(34,273)
Net Cash Provided by Operating Activities		**170,144**	**982,416**
INVESTING ACTIVITIES			
Net increase in placement with other banks before allowance for placements losses		(68,976)	(30,013)
Net decrease/(increase) in securities available-for-sale		340,238	(851,579)
Net decrease/(increase) in investments in subsidiaries, before provision for impairment		6,855	(8,485)
Dividend income		951	894
Net decrease in securities held-to-maturity		21,106	136,877
Additions to property, equipment and intangible assets		(92,633)	(79,737)
Disposals to property, equipment and intangible assets		21,362	27,812
Net decrease/(increase) in advances for investments, included in other assets		2,027	(1,874)
Net Cash Provided by / (Used in) Investing Activities		**230,930**	**(806,105)**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(in HUF mn)
[continued]

FINANCING ACTIVITIES	*Note*	*2010*	*2009*
Net decrease in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(120,800)	(45,981)
Net decrease in liabilities from issued securities		(302,446)	(156,412)
Increase/(decrease) in subordinated bonds and loans		9,796	(39,216)
Decrease in non-controlling interest		(264)	(633)
Foreign currency translation		30,674	(8,213)
Payments to ICES holders		(6,669)	(5,223)
Net change in Treasury shares		141	44,513
Dividends paid		(2)	(539)
Net Cash Used in Financing Activities		**(389,570)**	**(211,704)**
Net increase/(decrease) in cash and cash equivalents		**11,504**	**(35,393)**
Cash and cash equivalents at the beginning of the period		**243,541**	**278,934**
Cash and cash equivalents at the end of the period		**255,045**	**243,541**

Analysis of cash and cash equivalents

Cash, amounts due from banks and balances with the National Banks		505,649	530,007
Compulsory reserve established by the National Banks		(262,108)	(251,073)
Cash and cash equivalents at the beginning of the period		**243,541**	**278,934**
Cash, amounts due from banks and balances with the National Banks	*4.*	513,038	505,649
Compulsory reserve established by the National Banks	*4.*	(257,993)	(262,108)
Cash and cash equivalents at the end of the period		**255,045**	**243,541**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(in HUF mn)

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

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

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

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

The structure of the Share capital by shareholders:

	2010	*2009*
Domestic and foreign private and institutional investors	96%	97%
Employees	2%	2%
Treasury shares	2%	1%
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 1,489 branches. The Group has operations in Hungary, Bulgaria, Croatia, Slovakia, Romania, Ukraine, Serbia, Russia and Montenegro.

The number of employees at the Group:

	2010	*2009*
The number of employees at the Group	30,367	31,337
The average number of employees at the Group	30,183	31,051

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS [continued]

1.2. Accounting

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

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

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

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

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

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

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

- IAS 27 (Amendment) "Consolidated and Separate Financial Statements" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009),
- IAS 39 (Amendment) "Financial Instruments: Recognition and Measurement" - Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009),
- IFRS 1 (Revised) "First-time Adoption of IFRS" adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010),
- IFRS 3 (Revised) "Business Combinations" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009),
- IFRS 1 (Amendment) "First-time Adoption of IFRS"- Additional Exemptions for First-time Adopters, adopted by the EU on 23 June 2010 (effective for annual periods beginning on or after 1 January 2010),
- IFRS 2 (Amendment) "Share-based Payment" - Group cash-settled share-based payment transactions adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),
- "Improvements to IFRSs (2009)" (Amendment) resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),
- IFRIC 12 "Service Concession Arrangements" adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009),
- IFRIC 15 "Agreements for the Construction of Real Estate" adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010),

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS [continued]

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2010 [continued]

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" adopted by the EU on 26 November
- IFRIC 18 "Transfers of Assets from Customers" adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009).

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

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

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

- IAS 12 "Income Taxes" (Amendment) - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),[1]
- IAS 24 (Amendment) "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- IAS 32 (Amendment) "Financial Instruments: Presentation" – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- IFRS 1 (Amendment) "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),
- IFRS 1 "First-time Adoption of IFRS" (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011[1]
- IFRS 7 "Financial Instruments: Disclosures" (Amendment) - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),[1]
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013),[1]
- "Improvements to IFRSs (2010)" (Amendment) resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011).
- IFRIC 14 "IAS 19 (Amendment) — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

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

[1] 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

Subsidiaries are accounted for purchase method of accounting. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.
The investment has to be presented in the Statement of Financial Position as Associates and other investments from the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Before this date, it should be presented as Advance for investments within Other assets.

The Group has applied IFRS 3 Business Combinations Standard since 31 March 2004 for acquisitions after that date. Goodwill, which represents the residual cost of the acquisition after recognizing the acquirer's significant influence in the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.4. Accounting for acquisitions [continued]

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

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

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

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

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

2.5. Securities held-to-maturity

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts.

The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment.

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

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Financial assets at fair value through profit or loss [continued]

2.6.2. Derivative financial instruments

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

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

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

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

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

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

2.7. Securities available-for-sale

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.7. Securities available-for-sale [continued]

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

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

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

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

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

Allowance for loan and placement losses with other banks represent management assessment for potential losses in relation to these activities.

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

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

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

2.9. Sale and repurchase agreements, security lending

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.10. Associates and other investments

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

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

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

2.11. Property and equipment, Intangible assets

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

Intangible assets	
Software	3.33-50%
Property rights	10-50%
Property	1-33%
Office equipments and vehicles	2.5-50%

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

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

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

2.12. Financial liabilities

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. Leases

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

The Group as a lessor

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

The Group as a lessee

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

2.14. Treasury shares

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

2.15. Interest income and interest expense

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

2.16. Fees and Commissions

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

2.17. Dividend income

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.18. Income tax

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

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

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

2.19. Off-balance sheet commitments and contingent liabilities

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

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

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

2.20. Share-based payment

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

The Bank issues equity-settled share-based payment to certain employees. Equity-settled share-based payment is measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the year, based on the Bank’s estimate of shares that will eventually vest. Share-based payment is recorded in Consolidated Statement of Recognized Income as Personnel expenses.

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

2.21. Consolidated Statement of Cash Flows

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.22. Segment reporting

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

2.23. Comparative figures

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

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

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

3.1. Impairment on loans and placements

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

3.2. Valuation of instruments without direct quotations

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

3.3. Provisions

Provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 17)

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

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

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES [continued]

3.4. Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 "Impairment of assets".
The Group calculates the value in use a discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

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

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

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

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

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

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

Interest conditions of placements with other banks:

	2010	*2009*
In HUF	0.8% - 10.9%	0.14% - 11.7%
In foreign currency	0.10% - 12.6%	0.01% - 22%

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

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

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

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

An analysis of securities held for trading portfolio by currency (%)

	2010	*2009*
Denominated in HUF (%)	88.5%	95.8%
Denominated in foreign currency (%)	11.5%	4.2%
Total	**100.0%**	**100.0%**

[1] CCIRS: Cross currency interest rate swaps

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

An analysis of government bond portfolio by currency (%)

	2010	*2009*
Denominated in HUF (%)	41.5%	86.7%
Denominated in foreign currency (%)	58.5%	13.3%
Total	**100.0%**	**100.0%**
Interest rates on securities held for trading	2% - 8.75%	1.8% - 12.2%

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

	2010	*2009*
Within five years		
With variable interest	27	69
With fixed interest	35,662	70,747
	35,689	**70,816**

	2010	*2009*
Over five years		
With variable interest	1,038	1,124
With fixed interest	14,118	16,339
	15,156	**17,463**
Non-interest bearing securities	107,998	89,111
Total	**158,843**	**177,390**

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

	2010	*2009*
Securities available-for-sale:		
Government bonds	584,065	437,070
Bonds issued by NBH	312,007	724,752
Corporate bonds	32,937	142,264
From this:		
Listed securities:		
In HUF	-	-
In foreign currency	*30,972*	*19,824*
	30,972	*19,824*
Non-listed securities:		
In HUF	-	*6,113*
In foreign currency	*1,965*	*116,327*
	1,965	*122,440*
Treasury bills	11,463	7,919
Mortgage bonds	151	148
Other securities	14,740	10,768
Other non-interest bearing securities	35,522	22,439
From this:		
Listed securities:		
In HUF	*263*	*279*
In foreign currency	*708*	*683*
	971	*962*
Non-listed securities:		
In HUF	*22,965*	*13,646*
In foreign currency	*11,586*	*7,831*
	35,522	*21,477*
	990,885	**1,345,360**
Accrued interest	18,901	15,913
Provision for impairment on securities available-for-sale	(1,689)	(6,988)
Total	**1,008,097**	**1,354,285**

NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn) [continued]

An analysis of securities available-for sale by currency (%):

	2010	*2009*
Denominated in HUF (%)	79.8%	81.6%
Denominated in foreign currency (%)	20.2%	18.4%
Total	**100.0%**	**100.0%**

An analysis of government bonds by currency (%):

	2010	*2009*
Denominated in HUF (%)	72.5%	81.2%
Denominated in foreign currency (%)	27.5%	18.8%
Total	**100.0%**	**100.0%**

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

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

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

NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn) [continued]

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

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

Release of provision was related to foreign currency denominated bonds issued in Kazakhstan which were included in other securities and have been sold during 2010.

Certain securities are hedged. See Note 39.

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

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

An analysis of the loan portfolio by currency (%)

	2010	*2009*
In HUF	25%	24%
In foreign currency	75%	76%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2010	*2009*
Short-term loans denominated in HUF	4.5% - 36.1%	6% - 35.2%
Long-term loans denominated in HUF	1.8% - 36.1%	3% - 35.2%
Short-term loans denominated in foreign currency	0.9% - 83.2%	1% - 66%
Long-term loans denominated in foreign currency	1% - 67%	1% - 66%

NOTE 8: **LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn) [continued]**

	2010	*2009*
Gross loan portfolio on which interest to customers is not being accrued	11.7%	8.5%

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn) [continued]

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

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

An analysis of securities held-to-maturity by currency (%):

	2010	*2009*
Denominated in HUF (%)	53%	59%
Denominated in foreign currency (%)	47%	41%
Total	**100%**	**100%**

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.

	2010	*2009*
Interest rates of securities held-to-maturity with fixed interest	2% - 30%	1.7% - 30%
Interest rates of securities held-to-maturity with variable interest	0.2% - 8.9%	0.6% - 10.9%

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

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

Release of provision was related to foreign currency denominated bonds issued in Kazakhstan which were included in foreign bonds. Due to unexpected events (a significant deterioration of the issuer's creditworthiness) that were beyond the Bank's control the securities were sold in 2010 and the related provisions were released.

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

For the year ended 31 December 2010:

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

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

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

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

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2009:

Cost	Intangible assets and goodwill	Property	Office equipments and vehicles	Construction in progress	Total
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:

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

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

NOTE 12: OTHER ASSETS (in HUF mn)

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

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

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

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

NOTE 12: OTHER ASSETS (in HUF mn) [continued]

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

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

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

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

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

[1] The Hungarian State through the Government Debt Management Agency has rendered EUR 1.4 billion loan to the Bank in the framework of a loan agreement signed on 26 March 2009. The source of the facility is the IMF Loan Programme. The first disbursement was effected on 1 April 2009, the second on 30 June 2009. The original maturity of the loan was 11 November 2012.
The loan facility had market conditions; the coupon paid by the Bank exceeded the relevant benchmark rates by 245-250 bps.
The loan agreement aimed to provide liquidity for Hungarian corporations, as well as to mitigate the negative effect of the current financial situation and stabilizing the local financial sector.
In order to contribute to the stimulation of the economy in Hungary, the Bank got these funds with the aim of re-channelling it to local corporate clients.
On 5 November 2009 the Bank has paid back an equivalent of EUR 700 million, and on 19 March 2010, the Bank paid back the remaining EUR 700 million to the Hungarian State.

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

NOTE 13: AMOUNTS DUE TO BANKS, THE HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK S AND OTHER BANKS (in HUF mn) [continued]

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

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

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

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

Interest rates on deposits from customers are as follows:

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

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]

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

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

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

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

Interest rates on liabilities from issued securities are as follows:

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

NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at 31 December 2010 (in HUF mn)

	Name	Date of issue	Maturity	Nominal value (in original currency	Nominal value (in HUF)	Interest conditions (in % p.a.)		Hedged
1	OTP 2011/I	08/01/2010-15/01/2010	08/01/2011	6,011	6,011	5.5	fixed	
2	OTP 2011/II	22/01/2010-29/01/2010	22/01/2011	23,326	23,326	5.5	fixed	
3	OTP 2011/III	05/02/2010-12/02/2010	05/02/2011	5,981	5,981	5.5	fixed	
4	OTP 2011/IV	19/02/2010-26/02/2010	19/02/2011	22,805	22,805	5.5	fixed	
5	OTP 2011/V	05/03/2010-12/03/2010	05/03/2011	10,711	10,711	5.5	fixed	
6	OTP 2011/VI	19/03/2010-26/03/2010	19/03/2011	5,231	5,231	5.5	fixed	
7	OTP 2011/VII	02/04/2010-09/04/2010	02/04/2011	13,085	13,085	5	fixed	
8	OTP 2011/VIII	16/04/2010-23/04/2010	16/04/2011	7,295	7,295	5	fixed	
9	OTP 2011/IX	30/04/2010-07/05/2010	30/04/2011	9,516	9,516	5	fixed	
10	OTP 2011/X	14/05/2010-21/05/2010	14/05/2011	9,805	9,805	5	fixed	
11	OTP 2011/XI	28/05/2010-04/06/2010	28/05/2011	8,367	8,367	5	fixed	
12	OTP 2011/XII	11/06/2010-18/06/2010	11/06/2011	6,794	6,794	5	fixed	
13	OTP 2011/XIII	25/06/2010-02/07/2010	25/06/2011	9,206	9,206	5	fixed	
14	OTP 2011/XIV	09/07/2010-16/07/2010	09/07/2011	10,349	10,349	5	fixed	
15	OTP 2011/XV	23/07/2010-30/07/2010	23/07/2011	11,171	11,171	5	fixed	
16	OTP 2011/XVI	06/08/2010-13/08/2010	06/08/2011	13,272	13,272	5	fixed	
17	OTP 2011/XVII	19/08/2010-27/08/2010	19/08/2011	7,245	7,245	5	fixed	
18	OTP 2011/XVIII	03/09/2010-10/09/2010	03/09/2011	14,679	14,679	5	fixed	
19	OTP 2011/XIX	17/09/2010-24/09/2010	17/09/2011	11,131	11,131	5	fixed	
20	OTP 2011/XX	01/10/2010-08/10/2010	01/10/2011	4,864	4,864	5	fixed	
21	OTP 2011/XXI	15/10/2010-22/10/2010	15/11/2011	6,474	6,474	5	fixed	
22	OTP 2011/XXII	29/10/2010-05/11/2010	29/10/2011	19,640	19,640	5	fixed	
23	OTP 2011/XXIII	12/11/2010-19/11/2010	12/11/2011	12,589	12,589	5	fixed	
24	OTP 2011/XXIV	26/11/2010-03/12/2010	26/11/2012	6,518	6,518	5	fixed	
25	OTP 2011/XXV	13/12/2010-30/12/2010	13/12/2011	15,810	15,810	5	fixed	
26	OTP 2011A	13/10/2009	13/04/2011	3,000	3,000	9.5	fixed	
27	OTP 2011B	28/10/2009	28/04/2011	1,000	1,000	7.55	fixed	
28	OTP 2011C	09/11/2009	09/11/2011	2,000	2,000	7.5	fixed	
29	TBSZ 2013_I	26/02/2010-28/12/2010	30/12/2013	6,264	6,264	5.5	fixed	
30	TBSZ 2015_I	26/02/2010-17/12/2010	30/12/2015	5,729	5,729	5.5	fixed	
31	OTPX 2011A	29/02/2008	01/03/2011	315	315	indexed	floating	hedged
32	OTPX 2011B	30/05/2008	30/05/2011	539	539	indexed	floating	hedged
33	OTPX 2011C	14/12/2009-05/02/2010	20/12/2011	527	527	indexed	floating	hedged
34	OTPX 2012C	25/03/2010	30/03/2012	668	668	indexed	floating	hedged
35	OTPX 2013C	16/12/2010	19/12/2013	450	450	indexed	floating	hedged
36	OTPX 2012A	11/09/2009-25/09/2009	11/09/2012	1,686	1,686	indexed	floating	hedged
37	OTPX 2013A	28/06/2010	08/07/2013	480	480	indexed	floating	hedged
38	OTPX 2014A	13/12/2010	30/06/2014	3,278	3,278	indexed	floating	hedged
39	OTPX 2014B	05/10/2010	13/10/2014	4,164	4,164	indexed	floating	hedged
40	OTPX 2014C	14/12/2009	19/12/2014	4,080	4,080	indexed	floating	hedged
41	OTPX 2015A	13/12/2010	30/03/2015	5,602	5,602	indexed	floating	hedged
42	OTPX 2015B	13/12/2010	09/07/2015	5,030	5,030	indexed	floating	hedged
43	OTPX 2016B	16/12/2010	19/12/2016	3,480	3,480	indexed	floating	hedged
44	OTPX 2019A	13/12/2010	01/07/2019	319	319	indexed	floating	hedged
45	OTPX 2019B	05/10/2009-05/02/2010	14/10/2019	481	481	indexed	floating	hedged

NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at 31 December 2010 (in HUF mn) [continued]

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

NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in foreign currency as at 31 December 2010 (in HUF mn)

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

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

NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

EMTN Programme

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

Term Note Program in the value of HUF 500 billion

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

Redemption of EUR 500 million senior notes

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

Redemption of EUR 300 million senior notes

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

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

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

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

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

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

NOTE 17: OTHER LIABILITIES (in HUF mn)

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

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

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

[1] On 16 April 2009 OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the lost of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity and a recognition of a corresponding liability. As at 31 December 2010 and 2009 105,766 and HUF 86,912 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

NOTE 17: OTHER LIABILITIES (in HUF mn) [continued]

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

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

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

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

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

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

Interest rates on subordinated bonds and loans are as follows:

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

NOTE 18: SUBORDINATED BONDS AND LOANS (in HUF mn) [continued]

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 31 December 2010
Subordinated bond	HUF 5 billion	20/12/1993	20/12/2013	100%	Frequency of payment is based on the condition of interest of 2013/C credit consolidation government bonds	3.80%
Subordinated bond	EUR 125 million	04/03/2005	04/03/2015	100%	Three-month EURIBOR + 0.55% quarterly	-
Subordinated bond	EUR 498 million	07/11/2006	Perpetual, but callable after 10 years	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	-
Subordinated bond (under EMTN[1] program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN[1] program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond	USD 65 million	21/04/2008	13/10/2015	100%	Variable, six-month EURIBOR + 1.4%	1.86%
Subordinated bond	RUB 26,86 million	15/06/2001	21/06/2015	100%	Variable, based on the Russian National Bank's interest rate	7.75%
Subordinated bond	EUR 5,122 million	23/12/1997	15/11/2014	100%	Variable, six-month EURIBOR + 1.3%	2.58%

[1] European Medium Term Note Program

NOTE 19: SHARE CAPITAL (in HUF mn)

	2010	*2009*
Authorized, issued and fully paid:		
Ordinary shares	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:

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

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

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

On 19 October 2006, the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares („ICES"). Within the transaction 10 million shares owned by OTP, and further 4.5 million shares owned by OTP Group were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. („OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years, thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP has 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)

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

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

Change in number of shares:

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

Change in carrying value:

	2010	*2009*
Balance as at 1 January	52,678	146,749
Additions	415	16,566
Disposals	(496)	(110,637)
Closing balance	**52,597**	**52,678**

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

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

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

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

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

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

	2010	*2009*
Other income from non-financial activities	20,890	66,308
Total	**20,890**	**66,308**

	2010	*2009*
Provision for impairment on other assets	3,808	5,811
Provision for impairment on investments[1]	425	118
Provision for investment bonds	170	-
(Release of provision) / Provision for off-balance sheet commitments and contingent liabilities	(3,977)	4,087
Other costs	7,698	6,714
Other expense from non-financial activities	6,311	4,318
Total	**14,435**	**21,048**

NOTE 25: OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

	2010	*2009*
Wages	118,569	113,266
Taxes related to personnel expenses	30,995	31,832
Other personnel expenses	11,161	10,419
Total personnel expenses	**160,725**	**155,517**
Depreciation and amortization	**67,324**	**45,141**
Taxes, other than income tax[2]	65,252	29,623
Administration expenses, including rental fees	43,884	51,361
Services	35,709	33,357
Professional fees	15,729	14,995
Advertising	10,657	11,147
Other administrative expenses	**171,231**	**140,483**
Total	**399,280**	**341,141**

[1] See details in Note 9.

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

NOTE 26: INCOME TAX (in HUF mn)

The Group is presently liable for income tax at rates between 9% and 28% of taxable income.
Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria, Serbia and Cyprus, 16% in Romania, 19% in Slovakia, 20% in Croatia and Russia, 25% in Ukraine and 28% in the United Kingdom.
Due to the fact that the Hungarian Government approved a law effected that the income tax rate will be reduced to 10% from 1 January 2013 the deferred tax is calculated at 10% for those temporary differences that are expected to be resulted in taxable amounts or amounts deductable from the taxable profit after 2012. 19% was used for the calculation of the deferred tax for the remaining items.
From 1 January 2010 in Hungary the additional banking tax (4%) was cancelled.

The breakdown of the income tax expense is:

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

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

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

A reconciliation of the income tax expense is as follows:

	2010	*2009*
Profit before income tax	140,183	170,482
Income tax at statutory tax rates	31,866	21,277
Special tax (4%)	-	7,299
Income tax adjustments due to permanent differences:		
Revaluation of investments denominated in foreign currency to historical cost	3,656	(1,880)
Differences in carrying value of subsidiaries	981	(7,245)
Reversal of statutory general provision	114	569
Tax effect of amortization of statutory goodwill	(266)	(108)
Reclassification of direct charges to reserves	(647)	-
Effect of change of income tax rate	(912)	(216)
Share-based payment	(2,246)	1,292
Difference of accounting of equity instrument (ICES)	(4,234)	(199)
Provision for impairment on investments in subsidiaries	(6,547)	(10,039)
Other	292	9,526
Income tax expense	**22,057**	**20,276**

Effective tax rate	**15.7%**	**11.9%**

NOTE 26: INCOME TAXES (in HUF mn) [continued]

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

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

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

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

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

Analysis by loan types and risk classes

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

As at 31 December 2010

Loan type	Performing	To-be monitored	Below average	Doubtful	Bad	Total carrying amount
Retail loans	3,349,382	585,908	98,492	175,144	277,949	**4,486,875**
Corporate loans	1,471,952	452,792	139,389	117,396	416,748	**2,598,277**
Placement with other banks	497,820	7,619	6,285	400	760	**512,884**
Municipal loans	307,023	39,746	6,912	4,493	1,800	**359,974**
Total gross portfolio	**5,626,177**	**1,086,065**	**251,078**	**297,433**	**697,257**	**7,958,010**
Allowance for loans	(26,569)	(39,517)	(45,713)	(141,775)	(507,698)	**(761,272)**
Allowance for placements	-	(97)	(949)	(175)	(760)	**(1,981)**
Total allowance	**(26,569)**	**(39,614)**	**(46,662)**	**(141,950)**	**(508,458)**	**(763,253)**
Total net portfolio	**5,599,608**	**1,046,451**	**204,416**	**155,483**	**188,799**	**7,194,757**
Accrued interest						
for loans						**57,205**
for placements						**341**
Total accrued interest						**57,546**
Total net loans						**6,741,059**
Total net placements						**511,244**
Total net exposures						**7,252,303**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

Analysis by loan types and risk classes [continued]

As at 31 December 2009

Loan type	Performing	To-be monitored	Below average	Doubtful	Bad	Total carrying amount
Retail loans	3,407,101	373,116	72,550	112,280	187,204	**4,152,251**
Corporate loans	1,765,731	345,709	107,322	89,422	158,229	**2,466,413**
Placement with other banks	431,785	4,717	6,370	-	1,210	**444,082**
Municipal loans	220,747	4,021	19	360	196	**225,343**
Total gross portfolio	**5,825,364**	**727,563**	**186,261**	**202,062**	**346,839**	**7,288,089**
Allowance for loans	(16,917)	(66,704)	(28,988)	(99,620)	(282,149)	**(494,378)**
Allowance for placements	(218)	(123)	(1,787)	(1)	(1,385)	**(3,514)**
Total allowance	**(17,135)**	**(66,827)**	**(30,775)**	**(99,621)**	**(283,534)**	**(497,892)**
Total net portfolio	**5,808,229**	**660,736**	**155,486**	**102,441**	**63,305**	**6,790,197**
Accrued interest						
for loans						**63,087**
for placements						**282**
Total accrued interest						**63,369**
Total net loans						**6,412,716**
Total net placements						**440,851**
Total net exposures						**6,853,567**

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

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

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

The Group has a prudent provisioning policy, the coverage of loans by provision for impairment on loans classified as doubtful or bad, the indicator was 65.4% and 69.8% as at 31 December 2010 and 31 December 2009 respectively.

The off-balance sheet liabilities connected to the lending activity increased by 12.9%.
The qualified loan portfolio increased by 59.4% in 2010.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

Classification into risk classes

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

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

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

Loan portfolio by countries

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

	2010		*2009*	
Country	**Carrying amount of the qualified gross loan portfolio**	**Allowance**	**Carrying amount of the qualified gross loan portfolio**	**Allowance**
Hungary	1,092,232	286,258	534,507	194,300
Ukraine	278,039	156,550	132,073	114,754
Bulgaria	270,510	90,296	195,220	56,129
Russia	152,290	53,099	155,746	38,140
Romania	140,210	25,268	123,843	12,545
Montenegro	120,412	38,767	76,906	6,985
Serbia	102,357	43,793	90,199	27,555
Cyprus	58,955	10,765	58,852	5,022
Slovakia	58,137	16,606	48,470	12,132
Croatia	43,110	12,704	24,094	8,654
Kazakhstan	6,268	944	5,663	1,140
Seychelles	4,701	705	4,563	411
Byelorussia	1,006	10	38	-
The United States	988	1	2,340	1

Latvia	847	53	9	-
The United Kingdom	828	632	3,379	1,755
Egypt	525	58	533	80

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

Loan portfolio by countries [continued]

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

	2010		*2009*	
Country	**Carrying amount of the qualified gross loan portfolio**	**Allowance**	**Carrying amount of the qualified gross loan portfolio**	**Allowance**
Macedonia	102	50	51	3
Germany	93	1	73	-
Ireland	85	69	58	35
Other	138	55	6,108	1,116
Total	**2,331,833**	**736,684**	**1,462,725**	**480,757**

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

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

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

Kazakhstan	108	-	294	-
Ireland	107	1	52,691	-
Denmark	100	-	1,924	-
Other	282	1	5,387	1
Total	**5,626,177**	**26,569**	**5,825,364**	**17,135**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

Loan portfolio by countries [continued]

The non-qualified loan portfolio decreased mostly in Netherlands, Cyprus, Ukraine and Montenegro. In some countries the stock of provision increased due to local regulations on the base of which it is compulsory to account fix rate of provision on the non-qualified portfolio.

Collaterals

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

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

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

The coverage level of the loan portfolio (total collaterals) decreased by 31.0%, as well as the coverage level to the extent of the exposures decreased by 4.3% as at 31 December 2010.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

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:

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

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

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

Renegotiated loans

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

Loan type	2010	2009
Retail loans	305,146	496,549
Corporate loans	166,312	318,291
Municipal loans	478	6
Placement with other banks	-	1,380
Total	**471,936**	**816,226**

The gross amount of renegotiated loans decreased considerably by 31 December 2010, which is connected mainly to the retail loans. There were no renegotiated loans in 2010 among the Placements with other banks.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

Past due, but not impaired loans

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

As at 31 December 2010

Loan type	Up to 90 days	91-180 days	181-365 days	Above 365 days	Total
Retail loans	344,081	27,398	20,483	14,545	**406,507**
Corporate loans	40,662	23,239	8,353	4,430	**76,684**
Municipality loans	6,516	-	-	2	**6,518**
Total	**391,259**	**50,637**	**28,836**	**18,977**	**489,709**

As at 31 December 2009

Loan type	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**

The loans that are past due but not impaired are concentrated in the retail loan type since in the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Group.

The fair value of funds related to past due, but not impaired loans

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

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

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

Loans individually assessed for provision

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 31 December 2010 and 31 December 2009 is as follows. The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

Loans individually assessed for provision [continued]

As at 31 December 2010

Loan type	Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Corporate	Delay of payment	145,693	69,065	104,059	1,974	-
	Regularity of payment	1,047	221	429	-	-
	Renegotiation	57,627	3,893	54,933	3,642	19
	Legal proceedings	79,065	55,339	37,280	371	220
	Decrease of client classification	362,691	49,461	211,377	24,417	306
	Loan characteristics	68,317	3,261	-	803	16
	Critical industry classification	29,762	12,140	378	5,098	450
	Country risk	7,673	3,836	-	2,609	1,304
	Other	17,459	5,106	5,054	11,783	1,253
	Cross default	38,863	22,267	4,267	2,103	1,302
Corporate total		**808,197**	**224,589**	**417,777**	**52,800**	**4,870**
Municipal	Delay of payment	44	21	8,966	-	-
	Renegotiation	1,749	181	-	27	3
	Legal proceedings	847	244	15	-	-
	Decrease of client classification	6,074	287	2	56	1
	Other	27,232	3,330	10	1,056	139
	Cross default	204	29	-	76	8
Municipal total		**36,150**	**4,092**	**8,993**	**1,215**	**151**
Placement with other banks		**7,617**	**1,679**	**-**	**-**	**-**
Total		**851,964**	**230,360**	**426,770**	**54,015**	**5,021**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

Loans individually assessed for provision [continued]

As at 31 December 2009

Loan type	Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Corporate	Delay of payment	120,141	54,555	44,336	8,126	808
	Regularity of payment	407	214	100	-	-
	Renegotiation	22,207	1,811	848	418	38
	Legal proceedings	23,514	16,258	8,218	131	66
	Decrease of client classification	19,443	2,779	18,280	4,197	158
	Loan characteristics	109,185	4,319	415	11,813	896
	Critical industry classification	99,935	10,425	1,975	16,837	1,360
	Country risk	-	-	-	63,145	39,615
	Other	10,510	1,003	5,056	6,565	315
	Cross default	73,209	8,709	1,371	21,730	2,732
Corporate total		**478,551**	**100,073**	**80,599**	**132,962**	**45,988**
Municipal	Delay of payment	292	110	2,728	68	-
	Regularity of payment	145	116	-	-	-
	Renegotiation	80	1	-	-	-
	Decrease of client classification	120	8	-	22	2
	Other	2,882	350	30	346	18
	Cross default	33	26	-	-	-
Municipal total		**3,552**	**611**	**2,758**	**436**	**20**
Placement with other banks		**10,916**	**1,697**	**-**	**-**	**-**
Total		**493,019**	**102,381**	**83,357**	**133,398**	**46,008**

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

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

Critical industry classification:

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

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

Loans individually assessed for provision [continued]

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

27.2. Market risk

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

27.2.1. Market Risk sensitivity analysis

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

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

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

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

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

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2. Market risk [continued]

27.2.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was EUR (310) million as of 31 December 2010 and EUR (310) million as of 31 December 2009. High portion of strategic positions is considered as effective hedge of investment of foreign subsidiaries, so FX risk affects the Group capital and not its earnings.

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

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

Notes:
(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
(2) Due to the stabilization of the EUR/HUF volatility the potential risk did not increased.
(3) Monte Carlo simulation is based on the historical exchange rate movements. Although potential losses have not changed on the edge of the distribution, concerning the recent level of EUR/HUF makes appreciation and minor gains more probable.

27.2.3. Interest rate sensitivity analysis

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

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

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

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2 Market risk [continued]

27.2.3. Interest rate sensitivity analysis [continued]

The simulations were prepared by assuming two scenarios:
(1) 0.50% - 0.75% decrease in average HUF yields (probable scenario)
(2) 1% - 1.50% decrease in average HUF yields (alternative scenario)

The net interest income in a one year period after 31 December 2010 would be decreased by HUF 2,597 million (probable scenario) and HUF 12,746 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,707 million (probable scenario) and HUF 8,421 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2009.
This effect is counterbalanced by capital gains (HUF 6,453 million for probable scenario, HUF 9,411 million for alternative scenario) as at 31 December 2010 and (HUF 4,560 million for probable scenario, HUF 6,900 million for alternative scenario) as at 31 December 2009 on the government bond portfolio held for hedging.

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

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

27.2.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.
The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

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

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2. Market risk [continued]

27.2.5. Capital management

Capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.
The capital management of the Group members includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.
The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.
The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with the Hungarian Accounting Standards („HAS") applying the directives, rulings and indicators defined by the Basel Committee, that has been adopted in Hungary in 2008.
The Group has entirely complied with the regulatory capital requirements.
The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the alternative standard method in case of the operational risk. The consolidated Capital adequacy ratio of the Group was 18.4% and 18.5% as at 31 December 2010 and 31 December 2009 respectively. The Regulatory capital was HUF 1,373,610 million and HUF 1,271,173 million, the Total eligible regulatory capital was HUF 596,970 million and HUF 550,853 million as at 31 December 2010 and 31 December 2009 respectively.

Calculation on HAS basis

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

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2 Market risk [continued]

27.2.5. Capital management [continued]

Capital adequacy [continued]

The positive components of the Core capital are the following: Issued capital, Capital reserve, Tied-up reserve, General reserve, Profit reserve, Changes in the equity, Changes due to consolidation, Non-controlling interest, Profit for the year, General risk reserve, Core loan capital.
The negative components of the Core capital are the following: Treasury shares, Intangible assets.
The positive components of the Supplementary capital are the following: Supplementary loan capital, Subordinated loan capital.
The negative components of the Supplementary capital are the following: Changes due to consolidation of equity.
The components of the Deductions: deductions due to investments.

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

Subsidiary bank	Country	Minimum prescribed CAR	*2010*	*2009*
OAO OTP Bank	Russia	11%	17.0%	13.3%
OTP Bank JSC	Ukraine	10%	22.1%	17.8%
DSK Bank EAD	Bulgaria	12%	23.7%	21.9%
OTP Bank Romania S.A.	Romania	10%	14.0%	14.3%
OTP banka Srbija a.d.	Serbia	12%	16.4%	27.1%
OTP banka Hrvatska d.d.	Croatia	10%/12%[1]	14.2%	13.4%
OTP Banka Slovensko a. s.	Slovakia	8%	11.1%	10.7%
Crnogorska komerčijalna banka a.d.	Montenegro	10%	14.1%	13.4%

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

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.2 Market risk [continued]

[1] In 2010 the minimum prescribed CAR has changed.

27.2.5. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis

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

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

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.

Contingent liabilities

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

Legal disputes

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

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

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

Commitments to extend credit, guarantees and letters of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

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

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

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

NOTE 28: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Guarantees, payment undertakings arising from banking activities

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

A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.
If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Derivatives

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

Foreign currency contracts

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

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

Foreign exchange swaps and interest rate swaps

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

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

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

NOTE 28: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Cross-currency interest rate swaps

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

Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

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

NOTE 29: SHARE-BASED PAYMENT

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

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

The 2007 Annual General Meeting approved a few changes in the program:
The exercise prices of the options relating to the years of 2006 to 2010 is calculated as the average of the market price of OTP shares quoted by the BSE daily during the three month period ended 31 March in the actual year and decreased by HUF 2,000. In that case if the average price of the shares exceeds by more than HUF 4,000 the exercise price one day before the date of exercise, the exercise price would be increased by the amount above the HUF 4,000.

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

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

The exercise period of the options granted for the year of 2005 is two years and for the years of 2006 to 2010 is 19 months. The exercise period of the option program for the years of 2006 to 2010 must be opened at 1 June in the actual year, the period can be 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.

NOTE 29: SHARE-BASED PAYMENT [continued]

In connection with the equity-settled share-based payment programs HUF 6,802 million has been recognised as an expense in 2009. In 2010 the Bank did not recognise any expense in relation to equity-settled share-based payment programs because the key performance indicators – that were the vesting conditions of the options – were not fulfilled.

	2010	*2009*

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

In 2009 there were no share options having been exercised. 3,068,800 pieces of shares from the total 3,500,000 had been available for exercise for 2009 were distributed to the management in relation to their accomplishment and due to personal changes.
With the consent of the parties the Board of Directors made a decision on the redemption of the option rights granted for 2009. The redemption price was HUF 3,975 per share.

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

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

	2010	*2009*
Weighted average spot share price (HUF)	-	8,272
Weighted average exercise price (HUF)[1]	-	8,875
Expected volatility (%)	-	32
Expected life (average year)	-	5.45
Risk free rate (%)	-	7.63
Expected dividends (%)	-	1.95
Cap for the maximum gain (HUF/option)	-	4,000

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

Compensations	*2010*	*2009*

[1] 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.

Short-term employee benefits	12,828	9,949
Other long-term employee benefits	197	94
Termination benefits	74	31
Redundancy payments	74	-
Share-based payment	-	3,139
Total	**13,173**	**13,213**

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

	2010	*2009*
Loans provided to unconsolidated subsidiaries	43,275	40,027

NOTE 31: MAJOR SUBSIDIARIES

Investments in companies in which the Bank has a controlling interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

Name	Ownership (Direct and Indirect)		Activity
	2010	*2009*	
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)	95.87%	95.55%	commercial banking services

CJSC Donskoy Narodny Bank (Russia)	-	100,00%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	91.43%	91.43%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	98.82%	97.24%	commercial banking services
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	flat finance and reconstruction
OTP Fund Management Ltd.	100.00%	100.00%	fund management
Crnogorska komerčijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)/ OTP Financing Cyprus	100.00%	100,00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Two Commercial Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd.	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services
OTP Factoring Ukraine LLC	100.00%	100.00%	work-out

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

As at 31 December 2010:

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

<u>NOTE 31:</u> **MAJOR SUBSIDIARIES [continued]**

As at 31 December 2009:

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

Profit after income tax	53	7	5	65

NOTE 32: TRUST ACTIVITIES (in HUF mn)

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.

	2010	*2009*
The amount of loans managed by the Group as a trustee	44,300	45,172

NOTE 33: CONCENTRATION OF ASSETS AND LIABILITIES

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

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

The Group continuously provides the supervisory authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Group.
Further to this obligatory reporting to the authority, the Group pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

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

NOTE 34: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF 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 2010	**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	496,240	16,176	156	466	-	513,038

Banks						
Placements with other banks, net of allowance for placements losses	498,465	8,173	4,360	246	-	511,244
Financial assets at fair value through profit or loss	30,988	36,531	35,642	22,917	107,589	233,667
Securities available-for-sale	390,478	137,581	283,241	180,497	16,300	1,008,097
Loans, net of allowance for loan losses	651,880	1,088,792	1,755,872	3,244,515	-	6,741,059
Associates and other investments	-	-	-	-	11,554	11,554
Securities held-to-maturity	29,727	40,070	77,873	24,632	-	172,302
Property and equipment, Intangible assets	-	-	-	-	480,828	480,828
Other assets	42,977	26,276	30,263	9,641	-	109,157
TOTAL ASSETS	**2,140,755**	**1,353,599**	**2,187,407**	**3,482,914**	**616,271**	**9,780,946**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	352,235	9,413	181,752	138,549	-	681,949
Deposits from customers	4,273,546	1,334,423	183,901	29,619	-	5,821,489
Liabilities from issued securities	144,738	589,935	237,784	62,696	-	1,035,153
Financial liabilities at fair value through profit or loss	81,780	74,881	94,376	6,015	-	257,052
Other liabilities	244,924	120,692	12,215	7,913	-	385,744
Subordinated bonds and loans	3,473	15	54,160	134,070	98,912	290,630
TOTAL LIABILITIES	**5,100,696**	**2,129,359**	**764,188**	**378,862**	**98,912**	**8,472,017**
Share capital	-	-	-	-	28,000	28,000
Retained earnings and reserves	-	-	-	-	1,327,638	1,327,638
Treasury shares	-	-	-	-	(52,597)	(52,597)
Non-controlling interest	-	-	-	-	5,888	5,888
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**1,308,929**	**1,308,929**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5,100,696**	**2,129,359**	**764,188**	**378,862**	**1,407,841**	**9,780,946**
LIQUIDITY (DEFICIENCY)/EXCESS	**(2,959,941)**	**(775,760)**	**1,423,219**	**3,104,052**	**(791,570)**	**-**

NOTE 34: **MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]**

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 Banks and other banks	148,219	235,502	106,018	313,010	-	802,749
Deposits from customers	4,404,224	1,079,141	181,280	24,242	-	5,688,887
Liabilities from issued securities	762,102	31,108	394,544	222,594	-	1,410,348
Financial liabilities at fair value through profit or loss	36,416	16,203	59,659	6,190	-	118,468
Other liabilities	211,916	8,399	34,429	7,496	-	262,240
Subordinated bonds and loans	465	252	4,035	276,082	-	280,834
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)**	**-**

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

As at 31 December 2010

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

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)**

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

NOTE 36: INTEREST RATE RISK MANAGEMENT (in HUF 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 in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

NOTE 36: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2010

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	**100 759**	**61 768**	**-**	**4 007**	**-**	**6 978**	**-**	**85**	**-**	**503**	**58 650**	**280 288**	**159 409**	**353 629**	**513 038**
fixed rate	*100 307*	*9 054*	*-*	*36*	*-*	*240*	*-*	*3*	*-*	*-*	*-*	*-*	*100 307*	*9 333*	*109 640*
variable rate	*452*	*52 714*	*-*	*3 971*	*-*	*6 738*	*-*	*82*	*-*	*503*	*-*	*-*	*452*	*64 008*	*64 460*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*58 650*	*280 288*	*58 650*	*280 288*	*338 938*
Placements with other banks, net of allowance for placements losses	**19 687**	**358 348**	**9**	**71 692**	**-**	**39 297**	**-**	**947**	**-**	**4 428**	**43**	**16 793**	**19 739**	**491 505**	**511 244**
fixed rate	*19 687*	*306 146*	*-*	*27 764*	*-*	*3 282*	*-*	*414*	*-*	*4 247*	*-*	*-*	*19 687*	*341 853*	*361 540*
variable rate	*–*	*52 202*	*9*	*43 928*	*-*	*36 015*	*-*	*533*	*-*	*181*	*-*	*-*	*9*	*132 859*	*132 868*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*43*	*16 793*	*43*	*16 793*	*16 836*
Securities held for trading	**20 000**	**1 118**	**222**	**283**	**3 680**	**726**	**2 483**	**2 427**	**8 338**	**11 561**	**105 943**	**2 466**	**140 666**	**18 581**	**159 247**
fixed rate	*20 000*	*81*	*204*	*283*	*3 680*	*717*	*2 483*	*2 427*	*8 338*	*11 561*	*-*	*-*	*34 705*	*15 069*	*49 774*
variable rate	*-*	*1 037*	*18*	*-*	*-*	*9*	*-*	*-*	*-*	*-*	*-*	*-*	*18*	*1 046*	*1 064*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*105 943*	*2 466*	*105 943*	*2 466*	*108 409*
Securities available-for-sale	**312 007**	**21 260**	**501**	**39 797**	**71 040**	**80 194**	**48 423**	**4 958**	**301 939**	**73 942**	**38 079**	**15 957**	**771 989**	**236 108**	**1 008 097**
fixed rate	*312 007*	*19 196*	*501*	*39 081*	*71 040*	*80 194*	*48 423*	*4 958*	*300 243*	*73 942*	*-*	*-*	*732 214*	*217 371*	*949 585*
variable rate	*-*	*2 064*	*-*	*716*	*-*	*-*	*-*	*-*	*1 696*	*-*	*-*	*-*	*1 696*	*2 780*	*4 476*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*38 079*	*15 957*	*38 079*	*15 957*	*54 036*
Loans, net of allowance for loan losses	**817 694**	**3 266 004**	**45 661**	**264 573**	**250 115**	**987 395**	**92 261**	**129 003**	**336 202**	**323 816**	**85 365**	**142 970**	**1 627 298**	**5 113 761**	**6 741 059**
fixed rate	*9 314*	*79 887*	*1 933*	*82 600*	*2 205*	*263 182*	*2 134*	*120 333*	*8 295*	*308 272*	*-*	*-*	*23 881*	*854 274*	*878 155*
variable rate	*808 380*	*3 186 117*	*43 728*	*181 973*	*247 910*	*724 213*	*90 127*	*8 670*	*327 907*	*15 544*	*-*	*-*	*1 518 052*	*4 116 517*	*5 634 569*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*85 365*	*142 970*	*85 365*	*142 970*	*228 335*
Securities held-to-maturity	**20 017**	**5 977**	**21 996**	**7 309**	**26 596**	**19 781**	**365**	**6 742**	**20 702**	**38 812**	**2 163**	**1 842**	**91 839**	**80 463**	**172 302**
fixed rate	*-*	*1 003*	*14 051*	*6 846*	*15 731*	*19 736*	*365*	*6 742*	*20 702*	*38 812*	*-*	*-*	*50 849*	*73 139*	*123 988*
variable rate	*20 017*	*4 974*	*7 945*	*463*	*10 865*	*45*	*-*	*-*	*-*	*-*	*-*	*-*	*38 827*	*5 482*	*44 309*
non-interest-bearing	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*2 163*	*1 842*	*2 163*	*1 842*	*4 005*
Derivative financial instruments	**811 957**	**1 130 879**	**818 718**	**553 692**	**394 740**	**86 539**	**3 479**	**3 029**	**26 202**	**2 087**	**-**	**-**	**2 055 096**	**1 776 226**	**3 831 322**
fixed rate	*459 293*	*817 193*	*41 739*	*100 136*	*321 630*	*86 386*	*3 479*	*3 029*	*26 202*	*2 087*	*-*	*-*	*852 343*	*1 008 831*	*1 861 174*
variable rate	*352 664*	*313 686*	*776 979*	*453 556*	*73 110*	*153*	*-*	*-*	*-*	*-*	*-*	*-*	*1 202 753*	*767 395*	*1 970 148*

NOTE 36: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2010

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**92 985**	**373 434**	**16 001**	**10 815**	**118 884**	**13 949**	**4**	**15 311**	**283**	**37 461**	**837**	**1 985**	**228 994**	**452 955**	**681 949**
fixed rate	*90 815*	*87 411*	*8 418*	*8 706*	*3 874*	*4 272*	*4*	*3 467*	*283*	*37 397*	-	-	*103 394*	*141 253*	*244 647*
variable rate	*2 170*	*286 023*	*7 583*	*2 109*	*115 010*	*9 677*	-	*11 844*	-	*64*	-	-	*124 763*	*309 717*	*434 480*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*837*	*1 985*	*837*	*1 985*	*2 822*
Deposits from customers	**931 742**	**1 762 360**	**662 537**	**393 339**	**532 131**	**563 483**	**84 080**	**49 463**	**585 721**	**118 094**	**12 967**	**125 572**	**2 809 178**	**3 012 311**	**5 821 489**
fixed rate	*500 979*	*567 608*	*645 993*	*393 258*	*531 627*	*563 051*	*84 080*	*49 269*	*20 484*	*14 480*	-	-	*1 783 163*	*1 587 666*	*3 370 829*
variable rate	*430 763*	*1 194 752*	*16 544*	*81*	*504*	*432*	-	*194*	*565 237*	*103 614*	-	-	*1 013 048*	*1 299 073*	*2 312 121*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*12 967*	*125 572*	*12 967*	*125 572*	*138 539*
Liabilities from issued securities	**34 974**	**1 223**	**71 783**	**18 802**	**196 037**	**384 443**	**81 388**	**20 104**	**139 342**	**58 972**	**23 143**	**4 942**	**546 667**	**488 486**	**1 035 153**
fixed rate	*27 499*	*1 223*	*58 198*	*12 691*	*196 037*	*384 443*	*81 388*	*20 104*	*139 342*	*58 972*	-	-	*502 464*	*477 433*	*979 897*
variable rate	*7 475*	-	*13 585*	*6 111*	-	-	-	-	-	-	-	-	*21 060*	*6 111*	*27 171*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*23 143*	*4 942*	*23 143*	*4 942*	*28 085*
Derivative financial instruments	**641 297**	**1 377 362**	**43 305**	**1 336 517**	**74 064**	**498 463**	**9 630**	**2 495**	**12 736**	**12 551**	-	-	**781 032**	**3 227 388**	**4 008 420**
fixed rate	*629 848*	*644 609*	*32 495*	*108 703*	*56 926*	*435 607*	*9 630*	*2 495*	*12 736*	*12 551*	-	-	*741 635*	*1 203 965*	*1 945 600*
variable rate	*11 449*	*732 753*	*10 810*	*1 227 814*	*17 138*	*62 856*	-	-	-	-	-	-	*39 397*	*2 023 423*	*2 062 820*
Subordinated bonds and loans	-	**12**	-	**34 815**	-	**14 979**	-	-	**5 000**	**234 819**	**8**	**997**	**5 008**	**285 622**	**290 630**
fixed rate	-	-	-	-	-	-	-	-	*5 000*	*234 819*	-	-	*5 000*	*234 819*	*239 819*
variable rate	-	*12*	-	*34 815*	-	*14 979*	-	-	-	-	-	-	-	*49 806*	*49 806*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*8*	*997*	*8*	*997*	*1 005*
Net position	**401 123**	**1 330 963**	**93 481**	**-852 935**	**-174 945**	**-254 407**	**-28 091**	**59 818**	**-49 699**	**-6 748**	**253 288**	**326 820**	**495 157**	**603 511**	**1 098 668**

NOTE 36: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2009

	Within 1 month		Over 1 month and Withi 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
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, net of allowance for placements losses	**13 149**	**383 273**	-	**5 112**	-	**9 014**	-	**1 155**	-	**826**	**206**	**28 116**	**13 355**	**427 496**	**440 851**
fixed rate	*13 136*	*344 605*	-	*2 461*	-	*665*	-	*503*	-	*151*	-	-	*13 136*	*348 385*	*361 521*
variable rate	*13*	*38 668*	-	*2 651*	-	*8 349*	-	*652*	-	*675*	-	-	*13*	*50 995*	*51 008*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*206*	*28 116*	*206*	*28 116*	*28 322*
Securities held for trading	**49 773**	**863**	**170**	-	**3 476**	**462**	**1 780**	**249**	**14 318**	**2 901**	**87 278**	**1 595**	**156 795**	**6 070**	**162 865**
fixed rate	*49 773*	-	*152*	-	*3 476*	*411*	*1 780*	*249*	*14 318*	*2 901*	-	-	*69 499*	*3 561*	*73 060*
variable rate	-	*863*	*18*	-	-	*51*	-	-	-	-	-	-	*18*	*914*	*932*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*87 278*	*1 595*	*87 278*	*1 595*	*88 873*
Securities available-for-sale	**718 651**	**3 973**	**10 709**	**104 954**	**19 937**	**56 849**	**70 372**	**29 178**	**244 808**	**59 349**	**8 368**	**27 137**	**1 072 845**	**281 440**	**1 354 285**
fixed rate	*718 651*	*1 866*	*7 096*	*6 620*	*19 937*	*40 625*	*70 372*	*11 590*	*243 090*	*58 756*	-	-	*1 059 146*	*119 457*	*1 178 603*
variable rate	-	*2 107*	*3 613*	*98 334*	-	*16 224*	-	*17 588*	*1 718*	*593*	-	-	*5 331*	*134 846*	*140 177*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*8 368*	*27 137*	*8 368*	*27 137*	*35 505*
Loans, net of allowance for loan losses	**822 682**	**3 311 187**	**52 532**	**231 138**	**134 056**	**734 596**	**55 285**	**45 355**	**388 323**	**390 438**	**55 332**	**191 792**	**1 508 210**	**4 904 506**	**6 412 716**
fixed rate	*12 759*	*39 442*	*2 533*	*23 116*	*3 224*	*205 784*	*2 019*	*24 165*	*9 138*	*341 450*	-	-	*29 673*	*633 957*	*663 630*
variable rate	*809 923*	*3 271 745*	*49 999*	*208 022*	*130 832*	*528 812*	*53 266*	*21 190*	*379 185*	*48 988*	-	-	*1 423 205*	*4 078 757*	*5 501 962*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*55 332*	*191 792*	*55 332*	*191 792*	*247 124*
Securities held-to-maturity	**23 349**	**13 379**	**7 973**	**9 984**	**27 750**	**16 480**	**29 202**	**2 838**	**20 964**	**33 173**	**2 178**	**1 583**	**111 416**	**77 437**	**188 853**
fixed rate	-	*8 450*	-	*8 865*	*16 885*	*16 480*	*29 202*	*2 838*	*20 964*	*33 173*	-	-	*67 051*	*69 806*	*136 857*
variable rate	*23 349*	*4 929*	*7 973*	*1 119*	*10 865*	-	-	-	-	-	-	-	*42 187*	*6 048*	*48 235*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*2 178*	*1 583*	*2 178*	*1 583*	*3 761*
Derivative financial instruments	**591 140**	**1 014 857**	**848 862**	**861 010**	**229 989**	**41 928**	**11 576**	**228 605**	**24 489**	**6 251**	-	-	**1 706 056**	**2 152 651**	**3 858 707**
fixed rate	*259 983*	*657 084*	*49 244*	*394 910*	*149 174*	*40 345*	*11 576*	*228 605*	*24 489*	*6 251*	-	-	*494 466*	*1 327 195*	*1 821 661*
variable rate	*331 157*	*357 773*	*799 618*	*466 100*	*80 815*	*1 583*	-	-	-	-	-	-	*1 211 590*	*825 456*	*2 037 046*

NOTE 36: **INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]**

As at 31 December 2009

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposit from the National Bank of Hungary and other banks	**25 709**	**104 424**	**25 554**	**331 360**	**82 148**	**137 762**	**1**	**22 798**	**48**	**70 838**	**1 952**	**155**	**135 412**	**667 337**	**802 749**
fixed rate	*21 394*	*64 747*	*19 668*	*5 562*	*1 949*	*111 624*	*1*	*944*	*48*	*47 407*	-	-	*43 060*	*230 284*	*273 344*
variable rate	*4 315*	*39 677*	*5 886*	*325 798*	*80 199*	*26 138*	-	*21 854*	-	*23 431*	-	-	*90 400*	*436 898*	*527 298*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*1 952*	*155*	*1 952*	*155*	*2 107*
Deposits from customers	**1 286 443**	**1 708 572**	**518 026**	**290 308**	**429 680**	**398 694**	**75 794**	**87 924**	**560 859**	**193 947**	**22 437**	**116 203**	**2 893 239**	**2 795 648**	**5 688 887**
fixed rate	*791 756*	*635 106*	*497 916*	*290 308*	*421 637*	*394 881*	*75 794*	*87 924*	*14 682*	*159 801*	-	-	*1 801 785*	*1 568 020*	*3 369 805*
variable rate	*494 687*	*1 073 466*	*20 110*	-	*8 043*	*3 813*	-	-	*546 177*	*34 146*	-	-	*1 069 017*	*1 111 425*	*2 180 442*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*22 437*	*116 203*	*22 437*	*116 203*	*138 640*
Liabilities from issued securities	**35 687**	**150 425**	**36 518**	**352 106**	**180 078**	**30 487**	**35 190**	**332 970**	**155 895**	**61 249**	**19 508**	**20 235**	**462 876**	**947 472**	**1 410 348**
fixed rate	*22 455*	*2 272*	*36 518*	*260 267*	*180 078*	*30 487*	*35 190*	*332 970*	*155 895*	*61 249*	-	-	*430 136*	*687 245*	*1 117 381*
variable rate	*13 232*	*148 153*	-	*91 839*	-	-	-	-	-	-	-	-	*13 232*	*239 992*	*253 224*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*19 508*	*20 235*	*19 508*	*20 235*	*39 743*
Derivative financial instruments	**927 406**	**914 113**	**1 416 108**	**335 906**	**247 120**	**19 530**	**15 283**	**17 577**	**10 835**	**12 137**	-	-	**2 616 752**	**1 299 263**	**3 916 015**
fixed rate	*217 783*	*700 092*	*139 647*	*35 282*	*166 547*	*19 526*	*15 283*	*17 577*	*10 835*	*12 137*	-	-	*550 095*	*784 614*	*1 334 709*
variable rate	*709 623*	*214 021*	*1 276 461*	*300 624*	*80 573*	*4*	-	-	-	-	-	-	*2 066 657*	*514 649*	*2 581 306*
Subordinated bonds and loans	-	**588**	**5 000**	**17 293**	-	**11 530**	-	-	**13 325**	**229 375**	**61**	**3 662**	**18 386**	**262 448**	**280 834**
fixed rate	-	-	-	-	-	-	-	-	*13 325*	*229 375*	-	-	*13 325*	*229 375*	*242 700*
variable rate	-	*588*	*5 000*	*17 293*	-	*11 530*	-	-	-	-	-	-	*5 000*	*29 411*	*34 411*
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	*61*	*3 662*	*61*	*3 662*	*3 723*
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**	**335 987**	**-1 411 369**	**2 236 462**	**825 093**

NOTE 37: EARNINGS PER SHARE

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

	2010	*2009*
Net profit for the year attributable to ordinary shareholders (in HUF mn)	117,930	151,045
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	266,485,429	261,608,279
Basic Earnings per share (in HUF)	**443**	**577**
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	117,930	151,045
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	269,617,607	263,929,565
Diluted Earnings per share (in HUF)	**437**	**572**

	2010	*2009*
	Number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	13,514,581	18,391,731
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	266,485,429	261,608,279
Dilutive effects of options issued in accordance with Management Option Program and convertible into ordinary shares	3,132,178	2,321,286
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	269,617,607	263,929,565

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

As at 31 December 2010

	Net interest gain and loss	Net non-interest gain and loss	Provision	Other comprehensive income
Cash, amounts due from banks and balances with the National Banks	5,052	-	-	-
Placements with other banks, net of allowance for placements losses	6,728	-	1,418	-
Securities held for trading	2,091	415	-	-
Securities available-for-sale	73,247	4,397	5,369	(13,298)
Loans, net of allowance for loan losses	728,282	11,915	(274,442)	-
From this: Consumer loans	*279,503*			
Housing loans	*197,274*			
Corporate loans	*166,706*			
Mortgage backed loans	*68,952*			
Municipality loans	*15,847*			
Securities held-to-maturity	11,991	(3,356)	4,385	-
Derivative financial instruments	94,148	(9,917)	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(15,897)	-	-	-
Deposits from customers	(214,729)	105,617	-	-
Liabilities from issued securities	(61,877)	-	-	-
Subordinated bonds and loans	(12,611)	-	-	-
	616,425	**109,071**	**(263,270)**	**(13,298)**

As at 31 December 2009

	Net interest gain and loss	Net non-interest gain and loss	Provision	Other comprehensive income
Cash, amounts due from banks and balances with the National Banks	7,515	-	-	-
Placements with other banks, net of allowance for placements losses	10,311	-	(4,819)	-
Securities held for trading	5,556	395	-	-
Securities available-for-sale	31,373	(501)	-	12,273
Loans, net of allowance for loan losses	766,747	8,188	(244,460)	-
From this: Consumer loans	*257,875*			
Housing loans	*208,598*			
Corporate loans	*213,461*			
Mortgage backed loans	*69,204*			
Municipality loans	*17,609*			
Securities held-to-maturity	45,803	(2,896)	-	-
Derivative financial instruments	131,739	(15,836)	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(36,535)	-	-	-
Deposits from customers	(276,619)	102,541	-	-
Liabilities from issued securities	(79,770)	-	-	-
Subordinated bonds and loans	(16,340)	-	-	-
	589,780	**91,891**	**(249,279)**	**12,273**

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

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 39. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.
To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortized cost, the Group used the discounted cash-flow analyses (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Banks represent amounts available immediately thus the fair value equals to the cost.
The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amortized cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

a) Fair value of financial assets and liabilities

	2010		*2009*	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Banks	513,038	513,038	505,649	505,844
Placements with other banks, net of allowance for placements losses	511,244	512,195	440,851	455,802
Financial assets at fair value through profit or loss	233,667	233,667	256,100	256,100
Securities held for trading	*159,247*	*159,247*	*178,556*	*178,556*
FVA of derivative financial instruments designated as held for trading	*74,420*	*74,420*	*77,544*	*77,544*
Securities available-for-sale	1,008,097	1,008,097	1,354,285	1,354,285
Loans, net of allowance for loan losses	6,741,059	7,787,442	6,412,716	6,679,949
Securities held-to-maturity	172,302	167,130	188,853	184,895
FVA of derivative financial instruments designated as fair value hedge	8,489	8,489	14,181	14,181
Financial assets total	**9,187,896**	**10,230,058**	**9,172,635**	**9,451,056**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	681,949	621,968	802,749	832,101
Deposits from customers	5,821,489	5,802,637	5,688,887	5,668,845
Liabilities from issued securities	1,035,153	947,864	1,410,348	1,399,933
FVA of derivative financial instruments designated as fair value hedge	115,159	115,159	22,249	22,249
FVA of derivative financial instruments designated as held for trading	257,052	257,052	118,468	118,468
Subordinated bonds and loans	290,630	219,966	280,834	210,075
Financial liabilities total	**8,201,432**	**7,964,646**	**8,323,535**	**8,251,671**

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Fair value of derivative instruments

	Fair value		**Notional value, net**	
	2010	*2009*	*2010*	*2009*
Interest rate swaps designated as held for trading				
Positive fair value of interest rate swaps designated as held for trading	34,413	53,721	44,613	56,695
Negative fair value of interest rate swaps designated as held for trading	(40,064)	(47,043)	(59,736)	(45,962)
Foreign exchange swaps designated as held for trading				
Positive fair value of foreign exchange swaps designated as held for trading	15,442	5,947	20,958	6,360
Negative fair value of foreign exchange swaps designated as held for trading	(4,611)	(5,182)	(4,306)	(4,133)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated as fair value hedge	8,477	14,147	13,412	10,507
Negative fair value of interest rate swaps designated as fair value hedge	(7,143)	(3,569)	(11,479)	(3,740)
CCIRS designated as held for trading				
Positive fair value of CCIRS designated as held for trading	11,539	11,421	(4,437)	3,552
Negative fair value of CCIRS designated as held for trading	(197,440)	(54,169)	(177,976)	(4,734)
Mark-to-market CCIRS designated as held for trading				
Positive fair value of mark-to-market CCIRS designated as held for trading	7,399	5,133	40,124	40,776
Negative fair value of mark-to-market CCIRS designated as held for trading	(9,437)	(7,348)	1,852	40,803
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated as fair value hedge	-	-	-	-
Negative fair value of CCIRS designated as fair value hedge	(108,012)	(18,615)	(113,266)	(40,518)
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated as fair value hedge	12	33	-	26
Negative fair value of other derivative contracts designated as fair value hedge	(4)	(65)	(4)	(65)
Other derivative contracts designated as held for trading				
Positive fair value of other derivative contracts designated as held for trading	5,627	1,323	2,709	773
Negative fair value of other derivative contracts designated as held for trading	(5,500)	(4,726)	(2,248)	(12,189)
Derivative financial assets total	**82,909**	**91,725**	**117,379**	**118,689**
Derivative financial liabilities total	**(372,211)**	**(140,717)**	**(367,163)**	**(70,538)**
Derivative financial instruments total	**(289,302)**	**(48,992)**	**(249,784)**	**48,151**

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting

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

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

As at 31 December 2010

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Cash flow hedges	-	-	-
2) Fair value hedges	IRS	HUF 1,334 million	Interest rate
	Options	HUF 0 million	Foreign exchange
	CCIRS	HUF (108,012) million	Foreign exchange and interest rate
3) Net investment hedge in foreign operations	CCIRS	HUF (2,521) million	Foreign exchange

As at 31 December 2009

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Cash flow hedges	-	-	-
2) 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
3) Net investment hedge in foreign operations	CCIRS	HUF (2,118) million	Foreign exchange

d) Fair value hedges

1. Deposits from customers

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

	2010	*2009*
Fair value of the hedging instruments	(61)	3,461

2. Securities available-for-sale

The Group holds fixed interest rate securities denominated in currencies within the available-for-sale portfolio. These fixed interest rate securities are exposed to the fair value risk driven by the changes in the risk-free interest rates.

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

2. Securities available-for-sale [continued]

In order to hedge the interest rate risk of the cash-flows the Bank entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 6 month LIBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

	2010	*2009*
Fair value of the hedging instruments	(128)	348

3. Loans to customers

3.1 Hedges of foreign exchange rate risk

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

	2010	*2009*
Fair value of the hedging instruments	-	2

3.2 Hedges of interest rate risk

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

	2010	*2009*
Fair value of the hedging instruments	(1,238)	(1,335)

4. Issued securities

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

	2010	*2009*
Fair value of the hedging instruments	(105,251)	(10,511)

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

As at 31 December 2010

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/ Losses	
				on the hedged items	on hedging instruments
Securities available-for-sale	IRS	HUF 23,002 million	HUF (128) million	HUF 483 million	HUF (483) million
Loans to customers	IRS	HUF 47,470 million	HUF (1,238) million	HUF (160) million	HUF 160 million
Deposits from customers	IRS	HUF 20,436 million	HUF (61) million	HUF 3,522 million	HUF (3,522) million
Liabilities from issued securities	IRS	HUF 206,489 million	HUF 2,761 million	HUF 5,343 million	HUF (5,343) million
EUR mortgage bonds	CCIRS	HUF 209,063 million	HUF (45,125) million	HUF 4,761 million	HUF (4,761) million
EUR mortgage bonds	CCIRS	HUF 320,563 million	HUF (54,799) million	HUF 2,912 million	HUF (2,912) million
EUR mortgage bonds	CCIRS	HUF 55,750 million	HUF (8,088) million	HUF 517 million	HUF (517) million

As at 31 December 2009

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/ Losses	
				on the hedged items	on hedging instruments
Securities available-for-sale	IRS	HUF 15,557 million	HUF 348 million	HUF 197 million	HUF (197) million
Loans to customers	IRS	HUF 43,292 million	HUF (1,335) million	HUF 792 million	HUF (790) million
Loans to customers	Options	HUF 3.6 million	HUF 1 million	HUF (52) million	HUF 52 million
Deposits from customers	IRS	HUF 29,685 million	HUF 3,461 million	HUF 4,036 million	HUF (4,036) million
Liabilities from issued securities	IRS	HUF 154,164 million	HUF 8,104 million	HUF 429 million	HUF (429) million
EUR mortgage bonds	CCIRS	HUF 216,672 million	HUF (11,229) million	HUF 23 million	HUF (23) million
EUR mortgage bonds	CCIRS	HUF 203,130 million	HUF 1,049 million	HUF (2,495) million	HUF 2,495 million
EUR mortgage bonds	CCIRS	HUF 54,168 million	HUF (8,435) million	HUF (2,361) million	HUF 2,361 million

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

e) Fair value classes

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly;
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December 2010

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	233,263	158,685	74,577	1
from this: securities held for trading	158,843	158,551	291	1
from this: positive FVA of derivative financial instruments designated as held for trading	74,420	134	74,286	-
Securities available-for-sale	989,196	964,535	24,635	26
Positive FVA of derivative financial instruments designated as fair value hedge	8,489	9	8,480	-
Financial assets measured at fair value total	**1,230,948**	**1,123,229**	**107,692**	**27**
Negative FVA of derivative financial instruments designated as held for trading	257,052	596	256,456	-
Negative FVA of derivative financial instruments designated as fair value hedge	115,159	4	115,155	-
Financial liabilities measured at fair value total	**372,211**	**600**	**371,611**	**-**

As at 31 December 2009

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	254,934	174,827	80,107	-
from this: securities held for trading	177,390	174,655	2,735	-
from this: positive FVA of derivative financial instruments designated as held for trading	77,544	172	77,372	-
Securities available-for-sale	1,338,371	1,159,740	75,790	102,841
Positive FVA of derivative financial instruments designated as fair value hedge	14,181	-	14,181	-
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 fair value hedge	22,249	-	22,249	-
Financial liabilities measured at fair value total	**140,717**	**76**	**140,641**	**-**

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

e) Fair value classes [continued]

Movements in Level 3 financial instruments measured at fair value

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

As at 31 December 2010	Opening balance / Balance as at 1 January 2010	Transfer	Closing balance	Total profit or loss as at 31 December 2010
Securities available-for-sale[1]	102,841	(102,815)	26	26
Financial assets measured at fair value total	**102,841**	**(102,815)**	**26**	**26**

As at 31 December 2009	Opening balance / Balance as at 1 January 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.
The reportable geographical segments of the Group are those components where:

- separated incomes and expenses, assets and liabilities can be identified and assignable to the segments
- transactions between the different segments were eliminated
- the main decisive board of the Group regularly controls the operating results
- separated financial information is available

Information regarding the Group's reportable segments is presented below.

[1] Certain bonds mainly issued by local governments in Hungary were reclassified to loans during the year ended 31 December 2010. These securities were not quoted on an active market and were met the definition of loans and receivables as defined in IAS 39.

NOTE 40: SEGMENT REPORTING BY GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 31 December 2010

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Eliminations	Consolidated
Interest income											
External	753 340	15 826	14 514	105 561	17 738	28 157	5 690	114 850	79 672		**1 135 348**
Intersegment	65 302	1 116	509	716	6 816	115	-	7 535	-	**(82 109)**	-
Total	**818 642**	**16 942**	**15 023**	**106 277**	**24 554**	**28 272**	**5 690**	**122 385**	**79 672**	**(82 109)**	**1 135 348**
Non-interest income											
External	148 713	4 051	4 177	19 262	5 473	12 748	6 190	19 212	17 368		**237 194**
Intersegment	22 953	-	415	303	2 121	-	-	-	-	**(25 792)**	-
Total	**171 666**	**4 051**	**4 592**	**19 565**	**7 594**	**12 748**	**6 190**	**19 212**	**17 368**	**(25 792)**	**237 194**
Interest expense											
External	418 987	5 052	7 499	31 338	4 317	12 968	1 406	25 795	11 561		**518 923**
Intersegment	42 854	414	393	3 629	7 102	760	2 095	7 599	17 363	**(82 209)**	-
Total	**461 841**	**5 466**	**7 892**	**34 967**	**11 419**	**13 728**	**3 501**	**33 394**	**28 924**	**(82 209)**	**518 923**
Non-interest expense											
External	262 700	11 277	8 129	33 560	15 533	19 374	7 226	56 540	26 073		**440 412**
Intersegment	7 694	-	105	-	-	190	-	235	405	**(8 629)**	-
Total	**270 394**	**11 277**	**8 234**	**33 560**	**15 533**	**19 564**	**7 226**	**56 775**	**26 478**	**(8 629)**	**440 412**

NOTE 40: SEGMENT REPORTING BY GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 31 December 2010

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Eliminations	Consolidated
Provision for impairment on loan and placement losses	**136 061**	**4 848**	**20 333**	**38 360**	**8 278**	**3 185**	**7 376**	**24 438**	**29 443**	**702**	**273 024**
Highlighted lines											
Capital expenditures	10 201	847	-	5 739	2 329	1 357	171	32	244	-	**20 920**
Depreciation and amortization	26 519	1 699	705	4 907	1 386	4 677	778	5 188	2 946	**18 519**	**67 324**
Segment profit before income tax	122 012	(598)	(16 844)	18 955	(3 082)	4 543	(6 223)	26 990	12 195	**(17 765)**	**140 183**
Income tax	15 927	119	-	1 928	192	730	(13)	6 383	(3 209)	-	**22 057**
Net profit for the year	**106 085**	**(717)**	**(16 844)**	**17 027**	**(3 274)**	**3 813**	**(6 210)**	**20 607**	**15 404**	**(17 765)**	**118 126**
Segment assets	7 180 872	349 370	192 514	1 265 892	281 227	550 531	119 985	718 482	848 885	**(1 726 812)**	**9 780 946**
Segment liabilities	6 829 454	324 674	195 681	1 021 589	246 968	454 978	96 842	566 625	606 298	**(1 871 092)**	**8 472 017**

NOTE 40: SEGMENT REPORTING BY GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

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	2 196	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**

<u>NOTE 40:</u> SEGMENT REPORTING BY GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

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**
Depreciation 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**

NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2010

1) Hungarian Government loan facility

See details in Note 13.

2) Legal action against the Bank

See details in Note 28.

3) Term Loan Facility

See details in Note 13.

4) Special Tax On Financial Institutions

On 22 July 2010 based on the amendment of the act on the special tax of financial institutions approved by the Parliament of the Republic of Hungary, the following members of the Group are obliged to pay the special financial institution tax:

Credit institutions:	OTP Bank Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., Merkantil Bank Ltd.
Financial enterprises:	OTP Real Estate Leasing Ltd., OTP Factoring Ltd., Merkantil Car Ltd., Merkantil Real Estate Leasing Ltd.
Fund managers:	OTP Fund Management Ltd., OTP Real Estate Fund Management Ltd.

From the second half of 2010 the special tax shall consist of two parts:

- The approved amendment does not have any impact on the already existing special banking tax, which came into effect by 1 January 2007. This special tax amount for the full year of 2010 was HUF 5 billion and was to be paid by OTP and OTP Mortgage Bank Ltd.
  A new special financial institution tax is to be introduced and paid by the above mentioned members of the Group. Accordingly, the total special tax amount was paid by the Group for the full year of 2010 was at HUF 36 billion (See details in Note 25).

  The total tax amount payable for the year 2010 was HUF 41 billion.

NOTE 42: POST BALANCE SHEET EVENTS

No significant event happened.

NOTE 43: THE EFFECT OF FINANCIAL AND ECONOMIC CRISIS ON THE GROUP

National economies of the region where the Group operates left behind the worst period of the last two years of the financial crisis. The severe contraction that followed the financial and economic crisis reached its bottom in 2009 and in most of the countries real GDP growth was already in the positive territory in 2010.

NOTE 43: THE EFFECT OF FINANCIAL AND ECONOMIC CRISIS ON THE GROUP [continued]

Similarly to 2009, in 2010 the Group focused its activity on the stable operation, including the robust capital position and liquidity, and in line with the deteriorating loan portfolio, on prudent risk management and monitoring. At the same time, some Group members could already benefit from the business opportunities arising from the improving operating environment.

- One of the direct consequences of the crisis was the weak loan demand in most of our markets, but the Russian consumer lending business. After adjusting for technical effects (i.e. FX-movements and reclassification of municipality bonds in 2010 from securities to loans), consolidated loan book kept decreasing from 2009 to 2010 (-0.3%), however in the second half of 2010 – for the first time since the onset of the crisis – it started growing again (in the third quarter: +1.1%, in the fourth quarter +0.4% from quarter to quarter).

  It was only the Russian market enjoying a significant volume growth: the FX-adjusted portfolio of OAO OTP Bank (Russia) expanded by 24%, within that the retail book increased by 46% from 2009 to 2010. The flagship products of OAO OTP Bank demonstrated a spectacular expansion: POS-, credit card- and personal loan volumes grew by 58%, 72% and 111% from 2009 to 2010 respectively.

  In Hungary, the Group made huge efforts to revitalise its lending activity: OTP Core's loans to large enterprises grew by 1% and the SME segment – though being fairly small – expanded by 7% the last year with the simultaneous 7% decline of the Hungarian corporate lending market. As for Hungarian mortgage lending, in 2010 new volumes at OTP increased by 60% from 2009 to 2010, as a result the Bank's market share in new origination jumped from 15% to 29%. However these efforts only slowed down the gradual erosion in the outstanding mortgage loan volumes.

  Hungarian retail FX lending was stopped during the year, as a reaction to a legal change according to which no mortgage is allowed to be established to secure FX-denominated retail mortgage loans for private individuals from July 2010.

- After the strong deposit growth in 2009, due to the generally weak loan demand the Group put less emphasis on deposit collection in 2010. Instead of further improving its liquidity indicators, the Group focused rather on the improvement of deposit margins. Fx adjusted deposit volumes remained stable during the last year, a favourable tendency though that retail deposits kept growing in 2010 too (+2% from 2009 to 2010).

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

  As for the new issuances, by leveraging on the improving market sentiment the Group completed three smaller scale debt market transactions in 2010: in February OTP Bank issued CHF 100 million plain vanilla bonds with 2 year tenor, in April OTP Mortgage Bank tapped the market with a 2 year, EUR 300 million mortgage bond transaction (of which approximately EUR 90 million was sold to investors outside the Group), whereas in July the Bank organized a EUR 250 million syndicated loan facility with similar maturity.

NOTE 43: THE EFFECT OF FINANCIAL AND ECONOMIC CRISIS ON THE GROUP [continued]

- Another side effect of the crisis was the significant deterioration in the financial position of the clients, which led to worsening portfolio quality and materially increasing risk costs compared to pre-crisis levels. In 2010, the ratio of loans past due over 90 days ('DPD90+ ratio') on Group level have increased further to 13.7% from 9.8%. The pace of deterioration, however, moderated. While in 2009 the ratio grew by 5.3%-points, in 2010 it increased only by 3.9%-points from 2009 to 2010. At the same time, the Group increased the provision coverage of the DPD 90+ loans by 1%-point from 73.6% to 74.4% (in 2009 the ratio dropped by 12%-points from 2009 to 2010), which resulted in HUF 273 billion total risk costs for the full year of 2010. The 0.8%-point increase in the consolidated coverage ratio is equivalent with HUF 8 billion additional risk costs, therefore if the management has not had increased the coverage ratio during 2010, the risk cost would have remained at its 2009 level (2009: HUF 266 billion).

  Debtor protection programs launched in previous years in Ukraine, Hungary, Bulgaria and Romania continued in 2010 as well. The Group made special efforts to assist distressed borrowers in managing their temporary financial difficulties. However, if re-defaulted clients are excluded from the rescheduled portfolio, the share of rescheduled retailed loans already stopped growing in 2010 (at end of 2010: 6.2%). The reason behind is the material slow down in the rescheduling activity in Hungary and in the Ukraine.

  In Hungary, on top of the prevailing debtor protection programme and as a reaction to the depreciation of the local currency starting from the second quarter, the Bank lowered the CHF and JPY mortgage rates by 75 bps and 50 bps respectively in June 2010, in order to ease the increasing burden of retail FX-debtors through a temporary measure.

- The further enhancement of the stable capital adequacy still remained a top priority for the Group in 2010. Due to the profitable operation and the weak lending activity amid the crisis, the capital adequacy ratio of the Group rose to 17.5%, which is significantly higher than the ratios at its regional competitors.

- During 2009, as a reaction to the lower level of business activity, cost-cutting programs were implemented at each subsidiary, in many cases staff level was reduced and some branches were closed. In 2010, strict cost control was maintained, however further material staff reduction and branch closures were implemented only in the Ukraine. Consolidated operating expenses from 2009 to 2010 increased by mare 1% in 2010. This slight increase reflects fairly successful cost management, especially taking into consideration that in many markets underlying consumer price inflation approached or exceeded 5% (i.e. in Hungary, Russia, Ukraine Romania and Serbia), and also that HUF weakened significantly during year 2010. Assuming an unchanged cost structure, those two factors (inflation and currency depreciation) would have implied a nominal increase of HUF 19 billion from 2009 to 2010 in the consolidated operating expenses, of which the Group realized only HUF 5 billion increase as a result of ongoing cost rationalization initiatives (i.e. renegotiating rental- and supplier contracts, optimization of energy consumption, reengineering business processes).

- In Hungary from 2010, to reduce the deficit of the general government, new special tax was imposed on financial institutions. The total tax amount paid by Hungarian OTP Group members for the year of 2010 was at HUF 36 billion and this amount was deductible from the corporate tax base. Therefore the total negative impact on the Group's 2010 after-tax profit was at HUF 29.5 billion.