

**OTP BANK PLC.**

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

***FOR THE YEAR ENDED  
31 DECEMBER 2007***

**OTP BANK PLC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of OTP Bank Plc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2007, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of OTP Bank Plc. and its subsidiaries as of December 31, 2007, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest, March 17, 2008



.....  
Horváth Tamás  
Deloitte Auditing and Consulting Ltd.  
1068 Budapest, Dózsa György út 84/C  
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.....  
Horváth Attila Péter  
Registered Auditor  
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**OTP BANK PLC.**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2007**  
**(in HUF mn)**

	<i>Note</i>	<i>2007</i>	<i>2006</i>
Cash, due from banks and balances with the National Bank of Hungary	4	353,243	532,625
Placements with other banks, net of allowance for placements losses	5	654,788	602,615
Financial assets at fair value through statements of operations	6	285,895	110,576
Securities available-for-sale	7	473,925	489,250
Loans, net of allowance for loan losses	8	5,582,437	4,347,091
Accrued interest receivable		63,459	54,223
Associates and other investments	9	9,892	70,939
Securities held-to-maturity	10	317,557	268,280
Premises, equipments and intangible assets, net	11	541,909	464,716
Other assets	12	<u>178,769</u>	<u>157,111</u>
<b>TOTAL ASSETS</b>		<b><u>8,461,874</u></b>	<b><u>7,097,426</u></b>
Due to banks and deposits from the National Bank of Hungary and other banks	13	798,154	660,417
Deposits from customers	14	5,038,372	4,232,153
Liabilities from issued securities	15	985,265	781,315
Accrued interest payable		60,153	46,011
Other liabilities	16	383,189	338,591
Subordinated bonds and loans	17	<u>301,164</u>	<u>250,726</u>
<b>TOTAL LIABILITIES</b>		<b><u>7,566,297</u></b>	<b><u>6,309,213</u></b>
Share capital	18	28,000	28,000
Retained earnings and reserves	19	976,225	820,819
Treasury shares	20	(114,001)	(63,716)
Minority interest	21	<u>5,353</u>	<u>3,110</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b><u>895,577</u></b>	<b><u>788,213</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>8,461,874</u></b>	<b><u>7,097,426</u></b>

Budapest, 17 March 2008

  
 .....  
 dr. Ándor Csányi  
 Chairman and Chief Executive Officer

**OTP BANK PLC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
**(in HUF mm)**

	<i>Note</i>	<i>2007</i>	<i>2006</i>
Interest Income:			
Loans		567,008	387,653
Placements with other banks		95,793	79,409
Due from banks and balances with the National Bank of Hungary		12,824	25,937
Securities held for trading		7,272	2,593
Securities available-for-sale		34,145	28,746
Securities held-to-maturity		<u>29,938</u>	<u>18,479</u>
<i>Total Interest Income</i>		<u>746,980</u>	<u>542,817</u>
Interest Expense:			
Due to banks and deposits from the National Bank of Hungary and other banks		76,147	41,028
Deposits from customers		172,506	107,060
Liabilities from issued securities		50,197	34,321
Subordinated bonds and loans		<u>16,438</u>	<u>4,464</u>
<i>Total Interest Expense</i>		<u>315,288</u>	<u>186,873</u>
<b>NET INTEREST INCOME</b>		<b>431,692</b>	<b>355,944</b>
Provision for loan and placement losses	5, 8	<u>58,184</u>	<u>28,559</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES</b>		<b>373,508</b>	<b>327,385</b>
Non-Interest Income:			
Fees and commissions		188,788	145,015
Foreign exchange gains, net		8,399	(11,884)
Gains and losses on securities, net		5,085	6,900
Gains on real estate transactions, net		1,371	1,292
Dividend income and gains and losses of associated companies		993	901
Insurance premiums		83,591	75,554
Other		<u>40,067</u>	<u>24,940</u>
<i>Total Non-Interest Income</i>		<u>328,294</u>	<u>242,718</u>
Non-Interest Expenses:			
Fees and commissions		35,903	32,116
Personnel expenses		147,831	106,804
Depreciation and amortization	11	35,627	26,464
Insurance expenses		69,204	60,866
Other	22	<u>164,285</u>	<u>125,251</u>
<i>Total Non-Interest Expense</i>		<u>452,850</u>	<u>351,501</u>
<b>INCOME BEFORE INCOME TAXES</b>		<b>248,952</b>	<b>218,602</b>
Income taxes	23	<u>(40,404)</u>	<u>(31,506)</u>
<b>NET INCOME</b>		<b>208,548</b>	<b>187,096</b>
From this, attributable to:			
Minority interest		<u>340</u>	<u>45</u>
Equity holders		<u>208,208</u>	<u>187,051</u>
<b>Consolidated earnings per share (in HUF)</b>			
<b>Basic</b>	36	<u>796</u>	<u>722</u>
<b>Diluted</b>	36	<u>794</u>	<u>714</u>

The accompanying notes to consolidated financial statements on pages 7 to 64 form an integral part of these consolidated financial statements.

**OTP BANK PLC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR 31 DECEMBER 2007**  
(in HUF mn)

	<i>Note</i>	<i>2007</i>	<i>2006</i>
<b>OPERATING ACTIVITIES</b>			
<b>Income before income taxes</b>		<b>248,952</b>	<b>218,602</b>
Income tax paid		(45,005)	(47,072)
Depreciation and amortization	11	35,627	26,464
Provision for loan and placement losses	5,8	58,184	28,559
Provision for permanent diminution in value of equity investments	9	131	(1,892)
Provision for losses on other assets	12	8,386	814
Release of allowance for losses on off-balance sheet commitments and contingent liabilities, net	16	4,018	6,982
Net increase in insurance reserves		20,604	32,253
Share-based compensation	2,26	5,123	5,927
Unrealised losses on fair value adjustment of securities held for trading		695	1,465
Unrealised gains on fair value adjustment of derivative financial instruments		(44,522)	(17,137)
Net changes in financial assets through Statements of Operations		(32,298)	(6,297)
Net increase in accrued interest receivables		(8,338)	(10,059)
Net increase in other assets, excluding advances for investments and before allowance for losses		(18,649)	(80,271)
Net decrease in accrued interest payable		14,021	16,801
Net increase in other liabilities		<u>4,072</u>	<u>43,969</u>
<b>Net Cash Provided by Operating Activities</b>		<b><u>251,001</u></b>	<b><u>219,108</u></b>
<b>INVESTING ACTIVITIES</b>			
Net decrease/(increase) in placement with other banks before provision for placements losses		16,315	(80,699)
Net decrease/(increase) in securities available-for-sale		(94,121)	(78,636)
Net decrease/(increase) in equity investments, before provision for permanent diminution in value		61,133	(56,678)
Net cash outflow from acquisition of subsidiaries		(58,303)	(243,703)
Net (increase)/decrease in debt securities held-to-maturity		(47,990)	21,526
Net decrease/(increase) in advances for investments, included in other assets		254	(255)
Net increase in loans, before provision for loan losses		(1,179,630)	(601,625)
Net additions to premises, equipments and intangible assets		<u>(66,744)</u>	<u>(38,050)</u>
<b>Net Cash Used in Investing Activities</b>		<b><u>(1,369,086)</u></b>	<b><u>(1,078,120)</u></b>

**OTP BANK PLC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE 31 DECEMBER 2007**  
(in HUF mn)  
[continued]

	<i>Note</i>	<i>2007</i>	<i>2006</i>
<b>FINANCING ACTIVITIES</b>			
Net increase in due to banks and deposits from the			
National Bank of Hungary and other banks		118,469	86,294
Net increase in deposits from customers		671,271	359,754
Net increase in liabilities from issued securities		203,950	220,626
Increase in subordinated bonds and loans		50,438	192,476
Increase/(decrease)of minority interest		127	(414)
Foreign currency translation losses		(5,579)	(8,478)
Issuance of/ Dividend on equity instrument (ICES)		(5,640)	120,305
Net change in treasury shares		(54,182)	(6,998)
Net decrease in compulsory reserves			
at National Bank of Hungary	4,28	(22,416)	(14,772)
Dividends paid		<u>(40,151)</u>	<u>(55,119)</u>
<b>Net Cash Provided by Financing Activities</b>		<b><u>916,287</u></b>	<b><u>893,674</u></b>
<b>Net Increase in Cash and Cash Equivalents</b>		<b><u>(201,798)</u></b>	<b><u>34,662</u></b>
Cash and cash equivalents as at 1 January		<u>396,658</u>	<u>361,996</u>
<b>Cash and Cash Equivalents as at 31 December</b>		<b><u>194,860</u></b>	<b><u>396,658</u></b>

**Analysis of cash and cash equivalents opening and closing balance**

Cash, due from banks and balances with the			
National Bank of Hungary	4,28	532,625	483,191
Compulsory reserve established by the			
National Bank of Hungary	4,28	<u>(135,967)</u>	<u>(121,195)</u>
<b>Cash and cash equivalents as at 1 January</b>		<b><u>396,658</u></b>	<b><u>361,996</u></b>
Cash, due from banks and balances with the			
National Bank of Hungary	4	353,243	532,625
Compulsory reserve established by the			
National Bank of Hungary	4	<u>(158,383)</u>	<u>(135,967)</u>
<b>Cash and cash equivalents as at 31 December</b>		<b><u>194,860</u></b>	<b><u>396,658</u></b>



**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**  
**OTP BANK PLC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN**  
**SHAREHOLDERS' EQUITY**  
**FOR THE YEAR 31 DECEMBER 2007**  
(in HUF mn)

	Note	Share Capital	Retained Earnings and Reserves	Treasury Shares	Minority interest	Total
<b>Balance as at 1 January 2006</b>		<b><u>28,000</u></b>	<b><u>572,567</u></b>	<b><u>(53,586)</u></b>	<b><u>491</u></b>	<b><u>547,472</u></b>
Net income		-	187,096	-	(45)	187,051
Fair value adjustment of securities available- for-sale recognised directly through equity, net		-	(3,430)	-	-	(3,430)
Share-based compensation	26	-	5,927	-	-	5,927
Dividend for the year 2005		-	(55,160)	-	-	(55,160)
Gain on sale of treasury shares		-	3,132	-	-	3,132
Purchase of treasury shares		-	-	(10,130)	-	(10,130)
Derivative financial instruments designated as cash flow hedge		-	(1,131)	-	-	(1,131)
Issuance equity instrument (ICES)	19	-	120,305	-	-	120,305
Foreign currency translation gain		-	(8,478)	-	-	(8,478)
Deferred tax		-	36	-	-	36
Minority interest		=	<u>(45)</u>	=	<u>2,664</u>	<u>2,619</u>
<b>Balance as at 31 December 2006</b>		<b><u>28,000</u></b>	<b><u>820,819</u></b>	<b><u>(63,716)</u></b>	<b><u>3,110</u></b>	<b><u>788,213</u></b>
Net income		-	208,548	-	(340)	208,208
Fair value adjustment of securities available- for-sale recognised directly through equity, net		-	(858)	-	-	(858)
Fair value adjustment of derivative financial instruments recognised directly through equity, net		-	(387)	-	-	(387)
Share-based compensation	26	-	5,123	-	-	5,123
Dividend for the year 2006		-	(40,320)	-	-	(40,320)
Loss on sale of treasury shares		-	(3,897)	-	-	(3,897)
Purchase of treasury shares		-	-	(50,285)	-	(50,285)
Derivative financial instruments designated as cash flow hedge		-	(1,196)	-	-	(1,196)
Dividend on equity instrument (ICES)	19	-	(5,640)	-	-	(5,640)
Foreign currency translation gain		-	(5,627)	-	-	(5,627)
Minority interest		=	<u>(340)</u>	=	<u>2,583</u>	<u>2,243</u>
<b>Balance as at 31 December 2007</b>		<b><u>28,000</u></b>	<b><u>976,225</u></b>	<b><u>(114,001)</u></b>	<b><u>5,353</u></b>	<b><u>895,577</u></b>

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**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 predecessor State-owned company was transformed into a public liability company.

The registered office of the Bank address is 16 Nádor Street, Budapest 1051.

In 1995, the shares of the Bank were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London and PORTAL (USA).

As at 31 December 2007 approximately 95% of the shares of the Bank were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (2%) and the Bank (3%).

The Bank and its subsidiaries (together the “Group”) provide a full range of commercial banking services through a wide network of 1,462 branches. The Group has operations in Hungary, Bulgaria, Slovakia, Romania, Croatia, Serbia, Ukraine, Russia and Montenegro.

As at 31 December 2007 the number of employees at the Group was 33,062. The average number of employees for the one year period ended 31 December 2007 was 30,912.

**1.2. Accounting**

The Group maintains its accounting records and prepares 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 according to the International Financial Reporting Standards in order to present the consolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 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 which has not been approved by the EU. As the Group does not apply portfolio hedge accounting under IAS 39, there is no impact on these consolidated financial statements, had it been approved by the EU at the balance sheet date.

The Financial Statements were authorised for issue on 17 March 2008.

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**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 2007**

In the current year, the Bank has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 *Presentation of Financial Statements*.

The impact of the adoption of IFRS 7 and the changes to IAS 1 implicate the expansion of the disclosures provided in these financial statements regarding the financial instruments of the Bank and management of capital.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

- IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*;
- IFRIC 8 *Scope of IFRS 2*;
- IFRIC 9 *Reassessment of Embedded Derivatives*;
- IFRIC 10 *Interim Financial Reporting and Impairment*.

The adoption of the above amendments had no significant impact on the 2007 consolidated financial statements.

**1.2.2. Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2007**

At the date of authorisation of these financial statements, other than the Standards and Interpretations adopted by the Bank, the following Interpretations were in issue but not yet effective:

- IAS 23 (Revised) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 13 *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 11 *IFRS 2: Bank and Treasury Share Transactions* (effective 1 March 2007);
- IFRIC 12 *Service Concession Arrangements* (effective 1 January 2008);
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective 1 January 2008).

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**1.2.2. Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective January 1, 2007 [continued]**

The directors anticipate that all of the above Interpretations will be adopted in financial statements of the Bank for the period commencing 1 January 2008 and that the adoption of those Interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

**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 on 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 management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as 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 rate quoted by OTP as of the date of the Consolidated Financial Statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the Consolidated Statements of Operations.

Net differences resulting from translating foreign currency financial statements of consolidated subsidiaries are presented as an element of retained earnings and reserves in the Consolidated Balance Sheet.

Effective for acquisitions after 31 March 2004 goodwill arising on acquisition is expressed in the functional currency of the foreign operation and translated at the closing rate in the Consolidated Balance Sheet. The resulting exchange difference is presented as an element of retained earnings and reserves in the Consolidated Balance Sheet.

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**NOTE 2:      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.3. Principles of consolidation**

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank holds a controlling interest. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 30. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated in accordance with IFRS because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.10.).

**2.4. Accounting for acquisitions**

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

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

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.

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 Statements of Operations as other income.

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

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

Held-to-maturity investments include securities, which the Group has the ability and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government and mortgage bonds.

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**NOTE 2:      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.6. Financial assets at fair value through statements of operations**

**2.6.1. Securities held for trading**

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

**2.6.2. Derivative financial instruments**

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include interest rate forward or swap agreements and currency forward and swap agreements. 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 at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit/loss and included in the Consolidated Statements of Operations for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

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

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

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

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognised directly in equity, unless such available-for-sale security is part of an effective fair value hedge. Such gains and losses will be reported when realised in profit and loss for the applicable period. Such securities consist of Hungarian and foreign discounted and interest bearing Treasury bills, government bonds and other securities. Other securities include shares in commercial companies, shares in investment funds, bonds issued by companies and mortgage bonds issued by other financial institutions.

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

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

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

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amount outstanding. When a borrower is unable to meet payments as they come due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they come due, all unpaid interest is reversed and accruals are stopped.

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

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

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

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.8. Loans, placements with other banks and allowance for loan and placement losses [continued]**

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

**2.9. Sale and repurchase agreements**

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in liabilities due to banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in placement with other banks. Interest is accrued evenly over the life of the repurchase agreement.

**2.10. Associates and other investments**

Companies where the Bank has the ability to exercise significant influence are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is not material to the consolidated financial statements as a whole. Shares which are intended to be disposed of are included among securities available-for-sale and measured at fair value.

Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a controlling or significant interest are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate.

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

**2.11. Premises, equipments and intangible assets**

Premises, equipments 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 life. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Buildings	1 – 20%
Machinery and equipment	2.5 – 54%
Vehicles	3 – 100%
Leased assets	13 – 100%
Software	5 – 50%
Property rights	14.5 – 50%



**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.11. Premises, equipments and intangible assets [continued]**

Depreciation and amortization on premises, equipments and intangible assets commences on the day such assets are placed into service.

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

Where the carrying value of premises, equipments and other tangible fixed assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

**2.12. Leases**

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

**The Group as lessor**

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

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

**The Group as lessee**

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Consolidated Statements of Operations over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

Payments made under operating leases are charged to the Consolidated Statements of Operations on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**NOTE 2:      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.13. Properties held for resale**

Properties held for resale are accounted for at historical cost less allowance for permanent diminution in value and are included in Other assets in the Consolidated Balance Sheet. Properties held for resale include property held for sale in the normal course of business as a result of construction or development, real estate held due to work out of loans and property acquired exclusively with a view to subsequent disposal in the near future.

**2.14. Insurance reserves**

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

**2.15. Treasury shares**

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Balance Sheet at 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.

**2.16. Interest Income and Interest Expense**

According to the IAS 18 interest income and expense are recognised in the Consolidated Statements of Operations on an accrual basis. Revenue is recognised as the interest accrues using the effective interest method that is the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**2.17. Fees and Commissions**

Fees and commissions are recognised in the Consolidated Statements of Operations on an accrual basis based on IAS 18.

**2.18. Income taxes**

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

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

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**NOTE 2:      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

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

In the ordinary course of its business, the Group has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The provision for losses on commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

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

**2.20. Share-based compensation**

The Bank has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002.

The Bank issues equity-settled share-based compensations to certain employees. Equity-settled share-based compensations are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based compensations is expensed on a straight-line basis over the year, based on the estimate of the Bank of shares that will eventually vest.

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

**2.21. Consolidated Statements of Cash Flows**

For the purposes of reporting consolidated cash flows, cash and cash equivalents include cash, due from banks and balances with the National Bank of Hungary, excluding the compulsory reserve established by the National Bank of Hungary. Consolidated cash flows from hedging activities are classified in the same category as the item being hedged.

**2.22. Segment reporting**

Segment information is based on two segments formats. The primary format represents the geographical markets of the Group. The secondary format represents two business segments – banking (finance) and insurance.

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

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

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.22. Segment reporting [continued]**

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

**2.23. Comparative figures**

Certain amounts in the 2006 consolidated financial statements have been reclassified to conform to the current year presentation.

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

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

**3.1. Impairment of Loans and Advances**

The Group regularly assesses its loan portfolio for possible 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., for correlations, volatilities, etc.). Changes in the model assumptions may affect the reported market value of the relevant financial instruments.

**3.3. Provisions**

The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for (see Note 16.).

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

**3.4. Insurance liabilities**

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

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

	<i>2007</i>	<i>2006</i>
Cash on hand:		
In HUF	51,038	46,286
In foreign currency	<u>90,850</u>	<u>52,471</u>
	<u>141,888</u>	<u>98,757</u>
Due from banks and balances with the National Bank of Hungary:		
Within one year:		
In HUF	170,019	389,684
In foreign currency	<u>41,336</u>	<u>44,184</u>
	<u>211,335</u>	<u>433,868</u>
Total	<u>353,243</u>	<u>532,625</u>

Based on the requirements for compulsory reserve set by the National Bank of Hungary, the balance of compulsory reserves maintained by the Group amounted to HUF 158,383 million and HUF 135,967 million for the years ended 31 December 2007 and 2006, respectively.

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

	<i>2007</i>	<i>2006</i>
Within one year:		
In HUF	22,721	37,808
In foreign currency	<u>594,408</u>	<u>526,024</u>
	<u>617,129</u>	<u>563,832</u>
Over one year:		
In HUF	2,700	3,000
In foreign currency	<u>35,001</u>	<u>35,783</u>
	<u>37,701</u>	<u>38,783</u>

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

	2007	2006
Allowance for placements losses	42	-
Total	<u>654,788</u>	<u>602,615</u>

Placements of foreign subsidiaries with their respective National Banks amounted to HUF 284,885 million and HUF 184,799 million for the years ended 31 December 2007 and 2006, respectively.

Placements with other banks in foreign currency as at 31 December 2007 and 2006 bear interest rates in the range from 0.05% to 11.99% and from 0.43% to 16.5%, respectively.

Placements with other banks in HUF as at 31 December 2007 and 2006 bear interest rates in the range from 3.9% to 14.13% and from 4.24% to 9.55%, respectively.

Allowance for placements losses amounted to HUF 42 million as at 31 December 2007.

**NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENTS OF OPERATIONS (in HUF mn)**

	2007	2006
Securities held for trading:		
Treasury bills	24,143	1,562
Hungarian Government interest bearing Treasury bills	2,406	5,709
Government bonds	90,330	41,421
Corporate bonds	72,443	21,432
Mortgage bonds	807	574
Other securities	<u>31,828</u>	<u>14,169</u>
	<u>221,957</u>	<u>84,867</u>
Derivative financial instruments designated as held for trading	<u>63,938</u>	<u>25,709</u>
Total	<u>285,895</u>	<u>110,576</u>

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

Approximately 17% and 38% of the government bonds were denominated in foreign currency as at 31 December 2007 and 2006, respectively. Approximately 10%, 22%, 17% and 51% of this portfolio was denominated in USD, EUR, BGN and RUB as at 31 December 2007, and 12%, 21%, 19%, and 48% of this portfolio was denominated in USD, EUR, BGN and RUB as at 31 December 2006.

Interest rates on securities held for trading are ranged from 2% to 12.1% and from 2% to 12.5% as at 31 December 2007 and 2006, respectively.

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENTS OF OPERATIONS (in HUF mn) [continued]**

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

	2007	2006
Within five years		
with variable interest	25,803	1,136
with fixed interest	<u>138,752</u>	<u>68,683</u>
	<u>164,555</u>	<u>69,819</u>
Over five years		
with variable interest	-	3,249
with fixed interest	<u>51,820</u>	<u>10,802</u>
	<u>51,820</u>	<u>14,051</u>
Non-interest bearing securities	<u>5,582</u>	<u>997</u>
Total	<u>221,957</u>	<u>84,867</u>

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

	2007	2006
Available-for-sale securities:		
Treasury bills	25,247	112,143
Government bonds	271,111	267,455
Corporate bonds	133,778	75,122
Mortgage bonds	264	392
Other securities	<u>43,555</u>	<u>34,167</u>
	<u>473,955</u>	<u>489,279</u>
Provisions for securities available-for-sale	<u>(30)</u>	<u>(29)</u>
Total	<u>473,925</u>	<u>489,250</u>

Securities available-for-sale are measured at fair value in the financial statements of the Group that is their book value.

Approximately 60% and 79% of the available-for-sale securities portfolio was denominated in HUF as at 31 December 2007 and 2006, respectively.

Approximately 19% and 20% of the government bonds were denominated in foreign currency as at 31 December 2007 and 2006, respectively. Approximately 7%, 35%, 29%, 16%, 11%, 2% of this portfolio was denominated in USD, EUR, HRK, BGN, UAH and other currency as at 31 December 2007, and 4%, 50%, 26%, 19% and 1% of this portfolio was denominated in USD, EUR, HRK, BGN and SKK as at 31 December 2006, respectively.

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn) [continued]**

Interest rates on securities available-for-sale ranged from 2% to 16.5% and from 2% to 28.8% as at 31 December 2007 and 2006, respectively.

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

	<i>2007</i>	<i>2006</i>
Within five years		
with variable interest	30,672	41,934
with fixed interest	<u>256,643</u>	<u>315,660</u>
	<u>287,315</u>	<u>357,594</u>
Over five years		
with variable interest	66,247	7,262
with fixed interest	<u>85,137</u>	<u>91,384</u>
	<u>151,384</u>	<u>98,646</u>
Non-interest bearing securities	<u>35,256</u>	<u>33,039</u>
Total	<u>473,955</u>	<u>489,279</u>

An analysis of the change in the allowance for securities available for sale is as follows:

	<i>2007</i>	<i>2006</i>
Balance as at 1 January	29	-
Provisions for securities available for sale	<u>1</u>	<u>29</u>
Balance as at 31 December	<u>30</u>	<u>29</u>

Certain fixed-rate mortgage bonds and other securities mainly denominated in foreign currency are hedged by derivative financial instruments to reduce the exposure to interest rate risk or the changes in fair value of these assets. In the case of these transactions the hedging relationships is designated and HUF 308 million and HUF 1,527 million net loss that had been recognised directly in equity was removed from equity and recognised in the net profit and loss as at 31 December 2007 and 2006 respectively in line with IAS 39.

The fair value of the hedged bonds was HUF 29,457 million and HUF 21,615 million as at 31 December 2007 and 2006 respectively.



**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 8:      **LOANS, NET OF ALLOWANCE FOR LOAN LOSSES**  
**(in HUF mn)****

	<i>2007</i>	<i>2006</i>
Loans and trade bills within one year	1,640,455	1,338,653
Loans and trade bills over one year	<u>4,120,640</u>	<u>3,136,049</u>
	5,761,095	4,474,702
Allowance for loan losses	<u>(178,658)</u>	<u>(127,611)</u>
Total	<u>5,582,437</u>	<u>4,347,091</u>

Foreign currency loans represent approximately 69% and 59% of the total loan portfolio, before allowance for losses, as at 31 December 2007 and 2006, respectively.

Loans denominated in HUF, with maturity within one year as at 31 December 2007 and 2006, bear interest rates in the range from 6% to 30% and from 6% to 30%, respectively.

Loans denominated in HUF, with maturity over one year as at 31 December 2007 and 2006, bear interest rates in the range from 4% to 22.8% and from 4% to 22.8%, respectively.

Foreign currency loans as at 31 December 2007 and 2006, bear interest rates in the range from 1% to 40% and from 1.5% to 42%, respectively.

Approximately 3% of the gross loan portfolio represented loans on which interest is not being accrued as at 31 December 2007 and 2006, respectively.

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

	<i>2007</i>		<i>2006</i>	
Commercial loans	2,227,693	39%	1,609,989	36%
Municipality loans	230,819	4%	218,299	5%
Housing loans	1,766,219	30%	1,520,053	34%
Consumer loans	<u>1,536,364</u>	<u>27%</u>	<u>1,126,361</u>	<u>25%</u>
Total	<u>5,761,095</u>	<u>100%</u>	<u>4,474,702</u>	<u>100%</u>

An analysis of the change in the allowance for loan losses is as follows:

	<i>2007</i>	<i>2006</i>
Balance as at 1 January	127,611	105,920
Provision for loan losses	58,144	28,559
Write-offs	(6,274)	(6,718)
Foreign currency translation loss/(gain)	<u>(823)</u>	<u>(150)</u>
Balance as at 31 December	<u>178,658</u>	<u>127,611</u>

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 8: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES**  
**(in HUF mn) [continued]**

The Group issued fixed rate mortgage bonds with the face value of EUR 750 million to finance its mortgaging activity. Since the Group grants most of its mortgage loans in CHF, the Group entered into a cross currency interest rate swap (CCIRS) contract to hedge its exchange rate risk exposure. The hedging relationship can be proved. According to the IAS 39 an amount of HUF 2,359 was recognised on hedging derivative instruments as negative fair value adjustment and the same amount is recognised as a positive adjustment on mortgage bonds as at 31 December 2007. The nominal value of loans as designated hedged items is CHF 1,174 million.

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

	2007	2006
Equity investments:		
Unconsolidated subsidiaries	6,741	2,975
Associated companies	998	632
Other investments	<u>2,495</u>	<u>67,539</u>
	10,234	71,146
Allowance for permanent diminution in value	(342)	(207)
Total	<u>9,892</u>	<u>70,939</u>

Total assets of unconsolidated subsidiaries	<u>69,265</u>	<u>31,876</u>
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An analysis of the change in the allowance for permanent diminution in value is as follows:

	2007	2006
Balance as at 1 January	207	2,144
(Release)/Provision for permanent diminution in value	131	(1,892)
Write-offs	-	(70)
Foreign currency translation gain	<u>4</u>	<u>25</u>
Balance as at 31 December	<u>342</u>	<u>207</u>

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

	2007	2006
Hungarian Government discounted Treasury Bills	1,140	28,452
Government securities	201,670	218,688
Bonds issued by NBH	97,085	-
Mortgage bonds	13,022	12,631
Other debt securities	<u>4,688</u>	<u>8,509</u>
Total	<u>317,605</u>	<u>268,280</u>

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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

Interest conditions and the remaining maturities of investments in debt securities can be analysed as follows:

	<i>2007</i>	<i>2006</i>
Within five years		
with variable interest	30,304	30,773
with fixed interest	<u>228,191</u>	<u>176,092</u>
	<u>258,495</u>	<u>206,865</u>
Over five years		
with variable interest	32,856	37,246
with fixed interest	<u>26,254</u>	<u>24,169</u>
	<u>59,110</u>	<u>61,415</u>
Total	<u>317,605</u>	<u>268,280</u>

Approximately 85% and 81% of the debt securities portfolio was denominated in HUF as at 31 December 2007 and 2006, respectively. In most cases, interests on variable rate bonds are based on the interest rates of 90-day Hungarian Government Treasury bills and are adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF are ranged from 2.5% to 9.5% and from 2.2% to 10% as at 31 December 2007 and 2006, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

The fair value of held-to-maturity investments was HUF 310,513 million and HUF 267,589 million as at 31 December 2007 and 2006, respectively.

An analysis of the change in the allowance for permanent diminution in value is as follows:

	<i>2007</i>	<i>2006</i>
Balance as at 1 January	-	-
Provision for held-to-maturity securities	168	-
Release of allowance	(120)	-
Balance as at 31 December	<u>48</u>	=

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**NOTE 11: PREMISES, EQUIPMENTS AND INTANGIBLE ASSETS, NET**  
**(in HUF mn)**

For the year ended 31 December 2007:

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

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

<u>Cost</u>	Goodwill
Balance as at 1 January	256,685
Additions	38,442
Foreign currency translation differences	<u>1,209</u>
Balance as at 31 December	<u>296,336</u>
 <u>Net book value</u>	
Balance as at 1 January	<u>256,685</u>
Balance as at 31 December	<u>296,336</u>

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**NOTE 11: PREMISES, EQUIPMENTS AND INTANGIBLE ASSETS, NET**  
**(in HUF mn) [continued]**

For the year ended 31 December 2006:

<u>Cost</u>	Intangible assets and goodwill	Land and buildings	Machinery and equipments	Construction in progress	Total
Balance as at 1 January	130,604	97,524	91,426	12,430	331,984
Acquisition of subsidiary	12,382	10,395	5,471	763	29,011
Net additions	211,853	17,464	26,635	19,020	274,972
Foreign currency translation differences	(5,725)	512	845	265	(4,103)
Net disposals	(2,744)	(15,709)	(12,979)	(18,941)	(50,373)
Balance as at 31 December	<u>346,370</u>	<u>110,186</u>	<u>111,398</u>	<u>13,537</u>	<u>581,491</u>
<u>Depreciation and Amortization</u>					
Balance as at 1 January	28,737	13,367	56,635	-	98,739
Net charge	13,534	4,078	10,191	-	27,803
Foreign currency translation differences	97	134	551	-	782
Net disposals	(2,258)	(2,175)	(6,116)	-	(10,549)
Balance as at 31 December	<u>40,110</u>	<u>15,404</u>	<u>61,261</u>	-	<u>116,775</u>
<u>Net book value</u>					
Balance as at 1 January	<u>101,867</u>	<u>84,157</u>	<u>34,791</u>	<u>12,430</u>	<u>233,245</u>
Balance as at 31 December	<u>306,260</u>	<u>94,782</u>	<u>50,137</u>	<u>13,537</u>	<u>464,716</u>

An analysis of the changes in the goodwill for the year ended 31 December 2006 is as follows:

<u>Cost</u>	Goodwill
Balance as at 1 January	70,765
Additions	191,827
Foreign currency translation differences	(5,907)
Balance as at 31 December	<u>256,685</u>
<u>Net book value</u>	
Balance as at 1 January	<u>70,765</u>
Balance as at 31 December	<u>256,685</u>

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 12: OTHER ASSETS (in HUF mn)**

	<i>2007</i>	<i>2006</i>
Property held for resale	10,464	12,097
Due from Hungarian Government for interest subsidies	3,552	4,188
Trade receivables	12,237	10,752
Advances for securities and investments	512	766
Taxes recoverable	12,266	6,721
Inventories	12,908	4,724
Receivables from inventory financing	29,213	44,420
Other advances	8,538	8,835
Receivables from leasing activities	48,908	34,145
Receivables due from insurance bond holders	2,665	2,529
Receivables due from pension funds and fund management	2,444	1,614
Prepayments and accrued income	8,807	6,684
Receivables from investment services	1,425	889
Fair value of derivative financial instruments not for trading	11,405	2,107
Other	<u>20,086</u>	<u>20,716</u>
	185,430	161,187
Allowance for losses on other assets	<u>(6,661)</u>	<u>(4,076)</u>
Total	<u>178,769</u>	<u>157,111</u>

Allowance for losses on other assets mainly consists of allowances for other advances and receivables from leasing activities.

An analysis of the change in the allowance for losses on other assets is as follows:

	<i>2007</i>	<i>2006</i>
Balance as at 1 January	4,076	3,427
Charge of allowance for losses on other assets	2,726	777
Write-offs	(129)	(59)
Foreign currency translation gain	<u>(12)</u>	<u>(69)</u>
Balance as at 31 December	<u>6,661</u>	<u>4,076</u>

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

	2007	2006
Within one year:		
In HUF	98,269	25,369
In foreign currency	<u>349,777</u>	<u>318,880</u>
	<u>448,046</u>	<u>344,249</u>
Over one year:		
In HUF	70,185	50,572
In foreign currency	<u>279,923</u>	<u>265,596</u>
	<u>350,108</u>	<u>316,168</u>
Total	<u>798,154</u>	<u>660,417</u>

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at 31 December 2007 and 2006, bear interest rates in the range from 5.79% to 7.52% and from 4.38% to 12.27%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at 31 December 2007 and 2006, bear interest rates in the range from 3% to 6.28% and from 3% to 12.27%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at 31 December 2007 and 2006, bear interest rates in the range from 0.5% to 18.5% and from 0.43% to 12.68%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at 31 December 2007 and 2006, bear interest rates in the range from 0.5% to 8% and from 0.5% to 10.5%, respectively.

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

	2007	2006
Within one year:		
In HUF	2,487,829	2,273,960
In foreign currency	<u>2,385,075</u>	<u>1,825,429</u>
	<u>4,872,904</u>	<u>4,099,389</u>
Over one year:		
In HUF	107,279	113,708
In foreign currency	<u>58,189</u>	<u>19,056</u>
	<u>165,468</u>	<u>132,764</u>
Total	<u>5,038,372</u>	<u>4,232,153</u>

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

Deposits from customers payable in HUF within one year as at 31 December 2007 and 2006, bear interest rates in the range from 0.2% to 12% and from 0.2% to 9%, respectively.

Deposits from customers payable in HUF over one year as 31 December 2007 and 2006, bear interest rates in the range from 1.3% to 7.75% and from 0.2% to 8.3%, respectively.

Deposits from customers payable in foreign currency within one year as at 31 December 2007 and 2006, bear interest rates in the range from 0.05% to 18% and from 0.05% to 18%, respectively.

Deposits from customers payable in foreign currency over one year as at 31 December 2007 and 2006, bear interest rates in the range from 0.1% to 19.6% and from 0.1% to 14.8%, respectively.

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

	<i>2007</i>		<i>2006</i>	
Commercial deposits	1,495,636	30%	1,098,083	26%
Municipality deposits	296,147	6%	221,315	5%
Consumer deposits	<u>3,246,589</u>	<u>64%</u>	<u>2,912,755</u>	<u>69%</u>
Total	<u>5,038,372</u>	<u>100%</u>	<u>4,232,153</u>	<u>100%</u>

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

	<i>2007</i>	<i>2006</i>
With original maturity:		
Within one year	221,871	56,377
Over one year	<u>763,394</u>	<u>724,938</u>
Total	<u>985,265</u>	<u>781,315</u>

28.79% and 58.35% of issued securities are denominated in HUF as at 31 December 2007 and 2006, and bear interest rates in the range from 0.3% to 10.5% and from 0.3% to 9.5%, respectively.

The Bank issued variable-rate bonds with the face value of EUR 500 million at 1 July 2005 due at 1 July 2010. Interest on these bonds is three months EURIBOR+0.16% quarterly.

The Bank issued variable-rate bonds with the face value of EUR 300 million at 20 December 2005 due to 20 December 2010 at 99.81%. Interest on these bonds is three months EURIBOR+0.15%.

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



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

An analysis of significant issued securities as at 31 December 2007 and 2006, respectively:

	<i>2007</i>	<i>2006</i>
Variable-rate Euro Bonds	392,557	201,713
Mortgage bonds	540,753	520,498
Other securities	<u>51,955</u>	<u>59,103</u>
Total	<u>985,265</u>	<u>781,315</u>

The Group issued fixed rate mortgage bonds with the face value of EUR 200 million. The Group entered into a cash flow hedging cross currency interest rate swap (CCIRS) contract to hedge its exchange rate risk exposure. All conditions of the designated hedging relationship as described in IAS 39 were met, hence HUF 1,494 million and HUF 1,153 million negative fair value adjustment was recognised in the Consolidated Shareholders' Equity as at 31 December 2007 and 2006, respectively.

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

	<i>2007</i>	<i>2006</i>
Deferred tax liabilities	5,373	8,337
Taxes payable	9,211	9,003
Giro clearing accounts	21,547	29,873
Accounts payable	18,721	14,940
Insurance liabilities	183,211	162,607
Salaries and social security payable	13,012	14,060
Liabilities from security trading	20,697	9,467
Allowances for losses on off-balance sheet commitments and contingent liabilities	19,759	15,156
Dividends payable	930	712
Advances received from customers	5,631	5,772
Accrued expenses	18,100	14,708
Loan for collection	1,523	1,674
Advance of Government grants for housing purposes	3,890	5,355
Fair value of derivative financial instruments designated as hedge accounting relationship	3,471	3,715
Fair value of derivative financial instruments designated as held for trading	12,920	7,991
Liabilities from trading activities (repurchase agreements)	87	1,267
Other	<u>45,106</u>	<u>33,954</u>
Total	<u>383,189</u>	<u>338,591</u>

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**NOTE 16: OTHER LIABILITIES (in HUF mn) [continued]**

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

	<i>2007</i>	<i>2006</i>
Allowance for litigation	4,621	4,413
Allowance for losses on off-balance sheet commitments and contingent liabilities	9,456	6,663
Allowance for expected pension commitments	409	-
Other allowance for expected liabilities	5,273	3,929
Allowance for housing warranties	-	<u>151</u>
Total	<u>19,759</u>	<u>15,156</u>

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

	<i>2007</i>	<i>2006</i>
Balance as at 1 January	15,156	7,376
Changes of allowance for possible off-balance sheet commitments and contingent liabilities	4,018	6,982
Release of allowance	-	(509)
Increase due to the acquisition	659	1,357
Foreign currency translation differences	(74)	(50)
Balance as at 31 December	<u>19,759</u>	<u>15,156</u>

Movements in insurance liabilities can be summarized as follows:

	<i>2007</i>	<i>2006</i>
Balance as at 1 January	162,607	130,354
Net increase in insurance liabilities	20,630	31,379
Increase due to the acquisition	-	830
Foreign currency translation differences	(26)	44
Balance as at 31 December	<u>183,211</u>	<u>162,607</u>

**NOTE 17: SUBORDINATED BONDS AND LOANS**

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 4.36% as at 20 December 2002, 3.25% as at 20 June 2003, 4.8% as at 20 December 2003, 4.88% as at 20 June 2004 and 6.05% as at 20 December 2004, 5.46% as at 20 June 2005, 3.08% as at 20 December 2005, 3.10% as at 20 June 2006, 3.79% as at 20 December 2006, 4.02% as at 20 June 2007 and 3.76% as at 20 December 2007. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

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**NOTE 17: SUBORDINATED BONDS AND LOANS [continued]**

In December 1996, the Bank obtained a USD 30 million and DEM 31,14 million (15,92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development with the original maturity of 27 December 2006. The maturity date was modified to 27 August 2008 on 22 August 2003. The loan is unsecured, subordinated to the other liabilities and has a twelve-year maturity, with interest payable at six-month LIBOR + 1.4% from 27 December 1996 until 29 December 1997, at six-month LIBOR + 1.0% from 29 December 1997 until 28 June 1999, at six-month LIBOR + 1.7% from 28 June 1999 until 27 December 2003 and at six-month LIBOR + 1.35% from 28 December 2003 until 27 August 2008.

On 4 March 2005, the Bank issued EUR 125 million in bonds, which are subordinated to the other liabilities of the Bank. Interest on subordinated bonds is variable and payable at three-month EURIBOR + 0.55% quarterly. The original maturity of the bonds is 10 years.

On 31 October 2006 the Bank issued perpetual subordinated (UT2) bonds to finance acquisitions. The 500 EUR million nominal value bonds were issued at 99.375% of the face value with 7 November 2006 as payment date. The re-offer spread is 200 basis points over 10 year mid-swap. The bonds are perpetual and callable after year 10. The bonds bear a fixed coupon of 5.875%, with annual interest payments in the first 10 years, and a floating (variable) coupon of 3 months EURIBOR + 300 basis points per annum, quarterly thereafter. The bonds will be introduced to the Luxembourg Stock Exchange.

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

Under the EMTN Program on 12 September 2006 the Bank issued fixed rate subordinated bonds in a total nominal value of EUR 300 million to finance acquisitions. The EUR 300 million nominal value bonds were issued at 100% of the face value with 19 September 2006 as payment date, and 19 September 2016 as maturity date. The bonds bear a coupon of 5.27%, annual interest payments.

On 26 February 2007 the Bank also issued EUR 200 million subordinated notes due 19 September 2016 under the same program.

In December 1999, the CJSC OTP Bank obtained a USD 10 million subordinated loan from the European Bank for Reconstruction and Development with the maturity date of 23 December 2009. The interest on subordinated loan is 8.14%. The repayment of the loan will be completed semi-annually, in five equal instalments, the first repayment date is 23 December 2007.

In 3 July 2003, the CJSC OTP Bank obtained an USD 5 million subordinated loan from the European Bank for Reconstruction and Development with the maturity date of 23 June 2010. The interest on subordinated loan is 7.98%. The repayment of the loan will be completed semi-annually in four equal instalments, the first repayment date is 3 January 2009.

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

	2007	2006
Authorized, issued and fully paid:		
Common shares	<u>28,000</u>	<u>28,000</u>
	<u>28,000</u>	<u>28,000</u>

On 21 April 2007 the law on abolishment of “Aranyrészvény” (Act XXVI of 2007) came into force. As a result of this, this special voting share was transformed to 10 ordinary shares with the face value of HUF 100. Therefore the registered capital of the Bank consists of 280,000,010 ordinary shares with the face value of HUF 100.

**NOTE 19: RETAINED EARNINGS AND RESERVES (in HUF mn)**

The reserves of the Bank under Hungarian Accounting Standards were HUF 537,211 million and HUF 397,904 million as at 31 December 2007 and 2006 respectively. Of these amounts, legal reserves represent HUF 152,569 million and HUF 87,675 million as at 31 December 2007 and 2006 respectively. The legal reserves are not available for distribution.

Dividends of HUF 40,320 million for the year 2006 were approved by the Annual General Meeting on 28 April 2007.

The dividend has been determined on the basis of the profit after tax determined in the unconsolidated financial statements according to the Hungarian Accounting Standards.

On 19 October 2006 the Bank sold 14.5 million treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares („ICES”). Within the transaction 10 million shares owned by the Bank, and 4.5 million shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A., which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are without final maturity and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to buy back the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%.

If the Bank pays a dividend for the ordinary shares, the Bank under a subordinated swap contract, will pay the interest of ICES payable to Opus and receives the same amount of money from Opus as the dividend that is payable for the shares held by Opus.

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

	2007	2006
Nominal value (Common Shares)	<u>2,340</u>	<u>1,751</u>
Carrying value at acquisition cost	<u>114,001</u>	<u>63,716</u>

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

	2007	2006
Balance as at 1 January	3,110	491
Minority interest purchased	2,116	2,660
Foreign currency translation difference	171	(54)
Changes due to ownership structure	(384)	(45)
Minority interest included in net income	<u>340</u>	<u>58</u>
Balance as at 31 December	<u>5,353</u>	<u>3,110</u>

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

	2007	2006
Provision for securities held-to-maturity	48	37
(Release of Provision)/Provision for permanent diminution in value of equity investments	131	(1,892)
Provision for other assets	2,726	777
Provision for accrued interest	5,612	-
Provision for off-balance sheet commitments and contingent liabilities	4,018	6,982
Administration expenses, including rental	58,499	32,783
Advertising	12,692	9,066
Taxes, other than income taxes	24,139	21,617
Additional tax for banks	6,525	11,153
Services	25,935	28,373
Professional fees	9,358	6,726
Other	<u>14,602</u>	<u>9,629</u>
Total	<u>164,285</u>	<u>125,251</u>

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

The Group is presently liable for income tax at rates between 9% and 30% of taxable income.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 23: INCOME TAXES (in HUF mn) [continued]**

A reconciliation of the income tax charges is as follows:

	2007	2006
Current tax	42,134	29,283
Additional banking tax	-	1,369
Deferred tax	<u>(1,730)</u>	<u>854</u>
Total	<u>40,404</u>	<u>31,506</u>

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

	2007	2006
Balance as at 1 January	(8,337)	(2,761)
Acquisition of subsidiaries	(165)	(1,850)
Foreign currency translation gain	202	139
Deferred tax (charge)/credit	1,730	(665)
Recognised in retained earnings and reserves	<u>1,197</u>	<u>(3,200)</u>
Balance as at 31 December	<u>(5,373)</u>	<u>(8,337)</u>

A reconciliation of the income tax charges is as follows:

	2007	2006
Net income before income taxes	248,952	218,602
Income tax with statutory tax rate	41,923	35,322
Solidarity tax	7,445	2,678
Income tax adjustments are as follows:		
Reversal of statutory general provision	(1,896)	(1,441)
Tax effect of amortization of statutory goodwill	(1,762)	(1,318)
Revaluation of investments denominated in foreign currency to historical cost	(2,514)	(846)
Profit on sale of Treasury Shares	(779)	-
Fair value of share-based compensations (IFRS 2)	1,025	948
Deferred tax effect of introduction of additional tax (+4%)	-	615
Other	(3,038)	(4,452)
Income tax	<u>40,404</u>	<u>31,506</u>
Effective tax rate	16.23%	14.41%

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 23: INCOME TAXES (in HUF mn) [continued]**

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

	<u>2007</u>	<u>2006</u>
Allowance for losses on off-balance sheet commitments and contingent liabilities on derivative financial instruments	55	-
Difference in accounting for finance leases	322	135
Fair value adjustment of derivative financial instruments	1,115	160
Adjustment from effective interest rate method	-	241
Repurchase agreements	1,818	94
Temporary differences arising on consolidation	633	658
Other	<u>1,177</u>	<u>1,391</u>
Deferred tax asset	<u>5,120</u>	<u>2,679</u>
Premium and discount amortization on investment securities	(233)	(608)
Allowance for losses on off-balance sheet commitments and contingent liabilities on derivative financial instruments	-	(4)
Fair value adjustment of securities held for trading, securities available-for-sale and equity investments (IAS 39)	(301)	(1,310)
Valuation of equity instrument (ICES)	(2,760)	(2,952)
Fixed assets	(3,882)	(3,045)
Accrued losses	<u>(3,317)</u>	<u>(3,097)</u>
Deferred tax liabilities	<u>(10,493)</u>	<u>(11,016)</u>
Net deferred tax liabilities	<u>(5,373)</u>	<u>(8,337)</u>

**NOTE 24: FINANCIAL INSTRUMENTS**

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

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

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**NOTE 24: FINANCIAL INSTRUMENTS [continued]**

***Credit risk***

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

***Market risk***

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

***Liquidity risk***

See Note 33.

***Foreign currency risk***

See Note 34.

***Interest rate risk***

See Note 35.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 25: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)**

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

**(a) *Contingent liabilities***

	2007	2006
Commitments to extend credit	999,639	854,193
Guarantees arising from banking activities	224,616	183,256
Confirmed letters of credit	12,757	23,800
Legal disputes	6,558	6,311
Others	<u>53,772</u>	<u>41,084</u>
Total	<u>1,297,342</u>	<u>1,108,644</u>

**Commitments to extend credit, from 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 loans commitments to be minimal.

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**NOTE 25: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

*(a) Contingent liabilities [continued]*

**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 correspond to the level of claims and legal proceedings in previous years.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 4,621 million and HUF 4,413 million as at 31 December 2007 and 2006, respectively. (See Note 16.)

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

	2007	2006
Foreign currency contracts		
Assets	145,810	70,818
Liabilities	146,795	72,503
Net	<u>(985)</u>	<u>(1,685)</u>
Net fair value	<u>(119)</u>	<u>(1,509)</u>
Foreign currency contracts designated as hedge accounting relationships		
Assets	41,858	474
Liabilities	41,857	474
Net	<u>1</u>	=
Net fair value	=	=
Foreign exchange swaps and interest rate swaps designated as held for trading		
Assets	1,947,648	831,045
Liabilities	1,849,946	789,209
Net	<u>97,702</u>	<u>41,836</u>
Net fair value	<u>2,033</u>	<u>14,531</u>
Foreign exchange swaps and interest rate swaps designated as hedge accounting relationships		
Assets	260,777	263,391
Liabilities	245,626	251,894
Net	<u>15,151</u>	<u>11,497</u>
Net fair value	<u>(5,071)</u>	<u>(2,171)</u>

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**NOTE 25: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

	2007	2006
Option contracts		
Assets	119,004	9,436
Liabilities	119,467	10,477
Net	(463)	(1,041)
Net fair value	<u>25,910</u>	<u>423</u>
Dated stock transactions		
Assets	175	149
Liabilities	175	149
Net	-	-
Net fair value	<u>(1)</u>	<u>3</u>

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 of trading with clients, where the Group in most of the cases requires margin deposits.

At 31 December 2007, the Group has derivative instruments with positive fair values of HUF 75,343 million and negative fair values of HUF 16,391 million. Positive fair values of derivative instruments designated as hedge accounting relationships are included in other assets, while positive fair values of derivative instruments designated as held for trading are included in financial assets at fair value through statements of operations. Negative fair values of derivative instruments are included in other liabilities. Corresponding figures as at 31 December 2006 are HUF 27,816 million and HUF 11,706 million.

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**NOTE 25: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

*(b) Derivatives and other options (nominal amount, unless otherwise stated) [continued]*

**Foreign currency contracts**

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

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

**Foreign exchange swaps and interest rate swaps**

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

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

The interest rate swaps of the Group were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

**Forward rate agreements**

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

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

For an analysis of the allowance for losses on off balance sheet commitments and contingent liabilities, see Note 16.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 26: SHARE-BASED COMPENSATION**

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

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

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

The exercise prices of the options relating to the years of 2006 to 2010 is 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 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. 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.

	<b>For the year ended 31 December 2007</b>		<b>For the year ended 31 December 2006</b>	
	<b>Options (piece of shares)</b>	<b>Weighted average exercise price (in HUF)</b>	<b>Options (piece of shares)</b>	<b>Weighted average exercise price (in HUF)</b>
Outstanding at beginning of period	4,799,825	7,231	3,346,200	6,079
Granted during the period	3,510,000	8,419	3,832,000	7,038
Forfeited during the period	187,250	7,648	218,430	6,536
Exercised during the period	1,444,445	6,706	2,159,945	5,174
Outstanding at the end of the period	6,678,130	7,957	4,799,825	7,231
Exercisable at the end of the period	2,334,304	7,369	1,799,825	6,536

The weighted average share price for share options of 2005 and 2006 exercised during the year ended 31 December 2007 was HUF 9,409 at the date of exercise. The options outstanding at 31 December 2007 and as at 31 December 2006 had a weighted average exercise price of HUF 7,957 and HUF 7,231 with a weighted average remaining contractual life of 18 and 22 months, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 26: SHARE-BASED COMPENSATION [continued]**

The inputs into the Binomial model are as follows:

	<b>Year ended 31 December 2007</b>	<b>Year ended 31 December 2006</b>
Weighted average share price (HUF)	7,663	5,969
Weighted average exercise price (HUF)	7,594	4,882
Expected volatility (%)	29	36
Expected life (average year)	3.18	0.52
Risk free rate (%)	7.01	6.71
Expected dividends (%)	2.45	3.35

Expected volatility was determined by calculating the historical volatility of the Bank's share price three months prior to the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

In connection with the share-based compensation programs approved by the Bank and applying IFRS 2, HUF 5,123 million and HUF 5,927 million has been recognised as an expense for the years ended 31 December 2007 and 2006, respectively.

**NOTE 27: RELATED PARTY TRANSACTIONS**

The members of the Board of Directors and the Supervisory Board had credit lines of HUF 169.3 million and HUF 190 million as at 31 December 2007 and 2006. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other related parties at normal market conditions. The amount of these loans was HUF 3,862 million and HUF 438 million, with commitments to extend credit and guarantees of HUF 5,456 million and HUF 108 million as at 31 December 2007 and 2006, respectively.

The amount of loans extended to unconsolidated subsidiaries was HUF 41,899 million and HUF 39,440 million as at 31 December 2007 and 2006, respectively.

The compensation of key management personnel, such as the members of the Board of Directors, members of the Supervisory Board, key employees of the Bank and its major subsidiaries involved in the decision-making process according to the compensation categories defined in IAS 24, is summarised below:

	<i>2007</i>	<i>2006</i>
Short-term employee benefits	7,545	6,530
Other long-term employee benefits	41	3,063
Termination benefits	1,519	127
Share-based compensation	<u>2,459</u>	<u>2,744</u>
Total	<u>11,564</u>	<u>12,464</u>

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

	2007	2006
Cash, due from banks and balances with the National Bank of Hungary	353,243	532,625
Compulsory reserve established by the National Bank of Hungary	<u>(158,383)</u>	<u>(135,967)</u>
	<u>194,860</u>	<u>396,658</u>

**NOTE 29: ACQUISITIONS (in HUF mn)**

**a. Purchase and consolidation of subsidiary undertakings**

On 7 March 2006 the Group completed the acquisition of 89.39% of the shares of Niška banka a.d. The total purchase price of Niška banka was EUR 14,21 million. OTP Bank Plc. held 99.95% of Niška banka a.d. as at 18 May 2007, the formation date of OTP banka Srbija a.d., the successor of Kulska banka a.d., Niška banka a.d. and Zepter Banka a.d. On 13 October 2006 the Group completed the acquisition of 75.10% of shares of Serbian Zepter banka a.d. The total purchase price was USD 41,3 million.

On 30 October 2006 the Bank signed the purchase agreement on acquiring the majority interest in Russian Investsberbank OAO. In the interval between signing the purchase agreement and the takeover of the control, two subsidiary banks of Investsberbank merged into it, so OTP Bank Plc. gained a 96,4% share already in the merged bank. The total purchase price was EUR 477 million.

On 1 June 2006 the Bank signed the sale and purchase agreement for the acquisition of 100% of the shares of Raiffeisenbank Ukraine (RBUA) - renamed as CJSC OTP Bank (Ukraine). OTP Bank Plc. is the single owner of CJSC OTP Bank Ukraine since 20 November 2006. OTP transferred the purchase price of EUR 650 million on 20 November 2006, upon receipt of the necessary approvals.

On 7 July 2006 the Group completed the acquisition of 67% of these shares of Kulska banka a.d. Novi Sad (Kulska banka). The total price was EUR 118,6 million. On 29 August 2006 the Group completed the acquisition of 67% of these shares of Crnogorska komercijalna banka. The total price was EUR 104 million. The control over these companies is exercised from 1 January 2007. OTP Bank Plc. held 92.72% of Kulska banka a.d. as at 18 May 2007, the formation date of OTP banka Srbija a.d., the successor of Kulska banka a.d., Niška banka a.d. and Zepter Banka a.d.

On 18 May 2007 the Niska banka a.d. and Zepter banka a.d. merged into the Kulska Banka a.d.. The new bank has been renamed as OTP banka Srbija a.d. The OTP Bank holds 91.43% of OTP banka Srbija a.d. as at 31 December 2007.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 29: ACQUISITIONS (in HUF mn) [continued]**

**a. Purchase and consolidation of subsidiary undertakings [continued]**

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

	<i>At acquisition date Kulska banka a.d, CKB</i>	<i>At acquisition date Niška banka a.d, Zepter banka a.d, Investsberbank OAO, CJSC OTP Bank</i>
Cash, due from banks, and balances with the National Bank	(11,095)	(36,881)
Placements with other banks, net of allowance for placements losses	(68,528)	(83,143)
Securities held for trading	(119)	(44,324)
Securities available-for-sale	(585)	(5,463)
Loans, net of allowance for loan losses	(113,860)	(582,727)
Accrued interest receivable	(898)	(6,294)
Associates and other investments	(217)	(12)
Securities held-to-maturity	(1,287)	(3)
Premises, equipments and intangible assets	(9,378)	(28,611)
Other assets	(2,303)	(4,336)
Due to banks and deposits from the National Bank of Hungary and other banks	19,268	209,999
Deposits from customers	134,948	444,206
Issued securities	-	17,229
Accrued interest payable	121	4,308
Other liabilities	19,117	12,487
Subordinated bonds and loans	-	11,227
Minority Interest	<u>2,116</u>	<u>3,033</u>
Net assets	<u>(32,700)</u>	<u>(89,310)</u>
Goodwill	<u>(36,698)</u>	<u>(191,274)</u>
Cash consideration	<u>(69,398)</u>	<u>(280,584)</u>



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**NOTE 29: ACQUISITIONS (in HUF mn) [continued]**

**b. Analysis of net outflow of cash in respect of purchase of subsidiaries**

	<i>2007</i>	<i>2006</i>
Cash consideration	(69,398)	(280,584)
Cash acquired	<u>11,095</u>	<u>36,881</u>
Net cash outflow	<u>(58,303)</u>	<u>(243,703)</u>

**NOTE 30: MAJOR SUBSIDIARIES**

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

<u>Name</u>	<u>Ownership (Direct and Indirect)</u>		<u>Activity</u>
	<i>31 December 2007</i>	<i>31 December 2006</i>	
OTP Garancia Insurance Ltd.	100.00%	100.00%	insurance
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	flat finance and reconstruction
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
OTP Factoring Ltd.	100.00%	100.00%	work-out
Inga Two Commercial Ltd.	100.00%	100.00%	property management
OTP Fund Management Ltd.	100.00%	100.00%	fund management
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Trade Commercial Ltd.	100.00%	100.00%	trade finance
OTP Real Estate Leasing Ltd.	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services
OTP Banka Slovensko a. s. (Slovakia)	97.23%	97.23%	commercial banking services
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services

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**NOTE 30: MAJOR SUBSIDIARIES [continued]**

<u>Name</u>	<u>Ownership (Direct and Indirect)</u>		<u>Activity</u>
	<i>31 December 2007</i>	<i>31 December 2006</i>	
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	91.43%	-	commercial banking services
Crnogorska komerčijalna banka a.d. (Montenegro)	100.00%	-	commercial banking services
CJSC OTP Bank (Ukraine)	100.00%	100.00%	commercial banking services
Investsberbank OAO (Russia)	97.22%	96.41%	commercial banking services
Niška banka a.d. (Serbia)	-	99.95%	commercial banking services
Zepter banka a.d. (Serbia)	-	75.10%	commercial banking services

**NOTE 31: TRUST ACTIVITIES**

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying Consolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 45,081 million and HUF 46,212 million as at 31 December 2007 and 2006, respectively.

**NOTE 32: CONCENTRATION OF ASSETS AND LIABILITIES**

Approximately 9% and 13% of the total assets of the Group consist of receivables from, or securities issued by the Hungarian Government or the National Bank of Hungary as at 31 December 2007 and 2006, respectively.

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 laid down by the National Bank of Hungary. The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

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

As at 31 December 2007	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	348,281	4,962	-	-	353,243
Placements with other banks, net of allowance for placements losses	540,504	72,025	42,127	132	654,788
Financial assets at fair value through statements of operations	65,732	35,038	124,691	60,434	285,895
Securities available-for-sale	27,493	95,423	182,848	168,161	473,925
Loans, net of allowance for loan losses	601,781	957,762	1,637,614	2,385,280	5,582,437
Accrued interest receivable	56,873	3,898	1,276	1,412	63,459
Associates and other investments	-	-	-	9,892	9,892
Securities held-to-maturity	111,014	25,278	124,808	56,457	317,557
Premises, equipments and intangible assets, net	1,258	6,533	118,433	415,685	541,909
Other assets	84,043	29,079	27,999	37,648	178,769
<b>TOTAL ASSETS</b>	<b><u>1,836,979</u></b>	<b><u>1,229,998</u></b>	<b><u>2,259,796</u></b>	<b><u>3,135,101</u></b>	<b><u>8,461,874</u></b>
Due to banks and deposits from the National Bank of Hungary and other banks	338,051	108,821	253,228	98,054	798,154
Deposits from customers	4,326,480	529,282	164,351	18,259	5,038,372
Liabilities from issued securities	18,796	71,194	757,493	137,782	985,265
Accrued interest payable	54,178	2,409	3,332	234	60,153
Other liabilities	151,841	28,644	76,653	126,051	383,189
Subordinated bonds and loans	-	10,111	1,339	289,714	301,164
<b>TOTAL LIABILITIES</b>	<b><u>4,889,346</u></b>	<b><u>750,461</u></b>	<b><u>1, 256,396</u></b>	<b><u>670,094</u></b>	<b><u>7,566,297</u></b>
Share capital	-	-	-	28,000	28,000
Retained earnings and reserves	-	-	-	976,225	976,225
Treasury shares	(3,554)	(14,217)	(36,437)	(59,793)	(114,001)
Minority interest	-	-	-	5,353	5,353
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>(3,554)</u></b>	<b><u>(14,217)</u></b>	<b><u>(36,437)</u></b>	<b><u>949,785</u></b>	<b><u>895,577</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>4,885,792</u></b>	<b><u>736,244</u></b>	<b><u>1,219,959</u></b>	<b><u>1,619,879</u></b>	<b><u>8,461,874</u></b>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<b><u>(3,048,813)</u></b>	<b><u>493,754</u></b>	<b><u>1,039,837</u></b>	<b><u>1,515,222</u></b>	<b><u>-</u></b>

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**NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]**

As at 31 December 2006	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	527,708	4,917	-	-	532,625
Placements with other banks, net of allowance for placements losses	449,506	114,327	38,741	41	602,615
Financial assets at fair value through statements of operations	15,360	29,475	49,648	16,093	110,576
Securities available-for-sale	103,294	115,178	154,208	116,570	489,250
Loans, net of allowance for loan losses	469,733	817,115	1,372,814	1,687,429	4,347,091
Accrued interest receivable	48,943	3,757	802	721	54,223
Associates and other investments	-	-	-	70,939	70,939
Securities held-to-maturity	29,297	22,181	155,339	61,463	268,280
Premises, equipments and intangible assets, net	2,312	2,470	362,623	97,311	464,716
Other assets	<u>83,118</u>	<u>33,467</u>	<u>19,968</u>	<u>20,558</u>	<u>157,111</u>
<b>TOTAL ASSETS</b>	<b><u>1,729,271</u></b>	<b><u>1,142,887</u></b>	<b><u>2,154,143</u></b>	<b><u>2,071,125</u></b>	<b><u>7,097,426</u></b>
Due to banks and deposits from the National Bank of Hungary and other banks	224,041	112,581	237,269	86,526	660,417
Deposits from customers	3,531,007	598,147	91,735	11,264	4,232,153
Liabilities from issued securities	23,069	23,395	547,810	187,041	781,315
Accrued interest payable	34,150	8,650	2,991	220	46,011
Other liabilities	132,654	20,798	78,107	107,032	338,591
Subordinated bonds and loans	<u>107</u>	<u>382</u>	<u>11,229</u>	<u>239,008</u>	<u>250,726</u>
<b>TOTAL LIABILITIES</b>	<b><u>3,945,028</u></b>	<b><u>763,953</u></b>	<b><u>969,141</u></b>	<b><u>631,091</u></b>	<b><u>6,309,213</u></b>
Share capital	-	-	-	28,000	28,000
Retained earnings and reserves	-	-	-	820,819	820,819
Treasury shares	(1,746)	-	-	(61,970)	(63,716)
Minority interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,110</u>	<u>3,110</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>(1,746)</u></b>	<b>=</b>	<b>=</b>	<b><u>789,959</u></b>	<b><u>788,213</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>3,943,282</u></b>	<b><u>763,953</u></b>	<b><u>969,141</u></b>	<b><u>1,421,050</u></b>	<b><u>7,097,426</u></b>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<b><u>(2,214,011)</u></b>	<b><u>378,934</u></b>	<b><u>1,185,002</u></b>	<b><u>650,075</u></b>	<b><u>-</u></b>

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 34: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)**

As at 31 December 2007

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

As at 31 December 2006

	<u>USD</u>	<u>EUR</u>	<u>CHF</u>	<u>Others</u>	<u>Total</u>
Assets	627,445	1,030,482	291,600	1,662,243	3,611,770
Liabilities	(435,419)	(1,608,449)	(2,206)	(1,216,439)	(3,262,513)
Off-balance sheet assets and liabilities, net	<u>(199,146)</u>	<u>297,188</u>	<u>(194,570)</u>	<u>(188,929)</u>	<u>(285,457)</u>
<b>Net position</b>	<b><u>(7,120)</u></b>	<b><u>(280,779)</u></b>	<b><u>94,824</u></b>	<b><u>256,875</u></b>	<b><u>63,800</u></b>

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

**NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn)**

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

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

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

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

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**NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]**

As at 31 December 2007

	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	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
<b>ASSETS</b>														
Cash, due from banks and balances with the National Bank of Hungary	176 105	18 694	490	7 718	12	16	-	-	-	-	44 451	105 757	221 058	132 185
<i>fixed rate</i>	174 741	13 448	-	58	-	-	-	-	-	-	-	-	174 741	13 506
<i>variable rate</i>	1 359	5 245	490	7 660	12	16	-	-	-	-	-	-	1 861	12 921
<i>non-interest-bearing</i>	5	1	-	-	-	-	-	-	-	-	44 451	105 757	44 456	105 758
Placements with other banks, net of allowance for placements losses	21 864	303 762	3 000	6 973	550	115 691	-	1 927	-	165	6	200 850	25 420	629 368
<i>fixed rate</i>	21 859	296 252	-	3 967	550	58 868	-	1 927	-	135	-	-	22 409	361 149
<i>variable rate</i>	5	7 510	3 000	3 006	-	56 823	-	-	-	30	-	-	3 005	67 369
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	6	200 850	6	200 850
Securities held for trading	24 149	1 225	36 648	1 476	9 270	4 649	7 587	8 241	82 675	40 456	4 688	893	165 017	56 940
<i>fixed rate</i>	23 165	24	15 141	1 388	9 199	4 339	7 586	8 241	82 675	40 456	-	-	137 766	54 448
<i>variable rate</i>	984	1 201	21 507	88	71	310	1	-	-	-	-	-	22 563	1 599
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	4 688	893	4 688	893
Securities available-for-sale	14 090	22 813	4 922	59 726	77 433	22 436	45 753	5 160	112 590	73 776	28 109	7 117	282 897	191 028
<i>fixed rate</i>	12 342	767	1 952	1 717	77 194	10 947	45 753	5 160	112 590	73 776	-	-	249 831	92 367
<i>variable rate</i>	1 748	22 046	2 970	58 009	239	11 489	-	-	-	-	-	-	4 957	91 544
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	28 109	7 117	28 109	7 117
Loans, net of allowance for loan losses	899 026	2 431 583	220 358	744 860	192 480	275 535	94 539	96 759	237 070	336 337	17 081	36 809	1 660 554	3 921 883
<i>fixed rate</i>	9 616	132 870	6 903	115 980	3 801	223 218	1 235	87 918	4 769	299 691	-	-	26 324	859 677
<i>variable rate</i>	889 410	2 298 713	213 455	628 880	188 679	52 317	93 304	8 841	232 301	36 646	-	-	1 617 149	3 025 397
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	17 081	36 809	17 081	36 809
Debt securities held-to-maturity	97 085	15 961	38 035	2 286	31 040	1 999	39 882	10 048	65 413	15 808	-	-	271 455	46 102
<i>fixed rate</i>	97 085	3 460	-	1 909	20 249	1 068	39 882	9 826	65 413	15 327	-	-	222 629	31 590
<i>variable rate</i>	-	12 501	38 035	377	10 791	931	-	222	-	481	-	-	48 826	14 512
Fair value of derivative financial instruments	366 501	454 187	645 215	356 623	38 095	33 924	1 237	34 016	1 770	241 366	-	-	1 052 818	1 120 116
<i>fixed rate</i>	273 123	343 091	212 118	182 451	37 545	32 838	1 237	34 016	1 770	241 366	-	-	525 793	833 762
<i>variable rate</i>	93 378	111 096	433 097	174 172	550	1 086	-	-	-	-	-	-	527 025	286 354

**OTP BANK PLC.**  
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**NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]**

**As at 31 December 2007**

	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	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
<b>LIABILITIES</b>														
Due to banks and deposits from the National Bank of Hungary and other banks	59 664	287 216	26 138	141 177	81 840	70 053	298	37 633	514	90 195	-	3 426	168 454	629 700
<i>fixed rate</i>	59 313	207 136	24 936	48 041	156	61 755	29	17 988	1	72 131	-	-	84 435	407 051
<i>variable rate</i>	351	80 080	1 202	93 136	81 684	8 298	269	19 645	513	18 064	-	-	84 019	219 223
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	3 426	-	3 426
<b>Deposits from customers</b>	2 081 493	1 758 308	364 691	231 818	49 870	268 089	28 520	36 213	68 984	34 203	1 551	114 632	2 595 109	2 443 263
<i>fixed rate</i>	659 069	740 215	360 674	231 818	49 870	268 089	28 520	36 213	68 984	34 203	-	-	1 167 117	1 310 538
<i>variable rate</i>	1 422 424	1 018 093	4 017	-	-	-	-	-	-	-	-	-	1 426 441	1 018 093
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	1 551	114 632	1 551	114 632
<b>Liabilities from issued securities</b>	13 155	137 539	27 023	300 178	35 409	10 012	77 342	4 819	130 158	248 516	3	1 111	283 090	702 175
<i>fixed rate</i>	6	7 229	7 257	1 781	34 988	2 472	77 342	4 819	130 158	248 516	-	-	249 751	264 817
<i>variable rate</i>	13 149	130 310	19 766	298 397	421	7 540	-	-	-	-	-	-	33 336	436 247
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	3	1 111	3	1 111
<b>Fair value of derivative financial instruments in other liabilities</b>	116 423	878 365	33 849	943 177	23 878	19 971	11 796	25 072	5 179	49 559	-	-	191 125	1 916 144
<i>fixed rate</i>	104 131	509 689	26 017	366 880	23 687	19 927	11 796	25 072	5 179	49 559	-	-	170 810	971 127
<i>variable rate</i>	12 292	368 676	7 832	576 297	191	44	-	-	-	-	-	-	20 315	945 017
<b>Subordinated bonds and loans</b>	-	856	5 000	33 015	-	9 202	-	-	-	253 091	-	-	5 000	296 164
<i>fixed rate</i>	-	-	-	-	-	-	-	-	-	253 091	-	-	-	253 091
<i>variable rate</i>	-	856	5 000	33 015	-	9 202	-	-	-	-	-	-	5 000	43 073
<b>Net position</b>	-671 915	185 941	491 967	-469 703	157 883	76 923	71 042	52 414	294 683	32 344	92 781	232 257	436 441	110 176
														546 617

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**NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]**

As at 31 December 2006

	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	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
<b>ASSETS</b>														
Cash, due from banks and balances with the National Bank of Hungary	385 782	23 280	3 872	1 210	5	4 917	-	-	-	-	46 312	67 247	435 971	96 654
fixed rate	385 683	11 117	3 842	3	-	-	-	-	-	-	-	-	389 525	11 120
variable rate	99	12 163	30	1 207	5	4 917	-	-	-	-	-	-	134	18 287
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	46 312	67 247	46 312	67 247
<b>Placements with other banks, net of allowance for placements losses</b>	31 221	388 297	9 587	10 943	-	73 317	-	113	-	291	-	88 846	40 808	561 807
fixed rate	27 882	326 559	68	9 608	-	50 360	-	111	-	260	-	-	27 950	386 898
variable rate	3 339	61 738	9 519	1 335	-	22 957	-	2	-	31	-	-	12 858	86 063
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	88 846	-	88 846
<b>Securities held for trading</b>	1 226	3 287	2 681	1 083	14 059	13 108	2 274	5 253	13 356	27 543	316	681	33 912	50 955
fixed rate	1 226	-	2 343	567	13 989	13 108	2 274	5 135	13 356	27 487	-	-	33 188	46 297
variable rate	-	3 287	338	516	70	-	-	118	-	56	-	-	408	3 977
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	316	681	316	681
<b>Securities available-for-sale</b>	45 372	74	76 937	23 645	37 311	10 719	95 533	9 206	103 695	53 748	29 735	3 275	388 583	100 667
fixed rate	44 352	74	54 962	1 955	37 071	9 879	95 533	8 619	103 684	50 915	-	-	335 602	71 442
variable rate	1 020	-	21 975	21 690	240	840	-	587	11	2 833	-	-	23 246	25 950
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	29 735	3 275	29 735	3 275
<b>Loans, net of allowance for loan losses</b>	1 063 590	1 401 583	196 139	347 837	103 215	232 017	133 969	231 663	233 275	357 252	29 427	17 124	1 759 615	2 587 476
fixed rate	9 392	93 472	7 135	74 324	8 468	170 078	2 382	70 534	28 364	138 046	-	-	55 741	546 454
variable rate	1 054 198	1 308 111	189 004	273 513	94 747	61 939	131 587	161 129	204 911	219 206	-	-	1 674 447	2 033 898
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	29 427	17 124	29 427	17 124
<b>Debt securities held-to-maturity</b>	7 332	14 217	56 102	5 740	28 179	3 456	19 881	2 862	105 046	25 465	-	-	216 540	51 740
fixed rate	7 332	1 422	14 713	5 182	16 476	2 442	19 881	2 862	105 046	24 905	-	-	163 448	36 813
variable rate	-	12 795	41 389	558	11 703	1 014	-	-	-	560	-	-	53 092	14 927
<b>Fair value of derivative financial instruments</b>	103 737	184 270	172 407	280 194	37 099	23 355	27 339	119	91 273	248 441	-	843	431 855	737 222
fixed rate	97 665	82 557	144 143	108 473	16 748	19 490	27 339	119	91 273	248 441	-	-	377 168	459 080
variable rate	6 072	101 713	28 264	171 721	20 351	3 865	-	-	-	-	-	-	54 687	277 299
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	843	-	843



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**NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]**

As at 31 December 2006

	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	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
<b>LIABILITIES</b>														
Due to banks and deposits from the National Bank of Hungary and other banks	12 744	172 261	1	285 681	59 600	33 360	1 213	11 518	1 154	53 985	1 229	27 671	75 941	584 476
<i>fixed rate</i>	12 546	51 134	1	92 251	116	10 624	278	648	1 092	23 582	-	-	14 033	178 239
<i>variable rate</i>	198	121 127	-	193 430	59 484	22 736	935	10 870	62	30 403	-	-	60 679	378 566
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	1 229	27 671	1 229	27 671
<b>Deposits from customers</b>	<b>1 932 959</b>	<b>1 353 337</b>	<b>222 056</b>	<b>158 190</b>	<b>158 382</b>	<b>243 902</b>	<b>19 887</b>	<b>12 508</b>	<b>52 576</b>	<b>2 938</b>	<b>1 808</b>	<b>73 610</b>	<b>2 387 668</b>	<b>1 844 485</b>
<i>fixed rate</i>	1 264 729	433 500	20 615	67 080	15 658	108 352	19 879	11 502	52 576	2 278	-	-	1 373 457	622 712
<i>variable rate</i>	668 230	919 837	201 441	91 110	142 724	135 550	8	1 006	-	660	-	-	1 012 403	1 148 163
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	1 808	73 610	1 808	73 610
<b>Liabilities from issued securities</b>	<b>8 842</b>	<b>138 280</b>	<b>27 622</b>	<b>99 803</b>	<b>7 405</b>	<b>19 576</b>	<b>33 394</b>	<b>1 614</b>	<b>189 334</b>	<b>253 429</b>	<b>624</b>	<b>1 392</b>	<b>267 221</b>	<b>514 094</b>
<i>fixed rate</i>	16	8 681	5 900	4 121	7 405	12 266	33 394	1 614	189 334	253 429	-	-	236 049	280 111
<i>variable rate</i>	8 826	129 599	21 722	95 682	-	7 310	-	-	-	-	-	-	30 548	232 591
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	624	1 392	624	1 392
<b>Fair value of derivative financial instruments in other liabilities</b>	<b>14 495</b>	<b>451 947</b>	<b>24 974</b>	<b>409 861</b>	<b>23 425</b>	<b>26 819</b>	<b>847</b>	<b>24 142</b>	<b>101 703</b>	<b>69 142</b>	<b>-</b>	<b>134</b>	<b>165 444</b>	<b>982 045</b>
<i>fixed rate</i>	12 385	165 734	3 982	241 936	9 007	26 819	847	24 142	101 703	69 142	-	-	127 924	527 773
<i>variable rate</i>	2 110	286 213	20 992	167 925	14 418	-	-	-	-	-	-	-	37 520	454 138
<i>non-interest-bearing</i>	-	-	-	-	-	-	-	-	-	-	-	134	-	134
<b>Subordinated bonds and loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31 677</b>	<b>5 000</b>	<b>211 677</b>	<b>-</b>	<b>1 003</b>	<b>-</b>	<b>1 369</b>	<b>-</b>	<b>-</b>	<b>5 000</b>	<b>245 726</b>
<i>variable rate</i>	-	-	-	31 677	5 000	211 677	-	1 003	-	1 369	-	-	5 000	245 726
<b>Net position</b>	<b>-330 780</b>	<b>-100 817</b>	<b>243 072</b>	<b>-314 560</b>	<b>-33 944</b>	<b>-174 445</b>	<b>223 655</b>	<b>198 431</b>	<b>201 878</b>	<b>331 877</b>	<b>102 129</b>	<b>75 209</b>	<b>406 010</b>	<b>15 695</b>
														<b>421 705</b>

**OTP BANK PLC.**  
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**NOTE 36: EARNINGS PER SHARE**

Consolidated Earnings per share attributable to the common shares of the Group are determined based on dividing consolidated net income for the year attributable to common shareholders, by the weighted average number of common shares outstanding during the period.

	2007	2006
Consolidated net income (in HUF mn)	208,208	187,051
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	<u>261,699,756</u>	<u>259,171,517</u>
Consolidated Basic Earnings per share (in HUF)	<u>796</u>	<u>722</u>
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	<u>262,326,040</u>	<u>261,948,322</u>
Consolidated Diluted Earnings per share (in HUF)	<u>794</u>	<u>714</u>

The weighted average number of common shares outstanding during the period does not include treasury shares.

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

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

**As at 31 December 2007**

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

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 38: SENSIVITY ANANLYSIS**

**38.1. Market Risk sensitivity analysis**

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

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

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

<b>Historical VaR (99%, one-day) by risk type</b>	<b>2007</b>	<b>Average</b>	<b>2006</b>
Foreign exchange	443		657
Interest rate	559		887
Equity instruments	96		-
Diversification	<u>(262)</u>		<u>(575)</u>
<b>Total VaR exposure</b>	<b><u>836</u></b>		<b><u>969</u></b>

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in 38.2. below and, for interest rate risk, in 38.3. below.

**38.2. Foreign currency sensitivity analysis**

The following table details the Group's sensitivity to a increase and decrease in the HUF exchange rate against the foreign currencies, 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 outstanding foreign currency denominated monetary items at the Group members and the strategic open positions related to foreign activities of the Bank also. The strategic open position related to the foreign operations was EUR 570 million and EUR 570 million as of 31 December 2007 and 2006, respectively. A positive number below indicates an increase in profit where the HUF strengthens against foreign currency. For a weakening of the HUF against FX, there would be an equal and opposite impact on the profit, and the balances below would be negative.

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**NOTE 38: SENSIVITY ANANLYSIS [continued]**

**38.2. Foreign currency sensitivity analysis [continued]**

<b>Probability</b>	<b>Effects to the P&amp;L in 3 months period</b>	
	<b>2007</b>	<b>2006</b>
	<b>In HUF billion</b>	<b>In HUF billion</b>
1%	(16.4)	(19.9)
5%	(11)	(11)
25%	(4.2)	(3)
50%	0.3	0.7
25%	3.7	4.3
5%	6.4	7
1%	6.9	7.5

Notes:

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

(2) The currency rates were closed to the strenght limit of the fluctuation band as of 31 December 2007 and 2006, therefore the probability of the short-term loss is higher.

**38.3. Interest rate sensitivity analysis**

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

- Floating rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged marge compared to the last repricing.
- Fixed rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the marge compared to the last repricing date.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.

The 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 2007 would be decreased by HUF 853 million (probable scenario) and HUF 4.674 million (alternative scenario) as a result of these simulations.

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**NOTE 38: SENSIVITY ANANLYSIS [continued]**

**38.3. Interest rate sensitivity analysis [continued]**

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

<b>Description</b>	<b>Effects to the net interest income in one year period</b>	
	<b>2007 In HUF million</b>	<b>2006 In HUF million</b>
HUF (0.1%) parallel shift	(354)	(198)
EUR (0.1%) parallel shift	(41)	(83)
USD 0.1% parallel shift	(79)	(117)
Total	(474)	(398)

**38.4. Equity price sensitivity analysis**

The Group has no significant equity instruments held in 2007 and 2006 therefore is not exposed to significant equity price risk.

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

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

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

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**39.1. Primary reporting format by geographical segments [continued]**

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Elimination	Consolidated
<b>Interest income</b>											
External	481,193	21,147	11,775	61,951	13,860	21,535	8,812	70,761	55,946	-	746,980
Inter-segment	<u>28,258</u>	<u>15</u>	=	<u>3,076</u>	=	=	=	<u>21</u>	=	<u>(31,370)</u>	=
Total	509,451	21,162	11,775	65,027	13,860	21,535	8,812	70,782	55,946	(31,370)	746,980
<b>Non-interest income</b>											
External	237,978	6,259	5,779	18,699	6,481	7,288	9,171	26,364	10,275	-	328,294
Inter-segment	<u>1,642</u>	=	=	<u>608</u>	<u>365</u>	=	<u>31</u>	=	=	<u>(2,646)</u>	=
Total	239,620	6,259	5,779	19,307	6,846	7,288	9,202	26,364	10,275	(2,646)	328,294
<b>Segment income before income taxes</b>											
	183,895	1,563	2,422	29,122	(3,758)	4,513	636	10,687	19,258	614	248,952
<b>Income taxes</b>											
	-	-	-	-	-	-	-	-	-	-	(40,404)
<b>Net income after income taxes</b>											
	-	-	-	-	-	-	-	-	-	-	208,548
<b>Segment assets</b>											
	5,504,957	404,216	260,493	1,043,173	256,641	456,818	117,510	491,791	746,904	(820,629)	8,461,874
<b>Segment liabilities</b>											
	5,242,727	378,091	249,904	891,392	225,629	381,882	71,318	390,455	558,972	(824,073)	7,566,297
<b>Capital expenditure</b>											
	11,525	1,550	-	10,307	3,287	1,425	340	542	-	-	28,976
<b>Depreciation</b>											
	23,169	1,046	398	3,082	1,011	904	738	3,920	1,359	-	35,627
<b>Allowance for loan and placement losses</b>											
	17,661	1,656	1,403	9,116	789	1,849	3,795	18,754	2,981	-	58,184

**39.2. Secondary segment information by business segments**

	Finance segment	Insurance segment*	Other segment	Total
Total segment income	945,006	105,745	24,523	1,075,274
Segment net income before income taxes	230,845	6,680	11,427	248,952
Segment assets	8,177,903	192,933	91,038	8,461,874
Capital expenditure	21,574	4,093	3,309	28,976

\*:The insurance segment includes OTP Garancia and its insurance subsidiaries, and OTP Life Annuity Ltd.

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**NOTE 40: PLANNED SALE OF THE INSURANCE BUSINESS (in HUF mn)**

Based on an agreement signed on 11 February 2008, subject to the prior approval of the Hungarian Financial Supervisory Authority, upon signing of the contractual documentation that is subject to the receipt of all necessary regulatory and competition approvals and certain other conditions, Groupama S.A. will undertake to buy 100 % of the shares in OTP Garancia Insurance Ltd. as well as to acquire the minority shares held by the local subsidiaries of OTP Bank Plc. in the Romanian, Slovakian and Bulgarian subsidiaries of OTP Garancia Insurance Ltd. (see Note 42).

The assets, liabilities, equity and net income of the insurance business line do not represent significant portion of the Group's consolidated assets, liabilities, equity and net income, therefore the Group doesn't apply the requirements of IFRS 5 for the above transaction, therefore the assets, liabilities, shareholders equity and net income of the insurance business line are included in the the attached consolidated financial statements as of and for the years ended 31 December 2007 and 2006, respectively (insurance business line does not include OTP Life Annuity Ltd.).

Recognition of the assets, liabilities, shareholders equity and net income of insurance business line:

	2007
Financial assets at fair value through statements of operations	107,760
Securities available-for-sale	56,301
Other assets	19,044
<b>Total Assets</b>	<b><u>183,105</u></b>
Insurance technical reserves	183,211
Other liabilities	5,796
<b>Total Liabilities</b>	<b><u>189,007</u></b>
<b>Shareholders' Equity</b>	<b><u>10,731</u></b>
	2007
Net interest income	11,017
Insurance premium	83,591
Other income	5,349
Insurance expense	69,204
Other expenses	23,320
Income taxes	1,775
<b>NET INCOME</b>	<b><u>5,658</u></b>

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**NOTE 40: PLANNED SALE OF THE INSURANCE BUSINESS (in HUF mn) [continued]**

Recognition of Cash Flow of the insurance business line:

	2007
Net Cash Provided by Operating Activities	16,922
Net Cash Used in Investing Activities	(14,233)
Net Cash Provided by Financing Activities	(815)
<b>Net Increase in Cash and Cash Equivalents</b>	<b><u>1,874</u></b>

**NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2007**

On 26 February 2007 under the EMTN Program the Bank issued floating rate bonds due 2009 with the face value of EUR 750 million for the purpose of general bank financing.

On 26 February 2007 under the same program to support the capital position the Bank reissued EUR 200 million subordinated bonds to the EUR 300 million subordinated bonds that had been issued at 19 September 2006 (as the value date). The maturity of the bonds is 19 September 2016.

Serbian subsidiaries of OTP Bank Plc., Niška banka a.d. Niš, Zepter banka a.d. Beograd and Kulska banka a.d. Novi Sad held an extraordinary general meeting on 23 March 2007. The resolution for the merger of the three banks was approved at the forum of shareholders. In possession of the requisite Hungarian and Serbian licenses, as at 21 May 2007 (also the first day of business) the merged credit institution operates under the name of OTP Banka Srbija a.d. Novi Sad in the territory of the Republic of Serbia, with its headquarters located in Novi Sad.

OTP Bank Plc. has launched a bond issue program of HUF 100,000 million (one hundred thousand million) as at 2 August 2007.

The Committee for Product Development, Marketing and Pricing of OTP Bank Plc. adopted the resolution no. 71/2007 about the bond issue program on 13 March 2007. The Information Memorandum related to the program and this announcement were approved by the Hungarian Financial Supervisory Authority with resolution no. E-III/10.350/2007 dd. 1 August 2007. The Information Memorandum is valid for 12 months from the date of the announcement.

The subscription period of the index linked OTPX2010A Bond between 3 December 2007 and 21 December 2007 ended successfully. The Bonds could be subscribed in the domestic branches of OTP Bank Plc. The investors subscribed the total of HUF 1,393,200,000. OTP Bank Plc. accepted all of the subscriptions, HUF 1,393,200,000 amount of OTPX2010A bonds was issued. The maturity date of the bonds is 21 December 2010. The interest rate of the bonds is 9% in the first period.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2007 [continued]**

According to the 8/2004 and 9/2006 resolutions of the Annual General Meetings of OTP Bank Plc., relevant paragraphs have been changed according to the law on abolishing the voting preference share of the State (“golden share”). The XXVI. Law of 2007 came into effect on 21 April 2007. On that day according to the relevant paragraphs of AGMs the voting preference shares stipulations ceased existing, thus 1 preference voting share with HUF 1000 face value has been transformed into 10 ordinary shares with HUF 100 face value. The transaction was registered at the Registry Court on 18 June 2007, and the shares were introduced to the Budapest Stock Exchange on 18 September 2007.

On 28 August 2007 the Bank, the 100% owner of CJSC OTP Bank Ukraine, has increased the registered capital of its subsidiary by UAH 134,786,915, thus the share capital of CJSC OTP Bank is UAH 654,585,309.

On 31 August 2007 OTP Bank Plc., the 96.81% owner of OTP Fund Servicing and Consulting Ltd., has increased the registered capital of its subsidiary by HUF 1,020 million, thus the share capital of Fund Servicing and Consulting Ltd. is HUF 2,350 million.

On 4 September 2007 OTP Bank Plc., the 100% owner of OTP Mortgage Bank Ltd., has increased the registered capital of its subsidiary by HUF 7,000 million, thus the share capital of OTP Mortgage Bank Ltd. is HUF 27,000 million.

On 12 September 2007 OTP Bank Plc., the 100% owner of OTP Bank Romania S.A., has increased the registered capital of its subsidiary by EUR 20 million (RON 65,437,920), thus the share capital of OTP Bank Romania S.A is RON 432,909,120.

On 10 October 2007 OTP Bank Plc., the 91.43% owner of OTP banka Srbija a.d. has increased the registered capital of its subsidiary by EUR 64.5 million, thus the share capital of OTP Banka Srbija a.d. is EUR 81.3 million.

On the initiative of OTP Bank Plc. the OTP Financing Cyprus Company Limited was incorporated on 31 October 2007. The company has a capital of EUR 1,000 and is under 100 % ownership of OTP Bank Plc.

OTP Bank Plc. purchased the 100% of the participation interests of Donskoy Narodny Bank (DNB) on 12 November 2007. The Bank will pay a purchase price close to USD 40.95 million after all the required Russian and Hungarian official licences and permits have been obtained. The purchase price shall be transferred to the seller at the expected closing time of the deal, at the beginning of 2008.

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**NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2007 [continued]**

OTP Financing Netherlands B.V. was incorporated on 28 November 2007 as the fully-owned subsidiary of OTP Bank Plc. The company has a capital of EUR 90,000.

On 22 November 2007 OTP Bank Plc., the 100% owner of DSK Bank EAD has increased the registered capital of its subsidiary by BGN 60,000,000 thus the share capital of DSK Bank EAD is BGN 153,984,000.

The direct and indirect interest of the Bank in Investsberbank OAO has increased to 97.22% during 2007 due to continuous share purchasing.

**NOTE 42: POST BALANCE SHEET EVENTS**

On 9 January 2008 the Bank, the 100% owner of CJSC OTP Bank Ukraine, has increased the registered capital of its subsidiary by UAH 247,972,709 thus the share capital of CJSC OTP Bank is UAH 902,558,018.

On 17 January 2008 - effective from 29 November 2007 - the Bank, the 100% owner of OTP Life Annuity Ltd., has increased the registered capital of its subsidiary by HUF 5 million, the equity reserve of its subsidiary by HUF 745 million, thus the share capital of OTP Life Annuity Ltd. is HUF 505 million.

On 26 February 2008 the renaming of Investsberbank OAO came into force. The bank has been renamed as OTP Bank OAO.

On 11 February 2008, subject to the prior approval of the Hungarian Financial Supervisory Authority, upon signing of the contractual documentation that is subject to the receipt of all necessary regulatory and competition approvals and certain other conditions, Groupama S.A. will undertake to buy 100 % of the shares in OTP Garancia Insurance Ltd. as well as to acquire the minority shares held by the local subsidiaries of OTP Bank Plc. in the Romanian, Slovakian and Bulgarian subsidiaries of OTP Garancia Insurance Ltd. As a result of the transaction, Groupama S.A. will acquire 100% of both the life and non-life insurance businesses of OTP Bank Plc. in Hungary, Slovakia, Romania and Bulgaria. The total consideration for the acquisition and distribution partnership is HUF 164 billion or approximately EUR 617 million.

Furthermore, as part of the transaction and subject to certain conditions, OTP Bank Plc. and Groupama S.A. will enter into co-operation agreements allowing for (in some jurisdictions exclusive) cross-selling of banking and insurance products through the respective parties' branch networks in Hungary, Slovakia, Romania, Bulgaria, Ukraine, Russia, Serbia, Montenegro and Croatia.

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 42: POST BALANCE SHEET EVENTS [continued]**

As part of this strategic co-operation between OTP Bank Plc. and Groupama S.A., subject to certain conditions, Groupama S.A. will undertake to buy up to 8% of the shares in OTP Bank Plc, in two steps. In order to facilitate the transaction, subject to the agreements to be entered into by the relevant parties and the completion of the transaction, Deutsche Bank AG, London Branch will, upon completion of the transaction, deliver approximately 5% of OTP Bank Plc. shares to Groupama S.A. If the above referred conditions (such as the receipt of regulatory approvals) were not satisfied and therefore the transaction would not be completed, Deutsche Bank AG, London Branch would cash-settle the agreement entered into with OTP Bank Plc.