management's analysis

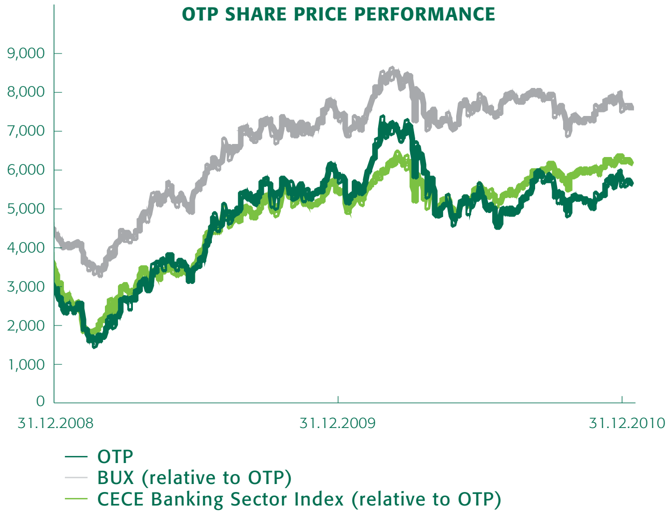
Management's analysis of the 2010 results of the OTP Group*

CONSOLIDATED FINANCIAL HIGHLIGHTS[1] AND SHARE DATA

Statement of recognized income	2009 HUF million	2010 HUF million	Change %
Consolidated net profit	150,206	118,126	(21)
Consolidated net profit without dividends received, net cash transfers, result of strategic open position, goodwill depreciation and special tax on financial institutions	151,326	162,110	7
Profit before income tax	172,080	194,313	13
Operating profit	437,059	467,058	7
Total income	786,084	821,123	4
Net interest income (adj.)	589,780	620,354	5
Net interest income (before the result on revaluation of FX swaps)	589,780	601,622	2
Net fees and commissions	132,913	136,702	3
Total other non-interest income (adj.)	63,390	64,067	1
Operating expenses (adj.)	(349,024)	(354,065)	1
Total allowance for loan losses (total)	(264,979)	(272,745)	3
Main components of balance sheet (closing balances)	**2009**	**2010**	**%**
Total assets	9,755,132	9,780,946	0
Customer loans (gross)	6,907,094	7,502,331	9
Provision for impairment	(494,378)	(761,272)	54
Customer deposits	5,688,887	5,821,489	2
Issued securities	1,410,348	1,035,153	(27)
Subordinated and auxiliary loan capital	280,834	290,630	3
Shareholders' equity	1,191,606	1,308,929	10
Performance indicators (%)	**2009**	**2010**	**ppts**
ROA	1.6%	1.7%	0.1
ROE	13.4%	13.0%	(0.4)
Operating profit margin (adj.)	4.57%	4.78%	0.21
Total income margin (adj.)	8.22%	8.41%	0.18
Net interest margin (adj.)	6.17%	6.35%	0.18
Net interest margin without the revaluation result of FX swaps	6.17%	6.16%	(0.01)
Operating costs/total assets (adj.)	3.65%	3.62%	(0.03)
Cost/income ratio (adj.)	44.4%	43.1%	(1.3)
Allowance for loan losses/gross loans (adj.)	3.57%	3.82%	0.25
Total allowance for loan losses (total)/total assets (adj.)	2.77%	2.79%	0.02
Net loan/(deposit+retail bond) ratio	108%	110%	2
Capital adequacy ratio (consolidated, IFRS)	17.2%	17.5%	0.3
Tier1 ratio (consolidated, IFRS)	13.7%	14.0%	0.3
Core Tier1 ratio (consolidated, IFRS)	12.0%	12.5%	0.5
Share data	**2009**	**2010**	**%**
EPS diluted (HUF) (from unadjusted net earnings)	572	437	(24)
Closing price (HUF)	5,456	5,020	(8)
High (HUF)	5,790	7,400	28
Low (HUF)	1,355	4,500	232
Market capitalization (EUR billion)	5.6	5.0	(11)
P/BV	1.3	1.1	(16)
P/E (trailing, from adjusted net earnings)	10.1	8.7	(14)
Average daily trading volume (EUR million)	51	53	5
Average daily trading volume (millions of shares)	4.1	2.6	(37)

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

[1] The details of the structural adjustments made in the consolidated IFRS income statement, as well as the calculation methodology of the adjusted indicators, are contained in the Supplementary data section of the Management's analysis.



MOODY'S RATINGS	
OTP Bank	
Foreign currency long-term deposits	Baa3
Foreign currency senior unsecured deposits	Baa2
Financial strength	D+
OTP Mortgage Bank	
Foreign currency long-term deposits	Baa3
Covered mortgage bonds	Baa1
Financial strength	D+
DSK Bank	
Long-term deposits	Baa3
Local currency long-term deposits	Baa3
Financial strength	D+
STANDARD & POOR'S RATING	
OTP Bank and OTP Mortgage Bank	
Long term credit rating	BB+

MANAGEMENT'S ANALYSIS OF THE 2010 RESULTS OF THE OTP GROUP

Favourable changes in the region

The countries of the Central-East European region that are of key importance in terms of the Bank's operations have begun to recover from the crisis of the past two years, however with some difficulties. The recession that followed the grave financial and economic crisis that began in 2008 reached its low point in 2009, and in most of the national economies 2010 generally marked the start of a new growth.

One of the direct effects of the crisis was that with the exception of Russia's dynamic growth in consumer loans, the demand for credit remained weak in all markets in which the Bank Group operates. In Hungary, OTP Bank made serious efforts to revive lending: in 2009 the Bank increased its SME and large-corporate loan placements by 5% and 8% respectively, while the market shrank overall by 10%, and in 2010 its placement volumes increased again, by 7% and 1% respectively, while the market contracted by 7%. With regard to mortgage loans, the volume of OTP Bank's new disbursements grew by 60% y-o-y in 2010, as a result of which its market share of new disbursements grew from 15% to 29%.

As a consequence of the crisis, customers' solvency deteriorated significantly, and because of this, the Total allowance for loan losses grew markedly; however in 2010 the provision coverage of loans overdue for more than ninety days (known as DPD90+ loans) improved. In a number of countries where OTP Group operates, debtor protection programmes continued. In Hungary, the Bank placed considerable emphasis on helping its customers that were experiencing payment problems to manage their temporary difficulties. In the context of the debtor protection programme launched in the second half of 2009, by the end of 2010 the Bank had concluded mutually satisfactory agreements with some 50,000 customers for this purpose.

Consolidated performance: HUF 162 billion in adjusted net profit, 7% increase in operating profit, improving profit contribution from the subsidiary banks, excellent capital position, stable liquidity

In 2010 the **OTP Group's** annual net profit, including the special Hungarian tax on financial institutions and the negative effect of the Montenegro goodwill write-down, was HUF 118

billion, and stripped of these two items it was HUF 162 billion, with this latter exceeding the previous year's performance by 7%.
Apart from the absolute size of the profit, a favourable development was the fact that the profit contribution of the foreign subsidiaries improved significantly on a y-o-y basis: compared to a loss of HUF 24 billion in 2009, the foreign subsidiaries generated net profits of 17 billion in 2010, thus offsetting the negative effect of the Hungarian tax on banks and the fall in the net profit of the Hungarian operation.
In 2010 the Group posted HUF 467 billion in operating profit (+7%), which, stripped of the effect of extraordinary items in 2010, was HUF 436 billion, that is, approximately the same level as in the previous year. Among the key components of income, adjusted net interest income stripped of swap revaluations grew by 2% y-o-y. The interest margin was stable, remaining broadly unchanged (2010: 6.16%).
In 2010 total loans grew by 9% y-o-y in nominal terms, and deposits increased by 2%, though when adjusted for exchange rates, the loan and deposit portfolios remained unchanged. Notable loan-volume growth in 2010 occurred only in Russia, where the exchange rate-adjusted loan portfolio expanded by 24% y-o-y, and within this, the consumer loan portfolio increased by 61% and card credit loans by an even greater 72%.
It was a favourable development that besides the dynamic growth in Russian retail lending, in the second half of the year, Ukrainian corporate lending also began to grow. In Hungary too, the Bank significantly increased its market share in newly disbursed mortgage loans, and its corporate loan portfolio increased as well.
In respect of deposits, the largest growth was again achieved by the Russian subsidiary (18%), but the volume expansion was significant in Serbia (14%) and in Romania (13%) as well.
As a result of these factors, the consolidated net loan/deposit ratio (110%), stripped of technical effects, declined by 5 percentage points.
The most significant y-o-y exchange-rate adjusted improvement occurred at the Ukrainian (–57 ppts), Serbian (–52 ppts), Romanian (–49 ppts) and Montenegrin (–23 ppts) subsidiary banks.
With regard to capital market funding activity, no market transactions took place in the second half of 2010. The Bank did not renew its obligations that matured during the year; these were repaid to the charge of liquid assets.
However, OTP Bank's successful domestic retail bond programme continued, and as of the end of 2010 the outstanding volume had reached HUF 284 billion (approx. EUR 1 billion).
The deterioration in the quality of the loan portfolio in 2010 resulted in an allowance for impairment charge of HUF 273 billion for the year as a whole (+3% y-o-y). The ratio of the DPD90+ portfolio grew further over the year, reaching 13.7%. The annual extent of the deterioration, however, declined: while in 2009 the indicator grew by 5.3 ppts y-o-y, in the past one year it increased by just 3.9 ppts. A contrasting tendency could be observed in the development of the DPD90+ coverage rate: in 2009 the indicator fell by 12 ppts compared to the previous year, but in 2010 the coverage improved by 1 ppt, from 73.6% to 74.4%.
The consolidated IFRS capital adequacy ratio of the OTP Group continued to be stable: by the end of December 2010 it had risen to 17.5%. At the same time, the primary capital (Tier1 ratio) grew by 0.3 ppts, to 14.0%, over the past twelve months. Both indicators significantly exceed those of the Bank's main regional competitors. OTP Bank's stand-alone capital adequacy ratio at the end of December was 18.1%, which again, represented a growth for the year as a whole (+1.9 ppts y-o-y).

The Hungarian core operation ("OTP Core"): stable income basis alongside lower net earnings due to increasing allowance for impairment; reviving mortgage lending, growing corporate loan volumes

Within the Bank Group **OTP Core** achieved total net profits of HUF 147 billion over the course of the year, which was 20% less than in 2009 (before the effect of the bank tax).
Of the various revenue items, net interest income improved by 6% over the year, which was mainly due to the HUF 18.7 billion result on

revaluation of FX swaps. The adjusted 2010 net interest income was essentially unchanged over the previous year. The adjusted net interest margin deteriorated by 25 bps y-o-y. A further revenue-boosting item was the HUF 8.9 billion[2] foreign-exchange result, as well as the HUF 7.1 billion gain realised on securities. In addition to this, there was a further individual item that affected the structure of the income: the HUF 3.8 billion positive result at annual level on positions hedging the revaluation of foreign currency provisions set aside in relation to OTP Core's foreign currency loans. Since this item appeared as a negative figure of the same amount on the allowance on impairment line, it did not have an impact on net profit.

Net fee and commission income declined by 4% over the year as a whole, which was primarily a result of the fall in card commissions.

The effective control of operating costs is evidenced by the fact that, despite an average inflation rate of 4.9% in Hungary, operating expenses for the year fell by 1%.

Net of exchange rate changes and other technical factors, the loan portfolio grew by 1% over the year. Small and large corporate loans net of exchange rates grew by 7% and 1% respectively y-o-y, consumer loans stagnated, and despite improving sales the mortgage loan book net of exchange rates declined by 2% y-o-y – although in the second half of 2010, the decline slowed significantly. With regard to new mortgage loan disbursements, OTP's share grew continuously over the course of 2010, and with its 35% share of this segment as at the end of December 2010 (29% for the year as a whole), the Bank further strengthened its market-leading position. Another favourable development was that the volume of disbursements rose continuously: in 2010, disbursed loans (HUF 103 billion) exceeded the figure for 2009 by 60%. With effect from 1 July 2010 the Bank ceased all retail foreign currency mortgage lending, and so the HUF share of new disbursements in the second half of 2010 was essentially 100%.

The pace of portfolio deterioration became quicker slightly at the annual level in 2010, with the second quarter seeing the most rapid decline in quality, primarily due to the deterioration of large corporate transactions. In the second half of the year, the pace of deterioration steadily declined in overall, although among the new problematic loan portfolios, the volume of non-performing mortgage loans grew significantly compared to the first half of the year.

The exchange rate adjusted deposit portfolio together with retail bonds fell by 1% y-o-y. Retail deposits (together with retail bonds), however, grew by 2%. At the same time, corporate deposits declined significantly (by 8% y-o-y) due to withdrawals of funds by fund managers and municipalities. The Bank's "net loan/(deposit+retail bonds)" indicator was 89% at the end of the reporting period (–1 ppts y-o-y adjusted for technical factors).

Merkantil Group (the Hungarian vehicle financing business) booked a loss, before bank tax, of HUF 4.1 billion in 2010, compared to an approximately break-even result a year earlier. The reason for the loss, besides a declining revenues, was the high rate of provisioning. The exchange-rate adjusted loan portfolio fell by 14% over the course of the year, the DPD90+ ratio increased to 17.6% by the end of 2010, and the coverage rate remained stable, at 88%.

Positive profit contribution from the foreign subsidiary banks: performance in Russia and Ukraine well above expectations, stable Bulgarian and Croatian operations, with Slovakia, Serbia, Romania and Montenegro still reporting losses

OTP Bank Russia, DSK Bank and OTP Bank Ukraine, which together represent around 30% of the Bank Group's consolidated loan portfolio, generated HUF 48 billion in net profits in 2010 – a 30% of the consolidated adjusted profit – as against a loss of close to HUF 16 billion in 2009.

The largest net profit was achieved by OTP Bank Russia, overtaking DSK, while the greatest improvement occurred in Ukraine, where the

[2] In relation to the hedging of the FX-risk of provisions of some FX denominated loans at OTP Bank Ukraine.

Bank produced a HUF 8.9 billion profit versus a loss of HUF 43.6 billion in 2009. As a result of operating profits' almost doubling at annual level and credit allowance for impairment growing by 18%, the net profit of **OTP Bank Russia** in 2010 was HUF 20.5 billion, more than six times more than that of the previous year. Thanks to the strongly growing revenues, as well as to expenditures needed for the growth in lending activity, but otherwise kept under tight control, the Bank's efficiency improved significantly at annual level (cost/income ratio: 49.3%, –12.4 ppts y-o-y). The expansion in durable-goods credit disbursements (POS lending) has been continuous for the past year and half now (+58% y-o-y), but cross-sales – and use – of credit cards has grown even faster, and the disbursement of personal loans has also improved further. Together with this, due to the low margin content, the management consciously reduced the corporate portfolio (–25% y-o-y, exchange-rate adjusted). Due to the good profitability of POS and credit card loans, OTP Bank Russia's net interest margin improved further (14.3%, +343 bps y-o-y). The bank has an excellent market position in respect of these two lead products: in the area of POS it is the Russian market's second largest player, and the fourth in credit card issuance.

Alongside the dynamic growth of the consumer credit portfolio, at Group level it was here that the largest expansion took place in the deposit portfolio as well (+18% on an exchange rate adjusted basis). Due to the difference in growth rates between loans and deposits, the net loan/deposit ratio began to increase again from the second half of 2010 (Q4: 114%). It is worth noting that amongst the largest markets, it was in Russia that the ratio of loans overdue for more than 90 days began to decline first: the 0.6 ppts q-o-q improvement witnessed in Q3 was followed by a further 3.7 ppts fall in Q4, though this was certainly assisted by the sale at that time of a portfolio of overdue loans. The provision coverage of the overdue portfolio rose (87.4%, +3.8 ppts y-o-y).

During the crisis **DSK Bank** maintained a favourable level of profitability. While the 2010 net profit of HUF 18.2 billion was 27% lower than that of the base period, mainly as a result of the growth in allowance for impairment, the Bank's income-generating ability remained stable the cost control remained strict. A point that is extremely positive is the fact that through its conscious deposit-pricing policy, the Bank's annual net interest margin (5.77%) improved, and net interest income grew by 3% y-o-y. The Bank's cost efficiency remained outstanding; its cost/income ratio of 36.1% is the lowest in the Group. Loans expanded by 1% and deposits by 3% y-on-y when adjusted for exchange rates, and as a result the net loan/deposit ratio (115%) improved further. The DPD90+ ratio, which reflects the quality of the portfolio, deteriorated further, but a steadily slowing rate throughout the year, and reached 11% by the end of December. The coverage ratio of problematic loans (82%) remained above the Group average.

OTP Bank Ukraine posted a sizeable, HUF 8.9 billion net profit at full-year level. The favourable earnings were supported by a significant, one-off tax effect of HUF 3.2 billion, but the most important factor was the fall in the allowance for impairment to one quarter of their previous level. Although the deterioration of the portfolio continued, and the DPD90+ ratio grew to 29.3%, the pace of the deterioration slowed significantly (2010: +6.9 ppts y-o-y vs. 2009: +17.6 ppts). The share of retail loans restructured in the context of the debtor protection programme (41.2% at the end of 2010) began to decline during the year. Lending activity was held back overall by administrative restrictions and also by unfavourable hryvnia credit conditions; as a result, the loan portfolio fell by 7% y-o-y (on an exchange rate adjusted basis), though from the second half of the year the corporate portfolio began to grow, increasing 6% in the fourth quarter alone. Alongside the exchange-rate adjusted fall in the loan portfolio, deposits grew by 4%, and accordingly the year-end net loan/deposit indicator improved further (283%, y-o-y –54 ppts). Despite average inflation of above 10%, operating costs grew by only 5%. As a result of a 20% fall in overall revenues over the year, the annual cost/income ratio was 41.5% (+9.6 ppts y-o-y). Alongside the three large-sized subsidiary banks, **the Croatian bank** also achieved a positive result: its profit for the year was HUF 2.7 billion, with the y-o-y 16% decline being due to the substantial increase in the allowance for impairment (+60%), which outweighed the 16% improvement in operating profit over the year. The ratio of loans overdue for more than 90 days (12.8%) rose by 3.9 ppts y-o-y, while coverage fell by 1.9 ppts. The Bank's net loan/deposit indicator (86%) was the lowest within the Group.

The **Romanian subsidiary bank** posted a loss in 2010 of HUF 6.4 billion. While the 41% y-o-y rise in its operating profit was outstanding, this was not sufficient to outweigh the threefold increase in the Total allowance for loan losses. The most significant deterioration in asset quality was observed in the corporate segment, but there was also a deterioration in respect of mortgage loans. The ratio of overdue (DPD90+) loans reached 10.6% by the end of December. The net loan/deposit indicator improved to 270%, which amounted to an exchange-rate adjusted fall of 49 ppts. Cost management continues to be successful: the cost/income ratio improved by 9 ppts y-o-y (56.9%).

The **Slovakian subsidiary** posted a HUF 1 billion loss in 2010, compared to a loss of HUF 6.7 billion in 2009. Operating profit improved significantly (+13% y-o-y), and within this, also net interest income (+7%). The Bank's net interest margin grew by nearly 50 basis points (3.09%), and the cost/income indicator improved by nearly 3 ppts over the year as a whole. The DPD90+ ratio had stabilized by the second half of 2010 (10.2%), and coverage also remained stable on a y-o-y basis (56.1%). While the total loan portfolio declined further on a full-year basis, the retail segment has begun to grow (+10%). The Bank's net loan/deposit indicator remained at 100%.

The **Serbian subsidiary bank's** operations remain loss-making, although the extent of the loss fell relative to 2009 (–HUF 7.3 billion). The decline in the loan portfolio continued. The effect of the fall in revenues was only partly offset by the 37% fall in costs. The quality of the loan portfolio deteriorated further; the DPD90+ ratio, at 47.8%, was the highest within the Group. Alongside a y-o-y 16% growth in allowance for impairment, the coverage of DPD90+ loans rose (43.7%, +3.5 ppts y-o-y).

At the **Montenegrin subsidiary bank**, the extent of the negative result for the year was HUF 16.8 billion. By the end of 2010, the DPD90+ ratio had reached 26.6%, while coverage grew by 21.2 ppts y-o-y in response to the significant allowance for impairment provisioning. The exchange-rate adjusted loan portfolios fell by 15%, while the contraction in the deposit portfolio was of smaller proportions than this, and as a result, the net loan/deposit ratio improved by 23 ppts. While operating costs at annual level fell slightly, the significant decline in revenues meant that the cost/income ratio grew, from 46.1% to 60.9%.

By the end of 2010, the OTP Group had 1,486 branches (–28 branches y-o-y). In the past twelve months there were significant branch closures in Ukraine (–17 branches); in the case of the other subsidiary banks, it was typically network rationalization that occurred. At the end of 2010 the closing headcount in terms of the employees of the OTP Group exceeded 30 thousand; over the course of the past 12 months, significant headcount reductions took place only in Ukraine.

Credit rating, shareholder structure

OTP Bank's credit rating essentially followed changes in the relevant sovereign ratings in the course of 2010. In December, Moody's downgraded the Bank's rating from "Baa1" to "Baa3" (the rating of its foreign currency bonds was "Baa2"), with a negative outlook. S&P's rating of the Bank remained "BB+", with a stable outlook. There was no change in the rating of the other members of the Bank Group.

As regards the Bank's ownership structure, in the fourth quarter of 2010, Lazard Asset Management's stake surpassed the 5% mark (16.5 shares, giving it a stake of 5.9%), and with this, the number of investors holding an interest of above 5% increased to four. The Rahimkulov family held a 9.0% stake, Hungarian Oil and Gas Company Plc 8.6%, and Groupama 8.3% at the end of 2010.

KEY POST-BALANCE SHEET EVENTS

Hungary

- Effective from 1 January 2011, the Board of Directors appointed Dr. László Utassy to the position of Chairman and CEO of Merkantil Bank Ltd., a 100% subsidiary of OTP Bank Plc. Dr. Norbert Szaniszló, who had been appointed acting CEO of Merkantil Bank Ltd. with effect from 19 November 2010, has been performing the duties of deputy CEO of Merkantil Bank Ltd. since 1 January 2011 – as he had been prior to November of 2010.
- With effect from 1 February 2011, Dr. György Szapáry resigned from his position as a member of the Board of Directors of OTP Bank, in view of his appointment to the post of Ambassador of the Hungarian Republic to the United States in Washington DC.
- On 4 February 2011 the national-economy minister made a proposal to the Prime Minister that the government should create a HUF 250 billion stability reserve fund from the 2011 budget, which could be spent in the event that potential risks were to materialize.
- On 1 March 2011, the Hungarian government announced a series of structural measures targeting seven key areas. These are the labour market, the pension system, public transport, tertiary education, drug subsidies, state and local-government financing, and contributions to a state-debt-reducing fund. As a result of the planned measures, the fiscal deficit is expected to drop to 1.9% of GDP in 2014, and the gross public debt-to-GDP ratio to around 66%.
- On 17 March 2011 the Hungarian Parliament approved the partial lifting of the foreclosure moratorium originally valid until 15 April (for consumer loans and non-housing-purpose mortgage loans), and stipulated 1 July 2011 as the date for full termination of the moratorium.
- The number of OTP Private Pension Fund members who decided to maintain their membership was 18,214 (according to preliminary data as of 30 March 2011).
- On 1 April 2011 the Central Statistics Office announced that the budget deficit based on EDP methodology amounted to 4.2% of gross domestic product in 2010, compared to the planned 3.8% deficit.

Russia

- With effect from 1 February 2011, the Russian central bank raised the reserve requirements. The mandatory reserve ratio for credit institutions' liabilities to non-resident banks was raised from 2.5% to 3.5%, and the mandatory reserve ratio for liabilities to individuals and other liabilities increased from 2.5% to 3.0%.
- On 25 February 2011, the Russian central bank increased the base rate by 25 basis points to 8.0%, citing inflationary pressure.

Ukraine

- In mid-February 2011, the IMF delegation conducted negotiations with Ukraine on the disbursement of the third, USD 1.55-billion, tranche of a total loan of USD 15.6 billion; a decision was not reached, however.

Romania

- On 8 February 2011 the IMF, the EU and Romania reached agreement on the terms of a EUR 5 billion, two-year standby loan. The Romanian government has no immediate plans to draw on the standby loan.

Serbia

- On 8 February 2011 the Serbian central bank announced that on 1 March it would be relaunching its three-month currency-swap auctions, which had been suspended in July of 2010. The aim of relaunching the auctions was to encourage the development of the country's interbank swap market, and to ensure more efficient liquidity management.
- On 16 March 2011 Standard & Poor's upgraded Serbia's credit rating one notch to "BB-" with a stable outlook. The significant improvement in the country's economic growth prospects and its political stability were mentioned as key factors behind the decision.

Montenegro

- On 30 March 2011 Moody's confirmed Montenegro's "Ba3" sovereign debt rating, and lifted the outlook from negative to stable.

CONSOLIDATED EARNINGS BY MAIN SUBSIDIARIES (IFRS)[3]

	2009 HUF million	2010 HUF million	Change %
Consolidated net profit	150,206	118,126	(21)
Profit of the strategic short position[1] (after tax)	(1,912)	0	(100)
Dividend and total net cash transfers (consolidated)	792	488	(38)
Goodwill impairment charges (after tax)[2]	0	(15,001)	
Special tax on financial institutions (after corporate income tax)	0	(29,471)	0
Consolidated net profit without dividends received, net cash transfers, result of strategic open position, goodwill depreciation in relation to the foreign subsidiaries, and special tax on financial institutions	151,326	162,110	7
Banks total before one-off items[3]	145,844	159,081	9
OTP CORE (Hungary)	182,699	146,920	(20)
Corporate Centre (after tax)[4]	(10,478)	(6,709)	(36)
OTP Bank Russia	3,086	20,545	566
OTP Bank JSC (Ukraine)	(43,650)	8,928	(120)
DSK Bank (Bulgaria)[5]	24,797	18,190	(27)
OBR (adjusted) (Romania)	1,136	(6,406)	(664)
OTP banka Srbija (Serbia)	(8,990)	(7,312)	(19)
OBH (Croatia)	3,245	2,721	(16)
OBS (Slovakia)	(6,673)	(952)	(86)
OBS (adjusted)	(6,429)	(952)	(85)
OBS one-off items (after tax)[6]	(244)	–	(100)
CKB (Montenegro)	428	(16,844)	
Leasing	(1,246)	(6,337)	408
Merkantil Bank + Car (adjusted) (Hungary)[7]	(68)	(4,123)	
Merkantil Bank + Car one-off items (after tax)[8]	12	0	(100)
Foreign leasing (Slovakia, Croatia, Bulgaria, Romania)[9]	(1,191)	(2,214)	86
Result of asset management	5,104	7,448	46
OTP Asset Management (Hungary)	5,124	7,456	46
Foreign asset management companies (Ukraine, Romania)[10]	(20)	(8)	(61)
Other Hungarian subsidiaries	(2,148)	(994)	(54)
Other foreign subsidiaries (Slovakia, United Kingdom, Cyprus, Romania, Belize)[11]	3,404	(6)	(100)
Eliminations	612	2,919	377
Hungarian Group members, total (before open position, dividends and net cash transfers)[12]	175,754	145,469	(17)
Foreign group members, total (before dividends and net cash transfers)[13]	(24,428)	16,642	(168)
Profit contribution of foreign Group members, %	(16%)	10%	26

[3] The footnotes to the table are contained in the Supplementary Data section of Chapter „Management's analysis".

THE OTP GROUP'S CONSOLIDATED STATEMENT OF RECOGNIZED INCOME[4]

Main components of profit and loss	2009 HUF million	2010 HUF million	Change %
Consolidated net profit	150,206	118,126	(21)
Dividends and net cash transfers (after tax)	792	488	(38)
Result of strategic open FX position (after tax)	(1,912)	0	(100)
Goodwill impairment (after tax)	0	(15,001)	
Special tax on financial institutions (after corporate income tax)	0	(29,471)	
Consolidated net profit without dividends received, net cash transfers, result of strategic open position, goodwill impairment in relation to the foreign subsidiaries, and special tax on financial institutions	151,326	162,110	7
Profit before income tax	172,080	194,313	13
Operating profit	437,059	467,058	7
Total income	786,084	821,123	4
Net interest income (adj.)	589,780	620,354	5
Net interest income without the revaluation result of FX swaps	589,780	601,622	2
Net fees and commissions	132,913	136,702	3
Other net non-interest income (adj.)	63,390	64,067	1
Foreign exchange result, net (adj.)	(5,919)	31,811	(637)
Gain/loss on securities, net (adj.)	7,459	14,829	99
Net other income (adj.)	61,851	17,426	(72)
Operating expenses	(349,024)	(354,065)	1
Personnel expenses	(155,516)	(160,725)	3
Depreciation (adj.)	(45,141)	(48,805)	8
Other expenses (adj.)	(148,367)	(144,535)	(3)
Total allowance on impairment (lending and other)	(264,979)	(272,745)	3
Provisions for lending and placement losses (adj.)	(246,935)	(272,859)	10
Other allowance for loan losses	(18,044)	113	(101)
Corporate tax	(20,754)	(32,203)	55
Perforance indicators	**2009**	**2010**	**ppts**
ROA	1.6%	1.7%	0.1
ROE	13.4%	13.0%	(0.4)
Operating margin (adj.)	4.57%	4.78%	0.21
Total income margin (adj.)	8.22%	8.41%	0.19
Net interest margin (adj.)	6.17%	6.35%	0.18
Net interest margin without the revaluation result of FX swaps	6.17%	6.16%	(0.01)
Net fee and commission margin (adj.)	1.39%	1.40%	0.01
Net other non-interest income margin (adj.)	0.66%	0.66%	0
Operating cost/total assets	3.65%	3.62%	(0.03)
Cost/income ratio (adj.)	44.4%	43.1%	(1.3)
Allowance for loan losses/gross loans (adj.)	3.57%	3.82%	0.25
Allowance for loan losses (total)/total assets (adj.)	2.77%	2.79%	0.02
Effective tax rate	12.1%	16.6%	4.5
Non-interest income/total income	25%	24%	(1)
Comprehensive income statement	**2009**	**2010**	**%**
Net comprehensive income	151,661	135,936	(10)
Net profit attributable to shareholders	151,045	117,930	(22)
Consolidated net profit	150,206	118,126	(21)
(–) Net profit attributable to non-controlling interest	(839)	196	(123)
Fair value adjustment of securities available-for-sale (recognised directly through equity)	9,941	(10,771)	(208)
Derivative financial instruments designated as cash-flow hedge transactions	431	335	(22)
Net investment hedge transactions in foreign operations	(1,543)	(2,232)	45
Currency translation difference	(8,213)	30,674	(473)

[4] Details of the adjustments made in respect of the consolidated income statement are contained in the Supplementary Data section of the business report.

- Profit (before bank tax and goodwill write-offs) of HUF 162 billion, up 7% y-o-y
- Annual operating profit (stripped of 2010 one-off items) equal to 2009 level, at HUF 436 billion
- Improving net interest income, stable adjusted net interest margin (2010: 6.16%), outstanding Russian (+48% y-o-y), improving Bulgarian (+3% y-o-y), and stable adjusted Hungarian net interest income
- Strict cost control, improving cost/income ratio (2010: 43%)
- Allowance on impairment 3% higher than in 2009; however, y-o-y slowing consolidated DPD90+ volume growth and improving provision coverage (2010: 74.4%, +0.8 ppts)

In 2010 the OTP Group achieved HUF 162 billion in adjusted net profit, which exceeds the profit figure for the base period by 7%. The accounting net result, which includes the special tax on financial institutions (net HUF 29.5 billion) as well as goodwill impairment (net HUF 15.0 billion), was HUF 118 billion, which is 21% below the performance of the same period of 2009.

2010 annual operating profit was HUF 467 billion (+7%), which, stripped of one-off items, amounted to HUF 436 billion, that is, the same as in 2009. One-off items included in the operating result in the course of 2010 were as follows. Within net interest income, the Bank posted a HUF 18.7 billion net result on FX swap revaluations in Q2 and in Q3 in all (from now on, interest income from the revaluation of swaps is not expected, due to the building up of hedging positions). Within FX results (other net non-interest results) were the following one-off items: a HUF 8.9 billion gain on the hedging of provisions related to FX loans at OTP Bank Ukraine (in Q2 2010) and FX revaluation results of HUF 3.8 billion on the open position, which is held by OTP Core for hedging purposes to offset the revaluation results of FX provisions related to its FX loan portfolio. However, this last item had no impact on overall profitability, since allowance for loan losses were adjusted by an identical amount because of the revaluation of the previously mentioned FX provisions. Total income adjusted by one-offs (2010: HUF 790 billion) was essentially flat compared to 2009 (+0.5% y-o-y).

Adjusted net interest income increased by 2% y-o-y. The net interest margin remained stable, and essentially unchanged (2010: 6.16%). At annual level a major role was played in the stability of the margin by the gradual increase in deposit margins: in almost all the Bank Group's deposit markets, interests paid on deposits were reduced in parallel with the increase in liquidity. Net interest income in Russia improved significantly (+HUF 29 billion, +48% y-o-y), which was the result of the major upturn in consumer lending. From the large subsidiaries, DSK slightly increased its net interest income adjusted for one-offs, and OTP Core succeeded in repeating its 2009 performance in this regard (respectively +3% and 0% y-o-y). These positive trends were offset by the fall in net interest income in Ukraine, Montenegro and Serbia (–19%, –30% and –37% y-o-y respectively) as a result of the decline in business activity and the increase in the number of non-paying customers.

Net fees and commissions grew by 3% (HUF 4 billion) on an annual basis, in which, again, the growth in the Russian contribution was of decisive importance (+HUF 4.9 billion y-o-y), where card and deposit commissions grew most markedly, but the commission income of the Hungarian fund management company also grew, by HUF 1.7 billion y-o-y, which was primarily due to the rapid growth in assets under management.

Other net non-interest income was HUF 64.2 billion in 2010, and when adjusted for the above-mentioned one-off items, it was HUF 51.5 billion. The decline in the annual amount of adjusted net other non-interest income was due to the base effect. In 2009 all gains earned (HUF 27.7 billion) on the repurchase of auxiliary loan capital elements (Upper Tier2 capital) issued by OTP Bank is presented on this line, whereas in 2010 there was no such repurchase.

Operating expenses y-o-y increased by just 1%, which, considering that in many markets underlying consumer price inflation approached or exceeded 5% (Hungary, Russia, Ukraine, Romania and Serbia), and also that the forint weakened significantly y-o-y, this slight increase reflects a regime of strong cost control. Assuming an unchanged cost structure, these two factors (inflation and currency weakening) would have implied a nominal increase of HUF 19 billion y-o-y in consolidated operating expenses, of which the Group realised only a HUF 5 billion increase as a result of ongoing cost rationalization (renegotiating rental and supplier contracts, optimization of energy consumption, reengineering business processes etc.)

The further deterioration in the quality of the loan portfolio led to an increase in the Total allowance for loan losses associated with provisioning (HUF 273 billion in 2010, +3% y-o-y). The DPD90+ ratio increased from 9.8% to 13.7%. However, the extent of deterioration declined: while the ratio increased by 5.3 ppts between 2008 and 2009, in the last year it grew by only 3.9 ppts. At the same time, the Group increased its provisioning coverage on overdue loans in a prudent manner in 2010, by 0.8 ppt, from 73.6% to 74.4% (whereas in 2009 the coverage ratio had fallen by 12 ppts compared to the previous year). An increase of this extent in the coverage ratio represented HUF 8 billion in additional Total allowance for loan losses, which means that if the Group had maintained the 2009 year-end coverage level, the Total allowance for loan losses, relative to 2009, would not have grown (2009: HUF 265 billion).

The 55% y-o-y increase in annual corporate-tax expense was partly a result of the base effect: in 2009 a significant part of the tax-base-reducing effect of the unscheduled goodwill write-off in 2008 was recognized as a one-off item, which, in accordance with IFRS, reduced, by 11.7 billion, the extent of the tax payable for 2009, as a one-off effect (in the case of both the OTP Group and OTP Core). As a result, the Group's effective tax rate dropped to around 12% in 2009. In 2010, by contrast, the revaluation of the investments (for a detailed explanation of this item, see the OTP Core section) resulted in an additional tax charge of HUF 3.7 billion for the year.

ASSET-LIABILITY MANAGEMENT

In 2010 the focus was on secure liquidity levels…

The primary objective of OTP Group in terms of asset-liability management was again to ensure that the Bank Group's liquidity reserves were maintained at a suitably safe level. From December 2009 the opportunity for modest external fund raising reopened, and this further enhanced the liquidity management potential of the Bank Group. To strengthen its capital market activity the Bank turned to the capital markets on several occasions to raise funds. A syndicated loan agreement was signed in December 2009 (EUR 220 million), and in July 2010 another syndicated credit agreement (for a limit of EUR 250 million) was signed and the facility drawn down. In addition to these transactions, in February 2010 the Bank issued a CHF 100 million senior unsecured note and the refinancing sources of ECB became available for the Bank as well, thus easing the renewal risk of maturing mortgage bonds. The achieved spread levels demonstrated that with smaller tranches and with good timing funding, was available even at lower spread levels than those for the Hungarian State.

Despite the repayment of a significant amount of maturing debt (in the amount of around EUR 2.3 billion) in 2010, the liquidity reserves of OTP Group remained permanently above the safety level. The liquidity reserves of the Group amounted to EUR 4.3 billion at the end of 2010 (in February 2011 it hovered in the range of EUR 5.1-5.4 billion), which is more than sufficient to provide coverage not just for the redemptions within one year but for potential liquidity shocks as well. The CHF and USD liquidity requirement of the Group stemming from its FX lending operations was covered by long-term FX swaps (besides the above mentioned CHF note issue).

…and on keeping interest risk exposures low.

The Bank Group's interest risk exposure is determined primarily by the positions of OTP Bank Plc. and OTP Mortgage Bank Ltd. Due to the HUF liabilities on OTP Bank's balance sheet, which respond to yield changes only to a moderate extent, the Bank has an interest rate risk exposure resulting from its business operations. The Bank treats the reduction and closing of this exposure as a strategic matter, and reduced its interest-rate risk exposure through the purchase of fixed-rate government securities in order to offset the negative impact of falling yields on net interest income.

The Bank has a closed interest-rate position in EUR and CHF, and consequently the yield volatility of the previous period did not cause significant changes in the interest income.

OTP Group's market risk exposure

At the end of December 2010 the consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure was HUF 31.8 billion, which was in large part due to the capital requirement of the FX risk exposure (HUF 25.2 billion).

OTP Group is an active participant on the international FX and derivative markets. The exposure of the various Group members' FX positions is restricted through individual and global net open position (overnight and intraday) limits, and through stop-loss limits. The open positions of Group members outside Hungary were negligible measured against either the balance sheet total or regulatory capital, and because of this the FX exposure at Group level was concentrated at OTP Bank. The bulk of the FX exposure booked at OTP Bank came from the strategic open FX position kept to hedge the currency risk of FX-denominated net earnings of the main foreign subsidiaries.

The size of the strategic open short EUR position amounted to EUR 310 million and was equal to 2 years' expected net profits of the subsidiaries. Apart from this strategic short position, the average net open position held by the dealing room of the central Treasury Department was negligible (HUF 1.2 billion).

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS OF THE OTP GROUP

Main components of statement of financial positions	2009 HUF million	2010 HUF million	Change %
TOTAL ASSETS	**9,755,132**	**9,780,946**	**0**
Cash, amounts due from banks and balances with National Banks	505,650	513,038	1
Placements with other banks, net of allowance for placement losses	440,850	511,244	16
Financial assets at fair value through profit or loss	256,100	233,667	(9)
Securities available-for-sale	1,354,285	1,008,097	(26)
Loans to customers (gross)	6,907,094	7,502,331	9
of which: Retail loans	4,291,847	4,769,793	11
Mortgage loans	2,703,433	2,983,235	10
Consumer loans	1,149,231	1,335,119	16
Micro and small enterprise loans	439,183	451,439	3
Corporate loans	2,161,903	2,286,415	6
Loans to medium-sized and large corporations	1,933,848	1,921,660	(1)
Municipality loans	228,055	364,755	60
Vehicle financing	387,431	385,587	0
Bills of exchange and interest receivables related to loans	65,968	60,535	(8)
Allowance on loan losses	(494,378)	(761,272)	54
Associates and other investments	18,834	11,554	(39)
Securities held-to-maturity	188,853	172,302	(9)
Property, equipment and intangible assets	476,358	480,828	1
Other assets	101,486	109,157	8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**9,755,132**	**9,780,946**	**0**
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	802,749	681,949	(15)
Deposit from customers	**5,688,887**	**5,821,489**	**2**
of which: Retail deposits	4,165,398	4,368,021	5
Household deposits	3,746,263	3,924,525	5
Micro and small enterprise deposits	419,135	443,496	6
Corporate deposits	1,480,496	1,424,631	(4)
Deposits of medium-sized and large corporations	1,169,837	1,191,319	2
Municipality deposits	310,659	233,312	(25)
Intererst liabilities related to customer deposits	42,997	28,836	(33)
Liabilities from issued securities	1,410,348	1,035,153	(27)
Other liabilities	380,708	642,796	69
Subordinated bonds and loans	280,834	290,630	3
Total shareholders' equity	**1,191,606**	**1,308,929**	**10**

Indicators	2009	2010	%
Loan/deposit ratio	121%	128%	7
Net loan/(deposit + retail bond) ratio	108%	110%	2
Net loans	6,346,748	6,680,524	5
Customer deposits	5,645,890	5,792,653	3
Retail bonds	236,733	283,646	20
90+ days past due loan volume	671,625	1,022,950	52
90+ days past due loans/gross customer loans	9.8%	13.7%	3.9
Total provisions/90+ days past due loans	73.6%	74.4%	0.8

Consolidated capital adequacy	2009	2010	%
Capital adequacy ratio (consolidated, IFRS)	17.2%	17.5%	0.3
Tier1 ratio	13.7%	14.0%	0.3
Core Tier1 ratio	12.0%	12.5%	0.5
Leverage (Total Assets/Shareholders' Equity)	8.2x	7.5x	
Regulatory capital (consolidated)	1,194,508	1,304,144	9
of which primary (Tier1) capital	952,416	1,045,977	10
of which Hybrid Tier1 capital	118,278	112,812	(5)
Secondary (Tier2) capital	242,521	258,632	7
Deductions due to investments	(428)	(464)	8
Risk weighted assets (RWA) (total assets adjusted for credit, market and operational risk)	6,942,437	7,462,128	7

Closing exchange rates (in HUF)	2009	2010	%
HUF/EUR	271	279	3
HUF/CHF	182	223	22
HUF/USD	188	209	11
HUF/JPY	204	257	26

- FX-adjusted loan book stagnated y-o-y, but showed growth again in H2 2010
- Outstanding consumer loan origination in Russia (FX-adjusted growth: +61% y-o-y), Ukrainian corporate volumes also began growing from H2 2010
- FX-adjusted deposit volumes remained flat y-o-y
- The FX-adjusted yearly decrease of the net loan/(deposit + retail bond) ratio was 5% (2010: 110%)
- The pace of portfolio quality deterioration declined y-o-y, and DPD90+ reached 13.7% as at the end of 2010

Methodological note: starting from Q4 2010 the loan book of OTP Residential Property Leasing was reclassified from corporate exposures into mortgage and SME loans (the total reclassified volume represented HUF 32 billion and 6 billion respectively). Furthermore, the DPD90+ volumes of those loans began to be registered within the consolidated statistics. Given the limited impact of these changes, we did not adjust the figures of the base periods, and thus both y-o-y consolidated volume dynamics for the previously mentioned product categories, and changes in risk indicators, are impacted by this technical effect.

The consolidated loan portfolio grew by 9% y-o-y in nominal terms. Although, after adjusting for technical effects (i.e. FX movements), the loan book essentially remained unchanged y-o-y (–0.3%), it began growing modestly in H2 (+1.1% in Q3 and +0.4% in Q4 q-o-q). Only the Russian market experienced significant volume growth: the FX-adjusted portfolio expanded by 24%, within that the retail book increased by 46%. The core products of OTP Bank Russia demonstrated exceptional growth: POS lending grew by 58% y-o-y, and credit card loan volumes increased even faster, by 72% y-o-y.

It was also positive that within the major markets, the Hungarian large corporate segment grew by 1% y-o-y and the SME segment – though fairly small – expanded by 7%. In Bulgaria both mortgage loans and corporate exposures grew by 4% y-o-y, while in Ukraine corporate lending began to recover from the second half of 2010, and in Q4 2010 it grew by 6% q-o-q.

By contrast, in the smaller markets adjusted volumes contracted, with Montenegro suffering the single most sizeable decline, of 15% y-o-y, although in particular segments some recovery could be observed, reflecting the efforts of the local managements as well as gradually reviving loan demand. In Romania mortgages grew by 5% y-o-y and SME loans by 15%, in Croatia personal loans expanded by 9%, in Serbia consumer credit grew by 20%, while in Slovakia the retail segment advanced by 6%. In Montenegro, however, all major loan categories dropped by two digits.

FX-adjusted deposit volumes stagnated y-o-y. However, the +2% y-o-y growth in consolidated retail deposit volumes is regarded as a positive development. Corporate deposit volumes decreased by 6% y-o-y, mainly due to a drop in corporate savings at OTP Core (–8% y-o-y). The significant volume decline was related to temporary deposit withdrawals by OTP Fund Management (since then most of the withdrawn amount has been re-deposited – mainly in the course of January 2011) and to the decrease in Hungarian municipalities' deposit volumes, due to declining local tax collection since the financial crisis, and increasing withdrawals.

Across the Group the biggest deposit increase in relative terms was achieved in Russia (+18% y-o-y), including retail deposits (22% y-o-y), but volumes grew notably in Serbia and Romania too (14 and 13% respectively). Given its absolute volume, the deposit growth in Bulgaria was also significant (+3%). OTP Core's deposit portfolio fell by 2% y-o-y, due to the above mentioned fund management and municipality deposit decreases.

At the end of 2010, the consolidated net loan/(deposit + retail bond) ratio stood at 110% (the y-o-y change was -5 ppts, after adjusting for technical effects). The lowest ratio was achieved at CKB (75%), OBH (86%) and OTP Core (89%), whereas Ukraine (283%), Romania (270%) and Serbia (189%) were the countries with the highest net loan/deposit ratios.

The overall volume of issued securities dropped by 27% over the year. The volume of the portfolio was significantly affected by the fact that on 4 March 2010 a covered bond of EUR 1 billion nominal value matured and was repaid. In addition, on 1 July and on 20 December 2010 senior bonds of respectively EUR 500 and EUR 300 million were also repaid. This volume decrease was somewhat mitigated by the y-o-y HUF 47 billion increase in HUF bonds sold to retail customers, and by the HUF 39 billion increase in HUF senior bonds sold to Hungarian institutional investors. There were two capital market exercises in the past twelve months: in April OTP Mortgage Bank tapped the market with a 2-year, EUR 300 million mortgage bond transaction (of which approximately EUR 90 million was sold to investors outside the OTP Group), and in February OTP Bank issued a smaller size, CHF 100 million senior bond with a 2-year tenor. The Lower and Upper Tier2 volumes remained flat y-o-y (in EUR terms); there was no buyback of any outstanding OTP issues.

The Group has accumulated a sizable amount of liquidity reserves since the beginning of the crisis: the total liquidity buffer amounted to EUR 5.0 billion as of 31 January 2011. This level of reserves is significantly higher than what would be needed to provide coverage for the redemptions in wholesale funding within one year and for potential liquidity shocks. The source of this buffer is two-fold: the ongoing growth of consolidated deposits since the start of the crisis and the internal FX liquidity generation of the business lines, related to the fact that retail FX lending had been stopped both in Hungary and Ukraine, and therefore the continuous repayments of clients are increasing the Group's FX liquidity. Internal FX liquidity generation enabled the Group to repay its redemptions throughout 2009-2010 without issuing new instruments in the market on a significant scale. Repayments reached EUR 1.5 billion and EUR 2.3 billion equivalent in 2009 and 2010 respectively (in the form of maturing senior notes, mortgage bonds and syndicated or bilateral loans), whereas new issuances in 2010 amounted to only EUR 420 million equivalent (of which bonds amounted to EUR 170 million, and syndicated loans to EUR 250 million).

CONSOLIDATED CAPITAL ADEQUACY RATIO (IN ACCORDANCE WITH BASEL II)

At the end of the reporting period the regulatory capital of the Bank Group was HUF 1,304 billion, while the preliminary, estimated adjusted total assets (taking into account lending, market and operational risks too) was HUF 7,462 billion. The value of the capital adequacy ratio was 17.5%, and within this, the rate of the basic capital (Tier1) less intangible assets was 14.0%, and the Core Tier1 ratio without hybrid instruments was 12.5%. The outstandingly high and secure capital position of the Bank is reflected by fact that, based on the recent European CEBS stress test, the 16.2% Tier1 ratio of the OTP Group projected for 2011 is the second best among the 91 banks tested.

OTP BANK'S HUNGARIAN CORE OPERATIONS (OTP CORE[5])

Segmented profit and loss account of OTP Core:

Profit and loss account	2009 HUF million	2010 HUF million	Change %
OTP CORE net profit less dividends and net cash transfers	182,699	146,920	(20)
OTP CORE profit before income tax	198,716	174,048	(12)
Operating profit	270,533	288,373	7
Total income	450,137	466,947	4
Net interest income	325,142	343,508	6
Net interest income without the revaluation result of FX swaps	325,142	324,777	0
Net fees and commissions	88,379	84,807	(4)
Other net non-interest income	36,616	38,632	6
Operating expenses	(179,604)	(178,574)	(1)
Total provisions	(71,817)	(114,326)	59
Provisions for loan losses	(72,530)	(115,038)	59
Other allowance for loan losses	713	712	0
Revenues by business line	**2009**	**2010**	**%**
RETAIL			
Total income	325,304	323,137	(1)
Net interest income	241,732	243,875	1
Net fees and commissions	78,478	74,827	(5)
Other net non-interest income	5,094	4,435	(13)
CORPORATE			
Total income	36,221	40,363	11
Net interest income	23,707	26,693	13
Net fees and commissions	11,025	12,374	12
Other net non-interest income	1,489	1,296	(13)
Treasury ALM			
Total income	85,894	106,195	24
Net interest income	59,704	72,940	22
Net fees and commissions	1,274	1,438	13
Other net non-interest income	24,917	31,817	28
Performance indicators	**2009**	**2010**	**ppts**
ROA	2.9%	2.3%	(0.7)
ROE	18.7%	13.8%	(4.9)
Total income margin	7.24%	7.17%	(0.07)
Net interest margin	5.23%	5.27%	0.04
Net interest margin without the revaluation result of FX swaps	5.23%	4.98%	(0.25)
Total allowance for loan losses/average gross loans	2.21%	3.39%	1.18
Cost/income ratio	39.9%	38.2%	(1.7)
Effective tax rate	8.1%	15.6%	7.5

- Y-o-y decrease in net profit (–20%) as a result of increasing cost of risk (+59%)
- Slightly accelerating decadency of the portfolio quality y-o-y, provision coverage of DPD90+ portfolio increased significantly (2010: 78.2%, +3.3 ppts y-o-y)
- Growing corporate volumes y-o-y, stabilizing mortgage loan volumes in second half of 2010
- Regained market leadership in sales of mortgages and consistent number one position in new disbursements of personal loans
- Stringent cost controls (full-year operating expenses down by 1%)

[5] OTP Core is an economic entity that serves to measure the results of the OTP Group's Hungarian core business activity, whose financial statements are compiled on the basis of the consolidated IFRS-based financial statements of the companies performing the OTP Group's Hungarian banking core activity (OTP Bank Hungary Plc, OTP Mortgage Bank Ltd, OTP Buildig Society Ltd, OTP Factoring Ltd, OTP Financing Netherlands Ltd and OTP Holding Ltd). Separated from the consolidated financials of these companies is the Corporate Centre. This is a virtual economic entity that provides capital-market services to the subsidiaries in the OTP Group, typically in the form of equity and/or debt-type financing.

P&L developments

Excluding the effect of the special bank tax, OTP Core's net profit for the full year of 2010, at HUF 147 billion, represents a decline of 20% relative to the base year. Total income, rising by 4% due to one-off items, and the decline in operating expenses (–1% y-o-y), resulted in a record-high operating profit of HUF 288 billion. The improvement in total operating income stemmed from the increasing income of the Treasury Department's asset-liability management activity (boosted significantly by one-off items). The contribution of the retail segment to total income slightly diminished, due to the falling level of card-related net fees. The portfolio quality deterioration as well as the management's intention to increase the provision coverage of the non-performing loans, however, required an unprecedented HUF 114 billion in provisioning, and as a result, the coverage of non-performing loans grew to 78.2% (+3.3 ppts y-o-y).
The net profit for the full year of 2010 was boosted by significant one-off items[6]: a HUF 18.7 billion fair value adjustment gain – presented in net interest income – was generated on the revaluation of FX swaps (the Bank entered into hedging derivative contracts during Q2-Q3 2010, bringing the sensitivity of the swap book to changes in the basis swap spreads close to zero; accordingly, in 2011 no substantial revaluation gain is expected from basis-swap spread movements); a HUF 8.9 billion pre-tax FX gain was realised on FX hedging transactions related to the FX loan provisions at OTP Bank Ukraine; and finally, a HUF 7.1 billion gain on securities was generated.
Without having any substantive impact on bottom-line profitability, another one-off item affected the structure of earnings. A HUF 3.8 billion revaluation gain, related to the balance sheet positions held to hedge the revaluation result of FX provisions for FX loans at OTP Core, was booked as other non-interest income for the full year of 2010. This profit was fully offset among the allowance for impairment, the latter being HUF 3.8 billion higher in FY 2010.

The fall in the annual net profit was caused by the substantial rise in allowance for impairment. The HUF 114.3 billion allowance for impairment level represents a 59% increase y-o-y. The growth is only partially explained by the technical effect of the revaluation of FX provisions (HUF 3.8 billion more allowance for impairment in 2010 than in 2009). A decisive factor was the substantial growth in provisioning coverage (in 2010 the provisioning coverage increased by 3.3 ppts, while in 2009 it had decreased by 7.2 ppts), and a part was also placed by the slightly quickening pace of deterioration in portfolio quality (the y-o-y FX-adjusted growth in DPD90+ volumes was HUF 108 billion in 2009 and HUF 118 billion in 2010).
The paces of portfolio-quality deterioration in 2010 was highest in Q2, primarily due to the deterioration of large corporate transactions. In the second half of the year, the pace of decreased decelerated gradually overall, although among the new non-performing loan volumes, the portfolio of mortgage loans increased significantly compared to the first half of the year (FX-adjusted quarterly growth in DPD90+ volumes in billion forints: 2010 Q1: 19, Q2: 37, Q3: 35, Q4: 27). The total DPD90+ ratio rose from 7.8% to 10.6% y-o-y, and within this total, the rate of DPD90+ mortgage loans rose from 5.1% to 8.1%, and in the case of consumer loans, from 15.9% to 20.4%, and in the case of large-corporate loans, the ratio rose from 9.7% to 13.7%. By contrast, the small-enterprise 90-day past due portfolio displayed a more moderate deterioration, with the ratio of DPD90+ loans growing from 11.2% to 12.5% in this segment.
In response to the weakening of the forint in the second quarter of 2010, and to ease the growing burden on retail foreign currency debtors, in June 2010, as a temporary promotional-type measure the Bank lowered the interest rate on its CHF mortgage loans by 75 bps and on its JPY mortgage loans by 50 bps. Furthermore, due to the lower funding costs, the Bank implemented another 25 bp cut on average in its CHF mortgage rates in June 2010, and a 30-72 bp cut in mortgage rates on selective product segments (mostly

[6] To assist comparability with the base periods: full-year profit for 2009 included the following one-off items. A profit before income tax of HUF 27.7 billion was realised (accounted for within other net non-interest income) on the repurchase of the Bank's own auxiliary loan capital (Upper Tier2 Capital). The goodwill write-off in 2008 trimmed the IFRS tax burden of OTP Core by HUF 11.7 billion in Q3 2009. In addition, provisioning in the OTP Bank (Hungary) P&L under local accounting standards for the Ukrainian loan guarantees in Q4 2009 significantly lowered the tax base and tax payable, and thus the IFRS tax amount as well. In the stock exchange report we present the above mentioned allowance for impairment as part of the Ukrainian performance, but its tax effect is presented in the results of OTP Core. As a result of the above, the effective tax rate of OTP Core (2009: 8%) remained below the normal rate of 19%.

EUR-denominated) was carried out in September. Altogether, from the point of view of a CHF mortgage borrower, these steps were equivalent to an approx. HUF 13 strengthening of the forint against the CHF.[7] Interest rates on customer loans were lowered in the personal loan segment too: by 50–75 bps in June for CHF denominated loans, and by 37–73 bps in September for forint-denominated loans.

The 6% y-o-y improvement in the full-year net interest income was the result of a one-off item. The significant widening that occurred in Q2 2010 in the forint-FCY basis swap spreads, and then a slight correction in the spreads in Q3[8], overall caused a HUF 18.7 billion fair value adjustment gain, booked as net interest income, on the Bank's FX swaps in the course of Q2–Q3 2010. The full-year net interest income stripped of the result on revaluation of the swaps (2010: HUF 325 billion) remained at the same level y-o-y, behind which lay contradictory trends: the interest-differential result on FX swaps, as a result of the lower forint interest-rate environment, fell significantly y-o-y. However, this negative effect was largely offset by the fact that due to its strong liquidity position and the easing of deposit-market competition, as well as to the fall in the forint interest-rate environment, the Bank managed to lower its deposit rates compared to 2009 levels.

Net fees fell by 4% y-o-y, who was primarily due to declining bank card commissions. The latter was the result of the increasing take-up of retail current-account product packages, since customers re-contracting for the new products can often use the services under promotional transaction fee terms.

Other net non-interest income, on the other hand, exceeded by 6% the base-period figures, despite the fact that these later contained significant one-off items[9] (2010: HUF 38.6 billion, +HUF 2.0 billion y-o-y). The strong result was driven by several factors: due to the marked decline of HUF yields in 2010, a HUF 7.1 billion gain was realised on the government securities in the trading portfolio. Within Q2 2010 net foreign exchange gains of HUF 8.9 billion were realised on FX hedging transactions related to the FX-loan provisions at OTP Bank Ukraine. An identical amount of loss stemming from the revaluation result of the FX provisions was booked among the consolidated capital reserves during the process of accounting consolidation. Marked as a one-off item, a HUF 3.8 billion FX gain was posted in 2010. This result was realised on a balance sheet position that is held by OTP Core for hedging purposes[10] to offset the revaluation results of FX provisions related to its FX loan portfolio.

Operating expenses showed a slight decrease (–1% y-o-y) in nominal terms; however, given the 4.9% average Hungarian consumer price inflation in 2010, this represents a material improvement in real terms. A major part of the decline was realised on personnel expenses, which decreased by 2% or HUF 1.8 billion y-o-y (2010: HUF 77.8 billion). The significant adjustment is the result of the 6% headcount reduction implemented in 2009: following the lay-off of 477 persons last year, in 2010 there was no significant change (2010 closing headcount: 7,800, –20 persons y-o-y). The further reduction in personnel expenses stemmed from the 5 ppts decrease in the level of social contributions[11] paid by the employer, effective from the beginning of 2010.

Other expenses shrank by 1% y-o-y (2010: HUF 76.3 billion), despite the fact that the HUF 0.5 billion aid transferred to the Hungarian Red Cross to help people suffering flood-related damages was registered as an other expense item in Q2 2010. The saving is the result of rigorous cost control and to continuous cost rationalisation efforts by the management. Y-o-y savings were achieved on telecommunication, IT maintenance and cash carrier services, due to the renegotiation of supplier contracts.

Within the 2010 cost pool, the depreciation (HUF 24.5 billion) shows an 8% y-o-y increase, which is mainly due to the fact that in 2010 significant assets were activated, mostly in relation to the core IT systems of the Bank. On top of this, as a result of a decrease in the cost of entry for new

[7] Assuming HUF 10 million equivalent CHF mortgage loan with a 20-year maturity.

[8] In Q2 2010, EUR/HUF basis swap spreads of 2 years' maturity increased from 100 bps to around 180 bps, and by the end of September they had narrowed to close to 150 bps. The fair value adjustment of swaps is recognised only under IFRS; there is no impact at all on the stand-alone P&L under the local accounting standards.

[9] In 2009 the profit before income tax of HUF 27.7 billion realised on the repurchase of the Bank's own auxiliary loan capital (Upper Tier2 Capital) was booked on this line.

[10] A detailed description of this item is available on page 20 of the 2010 Half-year Report of OTP Bank Plc.

[11] The purpose of the position is to neutralize the revaluation result of the fair value adjustment on FX depreciation of FX loans. According to these, the total HUF 3.8 billion foreign exchange gain was offset on the risk cost line in 2010.

POS terminals, most of the investments in POS appliances qualified for an immediate cost in 2010 as opposed to previous years, when the depreciation of these assets was accrued over a longer period.

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

Main components of balance sheet (closing balances)	2009 HUF million	2010 HUF million	Change %
Total assets	6,535,059	6,495,965	(1)
Gross loans	3,208,909	3,584,078	12
Retail loans	2,186,021	2,376,884	9
Corporate loans	1,022,888	1,207,194	18
Allowance on loan losses	(188,502)	(298,096)	58
Deposits from customers	3,484,896	3,427,845	(2)
Deposits from customers + retail bonds	3,721,628	3,711,491	0
Retail deposits	2,470,161	2,488,066	1
Retail deposits + retail bonds	2,706,894	2,771,712	2
Corporate deposits	1,014,734	939,779	(7)
Amounts due to banks, the Hungarian Government	643,281	559,506	(13)
Liabilities from issued securities	953,433	797,749	(16)
of which retail bonds	236,733	283,646	20
Total shareholders' equity	1,001,181	1,131,311	13
Loan quality (%)	**2009**	**2010**	**%**
90+ days past due loan volume	251,594	381,262	52
90+ days past due loans/gross customer loans	7.8%	10.6%	2.8
Total provisions/90+ days past due loans	74.9%	78.2%	3.3
Market share (%)	**2009**	**2010**	**%**
Loans	17.8%	18.4%	0.6
Deposits	24.2%	24.0%	(0.2)
Total Assets	26.3%	24.8%	(1.5)
Performance indicators (%)	**2009**	**2010**	**ppts**
Gross loans to deposits	92%	105%	13
Net loans to (deposits + retail bonds)	81%	89%	8
Leverage (Shareholder's Equity/Total Assets)	15.3%	17.4%	2.1
Leverage (Total Assets/Shareholder's Equity)	6.5x	5.7x	
Capital adequacy ratio (OTP Bank, non-consolidated, HAS)	16.2%	18.1%	1.9
Tier1 ratio (OTP Bank, non-consolidated, HAS)	13.1%	15.4%	2.3

Balance sheet trends

Adjusted for technical effects in 2010, the loan book of OTP Core – primarily due to the corporate business – increased slightly (+1% y-o-y), while the deposit portfolio – mainly as a result of municipal deposit withdrawals – decreased by 2%. Hence the adjusted "net loans/(deposits + retail bonds) ratio" (Q4 2010: 89%) increased slightly (y-o-y +2 ppts). The two technical effects were as follows: weakening of the HUF closing rate during 2010 (the forint exchange rate weakened y-o-y against the CHF by 22%, against the euro by 3%, and against the Japanese yen by 26%). Furthermore, approximately HUF 100 billion municipality bonds were reclassifred into loans in Q2 2010 at OTP Core. It is an encouraging trend that in mortgage-loan disbursements, since January 2010, the market share of new disbursements has been growing dynamically (the market share in new disbursements excluding Swiss franc is Q1 2010: 17%, Q2: 29%, Q3: 33%, Q4: 35%, making the full-year 2010 total: 29%), with which the Bank achieved a market-leading position again. During the year, quarterly disbursements gradually increased (in HUF billion Q1: 14, Q2: 28, Q3: 30, Q4: 31), representing a y-o-y increase of 60% over the disbursements of 2009; however, this performance still lags the pre-crisis peak in 2008 by 72% (mortgage loan disbursement in HUF billion: 2008: 366, 2009: 64, 2010: 103).

In the second half of 2010, the ratio of HUF denomination within new origination increased to virtually 100%, as from 1 July 2010 OTP Bank suspended the admission of foreign-currency loan applications. The decision of the Bank's management was a response to the 29-point action plan of the Hungarian government, which included an intention to put an end to retail foreign-currency lending. As a result, on 22 July 2010 the parliament approved an amendment of the law, according to which no mortgage right may, in the case of private individuals, be established in the future in order to secure a foreign-currency loan denominated in foreign currency. Due to the favourable developments in origination, FX-adjusted mortgage-loan volumes remained broadly flat in H2 2010 (–2% y-o-y).

The consumer loan portfolios remained virtually unchanged during the year (+1% y-o-y, –1% q-o-q). On a full-year basis, adjusted for technical effects, there was growth in small and large corporate as well as municipality lending (y-o-y +7%, +1%, and +14% respectively).

In 2010 the Bank again actively supported the domestic corporate sector: after HUF 248 billion in 2009, a further HUF 230 billion loans were disbursed in 2010. It was due to this, that in contrast to the 7% fall in the corporate loan volumes of the Hungarian banking sector excluding OTP, the Bank's placement volume increased in both small and large corporate segment in 2010.

OTP Core's deposit base, including the Bank's repurchased bonds portfolio regarded as a deposit-substitute product, decreased, on an FX-adjusted basis, by 1% y-o-y. The decline over the year was primarily caused by the deposit withdrawals of municipalities (–26% y-o-y); large corporate deposits remained largely unchanged (–2%), while retail deposits and bonds – though more slowly than in 2009 – grew further (+3%).

The significant y-o-y drop in municipality deposits was the result of lower local tax revenues due to the crisis and to the growing utilization of local government funds. The fact that deposits of medium-sized and large corporations remained essentially unchanged was largely due to the following one-off item: in Q4 2010 the portfolio declined by 22% q-o-q mainly due to the withdrawal of the deposits of the funds managed by OTP Fund Management (–HUF 163 billion portfolio decrease in Q4), when the latter temporarily allocated its maturing term deposits to government securities. However, the bulk of the withdrawn amount (HUF 134 billion) was re-deposited in January 2011.

The volume of issued bonds (Q4 2010: HUF 798 billion, –16% y-o-y) was influenced more than any other factor by the mortgage-bond maturities. Most sizeable among these was the EUR 1 billion mortgage bond redemption on 4 March 2010 (at the 2010 year-end closing price, the nominal value was HUF 279 billion). This effect was partially offset by a number of factors: the already mentioned retail bond issuances resulted in a HUF 47 billion portfolio growth y-o-y – the outstanding retail bond portfolio reached HUF 284 billion (approximately EUR 1 billion) at the end of 2010. On top of this, the volume of senior bonds issued to Hungarian institutional investors increased by HUF 39 billion y-o-y. One further major mortgage bond issue took place in 2010: in March 2010 OTP Mortgage Bank issued mortgage bonds in a total face value of EUR 300 million (together with the December 2009 issue, HUF 1.35 billion), with a 2-year maturity, under its EUR 3 billion EMTN programme. Of this, however, only EUR 90 million (approximately HUF 25 billion) was subscribed by investors from outside the OTP Group; the rest of the bonds were bought by OTP Bank and partly utilised as collateral for repo transactions.

Changes in assets under management and financial performance of OTP Fund Management:

Main components of profit and loss	2009 HUF million	2010 HUF million	Change %
Net profit w/o dividends, net cash transfers and bank tax	5,124	7,456	46
Profit before income tax	6,400	8,913	39
Total income	8,062	9,815	22
Fund management fees	10,025	13,431	34
Fund management fees (%)	1.44%	1.31%	(0,13)
Asset management fees	3,305	3,346	1
Asset management fees (%)	0.40%	0.32%	(0,1)
Other income	40	(27)	(167)
Dealer commissions	(5,309)	(6,935)	31
Operating expenses	(1,519)	(1,763)	16
Personnel expenses	(634)	(686)	8
Operating expenses	(863)	(1,058)	23
Depreciation	(22)	(19)	(14)
Main components of balance sheet closing balances	**2009**	**2010**	**%**
Total assets	10,933	12,963	19
Total shareholders' equity	9,059	11,389	26
Assets under management	**2009**	**2010**	**%**
OTP Funds	862.7	1,110.7	29
money market	299.2	333.9	12
bond	105.9	158.3	49
mixed	14.8	15.1	2
security	306.8	483.6	58
guaranteed	117.6	93.1	(21)
other	18.5	26.7	42
Pension Funds	758.2	874.0	15
of which OTP Funds	737.5	850.4	15
Other pension funds	20.7	23.6	14
Other Institutional Investors	198.1	213.0	8
Assets under management, total	**1,819.0**	**2,197.7**	**21**

OTP Fund Management posted HUF 7.5 billion in net profit for 2010, representing a growth of 46% on a yearly basis.

The year of 2010 was characterized by rapidly changing investment sentiment. The favourable trend experienced in the first half of the year was a consequence of slowly returning retail investor confidence, while in the second half of the year the activity of institutional investors strengthened due to the recovery of the stock markets. Despite the year-end redemptions of retail investors, the total assets of investment funds increased further and this had a positive impact on income generation. The Company's fee income from fund management increased by almost 34% y-o-y, which represented a 1.31% fee charge on the average portfolio. Fee income from asset management (HUF 3.3 billion) was in line with the results realized in the previous year. Operating expenses rose by 16% y-o-y.

The volume of assets held in the funds managed by OTP Fund Management – partly as a result of capital inflows, and partly thanks to the favourable yield environment – increased by nearly 30% y-o-y. However, as a result of the year-end retail redemptions, the money-market and mixed funds posted a significant capital withdrawal. Institutional activity had again strengthened by the end of the year; as a result of the restructuring of the portfolios of institutional investors, significant capital flowed into the closed-end bond funds.

The volume of assets under management in the pension fund segment increased further over the year (+15% y-o-y). At the end of December 2010, the volume of assets under management exceeded HUF 870 billion, of which the assets of the OTP Pension Funds amounted to HUF 850 billion.

OTP Fund Management preserved its market-leading position during the year 2010; its market share adjusted for estimated duplications reached 32.7% at the end of December, while the customer base of the Company exceeded 205 thousand (+14 thousand y-o-y). The two foreign fund management companies (Ukraine and Romania) had a loss of HUF 8 million in 2010.

MERKANTIL GROUP

Key indicators of the performance of Merkantil Bank and Merkantil Car:

Main components of profit and loss*	2009 HUF million	2010 HUF million	Change %
Net profit w/o dividends, net cash transfers and one-offs	(68)	(4,123)	
Profit before income tax	(52)	(4,125)	
Operating profit	11,813	9,784	(17)
Total income	16,901	14,793	(12)
Net interest income	19,630	17,329	(12)
Net fees and commissions	(4,867)	(4,077)	(16)
Other net non-interest income	2,138	1,541	(28)
Operating expenses	(5,088)	(5,009)	(2)
Provisions for impairment on loan losses	(11,504)	(13,674)	19
Other allowance for loan losses	(361)	(236)	(35)
Main components of balance sheet closing balances[1]	**2009**	**2010**	**%**
Total assets	304,942	285,360	(6)
Gross loans	308,933	308,200	0
Retail loans	80	396	397
Corporate loans	34,085	28,941	(15)
Car financing loans	274,768	278,863	1
Allowance on loan losses	(34,393)	(47,550)	38
Deposits from customers	5,467	4,784	(12)
Retail deposits	1,496	2,017	35
Corporate deposits	3,971	2,767	(30)
Amounts due to banks, the Hungarian Government, deposit from National Banks and other banks	231,788	228,908	(1)
Total shareholders' equity	31,444	22,180	(29)
Loan quality	**2009**	**2010**	**%**
90+ days past due loan volume (in HUF million)	38,469	54,161	40,8
90+ days past due loans/gross customer loans (%)	12.5%	17.6%	5.1
Total allowance for loan losses/average gross loans (%)	3.64%	4.43%	0.79
Total provisions/90+ days past due loans (%)	89.4%	87.8%	(1.6)
Performance indicators	**2009**	**2010**	**ppts**
ROA	0.0%	(1.4%)	(1.4)
ROE	(0.2%)	(15.4%)	(15.2)
Net interest margin	5.95%	5.87%	(0.08)
Cost/income ratio	30.1%	33.9%	3.8

The methodological changes affecting the balance sheet and the P&L statement are presented in the Supplementary Data section of this report.

In 2010, Merkantil Bank and Car's aggregated net result was a loss of HUF 4.1 billion, before the special tax on financial institutions. The bank tax on the Merkantil Group in 2010 amounted to HUF 1.2 billion (both in gross and net terms).

Essential factors in the development of the operating result in 2010 were the y-o-y 12% decline in total revenue and the persistently high allowance for impairment. In response to the latter, the coverage ratio remained at a safely high level (87.8%), despite the growth of the DPD90+ ratio to 17.6% (+5.1 ppts y-o-y).

Net interest income decreased by 12% y-o-y in 2010. The main reasons for the lower net interest income were the growing intragroup financing premiums from the second half of 2009 and the increase in non-received interest incomes on the deteriorating portfolio.

The 16% fall in net fee and commission expenses reflects the lower levels of business activity: accrued agents' commission expenses in respect of previous years, when sales volumes were high, are gradually falling in line with the subsequent decline in sales volumes.

The fall in the vehicle financing volume stripped of the effect of exchange-rate changes continued over the course of 2010: the volume calculated at fixed exchange rates fell by 13% y-o-y, since both the number of new placements and the value of these placements fell by a rate of more than 40% y-o-y.

* Starting from Q2 2009, the Car leasing portfolio is stated among vehicle loans, and the Big ticket leasing portfolio is stated among Corporate loans. Provisioning for impairment on the leasing portfolios was reclassified in the profit and loss statement, from Q2 2009, from the 'Other allowance for impairment' line to the 'Allowance for impairment on loan and placement losses' line.

Performance of OTP Bank's foreign subsidiaries*

DSK GROUP (BULGARIA)

Key indicators of the performance of DSK Group:

Main components of profit and loss	2009 HUF million	2010 HUF million	Change %
Net profit w/o dividends, net cash transfers and one-offs	24,797	18,190	(27)
Profit before income tax	27,693	20,230	(27)
Operating profit	54,199	56,031	3
Total income	84,757	87,710	3
Net interest income	67,615	69,972	3
Net fees and commissions	15,555	15,478	0
Other net non-interest income	1,587	2,260	42
Operating expenses	(30,557)	(31,678)	4
Allowance for loan and placement losses	(25,855)	(35,232)	36
Other allowance for loan losses	(651)	(569)	(13)
Main components of balance sheet closing balances	**2009**	**2010**	**%**
Total assets	1,207,328	1,218,627	1
Gross loans	1,027,820	1,072,128	4
Retail loans	831,729	861,281	4
Corporate loans	196,091	210,847	8
Allowance for loan losses	(61,810)	(96,706)	56
Deposits from customers	801,112	847,807	6
Retail deposits	688,399	733,511	7
Corporate deposits	112,713	114,296	1
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	100,739	37,541	(63)
Subordinated bonds and loans	95,049	97,866	3
Total shareholders' equity	193,214	217,992	13
Loan quality	**2009**	**2010**	**%**
90+ days past due loan volume (in HUF million)	72,080	118,453	64.3
90+ days past due loans/gross customer loans (%)	7.0%	11.0%	4.0
Allowance for loan losses/average gross loans (%)	2.53%	3.36%	0.83
Total provisions/90+ days past due loans (%)	85.8%	81.6%	(4.2)
Performance indicators	**2009**	**2010**	**ppts**
ROA	2.1%	1.5%	(0.6)
ROE	13.8%	8.8%	(5.0)
Total income margin	7.13%	7.23%	0.10
Net interest margin	5.68%	5.77%	0.09
Cost/income ratio	36.1%	36.1%	0
Net loan/Deposit ratio	121%	115%	(6)

- Stable operating result combined with a growth in credit allowance for impairment is the reason for the 27% decline in annual profit y-o-y
- As a result of the significant loan loss provisioning made during the year (+36%), the coverage of the non-performing portfolio (81.6%) remains well above the Group average
- Net interest margin improved by 8 bps y-o-y (2010: 5.77%)
- Slightly increasing FX-adjusted loan and deposit portfolio (+1% and +3% y-o-y)
- Outstanding efficient operation (cost/income ratio in 2010: 36.1%)

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

The DSK Group's net profit in 2010 was HUF 18.2 billion, 27% less than the previous year's figure. The performance of the Bulgarian bank in 2010 reflects its robust income-generating capability and efficient cost control. Operating profit (before provisioning and taxes) in 2010 increased slightly over the base period (+3% y-o-y). Total income for the year in local currency terms grew by 5% y-o-y, due to a 5% increase in net interest income. The y-o-y 42% rise in other net non-interest income measured in forint was due to the share price rise, recorded on the gain on securities, that resulted from the merger in the fourth quarter of two independent Bulgarian clearing houses.

It was a favourable improvement that in 2010 net interest margin grew quarter-by-quarter (Q1 2010: 5.36%, Q2: 5.66%, Q3: 6.02%, Q4: 6.09%), mainly as a result of pricing and liquidity management measures on the liability side. The previously mentioned stringent cost control is reflected in the continuously low cost/income ratio (2010: 36.1%).

Due to the above, the higher allowance for impairment were the main reason for the decrease in net profit for the period: the HUF 35.2 billion in risk provisioning for 2010 represents a growth for the reporting period of 36%.

During the year, the quality of the loan portfolio deteriorated gradually decreasing, however still significant pace: the proportion of 90+ days past due loans rose from 7% to 11%. The pace of deterioration shows a decline (in ppts: Q1: +0.9, Q2: +1.6, Q3: +1.2, Q4: +0.3 q-o-q) even if the figures are adjusted for the effect of the sale of a consumer portfolio in Q3 2010[12]. With regard to the components: over the course of the year, the DPD90+ ratio of mortgage and SME loans grew; however, a notable slow-down in such increase was experienced in both segments during the final quarter. In case of consumer loans, the portfolio deterioration was experienced again in Q4, with the DPD90+ ratio reaching 10.5% (+3.2 ppts y-o-y). However, as regards corporate loans, the deterioration eased somewhat (with the year-end ratio reaching 6.2%). As a result of the HUF 35.2 billion provisioning, the coverage rate of non-performing loans is the third highest in the Group, at 81.6%.

With respect to the development of total revenues, it is a positive development that due to its robust liquidity position during the nine-month period, the Bank lowered its interest rates on deposits and did not renew its expiring deposit campaigns. Consequently, net interest margin improved gradually. What is even more favourable is that despite the interest rates cuts, the Bank's market share in the retail deposit market eroded only very slightly (y-o-y –0.5 ppt) and in the corporate deposit market it maintained its position. On an annual basis, the net fee and commission income reflects a stable performance.

As regards loan volumes, new disbursements in 2010 were only sufficient to maintain the portfolio at the level of the previous year. In a year-on-year comparison, the maintenance of the current loan base was supported by the similar 4% y-o-y FX-adjusted growth of mortgage and corporate loans, while the decline of the SME segment (–8% y-o-y) had a negative impact. On a full-year basis, the consumer loan portfolio stagnated. The Bank maintained its stable market share in the loan market (year-end 2010: 14.2%).

Despite the previously mentioned pricing measures, the deposit base of the Bank increased continuously (FX-adjusted y-o-y growth: +3%). Due to the higher increase in the deposit base compared to loans, the net loan/deposit ratio decreased slightly (2010: 115%, FX-adjusted –5 ppts y-o-y).

The subordinated capital base remained flat in BGN terms on a yearly basis. At the same time, interbank funding dropped significantly (–63% y-o-y). There were two main reasons for the decrease: on one hand, as a result of the repayments, the portfolio of parent-bank funding fell significantly (by approximately –HUF 45 billion y-o-y), and on the other hand, a syndicated loan of EUR 140 million (about HUF 40 billion) was retired on 8 April 2010.

The capital position of DSK is still very strong: the capital adequacy ratio is more than double of the regulatory minimum (2010: 23.7% vs. a 12% regulatory minimum; Tier1 ratio: 17% vs. a 6% regulatory minimum). In 2010 the ratio improved significantly due to changes in the Bulgarian regulations. Among these changes, the one that modified the risk weight of some asset classes had the most impact, leading to a y-o-y decline of 13% in risk-weighted assets.

In 2010, Moody's did not change the "Baa3" local and foreign currency deposit rating of DSK Bank (outlook: negative).

[12] In Q3 of 2010 DSK Bank sold BGN 19 million (equivalent to some HUF 3 billion) worth of non-performing consumer loans outside the Group.

OTP BANK RUSSIA[13]

Key indicators of the performance of OTP Bank Russia:

Main components of profit and loss	2009 HUF million	2010 HUF million	Change %
Net profit w/o dividends, net cash transfers and one-offs	3,086	20,545	566
Profit before income tax	4,400	26,916	512
Operating profit	25,975	51,022	96
Total income	67,810	100,551	48
Net interest income	60,316	88,991	48
Net fees and commissions	4,701	9,638	105
Other net non-interest income	2,793	1,922	(31)
Operating expenses	(41,834)	(49,529)	18
Provisions for impairment on loan and placement losses	(21,040)	(24,389)	16
Other allowance for loan losses	(535)	282	(153)
Main components of balance sheet closing balances	**2009**	**2010**	**%**
Total assets	579,941	664,403	15
Gross loans	369,877	508,139	37
Retail loans	250,463	405,562	62
Corporate loans	103,719	86,657	(16)
Provision for impairment on loan losses	(38,493)	(54,718)	42
Deposits from customers	306,646	396,788	29
Retail deposits	196,744	263,136	34
Corporate deposits	109,902	133,652	22
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	163,592	117,474	(28)
Issued securities	15,955	22,814	43
Subordinated bonds and loans	13,607	15,421	13
Total shareholders' equity	71,459	97,778	37
Loan quality	**2009**	**2010**	**%**
90+ days past due loan volume (in HUF million)	46,027	62,573	35.9
90+ days past due loans/gross customer loans (%)	12.4%	12.3%	(0.1)
Allowance for loan losses/average gross loans (%)	5.59%	5.56%	(0.03)
Total provisions/90+ days past due loans (%)	83.6%	87.4%	3.8
Performance indicators	**2009**	**2010**	**ppts**
ROA	0.6%	3.3%	2.7
ROE	4.7%	24.3%	19.6
Total income margin	12.23%	16.16%	3.93
Net interest margin	10.88%	14.30%	3.42
Cost/income ratio	61.7%	49.3%	(12.4)
Net loans to deposits	108%	114%	6

- HUF 20.5 billion profit for 2010 is about seven times higher than the net profit for 2009; the second highest net profit in the Group
- Doubling in operating income y-o-y, robust interest and fee income
- Strong consumer loan disbursement, extremely successful cross-selling of credit card products, further increase in the personal loan portfolio
- Stable NPL ratio on a yearly basis, improving coverage
- Improving cost efficiency due to higher income and controlled cost base (2010 CIR at 49%, –12 ppts y-o-y)

The HUF-denominated financials of OTP Bank Russia were greatly influenced by the development of the RUB/HUF exchange rate: in 2010 the closing rate of the HUF weakened by 10% y-o-y, while the 2010 average rate weakened by 8% y-o-y against the RUB.

The net profit of **OTP Bank Russia** for 2010 exceeded HUF 20.5 billion, which is an outstanding result given that during H1 2010 the Bank had to set aside almost HUF 7.3 billion in provisions as a one-off item for a corporate exposure that defaulted in February.

[13] The 2009 figures are based on the aggregated financial statements of OAO OTP Bank and Donskoy Narodny Bank. Since the merger of the two banks in Q1 2010, the figures are based on the statements of OAO OTP Bank.

2010 net interest income grew by 48% y-o-y as a combined effect of the growing consumer loan portfolio and a strong interest margin; net fee and commission income increased by 105%. All of these factors, coupled with a cost base growing by less than the loan portfolio (operating costs +18% y-o-y), resulted in outstanding operating profit growth (+96% y-o-y). The 16% y-o-y increase in allowance on impairment was caused by a HUF 7.3 billion provisioning (one-third of total allowance for 2010) for a loan of one corporate customer during H1 2010. The allowance rate remained stable (2009: 5.59%, 2010: 5.56%), which is clearly due to the still favourable quality of the consumer loan portfolio, which accounted for two thirds of the total loan book. In Q4 2010 non-performing loans were written off (RUB 1.8 billion in total, about HUF 12.4 billion), which resulted in further provisioning (RUB +316 million, about HUF 2.2 billion).

The good financial performance of the Bank is mainly due to the robust growth on the income side, which in turn is due to largely to successful sales of consumer loans. The latter is evidenced by the fact that the consumer loan portfolio in 2010 is half as large again as it was in 2009 (+61%). In the case of the flagship product, POS loans, sales performance has improved in line with the substantial increase in demand since the summer of 2009. Sales were supported by the extension of the internal and third-party agents' network. The dynamics of origination remained outstandingly strong in 2010, and in fact, hit an all-time-high record in Q4 2010, as a result of which the Bank's market share remained above 20%, starting from H2 2009 (2010: 21%). Due to the outstanding Q4 origination, the POS loan portfolio grew dynamically (Q4 2010: +58% y-o-y in RUB), and the Bank maintained its second position on the top list both in terms of new origination and portfolio size. As regards credit card loans, the success was due to the re-design of the product proposal in August 2009 and the intensive sales campaigns that followed. The number of newly issued cards as well as the achieved utilization rates significantly exceeded the results of previous campaigns. As a consequence, the portfolio of credit card loans increased dynamically: +9% q-o-q in Q1 2010, +19% in Q2 and +18% in Q3 and +12% in Q4 (adjusted for write-offs, the latter would be 16%). Altogether, the growth for the year was 72% in 2010. Besides the outstanding growth in card issues, the utilization rate also improved, from 10% to 14% y-o-y, which means that with respect to credit card loans, the bank is currently the 4th largest player in the Russian market. As a favourable improvement, personal loans sold in the branch network demonstrated a strong increment of growth in the course of 2010 (however from a relatively low base, the portfolio increased by 111% y-o-y in RUB terms, and adjusted for write-offs, by 124%). The 11% y-o-y growth in mortgage loans is mainly due to a portfolio purchase in Q3 2010.

The total income margin and net interest margin of OTP Bank Russia were significantly boosted by the strong growth in consumer lending, with the former increasing to 16.2% and the latter to 14.3% in 2010, which is a remarkable improvement compared to the previous year's levels (+3.93 ppts and +3.43% y-o-y, respectively). Besides the strong consumer lending activity, the margin improvement was also generated by the fact that offered deposit rates were reduced in several steps from Q4 2009 on, and the active sales promotions were stopped. These changes are reflected in the slowing growth in deposit volumes in 2010: in RUB terms deposits increased by 18% y-o-y in 2010 after the outstanding 41% y-o-y growth in 2009. As the combined effect of these changes, the rapid decline in the net loan/deposit ratio experienced in 2009 was replaced by growth in 2010 (Q4 2010: 114%, +5 ppts y-o-y FX-adjusted growth).

The y-o-y growth increment (105%) in net fee and commission income in 2010 was also bolstered by the previously mentioned consumer loan and deposit trends. Growth is mainly due an increase in fee income related to credit card and POS loans.

The significant increase in allowance associated with loan losses in 2010 (HUF 24.4 billion, +16% y-o-y) was the result primarily of a HUF 7.3 billion one-off provisioning requirement for a corporate loan after the default of Technosila Group. The company was a retail trader of electronic and home appliances, with a wide distribution network. The coverage of the exposure with provisions and collaterals did not necessitate further provisioning in H2 2010. Technosila's largest lender, the Russian MDM Bank, formally took over the company in 2010, and refused to repay its obligations to the other previous creditors. Due to the growth of the consumer loans portfolio, the allowance to average loans ratio was stable y-o-y in 2010 (5.56%), and is in fact even 1.5 ppts lower than the 2009 allowance rate adjusted by the allowance for impairment of Technosila. The ratio of DPD90+ loans was also flat on a yearly basis (Q4 2010: 12.3%, –0.1 ppt y-o-y, mainly due to the write-offs). The coverage ratio of non-performing loans improved (Q4 2010: 87.4%, +3.8 ppts y-o-y).

Due to stringent operating cost control, operating expenses increased by only 9% y-o-y in RUB terms (in HUF +18%), which is largely in line with the Russian CPI (2010 inflation: 8.8%). As a result of branch network rationalizations, the headcount of the bank fell to 4,768 from 5,224 (y-o-y –9%), while the number of branches fell to 155 from 162 (–7 y-o-y). The POS loans agency network has been expanding since Q2 2009. The cost/income ratio decreased to below 50% in 2010 due to the above-mentioned developments (2010: 49.3%, –12.4 ppts y-o-y).

OTP BANK JSC (UKRAINE)[14]

Key indicators of the performance of OTP Bank JSC:

Main components of profit and loss	2009 HUF million	2010 HUF million	Change %
Net profit w/o dividends and net cash transfers	(43,650)	8,928	(120)
Profit before income tax	(44,646)	5,719	(113)
Operating profit	51,033	35,280	(31)
Total income	74,948	60,330	(20)
Net interest income	62,759	50,690	(19)
Net fees and commissions	7,442	7,999	7
Other net non-interest income	4,747	1,641	(65)
Operating expenses	(23,916)	(25,050)	5
Allowance for impairment loan and placement losses	(94,974)	(29,439)	(69)
Other allowance for loan losses	(704)	(121)	(83)
Main components of balance sheet closing balances	**2009**	**2010**	**%**
Total assets	711,155	715,760	1
Gross loans	670,758	692,878	3
Retail loans	311,158	323,568	4
Corporate loans	300,795	316,956	5
Car financing loans	58,806	52,354	(11)
Provision for impairment	(110,583)	(154,126)	39
Deposits from customers	165,764	190,061	15
Retail deposits	98,164	113,056	15
Corporate deposits	67,600	77,005	14
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	403,803	366,979	(9)
Total shareholders' equity	90,711	109,469	21
Loan quality	**2009**	**2010**	**%**
90+ days past due loan volume (in HUF million)	149,827	202,859	35.4
90+ days past due loans/gross customer loans (%)	22.3%	29.3%	7.0
Total allowance for loan losses/average gross loans (%)	13.24%	4.32%	(8.92)
Total provisions/90+ days past due loans (%)	73.8%	76.0%	2.2
Performance indicators	**2009**	**2010**	**ppts**
ROA	(5.6%)	1.3%	6.9
ROE	(51.1%)	8.9%	60.0
Net interest margin	8.06%	7.10%	(0.96)
Total allowance for loan losses/average gross loans	13.24%	4.32%	(8.92)
Cost/income ratio	31.9%	41.5%	9.6
Net loans to deposit	338%	283%	(55)

[14] It includes the results and portfolio balances of LLC OTP Leasing Ukraine from Q4 2008, and from Q4 2009 the results and portfolio balances of LLC OTP Faktoring Ukraine.

- Net profit for the year 2010 exceeded HUF 8.9 billion despite high level of provisioning and y-o-y 20% decline of total income
- The FX-adjusted development of gross loan volumes reflects a declining trend, however there were signs of recovery in case of corporate loans in H2
- Coverage ratio of non-performing loans is still stable (2010: 76.0%); despite the yearly decline of provisions increased by 2.2 ppts
- FX-adjusted DPD90+ loan volume development moderated significantly on a yearly basis
- Despite the high level of inflation operating expenses remained stable (+5% y-o-y)

In 2010, OTP Bank JSC Ukraine realised HUF 8.9 billion net profit compared to the loss realised in the previous year. The profit development was partially influenced by the significant provisioning, while the positive effect of deferred tax income (booked in Q4 2010) was reflected in earnings as well. Significant part of the tax savings was induced by the changes of tax legislation with respect to the financial crisis thus accrued but unpaid interest income became deductible from the tax base generating a deferred tax income.

Operating profit of the Bank (without allowance) decreased by 31% y-o-y, primarily driven by the 20% y-o-y decline of income of the core banking activity. The development of the income side was mainly influenced by the decrease of net interest income determined by several factors. On one hand the development of gross loan volumes reflected a decreasing trend (–7% y-o-y adjusted for FX-effect) and it was influenced by the sale of loan portfolios to OTP Factoring Ukraine, – despite in the Business Report transferred portfolios are indicated in the balance sheet of OTP Bank Ukraine at gross value – because no interest income booked on transferred portfolios. Due to pricing measures over the year the favourable impact of lower interest level on the liability side was demonstrated in the q-o-q increase of net interest income in the last quarter. It should be noted that HUF denominated financials of OTP Bank Ukraine were highly influenced by exchange rate developments: the average rate of the HUF weakened by 4% y-o-y against the UAH.

Net fee and commission income out of total revenues grew by 7% y-o-y (+17% in LCY terms) reflecting the improving performance of commission related to deposit, payment and card transactions (+27% y-o-y, +11% y-o-y). In 2010 the number of transactions in ATMs and POS-terminals grew approximately by 50%, due to the increasing number of sales points accepting the bankcards. New card products and services were introduced, too.

Other net non-interest income dropped on a yearly basis (by –65% y-o-y). The revaluation result of provisions driven by the UAH exchange rate fluctuations dropped to one quarter (–74% y-o-y), and this negative impact was only partially balanced by the gain (HUF 308 million) realised on securities valuation result in the period.

Operational costs remained flat in LCY terms y-o-y reflecting the efficiency of cost control. This is remarkable in light of the high (over 10%) average yearly increase of CPI in Ukraine in 2010. Parallel with the decline in business activity the headcount of the bank was gradually reduced reaching 3,075 person by the end of December (–758 person y-o-y). The yearly decline of other expenses (–2% in LCY terms y-o-y) was driven by the implementation of stringent cost control measures. As a consequence of network rationalization measures, some of the branches that serve retail customers were closed (–17 branches y-o-y), and thus the number of branches decreased to 189 as at the year-end 2010.

In 2010, OTP Bank Ukraine set aside HUF 30 billion allowance for impairment on loan and placement losses representing one third of provisions of the last year; thus allowance for impairment to average gross loan ratio decreased to 4.32% from 13.24%. However the coverage on non-performing loans (Q4 2010: 76.0%) was showing an increase of 2.2 ppts in line with the slowdown in the dynamics of portfolio deterioration.

Still a moderate loan demand characterised the Ukrainian market, as a consequence of the measures taken by National Bank of Ukraine. Foreign currency lending was restricted by tough administrative regulations, furthermore interest rates of UAH denominated loans remained unfavourable, the gross loan portfolio adjusted for FX-effect was showing a 7% yearly decline. On the corporate side there were signs of recovery from the beginning of H2, the FX-adjusted volume of corporate loans increased by 6% in a quarterly comparison. The main reasons behind the recovery in the corporate sector were the increase of portfolio of companies involved in trading/ export of agricultural products and the establishment of new limits for existing borrowers. Regarding the other segments, the recovery is slipping away, during the last year retail mortgage and SME portfolios were shrinking (–7% and –11% adjusted by FX-effect).

The pace of loan portfolio deterioration moderated significantly in 2010. The FX-adjusted DPD90+ loan volume development decreased gradually (Q1: 4, Q2: 14, Q3: 8, Q4: 7). The DPD90+ ratio stood at 29.3% by the end of December (2009: 22.3%), mainly influenced by the shrinking loan volumes. The portfolio quality deterioration trend was experienced in the retail and in SME segment: in case of mortgage loans DPD90+ ratio increased to 37.2% from 22.3% y-o-y, in case of SME loans DPD90+ ratio reached 46% against 29.1% a year earlier. It should be highlighted the in case of corporate loans the portfolio development was more favourable: DPD90+ ratio moderated to 18.3% from 21.2% on a yearly basis.

The Bank provides a debtor protection program to its retail customers; within this framework it allows its customers to change their originally USD denominated mortgage and car loans into UAH loans, and is also open to agree to lower temporary instalments. The ratio of restructured loans in the retail segment reached 41.2% by the end of December, it is favourable, however, that the volume of retail restructured loans in LCY showing a downward trend.

The Bank several times lowered its interest on deposits in 2010, still it managed to preserve its deposit base. The retail deposit base of the Bank showed an increase of 5% (adjusted by FX-effect), mainly fuelled by the periodic increase of sight deposit base reflecting the growing trust of people in the banking sector. Simultaneously, corporate deposits grew by 3% y-o-y (adjusted by FX-effect), however they stagnated on a quarterly basis.

In the forthcoming period, retail deposits will be the engine of the growth because Ukrainian companies still face restricted access to credit and their saving capability will remain on a low level. Consequently, the Bank's net loan/deposit ratio improved further both on yearly (–54 pps).

Capital position of the Bank is rather strong, the CAR calculated in compliance with local regulations stood at 22.1% by the end of December, which is more than twice bigger as the regulatory minimum (10%).

OTP BANK ROMANIA (ROMANIA)

Key indicators of the performance of OTP Bank Romania:

Main components of profit and loss	2009 HUF million	2010 HUF million	Change %
Net profit w/o dividends, net cash transfers and one-offs[15]	1,136	(6,406)	(664)
Profit before income tax	1,489	(6,404)	(530)
Operating profit	6,947	9,775	41
Total income	20,237	22,662	12
Net interest income	15,876	18,419	16
Net fees and commissions	2,013	2,402	19
Other net non-interest income	2,348	1,841	(22)
Operating expenses	(13,290)	(12,886)	(3)
Provisions for impairment on loan and placement losses	(5,332)	(15,944)	199
Other allowance for loan losses	(125)	(235)	88
Main components of balance sheet[16] closing balances	**2009**	**2010**	**%**
Total assets	365,743	424,464	16
Gross loans	293,116	329,005	12
Retail loans	200,738	239,846	19
Corporate loans	92,379	89,158	(3)
Provision for impairment	(8,725)	(24,702)	183
Deposits from customers	96,364	112,619	17
Retail deposits	81,998	73,838	(10)
Corporate deposits	14,366	38,781	170
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	227,298	266,155	17
Total shareholders' equity	25,513	25,144	(1)
Loan quality	**2009**	**2010**	**%**
90+ days past due loan volume (in HUF million)	9,942	34,852	250.5
90+ days past due loans/gross customer loans (%)	3.4%	10.6%	7.2
Allowance for loan losses/average gross loans (%)	1.75%	5.13%	3.38
Total provisions/90+ days past due loans (%)	87.8%	70.9%	(16.9)
Performance indicators	**2009**	**2010**	**ppts**
ROA	0.3%	(1.6%)	(1.9)
ROE	4.7%	(25.3%)	(30.0)
Total income margin	5.52%	5.74%	0.22
Net interest margin	4.33%	4.66%	0.33
Cost/income ratio	65.7%	56.9%	(8.8)
Net loans to deposits	295%	270%	(25)

In 2010, **OTP Bank Romania** realised HUF 6.4 billion loss compared to the net profit of HUF 1.1 billion in 2009. The deterioration of loan quality continued: in 2010 the DPD90+ ratio jumped to 10.6% from 3.4%. While the strong pace of portfolio quality deterioration in Q2 was in connection with several corporate exposures, a significant decrease was observed in H2 and at that time the majority of new NPL formation was related to the gradual deterioration of mortgage portfolio. The loan quality deterioration resulted in a tripling allowance for impairment in 2010 y-o-y. Altogether, the coverage ratio of DPD90+ loans dropped in 2010, but compared to the bottom reached in Q2 2010, the coverage improved significantly in the second half of 2010. The operating profit showed a 41% yearly improvement in 2010, supported by both the strong core banking revenues and the decline of operating costs. The net interest income was underpinned by the positive revaluation result of swaps made for liquidity management purposes (part of this revaluation is booked on net interest income line; half of the yearly increment on the net interest income line can be explained by the swap revaluation result). If the positive contribution from swap revaluation result (booked on the net interest income line) was deducted, the net interest margin would remain basically unchanged in 2010 y-o-y. The gross loan portfolio shrank by 1% y-o-y adjusted for the currency exchange rate movements. The lending campaigns launched in 2010 focused on mortgage and SME loans; significant volume expansion was registered in these segments. On the contrary, the corporate loan volumes decreased by 8% in 2010. The success of the deposit collection is certified by the 13% yearly FX-adjusted growth; the strong y-o-y dynamics is owing to the excellent performance showed in case of corporate deposit collection. The Bank received a capital injection of RON 80 million in 2010. The number of branches (106 units) remained unchanged and the number of employees (1,104 persons) did not change significantly y-o-y.

[15] Adjusted with result of CCIRS swap transactions executed with OTP Bank in relation to interbank financing.
[16] Before transfer balance sheet numbers are displayed.

OTP BANKA HRVATSKA (CROATIA)

Key indicators of the performance of OTP banka Hrvatska:

Main components of profit and loss	2009 HUF million	2010 HUF million	Change %
Net profit w/o dividends, net cash transfers and one-offs	3,245	2,721	(16)
Profit before income tax	4,068	3,441	(15)
Operating profit	6,068	7,017	16
Total income	19,540	20,232	4
Net interest income	13,239	13,964	5
Net fees and commissions	3,935	3,986	1
Other net non-interest income	2,366	2,282	(4)
Operating expenses	(13,472)	(13,216)	(2)
Provisions for impairment on loan and placement losses	(1,947)	(3,120)	60
Other allowance for loan losses	(52)	(455)	775
Main components of balance sheet closing balances	**2009**	**2010**	**%**
Total assets	469,304	484,923	3
Gross loans	318,477	335,828	5
Retail loans	194,021	208,515	7
Corporate loans	122,183	125,395	3
Provision for impairment on loan and placement losses	(9,195)	(13,083)	42
Deposits from customers	337,935	373,813	11
Retail deposits	294,348	331,255	13
Corporate deposits	43,588	42,558	(2)
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	60,377	40,271	(33)
Total shareholders' equity	60,626	57,262	(6)
Loan quality	**2009**	**2010**	**%**
90+ days past due loan volume (in HUF million)	28,417	42,991	51.3
90+ days past due loans/gross customer loans (%)	8.9%	12.8%	3.89
Allowance for loan losses/average gross loans (%)	0.62%	0.95%	0.33
Total provisions/90+ days past due loans (%)	32.4%	30.4%	(2)
Performance indicators	**2009**	**2010**	**ppts**
ROA	0.7%	0.6%	(0.1)
ROE	5.6%	4.6%	(1.0)
Total income margin	4.19%	4.24%	0.05
Net interest margin	2.84%	2.93%	0.09
Cost/income ratio	68.9%	65.3%	(3.6)
Net loans to deposits	92%	86%	(6)

In 2010, **OBH Group** realised HUF 2.7 billion net profit, representing a fall of 16% over 2009. The main reason for the lower income was the higher provisioning rates for non-performing loans (+60% y-o-y). This rise is explained by the deteriorating portfolio quality and the change in the regulations effective from 31 March.

On the liabilities side, notwithstanding the continuously declining deposit interest rates, the Bank's portfolio grew by 11% y-o-y. However, the entire Croatian market was characterized by restrained lending activity. In case of OBH, alongside a stagnating corporate loan portfolio, it was only in the consumer loan portfolio that some of growth was observable. As a result of the above, the net loan/deposit ratio decreased by a further 6% in 2010.

Net fee and commission income for 2010 was about the same as in the previous year, and with regard to operating expenses, strict cost control continued to be evident.

As a result of its favourable funding position, OBH prepaid its CHF 140 million senior loan over the year, and paid HRK 200 million (around HUF 7.6 billion) as interim dividend to the parent bank. Despite the latter, OBH's capital adequacy ratio improved y-o-y (from 13.4% to 14.2%).

The number of employees at the OBH Group stood at 1,016 at the end of December 2010, and the number of branches did not change (105 in all).

OTP BANKA SLOVENSKO[17] (SLOVAKIA)

Key indicators of the performance OTP Banka Slovensko:

Main components of profit and loss	2009 HUF million	2010 HUF million	Change %
Net profit w/o dividends, net cash transfers and one-offs	(6,673)	(952)	(86)
One-off items, net	(244)	0	(100)
Net profit w/o dividends, net cash transfers and one-offs	(6,429)	(952)	(85)
Profit before income tax	(6,633)	(833)	(87)
Operating profit	3,289	3,727	13
Total income	13,731	13,885	1
Net interest income	10,485	11,207	7
Net fees and commissions	2,705	2,380	(12)
Other net non-interest income	541	298	(45)
Operating expenses	(10,442)	(10,157)	(3)
Allowance for impairment on loan and placement losses	(9,029)	(4,715)	(48)
Other allowance for loan losses	(894)	154	(117)
Main components of balance sheet closing balances	**2009**	**2010**	**%**
Total assets	375,208	349,448	(7)
Gross loans	273,269	273,641	0
Retail loans	163,779	179,440	10
Corporate loans	109,490	94,202	(14)
Allowance for loan losses	(13,633)	(15,677)	15
Deposits from customers	253,462	256,751	1
Retail deposits	219,597	234,543	7
Corporate deposits	33,865	22,209	(34)
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	28,707	11,825	(59)
Liabilities from issued securities	55,457	43,655	(21)
Subordinated bonds and loans	7,876	8,109	3
Total shareholders' equity	24,767	24,551	(1)
Loan quality	**2009**	**2010**	**%**
90+ days past due loan volume (in HUF million)	24,286	27,965	15.1
90+ days past due loans/gross customer loans (%)	8.9%	10.2%	1.3
Allowance for loan losses/average gross loans (%)	3.07%	1.72%	(1.35)
Total provisions/90+ days past due loans (%)	56.1%	56.1%	(0.1)
Performance indicators	**2009**	**2010**	**ppts**
ROA	(1.6%)	(0.3%)	1.3
ROE	(23.2%)	(3.9%)	19.3
Total income margin	3.41%	3.83%	0.42
Net interest margin	2.61%	3.09%	0.48
Cost/income ratio	76.0%	73.2%	(2.8)
Net loans to deposits	102%	100%	(2)

In 2010, **OTP Banka Slovensko** posted a net loss of HUF 952 million, compared to a HUF 6,429 million net loss in 2009. The main reason for the lower loss was the lower allowance, although higher income and cost savings also contributed to the favourable development. Operating profit in 2010 was 13% higher in HUF terms y-o-y, and grew by even more in EUR terms, since in 2010 the average exchange rate of the HUF versus EUR was 2% stronger compared to the average of 2009. Analysing the P&L developments in EUR terms, the improvement in operating profit was mainly due to the good overall income (+3% y-o-y), and to lower operating expenses (–3% y-o-y) resulting from stringent cost control. The cost/income ratio fell by 2.9% y-o-y, to 73.2%.

In 2010, within total income, net interest income improved by 9% y-o-y in EUR terms. Interest income decreased due to the shrinking loan portfolio in LCY and the lower reference rates. This was partly offset by the gradual repricing of corporate loans in the preceding quarters. The lower reference rates as well as the new expiry of term deposits with attractive deposit rates from early 2009 lowered interest expenses on deposits.

[17] In the third and fourth quarters of 2010 several loans were sold from OBS's balance sheet to other members of the Group. OBS's balance sheet in 2010 reflects the position before the transfer of loans to OTP Bank Plc. and OTP Factoring Ltd. Accordingly, the gross loans line includes the gross value of sold loans at the time of sale, less recoveries since the sale. Furthermore, the allowance for impairment on loan losses line in the balance sheet includes the impairment related to these sold loans. The effect on profit and loss of the loan sale was not significant, and therefore the P&L was not adjusted.

All in all, the net interest margin increased to 3.09% in 2010 (+49 bps y-o-y).

The drop in net fees and commissions in 2010 (in EUR –10% y-o-y) was mainly due to the weak business activity in the corporate segment. Other net non-interest income, which represents a very small proportion of total income, almost halved in 2010 y-o-y, as a result of the lower net exchange-rate gain.

In 2010 OBS set aside HUF 4.7 billion provisions for impairment on loan and placement losses, which is half of the 2009 figure. The main reason for the significant y-o-y change in the other allowance line is due to the release of provisions related to off-balance-sheet items.

By the end of 2010, the DPD90+ ratio had increased by 1.3%, to 10.2% y-o-y. In the case of mortgage loans, the portfolio quality stagnated in 2010. The quality of consumer loans improved, while the quality of corporate loans deteriorated. Compared to 2009, the total coverage through provisioning of loans overdue for more than 90 days had not changed by the end of 2010.

The development of deposit and loan volumes was in line with the intention to strengthen the retail focus of the Bank. Analysing the dynamics in EUR terms, total deposits decreased by 2% y-o-y, mainly because large corporate deposits dropped by 32% and municipality deposits fell by 42%, while retail and micro-and-small enterprise deposits both rose by 4% y-o-y. If we treat the loan portfolio sold by OBS within the Group in the third and fourt quarters of 2010 (in gross value terms, nearly EUR 30 and EUR 32 million in each quarter respectively) as part of the portfolio, gross loans fell by 3% compared to 2009. The volume of corporate loans decreased by 16% y-o-y, while in contrast, retail lending began to pick up (+7.5% y-o-y). The mortgage loan portfolio grew by 6.2% y-o-y. Worth highlighting is the 51% y-o-y growth in non-mortgage-backed loans. The net loan/deposit ratio fell to 100% by the end of 2010 (–2 ppts y-o-y).

After the significant rationalisations of 2009, the number of branches decreased by just 1 branch, to 76 branches in 2010, and the headcount fell by 34 persons, to 573.

OTP BANKA SRBIJA (SERBIA)

Key indicators of the performance of OTP banka Srbija:

Main components of profit and loss	2009 HUF million	2010 HUF million	Change %
Net profit w/o dividends, net cash transfers and one-offs	(8,990)	(7,312)	(19)
Profit before income tax	(9,024)	(7,325)	(19)
Operating profit	(2,278)	465	(120)
Total income	8,010	6,934	(13)
Net interest income	4,051	2,568	(37)
Net fees and commissions	1,954	1,689	(14)
Other net non-interest income	2,004	2,677	34
Operating expenses	(10,287)	(6,469)	(37)
Allowance for impairment on loan and placement losses	(6,277)	(7,288)	16
Other allowance for impairment	(470)	(502)	7
Main components of balance sheet closing balances	**2009**	**2010**	**%**
Total assets	127,025	114,796	–10
Gross loans	89,878	88,754	–1
Retail loans	33,607	35,826	7
Corporate loans	56,271	52,928	–6
Provision for impairment on loan losses	(12,189)	(18,560)	52
Deposits from customers	32,395	37,180	15
Retail deposits	23,546	27,304	16
Corporate deposits	8,848	9,875	12
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	25,952	15,922	–39
Subordinated bonds and loans	38,910	40,846	5
Total shareholders' equity	27,690	17,987	–35
Loan quality	**2009**	**2010**	**%**
90+ days past due loan volume (in HUF million)	30,321	42,476	40.1
90+ days past due loans/gross customer loans (%)	33.7%	47.8%	14.1
Allowance for loan losses/average gross loans (%)	6.80%	8.16%	1.36
Total provisions/90+ days past due loans (%)	40.2%	43.7%	3.5
Performance indicators	**2009**	**2010**	**ppts**
ROA	(6.7%)	(6.0%)	0.7
ROE	(27.3%)	(32.0%)	(4.7)
Total income margin	5.94%	5.73%	(0.21)
Net interest margin	3.00%	2.12%	(0.88)
Cost/income ratio	128.4%	93.3%	(35.1)
Net loans to deposits	240%	189%	(51)

OTP banka Srbija realised a HUF 7.3 billion loss in 2010, which was 19% less than in the base period.

The 2010 operating result turned positive as cost savings materialized following the operating cost cutting measures taken in 2009, which effectively offset the 13% decline in total revenues. The lower net interest income is explained mainly by the gradually declining loan portfolio on which interest income is booked (as a consequence of portfolio quality deterioration). The growth in other net non-interest income was to a great extent influenced by the previously suspended, but in 2010 collected, interest revenues and, on the other hand, the offsetting of the growth in allowance for impairment as a result of the revaluation of provisions due to FX-rate changes was booked on this line as well.

The gradually rising ratio of loans past due for more than 90 days is almost entirely attributable to the SME and corporate segment. The y-o-y soaring risk costs resulted in improving coverage ratio of DPD90+ loans (+3.5 ppts y-o-y).

Gross loans decreased by 2% y-o-y (adjusted for the FX effect). Thanks to the successful deposit campaign launched in Q4 2010, the FX-adjusted deposit portfolio expanded by 14% y-o-y and, consequently, the net loan/deposit ratio fell to 189% by the end of 2010.

In 2010, the headcount declined to 708 (–76 persons y-o-y) and, with five newly opened branches, the number of branches grew to 55.

CRNOGORSKA KOMERCIJALNA BANKA (MONTENEGRO)

Key indicators of the performance of CKB's operations:

Main components of profit and loss	2009 HUF million	2010 HUF million	Change %
Net profit w/o dividends, net cash transfers and one-offs	428	(16,844)	
Profit before income tax	430	(16,844)	
Operating profit	7,227	3,825	(47)
Total income	13,400	9,793	(27)
Net interest income	10,136	7,131	(30)
Net fees and commissions	2,946	2,981	1
Other net non-interest income	318	(319)	(200)
Operating expenses	(6,173)	(5,968)	(3)
Provisions for possible loan and placement losses	(6,730)	(20,316)	202
Other allowance for loan losses	(68)	(353)	419
Main components of balance sheet closing balances	**2009**	**2010**	**%**
Total assets	234,804	212,228	(10)
Gross loans	181,137	158,321	(13)
Retail loans	112,606	100,069	(11)
Corporate loans	68,531	58,252	(15)
Provision for impairment on loan losses	(10,362)	(31,149)	201
Deposits from customers	164,317	158,021	(4)
Retail deposits	90,943	101,295	11
Corporate deposits	73,374	56,726	(23)
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	30,662	21,860	(29)
Subordinated bonds and loans	7,317	7,532	3
Total shareholders' equity	23,049	16,222	(30)
Loan quality	**2009**	**2010**	**%**
90+ days past due loan volume (in HUF million)	19,673	42,166	114.3
90+ days past due loans/gross customer loans (%)	10.9%	26.6%	15.7
Allowance for loan losses/average gross loans (%)	3.09%	11.97%	8.88
Total provisions/90+ days past due loans (%)	52.7%	73.9%	21.2
Performance indicators	**2009**	**2010**	**ppts**
ROA	0.2%	(7.5%)	(7.7)
ROE	2.1%	(85.8%)	(87.9)
Total income margin	4.94%	4.38%	(0.56)
Net interest margin	3.73%	3.19%	(0.54)
Cost/income ratio	46.1%	60.9%	14.8
Net loans to deposits	104%	80%	(24)

Crnogorska Komercijalna Banka's net loss for the year 2010 was HUF 16.8 billion. The deterioration in performance is for the most part explained by the three-fold increase in allowance for impairment, though the 47% fall in operating profit was an additional negative factor.

The decline in net interest income was primarily due to the fall in lending activity caused by the downturn in the demand for loans. EUR 11 million worth of loans were sold to OTP Core Hungary in Q1 2010, and there was a significant sale (in the amount of EUR 66,2 million) of a portfolio to the Montenegrin collection company.

The deterioration in the loan portfolio continued in 2010, and by the end of the year the DPD90+ ratio had reached 26.6%. Due to significant provisioning, the DPD90+ coverage (73.9%) is near the OTP Group's average coverage level.

In 2010, the FX-adjusted loan portfolio fell by 15% (corporate loans: –17% y-o-y, retail loans: –14% y-o-y). Total deposits decreased further, by 7% y-o-y, mainly due to significant withdrawals of corporate deposits (–13% y-o-y), while this was only partially offset by the increase in the retail deposit base (+8% y-o-y).

Following the net loss realised in H1 2010, CKB Bank received a capital injection of EUR 35 million from its parent company in June.

STAFFING LEVELS AND OTHER INFORMATION

The closing headcount figure of the OTP Group was 30,367 as at 30 December 2010, showing a net decrease of 970 employees over the year-end 2009 figure. The most significant lay-offs were implemented at the Ukrainian subsidiary (–758 persons), mainly as a consequence of the fall in lending activity.

The Group's branch network comprised a total of 1,486 branches at the end of December 2010 (–28 branches y-o-y). In the year 2010 the modernization and development of the branch and sales network were afforded high priority both in Hungary and in the countries of the foreign subsidiaries.

OTP Bank	**31/12/2009**	**31/12/2010**	**Change (%)**
Closing staff number (persons)	7,820	7,800	(0.3%)
Per capita total assets (HUF million)	863.3	815.1	(5.6%)
Per capita profit after tax (HUF million)	19.8	16.0	(19.2%)
Group	**31/12/2009**	**31/12/2010**	**Change (%)**
Closing staff (persons)	31,337	30,367	(3.1%)
Per capita consolidated total assets (HUF million)	311.3	322.1	3.5%
Per capita consolidated profit after tax (HUF million)	4.8	3.9	(18.8%)

	31 December 2010						**Change (Y-o-Y)**					
	Bank branches	ATM	POS	Bank cards (th)	Number of banking clients (th)	Staff (closing)	*Bank branches*	*ATM*	*POS*	*Bank cards (th)*	*Number of banking clients (th)*	*Staff (closing)*
OTP Bank	380	1,995	39,231	3,841	4,592	7,800	*(2)*	*8*	*3,672*	*29*	*(33)*	*(20)*
DSK Bank	387	880	5,049	1,196	2,978	4,321	*1*	*10*	*504*	*(8)*	*3*	*(16)*
OTP Banka Slovensko	76	117	671	119	193	573	*(1)*	*1*	*27*	*0*	*5*	*(34)*
OTP banka Hrvatska	105	217	1,102	385	382	1,016	*0*	*17*	*(79)*	*15*	*(73)*	*2*
OTP Bank Romania	106	138	1,106	171	219	1,104	*0*	*2*	*30*	*24*	*13*	*10*
OTP Bank JSC Ukraine	189	216	400	124	337	3,075	*(17)*	*1*	*(3)*	*38*	*55*	*(758)*
OTP Bank Russia	155	249	2,218	7,394	3,715	4,768	*(7)*	*(2)*	*(39)*	*3,928*	*877*	*(456)*
OTP banka Srbija	55	190	4,054	100	349	708	*5*	*(5)*	*459*	*(54)*	*(7)*	*(76)*
CKB	33	105	3,819	167	290	451	*(7)*	*0*	*284*	*(12)*	*(30)*	*(56)*
Foreign banks total	1,106	2,112	18,419	9,656	8,463	16,016	*(26)*	*24*	*1,183*	*3,932*	*843*	*(1,384)*
OTP Bank Russia (employed agents)						5,358						*808*
Other Hungarian and foreign subsidiaries						1,193						*(374)*
Group total (aggregated)	1,486	4,107	57,650	13,497	13,055	30,367	*(28)*	*32*	*4,855*	*3,960*	*811*	*(970)*
Group total aggregated w/o contractual agents)						25,009						*(1,778)*
OTP Bank Russia (total agents)						13,845						*3,165*

SUPPLEMENTARY DATA – FOOTNOTES TO THE CONSOLIDATED EARNINGS BY MAIN SUBSIDIARIES (IFRS) TABLE

General note: neither in the case of OTP Core nor of the other subsidiaries do the net results of the subsidiaries stated in the table include received dividends and net cash transfers. Items such as these received from or given to companies outside the Group are shown on a separate line in one sum in the table, regardless of which subsidiary the income or cost item was registered at.

(1) Revaluation result of the strategic open FX position. The size and denomination of the short position changed as follows:
29.12.2008-05.01.2009: EUR 300 million short position plus USD 75 million short position
06.01.2009- : EUR 310 million short position plus USD 61.5 million short position
Since the start of 2007, the OTP Group has held a strategic open FX position in order to hedge the exposure of its net profit to the exchange rate movements of the Hungarian forint, stemming from the translation of the profit and loss of the foreign subsidiaries from local currencies to HUF. Since Q1 2009, the Bank re-classified the strategic open FX position as a hedge transaction. Consequently, going forward, the exchange rate effect of a EUR 310 million short position, equal to the 2009 and 2010 annual result of 4 subsidiaries (DSK, CKB, OTP banka Hrvatska and OTP Banka Slovensko), is to be booked against equity. Accordingly, in Q1, out of the total HUF 16.2 billion before taxation revaluation loss generated on the entire strategic open position, HUF 13.8 billion was booked against equity and only HUF 2.4 billion charged to profit and loss.

(2) In Q2 2010, the majority of the goodwill related to CKB (Montenegro) was written off, which had a HUF 18.5 billion pre-tax and a HUF 15.0 billion net impact on the consolidated profit and loss. After the successful performance over several years, from Q4 2009 the deteriorating macro environment brought about a significant deterioration of portfolio quality, and CKB's results were negative for the last three consecutive quarters. In June 2010 OTP also had to inject capital into its Montenegrin operation. All this necessitated the goodwill write-down of the above amount.

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

(4) Within the OTP Group, the Corporate Centre is a virtual entity established through an equity investment of OTP Core for the purpose of performing the capital-market financing of the subsidiaries, outside of OTP Core, that belong to the OTP Group. Therefore, the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core plus the Subordinated bonds and loans and senior notes arranged by OTP Bank under its ongoing EMTN program. From these financing sources, the Corporate Centre must supply the OTP subsidiaries outside of OTP Core with loans and with equity. The main subsidiaries financed by the Corporate Centre are as follows: Hungary – Merkantil Bank Ltd, Merkantil Car Ltd, Merkantil Leasing Ltd, OTP Real Estate Leasing Ltd, OTP Fund Management Ltd, OTP Real Estate Fund Management Ltd, OTP Life Annuity Ltd; foreign entities – leasing companies and factoring companies.

(5) From Q3 2010, statements are based on the combined P&L accounts of DSK Group and the newly established Bulgarian collection company – OTP Factoring Bulgaria LLC.

(6) One-off losses booked in relation to loan transfers.

(7) Combined net profit of Merkantil Bank and Merkantil Car without dividends, net cash transfers and provisioning for investments in subsidiaries.

(8) Correction item booked in relation to the sale of OTP Leasing a.s in Q1 2009.

(9) From Q4 2009: OTP Leasing Romania IFN S.A. (Romania), Z plus d.o.o. (Croatia),

OTP Leasing d.d. (Croatia), DSK Leasing AD (Bulgaria).
(10) LLC AMC OTP Capitol (Ukraine) and OTP Asset Management SAI S.A. (Romania)
(11) HIF Ltd. (United Kingdom), OTP Faktoring Slovensko a.s. (Slovakia), OTP Holding Limited (Cyprus), Velvin Ventures Ltd. (Belize), OTP Faktoring SRL (Romania)
(12) All Hungarian group companies combined: sum of adjusted net results of Hungarian subsidiaries, the Corporate Centre and the eliminations related thereto.
(13) All foreign group companies combined: sum of adjusted net results of the foreign group companies and of any net items related thereto.

CALCULATION OF ADJUSTED LINES OF IFRS PROFIT AND LOSS STATEMENTS PRESENTED IN THE MANAGEMENT'S ANALYSIS SECTION OF THE ANNUAL REPORT

In order to ensure a presentation of the performance of the OTP Group that reflects genuine trends, we have performed the following adjustments on the consolidated income statement contained in the "Management's analysis" section of the Annual Report, relative to the Company's audited financial statements (published under the title of "Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2010", which is available on the website of OTP Bank (www.otpbank.hu) under Investor Relations / Reports / IFRS reports). We also made the following layout adjustments in respect of the stated stand-alone and part-consolidated data of the subsidiaries.

Adjustments:

- *Received dividends, together with net cash transfers, net profit generated on the strategic open FX position, goodwill impairment, and the special tax on financial institutions have been removed from the P&L hierarchy, and analysed separately from the profit and loss generated from the operations of the Group or the Group members, and from other profit and loss.*
- *Other non-interest income elements stemming from the release during the reporting period of provisions set aside prior to acquisition have been presented among allowance for impairment related to loans, with these costs reduced by the provision releases preceding the acquisition.*
- *Other income has been presented combined with the gains and losses on real estate transactions lines, but without the above-mentioned income from the release of pre-acquisition provisions and without received cash transfers. However, Other expenses related to non-financial activities are stated on the adjusted net other income line, thus presenting in net terms the profit/loss related to non-financial activity within adjusted net other income.*
- *Of the Other operating expenses, Other allowance for impairment have been removed and stated separately in the adjusted income statement. In the IFRS income statement, Other allowance for impairment are made up of the following items: provisioning for contingent and future liabilities and legal cases, provisioning for equity interests and securities, as well as provisioning for other assets.*
- *Other general costs have been adjusted as follows. Here we have listed Other costs and Other expenses related to non-financial activity, and at the same time, we have stripped out Paid cash transfers (with the*

exception of the movie subsidies and cash transfers to public benefit organisations), Other expenses from other non-financial activity, as well as the Special tax on financial institutions.

- *In the first quarter of 2010 price losses incurred on the sale of bonds, and the release of provisions set aside on these bonds, as other allowance for impairment in the preceding periods, have been stated in net terms on the Price gains/losses on securities line both in the consolidated and in OTP Core's income statement. The negative profit effect of the impairment on bonds was generated in the preceding periods, when setting aside provisions associated with other allowance for impairment.*
- *In 2010, the agent commissions paid by Merkantil Group to dealers (dealer commissions) were recorded as an interest expense in the income statement. In the income statements of the preceding periods this item had still been stated as a commission expense. In the interests of ensuring the comparability of data over time, in the adjusted tables of the report, the dealer commission was reclassified from net interest income to net fees and commissions – both at the stand-alone and at the consolidated level.*
- *In the aggregated income statement of Merkantil Bank and Car, we have eliminated impairment recognized on subsidiary firms as investments. The reason for this is that this item has been stripped out of the consolidated net earnings of the OTP Group, and the profit and loss of the Group is only charged with the profit and loss of the – likewise consolidated – subsidiary firms.*
- *The performance indicators stated in the report (cost/income ratio, net interest margin, allowance/gross loans, as well as the ROA and ROE ratios) have been calculated on the basis of the adjusted income statement, excluding one-offs. Thus they do not contain received dividends, net cash transfers, the net result of the strategic open FX position, the net effect of the goodwill impairment and the effect of the special tax on financial institutions. In the case of the cost/income ratio, the costs do not include other allowance for impairment.*
- *The consolidated 2010 ROA and ROE indicators are calculated from the adjusted net profit excluding one-off items; however, for 2009 – since in that year one-off items did not have a material impact – they were calculated from the unadjusted accounting profit figure (which also includes one-off items).*

ADJUSTMENTS TO THE CONSOLIDATED STATEMENT OF RECOGNIZED INCOME (IFRS)

The table below contains the adjustments to items of the audited, consolidated Statement of recognized income (published under the title of "Consolidated Financial Statements in accordance with international financial reporting standards as adopted by the European Union for the year ended 31 December 2010", which is available on the website of OTP Bank (www.otpbank.hu) under Investor Relations / Reports / IFRS reports) after the 2010 Annual General Meeting of the Company).

HUF million	2009	2010
Net interest income	**589,780**	**616,425**
(–) Agent commissions paid to car dealers by Merkantil Group		(3,929)
Net interest income (adj.)	589,780	620,354
Profit from fees and commissions	**132,913**	**140,631**
(+) Agent commissions paid to car dealers by Merkantil Group		(3,929)
Profit from fees and commissions (adj.)	**132,913**	**136,702**
Foreign exchange result, net	**(8,308)**	**31,811**
(–) Result of strategic open FX position	(2,390)	0
Foreign exchange result, net (adj.)	**(5,919)**	**31,811**
Net gains on securities	**7,458**	**5,445**
(+) Release of other provisions related to securities		9,384
Net gains on securities, net (adj.)	**7,458**	**14,829**
Gains on real estate transactions	**931**	**845**
(+) Other operating income	**66,308**	**20,890**
(–) Received cash transfers	4	32
(–) Reversal of pre-acquisition loan impairment	2,344	165
(+) Other expenses related to non-financial activity	(3,041)	(4,112)
Net other operateing income (adj.)	**61,851**	**17,426**
Provision for impairment on loan and placement losses	**(249,278)**	**(273,024)**
(+) Reversal of pre-acquisition loan impairment	2,344	165
Provision for impairment on loan and placement losses (adj.)	**(246,935)**	**(272,859)**
Dividends and net cash transfers	**(378)**	**(1,215)**
(–) Movie subsidies and cash transfers to public benefit organizations	(1,170)	(1,704)
Dividends and net cash transfers	**792**	**488**
Depreciation and amortization	**(45,141)**	**(67,324)**
(–) Goodwill impairment (CKB (Montenegro))	0	(18,519)
Depreciation and amortization(adj.)	**(45,141)**	**(48,805)**
Other operating expenses	**(21,048)**	**(14,435)**
(+) Provision for impairment/Use of provision on securities available-for-sale and held-to-maturity	(8,027)	9,924
(–) Release of securities-related provisions		9,384
(–) Other costs	(6,714)	(7,698)
(–) Other expenses related to non-financial activity	(4,318)	(6,310)
Other allowance and operating expenses	**(18,043)**	**113**
Other administrative expenses	**(140,483)**	**(171,231)**
(+) Other costs	(6,714)	(7,698)
(+) Other expenses related to non-financial activity	(4,318)	(6,310)
(–) Paid cash transfers	(1,277)	(2,199)
(+) Movie subsidies and cash transfers to public benefit organizations	(1,170)	(1,704)
(–) Other expenses related to other non-financial activity	(3,041)	(4,112)
(–) Special tax on financial institutions	**0**	**(36,098)**
Other administrative expenses (adj.)	**(148,367)**	**(144,535)**

COMPARISON OF DATA UNDER THE OLD AND NEW COMPUTATION WITH RESPECT TO THE RANGE OF DATA AFFECTED BY THE CHANGE IN THE CALCULATION METHODOLOGY OF MERKANTIL GROUP IN Q4 2010

Methodological changes: in 2009 and 2010, in the combined income statement of Merkantil Bank and Car, the impairment recognised in relation to their subsidiaries as investments was eliminated. The reason for this is that this item has been stripped out of the consolidated net earnings of the OTP Group, and the profit and loss of the Group is only charged with the profit and loss of the – likewise consolidated – subsidiary firms.

In addition, loans that Merkantil Bank granted to Merkantil Car – previously stated as corporate loans – have been eliminated both from the gross loans and from the total assets (these items do not appear at the consolidated level). In the interests of ensuring comparability of data over time, these changes were also implemented in respect of 2009, and as a result, certain financial data and indicators have changed compared to the previously published data. (Of these, the most significant change is the elimination of HUF 1.8 billion Other allowance for impairment from Merkantil's net result in 2009. This item does not appear at the consolidated level.)

Merkantil Bank and Car's financial data – under the old methodology:

Main components of profit and loss	2009 HUF million	2010 HUF million
Net profit w/o dividends, net cash transfers and one-offs	(1,830)	(9,144)
Profit before income tax	(1,815)	(9,146)
Operating profit	11,813	9,784
Total income	16,901	14,793
Net interest income	19,630	17,329
Net fees and commissions	(4,867)	(4,077)
Other net non-interest income	2,138	1,541
Operating expenses	(5,088)	(5,009)
Allowance for impairment on loan and placement losses	(11,504)	(13,674)
Other allowance for loan losses	(2,123)	(5,256)
Main components of balance sheet closing balances	**2009**	**2010**
Total assets	308,706	305,325
Gross loans	312,698	328,166
Retail loans	80	396
Corporate loans	37,850	48,907
Car financing loans	274,768	278,863
Allowance for impairment on loan losses	(34,393)	(47,550)
Deposits from customers	5,467	4,784
Retail deposits	1,496	2,017
Corporate deposits	3,971	2,767
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	235,553	248,874
Total shareholders' equity	31,444	22,180
Loan quality	**2009**	**2010**
90+ days past due loan volume (in HUF million)	38,469	54,161
90+ days past due loans/gross customer loans (%)	12.3%	16.5%
Allowance for loan losses/average gross loans (%)	3.64%	4.43%
Total provisions/90+ days past due loans (%)	89.4%	87.8%
Performance indicators	**2009**	**2010**
ROA	(0.6%)	(3.0%)
ROE	(5.5%)	(34.1%)
Net interest margin	5.92%	5.64%
Cost/income ratio	30.1%	33.9%

Adjusted items (in HUF million):

Adjustment of loans that Merkantil Bank granted to Merkantil Car (previously stated as corporate loans)	3,765	19,966
Adjusted due to impairment related to investments	(1,762)	(5,021)

Merkantil Bank and Car's financial data – under the new methodology

Main components of profit and loss	2009 HUF million	2010 HUF million
Net profit w/o dividends, net cash transfers and one-offs	(68)	(4,123)
Profit before income tax	(52)	(4,125)
Operating profit	11,813	9,784
Total income	16,901	14,793
Net interest income	19,630	17,329
Net fees and commissions	(4,867)	(4,077)
Other net non-interest income	2,138	1,541
Operating expenses	(5,088)	(5,009)
Provisions for impairment loan and placement losses	(11,504)	(13,674)
Total allowance for loan losses	(361)	(236)
Main components of balance sheet closing balances	**2009**	**2010**
Total assets	304,942	285,360
Gross loans	308,933	308,200
Retail loans	80	396
Corporate loans	34,085	28,941
Car financing loans	274,768	278,863
Provision for impairment	(34,393)	(47,550)
Deposits from customers	5,467	4,784
Retail deposits	1,496	2,017
Corporate deposits	3,971	2,767
Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	231,788	228,908
Total shareholders' equity	31,444	22,180
Loan quality	**2009**	**2010**
90+ days past due loan volume (in HUF million)	38,469	54,161
90+ days past due loans/gross customer loans (%)	12.5%	17.6%
Allowance for loan losses/average gross loans (%)	3.64%	4.43%
Total provisions/90+ days past due loans (%)	89.4%	87.8%
Performance indicators	**2009**	**2010**
ROA	0.0%	(1.4%)
ROE	(0.2%)	(15.4%)
Net interest margin	5.95%	5.87%
Cost/income ratio	30.1%	33.9%

Non-consolidated, audited statement of recognized income of OTP Bank Plc., according to Hungarian Accounting Regulations

Statement of recognized income	2009 HUF million	2010 HUF million	Change %
Net interest income	**206,530**	**241,838**	**17**
Interest received and similar income	717,616	611,167	(15)
Interest paid and similar charges	(511,086)	(369,329)	(28)
Net fee and commission income	**136,469**	**121,900**	**(11)**
Commissions and fees received or due	160,808	145,368	(10)
Commissions and fees paid or payable	(24,339)	(23,468)	(4)
Other income	**182,881**	**109,893**	**(40)**
Income from securities	32,986	57,651	75
Net profit or net loss on financial operations	5,709	(3,864)	(168)
Other operating income	144,186	56,106	(61)
General administrative expenses	**(129,581)**	**(146,097)**	**13**
Depreciation	**(14,332)**	**(14,134)**	**(1)**
Other expenses from ordinary business activity	**(182,566)**	**(218,561)**	**20**
Impairment and provisioning on contingent and certain (future) liabilities	**(138,237)**	**(106,446)**	**(23)**
Reversal of impairment on receivables and release of provisions on contingent and certain (future) liabilities	**62,839**	**120,282**	**91**
Net change in general risk provision generation and use	**2,615**	**573**	**(78)**
Impairment on debt securities held for investment, on shares and participations held in associated companies and on minority interests	**(10,199)**	**(4,017)**	**(61)**
Reversal of impairment on debt securities held for investment, on shares and participations in associated companies and on minority interests	**2,994**	**10,338**	**245**
Profit on ordinary (business) activities	**119,413**	**115,569**	**(3)**
Extraordinary profit	(5,287)	(1,820)	(66)
Profit before tax	**114,126**	**113,749**	**0**
Tax payment liability	(11,797)	(4,785)	(59)
Profit after tax	**102,329**	**108,964**	**6**
Generation and use of general reserve	(10,233)	(10,896)	6
Use of profit reserve for dividends and profit share	0	0	
Approved dividend and profit share	0	(20,160)	
Profit or loss for the year	**92,096**	**77,908**	**(15)**

Non-consolidated, audited balance sheet of OTP Bank Plc., according to Hungarian Accounting Regulations

Main components of balance sheet	2009 HUF million	2010 HUF million	Change %
Total assets	**6,565,860**	**6,213,397**	**(5)**
1. Liquid assets	177,813	171,255	(4)
2. Government securities	951,801	758,697	(20)
3. Loans and advances to credit institutions	996,604	796,402	(20)
4. Loans and advances to customers	**2,602,753**	**2,607,173**	**0**
5. Debt securities, including fixed-income securities	938,429	984,323	5
6. Shares and other variable-yield securities	85,528	99,526	16
7. Shares and participations held for investment	930	960	3
8. Shares and participations in affiliated companies	391,135	443,972	14
9. Intangible assets	174,833	142,337	(19)
10. Tangible assets	68,178	67,655	(1)
11. Treasury shares	3,773	3,729	(1)
12. Other assets	30,133	21,779	(28)
13. Prepayments and accrued income	143,950	115,589	(20)
Total liabilities	**6,565,860**	**6,213,397**	**(5)**
1. Amounts due to banks, the Hungarian Government, deposit from the National Banks and other banks	963,760	739,808	(23)
2. Liabilities to customers	**3,357,638**	**3,290,982**	**(2)**
3. Liabilities due to issued securities	616,618	534,749	(13)
4. Other liabilities	221,523	58,546	(74)
5. Accruals and deferred income	153,654	269,915	76
6. Provisions	107,514	73,562	(32)
7. Subordinated liabilities	309,695	318,594	3
8. Shareholders' equity	835,458	927,241	11

Performance indicators	2009	2010	%
Receivables from customers / Liabilities to customers	78%	79%	2