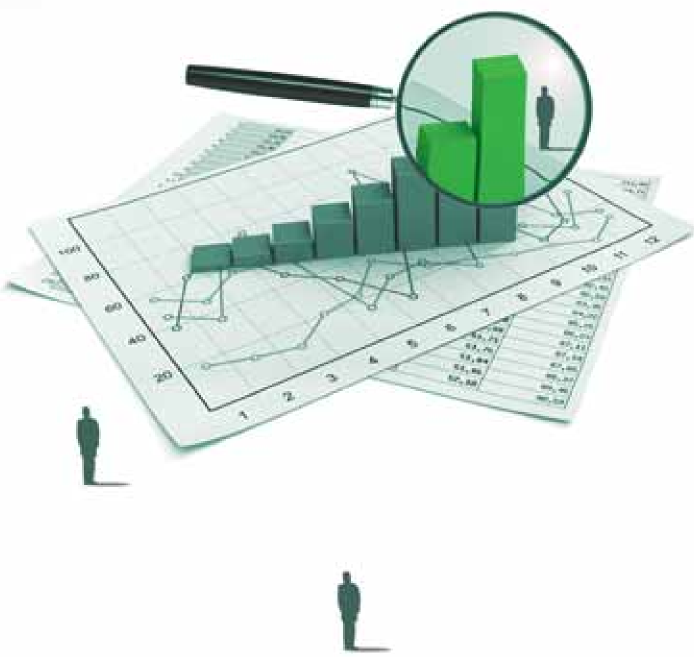

financial reports

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Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OTP Bank Plc. (the "Bank") for the year 2010, which financial statements comprise the consolidated balance sheet as at December 31, 2010 – which shows total assets of 9,780,946 million HUF, – and the related consolidated statement of recognized and comprehensive income – which shows a retained profit for the year attributable to equity holders of 117,930 million HUF –, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 62 to 129 of this Annual Report.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Clause (Opinion)

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

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

Other Reporting Obligation on the Consolidated Business Report

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

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

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

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

Budapest, February 25, 2011

....	....
Horváth Tamás	Nagyváradiné Szépfalvi Zsuzsanna
Deloitte Auditing and Consulting Ltd.	registered statutory auditor
1068 Budapest, Dózsa György út 84/C	005313
000083	

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Statement of financial position

(consolidated, based on IFRS, as at 31 december 2010 in HUF million)

	Note	2010	2009
Cash, amounts due from banks and balances with the National Banks	4.	513,038	505,649
Placements with other banks, net of allowance for placement losses	5.	511,244	440,851
Financial assets at fair value through profit or loss	6.	233,667	256,100
Securities available-for-sale	7.	1,008,097	1,354,285
Loans, net of allowance for loan losses	8.	6,741,059	6,412,716
Associates and other investments	9.	11,554	18,834
Securities held-to-maturity	10.	172,302	188,853
Property and equipment	11.	217,615	208,730
Intangible assets	11.	263,213	267,628
Other assets	12.	109,157	101,486
TOTAL ASSETS		**9,780,946**	**9,755,132**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	13.	681,949	802,749
Deposits from customers	14.	5,821,489	5,688,887
Liabilities from issued securities	15.	1,035,153	1,410,348
Financial liabilities at fair value through profit or loss	16.	257,052	118,468
Other liabilities	17.	385,744	262,240
Subordinated bonds and loans	18.	290,630	280,834
TOTAL LIABILITIES		**8,472,017**	**8,563,526**
Share capital	19.	28,000	28,000
Retained earnings and reserves		1,327,638	1,210,132
Treasury shares	21.	(52,597)	(52,678)
Non-controlling interest	22.	5,888	6,152
TOTAL SHAREHOLDERS' EQUITY		**1,308,929**	**1,191,606**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**9.780.946**	**9.755.132**

The accompanying notes to consolidated financial statements on pages 62 to 129 form an integral part of these consolidated financial statements.

Statement of recognized income

(consolidated, based on IFRS, as at 31 december 2010 in HUF million)

	Note	2010	2009
Interest Income:			
Loans		741,708	780,161
Placements with other banks		301,259	350,742
Securities available-for-sale		73,247	31,373
Securities held-to-maturity		11,991	45,804
Amounts due from banks and balances with the National Banks		5,052	7,514
Securities held for trading		2,091	5,556
Total Interest Income		1,135,348	1,221,150
Interest Expense:			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		216,654	244,744
Deposits from customers		227,781	290,516
Liabilities from issued securities		61,877	79,770
Subordinated bonds and loans		12,611	16,340
Total Interest Expense		518,923	631,370
NET INTEREST INCOME		**616,428**	**589,780**
Provision for impairment on loan and placement losses	5., 8.	273,024	249,278
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES		**343,401**	**340,502**
Income from fees and commissions		177,252	170,335
Expense from fees and commissions		36,621	37,422
NET PROFIT FROM FEES AND COMMISSIONS	**23.**	**140,631**	**132,913**
Foreign exchange gains and (losses), net		31,811	(8,308)
Net gains on securities		5,445	7,458
Gains on real estate transactions		845	931
Dividend income		951	894
Provision for impairment / Provision on securities available-for-sale and securities held-to-maturity		9,924	(8.027)
Other operating income		20,890	66,308
Other operating expense	24.	(14,435)	(21,048)
NET OPERATING INCOME		**55,431**	**38,208**
Personnel expenses		160,725	155,517
Depreciation and amortization	11.	67,324	45,141
Other administrative expenses		171,231	140,483
OTHER ADMINISTRATIVE EXPENSES	**25.**	**399,280**	**341,141**
PROFIT BEFORE INCOME TAX		**140,183**	**170,482**
Income tax	26.	(22,057)	(20,276)
NET PROFIT FOR THE PERIOD		**118,126**	**150,206**
From this, attributable to:			
Non-controlling interest		196	(839)
Equity holders		117,930	151,045
Consolidated earnings per share (in HUF)			
Basic	37.	443	577
Diluted	37.	437	572

Statement of comprehensive income

(consolidated, based on IFRS, for the year ended 31 December 2010, in HUF million)

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

The accompanying notes to consolidated financial statements on pages 62 to 129 form an integral part of these consolidated financial statements.

Statement of cash flows

(consolidated, based on IFRS, for the year ended 31 December 2010, in HUF million)

OPERATING ACTIVITIES	Note	2010	2009
Profit before income tax		**140,183**	**170,482**
Goodwill impairment	11.	18,519	–
Depreciation and amortization	11.	48,805	45,141
(Release of provision)/ provision for impairment on securities	7., 10.	(9,754)	8,027
Provision for impairment on loan and placement losses	5., 8.	273,024	249,278
Provision for impairment on permanent diminution in value of investments	9.	425	118
Provision for impairment on other assets	12.	3,808	5,811
(Release of provision) / provision on off-balance sheet commitments and contingent liabilities	17.	(3,977)	4,087
Share-based payment	2., 29.	(11,821)	6,802
Unrealized gains on fair value adjustment of securities held for trading		3,428	4,579
Unrealized gains on fair value adjustment of derivative financial instruments		106,972	9,891
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		22,243	(123,644)
Net (increase)/decrease in loans, net of allowance for loan losses		(474,804)	92,396
(Increase)/decrease in other assets before provisions for impairment		(16,572)	111,857
Net increase in deposits from customers		132,602	430,720
(Decrease)/increase in other liabilities		(44,352)	13,073
Net decrease/(increase) in compulsory reserves at the National Banks		4,114	(11,035)
Dividend income		(951)	(894)
Income tax paid		(21,748)	(34,273)
Net Cash Provided by Operating Activities		**170,144**	**982,416**
INVESTING ACTIVITIES			
Net increase in placement with other banks before allowance for placements losses		(68,976)	(30,013)
Net decrease/(increase) in securities available-for-sale		340,238	(851,579)
Net decrease/(increase) in investments in subsidiaries, before provision for impairment		6,855	(8,485)
Dividend income		951	894
Net decrease in securities held-to-maturity		21,106	136,877
Additions to property, equipment and intangible assets		(92,633)	(79,737)
Disposals to property, equipment and intangible assets		21,362	27,812
Net decrease/(increase) in advances for investments, included in other assets		2,027	(1,874)
Net Cash Provided by / (Used in) Investing Activities		**230,930**	**(806,105)**
FINANCING ACTIVITIES			
Net decrease in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(120,800)	(45,981)
Net decrease in liabilities from issued securities		(302,446)	(156,412)
Increase/(decrease) in subordinated bonds and loans		9,796	(39,216)
Decrease in non-controlling interest		(264)	(633)
Foreign currency translation		30,674	(8,213)
Payments to ICES holders		(6,669)	(5,223)
Net change in Treasury shares		141	44,513
Dividends paid		(2)	(539)
Net Cash Used in Financing Activities		**(389,570)**	**(211,704)**
Net increase/(decrease) in cash and cash equivalents		**11,504**	**(35,393)**
Cash and cash equivalents at the beginning of the period		**243,541**	**278,934**
Cash and cash equivalents at the end of the period		**255,045**	**243,541**
Analysis of cash and cash equivalents			
Cash, amounts due from banks and balances with the National Banks		505,649	530,007
Compulsory reserve established by the National Banks		(262,108)	(251,073)
Cash and cash equivalents at the beginning of the period		**243,541**	**278,934**
Cash, amounts due from banks and balances with the National Banks	4.	513,038	505,649
Compulsory reserve established by the National Banks	4.	(257,993)	(262,108)
Cash and cash equivalents at the end of the period		**255,045**	**243,541**

The accompanying notes to consolidated financial statements on pages 62 to 129 form an integral part of these consolidated financial statements.

Statement of changes in shareholders' equity

(consolidated, based on IFRS, for the year ended 31 December 2010, in HUF million)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Put option reserve	Treasury shares	Non-controlling interest	Total
Balance as at 1 January 2009		**28,000**	**52**	**19,181**	**1,141,702**	**–**	**(146,749)**	**6,785**	**1,048,971**
Net comprehensive income		–	–	–	151,661	–	–	–	151,661
Share-based payment	29.	–	–	6,802	–	–	–	–	6,802
Closed share-based payments				(19,153)	19,153	–	–	–	–
Sale of Treasury shares							110,637		110,637
Written put option on ordinary shares		–	–			(55,468)	–	–	(55,468)
Treasury shares									
– loss on sale		–	–	–	(48,575)	–	–	–	(48,575)
– acquisition		–	–	–	–	–	(16,566)	–	(16,566)
Payments to ICES holders	20.	–	–	–	(5,223)	–	–	–	(5,223)
Non-controlling interest		–	–	–	–	–	–	(633)	(633)
Balance as at 31 December 2009		**28,000**	**52**	**6,830**	**1,258,718**	**(55,468)**	**(52,678)**	**6,152**	**1,191,606**
Net comprehensive income		–			135,936	–	–	–	135,936
Share-based payment	29.	–	–	(6,802)	(5,019)	–	–	–	(11,821)
Sale of Treasury shares									
Treasury shares							496		496
– gain on sale		–	–	–	60	–	–	–	60
– acquisition		–	–	–	–	–	(415)	–	(415)
Payments to ICES holders	20.	–			(6,669)	–	–	–	(6,669)
Non-controlling interest		–	–	–	–	–	–	(264)	(264)
Balance as at 31 December 2010		**28,000**	**52**	**28**	**1,383,026**	**(55,468)**	**(52,597)**	**5,888**	**1,308,929**

The accompanying notes to consolidated financial statements on pages 62 to 129 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

In 1995, the shares of the Bank were listed on the Budapest and the Luxembourg stock exchanges and were also listed on the SEAQ board on the London Stock Exchange and PORTAL in the USA.
These financial statements were approved by the board of directors and authorized for issue on 31 March 2011.

	2010	2009
The structure of the Share capital by shareholders:		
Domestic and foreign private and institutional investors	96%	97%
Employees	2%	2%
Treasury shares	2%	1%
Total	**100%**	**100%**

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide network of 1,489 branches. The Group has operations in Hungary, Bulgaria, Croatia, Slovakia, Romania, Ukraine, Serbia, Russia and Montenegro.

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

1.2. Accounting

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

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

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

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

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

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

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

– IAS 27 (Amendment) "Consolidated and Separate Financial Statements" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009),
– IAS 39 (Amendment) "Financial Instruments: Recognition and Measurement" – Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009),
– IFRS 1 (Revised) "First-time Adoption of IFRS" adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010),
– IFRS 3 (Revised) "Business Combinations" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009),
– IFRS 1 (Amendment) "First-time Adoption of IFRS"– Additional Exemptions for First-time Adopters, adopted by the EU on 23 June 2010 (effective for annual periods beginning on or after 1 January 2010),
– IFRS 2 (Amendment) "Share-based Payment" – Group cash-settled share-based payment transactions adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),
– "Improvements to IFRSs (2009)" (Amendment) resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),
– IFRIC 12 "Service Concession Arrangements" adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009),
– IFRIC 15 "Agreements for the Construction of Real Estate" adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010),
– IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009),
– IFRIC 17 "Distributions of Non-Cash Assets to Owners" adopted by the EU on 26 November,
– IFRIC 18 "Transfers of Assets from Customers" adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009).

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

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

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

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

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

[1] Not yet endorsed by the EU.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying consolidated financial statements are summarized below:

2.1. Basis of Presentation

These Consolidated Financial Statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.

The presentation of Consolidated Financial Statements in conformity with IFRS requires the management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

2.2. Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates, quoted by the National Bank of Hungary ("NBH"), or if there is no official rate, at exchange rates quoted by OTP as at the date of the Consolidated Financial Statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the Consolidated Statement of Recognized Income.

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

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

2.3. Principles of consolidation

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

2.4. Accounting for acquisitions

Subsidiaries are accounted for purchase method of accounting. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.
The investment has to be presented in the Statement of Financial Position as Associates and other investments from the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Before this date, it should be presented as Advance for investments within Other assets. The Group has applied IFRS 3 Business Combinations Standard since 31 March 2004 for acquisitions after that date. Goodwill, which represents the residual

cost of the acquisition after recognizing the acquirer's significant influence in the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements. If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Recognized Income.
Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.
The Group calculates the value in use a discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.
The Group, in its strategic plan, has taken into consideration the effects of the present global economic situation, the probable economic decline and their possible influence on the financial sector as well as the limited external refinancing funds, the lower possibility of the expansion and the prospective effects of all these above mentioned factors.
Negative goodwill, when the interest of the acquirer in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statement of Recognized Income as other income.

2.5. Securities held-to-maturity

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

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

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

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

2.6.2. Derivative financial instruments

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

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

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

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

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

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

2.7. Securities available-for-sale

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

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

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

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

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

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

unable to meet payments as they fall due, all unpaid interest is impaired.
The amount of allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.
Allowance for loan and placement losses with other banks represent management assessment for potential losses in relation to these activities. The allowances for loan and placement losses are maintained to cover losses that have been specifically identified and for potential losses which may be present based on portfolio performance. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provision for impairment on loan and placement losses" in the Consolidated Statement of Recognized Income. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into net operating income. The Group classifies the previously performing loans that have been renegotiated automatically to the to-be-monitored risk class for a certain period and records at least 1 per cent provision for impairment on them.

2.9. Sale and repurchase agreements, security lending

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

2.10. Associates and other investments

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

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

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

2.11. Property and equipment, Intangible assets

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

Intangible assets	
Software	3.33–50%
Property rights	10–50%
Property	1–33%
Office equipments and vehicles	5–50%

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

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

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

2.12. Financial liabilities

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

2.13. Leases

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

The Group as a lessor

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

The Group as a lessee

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

2.14. Treasury shares

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

2.15. Interest income and interest expense

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

2.16. Fees and Commissions

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

2.17. Dividend income

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

2.18. Income tax

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realized or the liability is settled. Deferred tax assets are recognized by the Group for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

2.19. Off-balance sheet commitments and contingent liabilities

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

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

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

2.20. Share-based payment

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

The Bank issues equity-settled share-based payment to certain employees. Equity-settled share-based payment is measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Share-based payment is recorded in Consolidated Statement of Recognized Income as Personnel expenses. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2.21. Consolidated Statement of Cash Flows

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

2.22. Segment reporting

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

2.23. Comparative figures

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

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

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

3.1. Impairment on loans and placements

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

3.2. Valuation of instruments without direct quotations

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

3.3. Provisions

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

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

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

3.3. Impairment on goodwill

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

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

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

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

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

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

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

Interest conditions of placements with other banks:

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

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

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

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

	2010	2009
Interest rate swaps designated as held for trading	34,413	53,726
CCIRS[2] and mark-to-market CCIRS designated as held for trading	18,938	16,548
Foreign exchange swaps designated as held for trading	15,442	6,008
Other transactions designated as held for trading	5,627	1,262
	74,420	77,544
Total	**233,667**	**256,100**

An analysis of securities held for trading portfolio by currency:

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

An analysis of government bond portfolio by currency:

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

[2] CCIRS: Cross currency interest rate swaps

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

	2010	2009
Within five years		
With variable interest	27	69
With fixed interest	35,662	70,747
	35,689	**70,816**
Over five years		
With variable interest	1,038	1,124
With fixed interest	14,118	16,339
	15,156	**17,463**
Non-interest bearing securities	107,998	89,111
Total	**158,843**	**177,390**

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

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

An analysis of securities available-for sale by currency:

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

An analysis of government bonds by currency:

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

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

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

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

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

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

Certain securities are hedged. See Note 39.

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

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

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

An analysis of the loan portfolio by currency:

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

Interest rates of the loan portfolio are as follows:

	2010	2009
Short-term loans denominated in HUF	4.5%–36.1%	6%–35.2%
Long-term loans denominated in HUF	1.8%–36.1%	3%–35.2%
Short-term loans denominated in foreign currency	0.9%–83.2%	1%–66%
Long-term loans denominated in foreign currency	1%–67%	1%–66%
Gross loan portfolio on which interest to customers is not being accrued	11.7%	8.5%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the year ended 31 December 2010:

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

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

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

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

For the year ended 31 December 2009:

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

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

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

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

NOTE 12: OTHER ASSETS (in HUF million)

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

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

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

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

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

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

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

	2010	2009
Within one year		
In HUF	111,735	37,444
In foreign currency[4]	249,317	345,315
	361,052	**382,759**
Over one year		
In HUF	116,441	98,150
In foreign currency[5]	202,852	319,814
	319,293	**417,964**
Accrued interest	1,604	2,026
Total	**681,949**	**802,749**

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

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

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

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

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

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF million)

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

Interest rates on deposits from customers are as follows:

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

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

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

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

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

Interest rates on liabilities from issued securities are as follows:

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

Issued securities denominated in HUF as at 31 December 2010:

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

	Name	Date of issue	Maturity	Nominal value (in original currency)	Nominal value (in HUF)	Interest conditions (in % p.a.)		Hedged
44.	OTPX 2019A	13/12/2010	01/07/2019	319	319	indexed	floating	hedged
45.	OTPX 2019B	05/10/2009-05/02/2010	14/10/2019	481	481	indexed	floating	hedged
46.	OTPX 2019C	13/12/2010	20/12/2019	404	404	indexed	floating	hedged
47.	OTPX 2020A	13/12/2010	30/03/2020	415	415	indexed	floating	hedged
48.	OTPX 2020B	28/06/2010	09/07/2020	450	450	indexed	floating	hedged
49.	OTPX 2020D	16/12/2010	18/12/2020	245	245	indexed	floating	hedged
50.	OTPRA_2013_B	26/11/2010	03/12/2013	3,752	3,752	indexed	floating	hedged
51.	OTPX 2013B	26/11/2010	06/11/2013	940	940	indexed	floating	hedged
52.	OTPX 2016A	11/11/2010	03/11/2016	4,600	4,600	indexed	floating	hedged
53.	OTPX 2020C	11/11/2010	05/11/2020	290	290	indexed	floating	hedged
53.	OTPRF_2020_C	11/11/2010	05/11/2020	64	64	indexed	floating	hedged
55.	3Y_EUR_HUF	25/06/2010	25/06/2013	2,338	2,338	indexed	floating	hedged
56.	2020_RF_A	12/07/2010	20/07/2020	117	117	indexed	floating	hedged
57.	2020_RF_B	12/07/2010	20/07/2020	468	468	indexed	floating	hedged
58.	DNT_HUF_2011_A	23/12/2010	23/06/2010	3,903	3,903	indexed	floating	hedged
59.	OJB2011_I	20/12/2002	12/02/2011	15,111	15,111	8	fixed	hedged
60.	OJB2011_II	28/05/2004	12/09/2011	8,780	8,780	10	fixed	
61.	OJB2011_III	28/02/2005	30/11/2011	2	2	9	fixed	
62.	OJB2011_IV	31/08/2006	31/08/2011	7,622	7,622	8	fixed	
63.	OJB2011_V	08/02/2008	08/02/2011	1,111	1,111	7.5	fixed	
64.	OJB2012_I	17/03/2004	21/03/2012	13,870	13,870	9.83	fixed	
65.	OJB2012_II	14/04/2004	16/05/2012	36,283	36,283	10	fixed	
66.	OJB2012_III	19/11/2004	15/08/2012	14,353	14,353	10.5	fixed	
67.	OJB2013_II	20/12/2002	31/08/2013	13,433	13,433	8.25	fixed	
68.	OJB2014_I	14/11/2003	12/02/2014	13,497	13,497	8	fixed	
69.	OJB2014_J	17/09/2004	17/09/2014	486	486	8.69	fixed	
70.	OJB2015_I	10/06/2005	10/06/2015	3,243	3,243	7.7	fixed	
71.	OJB2015_J	28/01/2005	28/01/2015	250	250	8.69	fixed	
72.	OJB2016_I	03/02/2006	03/02/2016	1,266	1,266	7.5	fixed	
73.	OJB2016_II	31/08/2006	31/08/2016	4,684	4,684	10	fixed	
74.	OJB2016_J	18/04/2006	28/09/2016	324	324	7.59	fixed	
75.	OJB2019_I	17/03/2004	18/03/2019	32,610	32,610	9.48	fixed	
76.	OJB2020_I	19/11/2004	12/11/2020	6,990	6,990	9	fixed	
77.	Other				21.580			
	Total issued securities in HUF				**534,448**			
	Unamortized premium				**(7,810)**			
	Fair value adjustment				**(4,163)**			
	Total issued securities in HUF				**522,475**			

Issued securities denominated in foreign currency as at 31 December 2010:

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	Nominal value (HUF mn)	Interest conditions (in % p.a.)		Hedged
1.	OTP HBFIXED 160511	16/05/2008	16/05/2011	EUR	432	120,490	5.75	fixed	hedged
2.	OTPHB402/12	24/02/2010	24/02/2012	CHF	56	12,449	4	fixed	hedged
3.	OTPX 2015C	22/12/2010	29/12/2015	EUR	1	270	indexed	floating	hedged
4.	DNT_EUR_2011_A	23/12/2010	23/06/2011	EUR	9	2,543	indexed	floating	
5.	DNT_USD_2011_A	23/12/2010	23/06/2011	USD	3	572	indexed	floating	
6.	OMB2011_I	10/07/2006	11/07/2011	EUR	727	202,749	4.25	fixed	hedged
7.	OMB2011_II	04/12/2009	05/12/2011	EUR	87	24,223	4.13	fixed	hedged
8.	OMB2014_I	15/12/2004	15/12/2014	EUR	198	55,262	4	fixed	hedged
9.	Mortgage bonds OTP	15/10/2003	15/10/2012	EUR	17	4,626	4.7	fixed	
10.	Mortgage bonds OTP VII	21/12/2005	21/12/2015	EUR	22	6,264	0.88	variable	
11.	Mortgage bonds OTP XIII	12/03/2008	12/03/2011	EUR	17	4,626	4.5	fixed	
12.	Mortgage bonds OTP XVII	08/06/2009	08/06/2012	EUR	3	845	4.1	fixed	
13.	Mortgage bonds OTP XVIII	18/09/2009	18/03/2012	EUR	1	251	3.5	fixed	
14.	Mortgage bonds OTP XIX	02/11/2009	02/11/2012	EUR	10	2,788	4	fixed	
15.	Mortgage bonds OTP XXI	20/05/2010	20/05/2013	EUR	10	2,788	3.5	fixed	
16.	Mortgage bonds OTP XXIV	23/11/2010	23/11/2013	EUR	2	677	3.3	fixed	
17.	Other					29,394			
	Total issued securities in FX					**470,817**			
	Unamortized premium					**5,066**			
	Fair value adjustment					**9,473**			
	Total issued securities in FX					**485,356**			
	Total accrued interest					**27,322**			
	Total					**1,035,153**			

CHF Bond issuance programme

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

EMTN Programme

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

Term Note Program in the value of HUF 500 billion

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

Redemption of EUR 500 million senior notes

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

Redemption of EUR 300 million senior notes

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

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

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

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

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

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

NOTE 17: OTHER LIABILITIES (in HUF million)

	2010	2009
Fair value of derivative financial instruments designated as fair value hedge	115,159	22,249
Financial liabilities from OTP-MOL share swap transaction[6]	105,766	86,912
Salaries and social security payable	26,902	24,731
Provision for impairment on off-balance sheet commitments and contingent liabilities	19,650	23,598
Accrued expenses	16,447	15,355
Liabilities from investment services	12,036	2,814
Giro clearing accounts	11,581	15,634
Accounts payable	11,445	13,216
Current income tax payable	10,714	10,939
Liabilities from custody accounts	5,495	7,260
Deferred tax liabilities	4,098	2,229
Advances received from customers	1,901	1,754
Liabilities connected to loans for collection	1,147	1,426
Liabilities related to housing loans	351	1,803
Dividends payable	304	604
Other	41,776	31,621
	384,772	**262,145**
Accrued interest	972	95
Total	**385,744**	**262,240**

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

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

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

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

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

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

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

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

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

Interest rates on subordinated bonds and loans are as follows:

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

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 31 December 2010
Subordinated bond	HUF 5 billion	20/12/1993	20/12/2013	100%	Frequency of payment is based on the condition of interest of 2013/C credit consolidation government bonds	3.80%
Subordinated bond	EUR 125 million	04/03/2005	04/03/2015	100%	Three-month EURIBOR + 0.55% quarterly	–
Subordinated bond	EUR 498 million	07/11/2006	Perpetual, but callable after 10 years	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	–
Subordinated bond (under EMTN[7] prog-ram)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN[7] program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond	USD 65 million	21/04/2008	13/10/2015	100%	Variable, six-month EURIBOR + 1.4%	1.86%
Subordinated bond	RUB 26,86 million	15/06/2001	21/06/2015	100%	Variable, based on the Russian National Bank's interest rate	7.75%
Subordinated bond	EUR 5,122 million	23/12/1997	15/11/2014	100%	Variable, six-month EURIBOR + 1.3%	2.58%

[7] European Medium Term Note Program

NOTE 19: SHARE CAPITAL (in HUF million)

	2010	2009
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000
Total	**28,000**	**28,000**

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

NOTE 20: RETAINED EARNINGS AND RESERVES (in HUF million)

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

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

The legal reserves (general reserve and tied-up reserve) are not available for distribution. The dividend has been determined on the basis of the net profit for the year determined in the unconsolidated financial statements in accordance with the Hungarian Accounting Standards.
These Financial Statements subject to approval by the Board of Directors in the Annual General Meeting in April 2011. The Bank did not pay any dividend in 2010 from the profit of the year 2009. In 2011, a dividend of HUF 20,160 million are expected to be proposed by the management.

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

NOTE 21: TREASURY SHARES (in HUF million)

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

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

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

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

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

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

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

Income from fees and commissions

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

Expense from fees and commissions

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

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

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

	2010	2009
Provision for impairment on other assets	3,808	5,811
Provision for impairment on investments[8]	425	118
Provision for investment bonds	170	–
(Release of provision) / Provision for off-balance sheet commitments and contingent liabilities	(3,977)	4,087
Other costs	7,698	6,714
Other expense from non-financial activities	6,311	4,318
Total	**14,435**	**21,048**

NOTE 25: OTHER ADMINISTRATIVE EXPENSES (in HUF million)

	2010	2009
Wages	118,569	113,266
Taxes related to personnel expenses	30,995	31,832
Other personnel expenses	11,161	10,419
Total personnel expenses	**160,725**	**155,517**
Depreciation and amortization	**67,324**	**45,141**
Taxes, other than income tax[9]	65,252	29,623
Administration expenses, including rental fees	43,884	51,361
Services	35,709	33,357
Professional fees	15,729	14,995
Advertising	10,657	11,147
Other administrative expenses	**171,231**	**140,483**
Total	**399,280**	**341,141**

[8] See details in Note 9.

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

NOTE 26: INCOME TAX (in HUF million)

The Group is presently liable for income tax at rates between 9% and 28% of taxable income. Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria, Serbia and Cyprus, 16% in Romania, 19% in Slovakia, 20% in Croatia and Russia, 25% in Ukraine and 28% in the United Kingdom.

Due to the fact that the Hungarian Government approved a law effected that the income tax rate will be reduced to 10% from 1 January 2013 the deferred tax is calculated at 10% for those temporary differences that are expected to be resulted in taxable amounts or amounts deductable from the taxable profit after 2012. 19% was used for the calculation of the deferred tax for the remaining items.

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

The breakdown of the income tax expense is:

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

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

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

A reconciliation of the income tax expense is as follows:

	2010	2009
Profit before income tax	140,183	170,482
Income tax at statutory tax rates	31,866	21,277
Special tax (4%)	–	7,299

Income tax adjustments due to permanent differences:

	2010	2009
Revaluation of investments denominated in foreign currency to historical cost	3,656	(1,880)
Differences in carrying value of subsidiaries	981	(7,245)
Reversal of statutory general provision	114	569
Tax effect of amortization of statutory goodwill	(266)	(108)
Reclassification of direct charges to reserves	(647)	–
Effect of change of income tax rate	(912)	(216)
Share-based payment	(2,246)	1,292
Difference of accounting of equity instrument (ICES)	(4,234)	(199)
Provision for impairment on investments in subsidiaries	(6,547)	(10,039)
Other	292	9,526
Income tax expense	**22,057**	**20,276**
Effective tax rate	**15.7%**	**11.9%**

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

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

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

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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

27.1. Credit risk

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

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

Analysis by loan types and risk classes

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

As at 31 December 2010

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

Accrued interest	
for loans	57,205
for placements	341
Total accrued interest	**57,546**
Total net loans	6,741,059
Total net placements	511,244
Total net exposures	**7,252,303**

As at 31 December 2009

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

Accrued interest	
for loans	63,087
for placements	282
Total accrued interest	**63,369**
Total net loans	6,412,716
Total net placements	440,851
Total net exposures	**6,853,567**

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

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

Qualification categories

The Group's loan portfolio increased by 9.2% in 2010. Analysing the contribution of loan types to the loan portfolio, the share of the retail and corporate loan type slightly decreased while the share of other loan types either slightly increased. As a consequence of the economic situation, the qualification of the loan portfolio deteriorated, the ratio of the non-performing (doubtful and bad) loans compared to the gross loan portfolio increased from 7.5% to 12.5%. Among the qualified loan portfolio, the loans classified to the risk class of "bad" expanded at the fastest level.
The Group has a prudent provisioning policy, the coverage of loans by provision for impairment on loans classified as doubtful or bad, the indicator was 65.4% and 69.8% as at 31 December 2010 and 31 December 2009 respectively.
The off-balance sheet liabilities connected to the lending activity increased by 12.9%. The qualified loan portfolio increased by 59.4% in 2010.

Classification into risk classes

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

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

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

Loan portfolio by countries

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

	2010		2009	
Country	**Carrying amount of the qualified gross loan portfolio**	**Allowance**	**Carrying amount of the qualified gross loan portfolio**	**Allowance**
Hungary	1,092,232	286,258	534,507	194,300
Ukraine	278,039	156,550	132,073	114,754
Bulgaria	270,510	90,296	195,220	56,129
Russia	152,290	53,099	155,746	38,140
Romania	140,210	25,268	123,843	12,545
Montenegro	120,412	38,767	76,906	6,985
Serbia	102,357	43,793	90,199	27,555
Cyprus	58,955	10,765	58,852	5,022
Slovakia	58,137	16,606	48,470	12,132
Croatia	43,110	12,704	24,094	8,654
Kazakhstan	6,268	944	5,663	1,140
Seychelles	4,701	705	4,563	411
Byelorussia	1,006	10	38	–
The United States	988	1	2,340	1
Latvia	847	53	9	–
The United Kingdom	828	632	3,379	1,755
Egypt	525	58	533	80
Macedonia	102	50	51	3
Germany	93	1	73	–
Ireland	85	69	58	35
Other	138	55	6,108	1,116
Total	**2,331,833**	**736,684**	**1,462,725**	**480,757**

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

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

	2010		2009	
Country	Carrying amount of the non-qualified gross loan portfolio	Allowance	Carrying amount of the non-qualified gross loan portfolio	Allowance
Hungary	2,630,070	107	2,503,171	–
Bulgaria	881,034	10,697	900,645	6,822
Ukraine	427,691	–	560,087	219
Russia	390,154	2,201	334,415	891
Croatia	329,441	3,341	330,370	1,501
Romania	242,789	221	238,012	406
Slovakia	239,410	606	249,617	1,218
The United Kingdom	131,214	25	36,809	15
Montenegro	112,794	9,327	147,059	5,978
Serbia	49,095	42	56,735	77
France	47,048	–	25,073	–
Belgium	46,599	–	50,583	–
Germany	44,087	–	51,300	–
Cyprus	17,199	–	23,539	–
Malta	10,626	–	9,632	–
The United States	7,310	–	14,587	1
Switzerland	5,075	–	14,323	1
Netherlands	3,061	–	149,395	–
Spain	2,922	–	5,124	–
Poland	2,116	–	4,432	–
Turkey	1,151	–	–	–
Austria	1,138	–	43,977	–
Norway	1,121	–	445	–
Czech Republic	771	–	8,454	5
Byelorussia	645	–	38	–
Azerbaijan	627	–	–	–
Sweden	156	–	5,578	–
Japan	120	–	142	–
Italy	116	–	1,526	–
Kazakhstan	108	–	294	–
Ireland	107	1	52,691	–
Denmark	100	–	1,924	–
Other	282	1	5,387	1
Total	**5,626,177**	**26,569**	**5,825,364**	**17,135**

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

Collaterals

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

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

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

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

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

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

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

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

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

Renegotiated loans

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

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

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

Past due, but not impaired loans

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

As at 31 December 2010	Up to 90 days	91-180 days	181-365 days	Above 365 days	Total
Retail loans	344,081	27,398	20,483	14,545	406,507
Corporate loans	40,662	23,239	8,353	4,430	76,684
Municipality loans	6,516	–	–	2	6,518
Total	**391,259**	**50,637**	**28,836**	**18,977**	**489,709**

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

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

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

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

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

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

Loans individually assessed for provision

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

As at 31 December 2010

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

As at 31 December 2009

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

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

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

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

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

27.2. Market risk

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

27.2.1. Market Risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number.

The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

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

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

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

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

27.2.2. Foreign currency sensitivity analysis

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

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

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

Notes:

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

(2) Due to the stabilization of the EUR/HUF volatility the potential risk did not increased.

(3) Monte Carlo simulation is based on the historical exchange rate movements. Although

potential losses have not changed on the edge of the distribution, concerning the recent level of EUR/HUF makes appreciation and minor gains more probable.

27.2.3. Interest rate sensitivity analysis

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

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

The simulations were prepared by assuming two scenarios:

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

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

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

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

27.2.4. Equity price sensitivity analysis

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

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

27.2.5. Capital management

Capital management

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

Capital adequacy

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

Calculation on HAS basis

	2010	2009
Core capital	1,089,153	1,036,191
Supplementary capital	284,921	242,443
Deductions	(464)	(7,461)
due to investments	(464)	(428)
due to limit breaches	–	(7,033)
Regulatory capital	**1,373,610**	**1,271,173**
Credit risk capital requirement	480,663	453,048
Market risk capital requirement	30,807	29,490
Operational risk capital requirement	85,500	68,315
Total requirement regulatory capital	**596,970**	**550,853**
Surplus capital	**776,640**	**720,320**
Tier1 ratio	14.6%	15.0%
Capital adequacy ratio	**18.4%**	**18.5%**

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

The positive components of the Supplementary capital are the following: Supplementary loan capital, Subordinated loan capital.
The negative components of the Supplementary capital are the following: Changes due to consolidation of equity.
The components of the Deductions: deductions due to investments.

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

Subsidiary bank	Country	Minimum prescribed CAR	2010	2009
OAO OTP Bank	Russia	11%	17.0%	13.3%
OTP Bank JSC	Ukraine	10%	22.1%	17.8%
DSK Bank EAD	Bulgaria	12%	23.7%	21.9%
OTP Bank Romania S.A.	Romania	10%	14.0%	14.3%
OTP banka Srbija a.d.	Serbia	12%	16.4%	27.1%
OTP banka Hrvatska d.d.	Croatia	10%/12%[1]	14.2%	13.4%
OTP Banka Slovensko a. s.	Slovakia	8%	11.1%	10.7%
Crnogorska komerčijalna banka a.d.	Montenegro	10%	14,1%	13,4%

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

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

Calculation on IFRS basis

The positive components of the Core capital are the following: Issued capital, Profit reserve, Other reserves, Changes in the equity of subsidiaries, Profit for the year, Changes due to consolidation, Other issued capital components. The negative components of the Core capital are the following: Treasury shares, Goodwill and other intangible assets, dividend. The components of the Supplementary capital are the following: Revaluation reserve, Fair value adjustments, Share-based payment, Cash-flow hedge, Hedges of net investments in foreign operations, Other issued capital (in the Supplementary capital), Subordinated loan capital, Supplementary loan capital.
The components of the Deductions: deductions due to investments.

	2010	2009
Core capital	1,045,977	952,416
Positive components	1,361,633	1,272,721
Issued capital	28,000	28,000
Reserves	1,220,821	1,126,443
Other issued capital components	112,812	118,278
Negative components	(315,656)	(320,305)
Treasury shares	(52,597)	(52,678)
Goodwill and other intangible assets	(263,059)	(267,627)
Supplementary capital	258,632	242,521
Fair value corrections	(12,948)	(34,589)
Subordinated bonds and loans	271,580	277,110
Deductions	(464)	(428)
Regulatory capital	**1,304,144**	**1,194,509**
Credit risk capital requirement	480,663	453,048
Market risk capital requirement	30,807	29,490
Operational risk capital requirement	85,500	68,315
Total requirement regulatory capital	**596,970**	**550,853**
Surplus capital	**707,174**	**643,655**
Tier1 ratio	14.0%	13.8%
Capital adequacy ratio	**17.5%**	**17.3%**

NOTE 28: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF million)

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

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

Legal disputes

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

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

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

Commitments to extend credit, guarantees and letters of credit

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

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

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

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

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group.
A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.
If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Derivatives

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

Foreign currency contracts

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

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

Foreign exchange swaps and interest rate swaps

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

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

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

Cross-currency interest rate swaps

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

Forward rate agreements (FRA)

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

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

NOTE 29: SHARE-BASED PAYMENT

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

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

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

The vesting conditions of the option program are that, two of following conditions should be fulfilled:
– the growth of the net income reaches 10%,
– the ROA indicator for the actual year ended 31 December should be at least 2.1%,
– the ROE indicator for the actual year ended 31 December should be at least 20%

The exercise period of the options granted for the year of 2005 is two years and for the years of 2006 to 2010 is 19 months. The exercise period of the option program for the years of 2006 to 2010 must be opened at 1 June in the actual year, the period can be prolongated by two years. If the options remain unexercised before the end of the exercise period, the options expire. Additionally, options are forfeited if the employee leaves the Bank before the options vest. The options can only be settled by physical delivery, therefore the option program is accounted as equity-settled share based transaction.

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

	2010		2009	
	Options (number of shares)	**Weighted average exercise price (in HUF)**	**Options (number of shares)**	**Weighted average exercise price (in HUF)**
Outstanding at beginning of period	–	–	2,534,950	6,484
Granted during the period	3,068,800	134	–	–
Forfeited during the period	–	–	2,534,950	6,484
Repurchased during the period	2,988,800	134	–	–
Exercised during the period	–	–	–	–
Outstanding at the end of the period	30,000	569	–	–
Exercisable at the end of the period	50,000	134	–	–

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

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

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

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

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

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF million)

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

Compensations	2010	2009
Short-term employee benefits	12,828	9,949
Other long-term employee benefits	197	94
Termination benefits	74	31
Redundancy payments	74	–
Share-based payment	–	3,139
Total	**13,173**	**13,213**

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

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

NOTE 31: MAJOR SUBSIDIARIES

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

Name	2010 Ownership (Direct and Indirect)	2009 Ownership (Direct and Indirect)	Activity
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
OAO OTP Bank (Russia)	95.87%	95.55%	commercial banking services
CJSC Donskoy Narodny Bank (Russia)	–	100,00%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	91.43%	91.43%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	98.82%	97.24%	commercial banking services
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	flat finance and reconstruction
OTP Fund Management Ltd.	100.00%	100.00%	fund management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)/OTP Financing Cyprus	100.00%	100,00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Two Commercial Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd.	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services
OTP Factoring Ukraine LLC	100.00%	100.00%	work-out

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

As at 31 December 2010:

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

As at 31 December 2009:

	Moneta Ltd.	Company for Cach Services Ltd.	Suzuki Pénzügyi Szolgáltató Cjsc.	Total
Total assets	744	1,904	598	3,246
Total liabilities	358	260	5	623
Shareholders' equity	386	1,644	593	2,623
Reserves	(253)	–	538	285
Total revenues	273	757	73	1,103
Profit before income tax	59	8	5	72
Profit after income tax	53	7	5	65

NOTE 32: TRUST ACTIVITIES (in HUF million)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

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

NOTE 33: CONCENTRATION OF ASSETS AND LIABILITIES

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

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

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

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

NOTE 34: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations prescribed by the NBH. The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the period end to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at 31 December 2010	Within 3 months	Within one year and over months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	496,240	16,176	156	466	–	513,038
Placements with other banks, net of allowance for placements losses	498,465	8,173	4,360	246	–	511,244
Financial assets at fair value through profit or loss	30,988	36,531	35,642	22,917	107,589	233,667
Securities available-for-sale	390,478	137,581	283,241	180,497	16,300	1,008,097
Loans, net of allowance for loan losses	651,880	1,088,792	1,755,872	3,244,515	–	6,741,059
Associates and other investments	–	–	–	–	11,554	11,554
Securities held-to-maturity	29,727	40,070	77,873	24,632	–	172,302
Property and equipment, Intangible assets	–	–	–	–	480,828	480,828
Other assets	42,977	26,276	30,263	9,641	–	109,157
TOTAL ASSETS	**2,140,755**	**1,353,599**	**2,187,407**	**3,482,914**	**616,271**	**9,780,946**
Amounts due to banks, the Hungarian overnment, deposits from the National Banks and other banks	352,235	9,413	181,752	138,549	–	681,949
Deposits from customers	4,273,546	1,334,423	183,901	29,619	–	5,821,489
Liabilities from issued securities	144,738	589,935	237,784	62,696	–	1,035,153
Financial liabilities at fair value through profit or loss	81,780	74,881	94,376	6,015	–	257,052
Other liabilities	244,924	120,692	12,215	7,913	–	385,744
Subordinated bonds and loans	3,473	15	54,160	134,070	98,912	290,630
TOTAL LIABILITIES	**5,100,696**	**2,129,359**	**764,188**	**378,862**	**98,912**	**8,472,017**
Share capital	–	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	–	1,327,638	1,327,638
Treasury shares	–	–	–	–	(52,597)	(52,597)
Non-controlling interest	–	–	–	–	5,888	5,888
TOTAL SHAREHOLDERS' EQUITY	**–**	**–**	**–**	**–**	**1,308,929**	**1,308,929**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5,100,696**	**2,129,359**	**764,188**	**378,862**	**1,407,841**	**9,780,946**
LIQUIDITY (DEFICIENCY)/EXCESS	**(2,959,941)**	**(775,760)**	**1,423,219**	**3,104,052**	**(791,570)**	**–**

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

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

As at 31 December 2010	USD	EUR	CHF	Other	Total
Assets	691,852	2,373,293	1,529,159	2,276,029	6,870,333
Liabilities	(207,776)	(2,644,529)	(120,992)	(1,315,876)	(4,289,173)
Off-balance sheet assets and liabilities, net	(354,571)	218,998	(1,484,742)	(40,709)	(1,661,024)
Net position	**129,505**	**(52,238)**	**(76,575)**	**919,444**	**920,136**

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

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

NOTE 36: INTEREST RATE RISK MANAGEMENT (in HUF million)

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

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

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

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

As at 31 December 2010

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

As at 31 December 2010

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

As at 31 December 2009

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	96,112	133,011	170	–	–	–	–	–	–	–	50,337	226,019	146,619	359,030	505,649
fixed rate	95,747	129,275	–	–	–	–	–	–	–	–	–	–	95,747	129,275	225,022
variable rate	365	3,736	170	–	–	–	–	–	–	–	–	–	535	3,736	4,271
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	50,337	226,019	50,337	226,019	276,356
Placements with other banks, net of allowance for placements losses	13,149	383,273	–	5,112	–	9,014	–	1,155	–	826	206	28,116	13,355	427,,496	440,851
fixed rate	13,136	344,605	–	2,461	–	665	–	503	–	151	–	–	13,136	348,385	361,521
variable rate	13	38,668	–	2,621	–	8,349	–	652	,	675	–	–	13	50,995	51,008
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	206	28,116	206	28,116	28,322
Securities held for trading	49,773	863	170	–	3,476	462	1,780	249	14,318	2,901	87,278	1,595	156,795	6,070	162,865
fixed rate	49,773	–	152	–	3,476	411	1,780	249	14,318	2,901	–	–	69,499	3,561	73,060
variable rate	–	863	18	–	–	51	–	–	–	–	–	–	18	914	932
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	87,278	1,595	87,278	1,595	88,873
Securities available-for-sale	718,651	3,973	10,709	104,954	19,937	56,849	70,372	29,178	244,808	59,349	8,368	27,137	1,072,845	281,440	1,354,285
fixed rate	718,651	1,866	7,096	6,620	19,937	40,625	70,372	11,590	243,090	58,756	–	–	1,059,146	119,457	1,178,603
variable rate	–	2,107	3,613	98,334	–	16,224	–	17,588	1,718	593	–	–	5,331	134,846	140,177
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8,368	27,137	8,368	27,137	35,505
Loans, net of allowance for loan losses	822,682	3,311,187	52,532	231,138	134,056	734,596	55,285	45,355	388,323	390,438	55,332	191,792	1,508,210	4,904,506	6,412,716
fixed rate	12,759	39,442	2,533	23,116	3,224	205,784	2,019	24,165	9,138	341,450	–	–	29,673	633,957	663,630
variable rate	809,923	3,271,745	49,999	208,022	130,832	528,812	53,266	21,190	379,185	48,988	–	–	1,423,205	4,078,757	5,501,962
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	55,332	191,792	55,332	191,792	247,124
Securities held-to-maturity	23,349	13,379	7,973	9,984	27,750	16,480	29,202	2,838	20,964	33,173	2,178	1,583	111,416	77,439	188,853
fixed rate	–	8,450	–	8,865	16,885	16,480	29,202	2,838	20,964	33,173	–	–	67,051	69,806	136,857
variable rate	23,349	4,929	7,973	1,119	10,865	–	–	–	–	–	–	–	42,187	6,048	48,235
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	2,178	1,583	2,178	1,583	3,761
Derivative financial instruments	591,140	1,014,857	848,862	861,010	229,989	41,928	11,576	228,605	24,489	6,251	–	–	1,706,056	2,152,651	3,858,707
fixed rate	259,983	657,084	49,244	394,910	149,174	40,345	11,576	228,605	24,489	6,251	–	–	494,466	1,327,195	1,821,661
variable rate	331,157	357,773	799,618	466,100	80,815	1,583	–	–	–	–	–	–	1,211,590	825,456	2,037,046

As at 31 December 2009

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	25,709	104,424	25,554	331,360	82,148	137,762	1	22,798	48	70,838	1,952	155	135,412	667,337	802,749
fixed rate	21,394	64,747	19,668	5,562	1,949	111,624	1	944	48	47,407	–	–	43,060	230,284	273,344
variable rate	4,315	39,677	5,886	325,798	80,199	26,138	–	21,854	–	23,431	–	–	90,400	436,898	527,298
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,952	155	1,952	155	2,107
Deposits from customers	1,286,443	1,708,572	518,026	290,308	429,680	398,694	75,794	87,924	560,859	193,947	22,437	116,203	2,893,239	2,795,648	5,688,887
fixed rate	791,756	635,106	497,916	290,308	421,637	394,881	75,794	87,924	14,682	159,801	–	–	1,801,785	1,568,020	3,369,805
variable rate	494,687	1,073,466	20,110	–	8,043	3,813	–	–	546,177	34,146	–	–	1,069,017	1,111,425	2,180,442
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	22,437	116,203	22,437	116,203	138,640
Liabilities from issued securities	35,687	150,425	36,518	352,106	180,078	30,487	35,190	332,970	155,895	61,249	19,508	20,235	462,876	947,472	1,410,348
fixed rate	22,455	2,272	36,518	260,267	180,078	30,487	35,190	332,970	155,895	61,249	–	–	430,136	687,245	1,117,381
variable rate	13,232	148,153	–	91,839	–	–	–	–	–	–	–	–	13,232	239,992	253,224
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	19,508	20,235	19,508	20,235	39,743
Derivative financial instruments	927,406	914,113	1,416,108	335,906	247,120	19,530	15,283	17,577	10,835	12,137	–	–	2,616,752	1,299,263	3,916,015
fixed rate	217,783	700,092	139,647	35,282	166,547	19,526	15,283	17,577	10,835	12,137	–	–	550,095	784,614	1,334,709
variable rate	709,623	214,021	1,276,461	300,624	80,573	4	–	–	–	–	–	–	2,066,657	514,649	2,581,306
Subordinated bonds and loans	–	588	5,000	17,293	–	11,530	–	–	13,325	229,375	61	3,662	18,386	262,448	280,834
fixed rate	–	–	–	–	–	–	–	–	13,325	229,375	–	–	13,325	229,375	242,700
variable rate	–	588	5,000	17,293	–	11,530	–	–	–	–	–	–	5,000	29,411	34,411
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	61	3,662	61	3,662	3,723
Net position	39,611	1,982,421	(1,080,790)	(114,775)	(523,818)	261,326	41,947	(153,889)	(48,060)	(74,608)	159,741	335,987	(1,411,369)	2,236,462	825,093

NOTE 37: EARNINGS PER SHARE

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

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

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

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

As at 31 December 2010

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

As at 31 December 2009

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

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

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 39. e for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortized cost, the Group used the discounted cash-flow analyses (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Banks represent amounts available immediately thus the fair value equals to the cost.

The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

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

a) Fair value of financial assets and liabilities

	2010		2009	
	Carrying amount	Fair Value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Banks	513,038	513,038	505,649	505,844
Placements with other banks, net of allowance for placements losses	511,244	512,195	440,851	455,802
Financial assets at fair value through profit or loss	233,667	233,667	256,100	256,100
Securities held for trading	159,247	159,247	178,556	178,556
FVA of derivative financial instruments designated as held for trading	74,420	74,420	77,544	77,544
Securities available-for-sale	1,008,097	1,008,097	1,354,285	1,354,285
Loans, net of allowance for loan losses	6,741,059	7,787,442	6,412,716	6,679,949
Securities held-to-maturity	172,302	167,130	188,853	184,895
FVA of derivative financial instruments designated as fair value hedge	8,489	8,489	14,181	14,181
Financial assets total	**9,187,896**	**10,230,058**	**9,172,635**	**9,451,056**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	681,949	621,968	802,749	832,101
Deposits from customers	5,821,489	5,802,637	5,688,887	5,668,845
Liabilities from issued securities	1,035,153	947,864	1,410,348	1,399,933
FVA of derivative financial instruments designated as fair value hedge	115,159	115,159	22,249	22,249
FVA of derivative financial instruments designated as held for trading	257,052	257,052	118,468	118,468
Subordinated bonds and loans	290,630	219,966	280,834	210,075
Financial liabilities total	**8,201,432**	**7,964,646**	**224,593**	**8,251,671**

b) Fair value of derivative instruments

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

c) Hedge accounting

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

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

As at 31 December 2010

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

As at 31 December 2009

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash flow hedges	–	–	–
Fair value hedges	IRS	HUF 10,578 million	Interest rate
	Options	HUF 1 million	Foreign exchange
	CCIRS	HUF (18,615) million	Foreign exchange and interest rate
Net investment hedge in foreign operations	CCIRS	HUF (2,118) million	Foreign exchange

d) Fair value hedges

1. Deposits from customers

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

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

2. Securities available-for-sale

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

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

3. Loans to customers

3.1. Hedges of foreign exchange rate risk

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

	2010	2009
Fair value of the hedging instruments	–	2

3.2. Hedges of interest rate risk

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

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

4. Issued securities

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

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

As at 31 December 2010

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

As at 31 December 2009

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

e) Fair value classes

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

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

As at 31 December 2010	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	233,263	158,685	74,577	1
from this: securities held for trading	158,843	158,551	291	1
from this: positive FVA of derivative financial instruments designated as held for trading	74,420	134	74,286	–
Securities available-for-sale	989,196	964,535	24,635	26
Positive FVA of derivative financial instruments designated as fair value hedge	8,489	9	8,480	–
Financial assets measured at fair value total	**1,230,948**	**1,123,229**	**107,692**	**27**
Negative FVA of derivative financial instruments designated as held for trading	257,052	596	256,456	–
Negative FVA of derivative financial instruments designated as fair value hedge	115,159	4	115,155	–
Financial liabilities measured at fair value total	**372,211**	**600**	**371,611**	**–**

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

Movements in Level 3 financial instruments measured at fair value

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

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

As at 31 December 2009	Opening balance / Balance as at 1 January 2010	Transfer	Closing balance	Total profit or loss as at 31 December 2010
Securities available-for-sale[1]	99,658	3,183	102,841	3,183
Financial assets measured at fair value total	99,658	3,183	102,841	3,183

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

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

The Group operates in 9 principal geographical areas, the reportable segments are geographical segments. The reportable geographical segments of the Group are those components where:

– separated incomes and expenses, assets and liabilities can be identified and assignable to the segments

– transactions between the different segments were eliminated

– the main decisive board of the Group regularly controls the operating results

– separated financial information is available

The Group's segment reporting, based on the relevant data, is presented below as at 31 December 2010

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Eliminations	Consolidated
Interest income											
External	753,340	15,826	14,514	105,561	17,738	28,157	5,690	114,850	79,672		1,135,348
Intersegment	65,302	1,116	509	716	6,816	115	–	7,535	–	(82,109)	–
Total	**818,642**	**16,942**	**15,023**	**106,277**	**24,554**	**28,272**	**5,690**	**122,385**	**79,672**	**(82,109)**	**1,135,348**
Non-interest income											
External	148,716	4,051	4,177	19,262	5,473	12,748	6,190	19,212	17,368		237,194
Intersegment	22,953	–	415	303	2,121	–	–	–	–	(25,792)	–
Total	**171,666**	**4,051**	**4,592**	**19,565**	**7,594**	**12,748**	**6,190**	**19,212**	**17,368**	**(25,792)**	**237,618**
Interest expense											
External	418,987	5,052	7,499	31,338	4,317	12,968	1,406	25,795	11,561		518,923
Intersegment	42,854	414	393	3,629	7,102	760	2,095	7,599	17,363	(82,209)	–
Total	**461,841**	**5,466**	**7,892**	**34,967**	**11,419**	**13,728**	**3,501**	**33,394**	**28,924**	**(82,209)**	**518,923**
Non-interest expense											
External	262,700	11,277	8,129	33,560	15,333	17,374	7,226	56,540	26,073		440,412
Intersegment	7,694	–	105	–	–	190	–	235	405	(8,629)	–
Total	**270,394**	**11,277**	**8,234**	**33,560**	**15,533**	**19,564**	**7,226**	**56,775**	**26,478**	**(8,629)**	**440,412**

As at 31 December 2010

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Eliminations	Consolidated
Provision for impairment on loan and placement losses	**136,061**	**4,848**	**20,333**	**38,360**	**8,278**	**3,185**	**7,376**	**24,438**	**29,443**	**702**	**273,024**
Highlighted lines											
Capital expenditures	10,201	847	–	5,739	2,329	1,357	171	32	244	–	20,920
Depreciation and amortization	26,519	1,699	705	4,907	1,386	4,677	778	5,188	2,946	18,519	67,324
Segment profit before income tax	**122,012**	**(598)**	**(16,844)**	**18,955**	**(3,082)**	**4,543**	**(6,223)**	**26,990**	**12,195**	**(17,765)**	**140,183**
Income tax	**15,927**	**119**	**–**	**1,928**	**192**	**730**	**(13)**	**6,383**	**(3,209)**	**–**	**22,057**
Net profit for the year	**106,085**	**(717)**	**(16,844)**	**17,027**	**(3,274)**	**3,813**	**(6,210)**	**20,607**	**15,404**	**(17,765)**	**118,126**
Segment assets	**7,180,872**	**349,370**	**192,514**	**1,265,892**	**281,227**	**550,531**	**119,958**	**718,482**	**848,885**	**(1,726,812)**	**9,780,946**
Segment liabilities	**6,829,454**	**324,674**	**195,681**	**1,021,589**	**246,968**	**454,978**	**96,842**	**566,625**	**606,298**	**(1,871,092)**	**8,472,017**

As at 31 December 2009

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Eliminations	Consolidated
Interest income											
External	827,614	18,294	21,312	108,011	22,177	28,678	7,863	86,542	100,659		1,221,150
Intersegment	89,606	983	121	488	7,343	95	–	3,172	317	(102,125)	–
Összesen	**917,220**	**19,277**	**21,433**	**108,499**	**29,520**	**28,773**	**7,863**	**89,714**	**100,976**	**(102,125)**	**1,221,150**
Non-interest income											
External	159,116	3,836	5,475	18,516	5,739	13,892	4,632	12,654	13,758		237,618
Intersegment	15,282	842	–	344	3,436	–	–	–	–	(19,904)	–
Total	**174,398**	**4,678**	**5,475**	**18,860**	**9,175**	**13,892**	**4,632**	**12,654**	**13,758**	**(19,904)**	**237,618**
Interest expense											
External	522,407	7,683	9,108	32,453	8,988	13,901	1,616	21,074	14,140		631,370
Intersegment	47,191	775	2,189	6,734	10,195	1,233	2,196	8,353	23,999	(102,865)	–
Total	**569,598**	**8,485**	**11,297**	**39,187**	**19,183**	**15,134**	**3,812**	**29,427**	**38,139**	**(102,865)**	**631,370**
Non-interest expense											
External	235,562	13,049	8,106	33,224	14,907	19,632	10,982	46,647	25,529		407,638
Intersegment	5,524	–	–	–	155	11	–	555	334	(6,579)	–
Total	**241,086**	**13,049**	**8,106**	**33,224**	**15,062**	**19,643**	**10,982**	**47,202**	**25,863**	**(6,579)**	**407,638**

As at 31 December 2009

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Eliminations	Consolidated
Provision for impairment on loan and placement losses	**73,402**	**9,350**	**7,075**	**26,701**	**6,884**	**3,559**	**6,583**	**21,338**	**95,376**	**(990)**	**249,278**
Highlighted lines											
Capital expenditures	1,568	2,852	–	6,568	1,615	1,220	388	–	68	–	14,279
Depreciation and amortization	24,447	1,668	684	4,717	1,541	4,242	1,064	4,520	2,258	–	45,141
Segment profit before income tax	**207,532**	**(6,902)**	**430**	**28,247**	**(2,434)**	**4,329**	**(8,882)**	**4,401**	**(44,644)**	**(11,595)**	**170,482**
Income tax	**16,103**	**(204)**	**2**	**2,962**	**112**	**1,017**	**(34)**	**1,314**	**(996)**	**–**	**20,276**
Net profit for the year	**191,429**	**(6,698)**	**428**	**25,285**	**(2,546)**	**3,312**	**(8,848)**	**3,087**	**(43,648)**	**(11,595)**	**150,206**
Segment assets	**7,492,880**	**374,889**	**235,307**	**1,260,189**	**244,535**	**533,223**	**132,182**	**625,689**	**83,656**	**(1,975,418)**	**9,755,132**
Segment liabilities	**7,188,208**	**350,124**	**211,755**	**1,039,257**	**216,278**	**435,431**	**99,335**	**500,414**	**620,214**	**(2,097,490)**	**8,563,526**

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

Hungarian Government loan facility

See details in Note 13.

Legal action against the Bank

See details in Note 28.

Term Loan Facility

See details in Note 13.

Special Tax On Financial Institutions

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

Credit institutions:
OTP Bank Plc.,
OTP Mortgage Bank Ltd.,
OTP Building Society Ltd.,
Merkantil Bank Ltd.

Financial enterprises:
OTP Real Estate Leasing Ltd.,
OTP Factoring Ltd.,
Merkantil Car Ltd.,
Merkantil Real Estate Leasing Ltd.

Fund managers:
OTP Fund Management Ltd.,
OTP Real Estate Fund Management Ltd.

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

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

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

NOTE 42: POST BALANCE SHEET EVENTS

No significant event happened.

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

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

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

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

  It was only the Russian market enjoying a significant volume growth: the FX-adjusted portfolio of OAO OTP Bank (Russia) expanded by 24%, within that the retail book increased by 46% from 2009 to 2010. The flagship products of OAO OTP Bank demonstrated a spectacular expansion: POS-, credit card- and personal loan volumes grew by 58%, 72% and 111% from 2009 to 2010 respectively. In Hungary, the Group made huge efforts to revitalise its lending activity: OTP Core's loans to large enterprises grew by 1% and the SME segment – though being fairly small – expanded by 7% the last year with the simultaneous 7% decline of the Hungarian corporate lending market. As for Hungarian mortgage lending, in 2010 new volumes at OTP increased by 60% from 2009 to 2010, as a result the Bank's market share in new origination jumped from 15% to 29%. However these efforts only slowed down the gradual erosion in the outstanding mortgage loan volumes.
  Hungarian retail FX lending was stopped during the year, as a reaction to a legal change according to which no mortgage is allowed to be established to secure FX-denominated retail mortgage loans for private individuals from July 2010.

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

  The Group has accumulated a sizable amount of liquidity reserves since the beginning of the crisis: the total liquidity buffer amounted to EUR 5.0 billion as of 31 January 2011. This level of the reserves is significantly higher than what would be sufficient to provide coverage for the redemptions in wholesale funding within one year and for potential liquidity shocks. The source of this buffer is two-fold: the on-going growth of consolidated deposits since the beginning of the crisis and the internal FX liquidity generation of the loan types, related to the fact that retail FX lending had been stopped both in Hungary and Ukraine, therefore the continuous repayments of the clients are increasing the Group's FX liquidity. Internal FX liquidity generation enabled the Group to repay its redemptions throughout 2009-2010 without issuing new instruments in the market on a significant scale. Repayments reached EUR 1.5 billion and EUR 2.3 billion equivalent in 2009 and 2010 respectively (in the form of maturing senior notes, mortgage bonds and syndicated or bilateral loans), whereas new issuances amounted to a only EUR 420 million in 2010. As for the new issuances, by leveraging on the improving market sentiment the Group completed three smaller scale debt market transactions in 2010: in February OTP Bank issued CHF 100 million plain vanilla bonds with 2 year tenor, in April OTP Mortgage Bank tapped the market with a 2 year, EUR 300 million mortgage bond transaction (of which approximately EUR 90 million was sold to investors outside the Group), whereas in July the Bank organized a EUR 250 million syndicated loan facility with similar maturity.

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

Debtor protection programs launched in previous years in Ukraine, Hungary, Bulgaria and Romania continued in 2010 as well. The Group made special efforts to assist distressed borrowers in managing their temporary financial difficulties. However, if re-defaulted clients are excluded from the rescheduled portfolio, the share of rescheduled retailed loans already stopped growing in 2010 (at end of 2010: 6.2%). The reason behind is the material slow down in the rescheduling activity in Hungary and in the Ukraine.
In Hungary, on top of the prevailing debtor protection programme and as a reaction to the depreciation of the local currency starting from the second quarter, the Bank lowered the CHF and JPY mortgage rates by 75 bps and 50 bps respectively in June 2010, in order to ease the increasing burden of retail FX-debtors through a temporary measure.

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

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

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

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Company Registration Number: 01-09-071057

INDEPENDENT AUDITORS' REPORT

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

Report on the Unconsolidated Financial Statements

We have audited the accompanying unconsolidated financial statements of OTP Bank Plc., which comprise the unconsolidated statement of financial position as at December 31, 2010, and the related unconsolidated statement of recognized and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 132-198 of this Annual Report.

Management's Responsibility for the Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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Member of **Deloitte Touche Tohmatsu Limited**

Opinion

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of OTP Bank Plc. as of December 31, 2010, and of its unconsolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

We draw attention to Note 2.3 to the unconsolidated financial statements which states that the consolidated financial statements of OTP Bank Plc. prepared in accordance with International Financial Reporting Standards have been issued separately. The consolidated financial statements of OTP Bank Plc. as of and for the year ended December 31, 2010 were audited by us and our report dated February 25, 2011 expressed an unqualified opinion. Our opinion is not modified in respect of this matter.

Budapest, February 25, 2011

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Horváth Tamás
Deloitte Auditing and Consulting Ltd.

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Statement of financial position

(unconsolidated statement of financial position as at 31 December 2010, in HUF million)

	Note	2010	2009
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	171,677	178,217
Placements with other banks, net of allowance for placement losses	5.	794,686	962,063
Financial assets at fair value through profit or loss	6.	248,790	273,652
Securities available-for-sale	7.	1,477,930	1,652,747
Loans, net of allowance for loan losses	8.	2,723,784	2,622,895
Investments in subsidiaries	9.	637,819	643,907
Securities held-to-maturity	10.	154,003	216,563
Property and equipment	11.	70,004	69,654
Intangible assets	11.	35,145	38,909
Other assets	12.	44,512	92,085
TOTAL ASSETS		**6,358,350**	**6,750,692**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	13.	741.845	1.152.131
Deposits from customers	14.	3,279,573	3,368,752
Liabilities from issued securities	15.	512,466	618,303
Financial liabilities at fair value through profit or loss	16.	257,328	119,353
Other liabilities	17.	231,288	252,988
Subordinated bonds and loans	18.	297,638	287,321
TOTAL LIABILITIES		**5,320,138**	**5,798,848**
Share capital	19.	28,000	28,000
Retained earnings and reserves	20.	1,013,941	927,618
Treasury shares	21.	(3,729)	(3,774)
TOTAL SHAREHOLDERS' EQUITY		**1,038,212**	**951,844**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**6,358,350**	**6,750,692**

The accompanying notes to unconsolidated financial statements on pages 132 to 198 form an integral part of these unconsolidated financial statements.

Statement of recognized income

(unconsolidated statement of recognized income for the year ended 31 December 2010, in HUF million)

	Note	2010	2009
Interest Income:			
Loans		228,847	253.822
Placements with other banks, net of allowance for placement losses		297,539	353,911
Securities available-for-sale		107,113	54,087
Securities held-to-maturity		13,752	52,934
Amounts due from banks and balances with National Bank of Hungary		4,807	7,026
Securities held for trading		2,399	5,297
Total Interest Income		654,457	727,077
Interest Expense:			
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government		232 605	265.205
Deposits from customers		128,885	197,585
Liabilities from issued securities		33,892	32,474
Subordinated bonds and loans		16,243	17,446
Total Interest Expense		411,625	512,710
NET INTEREST INCOME		**242,832**	**214,367**
Provision for impairment on loan and placement losses	5., 8.	97,540	78.462
NET INTEREST INCOME AFTER PROVISON FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**145,292**	**135,905**
Income from fees and commissions	22.	145,832	160,881
Expenses from fees and commissions	22.	20,444	22,080
NET PROFIT FROM FEES AND COMMISSIONS		**125,388**	**138.801**
Foreign exchange gains and (losses)		12,233	(18,487)
Gains and (losses) on securities, net		2,209	(1,085)
Dividend income		57,651	32,986
Other operating income	23.	1,671	41,350
Net other operating expenses	23.	(19,542)	(2,713)
–from this: provision for impairment on investments in subsidiaries		(20,683)	(575)
NET OPERATING INCOME		**54,222**	**52.051**
Personnel expenses	24.	75,637	77,677
Depreciation and amortization	24.	24,141	22,262
Other administrative expenses	24.	90,490	65,449
OTHER ADMINISTRATIVE EXPENSES		**190,268**	**165.338**
PROFIT BEFORE INCOME TAX		**134,634**	**161.369**
Income tax	25.	9,970	3,231
NET PROFIT FOR THE YEAR		**124,664**	**158.138**
Earnings per share (in HUF)			
Basic	35.	449	582
Diluted	35.	444	577

Statement of comprehensive income

(unconsolidated statement of comprehensive income for the year ended 31 December 2010, in HUF million)

	2010	2009
NET PROFIT FOR THE YEAR	**124,664**	**158,138**
Fair value adjustment of securities available-for-sale	(19,667)	29,126
NET COMPREHENSIVE INCOME	**104,997**	**187,264**

The accompanying notes to unconsolidated financial statements on pages 132 to 198 form an integral part of these unconsolidated financial statements.

Statement of cash flows

(unconsolidated statement of cash flows for the year ended 31 December 2010, in HUF million)

Operating activities	Note	2010	2009
Profit before income tax		**134,634**	**161,369**
Depreciation and amortization		24,141	22,262
(Release of provision)/ provision for impairment on securities available-for-sale	7.	(5,220)	2,451
Provision for impairment on loan and placement losses	5.,8.	97,540	78,462
Provision for impairment on investments in subsidiaries	9.	20,683	575
(Release of provision)/ provision for impairment on securities held-to-maturity	10.	(4,164)	4,164
Provision for impairment on other assets	12.	567	1,370
Release of provision on off-balance sheet commitments and contingent liabilities	17.	(10,272)	(9,500)
Share-based payment	28.	(11,821)	6,802
Unrealised gains on fair value adjustment of securities available-for-sale and held for trading		9,031	1,634
Unrealised gains on fair value adjustment of derivative financial instruments		1,737	34,568
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		28,791	(124,995)
Changes in financial liabilities at fair value through profit or loss		(528)	(224)
Net (increase)/ decrease in loans, net of allowance for loan losses		(79,755)	10,026
Decrease in other assets, excluding advances for investments and before provisions for losses		18,799	1,533
Net (decrease)/ increase in deposits from customers		(85,658)	256,289
(Decrease)/ increase in other liabilities		(5,030)	37,839
Net increase in the compulsory reserve established by the National Bank of Hungary		(10,942)	(8,167)
Dividend income		(57,651)	(32,986)
Income tax paid		(7,404)	(13,278)
Net cash provided by operating activities		**57,478**	**430,194**
INVESTING ACTIVITIES			
Net decrease/ (increase) in placements with other banks before allowance for placement losses		201,037	(66,321)
Net decrease/ (increase) in securities available-for-sale		151,572	(1,055,389)
Net increase in investments in subsidiaries before provision for impairment		(19,760)	(10,107)
Dividend income		57,651	32,986
Net decrease in securities held-to-maturity		65,912	227,376
Additions to property, equipment and intangible assets		(34,441)	(27,189)
Disposals to property, equipment and intangible assets		9,155	6,674
Net increase in advances for investments included in other assets		(15)	(13)
Net cash provided by/ (used in) investing activities		**431,111**	**(891,983)**
FINANCING ACTIVITIES			
Net (decrease)/ increase in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		(410,286)	441,054
Cash received from issuance of securities		355,776	247,548
Cash used for redemption of issued securities		(456,270)	(236,139)
Increase/ (decrease) in subordinated bonds and loans		10,317	(17,897)
Payments to ICES holders		(5,626)	(5,706)
Net change in Treasury shares		20	45,496
Dividends paid		(2)	(539)
Net cash (used in)/ provided by financing activities		**(506,071)**	**473,817**
Net (decrease)/ increase in cash and cash equivalents		**(17,482)**	**12,028**
Cash and cash equivalents at the beginning of the year		**105,679**	**93,651**
Cash and cash equivalents at the end of the year		**88,197**	**105,679**
Analysis of cash and cash equivalents			
Cash, amounts due from banks and balances with the National Bank of Hungary		178,217	158,022
Compulsory reserve established by the National Bank of Hungary		(72,538)	(64,371)
Cash and cash equivalents at the beginning of the year		**105,679**	**93,651**
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	171,677	178,217
Compulsory reserve established by the National Bank of Hungary	4.	(83,480)	(72,538)
Cash and cash equivalents at the end of the year		**88,197**	**105,679**

The accompanying notes to unconsolidated financial statements on pages 132 to 198 form an integral part of these unconsolidated financial statements.

Statement of changes is shareholders' equity

(unconsolidated statement of changes in shareholders' equity for the year ended 31 December 2010, in HUF million)

	Note	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Put option reserve	Treasury Shares	Total
Balance as at 1 January 2009		**28,000**	**52**	**19,181**	**823,085**	**–**	**(97,845)**	**772,473**
Net comprehensive income for the year		–	–	–	187,264	–	–	187,264
Share-based payment	28.	–	–	6,802	–	–	–	6,802
Closed share-based payment		–	–	(19,153)	19,153	–	–	–
Payments to ICES holders		–	–	–	(4,723)	–	–	(4,723)
Sale of treasury shares		–	–	–	–	–	110,637	110,637
Written put option on ordinary shares		–	–	–	–	(55,468)	–	(55,468)
Loss on sale of treasury shares		–	–	–	(48,575)	–	–	(48,575)
Acquisition of treasury shares		–	–	–	–	–	(16,566)	(16,566)
Balance as at 31 December 2009		**28,000**	**52**	**6,830**	**976,204**	**(55,468)**	**(3,774)**	**951,844**
Net comprehensive income for the year		–	–	–	104,997	–	–	104,997
Share-based payment	28.	–	–	(6,802)	(5,019)	–	–	(11,821)
Payments to ICES holders		–	–	–	(6,828)	–	–	(6,828)
Sale of treasury shares		–	–	–	–	–	460	460
Loss on sale of treasury shares		–	–	–	(25)	–	–	(25)
Acquisition of treasury shares		–	–	–	–	–	(415)	(415)
Balance as at 31 December 2010		**28,000**	**52**	**28**	**1,069,329**	**(55,468)**	**(3,729)**	**1,038,212**

The accompanying notes to unconsolidated financial statements on pages 132 to 198 form an integral part of these unconsolidated financial statements.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

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

In 1995, the shares of the Bank were listed on the Budapest and the Luxembourg Stock Exchanges and were also listed on the SEAQ board on the London Stock Exchange and PORTAL in the USA. These financial statements were approved by the the board of directors and authorised for issue on 31 March 2011.

	2010	2009
The structure of the Share capital by shareholders (%):		
Domestic and foreign private and institutional investors	96%	97%
Employees	2%	2%
Treasury shares	2%	1%
Total	**100%**	**100%**

The Bank provides a full range of commercial banking services through a nationwide network of 380 branches in Hungary.

	2010	2009
Number of the employees of the Bank:		
Number of employees	7,800	7,820
Average number of employees	7,777	7,977

1.2. Accounting

The Bank maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

The functional currency of the Bank is the Hungarian Forint ("HUF").

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with the International Financial Reporting Standards ("IFRS"). Certain adjustments have been made to the Bank's Hungarian unconsolidated statutory accounts (see Note 38), in order to present the unconsolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB"), which are referred to as IFRS.

The unconsolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union (the "EU") except for the matters discussed in Note 2.3. IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") which has not been approved by the EU. As the Bank does not apply portfolio hedge accounting under IAS 39, there would be no impact on these unconsolidated financial statements, had it been approved by the EU at the balance sheet date.

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

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

– IAS 27 (Amendment) "Consolidated and Separate Financial Statements" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009),

– IAS 39 (Amendment) "Financial Instruments: Recognition and Measurement" – Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009),

– IFRS 1 (Revised) "First-time Adoption of IFRS" adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010),

– IFRS 3 (Revised) "Business Combinations" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009),

– IFRS 1 (Amendment) "First-time Adoption of IFRS" – Additional Exemptions for First-time Adopters, adopted by the EU on 23 June 2010 (effective for annual periods beginning on or after 1 January 2010),

– IFRS 2 (Amendment) "Share-based Payment" – Group cash-settled share-based payment transactions adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),

– "Improvements to IFRSs (2009)" (Amendment) resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),

– IFRIC 12 "Service Concession Arrangements" adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009),

– IFRIC 15 "Agreements for the Construction of Real Estate" adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010),

– IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009),

– IFRIC 17 "Distributions of Non-Cash Assets to Owners" adopted by the EU on 26 November 2009,

– IFRIC 18 "Transfers of Assets from Customers" adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009).

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

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

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

– IAS 12 "Income Taxes" (Amendment) – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)*,

*Not yet endorsed by the EU.

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying unconsolidated financial statements are summarized below:

2.1. Basis of presentation

These unconsolidated financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred. The presentation of unconsolidated financial statements in conformity with IFRS requires the management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

[1]Not yet endorsed by the EU.

2.2. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded to the unconsolidated statement of recognised income.

2.3. Consolidated financial statements

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

2.4. Investments in subsidiaries

Investments in subsidiaries comprise those investments where the Bank, through direct and indirect ownership interest, controls the financial and operating policies of the investee.
Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.
Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

OTP calculates the value in use a discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash-generating units.
OTP in its strategic plan, has taken into consideration the cautious recovery of global economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

2.5. Securities held-to-maturity

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

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognised in profit or loss and are included in the unconsolidated statement of recognised income for the period.

Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, securities issued by NBH, shares in non-financial commercial companies and shares in investment funds.

2.6.2. Derivative financial instruments

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

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

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

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

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

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

The ineffective element of the hedge is charged directly to the unconsolidated statement of recognised income.

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

2.7. Securities available-for-sale

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

The provision for impairment is calculated based on discounted cash flow methodology, using the expected future cash flow and original effective interest rate.

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

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

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

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

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

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

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

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

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

2.9. Sale and repurchase agreements, security lending

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

2.10. Property, equipment and intangible assets

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

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

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

2.11. Financial liabilities

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

2.12. Leases

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

2.13. Treasury shares

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

2.14. Interest income and interest expense

The interest income and expense are recognised on the accrual basis and based on the IAS 18 Revenue Standard, referring to provisions of IAS 39. The Bank recognises interest income when assumes that the interest associated with the transaction will flow to the Bank and the amount of the revenue can reasonably be measured. All interest income and expense arising from loans, placements with other banks, securities held for trading, securities available-for-sale, securities held to maturity and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statement.

2.15. Fees and Commissions

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

2.16. Dividend income

The Bank recognises dividend income in the unconsolidated financial statements when its right to receive the payment is established.

2.17. Income tax

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

2.18. Off-balance sheet commitments and contingent liabilities

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

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

2.19. Share-based payment

The Bank has applied the requirements of IFRS 2 Share-based Payment. The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2.20. Unconsolidated statement of cash flows

For the purposes of reporting cash flows, cash and cash equivalents include cash, due from banks and balances with the NBH. Cash flows from hedging activities are classified in the same category as the item being hedged. The unrealized gains and losses from the translation of monetary items to the closing foreign exchange rates and the unrealized gains and losses from derivative financial instruments are presented net in the statement of cash-flows for the monetary items which were being revaluated.

2.21. Segment reporting

The Bank has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker

in order to allocate resources to the segments and to assess their performance.
Based on the above, the segments identified by the Group are the geographical segments.
At unconsolidated level, the Management does not separate and makes decisions based on different segments, the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the geographical segments. The OTP Group's reportable segments under IFRS 8 are therefore as follows: Hungary, Slovakia, Montenegro, Bulgaria, Romania, Croatia, Serbia, Russia, Ukraine.

2.22. Comparative figures

Certain amounts in the unconsolidated financial statements for the year ended 31 December 2009 have been reclassified to conform with the current year presentation.

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

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

3.1. Impairment on loans and placements

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

3.2. Valuation of instruments without direct quotations

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

3.3. Provisions

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

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

	2010	2009
Cash on hand:		
In HUF	57,246	49,237
In foreign currency	4,995	5,453
	62,241	**54,690**
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	100,524	95,389
In foreign currency	8,510	27,734
	109,034	**123,123**
Accrued interest	402	404
Total	**171,677**	**178,217**
Compulsory reserve	**83,480**	**72,538**
Rate of the compulsory reserve	**2%**	**2%**

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

	2010	2009
Within one year:		
In HUF	52,953	230,804
In foreign currency	540,194	442,228
	593,147	**673,032**
Over one year		
In HUF	300	300
In foreign currency	200,707	288,894
	201,007	**289,194**
Total placements	794,154	962,226
Accrued interest	1,482	1,534
Provision for impairment on placement losses	(950)	(1,697)
Total	**794,686**	**962,063**

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

	2010	2009
Balance as at 1 January	1,697	362
Provision for the period	33	1,600
Use of provision	(780)	(265)
Balance as at 31 December	**950**	**1,697**

Interest conditions of placements with other banks:

	2010	2009
Placements with other banks in HUF	6.04%–10.9%	6.75%–10.89%
Placements with other banks in foreign currency	0.5%–12.6%	0.5%–10.5%

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

Securities held for trading:

	2010	2009
Corporate shares	105,832	88,513
Securities issued by the NBH	19,984	49,887
Government bonds	13,784	28,857
Mortgage bonds	4,201	8,689
Hungarian government discounted Treasury Bills	3,635	2,642
Hungarian government interest bearing Treasury Bills	26	183
Other securities	153	282
	147,615	**179,053**
Accrued interest	244	1,363
Subtotal	**147,859**	**180,416**

Derivative financial instruments designated as held for trading:

	2010	2009
CCIRS[3] and mark-to-market CCIRS swaps designated as held for trading	42,807	28,403
Interest rate swaps designated as held for trading	34,414	56,134
Foreign currency swaps designated as held for trading	18,084	7,439
Other derivative transactions	5,626	1,260
	100,931	**93,236**
Subtotal	**248,790**	**273,652**

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

	2010	2009
Within five years:		
variable interest	19	18
fixed interest	36,191	74,670
	36,210	**74,688**
Over five years:		
variable interest	–	–
fixed interest	5,559	15,832
	5,559	**15,832**
Non-interest bearing securities	105,846	88,533
Total	**147,615**	**179,053**

	2010	2009
Held for trading securities denominated in HUF	95%	96%
Held for trading securities denominated in Foreign currency	5%	4%
Held for trading securities total	**100%**	**100%**
Government securities denominated in HUF	80%	99%
Government securities denominated in foreign currency	20%	1%
Government securities total	**100%**	**100%**
Interest rates on securities held for trading	3.6%–10%	3.9%–12.2%

[3] CCIRS: Cross Currency Interest Rate Swap

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

	2010	2009
Mortgage bonds	778,553	720,260
Government bonds	318,637	257,571
Bonds issued by NBH	300,648	504,172
Other securities	40,639	137,389
listed securities	19,851	15,878
in HUF	–	–
in foreign currency	19,851	15,878
non-listed securities	20,788	121,511
in HUF	18,398	14,580
in foreign currency	2,390	106,931
Accrued interest	39,453	38,575
Provision for impairment	–	(5,220)
Securities available-for-sale total	**1,477,930**	**1,652,747**

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

	2010	2009
Balance as at 1 January	5,220	2,769
Provision for the period	–	5,220
Release of provision	(523)	(2,769)
Use of provision	(4,697)	–
Balance as at 31 December	**–**	**5,220**

Release of provision was related to foreign currency denominated bonds issued in Kazakhstan which were included in other securities.

	2010	2009
Securities available-for-sale denominated in HUF	72%	74%
Securities available-for-sale denominated in foreign currency	28%	26%
Securities available-for-sale total	**100%**	**100%**
Interest rates on securities available-for-sale denominated in HUF	5.5%–12%	5.5%–12%
Interest rates on securities available-for-sale denominated in foreign currency	3.6%–6.8%	1%–9.5%

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

	2010	2009
Within five years:		
variable interest	14,110	29,140
fixed interest	961,968	1,066,196
	976,078	**1,095,336**
Over five years:		
variable interest	–	72,030
fixed interest	444,001	443,559
	444,001	**515,589**
Non-interest bearing securities	18,398	8,467
Total	**1,438,477**	**1,619,392**

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

	2010	2009
Net loss reclassified from equity to statement of recognised income	491	197
Fair value of the hedged securities		
Corporate bonds	16,342	17,286
Total	**16,342**	**17,286**

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

	2010	2009
Short-term loans and trade bills (within one year)	664,197	611,898
Long-term loans and trade bills (over one year)	2,177,421	2,078,523
Loans gross total	**2,841,618**	**2,690,421**
Accrued interest	16,787	22,061
Provision of impairment on loan losses	(134,621)	(89,587)
Total	**2,723,784**	**2,622,895**

An analisys of the loan portfolio by currency:

	2010	2009
In HUF	34%	33%
In foreign currency	66%	67%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2010	2009
Loans denominated in HUF, with a maturity within one year	7.8%–29%	9.7%–30%
Loans denominated in HUF, with a maturity over one year	3%–24.8%	3%–24.8%
Loans denominated in Foreign currency	1.8%–24.9%	1.8%–24.1%
Gross loan portfolio on which interest to customers is not being accrued	8.4%	6.8%

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

	2010		2009	
Corporate loans	1,944,825	68%	1,921,905	70%
Consumer loans	365,648	13%	364,839	14%
Municipality loans	322,120	11%	178,224	7%
Housing loans	131,609	5%	149,851	6%
Mortgage backed loans	77,416	3%	75,602	3%
Total	**2,841,618**	**100%**	**2,690,421**	**100%**

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

	2010	2009
Balance as at 1 January	89,587	45,319
Provision for the period	98,320	76,862
Release of provision	(53,286)	(32,594)
Balance as at 31 December	**134,621**	**89,587**

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

	2010	2009
(Release of provision)/ provision for impairment on placement losses (see Note 5)	(780)	1,600
Provision for impairment on loan losses	98,320	76,862
Total	**97,540**	**78,462**

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

NOTE 9: INVESTMENTS IN SUBSIDIARIES (in HUF million)

	2010	2009
Investments in subsidiaries:		
Controlling interest	784,041	769,477
Other	1,006	975
	785,047	770,452
Provision for impairment	(147,228)	(126,545)
Total	**637,819**	**643,907**

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

	2010		2009	
	% Held (direct and indirect)	Gross book value	% Held (direct and indirect)	Gross book value
OTP Bank JSC (Ukraine)	100.00%	266,512	100.00%	271,677
DSK Bank EAD (Bulgaria)	100.00%	86,832	100.00%	86,831
OAO OTP Bank (Russia)	95.87%	73,445	95.55%	66,739
OTP banka Hrvatska d.d. (Croatia)	100.00%	72,940	100.00%	72,940
OTP banka Sribija a.d. (Serbia)	91.43%	55,997	91.43%	55,997
OOO AlyansReserv (Russia)	100.00%	50,074	100.00%	11,147
Crnogorska Komercijalna Banka a.d. (Montenegro)	100.00%	46,998	100.00%	37,100
OTP Bank Romania S.A. (Romania)	100.00%	45,204	100.00%	40,058
OTP Mortgage Bank Ltd.	100.00%	27,000	100.00%	27,000
OTP Banka Slovensko a.s. (Slovakia)	98.82%	10,516	97.23%	10,038
Monicomp Ltd.	100.00%	9,234	–	–
Air-Invest Ltd.	100.00%	8,298	100.00%	8,298
Bank Center No. 1. Ltd.	100.00%	7,330	100.00%	7,330
Inga Two Ltd.	100.00%	5,892	100.00%	5,892
OTP Funds Servicing and Consulting Ltd.	100.00%	2,469	100.00%	2,469
OTP Holding Ltd. (Cyprus)	100.00%	2,000	100.00%	2,000
OTP Building Society Ltd.	100.00%	1,950	100.00%	1,950
OTP Fund Management Ltd.	100.00%	1,653	100.00%	1,653
Merkantil Bank Ltd.	100.00%	1,600	100.00%	1,600
OTP Life Annuity Ltd.	100.00%	1,600	100.00%	1,250
OTP Real Estate Investment Fund Management Ltd.	100.00%	1,353	–	–
Sinvest Ltd. "v.a."	100.00%	1,311	–	–
CIL Babér Ltd.	100.00%	1,025	–	–
Omega Interconsult SRL (previously S.C. OTP Fond de Pensii)	100.00%	885	100.00%	885
OTP Financing Netherlands B.V. (Netherlands)	100.00%	481	100.00%	481
OTP Card Factory Ltd.	100.00%	450	100.00%	450
OTP Real Estate Leasing Ltd.	100.00%	410	100.00%	410
OTP Factoring Ltd.	100.00%	225	100.00%	225
Portfolion Ltd.	100.00%	150	–	–
HIF Ltd.	100.00%	81	100.00%	81
OTP Hungaro-Projekt Ltd.	100.00%	81	–	–
OOO Invest Oil (Russia)	–	–	100.00%	21,224
OOO Megaform Inter (Russia)	–	–	100.00%	17,704
CJSC Donskoy Narodny Bank (Russia)	–	–	100.00%	6,687
Monicomp Ltd.	–	–	100.00%	3,800
Monirent Ltd.	–	–	100.00%	1,520
Omnilog Ltd.	–	–	100.00%	1,500
D4 Tenant Ltd.	–	–	100.00%	1,020
Pet-Real Ltd.	–	–	100.00%	808
Dokulog Ltd.	–	–	100.00%	475
CIL Babér Ltd.	–	–	100.00%	5
MONOPOST Ltd.	–	–	100.00%	2
Other		45		231
Total		**784,041**		**769,477**

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

	2010	2009
Balance as at 1 January	**126,545**	**125,995**
Provision for the period	20,683	575
Release of provision	–	(25)
Balance as at 31 December	**147,228**	**126,545**

The provision for impairment on OTP Bank JSC (Ukraine) was HUF 97,526 million, for OTP banka Srbija a.d. was HUF 25,284 million as at 31 December 2010. During 2010, HUF 18,519 million was impaired. This impairment was related to Crnogorska komercijalna banka a.d.

The main figures of the Bank's indirectly owned associates, that are not consolidated using equity-method:

As at 31 December 2010

	Moneta a.d.	Company for Cash Services LLC	Agóra-Kapos Ltd.	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	694	1,936	343	598	3,571
Liabilities	485	233	326	3	1,049
Shareholders' equity	209	1,703	17	595	2,522
Retained earnings and reserves	(260)	–	–	541	281
Total income	319	765	501	46	1,631
Profit before tax	(133)	12	20	4	(97)
Net (loss)/ profit	(133)	11	17	2	(103)

As at 31 December 2009

	Moneta a.d.	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	744	1,904	598	3,246
Liabilities	358	260	5	623
Shareholders' equity	386	1,644	593	2,623
Retained earnings and reserves	(253)	–	538	285
Total income	273	757	73	1,103
Profit before tax	59	8	5	72
Net (loss)/ profit	53	7	5	65

On 21 January 2010, the capital increase of the Romanian subsidiary of the Bank has been registered by the Romanian Court of Registration. Accordingly the statutory capital of the OTP Bank Romania S.A. has been increased from RON 432,909,120 to RON 462,909,120.

On 25 January 2010, the Bank called its option to buy 100% of the shares of Sinvest Trust Ltd, and become the sole owner of the company.

OTP Bank Plc. became 100% sole owner of OTP Real Estate Fund Management Ltd. The Bank bought the 49% block of the shares from Sinvest Trust Ltd. The Bank paid the purches price of the shares on 29 March 2010, that the shares were vested to OTP Bank Plc.

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

On 16 Fenruary 2010, the Court of Registration registered the merger of LLC Alliance Reserve, LLC Megaform Inter and LLC Invest Oil.

On 25 February 2010, the Bank acquired an 80% direct ownership in PortfoLion Venture Capital Ltd. The registered capital of the company is HUF 25 million.

On 12 March 2010, the Bank acquired a 10% direct ownership in Overdose Vagyonkezelő Ltd. The purchase price of the shares was HUF 40 million.

On 28 April 2010, the Bank signed a contract in accordance with which OTP Bank Plc. purchased the 89.9% business share of Monopost Ltd. and became the sole owner of the company.

On 24 June 2010, the Bank decided about an EUR 35 million capital increase to CKB Montenegro. Also, the local board of directors appointed Mrs. Inabat Török as the new CEO of CKB.

On 1 July, OTP Found de Pensi S.A. changed its name to Omega Interconsult S.R.L.

On 24 September 2010, D4 Tenant Ltd. was merged into CIL Babér Ltd the fully owned subsidiary of the Bank.

On 30 September 2010, the following companies fully owned by the Bank – Monopost Ltd., Monicomp Ltd., Pet-Real Ltd., Monirent Ltd., Omnilog Ltd., Dokulog Ltd. Pet-Real Ltd., – were merged and became a new company called Bankszolgáltató Ltd. As at 11 October 2010 the company changed its name to Monicomp Ltd.

On 7 October 2010, the Bank purchased an additional 20% stock in PortfoLion Venture Capital Ltd. from a minority holder to its existing 80% stake. As a result of this transaction, the Bank became the sole owner of PortfoLion Venture Capital Ltd. The purchase price was paid on 7 October 2010 to the previous owners and the Bank obtained the ownership rights on the same day.

OTP Bank Plc. increased capital – in the amount of RON 80 million - of its Romanian subsidiary that has been registered by the Romanian Court of Registration on 16 November 2010. Accordingly the statutory capital of OTP Bank Romania S.A. increased from RON 462,909,120 to RON 542,909,040.

On 22 November 2010 the Bank provided HUF 350 million additional capital to OTP Life Annuity Ltd. from this amount HUF 50 million was the core capital that was registered in on 1 December 2010.

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

	2010	2009
Government bonds	87,878	107,447
Mortgage bonds	60,140	99,220
Hungarian government discounted Treasury bills	395	388
Other bonds	–	5,250
	148,413	**212,305**
Accrued interest	5,590	8,422
Provision for impairment	–	(4,164)
Total	**154,003**	**216,563**

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

	2010	2009
Balance as at 1 January	**4,164**	**–**
Provision for impairment	–	4,164
Release of provision	(1,566)	
Use of provision	(2,598)	–
Balance as at 31 December	**–**	**4,164**

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

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

	2010	2009
Within five years:		
variable interest	34,090	37,204
fixed interest	87,060	144,593
	121,150	**181,797**
Over five years:		
variable interest	3,334	6,666
fixed interest	23,929	23,842
	27,263	**30,508**
Total	**148,413**	**212,305**

The distribution of the held-to-maturity securities by currency:

	2010	2009
Securities held-to-maturity denominated in HUF (%)	100%	98%
Securities held-to-maturity denominated in foreign currency (%)	0%	2%
Securities held-to-maturity total	**100%**	**100%**

Interest rates on securities held-to-maturity (%)	5.5%–10%	5.5%–19.2%

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

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

For year ended 31 December 2010

	Intangible assets	Property	Office equipments and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	87,735	59,964	71,121	3,832	222,652
Additions	20,572	2,658	5,516	9,472	38,218
Disposals	(9,892)	(611)	(3,371)	(8,336)	(22,210)
Balance as at 31 December	**98,415**	**62,011**	**73,266**	**4,968**	**238,660**
Depreciation and Amortization					
Balance as at 1 January	48,826	11,492	53,771	–	114,089
Charge for the year	15,802	1,535	6,804	–	24,141
Disposals	(1,358)	(193)	(3,168)	–	(4,719)
Balance as at 31 December	**63,270**	**12,834**	**57,407**	**–**	**133,511**
Net book value					
Balance as at 1 January	38,909	48,472	17,350	3,832	108,563
Balance as at 31 December	**35,145**	**49,177**	**15,859**	**4,968**	**105,149**

For the year ended 31 December 2009

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

NOTE 12: OTHER ASSETS (in HUF million)

	2010	2009
Fair value of derivative financial instruments designated as fair value hedge	8,477	14,148
Receivables from OTP Mortgage Bank Ltd.[4]	6,921	49,026
Receivables from decreasing share capital of OTP Holding Ltd.	4,800	4,800
Credits sold under deferred payment scheme	4,665	1,248
Trade receivables	4,354	6,010
Prepayments and accrued income	4,334	4,506
Current income tax receivable	2,224	1,400
Due from Hungarian Government from interest subsidies	1,992	1,878
Deferred tax assets	1,887	3,828
Inventories	952	705
Advances for securities and investments	561	546
Receivables from investment services	415	512
Other advances	308	192
Other	5,029	5,265
	46,919	**94,064**
Provision for impairment on other assets[5]	(2,407)	(1,979)
Total	**44,512**	**92,085**

Positive fair value of derivative financial instruments designated as fair value hedge:

	2010	2009
Interest rate swaps designated as fair value hedge	8,477	14,147
Other	–	1
Total	**8,477**	**14,148**

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

	2010	2009
Balance as at 1 January	1,979	610
Charge for the period	1,500	1,940
Release of provision	(933)	(570)
Use of provision	(139)	(1)
Balance as at 31 December	**2,407**	**1,979**

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

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

	2010	2009
Within one year:		
In HUF	149,032	84,777
In foreign currency[6]	325,207	712,431
	474,239	**797,208**
Over one year:		
In HUF	116,271	97,875
In foreign currency[7]	149,681	254,377
	265,952	**352,252**
Subtotal	**740,191**	**1,149,460**
Accrued interest	1,654	2,671
Total	**741,845**	**1,152,131**

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

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

	2010	2009
Within one year:		
In HUF	1.89%–6.37%	8.94%–11%
In foreign currency	0.22%–15.9%	1%–5.9%
Over one year:		
In HUF	0.89%–6.37%	1.75%–8.46%
In foreign currency	0.12%–4.73%	0.28%–10.56%

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

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

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF million)

	2010	2009
Within one year:		
In HUF	2,595,048	2,694,633
In foreign currency	646,053	630,457
	3,241,101	**3,325,090**
Over one year:		
In HUF	26,185	16,860
In foreign currency	2,421	3,941
	28,606	**20,801**
Subtotal	**3,269,707**	**3,345,891**
Accrued interest	9,866	22,861
Total	**3,279,573**	**3,368,752**

Interest rates on deposits from customers are as follows:

	2010	2009
Within one year in HUF	0.1%–10.3%	0.2%–12%
Over one year in HUF	0.2%–5.3%	0.2%–11.5%
In foreign currency	0.02%–6.1%	0.1%–8.1%

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

	2010		2009	
Retail deposits	2,043,644	63%	2,057,361	61%
Corporate deposits	1,056,183	32%	1,033,705	31%
Municipality deposits	169,880	5%	254,825	8%
Total	**3,269,707**	**100%**	**3,345,891**	**100%**

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

	2010	2009
Within one year:		
In HUF	282,049	227,834
In foreign currency	140,094	216,673
	422,143	**444,507**
Over one year:		
In HUF	45,964	22,206
In foreign currency	36,196	140,540
	82,160	**162,746**
Subtotal	**504,303**	**607,253**
Accrued interest	8,163	11,050
Total	**512,466**	**618,303**

Interest rates on liabilities from issued securities are as follows:

	2010	2009
Issued securities denominated in HUF	0.25%–9.5%	0.25%–10%
Issued securities denominated in foreign currency	4%–5.75%	0.86%–5.75%

Issued securities denominated in foreign currency as at 31 December 2010:

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % p.a.)		Hedged
1.	OTP HBFIXED 160511	16/05/2008	16/05/2011	EUR	500	139,375	5.75	fixed	hedged
2.	OTPHB402/12	24/02/2010	24/02/2012	CHF	89	19,797	4	fixed	hedged
3.	DNT_EUR_2011_A	23/12/2010	23/06/2011	EUR	9	2,543	indexed	floating	
4.	DNT_USD_2011_A	23/12/2010	23/06/2011	USD	3	572	indexed	floating	
5.	OTPX 2015C	22/12/2010	29/12/2015	EUR	1	270	indexed	floating	hedged
	Total issued securities in FX					**162,557**			
	Unamortized premium					6,809			
	Fair value hedge adjustment					6,924			
	Total issued securities in FX					**176,290**			

CHF Bond issuance programme

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

EMTN Programme

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

Term Note Program in the value of HUF 500 billion

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

Redemption of EUR 500 million senior notes

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

Redemption of EUR 300 million senior notes

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

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

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

Issued securities denominated in HUF as at 31 December 2010:

	Name	Date of issuance		Maturity	Nominal value in HUF million	Interest conditions		Hedged
1.	OTP 2011/I	08/01/2010	15/01/2010	08/01/2011	6,011	5.5	fixed	
2.	OTP 2011/II	22/01/2010	29/01/2010	22/01/2011	23,326	5.5	fixed	
3.	OTP 2011/III	05/02/2010	12/02/2010	05/02/2011	5,981	5.5	fixed	
4.	OTP 2011/IV	19/02/2010	26/02/2010	19/02/2011	22,805	5.5	fixed	
5.	OTP 2011/V	05/03/2010	12/03/2010	05/03/2011	10,711	5.5	fixed	
6.	OTP 2011/VI	19/03/2010	26/03/2010	19/03/2011	5,231	5.5	fixed	
7.	OTP 2011/VII	02/04/2010	09/04/2010	02/04/2011	13,085	5	fixed	
8.	OTP 2011/VIII	16/04/2010	23/04/2010	16/04/2011	7,295	5	fixed	
9.	OTP 2011/IX	30/04/2010	07/05/2010	30/04/2011	9,516	5	fixed	
10.	OTP 2011/X	14/05/2010	21/05/2010	14/05/2011	9,805	5	fixed	
11.	OTP 2011/XI	28/05/2010	04/06/2010	28/05/2011	8,367	5	fixed	
12.	OTP 2011/XII	11/06/2010	18/06/2010	11/06/2011	6,794	5	fixed	
13.	OTP 2011/XIII	25/06/2010	02/07/2010	25/06/2011	9,206	5	fixed	
14.	OTP 2011/XIV	09/07/2010	16/07/2010	09/07/2011	10,349	5	fixed	
15.	OTP 2011/XV	23/07/2010	30/07/2010	23/07/2011	11,171	5	fixed	
16.	OTP 2011/XVI	06/08/2010	13/08/2010	06/08/2011	13,272	5	fixed	
17.	OTP 2011/XVII	19/08/2010	27/08/2010	19/08/2011	7,245	5	fixed	
18.	OTP 2011/XVIII	03/09/2010	10/09/2010	03/09/2011	14,679	5	fixed	
19.	OTP 2011/XIX	17/09/2010	24/09/2010	17/09/2011	11,131	5	fixed	
20.	OTP 2011/XX	01/10/2010	08/10/2010	01/10/2011	4,864	5	fixed	
21.	OTP 2011/XXI	15/10/2010	22/10/2010	15/11/2011	6,474	5	fixed	
22.	OTP 2011/XXII	29/10/2010	05/11/2010	29/10/2011	19,640	5	fixed	
23.	OTP 2011/XXIII	12/11/2010	19/11/2010	12/11/2011	12,589	5	fixed	
24.	OTP 2011/XXIV	26/11/2010	03/12/2010	26/11/2012	6,518	5	fixed	
25.	OTP 2011/XXV	13/12/2010	30/12/2010	13/12/2011	15,810	5	fixed	
26.	OTP 2011A	13/10/2009		13/04/2011	3,000	9.5	fixed	
27.	OTP 2011B	28/10/2009		28/04/2011	1,000	7.55	fixed	
28.	OTP 2011C	09/11/2009		09/11/2011	2,000	7.5	fixed	
29.	TBSZ2013_I	26/02/2010	28/12/2010	30/12/2013	6,264	5.5	fixed	
30.	TBSZ2015_I	26/02/2010	17/12/2010	30/12/2015	5,729	5.5	fixed	
31.	OTPX 2011A	29/02/2008		01/03/2011	315	indexed	floating	hedged
32.	OTPX 2011B	30/05/2008		30/05/2011	539	indexed	floating	hedged
33.	OTPX 2011C	14/12/2009	05/02/2010	20/12/2011	527	indexed	floating	hedged
34.	OTPX 2012C	25/03/2010	13/12/2010	30/03/2012	668	indexed	floating	hedged
35.	OTPX 2013C	16/12/2010		19/12/2013	450	indexed	floating	hedged
36.	OTPX 2012A	11/09/2009	25/09/2009	11/09/2012	1,686	indexed	floating	hedged
37.	OTPX 2013A	28/06/2010		08/07/2013	480	indexed	floating	hedged
38.	OTPX 2014A	25/06/2009	24/06/2010	30/06/2014	3,278	indexed	floating	hedged
39.	OTPX 2014B	05/10/2009	05/10/2010	13/10/2014	4,164	indexed	floating	hedged
40.	OTPX 2014C	14/12/2009		19/12/2014	4,080	indexed	floating	hedged
41.	OTPX 2015A	25/03/2010		30/03/2015	5,602	indexed	floating	hedged
42.	OTPX 2015B	28/06/2010		09/07/2015	5,030	indexed	floating	hedged
43.	OTPX 2016B	16/12/2010		19/12/2016	3,480	indexed	floating	hedged
44.	OTPX 2019A	25/06/2009	24/06/2010	01/07/2019	319	indexed	floating	hedged
45.	OTPX 2019B	05/10/2009	05/02/2010	14/10/2019	481	indexed	floating	hedged
46.	OTPX 2019C	14/12/2009		20/12/2019	404	indexed	floating	hedged
47.	OTPX 2020A	25/03/2010		30/03/2020	415	indexed	floating	hedged
48.	OTPX 2020B	28/06/2010		09/07/2020	450	indexed	floating	hedged
49.	OTPX 2020D	16/12/2010		18/12/2020	245	indexed	floating	hedged
50.	OTPRA_2013_B	26/11/2010		03/12/2013	3,752	indexed	floating	hedged
51.	OTPX 2013B	26/11/2010		06/11/2013	940	indexed	floating	hedged
52.	OTPX 2016A	11/11/2010		03/11/2016	4,600	indexed	floating	hedged
53.	OTPX 2020C	11/11/2010		05/11/2020	290	indexed	floating	hedged
54.	OTPRF_2020_C	11/11/2010		05/11/2020	64	indexed	floating	hedged
55.	3Y_EUR_HUF	25/06/2010		25/06/2013	2,338	indexed	floating	hedged
56.	2020_RF_A	12/07/2010		20/07/2020	117	indexed	floating	hedged
57.	2020_RF_B	12/07/2010		20/07/2020	468	indexed	floating	hedged
58.	DNT_HUF_2011_A	23/12/2010		23/06/2011	3,903	indexed	floating	hedged
	Total issued securities in HUF				**338,953**			
	Unamortized premium				(6,777)			
	Fair value hedge adjustment				(4,163)			
	Total issued securities in HUF				**328,013**			
	Accrued interest				8,163			
	Total				**512,466**			

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

Negative fair value of financial liabilities at fair value through profit or loss designated as held for trading by deal types:

	2010	2009
CCIRS and mark-to-market CCIRS	206,887	61,517
Interest rate swaps	40,064	47,065
Foreign currency swaps	5,426	6,168
Other derivative contracts	4,951	4,603
Total	**257,328**	**119,353**

NOTE 17: OTHER LIABILITIES (in HUF million)

	2010	2009
Financial liabilities from OTP-MOL share swap transaction[8]	105,766	86,912
Accrued expenses	33,219	36,634
Salaries and social security payable	21,022	18,938
Liabilities from investment services	12,033	2,813
Giro clearing accounts	10,682	11,330
Provision on off-balance sheet commitments, contingent liabilities	8,461	18,733
Fair value of derivative financial instruments designated as fair value hedge	7,143	3,569
Accounts payable	6,642	6,999
Liabilities from custody accounts	5,495	7,260
Current income tax payable	4,066	6,902
Short term liabilities due to repurchase agreement transactions	3,461	401
Liabilities connected to loans for collection	1,147	1,426
Liabilities related to housing loans	351	1,580
Dividends payable	193	196
Financial liabilities from guaranteed loans of OTP Bank JSC	–	38,132
Other	11,607	11,163
Total	**231,288**	**252,988**

Negative fair value of derivative financial instruments designated as fair value hedge:

	2010	2009
Interest-rate swap transactions designated as fair value hedge	7,143	3,569

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

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

	2010	2009
Provision for losses on off-balance sheet commitments and contingent liabilities related to lending	6,325	14,346
From this: provision for the repurchase guarantee to OTP Mortgage Bank Ltd.	177	6,619
Provision for litigation	1,476	3,116
Provision on other liabilities	660	1,271
Total	**8,461**	**18,733**

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

	2010	2009
Balance as at 1 January	18,733	28,233
Provision for the period	23,213	53,899
Release of provision for the period	(33,485)	(63,399)
Balance as at 31 December	**8,461**	**18,733**

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

	2010	2009
Over one year:		
In HUF	5,000	5,000
In foreign currency	289,184	278,863
	294,184	**283,863**
Accrued interest	3,454	3,458
Total	**297,638**	**287,321**

Interest rates on subordinates bonds and loans are as follows:

	2010	2009
Subordinated bonds and loans denominated in HUF	2.7%	3.8%
Subordinated bonds and loans denominated in foreign currency	1.6%–5.9%	1.3%–5.9%

Subordinated loans and bonds are detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 31 December 2010
Subordinated bond	HUF 5 billion	20/12/1993	20/12/2013	100%	frequency of payment is based on the condition of interest of 2013/C credit consolidation government bonds	3.80%
Subordinated bond	EUR 125 million	04/03/2005	04/03/2015	100%	three-month EURIBOR + 0.55% quarterly	
Subordinated bond	EUR 498 million	07/11/2006	Perpetual bond callable after 10 years	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	
Subordinated bond (under EMTN[1] program)	EUR 300 million	19/09/2006	19/09/2016	100%	Fixed 5.27% annual	5.27%
Subordinated bond (under EMTN[1] program)	EUR 200 million	26/02/2007	19/09/2016	100%	Fixed 5.27% annual	5.27%

[9]European Medium Term Note Program

NOTE 19: SHARE CAPITAL (in HUF million)

	2010	2009
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000
Total	**28,000**	**28,000**

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

NOTE 20: RETAINED EARNINGS AND RESERVES (in HUF million)

The reserves of the Bank under Hungarian Accounting Standards:

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

The legal reserves (general reserve and tied-up reserve) are not available for distribution. Dividend was calculated on the bases of the unconsolidated annual net profit according to the Hungarian Accounting Standards.

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

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

Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

NOTE 21: TREASURY SHARES (in HUF million)

	2010	2009
Nominal value (ordinary shares)	216	219
Carrying value at aquisition cost	3,729	3,774

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

Change in number of shares:

	2010	2009
Number of shares as at 1 January	2,187,444	17,418,636
Additions	73,232	10,355,980
Disposals	(103,005)	(25,587,172)
Number of shares as at 31 December	**2,157,671**	**2,187,444**

Change in carrying value:

	2010	2009
Balance as at 1 January	3,774	97,845
Additions	415	16,566
Disposals	(460)	(110,637)
Balance as at 31 December	**3,729**	**3,774**

NOTE 22: NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)

Income from fees and commissions

	2010	2009
Deposit and account maintenance fees and commissions	41,173	42,231
Fees and commissions paid by OTP Mortgage Bank Ltd.	38,603	52,693
Fees and commission related to the issued bank cards	21,565	22,726
Fees related to the cash withdrawal	20,361	21,316
Fees and commissions related to security trading	13,184	11,513
Fees and commissions related to lending	3,734	4,702
Net insurance fee income	1,884	1,384
Other	5,328	4,316
Total	**145,832**	**160,881**

Expenses from fees and commissions

	2010	2009
Interchange fee	5,932	5,217
Fees and commissions related to issued bank cards	4,340	4,339
Insurance fees	1,766	1,505
Cash withdrawal transacion fees	1,660	1,747
Fees and commissions related to lending	1,353	1,903
Money market transaction fees and commissions	1,134	1,775
Fees and commissions relating to deposits	730	684
Fees and commissions related to security trading	646	558
Postal fees	538	545
Other	2,345	3,807
Total	**20,444**	**22,080**
Net profit from fees and commissions	**125,388**	**138,801**

NOTE 23: OTHER OPERATING INCOME AND EXPENSES (in HUF million)

Other operating income:

	2010	2009
Other income from redemption of issued securities	–	38,600
Other	1,671	2,750
Total	**1,671**	**41,350**

Net other operating expenses:

	2010	2009
Provision for impairment on investments in subsidiaries	20,683	575
Cancellation fee paid for OTP Mortgage Bank Ltd.	14,510	–
Provision for impairment on other assets	567	1,370
(Release of provision)/ provision for losses on securities available-for-sale	(5,220)	2,451
(Release of provision)/ provision for losses on securities held-to-maturity	(4,164)	4,164
Release of provision for off-balance sheet commitments and contingent liabilities	(10,272)	(9,500)
Other	3,438	3,653
Total	**19,542**	**2,713**

NOTE 24: OTHER ADMINISTRATIVE EXPENSES (in HUF million)

Personnel expenses:

	2010	2009
Wages	52,653	53,747
Taxes related to personnel expenses	15,705	16,651
Other personnel expenses	7,279	7,279
Subtotal	**75,637**	**77,677**

Other administrative expenses:

	2010	2009
Taxes, other than income tax[10]	40,908	15,232
Administration expenses, including rental fees	21,155	22,549
Services	19,735	19,544
Advertising	6,182	5,604
Professional fees	2,510	2,520
Subtotal	**90,490**	**65,449**
Total	**190,268**	**165,388**

NOTE 25: INCOME TAX (in HUF million)

The Bank is presently liable for income tax at a rate of 19% of taxable income. From 1 January 2010 the additional banking tax (4%) was cancelled. Due to the fact that the Hungarian Government approved a law effected that the income tax rate will be reduced to 10% from 1 January 2013 the deferred tax is calculated at 10% for thoose temporary differences that are expected to be resulted in taxable amounts or amounts deductable from the taxable profit after 2012. 19% was used for the calculation of the deferred tax for the remaining items.

[10] Based on the amendment of the act on the special tax of financial institutions approved on 22 July 2010, a new special financial institution tax was paid by OTP Bank Plc. The total tax amount for the year 2010 was HUF 26 billion recognised as an expense thus decreased the corporate tax base. Based on the approved regulation, financial institutions are obliged to pay this special tax until the end of 2012.

A breakdown of the income tax expense is:

	2010	2009
Current tax expense	5,216	13,811
Deferred tax expense/(benefit)	4,754	(10,580)
	9,970	**3,231**

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

	2010	2009
Balance as at 1 January	3,828	(759)
Deferred tax (expense)/benefit	(4,754)	10,580
Tax effect of fair value adjustment of available-for-sale securities and ICES recognised in other comprehensive income	2,813	(5,993)
Balance as at 31 December	**1,887**	**3,828**

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

	2010	2009
Provision for impairment on investments in subsidiaries	**8,814**	**13,221**
Repurchase agreements and security lending	1,515	2,483
Fair value adjustment of securities held for trading and available-for-sale	1,263	–
Difference in accounting for finance leases	510	721
Deferred tax assets	**12,102**	**16,425**

	2010	2009
Fair value adjustment of derivative financial instruments	(3,782)	(994)
Effect of redemption of issued securities	(2,752)	(4,913)
Valuation of equity instrument (ICES)	(2,182)	(981)
Difference in depreciation and amortization	(997)	(1,678)
Effect of using effective interest rate method	(502)	(177)
Fair value adjustment of held for trading and available-for-sale securities	–	(3,854)
Deferred tax liabilities	(10,215)	(12,597)
Net deferred tax asset	**1,887**	**3,828**

	2010	2009
Profit before income tax	134,634	161,369
Income tax at statutory tax rate (19% in 2010, 16% in 2009)	25,580	25,819
Special tax (4%)	–	5,116

Income tax adjustments due to permanent differencies are as follows:

	2010	2009
Revaluation of investments denominated in foreign currency to historical cost	3,656	(1,884)
Differences in carrying value of subsidiaries	981	(7,245)
Reversal of statutory general provision	109	497
Tax effect of amortisation of statutory goodwill and negative goodwill	(266)	(108)
Reclassification of direct charges to reserves	(647)	(771)
Effect of change of income tax rate	(912)	(216)
Share-based payment	(2,246)	1,292
Accounting of equity instrument (ICES)	(4,234)	(199)
Dividend income	(4,407)	(5,278)
Provision for impairment on investments in subsidiaries	(6,547)	(10,039)
Other	(1,097)	(3,753)
Income tax	**9,970**	**3,231**
Effective tax rate	7.4%	2.0%

NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF million)

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

26.1. Credit risk

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

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

Analysis by loan types and risk classes

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

As at 31 December 2010

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total carrying amount/ allowance
Corporate loans	**1,275,811**	**402,422**	**56,571**	**70,288**	**50,600**	**1,855,692**
Allowance	–	(12,927)	(13,173)	(40,808)	(42,335)	(109,243)
Placements with other banks	787,294	833	6,027	–	–	794,154
Allowance	–	(42)	(908)	–	–	(950)
Retail loans	477,066	54,447	16,160	26,914	86	574,673
Allowance	–	(3,520)	(3,719)	(10,775)	(72)	(18,086)
Municipal loans	271,195	39,263	6,631	4,493	538	322,120
Allowance	–	(1,219)	(582)	(2,041)	(423)	(4,265)
SME loans	81,016	2,841	814	3,922	540	89,133
Allowance	–	(32)	(106)	(2,356)	(533)	(3,027)
Gross loan portfolio total	**2,892,382**	**499,806**	**86,203**	**105,617**	**51,764**	**3,635,772**
Allowance Total	**–**	**(17,740)**	**(18,488)**	**(55,980)**	**(43,363)**	**(135,571)**
Net loan portfolio total	**2,892,382**	**482,066**	**67,715**	**49,637**	**8,401**	**3,500,201**
Accrued interest						
placements with other banks						1,482
loans						16,787
Total accrued interest						**18,269**
Total						**3,518,470**

As at 31 December 2009

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total carrying amount/allowance
Corporate loans	**1,337,671**	**383,054**	**52,893**	**47,985**	**18,683**	**1,840,286**
Allowance	–	(9,709)	(10,108)	(21,440)	(17,149)	(58,406)
Placements with other banks	951,310	4,717	5,642	–	557	962,226
Allowance	–	(123)	(1,128)	–	(446)	(1,697)
Retail loans	499,821	34,604	5,415	44,325	6,127	590,292
Allowance	–	(353)	(596)	(19,689)	(5,970)	(26,608)
Municipal loans	174,909	2,761	–	360	194	178,224
Allowance	–	(130)	–	(245)	(159)	(534)
SME loans	70,595	3,975	1,204	4,950	895	81,619
Allowance	–	(41)	(133)	(2,970)	(895)	(4,039)
Gross loan portfolio total	**3,034,306**	**429,111**	**65,154**	**97,620**	**26,456**	**3,652,647**
Allowance total	**–**	**(10,356)**	**(11,965)**	**(44,344)**	**(24,619)**	**(91,284)**
Net loan portfolio total	**3,034,306**	**418,755**	**53,189**	**53,276**	**1,837**	**3,561,363**
Accrued interest						
placements with other banks						1,534
loans						22,061
Total accrued interest						**23,595**
Total						**3,584,958**

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

As at 31 December 2010

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total off balance sheet items
Corporate loans	**876,212**	**26,355**	**8,424**	**3,576**	**2,551**	**917,118**
Placements with other banks	–	–	–	–	–	–
Retail loans	347,195	386	213	60	2	347,856
Municipal loans	102,950	909	191	207	–	104,257
SME loans	23,524	103	–	–	–	23,627
Total	**1,349,881**	**27,753**	**8,828**	**3,843**	**2,553**	**1,392,858**

As at 31 December 2009

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total off balance sheet items
Corporate loans	**328,438**	**44,403**	**28,290**	**2,267**	**53,438**	**456,836**
Placements with other banks	15	–	–	–	–	15
Retail loans	238,201	12,073	6,472	10,088	659	267,493
Municipal loans	99,271	369	–	4	–	99,644
SME loans	22,295	271	10	–	–	22,576
Total	**688,220**	**57,116**	**34,772**	**12,359**	**54,097**	**846,564**

The Bank's loan portfolio increased by 5.16% as at 31 December 2010. Analysing the contribution of loan types to the loan portfolio, the share of the retail business line and one of placements with other banks decreased while the share of other business lines increased. As a consequence of the economic situation, the qualification of the loan portfolio deteriorated, the ratio of the non-performing (doubtful and bad) loans compared to the gross loan portfolio increased from 3.3% to 4.48%. Among the qualified loan portfolio, the loans classified to the risk class of "to-be-monitored" expanded at the greatest level.

The Bank has a prudent provisioning policy, the coverage of loans by provision for impairment on loans classified as doubtful or bad, the coverage was 85.3% as at 31 December 2010.

The off-balance sheet liabilities connected to the lending activity increased by 31.8%, while the qualified loan portfolio decreased by 71.9% as at 31 December 2010.

Classification into risk classes

Exposures with small amounts (retail and SME sector) are subject to collective valuation method which is a simplified assessment.

As of 31 December 2010, the classification and impairment methodology of the retail exposures – which are assessed using the collective valuation method – has changed. According to the new methodology, the expected loss of the different homogenous populations are determined using historical loss experience models instead of the old method which was using expert keys. The new expected loss percentages were determined based on these new models.

Instead of the earlier used risk classes, five valuation groups have been formed based on past due days (A: 0-30 days past due - DPD, B: 31-60 DPD, C: 61-90 DPD, D: 91-365 DPD, E: over 365 days past due). The five new groups do not match one by one to the earlier used risk classes, the composition of the classes has changed due to the different criteria. Also in the new methodology, the Bank takes into account the collateral at the collective valuation as well. The consequence of the methodology change is that the loans which has higher collateral value behind the loans are provided less than by using the previous methodology, and the loans with less collateral has in general more provision than in the previous model. The allocation of the impairment of the loans is more appropriate, the new model gives a more accurate impairment amount.

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

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

Loan portfolio by countries

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

	2010		2009	
Country	Carrying amount of the qualified gross loan portfolio	Allowance	Carrying amount of the qualified gross loan portfolio	Allowance
Hungary	380,257	61,105	323,895	57,018
Netherlands	140,327	1,999	113,822	654
Cyprus	58,955	10,765	58,852	5,022
Serbia	34,946	25,198	26,858	15,401
Montenegro	32,458	16,734	8,831	2,601
Romania	29,306	8,332	17,990	2,966
Bulgaria	27,222	1,102	24,361	735
Slovakia	15,715	4,007	9,218	319
Ukraine	7,758	1,828	12,085	2,584
Kazahstan	6,051	908	5,637	1,127
Seychelles	4,701	705	4,563	411
Croatia	3,489	2,241	3,387	313
Russia	836	544	812	536
Latvia	836	42	–	–
Egypt	525	58	533	80
Other	8	3	7,499	1,518
Total	**743,390**	**135,571**	**618,343**	**91,285**

The non-performing loans connected to the Netherlands are related to the refinancing of retail loans at the subsidiaries, the actual exposure of non-performing loans is HUF 10.6 billion as at 31 December 2010.

Collaterals

The collateral value held by the Bank by collateral types is as follows (total collateral value). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	2010	2009
Mortgages	932,807	1,026,159
Guarantees and warranties	200,274	101,174
Cash deposit	50,554	52,999
Other	193,463	193,835
Total	**1,377,098**	**1,374,167**

The collateral value held by the Bank by collateral types is as follows (to the extent of the exposures). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	2010	2009
Mortgage	376,372	336,930
Guarantees and warranties	158,246	89,557
Cash deposit	45,577	33,748
Other	46,228	55,414
Total	**626,423**	**515,649**

The coverage level of loan portfolio to the extent of the exposures decreased from 30.2% to 29.8% as at 31 December 2010, while coverage to the extent of the receivables increased from 11.3% to 13.6%.

Loans, neither past due, nor impaired

An analysis of the credit quality of the gross value of the loans that are neither past due nor impaired is as follows:

Loan type	2010	2009
Corporate loans	1,253,954	1,335,628
Placements with other banks	787,294	951,310
Retail loans	376,566	401,895
Municipal loans	264,736	174,814
SME loans	79,839	69,525
Total	**2,762,389**	**2,933,172**

These loans are classified by the Bank as performing loans.

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio decreased from 81% to 76% as at 31 December 2010 compared to prior year. The ratio of retail and corporate loans compared to the portfolio of retail and corporate business line decreased as at 31 December 2010, while one of the other lines increased.

Renegotiated loans

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

Loan type	2010	2009
Corporate loans	109,040	28,557
Retail loans	73,425	41,238
Municipal loans	1,870	6
SME loans	478	60
Total	**184,813**	**69,861**

The gross amount of renegotiated loans increased considerably by 31 December 2010, which is a consequence of the debtor compensation program launched in June 2009 in order to handle the effects of the economic situation. The growth is mainly connected to the retail loans.

Past due, but not impaired loans

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

As at 31 December 2010	Up to 90 days	91-180 days	181-365 days	Above 365 days	Total
Retail loans	85,669	1,742	6,375	6,714	100,500
Corporate loans	4,477	16,519	689	173	21,858
SME loans	1,122	53	–	2	1,177
Municipal loans	6,459	–	–	–	6,459
Total	**97,727**	**18,314**	**7,064**	**6,889**	**129,994**

As at 31 December 2009	Up to 90 days	91-180 days	181-365 days	Above 365 days	Total
Retail loans	91,124	737	459	5,606	97,926
Corporate loans	1,053	938	12	40	2,043
SME loans	1,036	28	5	1	1,070
Municipal loans	95	–	–	–	95
Total	**93,308**	**1,703**	**476**	**5,647**	**101,134**

The loans that are past due but not impaired are concentrated in the retail business line because the state guaranteed housing loans up to a 90 day delay in the repayment are classified to the performing category. The level of corporate loans past due but not impaired is possible because of the individual evaluation. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank.

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

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

Types of collateral (total collateral value)	2010	2009
Retail loans	46,883	49,967
Corporate loans	13,421	2,544
SME loans	1,235	960
Municipal loans	24	49
Total	**61,563**	**53,520**

Types of collateral (to the extent of the exposures)	2010	2009
Retail loans	21,987	21,351
Corporate loans	12,433	1,043
SME loans	951	829
Municipal loans	18	25
Total	**35,389**	**23,248**

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

Loans individually assessed for provision

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

As at 31 December 2010

Loan type	Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off-balance sheet contingent liabilities
Corporate	Delay of repayment	43,244	27,395	3,459	–	–
	Regularity of payment	1,047	221	429	–	–
	Renegotiation	38,644	2,808	2,797	346	19
	Legal proceedings	17,884	13,208	3,818	288	220
	Decrease of client classification	125,500	16,961	1,705	10,981	252
	Loan characteristics	68,317	3,261	–	803	16
	Business lines risks	76,582	12,141	378	10,745	1,203
	Country risk	7,673	3,836	–	2,609	1,304
	Refinancing of subsidiaries portfolio	140,316	1,999	–	–	–
	Cross default	33,394	21,351	2,444	2,078	1,302
	Other	12,449	3,869	1,565	11,906	1,267
Corporate total		**565,050**	**107,050**	**16,595**	**39,756**	**5,583**
Municipal	Delay of repayment	31	7	–	–	–
	Regularity of payment	–	–	–	–	–
	Renegotiation	1,749	181	–	27	3
	Legal proceedings	314	239	15	–	–
	Decrease of client classification	6,074	287	2	56	1
	Other	27,232	3,330	10	1,056	139
	Cross default	204	29	–	76	8
Municipal total		**35,604**	**4,073**	**27**	**1,215**	**151**
Placements with other banks		6,887	949	–	–	–
Total		**607,541**	**112,072**	**16,622**	**40,971**	**5,734**

As at 31 December 2009

Loan type	Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off-balance sheet contingent liabilities
Corporate	Delay of repayment	55,985	26,485	5,048	4,868	797
	Regularity of payment	407	214	100	–	–
	Renegotiation	22,207	1,811	848	418	38
	Legal proceedings	3,232	2,567	655	129	66
	Decrease of client classification	6,046	773	681	4,197	158
	Loan characteristics	109,185	4,319	415	11,813	896
	Business lines risks	99,935	10,425	1,975	16,837	1,360
	Country risk	–	–	–	63,145	39,615
	Refinancing of subsidiaries portfolio	113,921	654	–	–	–
	Cross default	70,209	7,956	1,109	21,721	2,732
	Other	21,358	2,629	1,484	6,564	315
Corporate total		**502,485**	**57,833**	**12,315**	**129,692**	**45,977**
Municipal	Delay of repayment	–	–	–	–	–
	Regularity of payment	145	116	–	–	–
	Renegotiation	80	1	–	–	–
	Legal proceedings	–	–	–	–	–
	Decrease of client classification	120	8	–	22	2
	Other	2,882	350	30	346	18
	Cross default	33	26	–	–	–
Municipal total		**3,260**	**501**	**30**	**368**	**20**
Placements with other banks		10,916	1,697	–	–	–
Total		**516,661**	**60,031**	**12,345**	**130,060**	**45,997**

By 31 December 2010 the volume the individually rated portfolio significantly increased in the corporate business line. The reason for it is the refinancing of the loans of the subsidiaries by the Bank. This portfolio was HUF 140.3 billion as at 31 December 2010, from which the volume of really non performing loans was HUF 10.6 billion.

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

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

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

Non-qualified gross loan portfolio by countries

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

Country	2010	2009
Hungary	1,665,804	1,596,552
Cyprus	390,928	452,299
Netherlands	256,508	277,892
Russia	135,353	176,349
United Kingdom	126,264	33,386
Bulgaria	48,812	96,931
France	47,048	21,473
Romania	40,549	42,473
Belgium	40,370	46,869
Croatia	37,209	53,491
Germany	24,170	33,887
Ukraine	19,605	17
Slovakia	16,863	22,365
Serbia	13,338	24,701
Malta	10,626	9,632
Montenegro	7,624	13,539
Switzerland	3,627	13,745
USA	2,975	826
Turkey	1,151	–
Other	3,558	117,879
Total	**2,892,382**	**3,034,306**

Financial instruments by rating categories[12]

Held-for-trading securities as at 31 December 2010

	Baa1		Baa3		Not rated		Total
Corporate shares	–	0.0%	–	0.0%	105,832[13]	99.7%	105,832
Securities issued by the NBH	–	0.0%	19,984	53.4%	–	0.0%	19,984
Government bonds	–	0.0%	13,784	36.8%	–	0.0%	13,784
Mortgage bonds	3,966	100.0%	–	0.0%	235	0.2%	4,201
Hungarian government discounted Treasury Bills	–	0.0%	3,635	9.7%	–	0.0%	3,635
Hungarian government interest bearing Treasury Bills	–	0.0%	26	0.1%	–	0.0%	26
Other securities	–	0.0%	–	0.0%	153	0.1%	153
Total	**3,966**	**100.0%**	**37,429**	**100.0%**	**106,220**	**100.0%**	**147,615**
Accrued interest							244
Total							**147,859**

Available-for-sale securities as at 31 December 2010

	Baa1		Baa3		Not rated		Total
Mortgage bonds	353,095	100.0%	–	0.0%	425,458[14]	91.3%	778,553
Government bonds	–	0.0%	318,637	51.5%	–	0.0%	318,637
Bonds issued by NBH	–	0.0%	300,648	48.5%	–	0.0%	300,648
Hungarian government discounted Treasury Bills	–	0.0%	–	0.0%	–	0.0%	–
Other securities	–	0.0%	–	0.0%	40,639	8.7%	40,639
Total	**353,095**	**100.0%**	**619,285**	**100.0%**	**466,097**	**100.0%**	**1,438,477**
Accrued interest							39,453
Total							**1,477,930**

[12] Moody's ratings

[13] Corporate shares listed on Budapest Stock Exchange

[14] From this HUF 411,348 million represents mortgage bonds issued by OTP Mortgage Bank Ltd. denominated in HUF

Held-to-maturity securities as at 31 December 2010

	Baa1		Baa3		Total
Government bonds	–	0.0%	87,878	99.5%	87,878
Mortgage bonds	60,140	100.0%		0.0%	60,140
Hungarian government discounted Treasury bills	–	0.0%	395	0.5%	395
Bonds issued by NBH	–	0.0%	–	0.0%	–
Foreign bonds	–	0.0%	–	0.0%	–
Total	**60,140**	**100.0%**	**88,273**	**100.0%**	**148,413**
Accrued interest					5,590
Total					**154,003**

26.2. Market risk

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

26.2.1. Market risk sensitivity analysis

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

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

The VaR of the trading portfolio can be summarized as follows (in HUF million):

Historical VaR (99%, one-day) by risk type	Average	
	2010	2009
Foreign exchange	635	529
Interest rate	702	255
Equity instruments	30	15
Diversification	(130)	(181)
Total VaR exposure	**1,237**	**618**

While VaR captures the Bank's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Bank to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 26.2.2 below and, for interest rate risk, in Note 26.2.3 below.

26.2.2. Foreign currency sensitivity analysis

The following table details the OTP's sensitivity to a increase and decrease in the HUF exchange rate against EUR, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations were EUR (310) million as of 31 December 2010. High portion of strategic positions are considered as effective hedge of the net investment in foreign subsidiaries, and so FX risk affects the Bank's other comprehensive income and not its income. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the P&L in 3 months period In HUF billion	
	2010	2009
1%	(9.6)	(9.7)
5%	(6.3)	(6.4)
25%	(1.9)	(2.2)
50%	0.9	0.5
25%	3.5	3.1
5%	7.2	6.6
1%	9.7	9.1

Notes:

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

(2) Due to the stabilization of EUR/HUF volatility the potential risk did not increased.

(3) Monte Carlo simulation is based on the historical distribution of the exchange rate movements. Although potential losses has not changed on the edge of the distribution, concerning the recent level of EUR/HUF makes appreciation and minor gains more probable.

26.2.3. Interest rate sensitivity analysis

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

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

The simulation was prepared by assuming two scenarios:
0.50%–0.75% decrease in average HUF yields (probable scenario)
1%–1.50% decrease in average HUF yields (alternative scenario)

The net interest income in a one year period after December 31, 2010 would be decreased by HUF 1,595 million (probable scenario) and HUF 8,124 million (alternative scenario) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 6,453 million for probable scenario, HUF 9,411 million for alternative scenario) on the government bond portfolio held for hedging.

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

	2010		2009	
Description	**Effects to the net interest income (1Year period)**	**Effects to equity (Price change of AFS government bonds)**	**Effects to the net interest income (1Year period)**	**Effects to equity (Price change of AFS government bonds)**
HUF (0.1%) parallel shift	(396)	1,191	(206)	812
EUR (0.1%) parallel shift	(191)	–	6	–
USD 0.1% parallel shift	(48)	–	(184)	–
Total	**(635)**	**1,191**	**(384)**	**812**

26.2.4. Equity price sensitivity analysis

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

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

26.2.5. Capital management

Capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure. The capital management of the Bank includes the management and evaluation of the shareholders' equity avalialble for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital. The basis of the capital management of the Bank in the short run is the continous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures.
A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

The capital adequacy of the Bank is supervised based on the finacial statements data prepared in accordance with the Hungarian Accounting Standards („HAS") applying the directives, rulings and indicators defined by the Basel Committee, that has been adopted in Hungary in 2008.

The Bank has entirely complied with the regulatory capital requirements in 2010 and in 2009.
The capital adequacy calculations of the Bank for the year ended 31 December 2010 are prepared based on the data of the audited financial statements prepared in accordance with HAS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and the alternative standard method in case of the operational risk.

The calculation of the Capital Adequacy ratio as at 31 December 2010 and 2009 is as follows:

	2010	2009
Core capital	813,701	691,064
Supplementary capital	316,237	308,695
Deductions	(421,408)	(373,823)
Deductions due to PIBB[14] investments	(386,837)	(340,108)
Deductions due to limit breaches	(34,571)	(33,715)
Regulatory capital	**708,530**	**625,936**
Credit risk capital requirement	256,998	260,665
Market risk capital requirement	30,166	18,374
Operational risk capital requirement	26,073	29,231
Total requirement regulatory capital	**313,237**	**308,270**
Surplus capital	**395,293**	**317,666**
Tier1 ratio	15.40%	13.10%
Capital adequacy ratio	**18.10%**	**16.24%**

The positive components of the Core capital are: Issued capital, Capital reserve, Tied-up reserve, Profit reserve, Profit for the year, General risk reserve. The negative components of the Core capital are: Treasury shares, Intangible assets. The positive components of the Supplementary capital are: Subsidiary loan capital, Subordinated loan capital.

NOTE 27: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF million)

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

Contingent liabilities and commitments	2010	2009
Legal disputes (disputed value)	9,595,780	32,012
Commitments to extend credit	699,332	613,496
Guarantees arising from banking activities	693,526	233,068
Contingent liabilities related to OTP Mortgage Bank Ltd.	2,532	75,215
Confirmed letters of credit	1,640	3,865
Other	2,689	1,586
Total	**10,995,499**	**959,242**

Legal disputes

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

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

[14] PIBB: Financial Institutions, Investing Entreprises, Insurance Companies

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provision due to legal disputes were HUF 1,476 million and HUF 3,116 million as at 31 December 2010 and 2009 respectively. (See Note 17)

Commitments to extend credit, guarantees and letter of credit

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

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

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

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

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank.
A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.
If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Contingent liabilities related to OTP Mortgage Bank Ltd.

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank had guaranteed, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. The repurchase guarantee contract of non-performing loans between OTP Mortgage Bank Ltd. and OTP Bank Plc. was modified in 2010. According to the new arrangement the repurchase guarantee was cancelled and the OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

Derivatives

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

Foreign currency contracts

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

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

Foreign exchange swaps and interest rate swaps

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

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

Cross-currency interest rate swaps

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

Forward rate agreements (FRA)

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

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

NOTE 28: SHARE-BASED PAYMENT

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

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

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

The vesting conditions of the option program are that two of following conditions should be fulfilled:
– the growth of the net income reach 10%
– the ROA indicator for the actual year ended 31 December should be at least 2.1%
– the ROE indicator for the actual year ended 31 December should be at least 20%

The exercise period of the options granted for the year of 2005 is two years and for the years of 2006 to 2010 is 19 months. The exercise period of the option program for the years of 2006 to 2010 must be opened at 1 June in the actual year, the period can be prolongated by two years. If the options remain unexercised before the end of the exercise period, the options expire. Additionally, options are forfeited if the employee leaves the Bank before the options vest. The options can only be settled by physical delivery, therefore the option program is accounted as equity-settled share based transaction.

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

	2010		2009	
	Options (number of shares)	**Weighted average exercise price** (in HUF)	**Options** (number of shares)	**Weighted average exercise price** (in HUF)
Outstanding at beginning of period	–	–	2,534,950	6,484
Granted during the period	3,068,800	134	–	–
Forfeited during the period	–	–	2,534,950	6,484
Repurchased during the period	2,988,800	134	–	–
Exercised during the period	–	–	–	–
Outstanding at the end of the period	30,000	569	–	–
Exercisable at the end of the period	50,000	134	–	–

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

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

The inputs used to the valuation of the options at the grant date were as follows related to the share options vesting for the years ended :

	2010	2009
Weighted average spot share price (HUF)	–	8,272
Weighted average exercise price (HUF)[15]	–	8,875
Expected volatility (%)	–	32
Expected life (average year)	–	5.45
Risk free rate (%)	–	7.63
Expected dividends (%)	–	1.95
Cap for the maximum gain (HUF/option)	–	4,000

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

NOTE 29: RELATED PARTY TRANSACTIONS

The Bank provides loans to subsidiaries, and collects deposits.

Transactions with related parties, other than increases in share capital, are summarized below: a) Loans provided to subsidiaries

	2010	2009
OTP Holding Ltd./ OTP Financing Cyprus Co. Ltd. (Cyprus)	373,729	428,900
OTP Financing Netherlands B.V. (The Netherlands)	247,227	260,823
Merkantil Bank Ltd.	219,628	201,022
OTP Financing Solutions B.V. (The Netherlands)	146,591	130,843
OTP Mortgage Bank Ltd.	119,205	215,235
OAO OTP Bank (Russia)	117,218	153,969
OTP Factoring Ltd.	83,401	34,100
OTP Real Estate Leasing Ltd.	36,078	30,036
OTP Leasing dd (Croatia)	25,068	21,773
Merkantil Lease Ltd.	25,067	30,366
DSK Leasing AD (Bulgaria)	20,544	23,834
OTP Bank JSC (Ukraina)	19,567	–
OTP banka Srbija a.d. (Serbia)	12,183	24,674
DSK Bank EAD (Bulgaria)	11,150	54,398
OTP Life Annuity Ltd.	10,658	9,432
Merkantil Car Ltd.	10,373	32,080
OTP banka Hrvatska Group (Croatia)	9,700	28,445
Crnogorska Komercijalna Banka a.d (Montenegro)	3,345	3,250
OTP Real Estate Ltd.	2,425	5,554
OTP Banka Slovensko, a.s. (Slovakia)	62	24
OTP Bank Romania S.A. (Romania)	–	614
Z plus d.o.o. (Croatia)	–	325
Total	**1,493,219**	**1,689,697**

b) Deposits from subsidiaries

	2010	2009
OAO OTP Bank (Russia)	42,916	86,526
Crnogorska Komer ijalna Banka a.d. (Montenegro)	37,546	23,045
OTP Building Society Ltd.	29,339	26,152
DSK Bank EAD (Bulgaria)	25,732	42,520
Merkantil Bank Ltd.	15,969	20,379
OTP Banka Slovensko a.s. (Slovakia)	12,049	2
OTP banka Hrvatska d.d. (Croatia)	5,886	4,586
OTP Holding Ltd. (Cyprus)	5,074	1,105
OTP banka Srbija a.d. (Serbia)	4,068	188
OTP Mortgage Bank Ltd.	2,317	299,562
OTP Real Estate Leasing Ltd.	1,626	1,212
OTP Financing Netherlands B. V. (The Netherlands)	797	4,419
Merkantil Lease Ltd.	528	171
Concordia Info Ltd.	297	596
OTP Factoring Ltd.	262	49
Total	**184,406**	**510,512**

c) Interests received by the Bank

	2010	2009
OTP Mortgage Bank Ltd.	68,951	58,957
OAO OTP Bank (Russia)	7,639	8,187
Merkantil Bank Ltd.	4,599	2,350
Merkantil Lease Ltd.	2,004	2,639
DSK Bank EAD (Bulgaria)	324	2,246
Total	**83,517**	**74,379**

d) Interests paid by the Bank

	2010	2009
OTP Mortgage Bank Ltd.	7,693	15,963
Merkantil Lease Ltd.	2,840	3,641
OAO OTP Bank (Russia)	2,276	3,131
Merkantil Bank Ltd.	2,110	3,553
OTP Bank Romania S.A. (Romania)	108	7,213
Total	**15,027**	**33,501**

e) Commissions received by the Bank

	2010	2009
From OTP Fund Management Ltd. in relation to trading activity	6,934	5,309
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	1,790	1,802
From OTP Fund Management Ltd. in relation to custody activity	549	378
Total	**9,273**	**7,489**

f) Commissions paid by the Bank

	2010	2009
OTP Bank Romania S.A. (Romania) related to loan portfolio handling	600	2,920
Total	**600**	**2,920**

g) Transactions related to OTP Mortgage Bank Ltd.

	2010	2009
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	9,893	64,164
The gross book value of the loans sold	9,888	64,090
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	35,313	51,440
Provision for the repurchase guarantee of non-performing loans	–	2,850
Provision for the purchase obligation of the non-performing loans originated by OTP Mortgage Bank Ltd.	177	3,769

h) Transactions related to OTP Factoring Ltd.

	2010	2009
Loans sold to OTP Factoring Ltd. without recourse (including interest)	35,315	19,868
The gross book value of the loans	85,023	49,351
Provision for loan losses on the loans sold	39,985	26,482
Loss on these transaction (recorded in the unconsolidated financial statements as loan and placement loss)	9,723	3,001

The underlying mortgage rights were also transferred to OTP Factoring Ltd.

i) Transactions related to Crnogorska Komercijalna Banka a.d (Montenegro)

	2010	2009
The gross book value of the loans sold to Crnogorska Komercijalna Banka a.d.	52	–
The gross book value of the loans bought from Crnogorska Komercijalna Banka a.d.	2,981	33,057

j) Transactions related OTP Banka Slovensko a.s. (Slovakia)

	2010	2009
Securities issued by OBS held by the Bank (nominal value in HUF million)	13,938	–
Securities issued the Bank held by OBS (nominal value in HUF million)	8,530	6,974

k) Related party transactions with key management

The compensation of key management, such as the members of the Board of Directors, the members of the Supervisory Board and the employees involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

Compensations	2010	2009
Short-term employee benefits	6,961	5,128
Share-based payment	–	3,139
Total	**6,961**	**8,267**

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

In the normal course of business, the Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these financial statements taken as a whole.

NOTE 30: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying unconsolidated statement of financial position.

	2010	2009
Loans managed by the Bank as a trustee	44,095	45,037

NOTE 31: CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2010	2009
Receivables from, or securities issued by the Hungarian Government or the NBH	13%	16%
Securities issued by the OTP Mortgage Bank Ltd.	13%	12%

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

The Bank continuously provides the Supervisory Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Bank.

Further to this obligatory reporting to the authority, the Bank pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

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

NOTE 32: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn)

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the NBH. The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at 31 December 2010	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Withour maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	171,677	–	–	–	–	171,677
Placements with other banks, net of allowance for placement losses	481,052	113,021	197,273	3,340	–	794,686
Financial assets at fair value through profit or loss	36,510	40,327	52,307	13,814	105,832	248,790
Securities available-for-sale	340,101	413,620	261,810	462,399	–	1,477,930
Loans, net of allowance for loan losses	164,530	485,384	1,170,145	903,725	–	2,723,784
Investments in subsidiaries	–	–	–	–	637,819	637,819
Securities held-to-maturity	20,475	19,070	87,195	27,263	–	154,003
Property and equipment	–	–	–	–	70,004	70,004
Intangible assets	–	–	–	–	35,145	35,145
Other assets	22,994	18,157	3,239	122	–	44,512
TOTAL ASSETS	**1,237,339**	**1,089,579**	**1,771,969**	**1,410,663**	**848,800**	**6,358,350**
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	467,019	7,919	173,369	93,538	–	741,845
Deposits from customers	2,623,422	625,910	22,566	7,675	–	3,279,573
Liabilities from issued securities	84,689	345,617	54,870	27,290	–	512,466
Financial liabilities at fair value through profit or loss	83,073	73,885	94,376	5,994	–	257,328
Other liabilities	222,885	2,181	2,898	3,324	–	231,288
Subordinated bonds and loans	3,454	–	39,844	135,724	118,616	297,638
TOTAL LIABILITIES	**3,484,542**	**1,055,512**	**387,923**	**273,545**	**118,616**	**5,320,138**
Share capital	–	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	–	1,013,941	1,013,941
Treasury shares	–	–	–	–	(3,729)	(3,729)
TOTAL SHAREHOLDERS' EQUITY	–	–	–	–	1,038,212	1,038,212
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**(3,484,542)**	**1,055,512**	**387,923**	**273,545**	**1,156,828**	**6,358,350**
LIQUIDITY (DEFICIENCY)/EXCESS	**(2,247,203)**	**34,067**	**1,384,046**	**1,137,118**	**(308,028)**	**–**

As at 31 December 2009	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Withour maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	178,217	–	–	–	–	178,217
Placements with other banks, net of allowance for placement losses	537,234	135,635	289,194	–	–	962,063
Financial assets at fair value through profit or loss	75,115	29,283	56,090	24,651	88,513	273,652
Securities available-for-sale	543,025	30,938	554,728	524,056	–	1,652,747
Loans, net of allowance for loan losses	163,511	458,165	1,362,862	638,357	–	2,622,895
Investments in subsidiaries	–	–	–	–	643,907	643,907
Securities held-to-maturity	48,082	19,417	118,556	30,508	–	216,563
Property and equipment	–	–	–	–	69,654	69,654
Intangible assets	–	–	–	–	38,909	38,909
Other assets	62,904	14,293	14,261	627	–	92,085
TOTAL ASSETS	**1,608,088**	**687,731**	**2,395,691**	**1,218,199**	**840,983**	**6,750,692**
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	586,506	213,373	84,738	267,514	–	1,152,131
Deposits from customers	2,836,297	511,654	16,349	4,452	–	3,368,752
Liabilities from issued securities	455,557	–	–	162,746	–	618,303
Financial liabilities at fair value through profit or loss	37,301	16,203	59,659	6,190	–	119,353
Other liabilities	247,323	2,152	3,052	461	–	252,988
Subordinated bonds and loans	–	–	4,391	169,009	113,921	287,321
TOTAL LIABILITIES	**4,162,984**	**743,382**	**168,189**	**610,372**	**113,921**	**5,798,848**
Share capital	–	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	–	927,618	927,618
Treasury shares	–	–	–	–	(3,774)	(3,774)
TOTAL SHAREHOLDERS' EQUITY	–	–	–	–	951,844	951,844
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,162,984**	**743,382**	**168,189**	**610,372**	**1,065,765**	**6,750,692**
LIQUIDITY (DEFICIENCY)/EXCESS	**(2,554,896)**	**(55,651)**	**2,227,502**	**607,827**	**(224,782)**	**–**

NOTE 33: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at 31 December 2010	USD	EUR	CHF	Others	Total
Assets[16]	550,292	1,440,636	872,212	101,832	2,964,972
Liabilities	(169,281)	(1,292,680)	(131,374)	(32,729)	(1,626,064)
Off-balance sheet assets and liabilities, net	(363.785)	(295.662)	(736.050)	(92.824)	(1.488.321)
Net position	**17,226**	**(147,706)**	**4,788**	**(23,721)**	**(149,413)**

As at 31 December 2009	USD	EUR	CHF	Others	Total
Assets[16]	642,210	1,348,116	918,302	111,247	3,019,875
Liabilities	(334,040)	(1,831,848)	(95,582)	(101,180)	(2,362,650)
Off-balance sheet assets and liabilities, net	(341,452)	291,886	(840,978)	(57,690)	(948,234)
Net position	**(33,282)**	**(191,846)**	**(18,258)**	**(47,623)**	**(291,009)**

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

[16] The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

NOTE 34: INTEREST RATE RISK MANAGEMENT

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

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

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

The following table presents the interest repricing dates of the Bank. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

As at 31 December 2010

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	100,524	8,510	–	–	–	–	–	–	–	–	57,648	4,995	158,172	13,505	171,677
fixed rate	100,524	8,510	–	–	–	–	–	–	–	–	–	–	100,524	8,510	109,034
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	57,648	4,995	57,648	4,995	62,643
Placements with other banks	52,880	351,463	309	283,497	–	77,557	–	256	–	27,242	48	1,434	53,237	741,449	794,686
fixed rate	52,880	346,571	–	22,271	–	74,163	–	256	–	27,242	–	–	52,880	470,503	523,383
variable rate	–	4,892	309	261,226	–	3,394	–	–	–	–	–	–	309	269,512	269,821
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	48	1,434	48	1,434	1,482
Securities held for trading	20,000	–	227	256	3,690	4,361	2,483	–	8,680	2,072	105,954	136	141,034	6,825	147,859
fixed rate	20,000	–	209	256	3,690	4,361	2,483	–	8,680	2,072	–	–	35,062	6,689	41,751
variable rate	–	–	18	–	–	–	–	–	–	–	–	–	18	–	18
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	105,954	136	105,954	136	106,090
Securities available-for-sale	300,648	–	–	14,110	59,821	353,799	19,741	–	641,961	29,999	56,197	1,654	1,078,368	399,562	1,477,930
fixed rate	300,648	–	–	–	59,821	353,799	19,741	–	641,961	29,999	–	–	1,022,171	383,798	1,405,969
variable rate	–	–	–	14,110	–	–	–	–	–	–	–	–	–	14,110	14,110
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	56,197	1,654	56,197	1,654	57,851
Loans, net of allowance for loan losses	754,740	650,118	22,404	396,237	146,938	648,316	561	112	6,184	81,387	7,856	8,931	938,683	1,785,101	2,723,784
fixed rate	8,351	–	31	62	476	174	561	112	6,184	81,387	–	–	15,603	81,735	97,338
variable rate	746,389	650,118	22,373	396,175	146,462	648,142	–	–	–	–	–	–	915,224	1,694,435	2,609,659
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,856	8,931	7,856	8,931	16,787
Securities held-to-maturity	20,017	–	21,261	–	25,928	–	55,330	–	25,877	–	5,590	–	154,003	–	154,003
fixed rate	–	–	14,051	–	15,731	–	55,330	–	25,877	–	–	–	110,989	–	110,989
variable rate	20,017	–	7,210	–	10,197	–	–	–	–	–	–	–	37,424	–	37,424
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	5,590	–	5,590	–	5,590
Derivative financial instruments	811,957	1,132,002	818,718	557,299	394,740	106,790	3,479	3,029	26,202	2,087	–	–	2,055,096	1,801,207	3,856,303
fixed rate	459,293	817,193	41,739	100,136	321,630	106,637	3,479	3,029	26,202	2,087	–	–	852,343	1,029,082	1,881,425
variable rate	352,664	314,809	776,979	457,163	73,110	153	–	–	–	–	–	–	1,202,753	772,125	1,974,878

As at 31 December 2010

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	130,132	427,959	16,001	34,496	118,884	3,703	4	3,729	283	5,000	804	850	266,108	475,737	741,845
fixed interest	127,652	143,407	8,418	124	3,874	3,401	4	3,729	283	5,000	–	–	140,231	155,661	295,892
variable rate	2,480	284,552	7,583	34,372	115,010	302	–	–	–	–	–	–	125,073	319,226	444,299
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	804	850	804	850	1,654
Deposits from customers	934,713	199,785	627,955	211,155	477,108	131,586	10,819	2,391	570,638	103,557	8,692	1,174	2,629,925	649,648	3,279,573
fixed interest	504,210	192,074	610,991	211,155	476,580	131,586	10,819	2,391	5,401	–	–	–	1,608,001	537,206	2,145,207
variable rate	430,503	7,711	16,964	–	528	–	–	–	565,237	103,557	–	–	1,013,232	111,268	1,124,500
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8,692	1,174	8,692	1,174	9,866
Liabilities from issued securities	27,499	–	42,284	–	179,473	157,883	2,266	18,147	76,491	260	7,831	332	335,844	176,622	512,466
fixed interest	27,499	–	42,284	–	179,473	157,883	2,266	18,147	76,491	260	–	–	328,013	176,290	504,303
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,831	332	7,831	332	8,163
Derivative financial instruments	641,747	1,377,362	43,305	1,336,517	74,064	499,239	9,630	2,495	12,736	12,551	–	–	781,482	3,228,164	4,009,646
fixed rate	629,848	644,609	32,495	108,703	56,926	436,383	9,630	2,495	12,736	12,551	–	–	741,635	1,204,741	1,946,376
variable rate	11,899	732,753	10,810	1,227,814	17,138	62,856	–	–	–	–	–	–	39,847	2,023,423	2,063,270
Subordinated bonds and loans	–	–	–	34,844	–	–	–	–	5,000	254,340	8	3,446	5,008	292,630	297,638
fixed interest	–	–	–	–	–	–	–	–	5,000	254,340	–	–	5,000	254,340	259,340
variable rate	–	–	–	34,844	–	–	–	–	–	–	–	–	–	34,844	34,844
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8	3,446	8	3,446	3,454
Net position	326,675	136,987	133,374	(365,613)	(218,412)	398,412	58,875	(23,365)	43,756	(232,921)	215,958	11,348	560,226	(75,152)	485,074

As at 31 December 2009

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	95,389	27,734	–	–	–	–	–	–	–	–	49,566	5,528	144,955	33,262	178,217
fixed rate	95,389	27,734	–	–	–	–	–	–	–	–	–	–	95,389	27,734	123,123
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	49,566	5,528	49,566	5,528	55,094
Placements with other banks	231,104	729,425	–	–	–	–	–	–	–	–	369	1,165	231,473	730,590	962,063
fixed rate	231,104	729,425	–	–	–	–	–	–	–	–	–	–	231,104	729,425	960,529
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	369	1,165	369	1,165	1,534
Securities held for trading	49,888	–	237	2,221	3,521	274	2,027	5,155	26,936	262	89,835	60	172,444	7,972	180,416
fixed rate	49,888	–	219	2,221	3,521	274	2,027	5,155	26,936	262	–	–	82,591	7,912	90,503
variable rate	–	–	18	–	–	–	–	–	–	–	–	–	18	–	18
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	89,835	60	89,835	60	89,895
Securities available-for-sale	504,172	–	3,613	109,038	–	22,407	59,702	285,571	593,041	28,161	28,837	18,205	1,189,365	463,382	1,652,747
fixed rate	504,172	–	–	11,481	–	22,407	59,702	285,571	593,041	28,161	–	–	1,156,915	347,620	1,504,535
variable rate	–	–	3,613	97,557	–	–	–	–	–	–	–	–	3,613	97,557	101,170
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	28,837	18,205	28,837	18,205	47,042
Loans, net of allowance for loan losses	680,599	865,022	38,428	248,481	117,078	643,676	528	192	6,830	–	7,154	14,907	850,617	1,772,278	2,622,895
fixed rate	7,816	–	26	96	336	96	528	192	6,830	–	–	–	15,536	384	15,920
variable rate	672,783	865,022	38,402	248,385	116,742	643,580	–	–	–	–	–	–	827,927	1,756,987	2,584,914
non-interest-bearing											7,154	14,907	7,154	14,907	22,061
Securities held-to-maturity	23,349	–	46,062	620	27,082	–	29,202	–	81,360	466	8,254	168	215,309	1,254	216,563
fixed rate	–	–	38,824	–	16,885	–	29,202	–	81,360	466	–	–	166,271	466	166,737
variable rate	23,349	–	7,238	620	10,197	–	–	–	–	–	–	–	40,784	620	41,404
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8,254	168	8,254	168	8,422
Derivative financial instruments	401,743	1,014,857	848,862	590,028	229,989	41,928	11,576	25,475	24,489	6,251	–	–	1,516,659	1,678,539	3,195,198
fixed rate	70,586	657,084	49,244	123,928	149,174	40,345	11,576	25,475	24,489	6,251	–	–	305,069	853,083	1,158,152
variable rate	331,157	357,773	799,618	466,100	80,815	1,583	–	–	–	–	–	–	1,211,590	825,456	2,037,046

As at 31 December 2009

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	73,966	482,449	25,554	333,168	83,084	131,398	1	–	48	19,792	424	2,247	183,077	969,054	1,152,131
fixed interest	73,197	454,253	19,668	737	1,949	131,317	1	–	48	19,792	–	–	94,863	606,099	700,962
variable rate	769	28,196	5,886	332,431	81,135	81	–	–	–	–	–	–	87,790	360,708	448,498
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	424	2,247	424	2,247	2,671
Deposits from customers	1,291,546	304,706	483,353	103,964	381,795	95,247	7,611	1,664	547,188	128,817	18,526	4,335	2,730,019	638,733	3,368,752
fixed interest	796,626	267,555	463,243	103,964	373,752	95,247	7,611	1,664	1,011	94,671			1,642,243	563,101	2,205,344
variable rate	494,920	37,151	20,110	–	8,043	–	–	–	546,177	34,146			1,069,250	71,297	1,140,547
non-interest-bearing											18,526	4,335	18,526	4,335	22,861
Liabilities from issued securities	22,455	138,152	31,146	82,891	176,759	–	1,450	138,152	16,248	–	4,514	6,536	252,572	365,731	618,303
fixed interest	22,455	–	31,146	–	176,759	–	1,450	138,152	16,248	–	–	–	248,058	138,152	386,210
variable rate	–	138,152	–	82,891	–	–	–	–	–	–	–	–	–	221,043	221,043
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	4,514	6,536	4,514	6,536	11,050
Derivative financial instruments	927,406	509,441	1,415,969	35,440	247,120	19,528	15,283	17,577	10,835	12,137	–	–	2,616,613	594,123	3,210,736
fixed rate	217,783	509,441	139,508	35,282	166,547	19,524	15,283	17,577	10,835	12,137	–	–	549,956	593,961	1,143,917
variable rate	709,623	–	1,276,461	158	80,573	4	–	–	–	–	–	–	2,066,657	162	2,066,819
Subordinated bonds and loans	–	–	5,000	26,540	–	–	–	–	–	252,323	61	3,397	5,061	282,260	287,321
fixed interest	–	–	–	–	–	–	–	–	–	252,323	–	–	–	252,323	252,323
variable rate	–	–	5,000	26,540	–	–	–	–	–	–	–	–	5,000	26,540	31,540
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	61	3,397	61	3,397	3,458
Net position	(329,129)	1,202,290	(1,023,820)	368,385	(511,088)	462,112	78,690	159,000	158,337	(377,929)	160,490	23,518	(1,466,520)	1,837,376	370,856

NOTE 35: EARNINGS PER SHARE

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

	2010	2009
Net profit for the year attributable to ordinary shareholders (in HUF mn)	124,664	158,138
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	277,830,864	271,732,001
Basic Earnings per share (in HUF)	**449**	**582**
Unconsolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	124,664	158,138
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	280,963,042	274,053,287
Diluted Earnings per share (in HUF)	**444**	**577**

	2010	2009
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(2,169,146)	(8,268,009)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**277,830,864**	**271,732,001**
Dilutive effect of options issued in accordance with Management Option Program and convertible into ordinary shares	3,132,178	2,321,286
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**280,963,042**	**274,053,287**

NOTE 36: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF million)

As at 31 december 2010

Name	Net interest income and expense	Net non-interest gain and loss	Provision	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	4,807	–	–	–
Placements with other banks, net of allowance for placement losses	20,182	–	748	–
Securities held for trading	2,399	415	–	–
Securities available-for-sale	107,113	4,397	5,220	(5,235)
Loans, net of allowance for loan losses	215,455	40,994	(45,042)	–
From this: Corporate loans	91,617			
Consumer loans	89,526			
Housing loans	14,780			
Municipality loans	12,884			
Mortgage backed loans	6,648			
Securities held-to-maturity	13,752	(3,356)	4,164	–
Derivative financial instruments	63,792	(12,404)	–	–
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	(18,808)	–	–	–
Deposits from customers	(115,725)	70,437	–	–
Liabilities from issued securities	(33,892)	–	–	–
Subordinated bonds and loans	(16,243)	–	–	–
Total	**242,832**	**100,483**	**(34,910)**	**(5,235)**

As at 31 December 2009

Name	Net interest income and expense	Net non-interest gain and loss	Provision	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	7,026	–	–	–
Placements with other banks, net of allowance for placement losses	27,925	–	(1,335)	–
Securities held for trading	5,297	395	–	–
Securities available-for-sale	54,087	(501)	(2,451)	36,102
Loans, net of allowance for loan losses	240,408	55,492	(44,268)	–
From this: Corporate loans	104,024			
Consumer loans	92,240			
Housing loans	20,819			
Municipality loans	13,974			
Mortgage backed loans	9,351			
Securities held-to-maturity	52,934	(2,896)	(4,164)	–
Derivative financial instruments	91,860	(17,589)	–	–
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	(31,448)	–	–	–
Deposits from customers	(183,802)	49,960	–	–
Liabilities from issued securities	(32,474)	–	–	–
Subordinated bonds and loans	(17,446)	–	–	–
Total	**214,367**	**84,861**	**(52,218)**	**36,102**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 37. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortised cost, the Bank used the discounted cash-flow analysis (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Bank of Hungary represent amounts available immediately thus the fair value equals to the cost.

The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

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

a) Fair value of financial assets and liabilities

	2010		2009	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Bank of Hungary	171,677	171,677	178,217	178,217
Placements with other banks, net of allowance for placement losses	794,686	795,637	962,063	969,344
Financial assets at fair value through profit or loss	248,790	248,790	273,652	273,652
Held for trading securities	147,859	147,859	180,416	180,416
Derivative financial instruments designated as held for trading	100,931	100,931	93,236	93,236
Securities available-for-sale	1,477,930	1,477,930	1,652,747	1,652,747
Loans, net of allowance for loan losses	2,723,784	3,007,093	2,622,895	2,884,329
Securities held-to-maturity	154,003	147,427	216,563	206,292
Derivative financial instruments designated as hedging instruments	8,477	8,477	14,148	14,148
FINANCIAL ASSETS TOTAL	**5,579,347**	**5,857,031**	**5,920,285**	**6,178,729**
Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government	741,845	681,864	1,152,131	1,157,833
Deposits from customers	3,279,573	3,260,721	3,368,752	3,361,027
Liabilities from issued securities	512,466	490,978	618,303	607,199
Derivative financial instruments designated as hedging instruments	7,143	7,143	3,569	3,569
Financial liabilities at fair value through profit or loss	257,328	257,328	119,353	119,353
Financial liabilities from OTP-MOL transaction	105,766	105,766	86,912	86,912
Financial liabilities from guaranteed loans of OTP Bank JSC by OTP Bank	–	–	38,132	38,132
Subordinated bonds and loans	297,638	226,974	287,321	216,562
FINANCIAL LIABILITIES TOTAL	**5,201,759**	**5,030,774**	**5,674,473**	**5,590,587**

b) Fair value of derivative instruments

	2010	2009	2010	2009
	Fair value		Notional value, net	
Interest rate swaps designated as held for trading				
Positive fair value of interest rate swaps designated as held for trading	34,414	56,134	44,613	58,203
Negative fair value of interest rate swaps designated as held for trading	(40,064)	(47,065)	(59,736)	(45,983)
Foreign exchange swaps designated as held for trading				
Positive fair value of foreign exchange swaps designated as held for trading	18,084	7,439	22,973	7,790
Negative fair value of foreign exchange swaps designated as held for trading	(5,426)	(6,168)	(5,100)	(5,154)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated in fair value hedge	8,477	14,147	13,412	10,507
Negative fair value of interest rate swaps designated in fair value hedge	(7,143)	(3,569)	(11,479)	(3,740)
CCIRS designated as held for trading				
Positive fair value of CCIRS designated as held for trading	35,408	23,270	21,434	14,951
Negative fair value of CCIRS designated as held for trading	(197,450)	(54,169)	(177,976)	(4,734)
Mark-to-market CCIRS designated as held for trading				
Positive fair value of mark-to-market CCIRS designated as held for trading	7,399	5,133	40,124	40,776
Negative fair value of mark-to-market CCIRS designated as held for trading	(9,437)	(7,348)	1,852	40,803
Other derivative contracts designated as hedge accounting relationship				
Positive fair value of other derivative contracts designated in fair value hedge	–	1	–	(4)
Negative fair value of other derivative contracts designated in fair value hedge	–	–	–	–
Other derivative contracts designated as held for trading				
Positive fair value of other derivative contracts designated as held for trading	5,626	1,260	2,161	711
Negative fair value of other derivative contracts designated as held for trading	(4,951)	(4,603)	(1,700)	(12,066)
Derivative financial assets total	**109,408**	**107,384**	**144,717**	**132,934**
Derivative financial liabilities total	**(264,471)**	**(122,922)**	**(254,139)**	**(30,874)**
Derivative financial instruments total	**(155,063)**	**(15,538)**	**(109,422)**	**102,060**

c) Hedge accounting

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

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

As at 31 December 2010

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash flow hedges	–	–	–
Fair value hedges	IRS	HUF 1,334 million	Interest rate
Net investment hedge in foreign operations	–	–	–

As at 31 December 2009

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash flow hedges	–	–	–
Fair value hedges	IRS Options	HUF 10,578 million HUF 1 million	Interest rate Foreign exchange
Net investment hedge in foreign operations	–	–	–

d) Fair value hedges

1. Deposits from customers

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

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

2. Securities available-for-sale

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

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

3. Loans to customers

3.1. Hedges of foreign exchange rate risk

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

	2010	2009
Fair value of the hedging instruments	–	1

3.2. Hedges of interest rate risk

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

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

4. Issued securities

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

	2010	2009
Fair value of the hedging instruments	2,761	8,104

As at 31 December 2010

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk on the hedged items	Gains/losses attributable to the hedged risk on the hedging instruments
Securities available-for-sale	IRS	HUF 23,002 million	HUF (128) million	HUF 483 million	HUF (483) million
Loans to customers	IRS	HUF 47,470 million	HUF (1,238) million	HUF (160) million	HUF 160 million
Deposits from customers	IRS	HUF 20,436 million	HUF (61) million	HUF 3,522 million	HUF (3,522) million
Liabilities from issued securities	IRS	HUF 206,489 million	HUF 2,761 million	HUF 5,343 million	HUF (5,343) million

As at 31 December 2009

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk on the hedged items	Gains/losses attributable to the hedged risk on the hedging instruments
Securities available-for-sale	IRS	HUF 15,557 million	HUF 348 million	HUF 197 million	HUF (197) million
Loans to customers	IRS	HUF 43,292 million	HUF (1,335) million	HUF 792 million	HUF (790) million
Loans to customers	Options	HUF 3.6 million	HUF 1 million	HUF (52) million	HUF 52 million
Deposits from customers	IRS	HUF 29,685 million	HUF 3,461 million	HUF 4,036 million	HUF (4,036) million
Liabilities from issued securities	IRS	HUF 154,164 million	HUF 8,104 million	HUF 429 million	HUF (429) million

e) Fair value classes

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

– 1st Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;

– 2nd Level: inputs other than quoted prices included within Level 1, that are observable for the asset or liabilitiy either directly or indirectly;

– 3rd Level: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December 2010	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	248,546	147,433	101,113	–
from this: securities held for trading	147,615	147,333	282	–
from this: positive FVA of derivative financial instruments designated as held for trading	100,931	100	100,831	–
Securities available-for-sale	1,438,477	610,823	827,654	–
Positive FVA of derivative financial instruments designated as hedge accounting relationship	8,477	–	8,477	–
Financial assets measured at fair value total	**1,695,500**	**758,256**	**937,244**	**–**
Negative FVA of derivative financial instruments designated as held for trading	257,328	7	257,321	–
Negative FVA of derivative financial instruments designated as hedge accounting relationship	7,143	–	7,143	–
Financial liabilities measured at fair value total	**264,471**	**7**	**264,464**	**–**

As at 31 December 2009	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	272,289	179,225	93,064	–
from this: securities held for trading	179,053	179,053	–	–
from this: positive FVA of derivative financial instruments designated as held for trading	93,236	172	93,064	–
Securities available-for-sale	1,614,172	1,473,253	38,078	102,841
Positive FVA of derivative financial instruments designated as hedge accounting relationship	14,148	–	14,148	–
Financial assets measured at fair value total	**1,900,609**	**1,652,478**	**145,290**	**102,841**
Negative FVA of derivative financial instruments designated as held for trading	119,353	76	119,277	–
Negative FVA of derivative financial instruments designated as hedge accounting relationship	**3,569**	**–**	**3,569**	**–**
Financial liabilities measured at fair value total	**122,922**	**76**	**122,846**	**–**

Movements in level 3 financial instruments measured at fair value

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

Movements for the year 2010	Opening balance	Transfer	Closing balance	Total profit or loss as at 31 December 2010
Securities available-for-sale[17]	102,841	(102,841)	–	–
Financial assets measured at fair value total	102,841	(102,841)	–	–

NOTE 38: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS ("HAS") AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)

	Retained Earnings and Reserves 1 January 2010	Net profit for the year ended 31 December 2010	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves as at 31 December 2010
Financial Statements in accordance with HAS	**807,458**	**108,964**	**(20,160)**	**2,979**	**899,241**
Reversal of statutory general provision	40,729	(573)	–	–	40,156
Premium and discount amortization of financial instruments measured at amortised cost[18]	934	1,103	–	1,994	4,031
Effect of redemption of issued securities	25,860	(3,301)	–	–	22,559
Differences in carrying value of subsidiaries	39,280	(5,165)	–	–	34,115
Difference in accounting for finance leases	(3,793)	337	–	–	(3,456)
Fair value adjustment of held for trading and available-for-sale financial assets	20,282	(3,811)	–	(25,676)	(9,205)
Fair value adjustment of derivative financial instruments	5,233	14,672	–	–	19,905
Reversal of statutory goodwill	11,156	1,402	–	–	12,558
Revaluation of investments denominated in foreign currency to historical cost	40,025	(19,241)	–	–	20,784
Difference in accounting of security lending	(13,068)	(2,076)	–	–	(15,144)
Treasury share transaction	–	25	–	(25)	–
Written put option on ordinary shares	(55,468)	–	–	–	(55,468)
Reclassification of direct charges to reserves	–	2,979	–	(2,979)	–
Share-based payment	–	11,821	–	(11,821)	–
Payments to ICES holders	5,162	22,282	–	(5,626)	21,818
Deferred taxation	3,828	(4,754)	–	2,813	1,887
Dividend	–	–	20,160	–	20,160
Financial Statements in accordance with IFRS	**927,618**	**124,664**	**–**	**(38,341)**	**1,013,941**

[17] Certain bonds, mainly issued by local municipalities in Hungary were reclassified to loans during the year ended 31 December 2010. These securities were not quoted on an active market and were met the definition of loans and receivables as defined by IAS 39.
[18] Inc. effects of using effective interest rate method.

NOTE 39: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2010

Hungarian Government loan facility

See details in Note 13.

Legal action against the OTP Bank Plc.

See details in Note 27.

Term Loan Facility

See details in Note 13.

Joint and several guarantee

See details in Note 27.

Special Tax On Financial Institutions

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

Credit institutions:
OTP Bank Plc.,
OTP Mortgage Bank Ltd.,
OTP Building Society Ltd.,
Merkantil Bank Ltd.

Financial enterprises:
OTP Real Estate Leasing Ltd.,
OTP Factoring Ltd.,
Merkantil Car Ltd.,
Merkantil Real Estate Leasing Ltd.

Fund managers:
OTP Fund Management Ltd.,
OTP Real Estate Fund Management Ltd.

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

- The approved amendment does not have any impact on the already existing special banking tax, which came into effect by 1 January 2007. This special tax amount for the full year of 2010 was HUF 658 million and was to be paid by OTP Bank Plc.

- A new special financial institution tax is to be introduced and paid by OTP Bank Plc. The total tax amount payable for the year 2010 was HUF 26 billion (See details in Note 24). Accordingly, the total special tax amount was paid by OTP Group for the full year of 2010 was HUF 36 billion.

The amount of the special tax payable in 2011 is HUF 24 billion that is payable in four equal instalments until 10th of the last month of every quarter.

NOTE 40: POST BALANCE SHEET EVENTS

There were no relevant events.

NOTE 41: THE EFFECT OF THE FINANCIAL SITUATION ON THE BANK

In Hungary, the severe contraction that followed the financial and economic crisis reached its bottom in 2009 and real GDP growth was already in the positive territory in 2010. Similarly to 2009, in 2010 the Bank focused its activity on the stable operation, including the robust capital position and liquidity, and in line with the deteriorating loan portfolio, on prudent risk management and monitoring.

- One of the direct consequences of the crisis was the weak loan demand in the Hungarian market. After adjusting for technical effects (ie. FX-movements and reclassification of municipality bonds in 2010 from securities to loans), OTP Core's loan book remained stagnant from 2009 to 2010 (+0.5%).
  Since the onset of the crisis, both retail lending activity and retail loan demand fell significantly, and despite the slowly improving macro indicators retail loan demand remained subdued in 2010. Hungarian retail FX lending was stopped during 2010, as a reaction to a legal change according to which no mortgage is allowed to be established to secure FX-denominated retail mortgage loans for private individuals from July 2010. Nevertheless OTP Bank made huge efforts to revitalise its lending activity in Hungary: as for mortgage lending, in 2010 new volumes at OTP Bank increased by 60% from 2009 to 2010, and as a result the Bank's market share in new origination jumped from 15% to 29%. However these efforts only slowed down the gradual erosion in the outstanding mortgage loan volumes.
  As for lending to Hungarian corporates, OTP's performance was even more outstanding: loans to the SME segment grew by 7% in 2010, surpassing the 2009 yearly growth at 5%, and OTP Bank could continue to grow its loan book to large enterprises too in 2010.
  Simultaneously, corporate loan volumes of the Hungarian banking sector (excluding OTP) contracted significantly both in 2009 and 2010.

- After the strong deposit growth in 2009, due to the generally weak loan demand the Bank put less emphasis on deposit collection in 2010. Instead of further improving its liquidity indicators, it focused rather on the improvement of its deposit margins. FX adjusted deposit volumes of OTP Core (including senior bonds sold to Hungarian retail investors) shrinked by 1% in 2010, a favourable tendency though that retail deposits (including retail bonds) kept growing in 2010 too (+2% from 2009 to 2010). The Bank has accumulated a sizable amount of liquidity reserves since the beginning of the crisis: its total liquidity buffer amounted to EUR 5.0 billion as of 31 January 2011. This level of the reserves is significantly higher than what would be sufficient to provide coverage for the redemptions in wholesale funding within one year and for potential liquidity shocks.

- Another side effect of the crisis was the significant deterioration in the financial position of the clients, which led to worsening portfolio quality and materially increasing risk costs compared to pre-crisis levels. In 2010, risk costs of OTP Core grew by 59% compared to 2009. The sizeable growth is mostly explained by the increasing level of the provision coverage for loans more than 90 days past due the coverage increased by 3.3%-points in 2010 as opposed to the decrease of 7.2%-points in 2009. Furthermore the slight acceleration in the portfolio quality deterioration had its negative impact too.

[19] OTP Group reports its Hungarian core banking business activity under the brand „OTP Core". Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in OTP Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc, OTP Mortgage Bank Ltd, OTP Buildig Society Ltd, OTP Factoring Ltd, OTP Financing Netherlands Ltd and OTP Holding Ltd. The consolidated accounting result of these companies are segmented into OTP Core and Corporate Centre, the latter being a virtual entity responsible for rendering debt and capital market related services to the subsidiaries across OTP Group.

Debtor protection program launched in 2009 continued in 2010 as well. OTP Bank made special efforts to assist distressed Hungarian retail borrowers in managing their temporary financial difficulties. As a result, almost 50 thousand retail clients were involved in the program by the end of 2010. On top of the debtor protection programme, as a reaction to the depreciation of the Hungarian forint starting from 2nd quarter 2010, the Bank lowered the CHF and JPY mortgage rates by 75 bps and 50 bps respectively in June 2010. This temporary measure was aimed at easing the increasing burden of retail FX-debtors.

- The further enhancement of the stable capital adequacy still remained a top priority for the Bank in 2010. Due to the profitable operation and the weaker than pre-crisis Hungarian lending activity, the capital adequacy ratio of OTP Bank (under the local accounting standards) rose to 18.1% from 16.2%.

- Hungary from 2010, to reduce the deficit of the general government, new special tax was imposed on financial institutions. The total tax amount paid by OTP Bank Plc for the year of 2010 was at HUF 25.5 billion and this amount was deductible from the corporate tax base. Therefore the total negative impact on OTP Bank's 2010 after-tax profit was at HUF 20.7 billion.