**OTP BANK PLC.**

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

***FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011***

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

***CONTENTS***

**OTP BANK PLC.**
**CONSOLIDATED UNAUDITED STATEMENT OF FINANCIAL POSITION**
**AS AT 30 JUNE 2011**
**(in HUF mn)**

| | *Note* | *30 June 2011* | *31 December 2010* | *30 June 2010* |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | *4.* | 441,575 | 513,038 | 642,625 |
| Placements with other banks, net of allowance for placement losses | *5.* | 527,955 | 511,244 | 495,596 |
| Financial assets at fair value through profit or loss | *6.* | 273,078 | 233,667 | 213,523 |
| Securities available-for-sale | *7.* | 1,387,995 | 1,008,097 | 1,101,180 |
| Loans, net of allowance for loan losses | *8.* | 6,332,757 | 6,741,059 | 6,886,762 |
| Associates and other investments | *9.* | 8,529 | 11,554 | 16,692 |
| Securities held-to-maturity | *10.* | 147,621 | 172,302 | 222,849 |
| Property and equipment | *11.* | 245,725 | 217,615 | 212,119 |
| Intangible assets | *11.* | 215,141 | 263,213 | 277,808 |
| Other assets | *12.* | 131,963 | 109,157 | 115,390 |
| **TOTAL ASSETS** | | **9,712,339** | **9,780,946** | **10,184,544** |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | *13.* | 698,421 | 681,949 | 652,500 |
| Deposits from customers | *14.* | 5,898,200 | 5,821,489 | 5,981,036 |
| Liabilities from issued securities | *15.* | 934,346 | 1,035,153 | 1,226,902 |
| Financial liabilities at fair value through profit or loss | *16.* | 141,593 | 257,052 | 332,505 |
| Other liabilities | *17.* | 419,326 | 385,744 | 367,670 |
| Subordinated bonds and loans | *18.* | 281,736 | 290,630 | 301,281 |
| **TOTAL LIABILITIES** | | **8,373,622** | **8,472,017** | **8,861,894** |
| Share capital | *19.* | 28,000 | 28,000 | 28,000 |
| Retained earnings and reserves | | 1,357,016 | 1,327,638 | 1,341,126 |
| Treasury shares | *21.* | (52,525) | (52,597) | (52,685) |
| Non-controlling interest | *22.* | 6,226 | 5,888 | 6,209 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **1,338,717** | **1,308,929** | **1,322,650** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **9,712,339** | **9,780,946** | **10,184,544** |

**OTP BANK PLC.**
**CONSOLIDATED UNAUDITED STATEMENT OF RECOGNIZED INCOME**
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011**
**(in HUF mn)**

| | Note | Six month period ended 30 June 2011 | Six month period ended 30 June 2010 | Year ended 31 December 2010 |
|---|---|---|---|---|
| **Interest Income:** | | | | |
| Loans | | 362,119 | 367,079 | 741,708 |
| Placements with other banks | | 145,562 | 198,900 | 301,259 |
| Securities available-for-sale | | 38,161 | 35,569 | 73,247 |
| Securities held-to-maturity | | 4,377 | 6,693 | 11,991 |
| Amounts due from banks and balances with the National Banks | | 3,415 | 2,651 | 5,052 |
| Securities held for trading | | 705 | 1,289 | 2,091 |
| *Total Interest Income* | | *554,339* | *612,181* | *1,135,348* |
| **Interest Expense:** | | | | |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | | 112,758 | 144,151 | 216,654 |
| Deposits from customers | | 105,899 | 115,221 | 227,781 |
| Liabilities from issued securities | | 28,852 | 31,573 | 61,877 |
| Subordinated bonds and loans | | 5,819 | 6,271 | 12,611 |
| *Total Interest Expense* | | *253,328* | *297,216* | *518,923* |
| **NET INTEREST INCOME** | | **301,011** | **314,965** | **616,425** |
| Provision for impairment on loan and placement losses | *5., 8.* | 105,029 | 151,229 | 273,024 |
| **NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES** | | **195,982** | **163,736** | **343,401** |
| Income from fees and commissions | | 88,058 | 83,980 | 177,252 |
| Expense from fees and commissions | | 18,262 | 18,858 | 36,621 |
| **Net profit from fees and commissions** | *23.* | **69,796** | **65,122** | **140,631** |
| Foreign exchange gains, net | | 5,427 | 27,329 | 31,811 |
| Net gains on securities | | 2,830 | 3,398 | 5,445 |
| Gains on real estate transactions | | 606 | 539 | 845 |
| Dividend income | | 464 | 88 | 951 |
| Provision for impairment / Provision on securities available-for-sale and securities held-to-maturity | | 22 | 9,725 | 9,924 |
| Other operating income | | 10,183 | 11,287 | 20,890 |
| Other operating expense | *24.* | (6,805) | (5,614) | (14,435) |
| **Net operating income** | | **12,727** | **46,752** | **55,431** |
| Personnel expenses | | 77,968 | 77,375 | 160,725 |
| Depreciation and amortization | *11.* | 23,905 | 42,001 | 67,324 |
| Other administrative expenses | | 85,519 | 66,189 | 171,231 |
| **Other administrative expenses** | *25.* | **187,392** | **185,565** | **399,280** |
| **PROFIT BEFORE INCOME TAX** | | **91,113** | **90,045** | **140,183** |
| Income tax | *26.* | (16,638) | (20,286) | (22,057) |
| **NET PROFIT FOR THE PERIOD** | | **74,475** | **69,759** | **118,126** |
| From this, attributable to: | | | | |
| Non-controlling interest | | **461** | **61** | **196** |
| Equity holders | | **74,014** | **69,698** | **117,930** |
| **Consolidated earnings per share (in HUF)** | | | | |
| **Basic** | *37.* | **278** | **262** | **443** |
| **Diluted** | *37.* | **278** | **259** | **437** |

**OTP BANK PLC.**
**CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011**
**(in HUF mn)**

| | *Six month period ended 30 June 2011* | *Six month period ended 30 June 2010* | *Year ended 31 December 2010* |
|---|---|---|---|
| **NET PROFIT FOR THE YEAR (EQUITY HOLDERS)** | **74,014** | **69,698** | **117,930** |
| Fair value adjustment of securities available-for-sale | 13,277 | (5,760) | (10,771) |
| Derivative financial instruments designated as Cash-flow hedge | 237 | 213 | 335 |
| Net investment hedge in foreign operations | 3,316 | (4,152) | (2,232) |
| Foreign currency translation difference | (44,670) | 73,893 | 30,674 |
| **NET COMPREHENSIVE INCOME** | **46,174** | **133,892** | **135,936** |

**OTP BANK PLC.**
**CONSOLIDATED UNAUDITED STATEMENT OF CASH FLOWS**
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011**
**(in HUF mn)**

| **OPERATING ACTIVITIES** | *Note* | *Six month period ended 30 June 2011* | *Six month period ended 30 June 2010* | *Year ended 31 December 2010* |
|---|---|---|---|---|
| **Profit before income tax** | | **91,113** | **90,045** | **140,183** |
| Goodwill impairment | *11.* | - | 18,519 | 18,519 |
| Depreciation and amortization | *11.* | 23,905 | 23,482 | 48,805 |
| Release of provision for impairment on securities | *7.,10.* | (22) | (9,553) | (9,754) |
| Provision for impairment on loan and placement losses | *5.,8.* | 105,029 | 151,229 | 273,024 |
| Provision for impairment on permanent diminution in value of investments | *9.* | 293 | 64 | 425 |
| Provision for impairment on other assets | *12.* | 1,738 | 1,165 | 3,808 |
| Release of provision on off-balance sheet commitments and contingent liabilities | *17.* | (3,001) | (988) | (3,977) |
| Share-based payment | *2.,29.* | 4,666 | 3,144 | (11,821) |
| Unrealized gains on fair value adjustment of securities held for trading | | 1,534 | 2,529 | 3,428 |
| Unrealized gains on fair value adjustment of derivative financial instruments | | 4,438 | 95,259 | 106,972 |
| *Net changes in assets and liabilities in operating activities* | | | | |
| Changes in financial assets at fair value through profit or loss | | (9,865) | 32,296 | 22,243 |
| Net decrease / (increase) in loans, net of allowance for loan losses | | 161,714 | (438,709) | (474,804) |
| Increase in other assets before provisions for impairment | | (33,242) | (24,042) | (16,572) |
| Net increase in deposits from customers | | 76,710 | 292,149 | 132,602 |
| Increase / (decrease) in other liabilities | | 16,023 | 8,349 | (44,352) |
| Net decrease/(increase) in compulsory reserves at the National Banks | | 35,230 | (9,886) | 4,114 |
| Dividend income | | (464) | (88) | (951) |
| Income tax paid | | (14,824) | (8,995) | (21,748) |
| **Net Cash Provided by Operating Activities** | | **460,975** | **225,969** | **170,144** |
| **INVESTING ACTIVITIES** | | | | |
| Net increase in placement with other banks before allowance for placements losses | | (16,174) | (53,852) | (68,976) |
| Net (increase) / decrease in securities available-for-sale | | (358,410) | 246,177 | 340,238 |
| Net decrease in investments in subsidiaries, before provision for impairment | | 2,732 | 2,079 | 6,855 |
| Dividend income | | 464 | 88 | 951 |
| Net decrease / (increase) in securities held-to-maturity | | 24,655 | (29,440) | 21,106 |
| Additions to property, equipment and intangible assets | | 1,208 | (65,175) | (92,633) |
| Disposals to property, equipment and intangible assets | | (4,967) | 9,612 | 21,362 |
| Net decrease/(increase) in advances for investments ,included in other assets | | 28 | (693) | 2,027 |
| **Net Cash (Used in) / Provided by Investing Activities** | | **(350,464)** | **108,796** | **230,930** |

**OTP BANK PLC.**
**CONSOLIDATED UNAUDITED STATEMENT OF CASH FLOWS**
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011**
**(in HUF mn)**
**[continued]**

| **FINANCING ACTIVITIES** | *Note* | *Six month period ended 30 June 2011* | *Six month period ended 30 June 2010* | *Year ended 31 December 2010* |
|---|---|---|---|---|
| Net increase / (decrease) in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | | 16,472 | (150,249) | (120,800) |
| Net decrease in liabilities from issued securities | | (88,129) | (145,773) | (302,446) |
| (Decrease) / increase in subordinated bonds and loans | | (8,894) | 20,447 | 9,796 |
| Increase /(decrease) in non-controlling interest | | 338 | 56 | (264) |
| Foreign currency translation | | (44,670) | 73,893 | 30,674 |
| Payments to ICES holders | | (1,761) | (6,037) | (6,669) |
| Net change in Treasury shares | | 56 | (11) | 141 |
| Dividends paid | | (20,156) | (1) | (2) |
| **Net Cash Used in Financing Activities** | | **(146,744)** | **(207,675)** | **(389,570)** |
| **Net (decrease) /increase in cash and cash equivalents** | | **(36,233)** | **127,090** | **11,504** |
| **Cash and cash equivalents at the beginning of the period** | | **255,045** | **243,541** | **243,541** |
| **Cash and cash equivalents at the end of the period** | | **218,812** | **370,631** | **255,045** |

**Analysis of cash and cash equivalents**

| | | | | |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | | 513,038 | 505,649 | 505,649 |
| Compulsory reserve established by the National Banks | | (257,993) | (262,108) | (262,108) |
| **Cash and cash equivalents at the beginning of the period** | | **255,045** | **243,541** | **243,541** |
| Cash, amounts due from banks and balances with the National Banks | 4. | 441,575 | 642,625 | 513,038 |
| Compulsory reserve established by the National Banks | 4. | (222,763) | (271,994) | (257,993) |
| **Cash and cash equivalents at the end of the period** | | **218,812** | **370,631** | **255,045** |

**OTP BANK PLC.**
**CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011**
**(in HUF mn)**

| | Note | Share capital | Capital reserve | Share-based payment reserve | Retained earnings and reserves | Put option reserve | Treasury shares | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2010** | | **28,000** | **52** | **6,830** | **1,258,718** | **(55,468)** | **(52,678)** | **6,152** | **1,191,606** |
| Net comprehensive income | | - | - | - | 133,892 | - | - | - | 133,892 |
| Share-based payment | *29.* | - | - | 3,144 | - | - | - | - | 3,144 |
| Treasury shares | | | | | | | | | |
| – loss on sale | | - | - | - | (4) | - | - | - | (4) |
| – acquisition | | - | - | - | - | - | (6) | - | (6) |
| Payments to ICES holders | *20.* | - | - | - | (6,038) | - | - | - | (6,038) |
| Non-controlling interest | | - | - | - | - | - | - | 56 | 56 |
| **Balance as at 30 June 2010** | | **28,000** | **52** | **9,974** | **1,386,568** | **(55,468)** | **(52,684)** | **6,208** | **1,322,650** |
| **Balance as at 1 January 2011** | | **28,000** | **52** | **28** | **1,383,026** | **(55,468)** | **(52,597)** | **5,888** | **1,308,929** |
| Net comprehensive income | | - | - | - | 46,174 | - | - | - | 46,174 |
| Share-based payment | *29.* | - | - | 4,666 | - | - | - | - | 4,666 |
| Dividend for the year 2010 | | - | - | - | (20,160) | - | - | - | (20,160) |
| Sale of Treasury shares | | - | - | - | - | - | 2,651 | - | 2,651 |
| Treasury shares | | | | | | | | | |
| – loss on sale | | - | - | - | (16) | - | - | - | (16) |
| – acquisition | | - | - | - | - | - | (2,579) | - | (2,579) |
| Payments to ICES holders | *20.* | - | - | - | (1,286) | - | - | - | (1,286) |
| Non-controlling interest | | - | - | - | - | - | - | 338 | 338 |
| **Balance as at 30 June 2011** | | **28,000** | **52** | **4,694** | **1,407,738** | **(55,468)** | **(52,525)** | **6,226** | **1,338,717** |

The accompanying notes to consolidated unaudited financial statements on pages 8 to 94 form an integral part of these consolidated financial statements.

## 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.

The structure of the Share capital by shareholders:

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Domestic and foreign private and institutional investors | 96% | 96% |
| Employees | 2% | 2% |
| Treasury shares | 2% | 2% |
| **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 1,487 branches. The Group has operations in Hungary, Bulgaria, Croatia, Slovakia, Romania, Ukraine, Serbia, Russia and Montenegro.

The number of employees at the Group:

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| The number of employees at the Group | 31,031 | 30,367 |
| The average number of employees at the Group | 30,592 | 30,183 |

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

## 1.2. Accounting

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

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

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

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

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

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

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

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

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

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

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

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Not yet endorsed by the EU.

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

## 2.1. Basis of Presentation

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

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

## 2.2. Foreign currency translation

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

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

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

## 2.3. Principles of consolidation

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

## 2.4. Accounting for acquisitions

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

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

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

### 2.4. Accounting for acquisitions [continued]

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

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

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

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

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

### 2.5. Securities held-to-maturity

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

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

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

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

#### 2.6.1. Securities held for trading

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

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

#### 2.6.2. Derivative financial instruments

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

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

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

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

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

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

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

### 2.7. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities available-for-sale are measured at subsequent reporting dates at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized directly in equity, unless such available-for-sale security is part of an effective fair value hedge. Such gains and losses will be reported when realized in Consolidated Statement of Recognized Income for the applicable period.

Such securities consist of Hungarian government bonds, bonds issued by NBH, corporate bonds, discounted Treasury bills and other securities. Other securities include shares in investment funds and shares in commercial companies. The impairment is calculated based on discounted cash flow methodology, using the expected future cash flow and original effective interest rate.

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

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

### 2.7. Securities available-for-sale [continued]

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

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

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

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

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

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

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

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

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

### 2.9. Sale and repurchase agreements, security lending

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

In the case of security lending transactions the Group doesn't recognise or derecognise the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognised for the consideration amount.

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

### 2.10. Associates and other investments

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

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

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

### 2.11. Property and equipment, Intangible assets

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

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

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

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

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

### 2.12. Financial liabilities

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



### 2.13. Leases

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

**The Group as a lessor**

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

**The Group as a lessee**

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

### 2.14. Treasury shares

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

### 2.15. Interest income and interest expense

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

### 2.16. Fees and Commissions

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

### 2.17. Dividend income

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

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

### 2.18. Income tax

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

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

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

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

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

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

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

### 2.20. Share-based payment

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

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

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

### 2.21. Consolidated Statement of Cash Flows

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

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

### 2.22. Segment reporting

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

### 2.23. Comparative figures

Certain amounts in the Consolidated Financial Statements for the year ended 31 December 2010 have been reclassified to conform with the current year presentation. These reclassifications were not material.

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

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

### 3.1. Impairment on loans and placements

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

### 3.2. Valuation of instruments without direct quotations

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

### 3.3. Provisions

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

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

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

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

### 3.4. Impairment on goodwill

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

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Cash on hand | | |
| In HUF | 66,719 | 58,130 |
| In foreign currency | 98,536 | 114,659 |
| | **165,255** | **172,789** |
| **Amounts due from banks and balances with the National Banks** | | |
| Within one year: | | |
| In HUF | 79,011 | 100,867 |
| In foreign currency | 196,234 | 238,340 |
| | **275,245** | **339,207** |
| Over one year: | | |
| In HUF | - | - |
| In foreign currency | 632 | 619 |
| | **632** | **619** |
| Accrued interest | 443 | 423 |
| | **276,320** | **340,249** |
| **Total** | **441,575** | **513,038** |
| **Compulsory reserve set by the National Banks** | **222,763** | **257,993** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Within one year | | |
| In HUF | 72,601 | 19,760 |
| In foreign currency | 452,465 | 488,128 |
| | **525,066** | **507,888** |
| Over one year | | |
| In HUF | - | - |
| In foreign currency | 3,964 | 4,996 |
| | **3,964** | **4,996** |
| Accrued interest | 265 | 341 |
| Provision for impairment on placement losses | (1,340) | (1,981) |
| **Total** | **527,955** | **511,244** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Balance as at 1 January** | **1,981** | **3,514** |
| Release of provision for the period | (537) | (1,418) |
| Use of provision | 37 | (242) |
| Foreign currency translation difference | (141) | 127 |
| **Closing balance** | **1,340** | **1,981** |

Interest conditions of placements with other banks:

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| In HUF | 1.4% - 10.9% | 0.8% - 10.9% |
| In foreign currency | 0.01% - 12.6% | 0.10% - 12.6% |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Securities held for trading** | | |
| Corporate shares | 106,502 | 105,832 |
| Securities issued by the NBH | 36,364 | 19,984 |
| Government bonds | 27,289 | 26,550 |
| Treasury bills | 1,709 | 3,774 |
| Other securities | 1,056 | 537 |
| Other non-interest bearing securities | 1,321 | 2,166 |
| | **174,241** | **158,843** |
| Accrued interest | 386 | 404 |
| **Total** | **174,627** | **159,247** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| CCIRS[1] and mark-to-market CCIRS designated as held for trading | 42,741 | 18,938 |
| Interest rate swaps designated as held for trading | 32,075 | 34,413 |
| Foreign exchange swaps designated as held for trading | 18,521 | 15,442 |
| Foreign exchange forward contracts designated as held for trading | 110 | - |
| Other transactions designated as held for trading | 5,004 | 5,627 |
| | **98,451** | **74,420** |
| **Total** | **273,078** | **233,667** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|

[1] CCIRS: Cross currency interest rate swaps

| | | |
|---|---|---|
| Denominated in HUF (%) | 89.1% | 88.5% |
| Denominated in foreign currency (%) | 10.9% | 11.5% |
| **Total** | **100.0%** | **100.0%** |

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

An analysis of government bond portfolio by currency (%):

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Denominated in HUF (%) | 40.9% | 41.5% |
| Denominated in foreign currency (%) | 59.1% | 58.5% |
| **Total** | **100.0%** | **100.0%** |
| Interest rates on securities held for trading | 1.2% - 12.0% | 2% - 8.75% |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Within five years | | |
| With variable interest | 85 | 27 |
| With fixed interest | 56,353 | 35,662 |
| | **56,438** | **35,689** |

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Over five years | | |
| With variable interest | 882 | 1,038 |
| With fixed interest | 9,098 | 14,118 |
| | **9,980** | **15,156** |
| Non-interest bearing securities | 107,823 | 107,998 |
| **Total** | **174,241** | **158,843** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Securities available-for-sale** | | |
| Bonds issued by NBH | 717,155 | 312,007 |
| Government bonds | 563,093 | 584,065 |
| Corporate bonds | 34,446 | 32,937 |
| *From this:* | | |
| *Listed securities:* | | |
| *In HUF* | - | - |
| *In foreign currency* | 33,176 | 30,972 |
| | 33,176 | 30,972 |
| *Non-listed securities:* | | |
| *In HUF* | - | - |
| *In foreign currency* | 1,270 | 1,965 |
| | 1,270 | 1,965 |
| Treasury bills | 12,387 | 11,463 |
| Mortgage bonds | 140 | 151 |
| Other securities | 7,050 | 14,740 |
| Other non-interest bearing securities | 38,078 | 35,522 |
| *From this:* | | |
| *Listed securities:* | | |
| *In HUF* | - | 263 |
| *In foreign currency* | 6,121 | 708 |
| | 6,121 | 971 |
| *Non-listed securities:* | | |
| *In HUF* | 23,032 | 22,965 |
| *In foreign currency* | 8,925 | 11,586 |
| | 31,957 | 35,522 |
| | **1,372,349** | **990,885** |
| Accrued interest | 16,988 | 18,901 |
| Provision for impairment on securities available-for-sale | (1,342) | (1,689) |
| **Total** | **1,387,995** | **1,008,097** |

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

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Denominated in HUF (%) | 85.1% | 79.8% |
| Denominated in foreign currency (%) | 14.9% | 20.2% |
| **Total** | **100.0%** | **100.0%** |

An analysis of government bonds by currency (%):

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Denominated in HUF (%) | 75.3% | 72.5% |
| Denominated in foreign currency (%) | 24.7% | 27.5% |
| **Total** | **100.0%** | **100.0%** |

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Interest rates on securities available-for-sale denominated in HUF (%) | 5.4% - 8.0% | 5.4% - 8.9% |
| Interest rates on securities available-for-sale denominated in foreign currency (%) | 0.5% - 10.3% | 0.5% - 20.5% |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Within five years | | |
| With variable interest | 3,094 | 3,549 |
| With fixed interest | 1,151,577 | 790,928 |
| | **1,154,671** | **794,477** |
| Over five years | | |
| With variable interest | 1,645 | 2,064 |
| With fixed interest | 177,955 | 158,822 |
| | **179,600** | **160,886** |
| Non-interest bearing securities | 38,078 | 35,522 |
| **Total** | **1,372,349** | **990,885** |

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

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Balance as at 1 January** | **1,689** | **6,988** |
| Provision for the period | 31 | 575 |
| Release of provision | (79) | (1,247) |
| Use of provision | (182) | (4,723) |
| Foreign currency translation difference | (117) | 96 |
| **Closing balance** | **1,342** | **1,689** |

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

Certain securities are hedged. See Note 39.

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Short-term loans and trade bills (within one year) | 1,834,520 | 1,922,771 |
| Long-term loans and trade bills (over one year) | 5,239,725 | 5,522,355 |
| | **7,074,245** | **7,445,126** |
| Accrued interest | 58,929 | 57,205 |
| Provision for impairment on loan losses | (800,417) | (761,272) |
| **Total** | **6,332,757** | **6,741,059** |

An analysis of the loan portfolio by currency (%):

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| In HUF | 26% | 25% |
| In foreign currency | 74% | 75% |
| **Total** | **100%** | **100%** |

Interest rates of the loan portfolio are as follows:

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Short-term loans denominated in HUF | 6.5% - 34.2% | 4.5% - 36.1% |
| Long-term loans denominated in HUF | 3% - 34.2% | 1.8% - 36.1% |
| Short-term loans denominated in foreign currency | 1% - 50% | 0.9% - 83.2% |
| Long-term loans denominated in foreign currency | 1% - 52.5% | 1% - 67% |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Gross loan portfolio on which interest to customers is not being accrued | 14.1% | 11.7% |

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

| | *30 June 2011* | | *31 December 2010* | |
|---|---|---|---|---|
| Retail loans | 2,347,657 | 33% | 2,368,554 | 32% |
| Housing loans | 2,215,798 | 31% | 2,118,321 | 28% |
| Corporate loans | 2,150,664 | 31% | 2,598,277 | 35% |
| Municipality loans | 360,126 | 5% | 359,974 | 5% |
| **Total** | **7,074,245** | **100%** | **7,445,126** | **100%** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Balance as at 1 January** | **761,272** | **494,378** |
| Provision for the period | 105,566 | 274,442 |
| Use of provision | (36,769) | (25,445) |
| Foreign currency translation difference | (29,652) | 17,897 |
| **Closing balance** | **800,417** | **761,272** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Release of provision for impairment on placement losses (see Note 5) | (537) | (1,418) |
| Provision for impairment on loan losses | 105,566 | 274,442 |
| **Total** | **105,029** | **273,024** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Investments** | | |
| Unconsolidated subsidiaries | 6,217 | 9,222 |
| Associated companies (non-listed) | 384 | 384 |
| Other investments (non-listed) | 3,262 | 3,268 |
| | **9,863** | **12,874** |
| Provision for impairment on investments | (1,334) | (1,320) |
| **Total** | **8,529** | **11,554** |
| Total assets of unconsolidated subsidiaries | 23,383 | 39,939 |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Balance as at 1 January** | **1,320** | **893** |
| Provision for the period | 293 | 425 |
| Release of provision | (249) | - |
| Foreign currency translation difference | (30) | 2 |
| **Closing balance** | **1,334** | **1,320** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Government bonds | 125,525 | 148,278 |
| Hungarian government discounted Treasury bills | 15,584 | 15,979 |
| Mortgage bonds | 1,969 | 2,071 |
| Foreign bonds | 1,359 | 2,914 |
| | **144,437** | **169,242** |
| Accrued interest | 3,366 | 3,214 |
| Provision for impairment on securities held-to-maturity | (182) | (154) |
| **Total** | **147,621** | **172,302** |

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

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Within five years | | |
| With variable interest | 35,935 | 40,605 |
| With fixed interest | 97,409 | 104,056 |
| | **133,344** | **144,661** |
| Over five years | | |
| With variable interest | 1,977 | 3,704 |
| With fixed interest | 9,116 | 20,877 |
| | **11,093** | **24,581** |
| **Total** | **144,437** | **169,242** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Denominated in HUF (%) | 51.3% | 53% |
| Denominated in foreign currency (%) | 48.7% | 47% |
| **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.

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Interest rates of securities held-to-maturity with fixed interest | 2% - 30% | 2% - 30% |
| Interest rates of securities held-to-maturity with variable interest | 0.2% - 5.8% | 0.2% - 8.9% |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Balance as at 1 January** | **154** | **4,523** |
| Provision for the period | 82 | 87 |
| Release of provision | (56) | (2,044) |
| Use of provision | - | (2,598) |
| Foreign currency translation difference | 2 | 186 |
| **Closing balance** | **182** | **154** |

Release and use 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 and used.

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

**For the year ended 30 June 2011**

| Cost | Intangible assets and goodwill | Property | Office equipments and vehicles | Construction in progress | Total |
|---|---|---|---|---|---|
| **Balance as at 1 January** | **373,120** | **172,003** | **172,422** | **11,798** | **729,343** |
| Additions | 13,740 | 5,453 | 8,104 | 10,079 | 37,376 |
| Foreign currency translation differences | (32,625) | (4,499) | (4,200) | (303) | (41,627) |
| Disposals | (5,995) | (5,844) | (5,536) | (7,230) | (24,605) |
| Change in consolidation scope | - | 9,108 | 20 | - | 9,128 |
| **Balance as at 30 June** | **348,240** | **176,221** | **170,810** | **14,344** | **709,615** |
| **Depreciation and Amortization** | | | | | |
| **Balance as at 1 January** | **109,907** | **29,809** | **108,799** | **-** | **248,515** |
| Charge for the period (except for Goodwill impairment) | 12,381 | 2,766 | 8,758 | - | 23,905 |
| Foreign currency translation differences | (1,148) | (1,034) | (2,356) | - | (4,538) |
| Disposals | (18,625) | (469) | (3,248) | - | (22,342) |
| Change in consolidation scope | - | 3,207 | 2 | - | 3,209 |
| **Balance as at 30 June** | **102,515** | **34,279** | **111,955** | **-** | **248,749** |
| **Net book value** | | | | | |
| **Balance as at 1 January** | **263,213** | **142,194** | **63,623** | **11,798** | **480,828** |
| **Balance as at 30 June** | **245,725** | **141,942** | **58,855** | **14,344** | **460,866** |

An analysis of the changes in the goodwill for the year ended 30 June 2011 is as follows:

| Cost | Goodwill |
|---|---|
| **Balance as at 1 January** | **209,320** |
| Additions | - |
| Foreign currency translation difference | (12,036) |
| Current year impairment | - |
| **Balance as at 30 June** | **197,284** |
| **Net book value** | |
| **Balance as at 1 January** | **209,320** |
| **Balance as at 30 June** | **197,284** |

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

**For the year ended 31 December 2010**

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

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

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

| **Net book value** | |
|---|---|
| **Balance as at 1 January** | **210,229** |
| **Balance as at 31 December** | **209,320** |

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

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Inventories | 39,933 | 32,501 |
| Prepayments and accrued income | 23,328 | 15,152 |
| Trade receivables | 20,108 | 13,543 |
| Current income tax receivable | 9,970 | 8,885 |
| Receivables from investment services | 7,061 | 415 |
| Other receivables from Hungarian Government | 5,806 | 5,794 |
| Deferred tax receivables | 5,220 | 7,315 |
| Other advances | 5,165 | 3,741 |
| Fair value of derivative financial instrument designated as fair value hedge | 1,914 | 8,489 |
| Receivables due from pension funds and investment funds | 962 | 1,776 |
| Receivables from leasing activities | 710 | 1,045 |
| Advances for securities and investments | 577 | 605 |
| Other | 24,789 | 23,007 |
| | **145,543** | **122,268** |
| Provision for impairment on other assets[1] | (13,580) | (13,111) |
| **Total** | **131,963** | **109,157** |

**Positive fair value of derivative financial instruments designated as fair value hedge by type of contracts**

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Interest rate swaps designated as fair value hedge | 1,649 | 8,477 |
| Foreign exchange swaps designated as fair value hedge | 134 | 3 |
| Foreign exchange forward contracts designated as fair value hedge | 111 | - |
| Other transactions designated as fair value hedge | 19 | 9 |
| Forward security agreements designated as fair value hedge | 1 | - |
| **Total** | **1,914** | **8,489** |

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

[1] Provision for impairment on other assets mainly consists of provision for impairment on trade receivables, inventories and real estate held-for-sale.

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Balance as at 1 January** | **13,111** | **9,724** |
| Provision for the period | 1,738 | 3,808 |
| Release of provision | (1,013) | (476) |
| Use of provision | (63) | (33) |
| Foreign currency translation difference | (193) | 88 |
| **Closing balance** | **13,580** | **13,111** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Within one year | | |
| In HUF | 50,427 | 111,735 |
| In foreign currency | 256,133 | 249,317 |
| | **306,560** | **361,052** |
| Over one year | | |
| In HUF | 117,008 | 116,441 |
| In foreign currency[1] | 272,852 | 202,852 |
| | **389,860** | **319,293** |
| Accrued interest | 2,001 | 1,604 |
| **Total** | **698,421** | **681,949** |

The Group has used mortgage bonds as collateral in relation to collateralized borrowing (EUR 650 million).

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

[1] On 19 May 2011, the Bank signed an EUR 300,000,000 Term Loan Facility. The originally planned amount was EUR 200 million, but the transaction was very well received and heavily oversubscribed, altogether 21 banks took part in the deal. The facility has a 2 years tenore, carries a margin of 1.50% 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:

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Within one year | | |
| In HUF | 1.7% - 7.1% | 1.9% - 6.4% |
| In foreign currency | 0.05% - 13.9% | 0.2% - 15.9% |
| Over one year | | |
| In HUF | 1.4% - 7.6% | 0.9% - 6.9% |
| In foreign currency | 0.1% - 8.8% | 0.1% - 9.9% |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Within one year | | |
| In HUF | 2,744,082 | 2,683,142 |
| In foreign currency | 2,830,414 | 2,897,942 |
| | **5,574,496** | **5,581,084** |
| Over one year | | |
| In HUF | 213,709 | 114,618 |
| In foreign currency | 74,399 | 96,951 |
| | **288,108** | **211,569** |
| Accrued interest | 35,596 | 28,836 |
| **Total** | **5,898,200** | **5,821,489** |

Interest rates on deposits from customers are as follows:

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Within one year | | |
| In HUF | 0.1% - 11% | 0.1% - 10.3% |
| In foreign currency | 0.01% - 22% | 0.01% - 15.9% |
| Over one year | | |
| In HUF | 0.2% - 8% | 0.2% - 5.3% |
| In foreign currency | 0.01% - 15.3% | 0.02% - 18.8% |

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

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

| | *30 June 2011* | | *31 December 2010* | |
|---|---|---|---|---|
| Retail deposits | 3,825,042 | 65% | 4,020,689 | 69% |
| Corporate deposits | 1,829,086 | 31% | 1,564,968 | 27% |
| Municipality deposits | 208,476 | 4% | 206,996 | 4% |
| **Total** | **5,862,604** | **100%** | **5,792,653** | **100%** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| With original maturity | | |
| Within one year | | |
| In HUF | 331,929 | 320,919 |
| In foreign currency | 234,751 | 387,610 |
| | **566,680** | **708,529** |
| Over one year | | |
| In HUF | 227,579 | 201,556 |
| In foreign currency | 109,042 | 97,746 |
| | **336,621** | **299,302** |
| Accrued interest | 31,045 | 27,322 |
| **Total** | **934,346** | **1,035,153** |

Interest rates on liabilities from issued securities are as follows:

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Issued securities denominated in HUF | 0.25% - 10.5% | 0.25% - 10.5% |
| Issued securities denominated in foreign currency | 1.6% - 8.6% | 1.2% - 11.5% |

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

Issued securities denominated in HUF as at 30 June 2011 (in HUF mn):

| | Name | Date of issue | Maturity | Nominal value (in HUF mn) | Interest conditions (in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|
| 1 | OTP 2011/XIV | 09/07/2010-16/07/2010 | 09/07/2011 | 10,189 | 5 | fixed | |
| 2 | OTP 2011/XV | 23/07/2010-30/07/2010 | 23/07/2011 | 10,959 | 5 | fixed | |
| 3 | OTP 2011/XVI | 06/08/2010-13/08/2010 | 06/08/2011 | 13,037 | 5 | fixed | |
| 4 | OTP 2011/XVII | 19/08/2010-27/08/2010 | 19/08/2011 | 7,084 | 5 | fixed | |
| 5 | OTP 2011/XVIII | 03/09/2010-10/09/2010 | 03/09/2011 | 14,456 | 5 | fixed | |
| 6 | OTP 2011/XIX | 17/09/2010-24/09/2010 | 17/09/2011 | 10,933 | 5 | fixed | |
| 7 | OTP 2011/XX | 01/10/2010-08/10/2010 | 01/10/2011 | 4,766 | 5 | fixed | |
| 8 | OTP 2011/XXI | 15/10/2010-22/10/2010 | 15/11/2011 | 6,362 | 5 | fixed | |
| 9 | OTP 2011/XXII | 29/10/2010-05/11/2010 | 29/10/2011 | 19,327 | 5 | fixed | |
| 10 | OTP 2011/XXIII | 12/11/2010-19/11/2010 | 12/11/2011 | 12,357 | 5 | fixed | |
| 11 | OTP 2011/XXIV | 26/11/2010-03/12/2010 | 26/11/2012 | 6,395 | 5 | fixed | |
| 12 | OTP 2011/XXV | 13/12/2010-30/12/2010 | 13/12/2011 | 15,566 | 5 | fixed | |
| 13 | OTP 2011C | 09/11/2009 | 09/11/2011 | 2,000 | 7.5 | fixed | |
| 14 | OTP 2012/I | 07/01/2011-14/01/2011 | 07/01/2012 | 8,598 | 5 | fixed | |
| 15 | OTP 2012/II | 21/01/2011-28/01/2011 | 07/01/2012 | 15,426 | 5 | fixed | |
| 16 | OTP 2012/III | 04/02/2011-11/02/2011 | 04/02/2012 | 9,575 | 5 | fixed | |
| 17 | OTP 2012/IV | 18/02/2011-25/02/2011 | 18/02/2012 | 23,668 | 5 | fixed | |
| 18 | OTP 2012/V | 04/03/2011-11/03/2011 | 03/03/2012 | 15,258 | 5 | fixed | |
| 19 | OTP 2012/VI | 26/06/2009-01/04/2011 | 24/03/2012 | 15,132 | 5 | fixed | |
| 20 | OTP 2012/VII | 08/04/2011-15/04/2011 | 07/04/2012 | 18,885 | 5 | fixed | |
| 21 | OTP 2012/VIII | 22/04/2011-29/04/2011 | 21/04/2012 | 14,449 | 5 | fixed | |
| 22 | OTP 2012/IX | 06/05/2011-13/05/2011 | 05/05/2012 | 16,244 | 5 | fixed | |
| 23 | OTP 2012/X | 20/05/2011-27/05/2011 | 19/05/2012 | 10,743 | 5 | fixed | |
| 24 | OTP 2012/XI | 03/06/2011-10/06/2011 | 02/06/2012 | 8,774 | 5 | fixed | |
| 25 | OTP 2012/XII | 17/06/2011-24/06/2011 | 16/06/2012 | 5,776 | 5 | fixed | |
| 26 | TBSZ 2013_I | 26/02/2010-28/12/2010 | 30/12/2013 | 6,229 | 5.5 | fixed | |
| 27 | TBSZ 2014_I | 14/01/2011-24/06/2011 | 15/12/2014 | 1,807 | 5.5 | fixed | |
| 28 | TBSZ 2015_I | 26/02/2010-17/12/2010 | 30/12/2015 | 5,706 | 5.5 | fixed | |
| 29 | TBSZ 2016_I | 14/01/2011-24/06/2011 | 15/12/2016 | 1,124 | 5.5 | fixed | |
| 30 | OTPX 2011C | 14/12/2009-05/02/2010 | 20/12/2011 | 527 | indexed | floating | hedged |
| 31 | OTPX 2012C | 25/03/2010 | 30/03/2012 | 651 | indexed | floating | hedged |
| 32 | OTPX 2013C | 16/12/2010 | 19/12/2013 | 450 | indexed | floating | hedged |
| 33 | OTPX 2012A | 11/09/2009-25/09/2009 | 11/09/2012 | 1,683 | indexed | floating | hedged |
| 34 | OTPX 2013A | 28/06/2010 | 08/07/2013 | 480 | indexed | floating | hedged |
| 35 | OTPX 2014A | 25/06/2009 | 30/06/2014 | 3,188 | indexed | floating | hedged |
| 36 | OTPX 2014B | 05/10/2009 | 13/10/2014 | 4,085 | indexed | floating | hedged |
| 37 | OTPX 2014C | 14/12/2009 | 19/12/2014 | 4,050 | indexed | floating | hedged |
| 38 | OTPX 2015A | 25/03/2010 | 30/03/2015 | 5,494 | indexed | floating | hedged |
| 39 | OTPX 2015B | 28/06/2010 | 09/07/2015 | 4,840 | indexed | floating | hedged |
| 40 | OTPX 2016B | 16/12/2010 | 19/12/2016 | 3,480 | indexed | floating | hedged |
| 41 | OTPX 2017A | 01/04/2011 | 31/03/2017 | 5,450 | indexed | floating | hedged |
| 42 | OTPX 2017B | 17/06/2011 | 20/06/2017 | 5,100 | indexed | floating | hedged |
| 43 | OTPX 2019A | 25/06/2009 | 01/07/2019 | 319 | indexed | floating | hedged |
| 44 | OTPX 2019B | 05/10/2009-05/02/2010 | 14/10/2019 | 481 | indexed | floating | hedged |

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

Issued securities denominated in HUF as at 30 June 2011 (in HUF mn) [continued]:

| Name | Date of issue | Maturity | Nominal value | Interest conditions | Hedged |
|---|---|---|---|---|---|

| | | | | (in HUF mn) | (in % p.a.) | | |
|---|---|---|---|---|---|---|---|
| 45 | OTPX 2019C | 14/12/2009 | 20/12/2019 | 394 | indexed | floating | hedged |
| 46 | OTPX 2020A | 25/03/2010 | 30/03/2020 | 415 | indexed | floating | hedged |
| 47 | OTPX 2020B | 28/06/2010 | 09/07/2020 | 450 | indexed | floating | hedged |
| 48 | OTPX 2020D | 16/12/2010 | 18/12/2020 | 245 | indexed | floating | hedged |
| 49 | OTPRA_2013_B | 26/11/2010 | 03/12/2013 | 3,757 | indexed | floating | hedged |
| 50 | OTPRA_2014_A | 25/03/2011 | 24/03/2014 | 1,096 | indexed | floating | hedged |
| 51 | OTPX 2013B | 26/11/2010 | 06/11/2013 | 940 | indexed | floating | hedged |
| 52 | OTPX 2014D | 01/04/2011 | 03/04/2014 | 620 | indexed | floating | hedged |
| 53 | OTPX 2014E | 17/06/2011 | 20/06/2014 | 1,350 | indexed | floating | hedged |
| 54 | OTPX 2016A | 11/11/2010 | 03/11/2016 | 4,600 | indexed | floating | hedged |
| 55 | OTPX 2020C | 11/11/2010 | 05/11/2020 | 290 | indexed | floating | hedged |
| 56 | OTPX 2021A | 01/04/2011 | 01/04/2021 | 350 | indexed | floating | hedged |
| 57 | OTPX 2021B | 17/06/2011 | 17/06/2021 | 390 | indexed | floating | hedged |
| 58 | 3Y_EUR_HUF | 25/06/2010 | 25/06/2013 | 2,338 | indexed | floating | hedged |
| 59 | 2020_RF_A | 12/07/2010 | 20/07/2020 | 233 | indexed | floating | hedged |
| 60 | 2020_RF_B | 12/07/2010 | 20/07/2020 | 46 | indexed | floating | hedged |
| 61 | 2020_RF_C | 11/11/2010 | 05/11/2020 | 191 | indexed | floating | hedged |
| 62 | DC_HUF_2011_A | 27/06/2011 | 03/10/2011 | 2,632 | 8 | fixed | |
| 63 | DNT_HUF_2011_B | 25/03/2011 | 21/09/2011 | 7,070 | indexed | floating | hedged |
| 64 | DNT_HUF_2011_C | 27/06/2011 | 21/12/2011 | 10,131 | indexed | floating | hedged |
| 65 | OJB2011_II | 28/05/2004 | 12/09/2011 | 8,780 | 10 | fixed | |
| 66 | OJB2011_III | 28/02/2005 | 30/11/2011 | 2 | 9 | fixed | |
| 67 | OJB2011_IV | 31/08/2006 | 31/08/2011 | 7,620 | 8 | fixed | |
| 68 | OJB2012_I | 17/03/2004 | 21/03/2012 | 13,870 | 9.83 | fixed | |
| 69 | OJB2012_II | 14/04/2004 | 16/05/2012 | 36,007 | 10 | fixed | |
| 70 | OJB2012_III | 19/11/2004 | 15/08/2012 | 14,353 | 10.5 | fixed | |
| 71 | OJB2013_II | 20/12/2002 | 31/08/2013 | 13,433 | 8.25 | fixed | |
| 72 | OJB2014_I | 14/11/2003 | 12/02/2014 | 13,496 | 8 | fixed | |
| 73 | OJB2014_J | 17/09/2004 | 17/09/2014 | 421 | 8.69 | fixed | |
| 74 | OJB2015_I | 10/06/2005 | 10/06/2015 | 3,243 | 7.7 | fixed | |
| 75 | OJB2015_J | 28/01/2005 | 28/01/2015 | 226 | 8.69 | fixed | |
| 76 | OJB2016_I | 03/02/2006 | 03/02/2016 | 1,266 | 7.5 | fixed | |
| 77 | OJB2016_II | 31/08/2006 | 31/08/2016 | 4,686 | 10 | fixed | |
| 78 | OJB2016_J | 18/04/2006 | 28/09/2016 | 301 | 7.59 | fixed | |
| 79 | OJB2019_I | 17/03/2004 | 18/03/2019 | 31,517 | 9.48 | fixed | |
| 80 | OJB2019_II | 25/05/2011 | 18/03/2019 | 1,000 | 9.48 | fixed | |
| 81 | OJB2020_I | 19/11/2004 | 12/11/2020 | 5,503 | 9 | fixed | |
| 82 | OJB2020_II | 25/05/2011 | 12/11/2020 | 1,486 | 9 | fixed | |
| 83 | Other | | | 20,350 | | | |
| | **Total issued securities in HUF** | | | **566,201** | | | |
| | **Unamortized premium** | | | **(2,957)** | | | |
| | **Fair value adjustment** | | | **(3,736)** | | | |
| | **Total issued securities in HUF** | | | **559,508** | | | |

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

Issued securities denominated in foreign currency as at 30 June 2011 (in HUF mn):

| Name | Date of issue | Maturity | Type of FX | Nominal value | Interest conditions (in % p.a.) | Hedged |
|---|---|---|---|---|---|---|

| | | | | | (FX mn) | (HUF mn) | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | OTPHB402/12 | 24/02/2010 | 24/02/2012 | CHF | 56 | 12,352 | 4 | fixed | hedged |
| 2 | OTPX 2015C | 22/12/2010 | 29/12/2015 | EUR | 1 | 258 | indexed | floating | hedged |
| 3 | OTPX 2016C | 22/04/2011 | 22/04/2016 | EUR | 2 | 414 | indexed | floating | hedged |
| 4 | DC_EUR_ 2011A | 27/06/2011 | 03/10/2011 | EUR | 7 | 1,894 | 4 | fixed | |
| 5 | DNT_EUR_ 2011_B | 25/03/2011 | 21/09/2011 | EUR | 12 | 3,238 | indexed | floating | |
| 6 | DNT_EUR_ 2011_C | 27/06/2011 | 21/12/2011 | EUR | 17 | 4,460 | indexed | floating | |
| 7 | DNT_USD_ 2011_B | 25/03/2011 | 21/09/2011 | USD | 4 | 648 | indexed | floating | |
| 8 | DNT_USD_ 2011_C | 27/06/2011 | 21/12/2011 | USD | 6 | 1,038 | indexed | floating | |
| 9 | DNT_CHF_ 2011_A | 25/03/2011 | 21/09/2011 | CHF | 2 | 455 | indexed | floating | |
| 10 | DNT_CHF_ 2011_B | 27/06/2011 | 21/12/2011 | CHF | 1 | 258 | indexed | floating | |
| 11 | OMB2011_I | 10/07/2006 | 11/07/2011 | EUR | 696 | 184,851 | 4.25 | fixed | hedged |
| 12 | OMB2011_II | 04/12/2009 | 05/12/2011 | EUR | 87 | 23,082 | 4.13 | fixed | hedged |
| 13 | OMB2014_I | 15/12/2004 | 15/12/2014 | EUR | 198 | 52,645 | 4 | fixed | hedged |
| 14 | Mortgage bonds OTP | 15/10/2003 | 15/10/2012 | EUR | 17 | 4,408 | 4.7 | fixed | |
| 15 | Mortgage bonds OTP VII | 21/12/2005 | 21/12/2015 | EUR | 22 | 5,969 | 1.65 | variable | |
| 16 | Mortgage bonds OTP XVII | 08/06/2009 | 08/06/2012 | EUR | 3 | 805 | 4.1 | fixed | |
| 17 | Mortgage bonds OTP XVIII | 18/09/2009 | 18/03/2012 | EUR | 1 | 239 | 3.5 | fixed | |
| 18 | Mortgage bonds OTP XIX | 02/11/2009 | 02/11/2012 | EUR | 10 | 2,656 | 4 | fixed | |
| 19 | Mortgage bonds OTP XXI | 20/05/2010 | 20/05/2013 | EUR | 10 | 2,656 | 3.5 | fixed | |
| 20 | Mortgage bonds OTP XXIV | 23/11/2010 | 23/11/2013 | EUR | 8 | 2,092 | 3.3 | fixed | |
| 21 | Other | | | | | 40,242 | | | |
| | **Total issued securities in FX** | | | | | **344,660** | | | |
| | **Unamortized premium** | | | | | **1,438** | | | |
| | **Fair value adjustment** | | | | | **(2,305)** | | | |
| | **Total issued securities in FX** | | | | | **343,793** | | | |
| | **Total accrued interest** | | | | | **31,045** | | | |
| | **Total** | | | | | **934,346** | | | |

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

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

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

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

**Negative fair value of derivative financial instruments designated as held for trading by type of contracts**

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| CCIRS and mark-to-market CCIRS designated as held for trading | 82,975 | 206,877 |
| Interest rate swaps designated as held for trading | 42,469 | 40,064 |
| Foreign exchange swaps designated as held for trading | 10,174 | 4,611 |
| Foreign exchange forward contracts designated as held for trading | 3,191 | 2,177 |
| Option contracts designated as held for trading | 2,305 | 2,482 |
| Forward rate agreements designated as held for trading (FRA) | 389 | 840 |
| Other transactions designated as held for trading | 88 | - |
| Forward security agreements designated as held for trading | 2 | 1 |
| **Total** | **141,593** | **257,052** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Fair value of derivative financial instruments designated as fair value hedge | 117,828 | 115,159 |
| Financial liabilities from OTP-MOL share swap transaction[1] | 105,404 | 105,766 |

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

| | 30 June 2011 | 31 December 2010 |
|---|---|---|
| Giro clearing accounts | 37,175 | 11,581 |
| Salaries and social security payable | 25,044 | 26,902 |

[1] On 16 April 2009 OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the lost of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity and a recognition of a corresponding liability. As at 30 June 2011 and 2010 105,404 and HUF 105,766 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.

| | | |
|---|---|---|
| Accrued expenses | 18,386 | 16,447 |
| Provision for impairment on off-balance sheet commitments and contingent liabilities | 16,299 | 19,650 |
| Current income tax payable | 14,428 | 10,714 |
| Accounts payable | 12,827 | 11,445 |
| Liabilities from investment services | 9,634 | 12,036 |
| Liabilities from specific repo deals | 6,975 | 3,461 |
| Advances received from customers | 2,238 | 1,901 |
| Liabilities connected to loans for collection | 1,086 | 1,147 |
| Deferred tax liabilities | 1,051 | 4,098 |
| Dividends payable | 312 | 304 |
| Liabilities related to housing loans | 283 | 351 |
| Liabilities from custody accounts | - | 5,495 |
| Other | 49,506 | 38,315 |
| | **418,476** | **384,772** |
| Accrued interest | 850 | 972 |
| **Total** | **419,326** | **385,744** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending | 11,061 | 12,855 |
| Provision for litigation | 2,650 | 3,953 |
| Provision for other liabilities | 1,617 | 1,944 |
| Provision for expected pension commitments | 971 | 898 |
| **Total** | **16,299** | **19,650** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Balance as at 1 January** | **19,650** | **23,598** |
| Release for the period | (3,001) | (3,977) |
| Use of provision | (52) | (131) |
| Foreign currency translation differences | (298) | 160 |
| **Closing balance** | **16,299** | **19,650** |

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

**The negative fair value of derivative financial instruments designated as fair value hedge by type of contracts**

*30 June 2011* *31 December 2010*

| | | |
|---|---|---|
| CCIRS and mark-to-market CCIRS designated as fair value hedge | 111,737 | 108,012 |
| Interest rate swaps designated as fair value hedge | 5,729 | 7,143 |
| Forward security agreements designated as fair value hedge | 286 | - |
| Foreign exchange swaps designated as fair value hedge | 70 | 4 |
| Other transactions designated as fair value hedge | 6 | - |
| **Total** | **117,828** | **115,159** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Within one year: | | |
| In HUF | - | - |
| In foreign currency | 484 | 309 |
| | **484** | **309** |
| Over one year: | | |
| In HUF | 5,000 | 5,000 |
| In foreign currency | 267,246 | 282,137 |
| | **272,246** | **287,137** |
| Accrued interest | 9,006 | 3,184 |
| **Total** | **281,736** | **290,630** |

Interest rates on subordinated bonds and loans are as follows:

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Denominated in HUF | 3.0% | 2.7% |
| Denominated in foreign currency | 1.8% - 8.25% | 1.6% - 7.75% |

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

Subordinated bonds and loans can be detailed as follows:

| Type | Nominal value | Date of issuance | Date of maturity | Issue price | Interest conditions | Interest rate as of 30 June 2011 |
|---|---|---|---|---|---|---|
| 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 | 3.0% |
| Subordinated bond | EUR 125 million | 04/03/2005 | 04/03/2015 | 100% | Three-month EURIBOR + 0.55% quarterly | - |
| Subordinated bond | EUR 493 million | 07/11/2006 | Perpetual, but callable after 10 years | 99.375% | Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly) | - |
| Subordinated bond (under EMTN[1] program) | EUR 300 million | 19/09/2006 | 19/09/2016 | 100% | Fixed 5.27% annual | 5.27% |
| Subordinated bond (under EMTN[1] program) | EUR 200 million | 26/02/2007 | 19/09/2016 | 100% | Fixed 5.27% annual | 5.27% |
| Subordinated bond | USD 65 million | 21/04/2008 | 13/10/2015 | 100% | Variable, six-month EURIBOR + 1.4% | 1.84% |
| Subordinated bond | RUB 26.86 million | 15/06/2001 | 21/06/2015 | 100% | Variable, based on the Russian National Bank's interest rate | 8.25% |
| Subordinated bond | EUR 5.113 million | 23/12/1997 | 15/11/2014 | 100% | Variable, six-month EURIBOR + 1.3% | 2.99% |

[1] European Medium Term Note Program

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Authorized, issued and fully paid: | | |
| Ordinary shares | 28,000 | 28,000 |

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

## NOTE 20: RETAINED EARNINGS AND RESERVES (in HUF mn)

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Capital reserve | 52 | 52 |
| General reserve | 134,079 | 122,863 |
| Retained earnings | 767,756 | 692,754 |
| Tied-up reserve | 5,658 | 5,729 |
| **Total** | **907,545** | **821,398** |

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.

According to the decision of the Bank made at the Annual General Meeting on 29 April 2011, the management decided about the payment of HUF 20,160 million dividend from the result of year 2010.

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

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

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Nominal value (Ordinary shares) | 1,868 | 1,873 |
| Carrying value at acquisition cost | 52,525 | 52,597 |

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:

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Number of shares as at 1 January** | **18,731,231** | **18,786,004** |
| Additions | 447,378 | 73,232 |
| Disposals | (496,055) | (128,005) |
| **Closing number of shares** | **18,682,554** | **18,731,231** |

Change in carrying value:

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Balance as at 1 January** | **52,597** | **52,678** |
| Additions | 2,579 | 415 |
| Disposals | (2,651) | (496) |
| **Closing balance** | **52,525** | **52,597** |

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **Balance as at 1 January** | **5,888** | **6,152** |
| Non-controlling interest included in net profit for the period | 461 | 196 |
| Foreign currency translation difference | (92) | 74 |
| Changes due to ownership structure | (31) | (534) |
| **Closing balance** | **6,226** | **5,888** |

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

| **Income from fees and commissions** | *30 June 2011* | *30 June 2010* |
|---|---|---|
| Deposit and account maintenance fees and commissions | 34,754 | 31,600 |
| Fees and commissions related to the issued bank cards | 17,384 | 15,251 |
| Fees related to cash withdrawal | 11,624 | 12,259 |
| Fees and commissions related to lending | 7,142 | 7,566 |
| Fees and commissions related to fund management | 5,909 | 8,320 |
| Fees and commissions related to security trading | 2,660 | 2,627 |
| Other | 8,585 | 6,357 |
| **Total** | **88,058** | **83,980** |

| **Expense from fees and commissions** | *30 June 2011* | *30 June 2010* |
|---|---|---|
| Interchange fees | 4,039 | 3,832 |
| Fees and commissions related to issued bank cards | 3,226 | 2,886 |
| Fees and commissions paid on loans | 1,772 | 3,798 |
| Fees and commissions related to deposits | 1,139 | 1,199 |
| Insurance fees | 1,060 | 1,024 |
| Cash withdrawal transaction fees | 1,053 | 1,003 |
| Fees and commissions related to lending | 763 | 1,024 |
| Money market transaction fees and commissions | 670 | 371 |
| Fees and commissions related to security trading | 454 | 543 |
| Postal fees | 399 | 397 |
| Other | 3,687 | 2,781 |
| **Total** | **18,262** | **18,858** |
| | | |
| **Net profit from fees and commissions** | **69,796** | **65,122** |

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

| **Other operating income** | *30 June 2011* | *30 June 2010* |
|---|---|---|
| Other income from non-financial activities | 10,183 | 11,287 |
| **Total** | **10,183** | **11,287** |

| **Other operating expense** | *30 June 2011* | *30 June 2010* |
|---|---|---|
| Provision for impairment on other assets | 1,738 | 1,165 |
| Provision for impairment on investments[1] | 293 | 64 |
| Provision for investment bonds | - | 172 |
| (Release of provision) for off-balance sheet commitments and contingent liabilities | (3,001) | (988) |
| Other costs | 2,896 | 3,844 |
| Other expense from non-financial activities | 4,879 | 1,357 |
| **Total** | **6,805** | **5,614** |

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

| | *30 June 2011* | *30 June 2010* |
|---|---|---|
| Wages | 57,318 | 56,084 |
| Taxes related to personnel expenses | 15,378 | 16,288 |
| Other personnel expenses | 5,272 | 5,003 |
| **Total personnel expenses** | **77,968** | **77,375** |
| **Depreciation and amortization** | **23,905** | **42,001** |
| Taxes, other than income tax[2] | 32,469 | 15,690 |
| Administration expenses, including rental fees | 22,236 | 21,891 |
| Services | 17,375 | 16,300 |
| Professional fees | 8,260 | 7,638 |
| Advertising | 5,179 | 4,670 |
| **Other administrative expenses** | **85,519** | **66,189** |
| **Total** | **187,392** | **185,565** |

[1] See details in Note 9.

[2] Based on the amendment of the act on the special tax of financial institutions approved on 22 July 2010, a new special financial institution tax was paid by the Group. The total tax amount for the half year 2011 was HUF 17.7 billion recognized as an expense thus decreased the corporate tax base. Based on the approved regulations, financial institutions are obliged to pay this special tax until the end of 2012.

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

The Group is presently liable for income tax at rates between 9% and 28% of taxable income.
Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria, Serbia and Cyprus, 16% in Romania, 19% in Slovakia, 20% in Croatia and Russia, 23% 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.

The breakdown of the income tax expense is:

| | *30 June 2011* | *30 June 2010* |
|---|---|---|
| Current tax expense | 18,671 | 14,693 |
| Deferred tax (benefit) / expense | (2,033) | 5,593 |
| **Total** | **16,638** | **20,286** |

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

| | *30 June 2011* | *30 June 2010* |
|---|---|---|
| **Balance as at 1 January** | **3,217** | **2,460** |
| Deferred tax benefit / (expense) | 2,033 | (5,593) |
| Differences arising on consolidation | - | (626) |
| Acquisition of subsidiaries | - | (33) |
| Foreign currency translation difference | (346) | (136) |
| Deferred tax related to items recognized in equity | (735) | (5) |
| **Closing balance** | **4,169** | **(3,933)** |

A reconciliation of the income tax expense is as follows:

| | *30 June 2011* | *30 June 2010* |
|---|---|---|
| Profit before income tax | 91,113 | 90,045 |
| Income tax at statutory tax rates | 21,880 | 18,892 |
| Special tax (4%) | - | - |
| Income tax adjustments due to permanent differences: | | |
| Differences in carrying value of subsidiaries | 1,900 | (1,784) |
| Share-based payment | 887 | 597 |
| Difference of accounting of equity instrument (ICES) | 584 | (3,803) |
| Reversal of statutory general provision | 565 | (324) |
| Tax effect of amortization of statutory goodwill | 416 | (339) |
| Revaluation of investments denominated in foreign currency to historical cost | (3,924) | 8,729 |
| Reclassification of direct charges to reserves | (1,648) | - |
| Effect of change of income tax rate | (606) | - |
| Provision for impairment on investments in subsidiaries | - | 2,204 |
| Treasury share transactions | - | (1) |
| Other | (3,416) | (3,885) |
| **Income tax expense** | **16,638** | **20,286** |
| **Effective tax rate** | **18.3%** | **22.5%** |

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

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

| | *30 June 2011* | *30 June 2010* |
|---|---|---|
| Provision for impairment on investments | 6,611 | 11,018 |
| Fair value adjustment of securities held for trading and securities available-for-sale | 5,580 | 3,061 |
| Tax loss carry forward | 4,441 | 3,849 |
| Repurchase agreement and security lending | 2,659 | 2,983 |
| Adjustment from effective interest rate method | 753 | - |
| Difference in accounting for leases | 411 | 723 |
| Difference in depreciation and amortization | 202 | 75 |
| Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments | 94 | 356 |
| Premium and discount amortization on bonds | 20 | 504 |
| Fair value adjustment of derivative financial instruments | - | 12 |
| Other | 8,478 | 6,703 |
| **Deferred tax asset** | **29,249** | **29,284** |

| | *30 June 2011* | *30 June 2010* |
|---|---|---|
| Fair value adjustment of securities held for trading and securities available-for-sale | (4,560) | (4,094) |
| Difference in depreciation and amortization | (3,584) | (4,480) |
| Net effect of treasury share transactions | (2,293) | (4,767) |
| Fair value adjustment of derivative financial instruments | (2,727) | (4,729) |
| Accounting of equity instrument (ICES) | (1,707) | (4,247) |
| Temporary differences arising on consolidation | (1,561) | (1,231) |
| Adjustment from effective interest rate method | (1,507) | - |
| Premium and discount amortization on bonds | (105) | (39) |
| Difference in accounting for leases | (28) | (210) |
| Other | (7,008) | (9,420) |
| **Deferred tax liabilities** | **(25,080)** | **(33,217)** |
| | | |
| **Net deferred tax asset / (liability)** | **4,169** | **(3,933)** |

## NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

### 27.1. Credit risk

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

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

**Analysis by loan types and risk classes**

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

**As at 30 June 2011**

| Loan type | Performing | To-be monitored | Below average | Doubtful | Bad | Total carrying amount |
|---|---|---|---|---|---|---|
| Retail loans | 3,198,701 | 651,712 | 129,249 | 182,663 | 401,130 | **4,563,455** |
| Corporate loans | 1,103,418 | 394,507 | 211,947 | 167,671 | 273,121 | **2,150,664** |
| Placement with other banks | 517,238 | 10,770 | - | 351 | 671 | **529,030** |
| Municipal loans | 304,352 | 26,512 | 15,895 | 10,379 | 2,988 | **360,126** |
| **Total gross portfolio** | **5,123,709** | **1,083,501** | **357,091** | **361,064** | **677,910** | **7,603,275** |
| Allowance for loans | (24,771) | (40,079) | (68,265) | (179,511) | (487,791) | **(800,417)** |
| Allowance for placements | - | (515) | - | (154) | (671) | **(1,340)** |
| **Total allowance** | **(24,771)** | **(40,594)** | **(68,265)** | **(179,665)** | **(488,462)** | **(801,757)** |
| **Total net portfolio** | **5,098,938** | **1,042,907** | **288,826** | **181,399** | **189,448** | **6,801,518** |
| **Accrued interest** | | | | | | |
| for loans | | | | | | **58,929** |
| for placements | | | | | | **265** |
| **Total accrued interest** | | | | | | **59,194** |
| Total net loans | | | | | | **6,332,757** |
| Total net placements | | | | | | **527,955** |
| **Total net exposures** | | | | | | **6,860,712** |

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

**27.1. Credit risk [continued]**

**Analysis by loan types and risk classes [continued]**

**As at 31 December 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** |

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

| **Qualification categories** | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Performing | 1,034,345 | 1,014,076 |
| To-be monitored | 59,370 | 58,101 |
| Below average | 11,496 | 16,187 |
| Doubtful | 4,777 | 7,595 |
| Bad | 1,561 | 5,581 |
| **Total** | **1,111,549** | **1,101,540** |

The Group's loan portfolio decreased by 4.5% in the first half of 2011. Analysing the contribution of loan types to the loan portfolio, the share of the 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 12.5% to 13.7%. Among the qualified loan portfolio, the loans classified to the risk class of "bellow average" 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 64.3% as at 31 December 2010 and 30 June 2011 respectively.

The off-balance sheet liabilities connected to the lending activity increased by 0.9%.
The qualified loan portfolio increased by 6.3% in the first half of 2011.

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

**27.1. Credit risk [continued]**

**Classification into risk classes**

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

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

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

**Loan portfolio by countries**

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

| | *30 June 2011* | | *31 December 2010* | |
|---|---|---|---|---|
| **Country** | **Carrying amount of the qualified gross loan portfolio** | **Allowance** | **Carrying amount of the qualified gross loan portfolio** | **Allowance** |
| Hungary | 1,056,633 | 320,967 | 1,092,232 | 286,258 |
| Ukraine | 512,723 | 145,420 | 278,039 | 156,550 |
| Bulgaria | 263,651 | 107,479 | 270,510 | 90,296 |
| Russia | 150,291 | 54,161 | 152,290 | 53,099 |
| Romania | 136,120 | 25,330 | 140,210 | 25,268 |
| Montenegro | 104,006 | 37,803 | 120,412 | 38,767 |
| Serbia | 95,107 | 43,792 | 102,357 | 43,793 |
| Cyprus | 56,193 | 9,594 | 58,955 | 10,765 |
| Slovakia | 48,557 | 15,081 | 58,137 | 16,606 |
| Croatia | 44,348 | 15,059 | 43,110 | 12,704 |
| Seychelles | 4,498 | 676 | 4,701 | 705 |
| Kazakhstan | 3,531 | 382 | 6,268 | 944 |
| Belgium | 912 | 46 | - | - |
| The United Kingdom | 882 | 688 | 828 | 632 |
| Byelorussia | 559 | 55 | 1,006 | 10 |
| Netherlands | 537 | - | 12 | - |
| Egypt | 518 | 260 | 525 | 58 |
| Germany | 162 | 3 | 93 | 1 |
| Macedonia | 92 | 44 | 102 | 50 |
| Ireland | 90 | 78 | 85 | 69 |
| Latvia | 11 | 11 | 847 | 53 |
| The United States | 8 | 3 | 988 | 1 |
| Other | 137 | 54 | 126 | 55 |
| **Total** | **2,479,566** | **776,986** | **2,331,833** | **736,684** |

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

**27.1. Credit risk [continued]**

**Loan portfolio by countries [continued]**

The qualified loan portfolio increased mostly in Ukraine and there were no significant changes in the other countries. Their stock of provision increased in Bulgaria, Croatia and Hungary.

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

| | *30 June 2011* | | *31 December 2010* | |
|---|---|---|---|---|
| **Country** | **Carrying amount of the non-qualified gross loan portfolio** | **Allowance** | **Carrying amount of the non-qualified gross loan portfolio** | **Allowance** |
| Hungary | 2,591,986 | 121 | 2,630,070 | 107 |
| Bulgaria | 856,069 | 10,185 | 881,034 | 10,697 |
| Russia | 394,797 | 3,448 | 390,154 | 2,201 |
| Croatia | 314,151 | 3,121 | 329,441 | 3,341 |
| Romania | 249,721 | 224 | 242,789 | 221 |
| Slovakia | 214,714 | 775 | 239,410 | 606 |
| Montenegro | 123,835 | 6,842 | 112,794 | 9,327 |
| Ukraine | 81,065 | - | 427,691 | - |
| The United Kingdom | 78,505 | 26 | 131,214 | 25 |
| Germany | 73,261 | - | 44,087 | - |
| Belgium | 36,642 | - | 46,599 | - |
| Serbia | 30,401 | 27 | 49,095 | 42 |
| Japan | 10,818 | - | 120 | - |
| Malta | 10,672 | - | 10,626 | - |
| Cyprus | 10,420 | - | 17,199 | - |
| Switzerland | 8,533 | - | 5,075 | - |
| Luxemburg | 8,053 | - | - | - |
| France | 7,552 | - | 47,048 | - |
| The United States | 6,475 | - | 7,310 | - |
| Portugal | 4,835 | - | - | - |
| Poland | 3,907 | - | 2,116 | - |
| Austria | 1,817 | - | 1,138 | - |
| Sweden | 1,124 | 1 | 156 | - |
| Norway | 959 | - | 1,121 | - |
| Netherlands | 720 | - | 3,061 | - |
| Azerbaijan | 618 | - | 627 | - |
| Czech Republic | 373 | - | 771 | - |
| Denmark | 359 | - | 100 | - |
| Kazakhstan | 270 | - | 108 | - |
| Ireland | 248 | - | 107 | 1 |
| Canada | 246 | - | 51 | - |
| Turkey | 185 | - | 1,151 | - |
| Italy | 90 | - | 116 | - |
| Spain | 24 | - | 2,922 | - |
| Byelorussia | - | - | 645 | - |
| Other | 264 | 1 | 231 | 1 |
| **Total** | **5,123,709** | **24,771** | **5,626,177** | **26,569** |

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

**27.1. Credit risk [continued]**

**Loan portfolio by countries [continued]**

The non-qualified loan portfolio decreased mostly in Ukraine, Netherlands, Cyprus, and Serbia. 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** | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Mortgages | 6,634,716 | 6,797,599 |
| Guarantees and warranties | 262,497 | 290,364 |
| Assignments (revenue or other receivables) | 257,426 | 131,434 |
| Guarantees of state or organizations owned by state | 158,440 | 245,971 |
| Cash deposits | 144,161 | 75,341 |
| Securities | 49,241 | 67,729 |
| Other | 765,911 | 926,118 |
| **Total** | **8,272,392** | **8,534,556** |

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** | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Mortgages | 3,270,152 | 3,698,552 |
| Assignments (revenue or other receivables) | 273,410 | 277,806 |
| Guarantees and warranties | 240,930 | 257,096 |
| Guarantees of state or organizations owned by state | 130,823 | 103,220 |
| Cash deposits | 99,383 | 63,181 |
| Securities | 34,185 | 50,102 |
| Other | 497,837 | 694,994 |
| **Total** | **4,546,720** | **5,144,951** |

The coverage level of the loan portfolio (total collaterals) increased by 0.8%, as well as the coverage level to the extent of the exposures decreased by 8.1% as at 30 June 2011.

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

**27.1. Credit risk [continued]**

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

**Loans, neither past due, nor impaired**

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

| **Loan type** | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Retail loans | 2,221,726 | 2,404,099 |
| Corporate loans | 917,541 | 1,276,316 |
| Placement with other banks | 487,799 | 489,713 |
| Municipal loans | 215,848 | 291,891 |
| **Total** | **3,842,914** | **4,462,019** |

| **Qualification categories** | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Performing | 3,799,136 | 4,414,665 |
| To-be monitored | 30,813 | 33,851 |
| Below average | 6,290 | 6,114 |
| Doubtful | 3,589 | 1,872 |
| Bad | 3,086 | 5,517 |
| **Total** | **3,842,914** | **4,462,019** |

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 56.1% to 50.5 % as at 30 June 2011 compared to the prior year. The ratio of the corporate and municipal loans compared to the portfolio of loans neither past due nor impaired decreased during the first half year of 2011 while the ratio of the retail 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 30 June 2011 and 31 December 2010 is as follows:

| **Loan type** | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Retail loans | 344,264 | 305,146 |
| Corporate loans | 329,983 | 166,312 |
| Municipal loans | 2,731 | 478 |
| Placement with other banks | - | - |
| **Total** | **676,978** | **471,936** |

The gross amount of renegotiated loans increased considerably by 30 June 2011, which is connected mainly to the corporate 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 30 June 2011 and 31 December 2010 is as follows:

**As at 30 June 2011**

| Loan type | Up to 90 days | 91-180 days | 181-365 days | Above 365 days | Total |
|---|---|---|---|---|---|
| Retail loans | 288,471 | 10,201 | 6,998 | 21,565 | **327,235** |
| Corporate loans | 49,638 | 14,763 | 11,225 | 7,829 | **83,455** |
| Municipality loans | 79,982 | 2 | 2 | 76 | **80,062** |
| **Total** | **418,091** | **24,966** | **18,225** | **29,470** | **490,752** |

**As at 31 December 2010**

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

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 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 (total collaterals and to the extent of the exposures) as at 30 June 2011 and 31 December 2010 is as follows:

| **Fair value of the collaterals (total collaterals)** | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Retail loans | 405,524 | 466,307 |
| Corporate loans | 157,628 | 184,753 |
| Municipality loans | 96 | 180 |
| **Total** | **563,248** | **651,240** |

| **Fair value of the collaterals (to the extent of the exposures)** | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Retail loans | 224,671 | 268,830 |
| Corporate loans | 83,655 | 69,362 |
| Municipality loans | 96 | 78 |
| **Total** | **308,422** | **338,270** |

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

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

**27.1. Credit risk [continued]**

**Loans individually assessed for provision**

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

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 30 June 2011 and 31 December 2010 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 30 June 2011**

| Loan type | Considered factors | Carrying value | Allowance for impairment | Collateral value | Off-balance sheet commitments | Provision for off-balance sheet commitments |
|---|---|---|---|---|---|---|
| | Delay of payment | 200,505 | 89,914 | 222,710 | 1,095 | 6 |
| | Regularity of payment | 695 | 201 | 174 | - | - |
| | Renegotiation | 45,763 | 4,470 | 31,678 | 126 | 50 |
| | Legal proceedings | 75,212 | 52,570 | 38,331 | 195 | 95 |
| Corporate | Decrease of client classification | 180,266 | 27,815 | 106,121 | 21,302 | 1,560 |
| | Loan characteristics | 37,351 | 2,159 | - | 8,097 | 81 |
| | Critical industry classification | 9,420 | 3,260 | 1,014 | 1,866 | 192 |
| | Other | 30,025 | 7,405 | 2,722 | 5,730 | 1,479 |
| | Cross default | 55,576 | 18,085 | 5,037 | 7,281 | 251 |
| **Corporate total** | | **634,813** | **205,879** | **407,787** | **45,692** | **3,714** |
| | Delay of payment | 3,965 | 1,959 | 4,098 | 60 | - |
| | Regularity of payment | 95 | 19 | - | - | - |
| | Renegotiation | 2,014 | 497 | 52 | 126 | 23 |
| Municipal | Legal proceedings | 337 | 290 | 40 | - | - |
| | Decrease of client classification | 7,912 | 2,206 | 47 | 125 | 64 |
| | Other | 22,200 | 1,844 | 4 | 946 | 110 |
| | Cross default | 191 | 38 | - | 1 | - |
| **Municipal total** | | **36,714** | **6,853** | **4,241** | **1,258** | **197** |
| **Placement with other banks** | | **4,676** | **1,044** | **-** | **-** | **-** |
| **Total** | | **676,203** | **213,776** | **412,028** | **46,950** | **3,911** |

**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 |
|---|---|---|---|---|---|---|
| | Delay of payment | 145,693 | 69,065 | 104,059 | 1,974 | - |
| | Regularity of payment | 1,047 | 221 | 429 | - | - |
| | Renegotiation | 57,627 | 3,893 | 54,933 | 3,642 | 19 |
| | Legal proceedings | 79,065 | 55,339 | 37,280 | 371 | 220 |
| Corporate | 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** |
| | Delay of payment | 44 | 21 | 8,966 | - | - |
| | Renegotiation | 1,749 | 181 | - | 27 | 3 |
| | Legal proceedings | 847 | 244 | 15 | - | - |
| Municipal | 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** |

By 30 June 2011 the volume of the individually rated portfolio significantly decreased 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 critical industry classification, client classification, loan characteristics, regularity of payment and the cross default increased mostly.

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

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

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

### 27.2. 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** | |
|---|---|---|
| | *30 June 2011* | *30 June 2010* |
| Foreign exchange | 354 | 688 |
| Interest rate | 518 | 1,188 |
| Equity instruments | 18 | 36 |
| Diversification | (248) | (320) |
| **Total VaR exposure** | **642** | **1,592** |

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

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

### 27.2. Market risk [continued]

### 27.2.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.

The strategic open position related to the foreign operations was EUR (310) million as at 30 June 2011 and EUR (310) million as at 30 June 2010. 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** | |
|---|---|---|
| | *30 June 2011* | *30 June 2010* |
| | In HUF billion | In HUF billion |
| 1% | (9.7) | (9.1) |
| 5% | (6.5) | (5.7) |
| 25% | (2.4) | (1.3) |
| 50% | 0.3 | 1.5 |
| 25% | 2.8 | 4.2 |
| 5% | 6.4 | 7.9 |
| 1% | 8.8 | 10.5 |

Notes:
(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
(2) The EUR/HUF volatility increased slightly but the FX rate was stronger than the theoretic middle-rate, so the probability of losses was increased and the probability of further gains was decreased.
(3) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2011.

### 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.

## <u>NOTE 27:</u> FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 27.2 Market risk [continued]

### 27.2.3. Interest rate sensitivity analysis [continued]

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

The net interest income in a one year period after 30 June 2011 would be decreased by HUF 1,975 million (probable scenario) and HUF 9,749 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,314 million (probable scenario) and HUF 7,699 million (alternative scenario) decrease in the Net interest income in a one year period after 30 June 2010.
This effect is counterbalanced by capital gains (HUF 5,848 million for probable scenario, HUF 9,103 million for alternative scenario) as at 30 June 2011 and (HUF 6,222 million for probable scenario, HUF 9,224 million for alternative scenario) as at 30 June 2010 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):

| | *30 June 2011* | | *30 June 2010* | |
|---|---|---|---|---|
| **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 | (585) | 1,295 | (395) | 1,229 |
| EUR (0.1%) parallel shift | (277) | - | (65) | - |
| USD 0.1% parallel shift | 77 | - | (119) | - |
| **Total** | **(785)** | **1,295** | **(579)** | **1,229** |

### 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** | *30 June 2011* | *30 June 2010* |
|---|---|---|
| VaR (99%, one day, million HUF) | 18 | 36 |
| Stress test (million HUF) | (5) | (80) |

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

### 27.2. Market risk [continued]

### 27.2.5. Capital management

**Capital management**

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

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

**Capital adequacy**

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

The Group has entirely complied with the regulatory capital requirements.

The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the alternative standard method in case of the operational risk. The consolidated Capital adequacy ratio of the Group was 18.3% and 18.4% as at 30 June 2011 and 31 December 2010 respectively. The Regulatory capital was HUF 1,349,080 million and HUF 1,373,610 million, the Total eligible regulatory capital was HUF 588,885 million and HUF 596,970 million as at 30 June 2011 and 31 December 2010 respectively.

**Calculation on HAS basis**

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Core capital | 1,097,144 | 1,089,153 |
| Supplementary capital | 252,354 | 284,921 |
| Deductions | (418) | (464) |
| due to investments | (418) | (464) |
| due to limit breaches | - | - |
| **Regulatory capital** | **1,349,080** | **1,373,610** |
| Credit risk capital requirement | 452,919 | 480,663 |
| Market risk capital requirement | 33,779 | 30,807 |
| Operational risk capital requirement | 102,187 | 85,500 |
| **Total requirement regulatory capital** | **588,885** | **596,970** |
| **Surplus capital** | **760,195** | **776,640** |
| Tier 1 ratio | 14.9% | 14.6% |
| **Capital adequacy ratio** | **18.3%** | **18.4%** |

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

### 27.2 Market risk [continued]

### 27.2.5. Capital management [continued]

**Capital adequacy [continued]**

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

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

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

| **Subsidiary bank** | **Country** | **Minimum prescribed CAR** | *30 June 2011* | *31 December 2010* |
|---|---|---|---|---|
| OAO OTP Bank | Russia | 11% | 19.6% | 17.0% |
| OTP Bank JSC | Ukraine | 10% | 19.7% | 22.1% |
| DSK Bank EAD | Bulgaria | 12% | 23.5% | 23.7% |
| OTP Bank Romania S.A. | Romania | 10% | 13.3% | 14.0% |
| OTP banka Srbija a.d. | Serbia | 12% | 13.5% | 16.4% |
| OTP banka Hrvatska d.d. | Croatia | 12% | 15.9% | 14.2% |
| OTP Banka Slovensko a. s. | Slovakia | 8% | 11.4% | 11.1% |
| Crnogorska komerčijalna banka a.d. | Montenegro | 10% | 14.4% | 14.1% |

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 18.0% as at 30 June 2011 and 17.5 % as at 31 December 2010. The Regulatory capital was HUF 1,326,490 million and HUF 1,304,144 million, the Total regulatory capital requirement was HUF 588,885 million and HUF 596,970 million as at 30 June 2011 and 31 December 2010 respectively.

## <u>NOTE 27:</u> FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

### 27.2 Market risk [continued]

### 27.2.5. Capital management [continued]

**Capital adequacy [continued]**

**Calculation on IFRS basis**

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Core capital | 1,112,287 | 1,045,977 |
| Positive components | 1,414,135 | 1,361,633 |
| Issued capital | 28,000 | 28,000 |
| Reserves | 1,275,084 | 1,220,821 |

| | | |
|---|---|---|
| Other issued capital components | 111,051 | 112,812 |
| Negative components | (301,848) | (315,656) |
| Treasury shares | (52,525) | (52,597) |
| Goodwill and other intangible assets | (249,323) | (263,059) |
| Supplementary capital | 214,622 | 258,632 |
| Fair value corrections | 825 | (12,948) |
| Subordinated bonds and loans | 213,797 | 271,580 |
| Deductions | (419) | (464) |
| **Regulatory capital** | **1,326,490** | **1,304,144** |
| Credit risk capital requirement | 452,919 | 480,663 |
| Market risk capital requirement | 33,779 | 30,807 |
| Operational risk capital requirement | 102,187 | 85,500 |
| **Total requirement regulatory capital** | **588,885** | **596,970** |
| **Surplus capital** | **737,605** | **707,174** |
| Tier 1 ratio | 15.1% | 14.0% |
| **Capital adequacy ratio** | **18.0%** | **17.5%** |

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

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

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

**Contingent liabilities**

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Legal disputes (disputed value) | 8,438,505 | 9,596,769 |
| Commitments to extend credit | 860,215 | 819,308 |
| Guarantees arising from banking activities | 251,334 | 282,232 |

| | | |
|---|---|---|
| Confirmed letters of credit | 4,074 | 6,458 |
| Other | 107,820 | 110,653 |
| **Total** | **9,661,948** | **10,815,420** |

**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 2,650 million and HUF 3,953 million as at 30 June 2011 and 31 December 2010, respectively. (See Note 17.)

**Commitments to extend credit, guarantees and letters of credit**

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

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

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

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

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

**Guarantees, payment undertakings arising from banking activities**

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

**Derivatives**

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

**Foreign currency contracts**

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

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

**Foreign exchange swaps and interest rate swaps**

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

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

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

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

**Cross-currency interest rate swaps**

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

**Forward rate agreements (FRA)**

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

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

## NOTE 29: SHARE-BASED PAYMENT

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

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

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

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

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

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

## NOTE 29: SHARE-BASED PAYMENT [continued]

In connection with the equity-settled share-based payment programs the Bank did not recognise any expense in 2010 because the key performance indicators – that were the vesting conditions of the options – were not fulfilled.
HUF 4,666 million was recognised as an expense during the six month period ended 30 June 2011.

| | *30 June 2011* | | *31 December 2010* | |
|---|---|---|---|---|
| | **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 | 50,000 | 134 | - | - |
| Granted during the period | - | - | 3,068,800 | 134 |
| Forfeited during the period | - | - | - | - |
| Repurchased during the period | - | - | 2,988,800 | 134 |
| Exercised during the period | 50,000 | 1,199 | 30,000 | 569 |
| Outstanding at the end of the period | - | - | - | - |
| 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.
In 2010 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. The weighted average remaining contractual life of the options outstanding as at 31 December 2010 is 12 month.

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted on 2011 Annual General Meeting regarding to the amendment of CRD III. directives and Act on Credit Institutions and Financial Enterprises.

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

The Bank ensures the share-based payment part for the management personnel of the Group members.

The value of the discounted share-based payment at the performance assessment is determined by the Bank's Directorate based on the average of the three previous trade day's middle rate of OTP equity shares fixed on the Budapest Stock Exchange.

Discounted share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date is determined by the Bank's Directorate, maximum HUF 4,000.

The Bank Directorate determined the parameters for the share-based payment relating to the year 2010 as follows:

| **Year** | **Pieces**[1] | **Exercise price per share** | **Maximum earnings per share** |
|---|---|---|---|
| 2011 | 349,414 | 3,946 | 2,500 |
| 2012 | 792,974 | 3,946 | 3,000 |
| 2013 | 463,707 | 4,446 | 3,500 |
| 2014 | 563,062 | 4,946 | 3,500 |

## NOTE 29: SHARE-BASED PAYMENT [continued]

Effective pieces (presently):

| | |
|---|---|
| 2011 | 340,950 |
| 2012 | 773,762 |
| 2013 | 452,480 |
| 2014 | 549,425 |

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

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

| **Compensations** | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Short-term employee benefits | 3,479 | 12,828 |
| Other long-term employee benefits | 428 | 197 |
| Termination benefits | - | 74 |

[1] Approved by the Board of Directors supposing 100% performance.

| | | |
|---|---|---|
| Redundancy payments | - | 74 |
| Share-based payment | 1,171 | - |
| **Total** | **5,078** | **13,173** |

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Loans provided to companies owned by the management (normal course of business) | 34,167 | 36,617 |
| Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions) | 115 | 117 |
| Commitments to extend credit and guarantees | 46 | 9 |

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Loans provided to unconsolidated subsidiaries | 5,873 | 43,275 |

## NOTE 31: MAJOR SUBSIDIARIES

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

| Name | Ownership (Direct and Indirect) | | Activity |
|---|---|---|---|
| | *30 June 2011* | *31 December 2010* | |
| 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) | 95.89% | 95.87% | 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% | 98.82% | commercial banking services |
| OTP Factoring Ltd. | 100.00% | 100.00% | work-out |
| OTP Mortgage Bank Ltd. | 100.00% | 100.00% | mortgage lending |
| OTP Real Estate Ltd. | 100.00% | 100.00% | real estate management and development |

| | | | |
|---|---|---|---|
| Merkantil Bank Ltd. | 100.00% | 100.00% | finance lease |
| Merkantil Car Ltd. | 100.00% | 100.00% | finance lease |
| OTP Building Society Ltd. | 100.00% | 100.00% | flat finance and reconstruction |
| OTP Fund Management Ltd. | 100.00% | 100.00% | fund management |
| Crnogorska komerčijalna banka a.d. (Montenegro) | 100.00% | 100.00% | commercial banking services |
| OTP Financing Netherlands B.V. (Netherlands) | 100.00% | 100.00% | refinancing activities |
| OTP Holding Ltd. (Cyprus)/ OTP Financing Cyprus | 100.00% | 100,00% | refinancing activities |
| Bank Center No. 1. Ltd. | 100.00% | 100.00% | real estate lease |
| Inga Two Commercial Ltd. | 100.00% | 100.00% | property management |
| OTP Funds Servicing and Consulting Ltd. | 100.00% | 100.00% | fund services |
| OTP Real Estate Leasing Ltd. | 100.00% | 100.00% | real estate leasing |
| OTP Life Annuity Ltd. | 100.00% | 100.00% | life annuity services |
| OTP Factoring Ukraine LLC | 100.00% | 100.00% | work-out |

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

**As at 30 June 2011**

| | *Moneta Ltd.* | *Company for Cash Services Ltd.* | *Suzuki Pénzügyi Szolgáltató Cjsc.* | *Agóra-Kapos Ltd.* | *Total* |
|---|---|---|---|---|---|
| Total assets | 523 | 1,865 | 603 | 331 | 3,322 |
| Total liabilities | 368 | 256 | 1 | 232 | 857 |
| Shareholders' equity | 155 | 1,609 | 602 | 99 | 2,465 |
| Reserves | (29) | - | 544 | - | 515 |
| Total revenues | 140 | 356 | 19 | 718 | 1,233 |
| Profit before income tax | 45 | (3) | 9 | 82 | 133 |
| Profit after income tax | 41 | (3) | 8 | 82 | 128 |

## NOTE 31: MAJOR SUBSIDIARIES [continued]

**As at 31 December 2010**

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

## NOTE 32: TRUST ACTIVITIES (in HUF mn)

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

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| The amount of loans managed by the Group as a trustee | 43,009 | 44,300 |

## NOTE 33: CONCENTRATION OF ASSETS AND LIABILITIES

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| **In the percentage of the total assets** | | |
| Receivables from, or securities issued by the Hungarian Government or the NBH | 14.2% | 9.8% |

There were no other significant concentrations of the assets or liabilities of the Group as at 30 June 2011 or as at 31 December 2010.

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

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

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

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

| **As at 30 June 2011** | **Within 3 months** | **Within one year and over 3 months** | **Within 5 years and over one year** | **Over 5 years** | **Without maturity** | **Total** |
|---|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 429,485 | 11,458 | 156 | 476 | - | 441,575 |
| Placements with other banks, net of allowance for placements losses | 520,509 | 3,667 | 3,620 | 159 | - | 527,955 |
| Financial assets at fair value through profit or loss | 55,355 | 14,119 | 77,816 | 124,454 | 1,334 | 273,078 |
| Securities available-for-sale | 778,479 | 114,676 | 276,420 | 207,085 | 11,335 | 1,387,995 |
| Loans, net of allowance for loan losses | 679,642 | 932,876 | 1,558,539 | 3,161,700 | - | 6,332,757 |
| Associates and other investments | - | - | - | - | 8,529 | 8,529 |
| Securities held-to-maturity | 18,931 | 31,897 | 85,119 | 11,674 | - | 147,621 |
| Property and equipment, Intangible assets | - | - | - | - | 460,866 | 460,866 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other assets | 86,353 | 3,241 | 25,246 | 17,123 | - | 131,963 |
| **TOTAL ASSETS** | **2,568,754** | **1,111,934** | **2,026,916** | **3,522,671** | **482,064** | **9,712,339** |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | 293,188 | 12,133 | 275,635 | 117,465 | - | 698,421 |
| Deposits from customers | 4,285,877 | 1,306,259 | 277,281 | 28,783 | - | 5,898,200 |
| Liabilities from issued securities | 107,599 | 467,490 | 281,549 | 77,708 | - | 934,346 |
| Financial liabilities at fair value through profit or loss | 19,003 | 22,185 | 93,593 | 6,812 | - | 141,593 |
| Other liabilities | 388,302 | 14,934 | 4,735 | 11,355 | - | 419,326 |
| Subordinated bonds and loans | 8,921 | 1 | 48,481 | 111,714 | 112,619 | 281,736 |
| **TOTAL LIABILITIES** | **5,102,890** | **1,823,002** | **981,274** | **353,837** | **112,619** | **8,373,622** |
| Share capital | - | - | - | - | 28,000 | 28,000 |
| Retained earnings and reserves | - | - | - | - | 1,357,016 | 1,357,016 |
| Treasury shares | - | - | - | - | (52,525) | (52,525) |
| Non-controlling interest | - | - | - | - | 6,226 | 6,226 |
| **TOTAL SHAREHOLDERS' EQUITY** | **-** | **-** | **-** | **-** | **1,338,717** | **1,338,717** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **5,102,890** | **1,823,002** | **981,274** | **353,837** | **1,451,336** | **9,712,339** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(2,534,136)** | **(711,068)** | **1,045,642** | **3,168,834** | **(969,272)** | **-** |

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

| **As at 31 December 2010** | **Within 3 months** | **Within one year and over 3 months** | **Within 5 years and over one year** | **Over 5 years** | **Without maturity** | **Total** |
|---|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National 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 Government, deposits from the National Banks and other banks | 352,235 | 9,413 | 181,752 | 138,549 | - | 681,949 |
| Deposits from customers | 4,273,546 | 1,334,423 | 183,901 | 29,619 | - | 5,821,489 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Liabilities from issued securities | 144,738 | 589,935 | 237,784 | 62,696 | - | 1,035,153 |
| Financial liabilities at fair value through profit or loss | 81,780 | 74,881 | 94,376 | 6,015 | - | 257,052 |
| Other liabilities | 244,924 | 120,692 | 12,215 | 7,913 | - | 385,744 |
| Subordinated bonds and loans | 3,473 | 15 | 54,160 | 134,070 | 98,912 | 290,630 |
| **TOTAL LIABILITIES** | **5,100,696** | **2,129,359** | **764,188** | **378,862** | **98,912** | **8,472,017** |
| Share capital | - | - | - | - | 28,000 | 28,000 |
| Retained earnings and reserves | - | - | - | - | 1,327,638 | 1,327,638 |
| Treasury shares | - | - | - | - | (52,597) | (52,597) |
| Non-controlling interest | - | - | - | - | 5,888 | 5,888 |
| **TOTAL SHAREHOLDERS' EQUITY** | **-** | **-** | **-** | **-** | **1,308,929** | **1,308,929** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **5,100,696** | **2,129,359** | **764,188** | **378,862** | **1,407,841** | **9,780,946** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(2,959,941)** | **(775,760)** | **1,423,219** | **3,104,052** | **(791,570)** | **-** |

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

**As at 30 June 2011**

| | **USD** | **EUR** | **CHF** | **Others** | **Total** |
|---|---|---|---|---|---|
| Assets | 519,725 | 2,145,417 | 1,421,935 | 2,012,856 | 6,099,933 |
| Liabilities | (296,265) | (2,503,559) | (111,411) | (1,331,380) | (4,242,615) |
| Off-balance sheet assets and liabilities, net | (211,277) | 307,834 | (1,370,329) | (104,724) | (1,378,496) |
| **Net position** | **12,183** | **(50,308)** | **(59,805)** | **576,752** | **478,822** |

**As at 31 December 2010**

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

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

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

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

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

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

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

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

### As at 30 June 2011

| | 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** | **79 147** | **41 304** | **6** | **7** | **-** | **56** | **-** | **94** | **-** | **-** | **66 801** | **254 160** | **145 954** | **295 621** | **441 575** |
| *fixed rate* | *79 103* | *23 349* | *6* | *1* | *-* | *56* | *-* | *94* | *-* | *-* | *-* | *-* | *79 109* | *23 500* | *102 609* |
| *variable rate* | *44* | *17 955* | *-* | *6* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *44* | *17 961* | *18 005* |
| *non-interest-bearing* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *66 801* | *254 160* | *66 801* | *254 160* | *320 961* |
| **Placements with other banks, net of allowance for placements losses** | **72 600** | **337 396** | **-** | **82 542** | **-** | **26 883** | **-** | **712** | **-** | **4 135** | **19** | **3 668** | **72 619** | **455 336** | **527 955** |
| *fixed rate* | *72 592* | *262 426* | *-* | *13 620* | *-* | *21 131* | *-* | *250* | *-* | *3 976* | *-* | *-* | *72 592* | *301 403* | *373 995* |
| *variable rate* | *8* | *74 970* | *-* | *68 922* | *-* | *5 752* | *-* | *462* | *-* | *159* | *-* | *-* | *8* | *150 265* | *150 273* |
| *non-interest-bearing* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *19* | *3 668* | *19* | *3 668* | *3 687* |
| **Securities held for trading** | **36 481** | **12 361** | **658** | **–** | **858** | **5 366** | **1 763** | **3 037** | **9 805** | **8 639** | **93 899** | **1 760** | **143 464** | **31 163** | **174 627** |
| *fixed rate* | *36 481* | *11 479* | *658* | *-* | *773* | *5 366* | *1 763* | *3 037* | *9 805* | *8 639* | *-* | *-* | *49 480* | *28 521* | *78 001* |
| *variable rate* | *-* | *882* | *–* | *-* | *85* | *–* | *-* | *-* | *-* | *-* | *-* | *-* | *85* | *882* | *967* |
| *non-interest-bearing* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *93 899* | *1 760* | *93 899* | *1 760* | *95 659* |
| **Securities available-for-sale** | **702 356** | **28 225** | **–** | **35 968** | **57 028** | **57 791** | **54 001** | **7 148** | **359 176** | **63 076** | **3 126** | **20 100** | **1 175 687** | **212 308** | **1 387 995** |
| *fixed rate* | *702 356* | *26 580* | *–* | *35 267* | *57 028* | *57 684* | *52 668* | *6 918* | *358 901* | *63 076* | *-* | *-* | *1 170 953* | *189 525* | *1 360 478* |
| *variable rate* | *-* | *1 645* | *-* | *701* | *-* | *107* | *1 333* | *230* | *275* | *-* | *-* | *-* | *1 608* | *2 683* | *4 291* |
| *non-interest-bearing* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *3 126* | *20 100* | *3 126* | *20 100* | *23 226* |
| **Loans, net of allowance for loan losses** | **1 016 665** | **3 142 132** | **86 591** | **531 643** | **144 087** | **396 475** | **84 638** | **144 360** | **274 602** | **361 754** | **30 335** | **119 475** | **1 636 918** | **4 695 839** | **6 332 757** |
| *fixed rate* | *15 547* | *69 168* | *11 515* | *84 496* | *46 245* | *246 305* | *2 378* | *136 367* | *9 598* | *344 404* | *-* | *-* | *85 283* | *880 740* | *966 023* |
| *variable rate* | *1 001 118* | *3 072 964* | *75 076* | *447 147* | *97 842* | *150 170* | *82 260* | *7 993* | *265 004* | *17 350* | *-* | *-* | *1 521 300* | *3 695 624* | *5 216 924* |
| *non-interest-bearing* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *30 335* | *119 475* | *30 335* | *119 475* | *149 810* |
| **Securities held-to-maturity** | **–** | **11 325** | **26 296** | **6 545** | **25 293** | **11 136** | **1 949** | **15 070** | **19 109** | **25 564** | **2 868** | **2 466** | **75 515** | **72 106** | **147 621** |
| *fixed rate* | *-* | *11 059* | *-* | *6 104* | *14 428* | *11 092* | *1 949* | *15 070* | *19 109* | *25 564* | *-* | *-* | *35 486* | *68 889* | *104 375* |
| *variable rate* | *-* | *266* | *26 296* | *441* | *10 865* | *44* | *-* | *-* | *-* | *-* | *-* | *-* | *37 161* | *751* | *37 912* |
| *non-interest-bearing* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *2 868* | *2 466* | *2 868* | *2 466* | *5 334* |
| **Derivative financial instruments** | **633 441** | **1 411 284** | **974 694** | **483 973** | **196 928** | **447 898** | **7 905** | **1 951** | **28 737** | **1 833** | **-** | **-** | **1 841 705** | **2 346 939** | **4 188 644** |
| *fixed rate* | *185 073* | *1 147 315* | *120 195* | *65 156* | *130 078* | *391 922* | *7 329* | *1 951* | *28 337* | *1 833* | *-* | *-* | *471 012* | *1 608 177* | *2 079 189* |
| *variable rate* | *448 368* | *263 969* | *854 499* | *418 817* | *66 850* | *55 976* | *576* | *-* | *400* | *-* | *-* | *-* | *1 370 693* | *738 762* | *2 109 455* |

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

### As at 30 June 2011

| | Within 1 month | | Over 1 month and Within 3 months | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| **LIABILITIES** | | | | | | | | | | | | | | | |
| **Amounts due to banks, the Hungarian Government, deposit from the National Bank of Hungary and other banks** | **157 631** | **385 932** | **7 528** | **89 885** | **1 867** | **18 892** | **1 626** | **2 568** | **595** | **28 677** | **923** | **2 297** | **170 170** | **528 251** | **698 421** |
| *fixed rate* | *29 167* | *111 161* | *621* | *12 058* | *1 867* | *15 768* | *3* | *844* | *313* | *9 982* | - | - | *31 971* | *149 813* | *181 784* |
| *variable rate* | *128 464* | *274 771* | *6 907* | *77 827* | – | *3 124* | *1 623* | *1 724* | *282* | *18 695* | - | - | *137 276* | *376 141* | *513 417* |
| *non-interest-bearing* | - | - | - | - | - | - | - | - | - | - | *923* | *2 297* | *923* | *2 297* | *3 220* |
| **Deposits from customers** | **1 239 041** | **1 771 145** | **696 471** | **395 250** | **351 848** | **481 010** | **81 747** | **46 158** | **587 032** | **102 938** | **17 008** | **128 552** | **2 973 147** | **2 925 053** | **5 898 200** |
| *fixed rate* | *848 560* | *611 742* | *691 068* | *395 197* | *351 848* | *480 717* | *81 747* | *46 090* | *21 254* | *15 986* | - | - | *1 994 477* | *1 549 732* | *3 544 209* |
| *variable rate* | *390 481* | *1 159 403* | *5 403* | *53* | - | *293* | - | *68* | *565 778* | *86 952* | - | - | *961 662* | *1 246 769* | *2 208 431* |
| *non-interest-bearing* | - | - | - | - | - | - | - | - | - | - | *17 008* | *128 552* | *17 008* | *128 552* | *145 560* |
| **Liabilities from issued securities** | **35 915** | **186 081** | **79 261** | **11 510** | **242 330** | **65 826** | **16 598** | **10 868** | **182 432** | **71 739** | **21 097** | **10 689** | **577 633** | **356 713** | **934 346** |
| *fixed rate* | *28 751* | *186 081* | *66 745* | *5 541* | *242 330* | *65 826* | *16 598* | *10 868* | *182 432* | *71 739* | - | - | *536 856* | *340 055* | *876 911* |
| *variable rate* | *7 164* | - | *12 516* | *5 969* | - | - | - | - | - | - | - | - | *19 680* | *5 969* | *25 649* |
| *non-interest-bearing* | - | - | - | - | - | - | - | - | - | - | *21 097* | *10 689* | *21 097* | *10 689* | *31 786* |
| **Derivative financial instruments** | **680 567** | **1 453 975** | **35 998** | **1 757 119** | **102 060** | **260 618** | **11 105** | **2 935** | **21 909** | **11 720** | - | - | **851 639** | **3 486 367** | **4 338 006** |
| *fixed rate* | *679 147* | *459 503* | *24 157* | *149 233* | *31 028* | *185 095* | *9 859* | *2 935* | *21 909* | *11 720* | - | - | *766 100* | *808 486* | *1 574 586* |
| *variable rate* | *1 420* | *994 472* | *11 841* | *1 607 886* | *71 032* | *75 523* | *1 246* | - | - | - | - | - | *85 539* | *2 677 881* | *2 763 420* |
| **Subordinated bonds and loans** | - | – | - | **31 164** | - | **14 072** | - | *45* | **5 000** | **222 556** | - | **8 899** | **5 000** | **276 736** | **281 736** |
| *fixed rate* | - | - | - | - | - | - | - | *45* | *5 000* | *222 556* | - | - | *5 000* | *222 601* | *227 601* |
| *variable rate* | - | – | - | *31 164* | - | *14 072* | - | - | - | - | - | - | - | *45 236* | *45 236* |
| *non-interest-bearing* | - | - | - | - | - | - | - | - | - | - | - | *8 899* | - | *8 899* | *8 899* |
| **Net position** | **427 536** | **1 186 894** | **268 987** | **-1 144 250** | **-273 911** | **105 187** | **39 180** | **109 798** | **-105 539** | **27 371** | **158 020** | **251 192** | **514 273** | **536 192** | **1 050 465** |

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

### As at 31 December 2010

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

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

**As at 31 December 2010**

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

## NOTE 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.

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Net profit for the year attributable to ordinary shareholders (in HUF mn) | 74,014 | 117,930 |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share) | 266,566,963 | 266,485,429 |
| **Basic Earnings per share (in HUF)** | **278** | **443** |
| Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn) | 74,014 | 117,930 |
| Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share) | 266,566,963 | 269,617,607 |
| **Diluted Earnings per share (in HUF)** | **278** | **437** |

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| | Number of shares | |
| Weighted average number of ordinary shares | 280,000,010 | 280,000,010 |
| Average number of Treasury shares | 13,433,047 | 13,514,581 |
| **Weighted average number of ordinary shares outstanding during the year for calculating basic EPS** | 266,566,963 | 266,485,429 |
| Dilutive effects of options issued in accordance with Management Option Program and convertible into ordinary shares | - | 3,132,178 |
| **The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS** | 266,566,963 | 269,617,607 |

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

**As at 30 June 2011**

| | 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 | 3,415 | - | - | - |
| Placements with other banks, net of allowance for placements losses | 3,917 | - | 537 | - |
| Securities held for trading | 705 | 1,814 | - | - |
| Securities available-for-sale | 38,161 | (131) | 48 | 16,391 |
| Loans, net of allowance for loan losses | 357,377 | 5,370 | (105,566) | - |
| *From this: Consumer loans* | *146,198* | | | |
| *Housing loans* | *90,148* | | | |
| *Corporate loans* | *78,877* | | | |
| *Mortgage backed loans* | *33,367* | | | |
| *Municipality loans* | *8,787* | | | |
| Securities held-to-maturity | 4,377 | (180) | (26) | - |
| Derivative financial instruments | 36,467 | 2,183 | - | - |
| Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks | (8,204) | - | - | - |
| Deposits from customers | (100,533) | 54,304 | - | - |
| Liabilities from issued securities | (28,852) | - | - | - |
| Subordinated bonds and loans | (5,819) | - | - | - |
| | **301,011** | **63,360** | **(105,007)** | **16,391** |

**As at 31 December 2010**

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

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

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

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

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

| | *30 June 2011* | | *31 December 2010* | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Cash, amounts due from banks and balances with the National Banks | 441,575 | 441,575 | 513,038 | 513,038 |
| Placements with other banks, net of allowance for placements losses | 527,955 | 527,501 | 511,244 | 512,195 |
| Financial assets at fair value through profit or loss | 273,078 | 273,078 | 233,667 | 233,667 |
| *Securities held for trading* | *174,627* | *174,627* | *159,247* | *159,247* |
| *FVA of derivative financial instruments designated as held for trading* | *98,451* | *98,451* | *74,420* | *74,420* |
| Securities available-for-sale | 1,387,995 | 1,387,995 | 1,008,097 | 1,008,097 |
| Loans, net of allowance for loan losses | 6,332,757 | 6,608,200 | 6,741,059 | 7,787,442 |
| Securities held-to-maturity | 147,621 | 163,126 | 172,302 | 167,130 |
| FVA of derivative financial instruments designated as fair value hedge | 1,914 | 1,914 | 8,489 | 8,489 |
| **Financial assets total** | **9,112,895** | **9,403,389** | **9,187,896** | **10,230,058** |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | 698,421 | 740,986 | 681,949 | 621,968 |
| Deposits from customers | 5,898,200 | 6,042,344 | 5,821,489 | 5,802,637 |
| Liabilities from issued securities | 934,346 | 811,458 | 1,035,153 | 947,864 |
| FVA of derivative financial instruments designated as fair value hedge | 117,828 | 117,828 | 115,159 | 115,159 |
| FVA of derivative financial instruments designated as held for trading | 141,593 | 141,593 | 257,052 | 257,052 |
| Subordinated bonds and loans | 281,736 | 214,759 | 290,630 | 219,966 |
| **Financial liabilities total** | **8,072,124** | **8,068,968** | **8,201,432** | **7,964,646** |

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

**b) Fair value of derivative instruments**

| | Fair value | | Notional value, net | |
|---|---|---|---|---|
| | *30 June 2011* | *31 December 2010* | *30 June 2011* | *31 December 2010* |
| **Interest rate swaps designated as held for trading** | | | | |
| Positive fair value of interest rate swaps designated as held for trading | 32,075 | 34,413 | 42,151 | 44,613 |
| Negative fair value of interest rate swaps designated as held for trading | (42,469) | (40,064) | (55,994) | (59,736) |
| **Foreign exchange swaps designated as held for trading** | | | | |
| Positive fair value of foreign exchange swaps designated as held for trading | 18,521 | 15,442 | 22,626 | 20,958 |
| Negative fair value of foreign exchange swaps designated as held for trading | (10,174) | (4,611) | (10,583) | (4,306) |
| **Interest rate swaps designated as fair value hedge** | | | | |
| Positive fair value of interest rate swaps designated as fair value hedge | 1,649 | 8,477 | (3,671) | 13,412 |
| Negative fair value of interest rate swaps designated as fair value hedge | (5,729) | (7,143) | (74,730) | (11,479) |
| **CCIRS designated as held for trading** | | | | |
| Positive fair value of CCIRS designated as held for trading | 26,133 | 11,539 | 52,447 | (4,437) |
| Negative fair value of CCIRS designated as held for trading | (80,869) | (197,440) | (55,880) | (177,976) |
| **Mark-to-market CCIRS designated as held for trading** | | | | |
| Positive fair value of mark-to-market CCIRS designated as held for trading | 16,608 | 7,399 | 58,181 | 40,124 |
| Negative fair value of mark-to-market CCIRS designated as held for trading | (2,106) | (9,437) | (1,105) | 1,852 |
| **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 | (111,737) | (108,012) | (135,944) | (113,266) |
| **Other derivative contracts designated as fair value hedge** | | | | |
| Positive fair value of other derivative contracts designated as fair value hedge | 265 | 12 | 163 | - |
| Negative fair value of other derivative contracts designated as fair value hedge | (362) | (4) | (76) | (4) |
| **Other derivative contracts designated as held for trading** | | | | |
| Positive fair value of other derivative contracts designated as held for trading | 5,114 | 5,627 | 2,117 | 2,709 |
| Negative fair value of other derivative contracts designated as held for trading | (5,975) | (5,500) | (5,107) | (2,248) |
| **Derivative financial assets total** | **100,365** | **82,909** | **174,014** | **117,379** |
| **Derivative financial liabilities total** | **(259,421)** | **(372,211)** | **(339,419)** | **(367,163)** |
| **Derivative financial instruments total** | **(159,056)** | **(289,302)** | **(165,405)** | **(249,784)** |

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

**c) Hedge accounting**

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

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

**As at 30 June 2011**

| Types of the hedges | Description of the hedging instrument | Fair value of the hedging instrument | The nature of the risk being hedged |
|---|---|---|---|
| 1) Cash flow hedges | - | - | - |
| 2) Fair value hedges | IRS | HUF (4,080) million | Interest rate |
| | Options | HUF 0 million | Foreign exchange |
| | CCIRS | HUF (111,640) million | Foreign exchange and interest rate |
| 3) Net investment hedge in foreign operations | CCIRS | HUF 3,352 million | Foreign exchange |

**As at 31 December 2010**

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

**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.

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Fair value of the hedging instruments | 251 | (61) |

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

**d) Fair value hedges [continued]**

**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.

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Fair value of the hedging instruments | (167) | (128) |

**3. Loans to customers**

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.

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Fair value of the hedging instruments | (631) | (1,238) |

**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.

| | *30 June 2011* | *31 December 2010* |
|---|---|---|
| Fair value of the hedging instruments | (115,173) | (105,251) |

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

**d) Fair value hedges [continued]**

**As at 30 June 2011**

| Types of hedged items | Types of hedging instruments | Fair value of the hedged items | Fair value of the hedging instruments | Gains/ Losses | |
|---|---|---|---|---|---|
| | | | | on the hedged items | on hedging instruments |
| Securities available-for-sale | IRS | HUF 17,929 million | HUF (167) million | HUF (146) million | HUF 146 million |
| Loans to customers | IRS | HUF 49,602 million | HUF (631) million | HUF (124) million | HUF 124 million |
| Deposits from customers | IRS | HUF 24,177 million | HUF 251 million | HUF (311) million | HUF 311 million |
| Liabilities from issued securities | IRS | HUF 105,893 million | HUF (3,533) million | HUF 6,293 million | HUF (6,293) million |
| EUR mortgage bonds | CCIRS | HUF 199,208 million | HUF (50,510) million | HUF 2,885 million | HUF (2,885) million |
| EUR mortgage bonds | CCIRS | HUF 305,452 million | HUF (58,676) million | HUF (358) million | HUF 358 million |
| EUR mortgage bonds | CCIRS | HUF 53,122 million | HUF (2,454) million | HUF (118) million | HUF 118 million |

**As at 31 December 2010**

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

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

**e) Fair value classes**

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

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

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

**As at 30 June 2011**

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 272,692 | 166,142 | 106,550 | - |
| from this: securities held for trading | 174,241 | 165,909 | 8,332 | - |
| from this: positive FVA of derivative financial instruments designated as held for trading | 98,451 | 233 | 98,218 | - |
| Securities available-for-sale | 1,371,007 | 523,239 | 847,622 | 146 |
| Positive FVA of derivative financial instruments designated as fair value hedge | 1,914 | 19 | 1,895 | - |
| **Financial assets measured at fair value total** | **1,645,613** | **689,400** | **956,067** | **146** |
| Negative FVA of derivative financial instruments designated as held for trading | 141,593 | 288 | 141,305 | - |
| Negative FVA of derivative financial instruments designated as fair value hedge | 117,828 | 404 | 117,424 | - |
| **Financial liabilities measured at fair value total** | **259,421** | **692** | **258,729** | **-** |

**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 | 74,578 | - |
| from this: securities held for trading | 158,843 | 158,551 | 292 | - |
| 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** | **107,693** | **26** |
| 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** | **-** |

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

**e) Fair value classes [continued]**

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

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

| As at 30 June 2011 | Opening balance / Balance as at 1 January 2011 | Additions | Closing balance | Total profit or loss as at 30 June 2011 |
|---|---|---|---|---|
| Securities available-for-sale | 26 | 120 | 146 | - |
| **Financial assets measured at fair value total** | **26** | **120** | **146** | **-** |

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

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

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

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

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

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

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

**As at 30 June 2011**

| | Hungary | Slovakia | Montenegro | Bulgaria | Romania | Croatia | Serbia | Russia | Ukraine | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Interest income** | | | | | | | | | | | |
| **External** | 367 679 | 7 669 | 5 210 | 51 431 | 8 450 | 13 819 | 2 472 | 67 090 | 30 519 | | **554 339** |
| **Intersegment** | 28 136 | 428 | 532 | 241 | 2 515 | 72 | 50 | 3 015 | - | **(34 989)** | - |
| **Total** | **395 815** | **8 097** | **5 742** | **51 672** | **10 965** | **13 891** | **2 522** | **70 105** | **30 519** | **(34 989)** | **554 339** |
| **Non-interest income** | | | | | | | | | | | |
| **External** | 59 809 | 2 943 | 1 800 | 9 569 | 4 526 | 5 596 | 1 756 | 10 536 | 11 033 | | **107 568** |
| **Intersegment** | 59 119 | - | 267 | 88 | - | 82 | - | - | - | **(59 556)** | - |
| **Total** | **118 928** | **2 943** | **2 067** | **9 657** | **4 526** | **5 678** | **1 756** | **10 536** | **11 033** | **(59 556)** | **107 568** |
| **Interest expense** | | | | | | | | | | | |
| **External** | 211 546 | 2 411 | 2 924 | 12 844 | 1 896 | 5 633 | 1 072 | 11 354 | 3 648 | | **253 328** |
| **Intersegment** | 18 964 | 421 | 438 | 1 664 | 2 895 | 377 | 898 | 2 301 | 7 057 | **(35 015)** | - |
| **Total** | **230 510** | **2 832** | **3 362** | **14 508** | **4 791** | **6 010** | **1 970** | **13 655** | **10 705** | **(35 015)** | **253 328** |
| **Non-interest expense** | | | | | | | | | | | |
| **External** | 119 836 | 5 866 | 3 747 | 17 913 | 7 942 | 9 224 | 2 817 | 32 755 | 12 337 | | **212 437** |
| **Intersegment** | 550 | - | 39 | - | - | 101 | - | 446 | 162 | **(1 298)** | - |
| **Total** | **120 386** | **5 866** | **3 786** | **17 913** | **7 942** | **9 325** | **2 817** | **33 201** | **12 499** | **(1 298)** | **212 437** |

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

**As at 30 June 2011**

| | Hungary | Slovakia | Montenegro | Bulgaria | Romania | Croatia | Serbia | Russia | Ukraine | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Provision for impairment on loan and placement losses** | **48 770** | **5 276** | **2 380** | **22 606** | **1 050** | **2 853** | **2 442** | **10 647** | **9 062** | **(57)** | **105 029** |
| **Highlighted lines** | | | | | | | | | | | |
| **Capital expenditures** | 6 661 | 264 | - | 2 161 | 426 | 361 | 8 | 104 | 94 | - | **10 079** |
| **Depreciation and amortization** | 13 008 | 929 | 348 | 2 478 | 646 | 2 187 | 392 | 2 584 | 1 333 | - | **23 905** |
| **Segment profit before income tax** | 115 077 | (2 934) | (1 719) | 6 302 | 1 708 | 1 381 | (2 951) | 23 138 | 9 286 | **(58 175)** | **91 113** |
| **Income tax** | 10 002 | 36 | - | 634 | 63 | 337 | - | 5 553 | 13 | - | **16 638** |
| **Net profit for the year** | **105 075** | **(2 970)** | **(1 719)** | **5 668** | **1 645** | **1 044** | **(2 951)** | **17 585** | **9 273** | **(58 175)** | **74 475** |
| **Segment assets** | 7 137 870 | 340 186 | 183 001 | 1 193 550 | 262 123 | 515 211 | 106 167 | 660 311 | 735 603 | **(1 421 683)** | **9 712 339** |
| **Segment liabilities** | 6 708 138 | 318 909 | 186 105 | 977 216 | 228 565 | 422 143 | 85 854 | 495 459 | 515 820 | **(1 564 587)** | **8 373 622** |

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

## As at 31 December 2010

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

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

### As at 31 December 2010

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

## NOTE 41: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2011

### 1) Long Term Loan Facility

See details in Note 13.

### 2) EU Wide Stress Test Results

The Bank was subject to the 2011 EU-wide stress test conducted by the European Banking Authority (EBA), in cooperation with the Hungarian Financial Supervisory Authority, the European Central Bank (ECB), the European Commission (EC) and the European Systemic Risk Board (ESRB). The Bank is a market leader of the Hungarian market with over 20% of market share of assets. It has subsidiaries in eight countries of the Central- and Eastern European region. OTP notes the announcements made today by the EBA, the Hungarian Financial Supervisory Authority and the Ministry for National Economy on the EU-wide stress test and fully acknowledges the outcomes of this exercise.

The EU-wide stress test, carried out across 91 banks covering over 65% of the EU banking system total assets, seeks to assess the resilience of European banks to severe shocks and their specific solvency to hypothetical stress events under certain restrictive conditions.

The assumptions and methodology were established to assess banks' capital adequacy against a 5% Core Tier 1 capital benchmark and are intended to restore confidence in the resilience of the banks tested. The adverse stress test scenario was set by the ECB and covers a two-year time horizon (2011-2012). The stress test has been carried out using a static balance sheet assumption as at 31 December 2010. The stress test does not take into account future business strategies and management actions and is not a forecast of OTP Bank Plc. profits. The EU-wide stress test requires that the results and weaknesses identified, which will be disclosed to the market, are acted on to improve the resilience of the financial system.

The estimated consolidated Core Tier 1 capital ratio of the Group would change to 17.2% under the baseline scenario and to 13.6% under the adverse scenario in 2012 compared to 12.3% as at the end of 2010.

Following completion of the EU-wide stress test, the results determine that OTP Bank Plc. meets the capital benchmark set out for the purpose of the stress test. The bank will continue to ensure that appropriate capital level must be maintained.

### 3) "Home Protection Action Plan" to help mortgage loan debtors with payment difficulties

#### 1. Fixing of the exchange rate for calculating the monthly instalments and government guarantee

On 28 July 2011, Act LXXV 2011 on fixing the exchange rate for calculating the monthly instalments of retail FX mortgage loans and on the foreclosure order of residential real estates has been announced. Accordingly, the natural person FX mortgage debtor can initiate between 12 August and 31 December 2011 the fixing of the exchange rate used to specify his monthly instalments for 36 months or until 31 December 2014 the latest. The fixed exchange rates are set at 180 HUF/CHF, 250 HUF/EUR and 2 HUF/JPY. For the difference between the fixed and the exceeding actual spot exchange rate, banks provide a special purpose HUF denominated mortgage loan (so called „escrow account loan"), granting of which is not regulated by the rules of prudent lending. During the time of fixing, the Bank is entitled to charge the 3-months BUBOR interest rate on the HUF obligations on the escrow account. Accumulating interest on the account could be capitalised in every three months. From January 2015, instalments of both the original mortgage and the escrow account loans have to be paid. From that time the interest rate charged on the escrow account must not surpass the market rate applicable for HUF denominated mortgages provided for the same purpose as the original FX mortgage loan. The Government backs the escrow account in full through a State Guarantee during the fixed exchange rate period, the guarantee applies to 25% of the escrow account after 1 January 2015.

**NOTE 41: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2011 [continued]**

**3) "Home Protection Action Plan" to help mortgage loan debtors with payment difficulties [continued]**

**2. Implementation of a quota system for foreclosures**

In accordance with the above mentioned Act, by introducing a quota system for foreclosures, a schedule of foreclosure of residential real estates serving as collateral for mortgage loans has been implemented for the following three years. For the period in between 1 July and 1 October 2011 the Act maintains the auction and foreclosure moratorium, but with further restricted scope – it is not eligible for high value real estates (above HUF 30 million market value and covering at least HUF 20 million loan amount) – and from 1 October 2011 the so called „quota system for foreclosures" will be effective. The quota determines how many real estates – as a ratio of the creditors' DPD90+ loan portfolio – are allowed to be offered for foreclosure on a quarterly base by the lenders. The quarterly quotas for 2011, 2012, 2013 and 2014 are set at 2%, 3%, 4% and 5% respectively. From 2015 onwards, the quota system as well as any foreclosure moratorium will cease to exist and the system of foreclosures returns to its normal operation in accordance with the rules of civil law and the legislation for lending.

**3. Interest subsidy scheme**

Mortgage loan debtors with more than 90 days past due instalments can apply for subsidized loan if the debtor concerned is willing to sell his/her home and moves to cheaper accommodation. Interest rate subsidy – depending on the fulfilment of personal eligibility criteria – is provided up to 5 years, and it can be a maximum of 3.5% in the first year, decreased by 0.5 percentage points each year thereafter. The yearly budgetary impact of the program cannot exceed HUF 1.5 billion.

**4. National Asset Management Company (NAMC) and social family-house building program**

The Government proposes to establish a National Asset Management Company. The lender and the debtor can jointly offer the collateral for purchase to NAMC at a selling price fixed by the regulation. NAMC buys the real estate if it is eligible and rent it to the original owner. The National Asset Management Company will also build new homes for households in need in the scope of public work programmes. These homes will be offered for rental to the families in need.

**5. Enabling EUR-denominated mortgage lending**

With strict conditions EUR denominated mortgage lending is available again for retail customers. The borrower has to have an income in EUR and of at least 15 times the minimum wage to apply for an EUR-denominated mortgage-backed loan.

**NOTE 42: POST BALANCE SHEET EVENTS**

**Partial cancellation of EUR 125 million subordinated notes**

On 26 August 2011 The Bank purchased on the secondary market Notes from the EUR 125 million subordinated Notes series maturing 04/03/2015, in the total notional amount of EUR 1.15 million. On 7 September 2011, and on 8 September 2011 the Bank purchased additional EUR 1 and 1 million notional amount from the same Note series. The Bank initiated the cancellation of the Notes on 26 August/2011, on 7 September 2011 and on 8 September 2011. Following the cancellation the total outstanding amount of Notes decrease to EUR 121.85 million.

**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 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 has resumed since 2010.

In the years of 2010 and 2011 the Group focused its activity on stable operation by maintaining robust capital position and significant liquidity reserves as well as implementing prudent risk management and monitoring practices in line with the deteriorating loan portfolio. At the same time, from 2010 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 generally weak loan demand in most of our markets but the Russian consumer lending business. Adjusted for FX movements consolidated loan book remained stable compared to the first half of the previous year.

  In the first half of 2011 among the group members only Russia (+31% compared to the first half of the previous year) and Romania (+5%) posted meaningful loan volume increase. The FX-adjusted Russian consumer loan portfolio expanded by 68% from the first half year of 2010 to the first half year of 2011. Given the strong seasonality of POS-lending, the overall retail growth during the first six months was mainly induced by the steady increase in cash loans and cross-sold credit cards (+182% and +69% respectively). In Romania the EUR-based mortgage product turned to be fairly popular and mortgages advanced by 6% during a year; the SME and corporate lending was active too capturing a 21% and 6% from the first half year of 2010 to the first half year of 2011 growth respectively.

  The single biggest individual market, the Hungarian one, was still suffering from weak loan demand: retail volumes continued eroding. At OTP Core[1] both the mortgage and the consumer loan portfolio declined by 2% compared to the first half of the previous year. Due to a significant repayment the corporate book also dropped by 1% during a year. The SME segment and loans to local governments gained further grounds (+19% and +7% respectively).

  Out of other bigger markets, at DSK Bank in Bulgaria the mortgage sector and the corporate exposure advanced (+3% and +7%), whereas in the Ukraine on a yearly base only the corporate portfolio could increase (+7%).

  At smaller subsidiaries the Slovakian mortgage portfolio had a strong rally (+12%) supported by a highly successful selling campaign in spring 2011. The decline in the volumes of car financing loans continued across the Group (-16% on the group level).

  Except for the EUR denominated mortgage lending in Romania, retail FX lending was stopped during the crises across the Group. As a new development in this respect, with strict conditions EUR denominated mortgage lending is available again for Hungarian retail customers thanks to the Home Protection Action Plan approved in May 2011. The borrower has to have an income in EUR and of at least 15 times the minimum wage to apply for a EUR-denominated mortgage-backed loan. Given these strict conditions, a material number of eligible applications is quite unlikely in the future.

- After the strong deposit growth in 2009 (+11% including the retail bonds), due to the generally weak loan demand the Group has put less emphasis on deposit collection since 2010. Instead of further improving its liquidity indicators, the Group has focused rather on the improvement of deposit margins. Adjusted for FX movements, consolidated deposit volumes grew by 1% in 2010 and by 4% in the first half of 2011.

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

The Group has accumulated a sizable amount of liquidity reserves since the beginning of the crisis: the total liquidity buffer amounted to EUR 5.2 billion equivalent on 12 August 2011. This level of the reserves is more than enough to cover all outstanding FX maturities of the Group. Assuming the upfront

[1] The 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 the 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 the Group.

repayment of all outstanding FX debt of the Group except for the repayment of mortgage bonds (given the low refinancing risk of those liabilities), the net liquidity position of the Group would amount to EUR 3.7 billion equivalent (including the FX mortgage bond redemptions the net liquidity would equal to EUR 3.4 billion equivalent). That level exceeds the requirement stemming from any potential liquidity shock. 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 business lines, 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 wholesale debt redemptions throughout 2009-2011 without issuing new instruments in the market on a significant scale. Repayments represented EUR 1.5 billion equivalent in 2009, EUR 2.3 billion in 2010 and another EUR 1.3 billion by July 2011 respectively (in the form of maturing senior notes, mortgage bonds and syndicated or bilateral loans). On the opposite, new issuances in 2010 amounted to only EUR 420 million equivalent (of which bonds amounted to EUR 170 million, syndicated loans to EUR 250 million) and approximately to EUR 500 million in the first seven months of 2011 (cca. EUR 190 million equivalent RUB senior notes issued by OTP Russia plus a EUR 300 million syndicated loan signed by the Bank in May 2011).

- Another side effect of the crisis was the significant deterioration in the financial position of the clients, which led to worsening loan portfolios and materially increasing risk costs compared to pre-crisis levels. In the first half of 2011, the ratio of loans past due over 90 days ('DPD90+ ratio') on the Group level has increased further to 15.4%. The pace of deterioration, however, moderated. While in 2009 and 2010 the ratio grew by 5.3%-points and 3.9%-points respectively, in the first half of 2011 it increased by 1.7%-points (non-annualised). While the provision coverage of DPD90+ loans (at 73.3% in the first half of 2011) has been kept stable in the range of 73-75% since in 2009 it dropped by 12%-points from the first half of 2010 to the first half of 2011.

  Debtor protection programs launched in previous years in Ukraine, Hungary, Bulgaria and Romania continued in 2011 too. The Group made special efforts to assist distressed borrowers in managing their temporary financial difficulties. Excluding re-defaulted clients from the rescheduled portfolio, the share of rescheduled retail loans has been on a downward trajectory since the second quarter of 2010 (as at 30 June 2011 it stood at 5.0%). The main reason behind is the material slow down in the rescheduling activity in Hungary and in the Ukraine, however from the beginning of 2011 rescheduled volumes started to shrink in Romania and Bulgaria too.

  In Hungary, on top of the prevailing debtor protection programme the Bank temporarily lowered the CHF and JPY mortgage rates by 75 bps and 50 bps respectively for the second half of 2010. Furthermore, on 30 May 2011, the Government and the Hungarian Banking Association announced their „Mortgage Relief Programme", containing several measures to help mortgage loan debtors with payment difficulties, to address social and economic problems stemming from FX-lending and to develop a schedule of foreclosures (for a summary of the Programme please see Note 41 to the consolidated financial statements). Since 12 August 2011, the Bank has been offering to its clients a fixed exchange rate structure very similar to the one offered under the state programme. From the client's perspective the scheme differs from the state programme only in the level of the fixed exchange rate (under the scheme of OTP the rate is to be fixed at the following levels: 200 HUF/CHF, 265 HUF/EUR, 2.20 HUF/JPY) and in the closing date of the application period (31 March 2012 at OTP and 31 December 2011 in case of the State scheme).

  Going forward the pick-up rate of the above structures (namely the debtor protection programme of the Bank, the fixed exchange rate scheme of the Government and of the Bank) can significantly influence the risk cost level of the Hungarian mortgage portfolio.



- The further enhancement of the strong capital position still remained a top priority for the Group in 2011. Due to the profitable operation and the weak lending activity amid the crisis, the capital adequacy ratio of the Group rose to 18.0%, which is significantly higher than the ratios at its regional competitors. As at 30 June 2011, Tier1 ratio (after deducting goodwill and intangible assets) stood at 15.1% and Core Tier1 ratio (further deducting hybrid instruments from the capital base) at 13.6%. The second European stress test results published by the European Banking Authority on 15 July 2011 demonstrated the outstanding capital strength of the Group. After reaching second position in 2010 in the first round, in the second stress test under the adverse scenario the Group's Core Tier1 ratio still would be at 13.6%, the third highest amongst the European banks.

- 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. Since the beginning of 2010, strict cost control has still been maintained; however further material staff reduction and branch closures were implemented only in the Ukraine. Operating costs for the first half year of 2011 grew by only 1% compared to the first half year of 2010, which – considering the inflation rate close to or above 5% in all countries across the group but in Slovakia and Montenegro – reflects stringent cost control. Significant cost increase on one year base was registered only in Russia, where the dynamics is justified on one hand by the significant pick up in business activity and beyond this: higher social security contribution has to be paid after the employees since January 2011. Such growth was mainly offset by OTP Core reaching significant cost savings during the last year (costs decreased by HUF 4.4 billion or by 5%). Personnel expenses of OTP Core dropped rather due to technical reasons, however lower other expenses already reflected the positive impact of renegotiated supplier contracts, lower marketing expenses and local taxes.
- In Hungary, to improve the balance of the general government, new special tax was imposed on financial institutions from 2010. 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. In 2011, the total annual tax to be paid is the same as in 2010. As a result for the first half year of 2011, the gross amount of the taxes for the Group members reached HUF 17.7 billion, while the net amount – including the savings on corporate taxes – was at HUF 14.5 billion.