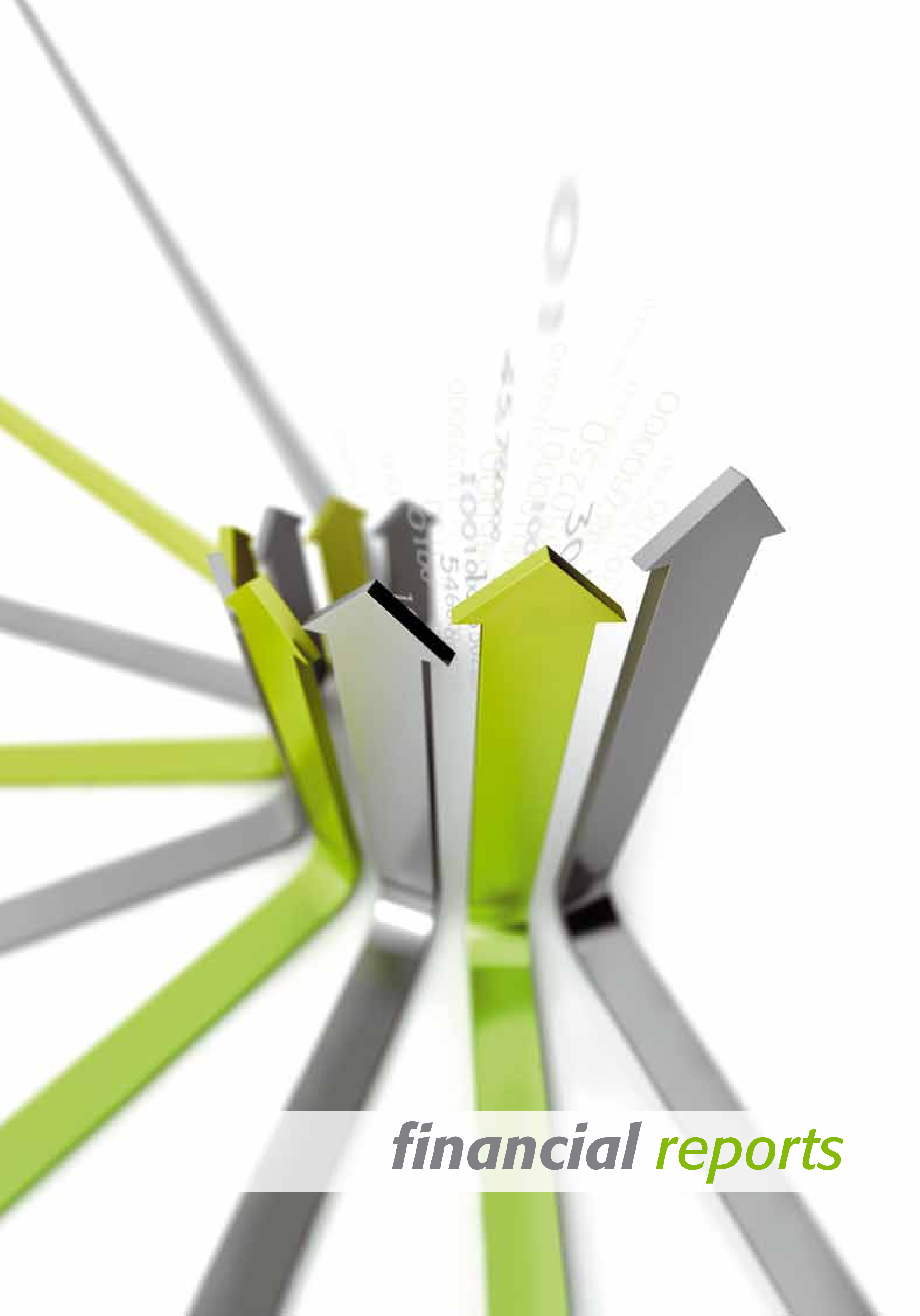

# *financial reports*

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Company Registration Number: 01-09-071057

# INDEPENDENT AUDITORS' REPORT

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

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OTP Bank Plc. (the "Bank") for the year 2011, which financial statements comprise the consolidated statement of financial position as at December 31, 2011 – which shows total assets of 10,200,527 million HUF – , and the related consolidated statement of recognized and comprehensive income – which shows a net profit for the year attributable to Shareholders of 83,147 million HUF –, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 68 to 143 of this Annual Report.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

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

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

*Clause (Opinion)*

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of OTP Bank Plc. as at December 31, 2011, in accordance with International Financial Reporting Standards as adopted by the European Union.

**Other Reporting Obligation on the Consolidated Business Report**

We have examined the accompanying consolidated business report of OTP Bank Plc. for the year 2011.

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

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

In our opinion, the consolidated business report of OTP Bank Plc. for the year 2011. corresponds to the figures included in the consolidated financial statements of OTP Bank Plc. for the year 2011.

Budapest, February 24, 2012

| | |
|---|---|
| Gion Gábor | Nagyváradiné Szépfalvi Zsuzsanna |
| Deloitte Auditing and Consulting Ltd. | registered statutory auditor |
| 1068 Budapest, Dózsa György út 84/C | 005313 |
| 000083 | |

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## ***Statement of financial position***

(consolidated, based on IFRS, as at 31 December 2011, in HUF million)

| | Note | 2011 | 2010 |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 4. | 595,986 | 513,038 |
| Placements with other banks, net of allowance for placement losses | 5. | 422,777 | 511,244 |
| Financial assets at fair value through profit or loss | 6. | 241,282 | 233,667 |
| Securities available-for-sale | 7. | 1,125,855 | 1,008,097 |
| Loans, net of allowance for loan losses | 8. | 7,047,179 | 6,741,059 |
| Associates and other investments | 9. | 10,342 | 11,554 |
| Securities held-to-maturity | 10. | 124,887 | 172,302 |
| Property and equipment | 11. | 241,797 | 217,615 |
| Intangible assets | 11. | 249,869 | 263,213 |
| Other assets | 12. | 140,553 | 109,157 |
| **TOTAL ASSETS** | | **10,200,527** | **9,780,946** |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | 13. | 646,968 | 681,949 |
| Deposits from customers | 14. | 6,398,853 | 5,821,489 |
| Liabilities from issued securities | 15. | 812,863 | 1,035,153 |
| Financial liabilities at fair value through profit or loss | 16. | 230,149 | 257,052 |
| Other liabilities | 17. | 376,937 | 385,744 |
| Subordinated bonds and loans | 18. | 316,447 | 290,630 |
| **TOTAL LIABILITIES** | | **8,782,217** | **8,472,017** |
| Share capital | 19. | 28,000 | 28,000 |
| Retained earnings and reserves | | 1,439,095 | 1,327,638 |
| Treasury shares | 21. | (54,386) | (52,597) |
| Non-controlling interest | 22. | 5,601 | 5,888 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **1,418,310** | **1,308,929** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **10,200,527** | **9,780,946** |

Budapest, 24 February 2012

The accompanying notes to consolidated financial statements on pages 72 to 143 form an integral part of these consolidated financial statements.

## *Statement of recognized income*

(consolidated, based on IFRS, for the year ended 31 December 2011, in HUF million)

| | Note | 2011 | 2010 |
|---|---|---|---|
| Interest Income: | | | |
| Loans | | 758,679 | 741,708 |
| Placements with other banks | | 266,870 | 301,259 |
| Securities available-for-sale | | 73,941 | 73,247 |
| Securities held-to-maturity | | 7,719 | 11,991 |
| Amounts due from banks and balances with the National Banks | | 6,504 | 5,052 |
| Securities held for trading | | 1,725 | 2,091 |
| Total Interest Income | | 1,115,438 | 1,135,348 |
| Interest Expense: | | | |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | | 209,289 | 216,654 |
| Deposits from customers | | 212,439 | 227,781 |
| Liabilities from issued securities | | 50,936 | 61,877 |
| Subordinated bonds and loans | | 11,958 | 12,611 |
| Total Interest Expense | | 484,622 | 518,923 |
| **NET INTEREST INCOME** | | **630,816** | **616,425** |
| Provision for impairment on loan and placement losses | 5., 8., 23. | 249,364 | 273,024 |
| Loss on loans related to early repayment | 23. | 67,309 | – |
| **NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES** | | **314,143** | **343,401** |
| Income from fees and commissions | | 184,089 | 177,252 |
| Expense from fees and commissions | | 37,567 | 36,621 |
| **NET PROFIT FROM FEES AND COMMISSIONS** | **24.** | **146,522** | **140,631** |
| Foreign exchange gains, net | | 50,031 | 31,811 |
| Net gains on securities | | 13,290 | 5,445 |
| Gains on real estate transactions | | 1,002 | 845 |
| Dividend income | | 947 | 951 |
| (Provision for impairment)/Release of provision on securities available-for-sale and securities held-to-maturity | | (945) | 9,924 |
| Other operating income | 25. | 27,252 | 20,890 |
| Other operating expense | 25. | (26,571) | (14,435) |
| **NET OPERATING INCOME** | | **65,006** | **55,431** |
| Personnel expenses | | 169,098 | 160,725 |
| Depreciation and amortization | 11. | 73,432 | 67,324 |
| Other administrative expenses | | 160,145 | 171,231 |
| **Other administrative expenses** | **25.** | **402,675** | **399,280** |
| **PROFIT BEFORE INCOME TAX** | | **122,996** | **140,183** |
| Income tax | 26. | (39,196) | (22,057) |
| **NET PROFIT FOR THE YEAR** | | **83,800** | **118,126** |
| From this, attributable to: | | | |
| Non-controlling interest | | 653 | 196 |
| Equity holders | | 83,147 | 117,930 |
| Consolidated earnings per share (in HUF) | | | |
| Basic | 37. | 312 | 443 |
| Diluted | 37. | 312 | 437 |

## *Statement of comprehensive income*

(consolidated, based on IFRS, for the year ended 31 December 2011, in HUF million)

| | 2011 | 2010 |
|---|---|---|
| **NET PROFIT FOR THE YEAR (EQUITY HOLDERS)** | **83,147** | **117,930** |
| Fair value adjustment of securities available-for-sale | (22,732) | (10,771) |
| Derivative financial instruments designated as Cash-flow hedge | 378 | 335 |
| Net investment hedge in foreign operations | (7,993) | (2,232) |
| Foreign currency translation difference | 78,968 | 30,674 |
| **NET COMPREHENSIVE INCOME** | **131,768** | **135,936** |

The accompanying notes to consolidated financial statements on pages 72 to 143 form an integral part of these consolidated financial statements.

## *Statement of cash flows*

(consolidated, based on IFRS, for the year ended 31 December 2011, in HUF million)

| OPERATING ACTIVITIES | Note | 2011 | 2010 |
|---|---|---|---|
| **Profit before income tax** | | **122,996** | **140,183** |
| Goodwill impairment | 11. | 23,979 | 18,519 |
| Depreciation and amortization | 11. | 49,453 | 48,805 |
| Provision/(Release of provision) for impairment on securities | 7.,10. | 945 | (9,754) |
| Provision for impairment on loan and placement losses | 5.,8. | 316,673 | 273,024 |
| Provision for impairment on permanent diminution in value of investments | 9. | 3,304 | 425 |
| Provision for impairment on other assets | 12. | 3,221 | 3,808 |
| Release of provision on off-balance sheet commitments and contingent liabilities | 17. | (1,863) | (3,977) |
| Share-based payment | 2.,29. | 6,188 | (11,821) |
| Unrealized gains on fair value adjustment of securities held for trading | | 1,655 | 3,428 |
| Unrealized (losses)/gains on fair value adjustment of derivative financial instruments | | (105,272) | 106,972 |
| **Net changes in assets and liabilities in operating activities** | | | |
| Changes in financial assets at fair value through profit or loss | | 19,018 | 22,243 |
| Net increase in loans, net of allowance for loan losses | | (593,565) | (474,804) |
| Increase in other assets before provisions for impairment | | (33,401) | (16,572) |
| Net increase in deposits from customers | | 577,364 | 132,602 |
| Increase/(decrease) in other liabilities | | 121,493 | (45,553) |
| Net (increase)/decrease in compulsory reserves at the National Banks | | (22,816) | 4,114 |
| Dividend income | | (947) | (951) |
| Income tax paid | | (37,368) | (21,748) |
| **Net Cash Provided by Operating Activities** | | **451,057** | **168,943** |
| **INVESTING ACTIVITIES** | | | |
| Net decrease/(increase) in placement with other banks before allowance for placements losses | | 89,063 | (68,976) |
| Net (increase)/decrease in securities available-for-sale | | (147,517) | 340,238 |
| Net (increase)/decrease in investments in subsidiaries, before provision for impairment | | (2,092) | 6,855 |
| Dividend income | | 947 | 951 |
| Net decrease in securities held-to-maturity | | 46,783 | 21,106 |
| Additions to property, equipment and intangible assets | | (110,417) | (92,633) |
| Disposals to property, equipment and intangible assets | | 26,346 | 21,362 |
| Net (increase)/decrease in advances for investments included in other assets | | (1,464) | 2,027 |
| **Net Cash (Used in)/Provided by Investing Activities** | | **(98,351)** | **230,930** |
| **FINANCING ACTIVITIES** | | | |
| Net decrease in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | | (34,980) | (120,800) |
| Cash used for redemption of issued securities | | (335,556) | (302,446) |
| Increase in subordinated bonds and loans | | 25,817 | 9,796 |
| Decrease in non-controlling interest | | (287) | (264) |
| Foreign currency translation | | 78,969 | 30,674 |
| Payments to ICES holders | | (4,518) | (5,468) |
| Net change in Treasury shares | | (1,815) | 141 |
| Dividend paid | | (20,204) | (2) |
| **Net Cash Used in Financing Activities** | | **(292,574)** | **(388,369)** |
| **Net increase in cash and cash equivalents** | | **60,132** | **11,504** |
| **Cash and cash equivalents at the beginning of the period** | | **255,045** | **243,541** |
| **Cash and cash equivalents at the end of the period** | | **315,177** | **255,045** |
| **Analysis of cash and cash equivalents** | | | |
| Cash, amounts due from banks and balances with the National Banks | | 513,038 | 505,649 |
| Compulsory reserve established by the National Banks | | (257,993) | (262,108) |
| **Cash and cash equivalents at the beginning of the period** | | **255,045** | **243,541** |
| Cash, amounts due from banks and balances with the National Banks | 4. | 595,986 | 513,038 |
| Compulsory reserve established by the National Banks | 4. | (280,809) | (257,993) |
| **Cash and cash equivalents at the end of the period** | | **315,177** | **255,045** |

The accompanying notes to consolidated financial statements on pages 72 to 143 form an integral part of these consolidated financial statements.

## *Statement of changes in equity*

(consolidated, based on IFRS, for the year ended 31 December 2011, in HUF million)

| | Note | Share capital | Capital reserve | Share-based payment reserve | Retained earnings and reserves | Put option reserve | Treasury shares | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2010** | | **28,000** | **52** | **6,830** | **1,258,718** | **(55,468)** | **(52,678)** | **6,152** | **1,191,606** |
| Net profit for the year | | – | – | – | 117,930 | – | – | – | 117,930 |
| Other comprehensive income | | – | – | – | 18,006 | – | – | – | 18,006 |
| Share-based payment | 29. | – | – | (6,802) | (5,019) | – | – | – | (11,821) |
| Sale of Treasury shares | | – | – | – | – | – | 496 | – | 496 |
| Treasury shares | | | | | | | | | |
| – gain on sale | | – | – | – | 60 | – | – | – | 60 |
| – acquisition | | – | – | – | – | – | (415) | – | (415) |
| Payments to ICES holders | 20. | – | – | – | (6,669) | – | – | – | (6,669) |
| Non-controlling interest | | – | – | – | – | – | – | (264) | (264) |
| **Balance as at 31 December 2010** | | **28,000** | **52** | **28** | **1,383,026** | **(55,468)** | **(52,597)** | **5,888** | **1,308,929** |
| Net profit for the year | | – | – | – | 83,147 | – | – | – | 83,147 |
| Other comprehensive income | | – | – | – | 48,621 | – | – | – | 48,621 |
| Share-based payment | 29. | – | – | 6,188 | – | – | – | – | 6,188 |
| Dividend for the year 2010 | | – | – | – | (20,160) | – | – | – | (20,160) |
| Sale of Treasury shares | | – | – | – | – | – | 2,963 | – | 2,963 |
| Treasury shares | | | | | | | | | |
| – loss on sale | | – | – | – | (25) | – | – | – | (25) |
| – acquisition | | – | – | – | – | – | (4,753) | – | (4,753) |
| Payments to ICES holders | 20. | – | – | – | (6,313) | – | – | – | (6,313) |
| Non-controlling interest | | – | – | – | – | – | – | (287) | (287) |
| **Balance as at 31 December 2011** | | **28,000** | **52** | **6,216** | **1,488,296** | **(55,468)** | **(54,387)** | **5,601** | **1,418,310** |

The accompanying notes to consolidated financial statements on pages 72 to 143 form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

## 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 H-1051.

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

These financial statements were approved by the board of directors and authorised for issue on 30 March 2012.

| | 2011 | 2010 |
|---|---|---|
| **The structure of the Share capital by shareholders (%)** | | |
| 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 1,425 branches. The Group has operations in Hungary, Bulgaria, Croatia, Slovakia, Romania, Ukraine, Serbia, Russia and Montenegro.

| | 2011 | 2010 |
|---|---|---|
| **The number of employees at the Group:** | | |
| The number of employees at the Group | 33,826 | 30,367 |
| The average number of employees at the Group | 32,180 | 30,183 |

### 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 2011*

The following amendments to the existing standards issued by the IASB and adopted by the EU are effective for the current period:

– 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),
– Various standards and interpretations (Amendment) 'Improvements to IFRSs (2010)' 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, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
– IFRIC 14 (Amendment) 'IAS 19 – 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 had no significant impact on the Consolidated Financial Statements of the Group.

### *1.2.2. Amendments to IFRSs effective on or after 1 January 2012, which are not yet endorsed by EU, not yet adopted*

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

– IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2015),
– IFRS 10 'Consolidated Financial Statements' (effective for annual periods beginning on or after 1 January 2013),
– IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2013),
– IFRS 12 'Disclosures of Involvement with Other Entities' (effective for annual periods beginning on or after 1 January 2013),
– IFRS 13 'Fair Value Measurement' (effective for annual periods beginning on or after 1 January 2013),
– IAS 27 (revised in 2011) 'Separate Financial Statements' (effective for annual periods beginning on or after 1 January 2013),
– IAS 28 (revised in 2011) 'Investments in Associates and Joint Ventures' (effective for annual periods beginning on or after 1 January 2013),
– IFRS 1 (Amendment) 'First-time Adoption of IFRS' – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
– IFRS 7 (Amendment) 'Financial Instruments: Disclosures' – Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
– IAS 1 (Amendment) 'Presentation of financial statements' – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
– IAS 12 (Amendment) 'Income Taxes' – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
– IAS 19 (Amendment) 'Employee Benefits' – Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
– IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine' (effective for annual periods beginning on or after 1 January 2013).

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

# NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## 2.1. Basis of Presentation

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

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

## 2.2. Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into HUF, that is the functional currency, 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 significant 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 significant 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 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.

Goodwill, which represents the residual cost of the acquisition after obtaining the control over the acquiree in the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements.

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

Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generated units that are expected to benefit from the synergies of the combinations.

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

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

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

## 2.5. Securities held-to-maturity

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

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

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

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

### *2.6.1. Securities held for trading*

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

### *2.6.2. Derivative financial instruments*

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

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

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

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

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

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

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

### 2.7. Securities available-for-sale

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

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

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

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

## 2.10. Associates and other investments

Companies where the Bank has the ability to exercise significant 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 significant 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. Financial liabilities at fair value through profit or loss are either financial liabilities held for trading or they are designated upon initial recognition as at fair value through profit or loss. In the case of financial liabilities measured at amortized cost fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument. In certain cases the Group repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the net profit or loss for the period and included in other operating income.

## 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 shareholder's equity in the treasury shares. Derecognition of Treasury shares is based on the FIFO method.

## 2.15. Interest income and interest expense

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

## 2.16. Fees and Commissions

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

## 2.17. Dividend income

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

## 2.18. Income tax

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

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

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

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

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

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 revaluated.

## 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 business and geographical segments. The Group's reportable segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

## 2.23. Comparative figures

The presentation of certain amounts in the Consolidated Financial Statements for the year ended 31 December 2010 have been restructured to conform with the current year presentation. These restructurings were not material.

## 2.24. Events in accordance with early repayment at fixed exchange rates

The Hungarian Government announced the Country Protection Action Plan on 12 September 2011. The most significant arrangement, which directly affected the Bank, was the opportunity of early repayment at fixed exchange rates.

If certain conditions completed by the borrowers FX based mortgage loans can be repaid in one amount at fixed conversion rate ('early repayment') determined in the Law on Credit Institutions (Swiss Franc 180 HUF/CHF, Euro 250 HUF/EUR, Japanese Yen 2 HUF/JPY). Act CXXI of 2011 ('On the amendment of the acts in connection with the protection of homes') on early repayment entered into force on 29 September 2011. Under the law the banks may not charge any fees or other commissions for early repayment. Furthermore banks shall carry the loss derived from the difference between the book value recorded on market price and the paid amount calculated at fixed exchange rate as an early repayment. If the borrower meets the conditions determined by the law, the lender is not allowed to refuse the early repayment, and shall prepare the settlement of the contract in 60 days.
The final closing date of the opportunity of early repayment is 28 February 2012.

On 10 October 2011 the Bank and OTP Mortgage Bank Ltd. ('OTP Mortgage Bank') have made a guarantee contract about a facility in the amount of HUF 200 billion. Based on this agreement the Bank must compensate the loss of OTP Mortgage Bank on early repayment of FX based mortgage loans. The fee for guarantee was determined in the amount of HUF 5 billion.
On 26 October 2011 the Bank and OTP Flat Lease Ltd. ('OTP Flat Lease') have made a guarantee contract about a facility in the amount of HUF 2 billion. Based on this agreement the Bank must compensate the loss of OTP Flat Lease on early repayment of FX based mortgage loans. The fee for guarantee was determined in the amount of HUF 25 million.

In accordance with the guarantee contract OTP compensates the losses derived from the early repayment of OTP Mortgage Bank and OTP Flat Lease.

Regarding to Act LIX of 2006 the financial institution can reduce the amount of the payable income tax as a tax refund with 30% of the paid FX based mortgage loans. According to paragraph 11 if the tax refund exceeds the income tax determined for the year 2011 (based on paragraph 6), the difference can be claimed at tax determination by the related parties (one or more financial institution or insurance company) ('tax refund beneficiary') of the financial institution at 1 December 2011.

Up to 31 December 2011 – together at the Bank, OTP Mortgage Bank and OTP Flat Lease – 21,146 customers paid back their FX mortgage loans. Therefore provision for impairment on loan losses in the amount of HUF 32,152 million was recognized at the Group. Provision for impairment on loan losses in the amount of HUF 2,962 million was recognized at OTP relating to early repayment of the Bank's own customers.
According to the Bank's accounting policy the balance sheet date considering the events of the early repayment is 30 January 2012. Consequently OTP recognizes as provision for impairment the calculated effect of the early repayment claimed and paid till 30 January 2012. Whole amount of the expected loss relating to the transactions claimed but not yet paid up to 30 January 2012 is impaired by OTP as the customers could have presented the collateral or the collateral certificate relating to the repayment till this date – according to Act CXII of 1996 on Credit Institutions Section 200/B paragraph 2 to take effect on 29 December 2011.
As a consequence of guarantee contract OTP Bank recognized provision on expected loss of OTP Mortgage Bank and OTP Flat Lease.

As at 31 December 2011 during balance sheet compilation period – together at the Bank, OTP Mortgage Bank and OTP Flat Lease – 14,854 customers paid back their FX mortgage loans and presented collateral certificate relating to early repayment on mortgage loan that in connection with provision in the amount of HUF 35,264 million was recognized in the Group. Provision in the amount of HUF 2,164 million was recognized at the Bank relating to early repayment of the Bank's own customers.

| | 2011 |
|---|---|
| Provision for impairment on loan losses relating to early repayment at the Group | 32,152 |
| Provision recognized at the Group relating to early repayment | 35,264 |
| **Provision for impairment on loan losses relating to early repayment at the Group** | **67,416** |

| | 2011 |
|---|---|
| Provision for impairment on loan losses relating to early repayment at OTP Mortgage Bank and OTP Flat Lease | 61,515 |
| Loan losses recognized as provision are deducted at OTP Mortgage Bank as according to contract this loss is not refunded by OTP | (588) |
| Tax refund at OTP Mortgage Bank and OTP Flat Lease – loss is not refunded by OTP | (8,875) |
| **Refundable loss for OTP Mortgage Bank and OTP Flat Lease recognizing at OTP in connection with the guarantee** | **52,052** |
| Fee for guarantee paid by OTP Mortgage Bank and OTP Flat Lease | (5,025) |
| **Refundable loss for OTP Mortgage Bank and OTP Flat Lease recognizing at OTP in connection with the guarantee – Recognizing as increasing of Investments in subsidiaries** | **47,027** |

Based on the arising losses at the Bank, OTP Mortgage Bank and OTP Flat Lease, Merkantil Bank Ltd. ('Merkantil Bank') and Merkantil Car Ltd. ('Merkantil Car') total HUF 20,606 million tax refund was carried out at the Group's level from the bank tax paid and recognized in 2011. The Bank recognized HUF 10,467 million as tax refund in the separate financial statements. The difference will be asserted as tax refund by the other subsidiaries of the Group.

| | 2011 |
|---|---|
| Total expenditure at the Group affected by early repayment | 66,641 |
| During calculation of amount deductible from bank tax, provision for impairment owing to classification is taken into consideration | 2,047 |
| Consolidation effect | 775 |
| **Total expenditure at the Group affected by early repayment considered at calculation of bank tax** | **69,463** |
| Consolidation effect | 232 |
| **30% of total expenditure at the Group affected by early repayment refundable from bank tax paid in 2011** | **20,838** |
| **Claim for bank tax refund at subsidiaries of the Group** | |
| OTP Bank | 10,467 |
| OTP Mortgage Bank | 8,759 |
| OTP Flat Lease | 116 |
| Merkantil Bank | 1,120 |
| Merkantil Car | 144 |
| Bank tax effect of NBH tender | 232 |
| **Total** | **20,838** |

The NBH has invited tenders for selling euro from 3 October 2011 what is announced regularly till 29 February 2012, above all weekly if necessary more frequently. Credit institution is obliged to utilize the same sum of foreign exchange as the amount published in information related to realized early repayment – according to Act on Credit Institutions 200/B – by the credit bank or the corresponding one. Credit institutions are obliged to exchange for HUF the unutilized part of EUR stock at original rate between 1 and 14 March 2012.
The Bank participated in three tenders on account of hedging the loss incurred as a consequence of early repayment at the Group.

| | Tender I. | Tender II. | Tender III. |
|---|---|---|---|
| Trade date of tender | 14/09/2011 | 03/10/2011 | 02/01/2012 |
| Foreign exchange rate | 287.05 | 294.45 | 315.5 |
| EUR stock | 350,000,000 | 200,000,000 | 189,000,000 |

EUR stock was recognized in the Bank's separate financial statements, in connection with that foreign exchange gains were realized in the amount of HUF 9,313 million in the separate financial statements as at 31 December 2011. In the Consolidated Financial Statements it was presented among Provision for impairment on loan and placement losses. This sum is reducing the loss incurred related to early repayment at the level of the Group. The details of NBH tender are presented in Note 39. d) section 5.

## 2.25. The agreement on 15 December 2011 between the Hungarian Government and the Hungarian Banking Association

The agreement subscribed by the Hungarian Government ('Government') and the Hungarian Banking Association ('HBA') on 15 December 2011 was partly acted in 2011, and no further agreement elements were acted until 24 February 2012 therefore it has no effects for the year 2011.

### 2.25.1. Measures on behalf of performing FX mortgage debtors with up to 90 days of delinquency

1. Performing FX mortgage debtors with up to 90 days of delinquency are entitled to opt for the program of fixed exchange rate scheme. During the program in the range HUF/CHF 180–270, HUF/EUR 250–340 and HUF/JPY 2.5–3.3 FX mortgage debtors are obliged to pay off monthly instalments calculated at the lower bound of the range. The difference between the market and the fixed rate on the principal part of the monthly instalments will be accumulated in a special buffer account over the fixed exchange rate period. This amount is to be fully borne by the client in compliance with the effective special account regulations.
2. 50% of the interest repayments above the cap shall be borne by financial institutions and 50% by the Government. Regarding the interests to be paid both by the banks and the Government, the settling of accounts shall take place on a quarterly basis.

### 2.25.2. Measures on behalf of FX mortgage debtors with more than 90 days of delinquency

1. Members of HBA have undertaken to convert the FX mortgage loans, reaching the sum of minimum wage on 30 September 2011, to HUF ones in the case of debtors with more than 90 days of delinquency and they cancel 25% such debts by 15 May 2012, provided that the total market value of real estate serving as collateral did not exceeded HUF 20 million when the FX mortgage loan contract was concluded.
   The conversion is to take place at the average of the mid rates of the respective currencies published by NBH for the period between 15 March and 15 April 2012.
   Credit institutions are entitled to deduct 30% of their cancelled claims from their bank tax due in 2012.
2. In order to help the payment of the reduced debt after the preferential conversion, the Government provides a gradually decreasing interest rate subsidy to eligible clients. Creditors may reschedule the loans of debtors entering the interest rate subsidy scheme so that within 5 years from the start of the scheme debtors shall only pay interest rates.

## 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. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

### 3.1. Impairment on loans and placements

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

### 3.2. Valuation of instruments without direct quotations

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

### 3.3. Provisions

Provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 17)
A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

### 3.4. 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 million)

| | 2011 | 2010 |
|---|---|---|
| **Cash on hand** | | |
| In HUF | 53,713 | 58,130 |
| In foreign currency | 124,737 | 114,659 |
| | **178,450** | **172,789** |
| **Amounts due from banks and balances with the National Banks** | | |
| Within one year: | | |
| In HUF | 138,915 | 100,867 |
| In foreign currency | 277,315 | 238,340 |
| | **416,230** | **339,207** |
| Over one year: | | |
| In HUF | – | – |
| In foreign currency | 796 | 619 |
| | **796** | **619** |
| Accrued interest | 510 | 423 |
| | **417,536** | **340,249** |
| **Total** | **595,986** | **513,038** |
| **Compulsory reserve set by the National Banks** | **280,809** | **257,993** |

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

| | 2011 | 2010 |
|---|---|---|
| Within one year | | |
| In HUF | 16,442 | 19,760 |
| In foreign currency | 403,346 | 488,128 |
| | **419,788** | **507,888** |
| Over one year | | |
| In HUF | – | – |
| In foreign currency | 3,633 | 4,996 |
| | **3,633** | **4,996** |
| Accrued interest | 521 | 341 |
| Provision for impairment on placement losses | (1,165) | (1,981) |
| **Total** | **422,777** | **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:*

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 1,981 | 3,514 |
| Provision for the period | 166 | 222 |
| Release of provision for the period | (1,091) | (1,882) |
| Foreign currency translation difference | 109 | 127 |
| **Closing balance** | **1,165** | **1,981** |

### *Interest conditions of placements with other banks:*

| | 2011 | 2010 |
|---|---|---|
| In HUF | 1.6%–15.2% | 0.8%–10.9% |
| In foreign currency | 0.01%–18.5% | 0.10%–12.6% |

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

| | 2011 | 2010 |
|---|---|---|
| **Securities held for trading** | | |
| Corporate shares | 88,138 | 105,832 |
| Government bonds | 33,068 | 26,550 |
| Treasury bills | 4,146 | 3,774 |
| Other securities | 3,388 | 537 |
| Securities issued by the NBH | 1,715 | 19,984 |
| Other non-interest bearing securities | 7,938 | 2,166 |
| | **138,393** | **158,843** |
| Accrued interest | 937 | 404 |
| **Total** | **139,330** | **159,247** |

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

| | 2011 | 2010 |
|---|---|---|
| Interest rate swaps designated as held for trading | 39,370 | 34,413 |
| CCIRS[20] and mark-to-market CCIRS designated as held for trading | 27,448 | 18,938 |
| Foreign exchange swaps designated as held for trading | 18,596 | 15,442 |
| Other transactions designated as held for trading | 16,538 | 5,627 |
| | 101,952 | 74,420 |
| **Total** | **241,282** | **233,667** |

[20] CCIRS: Cross currency interest rate swaps

### *An analysis of securities held for trading portfolio by currency:*

| | 2011 | 2010 |
|---|---|---|
| Denominated in HUF (%) | 81.8% | 88.5% |
| Denominated in foreign currency (%) | 18.2% | 11.5% |
| **Total** | **100.0%** | **100.0%** |

### *An analysis of government bond portfolio by currency:*

| | 2011 | 2010 |
|---|---|---|
| Denominated in HUF (%) | 58.3% | 41.5% |
| Denominated in foreign currency (%) | 41.7% | 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:*

| | 2011 | 2010 |
|---|---|---|
| Within five years | | |
| With variable interest | 1,042 | 27 |
| With fixed interest | 26,090 | 35,662 |
| | **27,132** | **35,689** |
| Over five years | | |
| With variable interest | 919 | 1,038 |
| With fixed interest | 14,266 | 14,118 |
| | **15,185** | **15,156** |
| Non-interest bearing securities | 96,076 | 107,998 |
| **Total** | **138,393** | **158,843** |

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

| | 2011 | 2010 |
|---|---|---|
| **Securities available-for-sale** | | |
| Bonds issued by NBH | 509,667 | 312,007 |
| Government bonds | 477,917 | 584,065 |
| Treasury bills | 35,388 | 11,463 |
| Other non-interest bearing securities | 34,223 | 35,522 |
| From this: | | |
| Listed securities: | | |
| In HUF | 273 | 263 |
| In foreign currency | 7,225 | 708 |
| | 7,498 | 971 |
| Non-listed securities: | | |
| In HUF | 23,322 | 22,965 |
| In foreign currency | 3,403 | 11,586 |
| | 26,725 | 35,522 |
| Corporate bonds | 33,828 | 32,937 |
| From this: | | |
| Listed securities: | | |
| In HUF | – | – |
| In foreign currency | 26,643 | 30,972 |
| | 26,643 | 30,972 |
| Non-listed securities: | | |
| In HUF | – | – |
| In foreign currency | 7,185 | 1,965 |
| | 7,185 | 1,965 |
| Mortgage bonds | 163 | 151 |
| Other securities | 17,902 | 14,740 |
| | 1,109,088 | 990,885 |
| Accrued interest | 18,697 | 18,901 |
| Provision for impairment on securities available-for-sale | (1,930) | (1,689) |
| **Total** | **1,125,855** | **1,008,097** |

### *An analysis of securities available-for sale by currency:*

| | 2011 | 2010 |
|---|---|---|
| Denominated in HUF (%) | 81.7% | 79.8% |
| Denominated in foreign currency (%) | 18.3% | 20.2% |
| **Total** | **100.0%** | **100.0%** |

### *An analysis of government bonds by currency:*

| | 2011 | 2010 |
|---|---|---|
| Denominated in HUF (%) | 75.8% | 72.5% |
| Denominated in foreign currency (%) | 24.2% | 27.5% |
| **Total** | **100.0%** | **100.0%** |

| | 2011 | 2010 |
|---|---|---|
| Interest rates on securities available-for-sale denominated in HUF (%) | 5.3%–8.0% | 5.4%–8.9% |
| Interest rates on securities available-for-sale denominated in foreign currency (%) | 0.4%–20.0% | 0.5%–20.5% |

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

| | 2011 | 2010 |
|---|---|---|
| Within five years | | |
| With variable interest | 1,890 | 3,549 |
| With fixed interest | 909,946 | 790,928 |
| | 911,836 | 794,477 |
| Over five years | | |
| With variable interest | 1,897 | 2,064 |
| With fixed interest | 161,132 | 158,822 |
| | 163,029 | 160,886 |
| Non-interest bearing securities | 34,223 | 35,522 |
| **Total** | **1,109,088** | **990,885** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 1,689 | 6,988 |
| Provision for the period | 332 | 575 |
| Release of provision | (19) | (1,247) |
| Use of provision | (291) | (4,723) |
| Foreign currency translation difference | 219 | 96 |
| **Closing balance** | **1,930** | **1,689** |

Certain securities are hedged against interest rate risk. See Note 39.

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

| | 2011 | 2010 |
|---|---|---|
| Short-term loans and trade bills (within one year) | 2,394,200 | 1,922,771 |
| Long-term loans and trade bills (over one year) | 5,653,270 | 5,522,355 |
| | **8,047,470** | **7,445,126** |
| Accrued interest | 61,161 | 57,205 |
| Provision for impairment on loan losses | (1,061,452) | (761,272) |
| **Total** | **7,047,179** | **6,741,059** |

### *An analysis of the loan portfolio by currency:*

| | 2011 | 2010 |
|---|---|---|
| In HUF | 24% | 25% |
| In foreign currency | 76% | 75% |
| **Total** | **100%** | **100%** |

### *Interest rates of the loan portfolio are as follows:*

| | 2011 | 2010 |
|---|---|---|
| Short-term loans denominated in HUF | 5.0%–38.1% | 4.5%–36.1% |
| Long-term loans denominated in HUF | 3%–38.1% | 1.8%–36.1% |
| Short-term loans denominated in foreign currency | 1%–66% | 0.9%–83.2% |
| Long-term loans denominated in foreign currency | 0.4%–57.8% | 1%–67% |
| Gross loan portfolio on which interest to customers is not being accrued | 15.2% | 11.7% |

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| Retail loans | 2,677,482 | 33% | 2,368,554 | 32% |
| Corporate loans | 2,547,123 | 32% | 2,598,277 | 35% |
| Housing loans | 2,471,184 | 31% | 2,118,321 | 28% |
| Municipality loans | 351,681 | 4% | 359,974 | 5% |
| **Total** | **8,047,470** | **100%** | **7,445,126** | **100%** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 761,272 | 494,378 |
| Provision for the period | 596,734 | 619,227 |
| Release of provision | (357,824) | (370,230) |
| Use of provision | 2,793 | (2,962) |
| Foreign currency translation difference | 58,477 | 20,859 |
| **Closing balance** | **1,061,452** | **761,272** |

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

| | 2011 | 2010 |
|---|---|---|
| Release of provision for impairment on placement losses (see Note 5) | (596) | (1,418) |
| Provision for impairment on loan losses | 317,269 | 274,442 |
| **Total** | **316,673** | **273,024** |

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

| | 2011 | 2010 |
|---|---|---|
| Investments | | |
| Unconsolidated subsidiaries | 8,278 | 9,222 |
| Associated companies (non-listed) | 383 | 384 |
| Other investments (non-listed) | 3,335 | 3,268 |
| | 11,996 | 12,874 |
| Provision for impairment on investments | (1,654) | (1,320) |
| **Total** | **10,342** | **11,554** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 1,320 | 893 |
| Provision for the period | 3,304 | 425 |
| Use of provision | (2,969) | – |
| Foreign currency translation difference | (1) | 2 |
| Closing balance | 1,654 | 1,320 |

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

| | 2011 | 2010 |
|---|---|---|
| Government bonds | 117,242 | 148,278 |
| Mortgage bonds | 2,300 | 2,071 |
| Foreign bonds | 1,754 | 2,914 |
| Hungarian government discounted Treasury bills | 1,611 | 15,979 |
| | **122,907** | **169,242** |
| Accrued interest | 2,869 | 3,214 |
| Provision for impairment on securities held-to-maturity | (889) | (154) |
| **Total** | **124,887** | **172,302** |

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

| | 2011 | 2010 |
|---|---|---|
| Within five years | | |
| With variable interest | 46,900 | 40,605 |
| With fixed interest | 66,212 | 104,056 |
| | 113,112 | 144,661 |
| Over five years | | |
| With variable interest | 372 | 3,704 |
| With fixed interest | 9,423 | 20,877 |
| | 9,795 | 24,581 |
| **Total** | **122,907** | **169,242** |

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

| | 2011 | 2010 |
|---|---|---|
| Denominated in HUF (%) | 46.7% | 53% |
| Denominated in foreign currency (%) | 53.3% | 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.

| | 2011 | 2010 |
|---|---|---|
| Interest rates of securities held-to-maturity with fixed interest | 1.6%–30% | 2%–30% |
| Interest rates of securities held-to-maturity with variable interest | 0.2%–5.9% | 0.2%–8.9% |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 154 | 4,523 |
| Provision for the period | 689 | 87 |
| Release of provision | (57) | (2,044) |
| Use of provision | – | (2,598) |
| Foreign currency translation difference | 103 | 186 |
| **Closing balance** | **889** | **154** |

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

### For the year ended 31 December 2011

| | Intangible assets and goodwill | Property | Office equipments and vehicles | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January | 373,120 | 172,003 | 172,422 | 11,798 | 729,343 |
| Additions | 33,528 | 17,218 | 22,087 | 24,934 | 97,767 |
| Foreign currency translation differences | 19,225 | 10,458 | 9,141 | 695 | 39,519 |
| Disposals | (44,239) | (9,133) | (16,246) | (21,084) | (90,702) |
| Change in consolidation scope | 24 | 9,108 | 56 | – | 9,188 |
| **Balance as at 31 December** | **381,658** | **199,654** | **187,460** | **16,343** | **785,115** |
| **Depreciation and Amortization** | | | | | |
| Balance as at 1 January | 109,907 | 29,809 | 108,799 | – | 248,515 |
| Charge for the year (except for Goodwill impairment) | 25,000 | 5,931 | 18,522 | – | 49,453 |
| Goodwill impairment | 23,979 | – | – | – | 23,979 |
| Foreign currency translation differences | 3,483 | 2,503 | 5,534 | – | 11,520 |
| Disposals | (30,580) | (1,363) | (11,329) | – | (43,272) |
| Change in consolidation scope | – | 3,222 | 32 | – | 3,254 |
| **Balance as at 31 December** | **131,789** | **40,102** | **121,558** | **–** | **293,449** |
| **Net book value** | | | | | |
| Balance as at 1 January | 263,213 | 142,194 | 63,623 | 11,798 | 480,828 |
| **Balance as at 31 December** | **249,869** | **159,552** | **65,902** | **16,343** | **491,666** |

### An analysis of the changes in the goodwill for the year ended 31 December 2011 is as follows:

| **Cost** | **Goodwill** |
|---|---|
| Balance as at 1 January | 209,320 |
| Additions | - |
| Foreign currency translation difference | 13,555 |
| Current year impairment | (23,979) |
| **Balance as at 31 December** | **198,896** |
| **Net book value** | |
| Balance as at 1 January | 209,320 |
| **Balance as at 31 December** | **198,896** |

### Book value of the goodwill allocated to the appropriate cash generation units:

| **List of units** | **HUF mn** |
|---|---|
| OAO OTP Bank | 70,205 |
| OTP Bank JSC | 69,725 |
| DSK Bank EAD | 28,541 |
| OTP banka Hrvatska d.d. | 18,062 |
| OTP Bank Romania S.A. | 6,182 |
| Other* | 6,181 |
| **Total** | **198,896** |

*Other category includes: Monicomp Ltd., OTP Flat Lease Ltd., Nimo 2002 Ltd., OTP Banka Slovensko a.s., POK DSK-Rodina AD, OTP Leasing d.d.

The Bank prepared the IFRS goodwill impairment tests of the subsidiaries based on two different net present value calculation methods that shows the same result; however they represent different economical logics. On one hand is the discount cash-flow method (DCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future.

The Bank applied a cash-flow model with an explicit period between 2012-2016 where for 2012 the actual, accepted annual financial plans are included and the actual financial strategic plans were used as forecasts for the period between 2013 and 2016.

**Present value calculation with the DCF method**

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor it was considered the base rates of the national banks in the actual macro forecasts as risk free rates and we calculated risk premiums by modifying the country risk premiums that are published on damodaran.com with the CDS of the different countries spread as of 31 December 2011.

The values of the subsidiaries in the DCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

**Present value calculation with the EVA method**

A company creates positive economic profit/value if the profitability of the invested capital is higher than the normal profit – the profit that can be usually generated in the banking sector –, which means that the company's profitability exceeds the expected yield. The economic profit of the subsidiaries was calculated by deducting the cost of invested capital from the net profit for the year. The applied discount factor and the indicators used for calculating the residual value (long term cost of capital and growth rate) are the same that are used in the DCF method.

**Summary of the 2011 year end impairment test**

Based on the valuations of the subsidiaries HUF 21,642 million and HUF 2,337 million consolidated IFRS goodwill impairment was recorded for OTP banka Hrvatska d.d. (Croatian subsidiary) and for Crnogorska komercijalna banka a.d. (Montenegrin subsidiary).

## *For the year ended 31 December 2010*

| | Intangible assets and goodwill | Property | Office equipments and vehicles | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January | 336,682 | 145,904 | 170,276 | 13,344 | 666,206 |
| Additions | 45,567 | 17,896 | 16,376 | 20,920 | 100,759 |
| Foreign currency translation differences | 1,991 | 2,324 | 3,192 | 207 | 7,714 |
| Disposals | (11,130) | (3,912) | (17,666) | (22,673) | (55,381) |
| Change in consolidation scope | 10 | 9,791 | 244 | – | 10,045 |
| **Balance as at 31 December** | **373,120** | **172,003** | **172,422** | **11,798** | **729,343** |
| **Depreciation and Amortization** | | | | | |
| Balance as at 1 January | 69,054 | 24,563 | 96,231 | – | 189,848 |
| Charge for the year (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 komercijalna banka a.d. (Montenegro).

### *Book value of the goodwill allocated to the appropriate cash generation units:*

| List of units | HUF mn |
|---|---|
| OAO OTP Bank | 65,132 |
| OTP Bank JSC | 60,446 |
| DSK Bank EAD | 28,541 |
| OTP banka Hrvatska d.d. | 40,902 |
| OTP Bank Romania S.A. | 5,539 |
| Crnogorska komer ijalna banka a.d. | 2,593 |
| Other* | 6,167 |
| **Total** | **209,320** |

## NOTE 12: OTHER ASSETS (in HUF million)

| | 2011 | 2010 |
|---|---|---|
| Inventories | 42,788 | 32,501 |
| Current income tax receivable | 38,409 | 8,885 |
| Trade receivables | 13,300 | 13,543 |
| Fair value of derivative financial instrument designated as fair value hedge | 13,137 | 8,489 |
| Prepayments and accrued income | 9,609 | 15,152 |
| Other advances | 4,187 | 3,741 |
| Deferred tax receivables | 2,419 | 7,315 |
| Other receivables from Hungarian Government | 2,362 | 5,794 |
| Advances for securities and investments | 2,069 | 605 |
| Receivables from investment services | 1,539 | 415 |
| Receivables due from pension funds and investment funds | 1,310 | 1,776 |
| Receivables from leasing activities | 959 | 1,045 |
| Other | 25,023 | 23,007 |
| | **157,111** | **122,268** |
| Provision for impairment on other assets** | (16,558) | (13,111) |
| **Total** | **140,553** | **109,157** |

*Other category includes: Monicomp Ltd., OTP Flat Lease Ltd., Nimo 2002 Ltd., OTP Banka Slovensko a.s., POK DSK-Rodina a.d.
**Provision for impairment on other assets mainly consists of provision for impairment on trade receivables and on tax receivables and overpayments.

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

| | 2011 | 2010 |
|---|---|---|
| CCIRS and mark–to–market CCIRS designated as fair value hedge | 10,486 | – |
| Interest rate swaps designated as fair value hedge | 2,329 | 8,477 |
| Forward security agreements designated as fair value hedge | 126 | – |
| Foreign exchange swaps designated as fair value hedge | 53 | 3 |
| Foreign exchange forward contracts designated as fair value hedge | 50 | – |
| Other transactions designated as fair value hedge | 93 | 9 |
| **Total** | **13,137** | **8,489** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 13,111 | 9,724 |
| Provision for the period | 3,221 | 3,808 |
| Use of provision | (814) | (509) |
| Foreign currency translation difference | 1,040 | 88 |
| Closing balance | 16,558 | 13,111 |

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

| | 2011 | 2010 |
|---|---|---|
| Within one year | | |
| In HUF | 47,682 | 111,735 |
| In foreign currency | 255,537 | 249,317 |
| | **303,219** | **361,052** |
| Over one year | | |
| In HUF | 124,882 | 116,441 |
| In foreign currency* | 216,271 | 202,852 |
| | **341,153** | **319,293** |
| Accrued interest | 2,596 | 1,604 |
| **Total** | **646,968** | **681,949** |

The Group has used mortgage bonds as collateral in relation to collateralized borrowing (EUR 300 million).

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

| | 2011 | 2010 |
|---|---|---|
| Within one year | | |
| In HUF | 2.5%–7.1% | 1.9%–6.4% |
| In foreign currency | 0.1%–9.9% | 0.2%–15.9% |
| Over one year | | |
| In HUF | 2.5%–7.6% | 0.9%–6.9% |
| In foreign currency | 0.5%–9.5% | 0.1%–9.9% |

*On 19 May 2011 the Bank signed an EUR 300 million 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 tenor, carries a margin of 2.2% above Euribor and the proceeds will be used for general funding purposes.

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

| | 2011 | 2010 |
|---|---|---|
| Within one year | | |
| In HUF | 2,781,780 | 2,683,142 |
| In foreign currency | 3,253,215 | 2,897,942 |
| | **6,034,995** | **5,581,084** |
| Over one year | | |
| In HUF | 214,366 | 114,618 |
| In foreign currency | 115,089 | 96,951 |
| | **329,455** | **211,569** |
| Accrued interest | 34,403 | 28,836 |
| **Total** | **6,398,853** | **5,821,489** |

### *Interest rates on deposits from customers are as follows:*

| | 2011 | 2010 |
|---|---|---|
| Within one year | | |
| In HUF | 0.1%–11% | 0.1%–10.3% |
| In foreign currency | 0.01%–24% | 0.01%–15.9% |
| Over one year | | |
| In HUF | 0.2%–9% | 0.2%–5.3% |
| In foreign currency | 0.01%–19.0% | 0.02%–18.8% |

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| Retail deposits | 4,343,496 | 68% | 4,020,689 | 69% |
| Corporate deposits | 1,799,732 | 28% | 1,564,968 | 27% |
| Municipality deposits | 221,222 | 4% | 206,996 | 4% |
| **Total** | **6,364,450** | **100%** | **5,792,653** | **100%** |

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

| | 2011 | 2010 |
|---|---|---|
| With original maturity | | |
| Within one year | | |
| In HUF | 374,200 | 320,919 |
| In foreign currency | 77,218 | 387,610 |
| | **451,418** | **708,529** |
| Over one year | | |
| In HUF | 169,918 | 201,556 |
| In foreign currency | 168,662 | 97,746 |
| | **338,580** | **299,302** |
| Accrued interest | 22,865 | 27,322 |
| **Total** | **812,863** | **1,035,153** |

### *Interest rates on liabilities from issued securities are as follows:*

| | 2011 | 2010 |
|---|---|---|
| Issued securities denominated in HUF | 0.25%–10.5% | 0.25%–10.5% |
| Issued securities denominated in foreign currency | 1.5%–10.9% | 1.2%–11.5% |

## *Issued securities denominated in HUF as at 31 December 2011 (in HUF million):*

| | Name | Date of issue | Maturity | Nominal value (in HUF mn) | Interest conditions (in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|
| 1. | OTP 2012/I | 07/01/2011–14/01/2011 | 07/01/2012 | 8,436 | 5 | fixed | |
| 2. | OTP 2012/II | 21/01/2011–28/01/2011 | 07/01/2012 | 15,077 | 5 | fixed | |
| 3. | OTP 2012/III | 04/02/2011–11/02/2011 | 04/02/2012 | 9,313 | 5 | fixed | |
| 4. | OTP 2012/IV | 18/02/2011–25/02/2011 | 18/02/2012 | 23,160 | 5 | fixed | |
| 5. | OTP 2012/V | 04/03/2011–11/03/2011 | 03/03/2012 | 14,881 | 5 | fixed | |
| 6. | OTP 2012/VI | 25/03/2011–01/04/2011 | 24/03/2012 | 14,630 | 5 | fixed | |
| 7. | OTP 2012/VII | 08/04/2011–15/04/2011 | 07/04/2012 | 18,312 | 5 | fixed | |
| 8. | OTP 2012/VIII | 22/04/2011–29/04/2011 | 21/04/2012 | 13,983 | 5 | fixed | |
| 9. | OTP 2012/IX | 06/05/2011–13/05/2011 | 05/05/2012 | 15,779 | 5 | fixed | |
| 10. | OTP 2012/X | 20/05/2011–27/05/2011 | 19/05/2012 | 10,478 | 5 | fixed | |
| 11. | OTP 2012/XI | 03/06/2011–10/06/2011 | 02/06/2012 | 8,520 | 5 | fixed | |
| 12. | OTP 2012/XII | 17/06/2011–24/06/2011 | 16/06/2012 | 5,599 | 5 | fixed | |
| 13. | OTP 2012/XIII | 01/07/2011–08/07/2011 | 30/06/2012 | 7,979 | 5 | fixed | |
| 14. | OTP 2012/XIV | 15/07/2011–22/07/2011 | 14/07/2012 | 8,840 | 5 | fixed | |
| 15. | OTP 2012/XV | 29/07/2011–05/08/2011 | 28/07/2012 | 9,835 | 5 | fixed | |
| 16. | OTP 2012/XVI | 12/08/2011–19/08/2011 | 11/08/2012 | 14,169 | 5 | fixed | |
| 17. | OTP 2012/XVII | 26/08/2011–02/09/2011 | 25/08/2012 | 6,594 | 5 | fixed | |
| 18. | OTP 2012/XVIII | 09/09/2011–16/09/2011 | 08/09/2012 | 13,479 | 5 | fixed | |
| 19. | OTP 2012/XIX | 23/09/2011–30/09/2011 | 22/09/2012 | 9,635 | 5 | fixed | |
| 20. | OTP 2012/XX | 07/10/2011–14/10/2011 | 06/10/2012 | 7,552 | 5 | fixed | |
| 21. | OTP 2012/XXI | 21/10/2011–28/10/2011 | 20/10/2012 | 8,214 | 5.5 | fixed | |
| 22. | OTP 2012/XXII | 07/11/2011–11/11/2011 | 06/11/2012 | 18,768 | 5.5 | fixed | |
| 23. | OTP 2012/XXIII | 18/11/2011–25/11/2011 | 17/11/2012 | 14,553 | 5.5 | fixed | |
| 24. | OTP 2012/XXIV | 02/12/2011–09/12/2011 | 01/12/2012 | 9,034 | 5.5 | fixed | |
| 25. | OTP 2012/XXV | 16/12/2011–29/12/2011 | 15/12/2012 | 19,109 | 5.5 | fixed | |
| 26. | TBSZ 2013_I | 26/02/2010–28/12/2010 | 30/12/2013 | 6,179 | 5.5 | fixed | |
| 27. | TBSZ 2014_I | 14/01/2011–05/08/2011 | 15/12/2014 | 1,970 | 5.5 | fixed | |
| 28. | TBSZ 2014_II | 26/08/2011–29/12/2011 | 15/12/2014 | 748 | 5.5 | fixed | |
| 29. | TBSZ 2015_I | 26/02/2010–18/12/2010 | 30/12/2015 | 5,677 | 5.5 | fixed | |
| 30. | TBSZ 2016_I | 14/01/2011–05/08/2011 | 15/12/2016 | 1,227 | 5.5 | fixed | |
| 31. | TBSZ 2016_II | 26/08/2011–29/12/2011 | 15/12/2016 | 659 | 5.5 | fixed | |
| 32. | OTPX 2012C | 25/03/2010 | 30/03/2012 | 629 | indexed | floating | hedged |
| 33. | OTPX 2013C | 16/12/2010 | 19/12/2013 | 450 | indexed | floating | hedged |
| 34. | OTPX 2012A | 11/09/2009–25/09/2009 | 11/09/2012 | 1,666 | indexed | floating | hedged |
| 35. | OTPX 2013A | 28/06/2010 | 08/07/2013 | 480 | indexed | floating | hedged |
| 36. | OTPX 2013B | 26/11/2010 | 06/11/2013 | 840 | indexed | floating | hedged |
| 37. | OTPX 2014A | 25/06/2009 | 30/06/2014 | 3,041 | indexed | floating | hedged |
| 38. | OTPX 2014B | 05/10/2009 | 13/10/2014 | 3,905 | indexed | floating | hedged |
| 39. | OTPX 2014C | 14/12/2009 | 19/12/2014 | 3,975 | indexed | floating | hedged |
| 40. | OTPX 2014D | 01/04/2011 | 03/04/2014 | 595 | indexed | floating | hedged |
| 41. | OTPX 2014E | 17/06/2011 | 20/06/2014 | 1,350 | indexed | floating | hedged |
| 42. | OTPX 2014F | 20/10/2011 | 21/10/2014 | 518 | indexed | floating | hedged |
| 43. | OTPX 2014G | 21/12/2011 | 30/12/2014 | 320 | indexed | floating | hedged |
| 44. | OTPX 2015A | 25/03/2010 | 30/03/2015 | 5,364 | indexed | floating | hedged |
| 45. | OTPX 2015B | 28/06/2010 | 09/07/2015 | 4,740 | indexed | floating | hedged |
| 46. | OTPX 2016A | 11/11/2010 | 03/11/2016 | 4,380 | indexed | floating | hedged |
| 47. | OTPX 2016B | 16/12/2010 | 19/12/2016 | 3,365 | indexed | floating | hedged |
| 48. | OTPX 2017A | 01/04/2011 | 31/03/2017 | 5,255 | indexed | floating | hedged |
| 49. | OTPX 2017B | 17/06/2011 | 20/06/2017 | 5,100 | indexed | floating | hedged |
| 50. | OTPX 2017C | 19/09/2011 | 25/09/2017 | 4,400 | indexed | floating | hedged |
| 51. | OTPX 2017D | 21/10/2011 | 19/10/2017 | 650 | indexed | floating | hedged |
| 52. | OTPX 2017E | 21/12/2011 | 28/12/2017 | 4,000 | indexed | floating | hedged |
| 53. | OTPX 2019A | 25/06/2009 | 01/07/2019 | 319 | indexed | floating | hedged |
| 54. | OTPX 2019B | 05/10/2009–05/02/2010 | 14/10/2019 | 461 | indexed | floating | hedged |
| 55. | OTPX 2019C | 14/12/2009 | 20/12/2019 | 394 | indexed | floating | hedged |
| 56. | OTPX 2020A | 25/03/2010 | 30/03/2020 | 415 | indexed | floating | hedged |
| 57. | OTPX 2020B | 28/06/2010 | 09/07/2020 | 450 | indexed | floating | hedged |
| 58. | OTPX 2020C | 11/11/2010 | 05/11/2020 | 275 | indexed | floating | hedged |
| 59. | OTPX 2020D | 16/12/2010 | 18/12/2020 | 245 | indexed | floating | hedged |
| 60. | OTPX 2021A | 01/04/2011 | 01/04/2021 | 350 | indexed | floating | hedged |
| 61. | OTPX 2021B | 17/06/2011 | 17/06/2021 | 390 | indexed | floating | hedged |
| 62. | OTPX 2021C | 19/09/2011 | 21/06/2021 | 320 | indexed | floating | hedged |
| 63. | OTPX 2021D | 21/12/2011 | 27/12/2021 | 425 | indexed | floating | hedged |
| 64. | OTPRA_2013_B | 26/11/2010 | 03/12/2013 | 3,497 | indexed | floating | hedged |

| | Name | Date of issue | Maturity | Nominal value (in HUF mn) | Interest conditions (in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|
| 65. | OTPRA_2014_A | 25/03/2011 | 24/03/2014 | 956 | indexed | floating | hedged |
| 66. | OTPRF_2020_A | 12/07/2010 | 20/07/2020 | 469 | indexed | floating | hedged |
| 67. | OTPRF_2020_B | 12/07/2010 | 20/07/2020 | 734 | indexed | floating | hedged |
| 68. | OTPRF_2020_C | 11/11/2010 | 05/11/2020 | 459 | indexed | floating | hedged |
| 69. | OTPRF_2021_A | 05/07/2011 | 13/07/2021 | 63 | indexed | floating | hedged |
| 70. | OTPRF_2021_B | 20/10/2011 | 25/10/2021 | 68 | indexed | floating | hedged |
| 71. | OTPRF_2021_C | 21/12/2011 | 30/12/2021 | 13 | indexed | floating | hedged |
| 72. | OTPRF_2021_D | 21/12/2011 | 30/12/2021 | 9 | indexed | floating | hedged |
| 73. | OTPRF_2021_E | 21/12/2011 | 30/12/2021 | 1 | indexed | floating | hedged |
| 74. | 3Y_EUR_HUF | 25/06/2010 | 25/06/2013 | 2,143 | indexed | floating | hedged |
| 75. | DNT_HUF_2012_A | 14/10/2011 | 13/04/2012 | 5,385 | indexed | floating | |
| 76. | 2014_RA_Bx | 16/09/2011–23/09/2011 | 15/09/2014 | 1,297 | indexed | floating | hedged |
| 77. | OTP_OVK_2013_I | 26/08/2011–28/12/2011 | 26/08/2013 | 1,294 | 6.75 | floating | |
| 78. | OTP_OJK_2016_I | 26/08/2011–21/12/2011 | 26/08/2016 | 287 | 5.75 | fixed | |
| 79. | OJB2012_I | 17/03/2004 | 21/03/2012 | 13,870 | 9.83 | fixed | |
| 80. | OJB2012_II | 14/04/2004 | 16/05/2012 | 31,375 | 10 | fixed | |
| 81. | OJB2012_III | 19/11/2004 | 15/08/2012 | 14,353 | 10.5 | fixed | |
| 82. | OJB2013_II | 20/12/2002 | 31/08/2013 | 13,433 | 8.25 | fixed | |
| 83. | OJB2014_I | 14/11/2003 | 12/02/2014 | 13,500 | 8 | fixed | |
| 84. | OJB2014_J | 17/09/2004 | 17/09/2014 | 355 | 8.68 | fixed | |
| 85. | OJB2015_I | 10/06/2005 | 10/06/2015 | 3,231 | 7.7 | fixed | |
| 86. | OJB2015_J | 28/01/2005 | 28/01/2015 | 199 | 8.69 | fixed | |
| 87. | OJB2016_I | 03/02/2006 | 03/02/2016 | 1,266 | 7.5 | fixed | |
| 88. | OJB2016_II | 31/08/2006 | 31/08/2016 | 4,684 | 10 | fixed | |
| 89. | OJB2016_J | 18/04/2006 | 28/09/2016 | 278 | 7.59 | fixed | |
| 90. | OJB2019_I | 17/03/2004 | 18/03/2019 | 31,517 | 9.48 | fixed | |
| 91. | OJB2019_II | 25/05/2011 | 18/03/2019 | 1,059 | 9.48 | fixed | |
| 92. | OJB2020_I | 19/11/2004 | 12/11/2020 | 5,503 | 9 | fixed | |
| 93. | OJB2020_II | 25/05/2011 | 12/11/2020 | 1,487 | 9 | fixed | |
| 94. | Other* | | | 25,481 | | | |
| | **Subtotal issued securities in HUF** | | | **559,722** | | | |
| | **Unamortized premium** | | | **(5,254)** | | | |
| | **Fair value adjustment** | | | **(10,350)** | | | |
| | **Total issued securities in HUF** | | | **544,118** | | | |

## *Issued securities denominated in foreign currency as at 31 December 2011:*

| | Name | Date of issue | Maturity | Type of FX | Nominal value (FX mn) | (HUF mn) | Interest conditions (in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|---|---|
| 1. | OTP_EUR_2012_I | 05/08/2011 | 04/08/2012 | EUR | 3.15 | 981 | 2.75 | fixed | |
| 2. | OTP_EUR_2012_II | 12/08/2011 | 11/08/2012 | EUR | 4.69 | 1,458 | 2.75 | fixed | |
| 3. | OTP_EUR_2012_III | 26/08/2011 | 25/08/2012 | EUR | 7.77 | 2,417 | 2.75 | fixed | |
| 4. | OTP_EUR_2012_IV | 09/09/2011 | 08/09/2012 | EUR | 12.2 | 3,797 | 2.75 | fixed | |
| 5. | OTP_EUR_2012_V | 23/09/2011 | 22/09/2012 | EUR | 3.93 | 1,221 | 2.75 | fixed | |
| 6. | OTP_EUR_2012_VI | 07/10/2011 | 06/10/2012 | EUR | 8.32 | 2,588 | 2.75 | fixed | |
| 7. | OTP_EUR_2012_VII | 21/10/2011 | 20/10/2012 | EUR | 5.99 | 1,864 | 2.75 | fixed | |
| 8. | OTP_EUR_2012_VIII | 07/11/2011 | 06/11/2012 | EUR | 4.01 | 1,247 | 2.75 | fixed | |
| 9. | OTP_EUR_2012_IX | 18/11/2011 | 17/11/2012 | EUR | 8.49 | 2,641 | 2.75 | fixed | |
| 10. | OTP_EUR_2012_X | 25/11/2011 | 24/11/2012 | EUR | 4.29 | 1,336 | 2.75 | fixed | |
| 11. | OTP_EUR_2012_XI | 02/12/2011 | 01/12/2012 | EUR | 4.06 | 1,264 | 3 | fixed | |
| 12. | OTP_EUR_2012_XII | 16/12/2011 | 15/12/2012 | EUR | 3.04 | 947 | 3 | fixed | |
| 13. | OTP_EUR_2012_XIII | 29/12/2011 | 28/12/2012 | EUR | 1.01 | 314 | 3.25 | fixed | |
| 14. | OTP_EUR_2013_I | 05/08/2011 | 05/08/2013 | EUR | 0.45 | 140 | 3 | fixed | |
| 15. | OTP_EUR_2013_II | 12/08/2011 | 12/08/2013 | EUR | 0.45 | 140 | 3 | fixed | |
| 16. | OTP_EUR_2013_III | 26/08/2011 | 26/08/2013 | EUR | 0.93 | 291 | 3 | fixed | |
| 17. | OTP_EUR_2013_IV | 09/09/2011 | 09/09/2013 | EUR | 0.87 | 270 | 3 | fixed | |
| 18. | OTP_EUR_2013_V | 23/09/2011 | 23/09/2013 | EUR | 0.5 | 155 | 3 | fixed | |
| 19. | OTP_EUR_2013_VI | 07/10/2011 | 07/10/2013 | EUR | 0.55 | 172 | 3 | fixed | |
| 20. | OTP_EUR_2013_VII | 21/10/2011 | 21/10/2013 | EUR | 0.63 | 194 | 3 | fixed | |
| 21. | OTP_EUR_2013_VIII | 07/11/2011 | 07/11/2013 | EUR | 0.27 | 84 | 3 | fixed | |
| 22. | OTP_EUR_2013_IX | 18/11/2011 | 18/11/2013 | EUR | 0.43 | 135 | 3 | fixed | |
| 23. | OTP_EUR_2013_X | 25/11/2011 | 25/11/2013 | EUR | 0.14 | 44 | 3 | fixed | |

*From the total amount HUF 25,245 million is mobil deposits of Merkantil Bank.

| | Name | Date of issue | Maturity | Type of FX | Nominal value (FX mn) | (HUF mn) | Interest conditions (in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|---|---|
| 24. | OTP_EUR_2013_XI | 02/12/2011 | 02/12/2013 | EUR | 0.18 | 57 | 3.5 | fixed | |
| 25. | OTP_EUR_2013_XII | 16/12/2011 | 16/12/2013 | EUR | 0.11 | 33 | 3.5 | fixed | |
| 26. | OTP_EUR_2013_XIII | 29/12/2011 | 29/12/2013 | EUR | 0.36 | 112 | 4 | fixed | |
| 27. | OTPHB402/12 | 24/02/2010 | 24/02/2012 | CHF | 55.54 | 14,212 | 4 | fixed | hedged |
| 28. | OTPX 2015C | 22/12/2010 | 29/12/2015 | EUR | 0.97 | 302 | indexed | floating | hedged |
| 29. | OTPX 2016C | 22/04/2011 | 22/04/2016 | EUR | 1.56 | 485 | indexed | floating | hedged |
| 30. | OTPX 2016D | 22/12/2011 | 29/12/2016 | EUR | 1.25 | 387 | indexed | floating | hedged |
| 31. | DC_EUR_2012_A | 14/10/2011 | 13/01/2012 | EUR | 14.58 | 4,535 | 1.5 | fixed | |
| 32. | DC_USD_120113_8 | 21/10/2011 | 13/01/2012 | USD | 4.86 | 1,169 | 8 | fixed | |
| 33. | DNT_EUR_2012_A | 14/10/2011 | 13/04/2012 | EUR | 3.42 | 1,065 | indexed | floating | |
| 34. | DNT_USD_2012_A | 14/10/2011 | 13/04/2012 | USD | 1.69 | 408 | indexed | floating | |
| 35. | OMB2013_I | 11/11/2011 | 18/11/2013 | EUR | 3.5 | 1,089 | 6.71 | floating | hedged |
| 36. | OMB2014_I | 15/12/2004 | 15/12/2014 | EUR | 198.05 | 61,620 | 4 | fixed | |
| 37. | OMB2014_II | 03/08/2011 | 10/08/2014 | EUR | 15.5 | 4,822 | 4.47 | floating | hedged |
| 38. | Mortgage bonds OTP | 15/10/2003 | 15/10/2012 | EUR | 16.6 | 5,164 | 4.7 | fixed | |
| 39. | Mortgage bonds OTP VII | 21/12/2005 | 21/12/2015 | EUR | 22.47 | 6,992 | 4.2 | variable | |
| 40. | Mortgage bonds OTP XVII | 08/06/2009 | 08/06/2012 | EUR | 3.03 | 943 | 4.1 | fixed | |
| 41. | Mortgage bonds OTP XVIII | 18/09/2009 | 18/03/2012 | EUR | 0.9 | 280 | 3.5 | fixed | |
| 42. | Mortgage bonds OTP XIX | 02/11/2009 | 02/11/2012 | EUR | 9.76 | 3,038 | 4.1 | fixed | |
| 43. | Mortgage bonds OTP XXI | 20/05/2010 | 20/05/2013 | EUR | 10 | 3,111 | 3.5 | fixed | |
| 44. | Mortgage bonds OTP XXIV | 23/11/2010 | 23/11/2013 | EUR | 7.88 | 2,451 | 3.3 | fixed | |
| 45. | OTPRU 14/03 | 29/03/2011 | 25/03/2014 | RUR | 2,500 | 18,675 | 8.55 | fixed | |
| 46. | OTPRU 14/07 | 02/08/2011 | 29/07/2014 | RUR | 5,000 | 37,350 | 8.21 | fixed | |
| 47. | OTPRU 14/10 | 03/11/2011 | 30/10/2014 | RUR | 3,891.5 | 29,069 | 10.88 | fixed | |
| 48. | Other* | | | | | 22,837 | | | |
| | **Subtotal issued securities in FX** | | | | | **243,906** | | | |
| | **Unamortized premium** | | | | | **(750)** | | | |
| | **Fair value adjustment** | | | | | **2,724** | | | |
| | **Total issued securities in FX** | | | | | **245,880** | | | |
| | **Total accrued interest** | | | | | **22,865** | | | |
| | **Total issued securities** | | | | | **812,863** | | | |

**EMTN Programme**

On 5 October 2011, the "Commission de Surveillance du Secteur Financier" (CSSF) approved the Base Prospectus relating to EUR 5 billion Euro Medium Term Note Programme of OTP.

**Term Note Program in the value of HUF 500 billion**

During 2011, Hungarian Financial Supervisory Authority approved the six additions of the prospectus of Term Note Program in a total nominal value of HUF 500 billion. On 27 January 2012 the Authority approved the 7th addition of the prospectus of the program. The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Prague, Bucharest and Sofia Stock Exchange.

Certain structured bonds are hedged by interest rate swaps which may transfer to a transferee a fixed rate 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 quoted interest rates of EUR and CHF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and CHF IRS transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR or CHF LIBOR and EURIBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

* Other category includes promissory notes issued by OTP banka Slovensko a.s. in the amount of HUF 4,670 million and by OAO OTP Bank in the amount of HUF 18,167 million.

## 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*

| | 2011 | 2010 |
|---|---|---|
| CCIRS and mark-to-market CCIRS designated as held for trading | 125,014 | 206,877 |
| Foreign exchange swaps designated as held for trading | 50,204 | 4,611 |
| Interest rate swaps designated as held for trading | 40,542 | 40,064 |
| Forward rate agreements designated as held for trading (FRA) | 8,366 | 840 |
| Foreign exchange forward contracts designated as held for trading | 3,585 | 2,177 |
| Option contracts designated as held for trading | 2,401 | 2,482 |
| Other transactions designated as held for trading | 37 | - |
| Other derivative contracts designated as held for trading | - | 1 |
| **Total** | **230,149** | **257,052** |

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

| | 2011 | 2010 |
|---|---|---|
| Fair value of derivative financial instruments designated as fair value hedge | 98,415 | 115,159 |
| Financial liabilities from OTP-MOL share swap transaction* | 82,347 | 105,766 |
| Giro clearing accounts | 31,048 | 12,559 |
| Salaries and social security payable | 28,131 | 26,902 |
| Provision for impairment on off-balance sheet commitments and contingent liabilities | 18,434 | 19,650 |
| Accrued expenses | 17,601 | 17,228 |
| Accounts payable | 14,948 | 11,445 |
| Current income tax payable | 13,626 | 10,714 |
| Liabilities from investment services | 12,065 | 17,531 |
| Deferred tax liabilities | 4,559 | 4,098 |
| Loans from government | 4,152 | 4,302 |
| Advances received from customers | 2,277 | 1,901 |
| Liabilities connected to loans for collection | 1,117 | 1,147 |
| Liabilities connected to leasing activities | 1,013 | 814 |
| Liabilities related to housing loans | 470 | 351 |
| Liabilities from specific repo deals | 321 | 3,461 |
| Dividend payable | 280 | 304 |
| Other | 45,205 | 31,440 |
| | **376,009** | **384,772** |
| Accrued interest | 928 | 972 |
| **Total** | **376,937** | **385,744** |

* On 16 April 2009 OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the lost of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity and a recognition of a corresponding liability. As at 31 December 2011 and 2010 82,347 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.

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

| | 2011 | 2010 |
|---|---|---|
| Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending | 11,443 | 12,855 |
| Provision for litigation | 3,697 | 3,953 |
| Provision for other liabilities | 2,022 | 1,944 |
| Provision for expected pension commitments | 1,272 | 898 |
| **Total** | **18,434** | **19,650** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 19,650 | 23,598 |
| Release for the period | (1,863) | (3,977) |
| Use of provision | (251) | (131) |
| Foreign currency translation differences | 898 | 160 |
| **Closing balance** | **18,434** | **19,650** |

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

| | 2011 | 2010 |
|---|---|---|
| CCIRS and mark-to-market CCIRS designated as fair value hedge | 85,845 | 108,012 |
| Interest rate swaps designated as fair value hedge | 12,563 | 7,143 |
| Foreign exchange swaps designated as fair value hedge | – | 4 |
| Other transactions designated as fair value hedge | 7 | – |
| **Total** | **98,415** | **115,159** |

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

| | 2011 | 2010 |
|---|---|---|
| Within one year: | | |
| In HUF | – | – |
| In foreign currency | 325 | 309 |
| | **325** | **309** |
| Over one year: | | |
| In HUF | 5,000 | 5,000 |
| In foreign currency | 307,617 | 282,137 |
| | **312,617** | **287,137** |
| Accrued interest | 3,505 | 3,184 |
| **Total** | **316,447** | **290,630** |

### Interest rates on subordinated bonds and loans are as follows:

| | 2011 | 2010 |
|---|---|---|
| Denominated in HUF | 3.0% | 2.7% |
| Denominated in foreign currency | 1.99%–8.0% | 1.6%–7.75% |

**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. On 21 October 2011 the Bank purchased EUR 1,85 million from the EUR 125 million subordinated Notes series. After the cancellation of these bonds the outstanding amount of the notes decreased to EUR 120 million.

On 27 January 2012 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 12 million. On 1 February 2012 the Bank purchased additional EUR 2.05 million from the same Note series. After the cancellation of these bonds the outstanding amount of the notes decreased to EUR 105,950,000.

## *Subordinated bonds and loans can be detailed as follows:*

| Type | Nominal value | Date of issuance | Date of maturity | Issue price | Interest conditions | Interest rate as of 31 December 2011 |
|---|---|---|---|---|---|---|
| 31 December 2011 | 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 | 6% |
| Subordinated bond | EUR 120 million | 04/03/2005 | 04/03/2015 | 100% | Three–month EURIBOR + 0.55% quarterly | – |
| Subordinated bond | EUR 475.6 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 program) | EUR 300 million | 19/09/2006 | 19/09/2016 | 100% | Fixed 5.27% annual | 5.27% |
| Subordinated bond (under EMTN* 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 LIBOR + 1.4% | 1.99% |
| Subordinated bond | RUB 26.86 million | 15/06/2001 | 21/06/2015 | 100% | Variable, based on the Russian National Bank's interest rate | 8.00% |
| Subordinated bond | EUR 5.113 million | 23/12/1997 | 15/11/2014 | 100% | Variable, six–month EURIBOR + 1.3% | 2.99% |

*European Medium Term Note Program

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

| | 2011 | 2010 |
|---|---|---|
| Authorized, issued and fully paid: | | |
| Ordinary shares | 28,000 | 28,000 |
| **Total** | **28,000** | **28,000** |

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

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

### *The reserves of the Bank under Hungarian Accounting Standards are as follows:*

| | 2011 | 2010 |
|---|---|---|
| Capital reserve | 52 | 52 |
| General reserve | 134,460 | 122,799 |
| Retained earnings | 760,785 | 692,753 |
| Tied-up reserve | 8,018 | 5,729 |
| **Total** | **903,315** | **821,333** |

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 separate financial statements in accordance with the Hungarian Accounting Standards.
These Financial Statements subject to approval by the Board of Directors in the Annual General Meeting in April 2012. In 2011 the Bank paid dividend of HUF 20,160 million from the profit of the year 2010. In 2012 dividend of HUF 28,000 million are expected to be proposed by the management from the profit of the year 2011, which means 100 HUF and 72 HUF payable dividend by share to the shareholders as at 31 December 2011 and 31 December 2010 respectively.

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

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

| | 2011 | 2010 |
|---|---|---|
| Nominal value (Ordinary shares) | 1,921 | 1,873 |
| Carrying value at acquisition cost | 54,386 | 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: | 2011 | 2010 |
|---|---|---|
| Number of shares as at 1 January | 18,731,231 | 18,786,004 |
| Additions | 1,085,521 | 73,232 |
| Disposals | (598,408) | (128,005) |
| **Closing number of shares** | **19,218,344** | **18,731,231** |

| Change in carrying value: | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 52,597 | 52,678 |
| Additions | 4,753 | 415 |
| Disposals | (2,964) | (496) |
| **Closing balance** | **54,386** | **52,597** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 5,888 | 6,152 |
| Non-controlling interest included in net profit for the period | 653 | 196 |
| Foreign currency translation difference | 1,147 | 74 |
| Changes due to ownership structure | (2,087) | (534) |
| **Closing balance** | **5,601** | **5,888** |

## NOTE 23: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF million)

| | 2011 | 2010 |
|---|---|---|
| **Provision for impairment on loan losses** | | |
| Provision for impairment on loan losses | 596,734 | 619,227 |
| from this: provision for impairment on loan losses related to early repayment | 35,264 | – |
| Release of provision | (357,824) | (370,230) |
| Provision for the period | 78,359 | 25,445 |
| from this: provision on loan losses related to early repayment | 32,045 | – |
| **Total** | **317,269** | **274,442** |

| | 2011 | 2010 |
|---|---|---|
| **Provision for impairment on placement losses** | | |
| Provision for the period | 166 | 222 |
| Release of provision | (1,091) | (1,882) |
| Provision for impairment on placement losses | 329 | 242 |
| **Total** | **(596)** | **(1,418)** |

| | 2011 | 2010 |
|---|---|---|
| **Provision for impairment on loan and placement losses** | 316,673 | 273,024 |
| Loss on loans related to early repayment | 67,309 | – |
| Losses from early repayment recognizing in interest income from loans | 107 | – |
| **Losses related to early repayment** | **67,416** | **–** |

## NOTE 24: NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)

### *Income from fees and commissions*

| | 2011 | 2010 |
|---|---|---|
| Deposit and account maintenance fees and commissions | 72,707 | 67,774 |
| Fees and commissions related to the issued bank cards | 36,613 | 32,570 |
| Fees related to cash withdrawal | 24,200 | 24,655 |
| Fees and commissions related to lending | 16,629 | 15,551 |
| Fees and commissions related to fund management | 11,816 | 16,946 |
| Fees and commissions related to security trading | 5,636 | 5,876 |
| Other | 16,488 | 13,880 |
| **Total** | **184,089** | **177,252** |

### *Expense from fees and commissions*

| | 2011 | 2010 |
|---|---|---|
| Interchange fees | 8,381 | 8,276 |
| Fees and commissions related to issued bank cards | 7,322 | 6,537 |
| Fees and commissions paid on loans | 4,798 | 3,635 |
| Fees and commissions related to deposits | 2,524 | 2,480 |
| Cash withdrawal transaction fees | 2,263 | 2,089 |
| Fees and commissions related to lending | 2,082 | 2,503 |
| Insurance fees | 1,996 | 1,820 |
| Money market transaction fees and commissions | 1,300 | 1,226 |
| Fees and commissions related to security trading | 977 | 874 |
| Postal fees | 835 | 803 |
| Other | 5,089 | 6,378 |
| **Total** | **37,567** | **36,621** |
| **Net profit from fees and commissions** | **146,522** | **140,631** |

## NOTE 25: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF million)

| **Other operating income** | **2011** | **2010** |
|---|---|---|
| Other income from non-financial activities | 27,252 | 20,890 |
| **Total** | **27,252** | **20,890** |

| **Other operating expenses** | **2011** | **2010** |
|---|---|---|
| Provision for impairment on investments* | 3,304 | 425 |
| Provision for impairment on other assets | 3,221 | 3,808 |
| Provision for investment bonds | – | 170 |
| Release of provision for off-balance sheet commitments and contingent liabilities | (1,863) | (3,977) |
| Other operating costs | 5,674 | 7,698 |
| **Other expense from non-financial activities** | **16,235** | **6,311** |
| **Total** | **26,571** | **14,435** |

* See details in Note 9.

| Other administrative expenses | 2011 | 2010 |
|---|---|---|
| Wages | 124,996 | 118,569 |
| Taxes related to personnel expenses | 32,595 | 30,995 |
| Other personnel expenses | 11,507 | 11,161 |
| **Subtotal** | **169,098** | **160,725** |
| **Depreciation and amortization** | **73,432** | **67,324** |

| Other administrative expenses | 2011 | 2010 |
|---|---|---|
| Taxes, other than income tax* | 45,364 | 65,252 |
| Administration expenses, including rental fees | 45,069 | 43,884 |
| Services | 38,805 | 35,709 |
| Professional fees | 18,467 | 15,729 |
| Advertising | 12,440 | 10,657 |
| **Subtotal** | **160,145** | **171,231** |
| **Total** | **402,675** | **399,280** |

## NOTE 26: INCOME TAX (in HUF million)

The Group is presently liable for income tax at rates between 9% and 28% of taxable income. Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria, Serbia and Cyprus, 16% in Romania, 19% in Slovakia, 20% in Croatia and Russia, 23% in Ukraine and 26% in the United Kingdom.

In 2010 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. This law has been repealed therefore the deferred tax is calculated at 19% in 2011, and the opening balances have been recalculated based on the 19% tax rate.

### *The breakdown of the income tax expense is:*

| | 2011 | 2010 |
|---|---|---|
| Current tax expense | 25,216 | 20,599 |
| Deferred tax expense | 13,980 | 1,458 |
| **Total** | **39,196** | **22,057** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as of 1 January | 3,217 | 2,460 |
| Deferred tax expense | (13,980) | (1,458) |
| Deferred tax related to items recognized directly in equity and in Other Comprehensive Income | 8,699 | 2,533 |
| Differences arising on consolidation | 10 | (627) |
| Foreign currency translation difference | (86) | 309 |
| **Closing balance** | **(2,140)** | **3.217** |

*Based on the amendment of the act on the special tax of financial institutions approved on 22 July 2010, a new special financial institution tax was paid by the Group. The total tax amount for the year 2011 and 2010 was HUF 14.6 billion and HUF 36 billion recognized as an expense thus decreased the corporate tax base. Based on the approved regulations, financial institutions are obliged to pay this special tax until the end of 2012.

### A reconciliation of the income tax expense is as follows:

| | 2011 | 2010 |
|---|---|---|
| Profit before income tax | 122,996 | 140,183 |
| Income tax at statutory tax rates | 27,353 | 31,866 |

### Income tax adjustments due to permanent differences are as follows:

| | 2011 | 2010 |
|---|---|---|
| Revaluation of investments denominated in foreign currency to historical cost | 11,443 | 3,656 |
| Differences in carrying value of subsidiaries | 2,765 | 981 |
| Effect of change of income tax rate | 1,927 | (912) |
| Share-based payment | 1,176 | (2,246) |
| Provision for impairment on investments in subsidiaries | – | (6,547) |
| Reversal of statutory general provision | (206) | 114 |
| Difference of accounting of equity instrument (ICES) | (711) | (4,234) |
| OTP-MOL share swap transaction | (871) | – |
| Reclassification of direct charges to reserves (self-revision) | (1,639) | (647) |
| Tax effect of amortization of statutory goodwill | (5,327) | (266) |
| Other | 3,286 | 292 |
| **Income tax expense** | **39,196** | **22,057** |
| **Effective tax rate** | **31.9%** | **15.7%** |

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

| | 2011 | 2010 |
|---|---|---|
| Fair value adjustment of securities held for trading and securities available-for-sale | 8,970 | 317 |
| Provision for impairment on investments | 4,407 | 8,814 |
| Tax loss carry forward | 3,852 | 4,906 |
| Repurchase agreement and security lending | 3,336 | 1,515 |
| Adjustment from effective interest rate method | 2,401 | – |
| Difference in accounting for leases | 483 | 492 |
| Premium and discount amortization on bonds | 472 | 370 |
| Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments | 76 | 117 |
| Difference in depreciation and amortization | 20 | – |
| Fair value adjustment of derivative financial instruments | 18 | – |
| Other | 3,441 | 1,450 |
| **Deferred tax asset** | **27,476** | **17,981** |

| | 2011 | 2010 |
|---|---|---|
| Fair value adjustment of derivative financial instruments | (8,155) | (3,849) |
| Difference in depreciation and amortization | (5,052) | (3,474) |
| Net effect of treasury share transactions | (4,706) | (2,752) |
| Accounting of equity instrument (ICES) | (3,977) | (2,182) |
| Adjustment from effective interest rate method | (2,444) | – |
| Fair value adjustment of securities held for trading and securities available-for-sale | (1,225) | – |
| Temporary differences arising on consolidation | (1,129) | (2,507) |
| Premium and discount amortization on bonds | (243) | – |
| Difference in accounting for leases | (72) | – |
| Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments | (19) | – |
| Other | (2,594) | – |
| **Deferred tax liabilities** | **(29,616)** | **(14,764)** |
| **Net deferred tax (liability)/asset** | **(2,140)** | **3,217** |

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

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

### 27.1. Credit risk

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

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

#### Analysis by loan types and risk classes

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

***As at 31 December 2011***

| Loan type | Performing | To-be monitored | Below average | Doubtful | Bad | Total carrying amount |
|---|---|---|---|---|---|---|
| Retail loans | 3,072,883 | 1,194,682 | 155,854 | 242,301 | 482,946 | 5,148,666 |
| Corporate loans | 1,206,613 | 560,963 | 187,089 | 227,745 | 364,713 | 2,547,123 |
| Placement with other banks | 415,242 | 7,034 | 12 | 262 | 871 | 423,421 |
| Municipal loans | 265,294 | 64,348 | 8,927 | 11,919 | 1,193 | 351,681 |
| **Total gross portfolio** | **4,960,032** | **1,827,027** | **351,882** | **482,227** | **849,723** | **8,470,891** |
| Allowance for loans | (30,127) | (93,985) | (74,005) | (245,661) | (617,674) | (1,061,452) |
| Allowance for placements | (2) | (172) | (2) | (113) | (876) | (1,165) |
| **Total allowance** | **(30,129)** | **(94,157)** | **(74,007)** | **(245,774)** | **(618,550)** | **(1,062,617)** |
| **Total net portfolio** | **4,929,903** | **1,732,870** | **277,875** | **236,453** | **231,173** | **7,408,274** |

| | |
|---|---|
| **Accrued interest** | |
| for loans | 61,161 |
| for placements | 521 |
| **Total accrued interest** | **61,682** |
| Total net loans | 7.047,179 |
| Total net placements | 422,777 |
| **Total net exposures** | **7,469,956** |

### *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 | (22,958) | (42,561) | (48,823) | (137,806) | (509,124) | (761,272) |
| Allowance for placements | - | (97) | (949) | (175) | (760) | (1,981) |
| **Total allowance** | **(22,958)** | **(42,658)** | **(49,772)** | **(137,981)** | **(509,884)** | **(763,253)** |
| **Total net portfolio** | **5,603,219** | **1,043,407** | **201,306** | **159,452** | **187,373** | **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 | 2011 | 2010 |
|---|---|---|
| Performing | 1,039,188 | 1,014,076 |
| To-be monitored | 47,996 | 58,101 |
| Below average | 194,370 | 16,187 |
| Doubtful | 4,774 | 7,595 |
| Bad | 1,513 | 5,581 |
| **Total** | **1,287,841** | **1,101,540** |

The Group's loan portfolio increased by 6.4% in the year 2011. Analysing the contribution of loan types to the loan portfolio, the share of the retail loan type slightly increased while the share of other loan types either slightly decreased. 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 15.7%. Among the qualified loan portfolio, the loans classified to the risk class of 'to-be-monitored' 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 64.9% and 65.1% as at 31 December 2011 and 31 December 2010 respectively.

The off-balance sheet liabilities connected to the lending activity increased by 16.9%.

The qualified loan portfolio increased by 50.6% in the year of 2011.

## Classification into risk classes

Exposures with small amounts (retail 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:*

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **Country** | **Carrying amount of the qualified gross loan portfolio** | **Allowance** | **Carrying amount of the qualified gross loan portfolio** | **Allowance** |
| Hungary | 1,652,321 | 421,616 | 1,092,232 | 286,258 |
| Ukraine | 771,398 | 196,537 | 278,039 | 156,550 |
| Bulgaria | 318,961 | 148,292 | 270,510 | 90,296 |
| Russia | 204,577 | 68,904 | 152,290 | 53,099 |
| Romania | 160,413 | 44,162 | 140,210 | 25,268 |
| Montenegro | 143,986 | 70,640 | 150,375 | 64,080 |
| Serbia | 69,811 | 26,082 | 72,394 | 22,091 |
| Cyprus | 65,331 | 13,931 | 58,955 | 10,765 |
| Slovakia | 59,008 | 17,626 | 58,137 | 16,606 |
| Croatia | 53,119 | 22,004 | 43,110 | 12,704 |
| Seychelles | 5,268 | 806 | 4,701 | 705 |
| The United Kingdom | 2,275 | 1,125 | 828 | 632 |
| Kazakhstan | 2,209 | 150 | 6,268 | 944 |
| The United States | 1,097 | 6 | 988 | 1 |
| Egypt | 640 | 327 | 525 | 58 |
| Netherlands | – | – | 12 | – |
| Macedonia | 116 | 76 | 102 | 50 |
| Ireland | 81 | 72 | 85 | 69 |
| Latvia | 37 | 31 | 847 | 53 |
| Germany | 15 | 4 | 93 | 1 |
| Byelorussia | – | – | 1,006 | 10 |
| Other* | 196 | 97 | 126 | 55 |
| **Total** | **3,510,859** | **1,032,488** | **2,331,833** | **740,295** |

The qualified loan portfolio increased mostly in Ukraine, Hungary and Russia and decreased in Montenegro and Serbia, but there were no significant changes in the other countries.

Their stock of provision increased mostly in Romania, Croatia, Bulgaria, Hungary, Russia, Cyprus and Ukraine.

* Other category in 2011 includes e.g.: Italy, Island, Moldova, United Arab Emirate, Switzerland, Austria, Turkey, South Korea, Israel, Canada, China, Sweden, Libya, Poland, Australia, Bermuda.

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **Country** | **Carrying amount of the non-qualified gross loan portfolio** | **Allowance** | **Carrying amount of the non-qualified gross loan portfolio** | **Allowance** |
| Hungary | 1,930,312 | 2,711 | 2,630,077 | 107 |
| Bulgaria | 979,000 | 12,742 | 881,034 | 10,697 |
| Russia | 589,273 | 4,121 | 390,154 | 2,201 |
| Croatia | 360,747 | 3,817 | 329,441 | 3,341 |
| Romania | 308,304 | 307 | 242,789 | 221 |
| Slovakia | 246,160 | 736 | 239,410 | 606 |
| Montenegro | 149,789 | 5,629 | 112,794 | 5,716 |
| The United Kingdom | 96,790 | 28 | 131,214 | 25 |
| Germany | 61,913 | 1 | 44,087 | – |
| France | 60,355 | – | 47,048 | – |
| Ukraine | 49,382 | – | 427,691 | – |
| Serbia | 43,807 | 32 | 49,088 | 42 |
| Belgium | 16,547 | – | 46,599 | – |
| The United States | 14,536 | 2 | 7,310 | – |
| Netherlands | 13,972 | – | 3,061 | – |
| Cyprus | 9,048 | – | 17,199 | – |
| Switzerland | 8,867 | – | 5,075 | – |
| Norway | 6,617 | – | 1,121 | – |
| Austria | 3,982 | – | 1,138 | – |
| Italy | 3,235 | 1 | 116 | – |
| Poland | 2,813 | – | 2,116 | – |
| Sweden | 1,747 | – | 156 | – |
| Azerbaijan | 602 | – | 627 | – |
| Czech Republic | 540 | – | 771 | – |
| Turkey | 403 | – | 1,151 | – |
| Canada | 273 | – | 51 | – |
| Kazakhstan | 271 | – | 108 | – |
| Ireland | 261 | – | 107 | 1 |
| Denmark | 133 | – | 100 | – |
| Japan | 128 | – | 120 | – |
| Spain | 19 | – | 2,922 | – |
| Malta | – | – | 10,626 | – |
| Byelorussia | – | – | 645 | – |
| Other* | 206 | 2 | 231 | 1 |
| **Total** | **4,960,032** | **30,129** | **5,626,177** | **22,958** |

The non-qualified loan portfolio decreased mostly in Ukraine, Cyprus, Hungary 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 | 2011 | 2010 |
|---|---|---|
| Mortgages | 6,957,343 | 6,797,599 |
| Guarantees and warranties | 297,856 | 290,364 |
| Assignments (revenue or other receivables) | 209,013 | 131,434 |
| Guarantees of state or organizations owned by state | 162,516 | 245,971 |
| Cash deposits | 158,457 | 75,341 |
| Securities | 105,950 | 67,729 |
| Other | 970,760 | 926,118 |
| **Total** | **8,861,895** | **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.

*Other category in 2011 includes e.g.: Greece, Hong-Kong, Australia, Slovenia, Armenia, Vietnam, Macedonia, Portugal, Latvia, Finland, Bosnia and Hercegovina, Algeria, Guadeloupe, Yemen, Israel, Esthonia, China, Egypt.

| Types of collaterals | 2011 | 2010 |
|---|---|---|
| Mortgages | 3,625,631 | 3,698,552 |
| Assignments (revenue or other receivables) | 325,310 | 277,806 |
| Guarantees and warranties | 273,286 | 257,096 |
| Guarantees of state or organizations owned by state | 135,969 | 103,220 |
| Cash deposits | 103,771 | 63,181 |
| Securities | 31,848 | 50,102 |
| Other | 598,993 | 694,994 |
| **Total** | **5,094,808** | **5,144,951** |

The coverage level of the loan portfolio (total collaterals) decreased by 3.6%, as well as the coverage level to the extent of the exposures decreased by 8.1% as at 31 December 2011.

## 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 | 2011 | 2010 |
|---|---|---|
| Retail loans | 2,224,077 | 2,404,099 |
| Corporate loans | 997,115 | 1,276,316 |
| Placement with other banks | 396,298 | 489,713 |
| Municipal loans | 175,452 | 291,891 |
| **Total** | **3,792,942** | **4,462,019** |

| Qualification categories | 2011 | 2010 |
|---|---|---|
| Performing | 3,723,990 | 4,414,665 |
| To-be monitored | 40,569 | 33,851 |
| Below average | 13,538 | 6,114 |
| Doubtful | 3,187 | 1,872 |
| Bad | 11,658 | 5,517 |
| **Total** | **3,792,942** | **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 44.8% as at 31 December 2011 compared to the prior year. The ratio of the corporate, municipal loans and interbank placements compared to the portfolio of loans neither past due nor impaired decreased during the year of 2011 while the ratio of the retail loans increased.

## Renegotiated loans

An analysis of the gross value of the loans that would otherwise be past due or impaired and whose terms have been renegotiated as at 31 December 2011 and 31 December 2010 is as follows:

| Loan type | 2011 | 2010 |
|---|---|---|
| Retail loans | 421,898 | 305,146 |
| Corporate loans | 404,796 | 166,312 |
| Municipal loans | 11,197 | 478 |
| Placement with other banks | - | - |
| **Total** | **837,891** | **471,936** |

The gross amount of renegotiated loans increased considerably by 31 December 2011, which is connected mainly to the municipal and corporate loans. There were no renegotiated loans neither in 2011 nor in 2010 among the Placements with other banks.

## Past due, but not impaired loans

### *The aging of gross loans that are past due but not impaired as at 31 December 2011 and 31 December 2010 is as follows:*

### *As at 31 December 2011*

| Loan type | Up to 90 days | 91-180 days | 181-365 days | Above 365 days | Total |
|---|---|---|---|---|---|
| Retail loans | 289,802 | 15,738 | 13,047 | 29,678 | 348,265 |
| Corporate loans | 71,503 | 8,610 | 1,997 | 7,846 | 89,956 |
| Municipality loans | 82,422 | – | – | – | 82,422 |
| **Total** | **443,727** | **24,348** | **15,044** | **37,524** | **520,643** |

### *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 31 December 2011 and 31 December 2010 is as follows:*

| Fair value of the collaterals (total collaterals) | 2011 | 2010 |
|---|---|---|
| Retail loans | 530,063 | 466,307 |
| Corporate loans | 284,137 | 184,753 |
| Municipality loans | 6,491 | 180 |
| **Total** | **820,691** | **651,240** |

| Fair value of the collaterals (to the extent of the exposures) | 2011 | 2010 |
|---|---|---|
| Retail loans | 256,388 | 268,830 |
| Corporate loans | 51,059 | 69,362 |
| Municipality loans | 807 | 78 |
| **Total** | **308,254** | **338,270** |

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

## Loans individually assessed for provision

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 31 December 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 31 December 2011

| Considered factors | Carrying value | Allowance for impairment | Collateral value | Off-balance sheet commitments | Provision for off-balance sheet commitments |
|---|---|---|---|---|---|
| Delay of payment | 230,955 | 118,157 | 154,959 | 284 | 1 |
| Regularity of payment | 1,711 | 158 | 739 | – | – |
| Renegotiation | 49,024 | 4,607 | 9,563 | 2,183 | 19 |
| Legal proceedings | 84,327 | 56,452 | 36,275 | 81 | 76 |
| Decrease of client classification | 177,735 | 50,137 | 79,574 | 7,533 | 1,294 |
| Loan characteristics | 41,895 | 2,993 | – | – | – |
| Business lines risks | 25,294 | 7,923 | 1,127 | 4,608 | 437 |
| Cross default | 30,644 | 19,277 | 427 | 392 | 120 |
| Other | 20,101 | 2,818 | 1,622 | 6,631 | 793 |
| **Corporate total** | **661,686** | **262,522** | **284,286** | **21,712** | **2,740** |
| Delay of payment | 1,253 | 433 | 3,502 | – | – |
| Renegotiation | 7,324 | 540 | – | 113 | 53 |
| Legal proceedings | 327 | 287 | 40 | – | – |
| Decrease of client classification | 20,216 | 1,911 | – | 260 | 91 |
| Cross default | 552 | 201 | 2 | 109 | 35 |
| Other | 26,383 | 2,496 | 19 | 6,473 | 404 |
| **Municipal total** | **56,055** | **5,868** | **3,563** | **6,955** | **583** |
| **Placements with other banks** | **4,878** | **1,246** | **–** | **–** | **–** |
| **Total** | **722,619** | **269,636** | **287,849** | **28,667** | **3,323** |

## As at 31 December 2010

| 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 |
| Decrease of client classification | 362,691 | 49,461 | 211,377 | 24,417 | 306 |
| Loan characteristics | 68,317 | 3,261 | – | 803 | 16 |
| Business lines risks | 29,762 | 12,140 | 378 | 5,098 | 450 |
| Country risk | 7,673 | 3,836 | – | 2,609 | 1,304 |
| Cross default | 38,863 | 22,267 | 4,267 | 2,103 | 1,302 |
| Other | 17,459 | 5,106 | 5,054 | 11,783 | 1,253 |
| **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 | – | – |
| Decrease of client classification | 6,074 | 287 | 2 | 56 | 1 |
| Cross default | 204 | 29 | – | 76 | 8 |
| Other | 27,232 | 3,330 | 10 | 1,056 | 139 |
| **Municipal total** | **36,150** | **4,092** | **8,993** | **1,215** | **151** |
| **Placements with other banks** | **7,617** | **1,679** | **–** | **–** | **–** |
| **Total** | 851,964 | 230,360 | 426,770 | 54,015 | 5,021 |

By 31 December 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 decrease is mostly based on the decrease of client classification, loan characteristics and the cross default.

**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).

**Business lines risks:**

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

## 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 | |
|---|---|---|
| | 2011 | 2010 |
| Foreign exchange | 1,474 | 934 |
| Interest rate | 524 | 717 |
| Equity instruments | 18 | 30 |
| Diversification | (440) | (297) |
| **Total VaR exposure** | **1,576** | **1,384** |

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

### *27.2.2. Foreign currency sensitivity analysis*

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was EUR (310) million as at 31 December 2011 and EUR (310) million as at 31 December 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 | |
|---|---|---|
| | 2011<br>In HUF billion | 2010<br>In HUF billion |
| 1% | (11.4) | (9.6) |
| 5% | (7.8) | (6.3) |
| 25% | (3.1) | (1.9) |
| 50% | (0.1) | 0.9 |
| 25% | 2.7 | 3.5 |
| 5% | 6.6 | 7.2 |
| 1% | 9.3 | 9.7 |

**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.

The simulations were prepared by assuming two scenarios:

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

The net interest income in a one year period after 31 December 2011 would be decreased by HUF 1,512 million (probable scenario) and HUF 7,132 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 2,597 million (probable scenario) and HUF 12,746 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2010.

This effect is counterbalanced by capital gains (HUF 7,710 million for probable scenario, HUF 10,303 million for alternative scenario) as at 31 December 2011 and (HUF 6,453 million for probable scenario, HUF 9,411 million for alternative scenario) as at 31 December 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 (in HUF million):*

| Description | 2011 Effects to the net interest income (one-year period) | 2011 Effects to capital (Price change of AFS government bonds) | 2010 Effects to the net interest income (one-year period) | 2010 Effects to capital (Price change of AFS government bonds) |
|---|---|---|---|---|
| HUF (0.1%) parallel shift | (476) | 1,008 | (728) | 1,191 |
| EUR (0.1%) parallel shift | (795) | – | (183) | – |
| USD 0.1% parallel shift | (33) | – | (80) | – |
| **Total** | **(1,304)** | **1,008** | **(991)** | **1,191** |

### *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 | 2011 | 2010 |
|---|---|---|
| VaR (99%, one day, HUF million) | 18 | 30 |
| Stress test (HUF million) | (5) | (14) |

### *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 17.9% and 18.3% as at 31 December 2011 and 31 December 2010 respectively. The Regulatory capital was HUF 1,486,717 million and HUF 1,365,686 million, the Total eligible regulatory capital was HUF 666,748 million and HUF 597,159 million as at 31 December 2011 and 31 December 2010 respectively.

## *Calculation on HAS basis*

| | 2011 | 2010 |
|---|---|---|
| Core capital | 1,192,803 | 1,081,229 |
| Supplementary capital | 294,291 | 284,921 |
| Deductions | (377) | (464) |
| due to investments | (377) | (464) |
| **Regulatory capital** | **1,486,717** | **1,365,686** |
| Credit risk capital requirement | 514,696 | 480,852 |
| Market risk capital requirement | 43,934 | 30,807 |
| Operational risk capital requirement | 108,118 | 85,500 |
| **Total requirement regulatory capital** | **666,748** | **597,159** |
| **Surplus capital** | **819,969** | **768,527** |
| Tier1 ratio | 14.3% | 14.5% |
| **Capital adequacy ratio** | **17.9%** | **18.3%** |

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 | 2011 | 2010 |
|---|---|---|---|---|
| OAO OTP Bank | Russia | 11% | 16.7% | 17.0% |
| OTP Bank JSC | Ukraine | 10% | 21.3% | 22.1% |
| DSK Bank EAD | Bulgaria | 12% | 20.6% | 23.7% |
| OTP Bank Romania S.A. | Romania | 10% | 13.4% | 14.0% |
| OTP banka Srbija a.d. | Serbia | 12% | 18.2% | 16.4% |
| OTP banka Hrvatska d.d. | Croatia | 12% | 13.6% | 15.0% |
| OTP Banka Slovensko a. s. | Slovakia | 8% | 13.1% | 11.1% |
| Crnogorska komercijalna banka a.d. | Montenegro | 10% | 14.6% | 13.9% |

For international comparison purposes, the Group calculates the Regulatory capital in accordance with the Basel II directive based on IFRS data, and the consolidated Capital adequacy ratio based on this. The Capital adequacy ratio of the Group was 17.2% as at 31 December 2011 and 17.5% as at 31 December 2010. The Regulatory capital was HUF 1,433,100 million and HUF 1,304,476 million, the Total regulatory capital requirement was HUF 666,748 million and HUF 597,159 million as at 31 December 2011 and 31 December 2010 respectively.

| Calculation on IFRS basis | 2011 | 2010 |
|---|---|---|
| Core capital (Tier1) | 1,106,006 | 1,046,308 |
| Positive components | 1,410,131 | 1,361,964 |
| Issued capital | 28,000 | 28,000 |
| Reserves | 1,273,838 | 1,221,152 |
| Other issued capital components | 108,293 | 112,812 |
| Negative components | (304,125) | (315,656) |
| Treasury shares | (54,386) | (52,597) |
| Goodwill and other intangible assets | (249,739) | (263,059) |
| Supplementary capital (Tier2) | 327,471 | 258,632 |
| Fair value corrections | (35,190) | (12,948) |
| Subordinated bonds and loans | 362,661 | 271,580 |
| Deductions | (377) | (464) |
| **Regulatory capital** | **1,433,100** | **1,304,476** |
| Credit risk capital requirement | 514,696 | 480,852 |
| Market risk capital requirement | 43,934 | 30,807 |
| Operational risk capital requirement | 108,118 | 85,500 |
| **Total requirement regulatory capital** | **666,748** | **597,159** |
| **Surplus capital** | **766,352** | **707,317** |
| Tier1 ratio | 13.3% | 14.0% |
| **Capital adequacy ratio** | **17.2%** | **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 million)

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

### *Contingent liabilities*

| | 2011 | 2010 |
|---|---|---|
| Legal disputes (disputed value) | 11,067,643 | 9,596,769 |
| Commitments to extend credit | 1,000,043 | 819,308 |
| Guarantees arising from banking activities | 287,513 | 282,232 |
| Confirmed letters of credit | 5,483 | 6,458 |
| Other | 139,500 | 110,653 |
| **Total** | **12,500,182** | **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 value of legal disputes has increased considerably because of changes in FX rates.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 3,697 million and HUF 3,953 million as at 31 December 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.

## 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.

## 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.

In connection with the equity-settled share-based payment programs the Bank did not recognize any expense in 2010 because the key performance indicators – that were the vesting conditions of the options – were not fulfilled.

| | | 2011 | | 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 became available for exercise for the options of 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 the Bank's 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* | 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 |

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with concerning EU-directives –, therefore the Board of Directors made a decision to cancel the share-based payment in the referred countries.

### *Based on cancellation, effective performance assessment and exercise during the year effective pieces (presently) are the following as at 31 December 2011:*

| Year | |
|---|---|
| 2011 | 319,400** |
| 2012 | 738,986 |
| 2013 | 432,144 |
| 2014 | 524,735 |

In connection with programs accounted as equity-settled share based transactions, HUF 6,188 million was recognized as an expense during the year ended 31 December 2011.

*Approved by the Board of Directors supposing 100% performance.
**The share-based payment period has expired as at 31 December 2011.

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

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

| Compensations | 2011 | 2010 |
|---|---|---|
| Short–term employee benefits | 8,484 | 12,828 |
| Share–based payment | 2,343 | – |
| Other long–term employee benefits | 886 | 197 |
| Termination benefits | 37 | 74 |
| Redundancy payments | – | 74 |
| **Total** | **11,750** | **13,173** |

| | 2011 | 2010 |
|---|---|---|
| Loans provided to companies owned by the management (normal course of business) | 42,806 | 36,617 |
| Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions) | 117 | 117 |
| Commitments to extend credit and guarantees | 6 | 9 |

| | 2011 | 2010 |
|---|---|---|
| Loans provided to unconsolidated subsidiaries | 17,523 | 43,275 |

## NOTE 31: MAJOR SUBSIDIARIES AND ASSOCIATES

Investments in companies in which the Bank has a significant 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.

### *Major subsidiaries*

| Name | 2011 Ownership (Direct and Indirect) | 2010 Ownership (Direct and Indirect) | Activity |
|---|---|---|---|
| DSK Bank EAD (Bulgaria) | 100.00% | 100.00% | commercial banking services |
| OTP Bank JSC (Ukraine) | 100.00% | 100.00% | commercial banking services |
| OAO OTP Bank (Russia) | 97.75% | 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) | 92.60% | 91.43% | commercial banking services |
| OTP Banka Slovensko a. s. (Slovakia) | 98.94% | 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 komercijalna banka a.d. (Montenegro) | 100.00% | 100.00% | commercial banking services |
| OTP Financing Netherlands B.V. (Netherlands) | 100.00% | 100.00% | refinancing activities |
| OTP Holding Ltd. (Cyprus)/OTP Financing Cyprus | 100.00% | 100,00% | refinancing activities |
| Bank Center No. 1. Ltd. | 100.00% | 100.00% | real estate lease |
| Inga Two 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 associates

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

***As at 31 December 2011***

| | Moneta Ltd. | Company for Cash Services Ltd. | Suzuki Pénzügyi Szolgáltató Ltd. | Agóra-Kapos Ltd. | Total |
|---|---|---|---|---|---|
| Total assets | 436 | 2,132 | 611 | 157 | 3,336 |
| Total liabilities | 336 | 204 | 9 | 108 | 657 |
| Shareholders' equity | 100 | 1,928 | 602 | 49 | 2,679 |
| Reserves | (58) | - | 544 | 17 | 503 |
| Total revenues | 304 | 892 | 44 | 934 | 2,174 |
| Profit before income tax | 59 | 27 | 16 | 36 | 138 |
| Profit after income tax | 59 | 27 | 14 | 32 | 132 |

***As at 31 December 2010***

| | Moneta Ltd. | Company for Cash Services Ltd. | Suzuki Pénzügyi Szolgáltató Ltd. | 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 million)

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

| | 2011 | 2010 |
|---|---|---|
| The amount of loans managed by the Group as a trustee | 43,196 | 44,300 |

## NOTE 33: CONCENTRATION OF ASSETS AND LIABILITIES

| | 2011 | 2010 |
|---|---|---|
| Receivables from, or securities issued by the Hungarian Government or the NBH | 11.2% | 9.8% |

There were no other significant concentrations of the assets or liabilities of the Group as at 31 December 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 million)

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

| As at 31 December 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 | 576,135 | 19,058 | 392 | 401 | – | 595,986 |
| Placements with other banks, net of allowance for placement losses | 405,347 | 13,843 | 3,379 | 208 | – | 422,777 |
| Financial assets at fair value through profit or loss | 30,593 | 43,480 | 56,315 | 14,818 | 96,076 | 241,282 |
| Securities available-for-sale | 570,434 | 106,279 | 253,140 | 190,307 | 5,695 | 1,125,855 |
| Loans, net of allowance for loan losses | 815,385 | 1,293,540 | 2,543,488 | 2,390,972 | 3,794 | 7,047,179 |
| Associates and other investments | – | – | – | – | 10,342 | 10,342 |
| Securities held-to-maturity | 7,174 | 15,350 | 92,298 | 9,761 | 304 | 124,887 |
| Property and equipment, Intangible assets | – | – | – | – | 491,666 | 491,666 |
| Other assets | 46,023 | 71,595 | 19,551 | 1,684 | 1,700 | 140,553 |
| **TOTAL ASSETS** | **2,451,091** | **1,563,145** | **2,968,563** | **2,608,151** | **609,577** | **10,200,527** |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | 180,859 | 124,850 | 172,273 | 168,986 | – | 646,968 |
| Deposits from customers | 4,563,198 | 1,501,196 | 311,084 | 23,375 | – | 6,398,853 |
| Liabilities from issued securities | 169,619 | 304,329 | 239,298 | 99,617 | – | 812,863 |
| Financial liabilities at fair value through profit or loss | 31,753 | 77,407 | 112,633 | 8,356 | – | 230,149 |
| Other liabilities | 246,660 | 31,024 | 86,234 | 12,584 | 435 | 376,937 |
| Subordinated bonds and loans | 3,412 | 419 | 184,539 | – | 128,077 | 316,447 |
| **TOTAL LIABILITIES** | **5,195,501** | **2,039,225** | **1,106,061** | **312,918** | **128,512** | **8,782,217** |
| Share capital | – | – | – | – | 28,000 | 28,000 |
| Retained earnings and reserves | – | – | – | – | 1,439,095 | 1,439,095 |
| Treasury shares | – | – | – | – | (54,386) | (54,386) |
| Non-controlling interest | – | – | – | – | 5,601 | 5,601 |
| **TOTAL SHAREHOLDERS' EQUITY** | **–** | **–** | **–** | **–** | **1,418,310** | **1,418,310** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **5,195,501** | **2,039,225** | **1,106,061** | **312,918** | **1,546,822** | **10,200,527** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(2,744,410)** | **(476,080)** | **1,862,502** | **2,295,233** | **(937,245)** | **–** |

| 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 million)

| As at 31 December 2011 | USD | EUR | CHF | Others | Total |
|---|---|---|---|---|---|
| Assets | 627,984 | 2,368,051 | 1,400,243 | 2,527,272 | 6,923,550 |
| Liabilities | (333,291) | (2,482,507) | (134,814) | (1,880,933) | (4,831,545) |
| Off-balance sheet assets and liabilities, net | (255,664) | 189,971 | (1,327,578) | (193,256) | (1,586,527) |
| **Net position** | **39,029** | **75,515** | **(62,149)** | **453,083** | **505,478** |

| 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 million)

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

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

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

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

## As at 31 December 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 | 138,940 | 89,472 | 25 | 2,049 | – | 385 | – | – | – | 1 | 54,065 | 311,049 | 193,030 | 402,956 | 595,986 |
| fixed rate | 137,789 | 31,302 | 20 | 215 | – | 385 | – | – | – | 1 | – | – | 137,809 | 31,903 | 169,712 |
| variable rate | 1,151 | 58,170 | 5 | 1,834 | – | – | – | – | – | – | – | – | 1,156 | 60,004 | 61,160 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 54,065 | 311,049 | 54,065 | 311,049 | 365,114 |
| Placements with other banks, net of allowance for placements losses | 14,979 | 343,423 | – | 25,956 | 1,463 | 6,973 | – | 14,322 | – | 3,023 | 28 | 12,610 | 16,470 | 406,307 | 422,777 |
| fixed rate | 14,914 | 332,645 | – | 24,778 | 1,463 | 583 | – | 14,322 | – | 3,023 | – | – | 16,377 | 375,351 | 391,728 |
| variable rate | 65 | 10,778 | – | 1,178 | – | 6,390 | – | – | – | – | – | – | 65 | 18,346 | 18,411 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 28 | 12,610 | 28 | 12,610 | 12,638 |
| Securities held for trading | 1,872 | 997 | 439 | 485 | 4,670 | 2,797 | 2,842 | 426 | 15,444 | 12,274 | 88,511 | 8,573 | 113,778 | 25,552 | 139,330 |
| fixed rate | 1,872 | 78 | 430 | – | 4,123 | 2,797 | 2,842 | 426 | 15,444 | 12,274 | – | – | 24,711 | 15,575 | 40,286 |
| variable rate | – | 919 | 9 | 485 | 547 | – | – | – | – | – | – | – | 556 | 1,404 | 1,960 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 88,511 | 8,573 | 88,511 | 8,573 | 97,084 |
| Securities available-for-sale | 515,203 | 8,575 | 2,956 | 26,676 | 46,531 | 58,499 | 73,063 | 24,412 | 244,993 | 73,128 | 35,432 | 16,387 | 918,178 | 207,677 | 1,125,855 |
| fixed rate | 515,203 | 6,678 | 2,956 | 26,676 | 46,531 | 58,499 | 71,323 | 24,412 | 244,993 | 72,024 | – | – | 881,006 | 188,289 | 1,069,295 |
| variable rate | – | 1,897 | – | – | – | – | 1,740 | – | – | 1,104 | – | – | 1,740 | 3,001 | 4,741 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 35,432 | 16,387 | 35,432 | 16,387 | 51,819 |
| Loans, net of allowance for loan losses | 958,820 | 2,957,397 | 56,874 | 524,697 | 200,464 | 1,239,811 | 180,771 | 216,696 | 189,240 | 346,566 | 1,409 | 174,434 | 1,587,578 | 5,459,601 | 7,047,179 |
| fixed rate | 11,519 | 92,683 | 9,980 | 100,065 | 39,131 | 449,515 | 2,862 | 197,256 | 14,312 | 327,846 | – | – | 77,804 | 1,167,365 | 1,245,169 |
| variable rate | 947,301 | 2,864,714 | 46,894 | 424,632 | 161,333 | 790,296 | 177,909 | 19,440 | 174,928 | 18,720 | – | – | 1,508,365 | 4,117,802 | 5,626,167 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 1,409 | 174,434 | 1,409 | 174,434 | 175,843 |
| Securities held-to-maturity | – | 1,707 | 17,765 | 2,828 | 18,075 | 13,291 | 1,949 | 16,274 | 19,221 | 30,911 | 1,220 | 1646 | 58,230 | 66,657 | 124,887 |
| fixed rate | – | 1,380 | 346 | 2,164 | – | 13,240 | 1,949 | 16,274 | 19,221 | 30,911 | – | – | 21,516 | 63,969 | 85,485 |
| variable rate | – | 327 | 17,419 | 664 | 18,075 | 51 | – | – | – | – | – | – | 35,494 | 1,042 | 36,536 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 1,220 | 1,646 | 1,220 | 1,646 | 2,866 |
| Derivative financial instruments | 568,770 | 717,566 | 971,534 | 1,546,567 | 442,972 | 146,951 | 44,653 | 9,762 | 20,735 | 6,860 | – | – | 2,048,664 | 2,427,706 | 4,476,370 |
| fixed rate | 165,811 | 571,464 | 165,240 | 247,387 | 365,126 | 96,381 | 22,655 | 7,676 | 20,735 | 5,298 | – | – | 739,567 | 928,206 | 1,667,773 |
| variable rate | 402,959 | 146,102 | 806,294 | 1,299,180 | 77,846 | 50,570 | 21,998 | 2,086 | – | 1,562 | – | – | 1,309,097 | 1,499,500 | 2,808,597 |

## As at 31 December 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, deposits from the National Bank of Hungary and other banks | 33,799 | 238,092 | 5,824 | 144,385 | 134,168 | 47,060 | 711 | 11,019 | 877 | 30,073 | 410 | 550 | 175,789 | 471,179 | 646,968 |
| fixed rate | 32,740 | 180,619 | 3,033 | 13,606 | 3 | 17,206 | 711 | 5,911 | 263 | 29,486 | – | – | 36,750 | 246,828 | 283,578 |
| variable rate | 1,059 | 57,473 | 2,791 | 130,779 | 134,165 | 29,854 | – | 5,108 | 614 | 587 | – | – | 138,629 | 223,801 | 362,430 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 410 | 550 | 410 | 550 | 960 |
| Deposits from customers | 1,191,900 | 1,608,710 | 452,772 | 472,915 | 602,281 | 940,467 | 87,339 | 68,568 | 660,254 | 140,932 | 14,739 | 157,976 | 3,009,285 | 3,389,568 | 6,398,853 |
| fixed rate | 755,534 | 780,249 | 444,261 | 391,674 | 602,281 | 591,082 | 87,339 | 64,741 | 14,312 | 28,385 | – | – | 1,903,727 | 1,856,131 | 3,759,858 |
| variable rate | 436,366 | 828,461 | 8,511 | 81,241 | – | 349,385 | – | 3,827 | 645,942 | 112,547 | – | – | 1,090,819 | 1,375,461 | 2,466,280 |
| non-interest-bearing | – | – | –– | – | – | – | – | – | – | – | 14,739 | 157,976 | 14,739 | 157,976 | 172,715 |
| Liabilities from issued securities | 29,589 | 8,727 | 92,830 | 46,521 | 246,245 | 53,073 | 27,002 | 7,228 | 150,083 | 128,089 | 20,331 | 3,145 | 566,080 | 246,783 | 812,863 |
| fixed rate | 21,455 | 8,727 | 75,268 | 23,219 | 246,245 | 53,073 | 27,002 | 7,228 | 150,083 | 128,089 | – | – | 520,053 | 220,336 | 740,389 |
| variable rate | 8,134 | – | 17,562 | 23,302 | – | – | – | – | – | – | – | – | 25,696 | 23,302 | 48,998 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 20,331 | 3,145 | 20,331 | 3,145 | 23,476 |
| Derivative financial instruments | 335,972 | 999,677 | 78,128 | 2,548,062 | 141,246 | 492,635 | 51,593 | 8,953 | 14,138 | 19,441 | – | – | 621,077 | 4,068,768 | 4,689,845 |
| fixed rate | 330,662 | 464,667 | 63,663 | 359,821 | 59,854 | 417,951 | 20,740 | 6,943 | 14,138 | 18,309 | – | – | 489,057 | 1,267,691 | 1,756,748 |
| variable rate | 5,310 | 535,010 | 14,465 | 2,188,241 | 81,392 | 74,684 | 30,853 | 2,010 | – | 1,132 | – | – | 132,020 | 2,801,077 | 2,933,097 |
| Subordinated bonds and loans | – | – | 5,000 | 29,518 | – | 17,135 | – | 76 | – | 261,323 | – | 3,395 | 5,000 | 311,447 | 316,447 |
| fixed rate | – | – | – | – | – | – | – | – | – | 261,198 | – | – | – | 261,198 | 261,198 |
| variable rate | – | – | 5,000 | 29,518 | – | 17,135 | – | 76 | – | 125 | – | – | 5,000 | 46,854 | 51,854 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | 3,395 | – | 3,395 | 3,395 |
| Net position | 607,324 | 1,263,931 | 415,039 | (1,112,143) | (409,765) | (81,663) | 136,633 | 186,048 | (335,719) | (107,095) | 145,185 | 359,633 | 558,697 | 508,711 | 1,067,408 |

## As at 31 December 2010

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

## As at 31 December 2010

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

## NOTE 37: CONSOLIDATED 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. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

| | 2011 | 2010 |
|---|---|---|
| Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn) | 83,147 | 117,930 |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share) | 266,373,139 | 266,485,429 |
| **Basic Earnings per share (in HUF)** | **312** | **443** |
| Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn) | 83,147 | 117,930 |
| Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share) | 266,438,959 | 269,617,607 |
| **Diluted Earnings per share (in HUF)** | **312** | **437** |

| | 2011 | 2010 |
|---|---|---|
| Weighted average number of ordinary shares | 280,000,010 | 280,000,010 |
| Average number of Treasury shares | 13,626,871 | 13,514,581 |
| **Weighted average number of ordinary shares outstanding during the year for calculating basic EPS** | **266,373,139** | **266,485,429** |
| Dilutive effects of options issued in accordance with the Remuneration Policy/ Management Option Program and convertible into ordinary shares | 65,820 | 3,132,178 |
| **The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS** | **266,438,959** | **269,617,607** |

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

### *As at 31 December 2011*

| Name | Net interest gain and loss | Net non-interest gain and loss | Provision for impairment | Other comprehensive income |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 6,504 | – | – | – |
| Placements with other banks, net of allowance for placements losses | 9,570 | – | 594 | – |
| Securities held for trading | 1,725 | 5,224 | – | – |
| Securities available-for-sale | 73,941 | 574 | (313) | (28,064) |
| Loans, net of allowance for loan losses | 741,605 | 11,832 | (317,270) | – |
| From this: Consumer loans | 307,524 | | | |
| Housing loans | 191,684 | | | |
| Corporate loans | 154,235 | | | |
| Mortgage backed loans | 68,812 | | | |
| Municipality loans | 19,350 | | | |
| Securities held-to-maturity | 7,719 | 67 | (632) | – |
| Derivative financial instruments | 71,475 | 10,016 | – | – |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | (18,112) | – | – | – |
| Deposits from customers | (200,717) | 113,032 | – | – |
| Liabilities from issued securities | (50,936) | – | – | – |
| Subordinated bonds and loans | (11,958) | – | – | – |
| **Total** | **630,816** | **140,745** | **(317,621)** | **(28,064)** |

### *As at 31 December 2010*

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

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

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly 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*

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash, amounts due from banks and balances with the National Banks | 595,986 | 595,986 | 513,038 | 513,038 |
| Placements with other banks, net of allowance for placements losses | 422,777 | 427,427 | 511,244 | 512,195 |
| Financial assets at fair value through profit or loss | 241,282 | 241,282 | 233,667 | 233,667 |
| Securities held for trading | 139,330 | 139,330 | 159,247 | 159,247 |
| FVA of derivative financial instruments designated as held for trading | 101,952 | 101,952 | 74,420 | 74,420 |
| Securities available-for-sale | 1,125,855 | 1,125,855 | 1,008,097 | 1,008,097 |
| Loans, net of allowance for loan losses | 7,047,179 | 8,250,983 | 6,741,059 | 7,787,442 |
| Securities held-to-maturity | 124,887 | 151,604 | 172,302 | 167,130 |
| FVA of derivative financial instruments designated as fair value hedge | 13,137 | 13,137 | 8,489 | 8,489 |
| **Financial assets total** | **9,571,103** | **10,806,274** | **9,187,896** | **10,230,058** |
| Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks | 646,968 | 758,719 | 681,949 | 621,968 |
| Deposits from customers | 6,398,853 | 6,510,444 | 5,821,489 | 5,802,637 |
| Liabilities from issued securities | 812,863 | 664,422 | 1,035,153 | 947,864 |
| FVA of derivative financial instruments designated as fair value hedge | 98,415 | 98,415 | 115,159 | 115,159 |
| FVA of derivative financial instruments designated as held for trading | 230,149 | 230,149 | 257,052 | 257,052 |
| Subordinated bonds and loans | 316,447 | 225,511 | 290,630 | 219,966 |
| **Financial liabilities total** | **8,503,695** | **8,487,660** | **8,201,432** | **7,964,646** |

## *b) Fair value of derivative instruments*

| | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|
| | Fair value | | Notional value, net | |
| **Interest rate swaps designated as held for trading** | | | | |
| Positive fair value of interest rate swaps designated as held for trading | 39,370 | 34,413 | 33,995 | 44,613 |
| Negative fair value of interest rate swaps designated as held for trading | (40,542) | (40,064) | (37,495) | (59,736) |
| **Foreign exchange swaps designated as held for trading** | | | | |
| Positive fair value of foreign exchange swaps designated as held for trading | 18,596 | 15,442 | 22,832 | 20,958 |
| Negative fair value of foreign exchange swaps designated as held for trading | (50,204) | (4,611) | (45,725) | (4,306) |
| **Interest rate swaps designated as fair value hedge** | | | | |
| Positive fair value of interest rate swaps designated as fair value hedge | 2,329 | 8,477 | 3,526 | 13,412 |
| Negative fair value of interest rate swaps designated as fair value hedge | (12,563) | (7,143) | (10,980) | (11,479) |
| **CCIRS designated as held for trading** | | | | |
| Positive fair value of CCIRS designated as held for trading | 25,149 | 11,539 | 23,641 | (4,437) |
| Negative fair value of CCIRS designated as held for trading | (119,933) | (197,440) | (129,254) | (177,976) |
| **Mark-to-market CCIRS designated as held for trading** | | | | |
| Positive fair value of mark-to-market CCIRS designated as held for trading | 2,299 | 7,399 | (1,187) | 40,124 |
| Negative fair value of mark-to-market CCIRS designated as held for trading | (5,081) | (9,437) | (9,531) | 1,852 |
| **CCIRS designated as fair value hedge** | | | | |
| Positive fair value of CCIRS designated as fair value hedge | 2,816 | – | 2,496 | – |
| Negative fair value of CCIRS designated as fair value hedge | (85,349) | (108,012) | (104,207) | (113,266) |
| **Mark-to-market CCIRS designated as fair value hedge** | | | | |
| Positive fair value of mark-to-market CCIRS designated as fair value hedge | 7,670 | – | (6,738) | – |
| Negative fair value of mark-to-market CCIRS designated as fair value hedge | (496) | – | (1,419) | – |
| **Other derivative contracts designated as fair value hedge** | | | | |
| Positive fair value of other derivative contracts designated as fair value hedge | 322 | 12 | 3,062 | – |
| Negative fair value of other derivative contracts designated as fair value hedge | (7) | (4) | (7) | (4) |
| **Other derivative contracts designated as held for trading** | | | | |
| Positive fair value of other derivative contracts designated as held for trading | 16,538 | 5,627 | 14,694 | 2,709 |
| Negative fair value of other derivative contracts designated as held for trading | (14,389) | (5,500) | (14,027) | (2,248) |
| **Derivative financial assets total** | **115,089** | **82,909** | **96,321** | **117,379** |
| **Derivative financial liabilities total** | **(328,564)** | **(372,211)** | **(352,645)** | **(367,163)** |
| **Derivative financial instruments total** | **(213,475)** | **(289,302)** | **(256,324)** | **(249,784)** |

## c) Hedge accounting

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

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

### As at 31 December 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 (10,234) million | Interest rate |
| | CCIRS | HUF 22,826 million | Foreign exchange and interest rate |
| 3) Net investment hedge in foreign operations | CCIRS | HUF (6,362) 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 |
| | 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 and EUR 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 month BUBOR or EURIBOR, resulting in a decrease in the fair value exposure of the deposits from customers.

| | 2011 | 2010 |
|---|---|---|
| Fair value of the hedging instruments | 70 | (61) |

### 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 12 month EURIBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

| | 2011 | 2010 |
|---|---|---|
| Fair value of the hedging instruments | (715) | (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 month EURIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.

| | 2011 | 2010 |
|---|---|---|
| Fair value of the hedging instruments | (21) | (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/HUF foreign exchange rate and the risk of change in the risk-free interest rates of EUR, CHF and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR, CHF and HUF CCIRS transactions, where the fixed cash-flows were swapped to payments linked to 3 month CHF LIBOR, EURIBOR or BUBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

| | 2011 | 2010 |
|---|---|---|
| Fair value of the hedging instruments | (9,568) | (105,251) |

## 5. NBH tender related to early repayment

The Hungarian Government announced the Country Protection Action Plan on 12 September 2011. According to it, there was opportunity of early repayment at pre-defined fixed exchange rates for the clients.
FX loan exposure means FX risk for the Group, while the Group translate it to HUF, the FX exposure assets and liabilities is needed to close. The Group initially hedged the FX exposure raised in the balance sheet related to FX based mortgage loans by entering into CCIRS transactions to eliminate it partially. Taking into account the Government decision on providing this possibility to the clients, the Bank faced FX risk regarding the early repayment, as FX based mortgage loans can be repaid in one amount at fixed conversion rate. To let the banking system hedge this exposure, the NBH announced a EUR-buying tender with special conditions. The Group entered into these tenders three cases in order to ensure the FX exposure of the assets and liabilities.

| | 2011 | 2010 |
|---|---|---|
| Fair value of the hedging instruments | 60,529 | – |

**As at 31 December 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 | Gains/Losses on hedging instruments |
|---|---|---|---|---|---|
| Securities available-for-sale | IRS | HUF 17,694 million | HUF (715) million | HUF 587 million | HUF (587) million |
| Loans to customers | IRS | HUF 23,495 million | HUF (21) million | HUF (1,217) million | HUF 1,217 million |
| Deposits from customers | IRS | HUF 26,935 million | HUF 70 million | HUF (131) million | HUF 131 million |
| Liabilities from issued securities | IRS | HUF 130,429 million | HUF (9,568) million | HUF 12,329 million | HUF (12,329) 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 | Gains/Losses on hedging instruments |
|---|---|---|---|---|---|
| Securities available-for-sale | IRS | HUF 23,002 million | HUF (128) million | HUF 483 million | HUF (483) million |
| Loans to customers | IRS | HUF 47,470 million | HUF (1,238) million | HUF (160) million | HUF 160 million |
| Deposits from customers | IRS | HUF 20,436 million | HUF (61) million | HUF 3,522 million | HUF (3,522) million |
| Liabilities from issued securities | IRS | HUF 206,489 million | HUF 2,761 million | HUF 5,343 million | HUF (5,343) million |
| EUR mortgage bonds | CCIRS | HUF 209,063 million | HUF (45,125) million | HUF 4,761 million | HUF (4,761) million |
| EUR mortgage bonds | CCIRS | HUF 320,563 million | HUF (54,799) million | HUF 2,912 million | HUF (2,912) million |
| EUR mortgage bonds | CCIRS | HUF 55,750 million | HUF (8,088) million | HUF 517 million | HUF (517) million |

## *e) Fair value classes*

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

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

– Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly;

– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

| As at 31 December 2011 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 240,345 | 129,104 | 106,686 | 4,555 |
| from this: securities held for trading | 138,393 | 127,372 | 11,021 | – |
| from this: positive FVA of derivative financial instruments designated as held for trading | 101,952 | 1,732 | 95,665 | 4,555 |
| Securities available-for-sale | 1,107,158 | 284,381 | 821,695 | 1,082 |
| Positive FVA of derivative financial instruments designated as fair value hedge | 13,137 | 144 | 10,177 | 2,816 |
| **Financial assets measured at fair value total** | **1,360,640** | **413,629** | **938,558** | **8,453** |
| Negative FVA of derivative financial instruments designated as held for trading | 230,149 | 99 | 207,967 | 22,083 |
| Negative FVA of derivative financial instruments designated as fair value hedge | 98,415 | 6 | 92,479 | 5,930 |
| **Financial liabilities measured at fair value total** | **328,564** | **105** | **300,446** | **28,013** |

| 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** | **–** |

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

### EUR/CHF cross currency swap (CCIRS) portfolio

According to the risk management policies the Bank holds EUR/CHF cross currency swap portfolio with a notional totalling CHF 3,698 million (HUF 946,435 million equivalent) designated as held for trading and CHF 807 million (HUF 206,556 million equivalent) designated as hedging deals, in order to hedge its foreign currency denominated mortgage loan portfolio's FX risk.

In the second half of the year 2011 the EUR/CHF cross currency swap spreads speculation has previously unexpected volatility, which significantly differed from spreads on which the Bank could execute deals and therefore market quotations can not be used for estimating the fair value of the Bank's CIRS portfolio.

For the above mentioned reasons, the Bank has classified these deals to 3rd level in the valuation of financial instruments in IFRS, and applied non-market observable inputs, which resulted a more reliable valuation.

### Sensitivity

The key risk factor for these deals are the change of the spreads. The net present value impacts of +/-10 basis points change of cross currency swap spreads on the EUR/CHF CCIRS portfolio are summarized in the table below:

| | |
|---|---|
| **Fair value (PV)** | |
| Net fair value based on estimated inputs | (20,641) |
| **Sensitivity (dPV)** | |
| +10 bp | 2,658 |
| –10 bp | (2,665) |

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

| Movements of the year 2011 | Opening balance as at 30 September 2011 | Transfer as at 30 September 2011 | Closing balance as at 31 December 2011 | Total loss as at 31 December 2011 |
|---|---|---|---|---|
| Positive FVA of derivative financial instruments designated as held for trading | 17,754 | 17,754 | 4,555 | (13,199) |
| Positive FVA of derivative financial instruments designated as hedge accounting relationship | 3,043 | 3,043 | 2,816 | (227) |
| Securities available-for-sale | 173 | 173 | 1,082 | – |
| **Financial assets measured at fair value total** | **20,970** | **20,970** | **8,453** | **(13,426)** |
| Negative FVA of derivative financial instruments designated as held for trading | (16,399) | (16,399) | (22,083) | (5,684) |
| Negative FVA of derivative financial instruments designated as hedge accounting relationship | (5,138) | (5,138) | (5,930) | (792) |
| **Financial liabilities measured at fair value total** | **(21,537)** | **(21,537)** | **(28,013)** | **(6,476)** |

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

## NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF million)

The Group distinguishes business and geographical segments. The report on the base of the business and geographical segments is reported bellow.
The reportable segments of the Group on the base of IFRS 8 are the following:
OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries and Corporate Center.
OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in OTP Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financing Netherlands Ltd. and OTP Holding Ltd.
Corporate Center: it is separated from OTP Core consolidated financial statements, this is a virtual entity responsible for rendering debt and capital market related to services to the subsidiaries across the Group, mainly in the form of capital and credit financing.
The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., OTP Factoring Montenegro d.o.o. and OTP Faktor Slovensko s.r.o. are included into the foreign banks segment.
The activities of the other subsidiaries are out of the leasing and fund management activity, like: OTP Real Estate Ltd., OTP Life Annuity Ltd, OTP Funds Servicing and Consulting Ltd., Monicomp Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

The reportable business and 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

### Goodwill impairment:

The effect of goodwill impairment after tax in 2010 is HUF 15,001 million.
The effect of goodwill impairment after tax in 2011 is HUF 17,701 million.

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

* 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.

## As at 31 December 2011

| Main components of the Consolidated Statement of Recognized Income in HUF million | OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of accounting reports | Adjustements on the accounting in Recognized Income | OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of management reports | OTP CORE (Hungary) | Foreign banks subtotal (without adjustments) | OAO OTP Bank (Russia) | OTP Bank JSC (Ukraine) | DSK Bank EAD (Bulgaria) |
|---|---|---|---|---|---|---|---|---|
| | a | b | 1=a+b<br>1= 2+3+12+16+17 | 2 | 3=4+…+11 | 4 | 5 | 6 |
| **Net profit for the year** | **83,800** | | **83,800** | | | | | |
| Adjustments (total) | | (77,605) | (77,605) | | | | | |
| Dividends and net cash transfers (after income tax) | | 663 | 663 | | | | | |
| Goodwill impairment (after income tax) | | (17,701) | (17,701) | | | | | |
| Bank tax on financial institutions (after income tax) | | (28,965) | (28,965) | | | | | |
| Total impact of early repayment (after income tax) | | (31,602) | (31,602) | | | | | |
| **Consolidated adjusted net profit for the year** | **83,800** | **77,605** | **161,405** | **114,056** | **48,536** | **41,042** | **5,091** | **12,743** |
| **Profit before income tax** | **122,996** | **98,090** | **221,086** | **154,738** | **68,558** | **53,107** | **11,211** | **14,330** |
| **Adjusted operating profit** | **439,669** | **(4,090)** | **435,579** | **235,000** | **189,906** | **82,007** | **26,829** | **59,877** |
| Adjusted total income | 842,344 | (30,753) | 811,591 | 419,401 | 360,674 | 142,796 | 53,585 | 93,103 |
| Adjusted net interest income | 630,816 | 76 | 630,892 | 327,081 | 292,561 | 123,990 | 41,784 | 74,731 |
| Adjusted net profit from fees and commissions | 146,522 | (3,242) | 143,280 | 84,687 | 56,125 | 17,610 | 9,063 | 15,867 |
| Adjusted other net non-interest income | 65,006 | (27,587) | 37,419 | 7,633 | 11,988 | 1,196 | 2,738 | 2,505 |
| Adjusted other administrative expenses | (402,675) | 26,663 | (376,012) | (184,401) | (170,768) | (60,789) | (26,756) | (33,226) |
| **Total risk costs** | **(316,673)** | **82,634** | **(234,039)** | **(95,508)** | **(121,348)** | **(28,900)** | **(15,618)** | **(45,547)** |
| Adjusted provision for impairment on loan and placement losses (with the effect of early repayment) | (316,673) | 88,241 | (228,432) | (99,209) | (117,121) | (28,714) | (15,209) | (45,713) |
| Other provision (adjustment) | 0 | (5,607) | (5,607) | 3,701 | (4,227) | (186) | (409) | 166 |
| **Total other adjustments (one-off items)*** | **0** | **19,546** | **19,546** | **15,246** | **0** | **0** | **0** | **0** |
| **Income tax** | **(39,196)** | **(20,485)** | **(59,681)** | **(40,682)** | **(20,022)** | **(12,065)** | **(6,120)** | **(1,587)** |
| Total Assets | 10,200,527 | 0 | 10,200,527 | 6,548,167 | 4,737,953 | 868,231 | 778,198 | 1,360,510 |
| Total Liabilities | 8,782,217 | 0 | 8,782,217 | 5,269,759 | 4,102,286 | 723,393 | 658,049 | 1,151,026 |

*One-off items consist of: revaluation result of FX swap at OTP Core in the amount of HUF 3,169 million; non-recurring FX-gains and losses in the amount of HUF 3,926 million; gain on the repurchase of own upper and lower Tier 2 capital in the amount of HUF 2,580 million; gain on Croatian government bonds in the amount of HUF 4,300 million; revaluation result of the treasury share swap agreement between OTP and MOL in the amount of HUF 5,571 million.

## As at 31 December 2010

| Main components of the Consolidated Statement of Recognized Income in HUF million | OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of accounting reports | Adjustements on the accounting in Recognized Income | OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of management reports | OTP CORE (Hungary) | Foreign banks subtotal (without adjustments) | OAO OTP Bank (Russia) | OTP Bank JSC (Ukraine) | DSK Bank EAD (Bulgaria) |
|---|---|---|---|---|---|---|---|---|
| | a | b | 1=a+b<br>1=2+3+12+16+17 | 2 | 3=4+..+11 | 4 | 5 | 6 |
| **Net profit for the year** | **118,126** | | **118,126** | | | | | |
| Adjustments (total) | | **(43,984)** | **(43,984)** | | | | | |
| Dividends and net cash transfers (after income tax) | | 488 | 488 | | | | | |
| Goodwill impairment (after income tax) | | (15,001) | (15,001) | | | | | |
| Bank tax on financial institutions (after income tax) | | (29,471) | (29,471) | | | | | |
| **Consolidated adjusted net profit for the year** | **118,126** | **43,984** | **162,110** | **146,921** | **18,870** | **20,544** | **8,928** | **18,191** |
| **Profit before income tax** | **140,183** | **54,130** | **194,313** | **174,048** | **24,901** | **26,915** | **5,719** | **20,231** |
| **Adjusted operating profit** | **413,207** | **16,624** | **429,831** | **254,222** | **166,165** | **50,768** | **36,121** | **56,032** |
| Adjusted total income | 812,487 | (28,591) | 783,896 | 432,796 | 321,118 | 100,297 | 61,171 | 87,710 |
| Adjusted net interest income | 616,425 | (14,802) | 601,623 | 324,777 | 262,942 | 88,991 | 50,690 | 69,972 |
| Adjusted net profit from fees and commissions | 140,631 | (3,929) | 136,702 | 84,807 | 46,553 | 9,638 | 7,999 | 15,478 |
| Adjusted other net non-interest income | 55,431 | (9,860) | 45,571 | 23,212 | 11,632 | 1,668 | 2,482 | 2,260 |
| Adjusted other administrative expenses | (399,280) | 45,215 | (354,065) | (178,574) | (154,953) | (49,529) | (25,050) | (31,678) |
| **Total risk cost** | **(273,024)** | **9,885** | **(263,139)** | **(107,795)** | **(141,264)** | **(23,853)** | **(30,402)** | **(35,801)** |
| Adjusted provision for impairment on loan and placement losses (with the effect of early repayment) | (273,024) | 9,772 | (263,252) | (108,507) | (139,465) | (24,135) | (30,281) | (35,232) |
| Other provision (adjustment) | 0 | 113 | 113 | 712 | (1,799) | 282 | (121) | (569) |
| **Total other adjustments (one-off items)**** | **0** | **27,621** | **27,621** | **27,621** | **0** | **0** | **0** | **0** |
| **Income tax** | **(22,057)** | **(10,146)** | **(32,203)** | **(27,127)** | **(6,031)** | **(6,371)** | **3,209** | **(2,040)** |
| Total Assets | 9,780,946 | 0 | 9,780,946 | 6,495,965 | 4,184,649 | 664,403 | 715,760 | 1,218,627 |
| Total Liabilities | 8,472,017 | 0 | 8,472,017 | 5,364,654 | 3,618,243 | 566,625 | 606,291 | 1,000,635 |

**One-off items consist of revaluation result of FX swap at OTP Core in the amount of HUF 18,732 million; non-recuring FX-gains and losses in the amount of HUF 8,889 million.

| OTP Bank Romania S.A. (Romania) | OTP banka Srbija a.d. (Serbia) | OTP banka Hrvatska d.d. (Croatia) | OTP Banka Slovensko a.s. (Slovakia) | Crnogorska komercijalna banka a.d. (Montenegro) | Non-banking subsidiaries subtotal | Leasing subsidiaries | Asset Management subsidiaries | Other subsidiaries | Corporate Centre | Eliminations and adjustments |
|---|---|---|---|---|---|---|---|---|---|---|
| 7 | 8 | 9 | 10 | 11 | 12=13+14+15 | 13 | 14 | 15 | 16 | 17 |
| **764** | **(6,284)** | **112** | **(408)** | **(4,524)** | **585** | **1,891** | **3,266** | **(4,572)** | **(6,728)** | **4,956** |
| **757** | **(6,149)** | **162** | **(336)** | **(4,524)** | **1,754** | **1,991** | **4,011** | **(4,248)** | **(8,305)** | **4,341** |
| **8,961** | **(1,316)** | **8,221** | **3,328** | **1,999** | **16,710** | **13,485** | **4,114** | **(889)** | **(8,305)** | **2,268** |
| 22,207 | 5,220 | 21,784 | 13,639 | 8,340 | 46,039 | 23,438 | 6,140 | 16,461 | (8,194) | (6,329) |
| 18,658 | 1,460 | 15,383 | 10,968 | 5,587 | 20,056 | 18,600 | 104 | 1,352 | (8,194) | (612) |
| 2,428 | 1,872 | 4,094 | 2,499 | 2,692 | 2,277 | (2,730) | 5,246 | (239) | 0 | 191 |
| 1,121 | 1,888 | 2,307 | 172 | 61 | 23,706 | 7,568 | 790 | 15,348 | 0 | (5,908) |
| (13,246) | (6,536) | (13,563) | (10,311) | (6,341) | (29,329) | (9,953) | (2,026) | (17,350) | (111) | 8,597 |
| **(8,204)** | **(4,833)** | **(8,059)** | **(3,664)** | **(6,523)** | **(14,956)** | **(11,494)** | **(103)** | **(3,359)** | **0** | **(2,227)** |
| (8,187) | (4,960) | (6,694) | (3,624) | (4,020) | (11,981) | (7,855) | 0 | (4,126) | 0 | (121) |
| (17) | 127 | (1,365) | (40) | (2,503) | (2,975) | (3,639) | (103) | 767 | 0 | (2,106) |
| **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **4,300** |
| **7** | **(135)** | **(50)** | **(72)** | **0** | **(1,169)** | **(100)** | **(745)** | **(324)** | **1,577** | **615** |
| 460,623 | 121,475 | 529,853 | 386,313 | 232,750 | 482,841 | 324,888 | 9,318 | 148,635 | 1,962,390 | (3,530,824) |
| 432,271 | 93,769 | 471,368 | 355,891 | 216,519 | 402,567 | 297,979 | 1,584 | 103,004 | 1,299,920 | (2,292,315) |

| OTP Bank Romania S.A. (Romania) | OTP banka Srbija a.d. (Serbia) | OTP banka Hrvatska d.d. (Croatia) | OTP Banka Slovensko a.s. (Slovakia) | Crnogorska komercijalna banka a.d. (Montenegro) | Non-banking subsidiaries subtotal | Leasing subsidiaries | Asset Management subsidiaries | Other subsidiaries | Corporate Centre | Eliminations and adjustments |
|---|---|---|---|---|---|---|---|---|---|---|
| 7 | 8 | 9 | 10 | 11 | 12=13+14+15 | 13 | 14 | 15 | 16 | 17 |
| **(6,406)** | **(7,312)** | **2,721** | **(952)** | **(16,844)** | **111** | **6,336** | **7,448** | **(1,001)** | **(6,710)** | **2,918** |
| **(6,403)** | **(7,325)** | **3,441** | **(833)** | **(16,844)** | **1,884** | **(6,438)** | **8,905** | **(583)** | **(8,284)** | **1,764** |
| **8,878** | **(125)** | **6,938** | **3,728** | **3,825** | **19,343** | **10,371** | **8,045** | **927** | **(8,284)** | **(1,615)** |
| 21,764 | 6,344 | 20,154 | 13,885 | 9,793 | 46,596 | 19,909 | 10,057 | 16,630 | (8,163) | (8,451) |
| 18,419 | 2,568 | 13,964 | 11,207 | 7,131 | 22,956 | 20,320 | 270 | 2,366 | (8,163) | (889) |
| 2,402 | 1,689 | 3,986 | 2,390 | 2,981 | 5,329 | (3,589) | 9,711 | (793) | 0 | 13 |
| 943 | 2,087 | 2,204 | 298 | (319) | 18,311 | 3,178 | 76 | 15,057 | 0 | (7,575) |
| (12,886) | (6,469) | (13,216) | (10,157) | (5,968) | (27,253) | (9,538) | (2,012) | (15,703) | (121) | 6,836 |
| **(15,281)** | **(7,200)** | **(3,497)** | **(4,561)** | **(20,669)** | **(17,459)** | **(16,809)** | **860** | **(1,510)** | **0** | **3,379** |
| (15,046) | (6,698) | (3,042) | (4,715) | (20,316) | (17,105) | (15,811) | 0 | (1,294) | 0 | 1,825 |
| (235) | (502) | (455) | 154 | (353) | (354) | (998) | 860 | (216) | 0 | 1,554 |
| **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **(3)** | **13** | **(720)** | **(119)** | **0** | **1,773** | **102** | **(1,457)** | **(418)** | **1,574** | **1,154** |
| 424,464 | 114,796 | 484,923 | 349,448 | 212,228 | 511,859 | 348,774 | 13,612 | 149,473 | 1,965,892 | (3,377,419) |
| 399,320 | 96,809 | 427,661 | 324,896 | 196,006 | 442,461 | 324,787 | 1,616 | 116,058 | 1,338,061 | (2,291,402) |

## NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2011

### 1) Term Loan Facility

See details in Note 13.

### 2) Partial cancellation of EUR 125 million subordinated notes

See details in Note 18.

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

**Fixing of the exchange rate for calculating the monthly instalments and government guarantee**

On 28 June 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 could initiate in writing 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 ('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. Following the fixed exchange rate period 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, subsequently the guarantee applies to 25% of the escrow account.

Regarding the fact that the number of debtors who took the opportunity of fixing of the exchange rate detailed above is low, its effect on the Bank's financial statements is not significant.

## NOTE 42: POST BALANCE SHEET EVENTS

Partial cancellation of EUR 125 million subordinated notes
See details in Note 18.

## NOTE 43: STATEMENT OF THE GLOBAL, THE EUROPEAN AND THE HUNGARIAN ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF million)

In 2011 all countries where OTP is presented with its banking subsidiaries posted positive and accelerating real GDP growth. In Hungary real GDP growth in 2011 reached 1.7%, helped by strengthening manufacturing production and increasing performance of agriculture on the production side. On the expenditure side, GDP growth was driven mainly by the strong export demand, while household consumption continued to decline. Nevertheless, both factors contributed to the increasing surplus of the current account balance.

Capital markets development in 2011 as a whole shaped worse than expected. In contrast to improving risk taking attitude of the first few months of 2011, the rest of the year was dominated again by mounting concerns about the Euro zone indebtedness and long-lasting structural issues within the EU. Credit downgrades across the European and other developed countries became fairly common. In case of Hungary the overall risk aversion of markets coupled with reservations about the measures implemented by the government. As a result, the HUF weakened significantly in the second half of 2011, government bond yields and the Hungarian CDS-levels reached new heights and after 15 years the sovereign credit rating was cut back to non-investment grade level again. In 2011 the closing rate of the HUF against the EUR weakened by 12%, while the average exchange rate deteriorated by 2%. As for the CHF/HUF rate, the weakening was at 15% and 14%, respectively. In November the Hungarian government decided to turn to the EU and the IMF for 'precautionary' financial assistance.

In 2011 the Group continued to focus 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, some Group members could already benefit from the business opportunities arising from the improving operating environment.

- One of the direct consequences of the crisis started late 2008 was the generally weak loan demand in most of the relevant markets except the Russian consumer lending business.
  The consolidated loan book declined by 2% in 2011 (adjusted for FX rate movements). Among the group members only Russia (+30%) and Romania (+6%) posted meaningful loan volume increase from 2010 to 2011. The FX-adjusted Russian consumer loan portfolio expanded by 61% from 2010 to 2011. In Romania the EUR-based mortgage product turned to be fairly popular and mortgages advanced by 8% from 2010 to 2011, but the SME and corporate lending contributed to the growth, too.
  The single biggest individual market, the Hungarian one, was still suffering from weak loan demand: loan volumes continued eroding gradually. Additionally the early repayment scheme of FX mortgage loans accelerated the melt down of volumes in the mortgage segment[21]. Consequently, the mortgage loan portfolio decreased by 8% from 2010 to 2011, while loans to corporate and municipal clients eroded by 9%. The only growing part of the portfolio was the SME segment, where the expansion was supported by loan reclassification as well.
  The Bulgarian gross loans advanced by 2% on the back of corporate lending, while in Ukraine the stabilization of the total gross loan portfolio could be reached. The biggest yearly decline of the loan portfolio was witnessed in Montenegro (–6%), Serbia (–9%) and at Merkantil, the Hungarian car financing business (–11%).

[21] 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 the Bank, OTP Mortgage Bank, OTP Building Society Ltd., OTP Factoring Ltd., OTP Financing Netherlands B.V. and OTP Holding Ltd. The consolidated accounting result of these companies are segmented into OTP Core and Corporate Center, the latter being a virtual entity responsible for rendering debt and capital market related services to the subsidiaries across the Group.

| Countries | Loans and placements with other banks | Securities | Total |
|---|---|---|---|
| Hungary | 3,582,633 | 1,194,535 | 4,777,168 |
| Bulgaria | 1,297,961 | 23,881 | 1,321,842 |
| Ukraine | 820,780 | 67,989 | 888,769 |
| Russia | 793,850 | 4,866 | 798,716 |
| Romania | 468,717 | 16,771 | 485,488 |
| Croatia | 413,866 | 26,025 | 439,891 |
| Slovakia | 305,168 | 26,111 | 331,279 |
| Montenegro | 293,775 | 5,383 | 299,158 |
| Serbia | 113,618 | – | 113,618 |
| United Kingdom | 99,065 | – | 99,065 |
| Cyprus | 74,379 | – | 74,379 |
| Germany | 61,928 | – | 61,928 |
| France | 60,355 | – | 60,355 |
| Belgium | 16,547 | – | 16,547 |
| The United States | 15,633 | – | 15,633 |
| Netherlands | 13,972 | – | 13,972 |
| Other* | 38,644 | 4,827 | 43,471 |
| **Total** | **8,470,891** | **1,370,388** | **9,841,279** |

- While witnessing a 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 rather focused on the improvement of deposit margins. FX adjusted consolidated deposit volumes grew by 7%, 3% and 1% during the years 2009, 2010 and 2011 respectively. In 2011 the Ukrainian, the Russian and the Bulgarian subsidiaries were the top performers in deposit collection.
- The Group has accumulated a sizable amount of liquidity reserves since the beginning of the crisis. The operating liquidity (measured by the liquid asset surplus within one month plus the repo value of government bonds, covered bonds and municipal bonds) amounted to EUR 4.5 billion equivalent by 22 February 2012. This level of the reserves is more than enough to cover all outstanding external FX maturities of OTP Core until 2016 (the latter amounting to EUR 1.6 billion), and exceeds the requirement stemming from any potential liquidity shock (estimated at EUR 2.8 billion).

  The major source of the strong liquidity position was the successful deposit collection. Also, as FX-lending was suspended in Hungary and Ukraine, ongoing repayments of the loans generated significant additional FX liquidity. This comfortable position helped the Group to redeem its maturing obligations in the capital markets without relying on wholesale refinancing on a substantial scale. The Group paid back external obligations in the amount of EUR 1.5 billion, EUR 2.3 billion and EUR 1.4 billion in years from 2009 to 2011, respectively. Whereas the issuance of new debt was at EUR 420 million and EUR 600 million equivalent in 2010 and 2011, respectively.

  Wholesale fund raising in 2011 included RUB bond issuances of OAO OTP Bank Russia (in the amount of EUR 280 million equivalent). In Hungary the Bank started a senior bond issuance program to diversify its funding base and provide ample liquidity to the booming consumer finance business. Furthermore a syndicated loan with principal at EUR 300 million was raised by the Bank in May 2011. The CHF and USD liquidity demand of the Group decreased in line with its contracting FX lending business. This process was accelerated by the early repayment of FX mortgage loans in Hungary. To raise the required FX liquidity – primarily through long term FX-swaps – remained manageable for the Group.
- Another side effect of the crisis was the deterioration in the financial position of the clients, which led to worsening loan quality and materially increasing risk costs compared to levels obtained before the crisis. In 2011 the ratio of loans with more than 90 days of delinquency ('DPD90+ ratio') increased further to 16.6% from 13.7% at the end of 2010. The pace of deterioration, however, moderated; while in 2010 the ratio grew by 3.9%-points, in 2011 it was up by 2.9%-points. The slowdown in portfolio deterioration enabled the Group to set aside lower level of provisions

* Other category includes the PIGS countries: Portugal (HUF 8 million), Italy (HUF 3,270 million), Greece (HUF 54 million), Spain (HUF 19 million).

for impairment on loan losses on yearly basis (excluding the provisioning related to the early repayment program). At the same time, the provision coverage of DPD90+ loans (76.7% on 31 December 2011) developed favourably, in 2010 the ratio improved by 0.8%-point and by further 2.3%-points in 2011.

- The further enhancement of the strong capital position still remained a top priority for the Group in 2011. The Basel 2 capital adequacy ratio of the Group reached 17.2% at the end of 2011, which is significantly higher than the ratios at its regional competitors. The ratio slightly declined from 2010 to 2011 (–0.3%-point), the main reason was the FX-effect. The significant depreciation of the HUF in the second half of the year increased the volume of risk weighted assets, as well as the capital requirement of market risk. The Tier1 ratio (after deducting goodwill and intangible assets) stood at 13.3% and Core Tier1 ratio (further deducting hybrid instruments from the capital base) at 12.0%.
- The second European stress test results published by the European Banking Authority ('EBA') 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 was the third highest, at 13.6%. In December 2011 EBA had another test focusing on the securities exposure of banks, the result again was convincing: The Group safely meets the 9% Core Tier1 requirement.
- In 2011 the goodwill write down related to the Croatian, Montenegrin and Serbian subsidiaries resulted in a total loss of HUF 23.979 billion in the Group's consolidated financial statements under IFRS.
- Concerning the Group members, the following rating actions were taken by international rating agencies in 2011:
  – On 5 April 2011 Moody's Investors Service affirmed the Bank's standalone BFSR at D+ with stable outlook. The Bank's foreign-currency deposit ratings were affirmed at 'Baa3'. Simultaneously Moody's has lowered the Bank's local currency deposit ratings and foreign currency senior debt rating to 'Baa3' in line with the sovereign ratings. The Bank's subordinated debt rating has been changed to 'Ba1' and its junior subordinated debt rating to 'Ba2'. The outlook on BFSR is stable, while all other ratings carry negative outlook similarly to the sovereign.
  – On 15 November 2011 Standard & Poor's placed on watch negative 'BBB-/A-3' long- and short-term counterparty credit ratings on the Bank and its subsidiary OTP Mortgage Bank. The rating action followed the placement of 'BBB-/A-3' foreign and local currency sovereign credit ratings on Hungary on CreditWatch negative on 11 November 2011.
  – On 25 November 2011, reflecting the lowering of Hungarian government debt rating to 'Ba1' and the country's foreign-currency deposit ceiling to 'Ba2', Moody's Investors Service lowered the ratings of the Bank and OTP Mortgage Bank. The foreign currency deposit ratings of the Bank and OTP Mortgage Bank was downgraded to 'Ba2/Not-Prime' from 'Baa3/Prime-3' and downgraded the local-currency deposit ratings, foreign-currency senior debt rating, subordinated debt rating and junior subordinated debt rating by one notch.
  – On 16 December Moody's concluded the review for downgrade on ratings initiated on 4 October 2011 and affirmed the ratings of the Bank and OTP Mortgage Bank in accordance with its decision on 25 November 2011.
  – Standard & Poor's lowered Hungary's long- and short-term sovereign credit ratings to 'BB+/B' from 'BBB-/A-3'. As a consequence of the sovereign downgrade, on 23 December S&P lowered the ratings of the Bank and OTP Mortgage Bank to 'BB+/B' from 'BBB-/A-3'. The outlooks are negative.

Deloitte.

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Company Registration Number: 01-09-071057

# INDEPENDENT AUDITORS' REPORT

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

## Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of OTP Bank Plc., which comprise the statement of financial position as at December 31, 2011, and the related statement of recognized and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 146-219 of this Annual Report.

*Management's Responsibility for the Separate Financial Statements*

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

*Auditor's Responsibility*

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

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

*Opinion*

In our opinion, the separate financial statements give a true and fair view of the financial position of OTP Bank Plc. as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Emphasis of Matter*

We draw attention to Note 2.3 of the separate financial statements which states that the consolidated financial statements of OTP Bank Plc. prepared in accordance with International Financial Reporting Standards have been published separately. The consolidated financial statements of OTP Bank Plc. as of and for the year ended December 31, 2011 were audited by us and our report dated February 24, 2012 expressed an unqualified opinion. Our opinion is not modified in respect of this matter.

Budapest, February 24, 2012

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Gion Gábor
Deloitte Auditing and Consulting Ltd.

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## *Statement of financial position*

(separate, based on IFRS, as at 31 december 2011, in HUF million)

| | Note | 2011 | 2010 |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 4. | 226,976 | 171,677 |
| Placements with other banks, net of allowance for placement losses | 5. | 897,980 | 794,686 |
| Financial assets at fair value through profit or loss | 6. | 272,577 | 248,790 |
| Securities available-for-sale | 7. | 1,711,418 | 1,477,930 |
| Loans, net of allowance for loan losses | 8. | 2,741,827 | 2,723,784 |
| Investments in subsidiaries | 9. | 651,709 | 637,819 |
| Securities held-to-maturity | 10. | 120,467 | 154,003 |
| Property and equipment | 11. | 73,161 | 70,004 |
| Intangible assets | 11. | 31,171 | 35,145 |
| Other assets | 12. | 57,404 | 44,512 |
| **TOTAL ASSETS** | | **6,784,690** | **6,358,350** |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 13. | 871,770 | 741,845 |
| Deposits from customers | 14. | 3,416,221 | 3,279,573 |
| Liabilities from issued securities | 15. | 453,423 | 512,466 |
| Financial liabilities at fair value through profit or loss | 16. | 345,955 | 257,328 |
| Other liabilities | 17. | 267,184 | 231,288 |
| Subordinated bonds and loans | 18. | 325,997 | 297,638 |
| **TOTAL LIABILITIES** | | **5,680,550** | **5,320,138** |
| Share capital | 19. | 28,000 | 28,000 |
| Retained earnings and reserves | 20. | 1,081,659 | 1,013,941 |
| Treasury shares | 21. | (5,519) | (3,729) |
| **TOTAL SHAREHOLDERS' EQUITY** | | **1,104,140** | **1,038,212** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **6,784,690** | **6,358,350** |

Budapest, 24 February 2012

The accompanying notes to separate financial statements on pages 150 to 219 form an integral part of these separate financial statements.

## *Statement of recognized income*

(separate, based on IFRS, for the year ended 31 December 2011, in HUF million)

| | Note | 2011 | 2010 |
|---|---|---|---|
| Interest Income: | | | |
| Loans | | 230,529 | 228,847 |
| Placements with other banks, net of allowance for placement losses | | 268,998 | 297,539 |
| Securities available-for-sale | | 115,841 | 107,113 |
| Securities held-to-maturity | | 9,637 | 13,752 |
| Amounts due from banks and balances with National Bank of Hungary | | 6,274 | 4,807 |
| Securities held for trading | | 2,076 | 2,399 |
| Total Interest Income | | 633,355 | 654,457 |
| Interest Expense: | | | |
| Amounts due to banks and deposits from the National Bank of Hungary, other banks and the Hungarian Government | | 214,376 | 232,605 |
| Deposits from customers | | 128,253 | 128,885 |
| Liabilities from issued securities | | 28,370 | 33,892 |
| Subordinated bonds and loans | | 16,538 | 16,243 |
| Total Interest Expense | | 387,537 | 411,625 |
| **NET INTEREST INCOME** | | **245,818** | **242,832** |
| Provision for impairment on loan and placement losses | 5.,8.,22. | 71,327 | 97,540 |
| Loss on loans related to early repayment | 22. | 5,112 | - |
| **NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES** | | **169,379** | **145,292** |
| Income from fees and commissions | 23. | 116,969 | 145,832 |
| Expenses from fees and commissions | 23. | 21,613 | 20,444 |
| **NET PROFIT FROM FEES AND COMMISSIONS** | | **95,356** | **125,388** |
| Foreign exchange gains | | 36,668 | 12,233 |
| Gains on securities, net | | 5,331 | 2,209 |
| Dividend income | | 78,831 | 57,651 |
| Other operating income | 24. | 4,941 | 1,671 |
| Net other operating expenses | 24. | (84,723) | (19,542) |
| -from this: provision for impairment on investments in subsidiaries | | (83,531) | (20,683) |
| **Net operating income** | | **41,048** | **54,222** |
| Personnel expenses | 24. | 73,555 | 75,637 |
| Depreciation and amortization | 24. | 23,767 | 24,141 |
| Other administrative expenses | 24. | 82,718 | 90,490 |
| **Other administrative expenses** | | **180,040** | **190,268** |
| **PROFIT BEFORE INCOME TAX** | | **125,743** | **134,634** |
| Income tax | 25. | 14,995 | 9,970 |
| **NET PROFIT FOR THE YEAR** | | **110,748** | **124,664** |
| Earnings per share (in HUF) | | | |
| Basic | 35. | 399 | 449 |
| Diluted | 35. | 399 | 444 |

## *Statement of comprehensive income*

(separate, based on IFRS, for the year ended 31 December 2011, in HUF million)

| | 2011 | 2010 |
|---|---|---|
| **NET PROFIT FOR THE YEAR** | **110,748** | **124,664** |
| Fair value adjustment of securities available-for-sale | (22,606) | (19,667) |
| **NET COMPREHENSIVE INCOME** | **88,142** | **104,997** |

The accompanying notes to separate financial statements on pages 150 to 219 form an integral part of these separate financial statements.

## *Statement of cash flows*

(separate, based on IFRS, for the year ended 31 December 2011, in HUF million)

| OPERATING ACTIVITIES | Note | 2011 | 2010 |
|---|---|---|---|
| **Profit before income tax** | | **125,743** | **134,634** |
| Depreciation and amortization | | 23,767 | 24,141 |
| Release of provision for impairment on securities available-for-sale | 7. | – | (5,220) |
| Provision for impairment on loan and placement losses | 5.,8.,22, | 76,439 | 97,540 |
| Provision for impairment on investments in subsidiaries | 9. | 83,531 | 20,683 |
| Release of provision for impairment on securities held-to-maturity | 10. | – | (4,164) |
| (Release of provision)/provision for impairment on other assets | 12. | (472) | 567 |
| Release of provision on off-balance sheet commitments and contingent liabilities | 17. | (3,583) | (10,272) |
| Share-based payment | 28. | 6,188 | (11,821) |
| Unrealised gains on fair value adjustment of securities available-for-sale and held for trading | | 1,757 | 9,031 |
| Unrealised (losses)/gains on fair value adjustment of derivative financial instruments | | (5,570) | 1,737 |
| **Net changes in assets and liabilities in operating activities** | | | |
| Changes in financial assets at fair value through profit or loss | | 19,536 | 28,791 |
| Changes in financial liabilities at fair value through profit or loss | | (431) | (528) |
| Net (increase) in loans, net of allowance for loan losses | | (47,435) | (79,755) |
| (Increase)/decrease in other assets, excluding advances for investments and before provisions for losses | | (22,164) | 18,799 |
| Net increase/(decrease) in deposits from customers | | 136,517 | (85,658) |
| Increase/(decrease) in other liabilities | | 45,154 | (5,030) |
| Net decrease/(increase) in the compulsory reserve established by the National Bank of Hungary | | 2,712 | (10,942) |
| Dividend income | | (78,831) | (57,651) |
| Income tax paid | | (11,557) | (7,404) |
| **Net cash provided by operating activities** | | **351,301** | **57,478** |
| **INVESTING ACTIVITIES** | | | |
| Net (increase)/decrease in placements with other banks before allowance for placement losses | | (99,807) | 201,037 |
| Net (increase)/decrease in securities available-for-sale | | (261,740) | 151,572 |
| Net increase in investments in subsidiaries before provision for impairment | | (97,421) | (19,760) |
| Dividend income | | 78,831 | 57,651 |
| Net decrease in securities held-to-maturity | | 33,766 | 65,912 |
| Additions to property, equipment and intangible assets | | (44,662) | (34,441) |
| Disposals to property, equipment and intangible assets | | 12,890 | 9,155 |
| Net increase in advances for investments included in other assets | | (66) | (15) |
| **Net cash (used in)/provided by investing activities** | | **(378,209)** | **431,111** |
| **FINANCING ACTIVITIES** | | | |
| Net increase/(decrease) in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | | 129,925 | (410,286) |
| Cash received from issuance of securities | | 480,103 | 355,776 |
| Cash used for redemption of issued securities | | (526,817) | (456,270) |
| Increase in subordinated bonds and loans | | 28,359 | 10,317 |
| Payments to ICES holders | | (4,632) | (5,626) |
| Net change in Treasury shares | | (1,815) | 20 |
| Dividend paid | | (20,204) | (2) |
| **Net cash provided by/(used in) financing activities** | | **84,919** | **(506,071)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **58,011** | **(17,482)** |
| **Cash and cash equivalents at the beginning of the year** | | **88,197** | **105,679** |
| **Cash and cash equivalents at the end of the year** | | **146,208** | **88,197** |
| **Analysis of cash and cash equivalents** | | | |
| Cash, amounts due from banks and balances with the National Bank of Hungary | | 171,677 | 178,217 |
| Compulsory reserve established by the National Bank of Hungary | | (83,480) | (72,538) |
| **Cash and cash equivalents at the beginning of the year** | | **88,197** | **105,679** |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 4. | 226,976 | 171,677 |
| Compulsory reserve established by the National Bank of Hungary | 4. | (80,768) | (83,480) |
| **Cash and cash equivalents at the end of the year** | | **146,208** | **88,197** |

The accompanying notes to separate financial statements on pages 150 to 219 form an integral part of these separate financial statements.

## *Statement of changes in shareholders' equity*

(separate, based on IFRS, for the year ended 31 December 2011, in HUF million)

| | Note | Share Capital | Capital reserve | Share-based payment reserve | Retained earnings and reserves | Option reserve | Treasury Shares | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2010** | | **28,000** | **52** | **6,830** | **976,204** | **(55,468)** | **(3,774)** | **951,844** |
| Net profit for the year | | – | – | – | 124,664 | – | – | 124,664 |
| Other comprehensive income | | – | – | – | (19,667) | – | – | (19,667) |
| Share-based payment | 28. | – | – | (6,802) | (5,019) | – | – | (11,821) |
| Payments to ICES holders | | – | – | – | (6,828) | – | – | (6,828) |
| Sale of treasury shares | | – | – | – | – | – | 460 | 460 |
| Loss on sale of treasury shares | | – | – | – | (25) | – | – | (25) |
| Acquisition of treasury shares | | – | – | – | – | – | (415) | (415) |
| **Balance as at 31 December 2010** | | **28,000** | **52** | **28** | **1,069,329** | **(55,468)** | **(3,729)** | **1,038,212** |
| Net profit for the year | | – | – | – | 110,748 | – | – | 110,748 |
| Other comprehensive income | | – | – | – | (22,606) | – | – | (22,606) |
| Share-based payment | 28. | – | – | 6,188 | – | – | – | 6,188 |
| Payments to ICES holders | | – | – | – | (6,427) | – | – | (6,427) |
| Sale of treasury shares | | – | – | – | – | – | 2,963 | 2,963 |
| Loss on sale of treasury shares | | – | – | – | (25) | – | – | (25) |
| Acquisition of treasury shares | | – | – | – | – | – | (4,753) | (4,753) |
| Dividend for the year 2010 | | – | – | – | (20,160) | – | – | (20,160) |
| **Balance as at 31 December 2011** | | **28,000** | **52** | **6,216** | **1,130,859** | **(55,468)** | **(5,519)** | **1,104,140** |

The accompanying notes to separate financial statements on pages 150 to 219 form an integral part of these separate financial statements.

# NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

## NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

### 1.1. General information

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

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

These financial statements were approved by the board of directors and authorised for issue on 30 March 2012.

| | 2011 | 2010 |
|---|---|---|
| **The structure of the Share capital by shareholders (%):** | | |
| Domestic and foreign private and institutional investors | 96% | 96% |
| Employees | 2% | 2% |
| Treasury shares | 2% | 2% |
| **Total** | **100%** | **100%** |

The Bank provides a full range of commercial banking services through a nationwide network of 377 branches in Hungary.

| | 2011 | 2010 |
|---|---|---|
| **Number of the employees of the Bank:** | | |
| Number of employees | 7,957 | 7,800 |
| Average number of employees | 7,857 | 7,777 |

### 1.2. Accounting

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

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

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

The separate financial statements have been prepared in accordance with IFRS as adopted by the European Union (the 'EU') except for the matters discussed in Note 2.3. IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement ('IAS 39') which has not been approved by the EU. As the Bank does not apply portfolio hedge accounting under IAS 39, there would be no impact on these separate 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 2011

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- 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),
- Various standards and interpretations (Amendment) 'Improvements to IFRSs (2010)' 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, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- IFRIC 14 (Amendment) 'IAS 19 — 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 had no significant impact on the separate financial statements of the Bank.

### 1.2.2. Amendments to IFRSs effective on or after 1 January 2012, which are not yet endorsed by EU, not yet adopted

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

- IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2015),
- IFRS 10 'Consolidated Financial Statements' (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 'Disclosures of Involvement with Other Entities' (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 'Fair Value Measurement' (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (revised in 2011) 'Separate Financial Statements' (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) 'Investments in Associates and Joint Ventures' (effective for annual periods beginning on or after 1 January 2013),

– IFRS 1 (Amendment) 'First-time Adoption of IFRS' - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
– IFRS 7 (Amendment) 'Financial Instruments: Disclosures'- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
– IAS 1 (Amendment) 'Presentation of financial statements' -Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
– IAS 12 (Amendment) 'Income Taxes' - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
– IAS 19 (Amendment) 'Employee Benefits' – Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
-– IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine' (effective for annual periods beginning on or after 1 January 2013).

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1. Basis of presentation

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

### 2.2. Foreign currency translation

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

## 2.3. Consolidated financial statements

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

## 2.4. Investments in subsidiaries

Investments in subsidiaries comprise those investments where the OTP Bank, through direct and indirect ownership interest, controls the financial and operating policies of the investee.

Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.
Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

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

OTP Bank in its strategic plan has taken into consideration the cautious recovery of global economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

## 2.5. Securities held-to-maturity

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Bank has the expressed intention and ability to hold to maturity (securities held-to-maturity) are measured at amortised cost, less any impairment losses 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, mortgage bonds and Hungarian Government discounted Treasury Bills.

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

### *2.6.1 Securities held for trading*

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognized in profit or loss and are included in the separate statement of recognized income for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, securities issued by NBH, shares in non-financial commercial companies and shares in investment funds.

### *2.6.2. Derivative financial instruments*

In the normal course of business, the Bank is a party to contract for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Bank to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.
Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the separate 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 separate 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 separate 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 hedged risk are recognized as reserve in the shareholders' equity. Amounts deferred in equity are transferred to the separate statement of recognized income and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period. The ineffective element of the hedge is charged directly to the separate statement of recognized income.
Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the separate 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. Available-for-sale securities are measured at subsequent reporting dates at fair value. Unrealised 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 realised in profit and loss for the applicable period. Securities available-for-sale consist of Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in investment funds, bonds issued by NBH and other securities.
The provision for impairment is calculated based on discounted cash flow methodology, using the expected future cash flow and original effective interest rate.
Available-for-sale securities are remeasured at fair value based on quoted prices or values derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of the future cash flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

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

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

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

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

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

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified and for potential losses which may be present based on portfolio performance. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account 'Provisions for impairment on loan and placement losses' in the statement of recognized income. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income.

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

## 2.9. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the statement of financial position and the consideration received is recorded in Other liabilities or Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks, or Deposits from customers. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the statement of financial position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement.
In the case of security lending transactions the Bank do not recognize or derecognize 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 recognized for the consideration amount.

## 2.10. Property, equipment and intangible assets

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

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

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

## 2.11. Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. In connection to the financial liabilities at fair value through profit or loss, the Bank presents the amount of change in their fair value originated from the changes of market conditions and business environment. Financial liabilities at fair value through profit or loss are either financial liabilities held for trading or they are designated upon initial recognition as at fair value through profit or loss. In the case of financial liabilities measured at amortized cost fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument. In certain cases the Bank repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the net profit or loss for the period and included in other operating income.

## 2.12. Leases

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

## 2.13. Treasury shares

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

## 2.14 Interest income and interest expense

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

## 2.15. Fees and Commissions

Fees and commissions are recognized in the separate 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 IAS 39.

## 2.16. Dividend income

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

## 2.17. Income tax

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

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

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

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

## 2.19. Share-based payment

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

## 2.20. Separate statement of cash flows

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

## 2.21. Segment reporting

The Bank has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Based on the above, the segments identified by the Bank are the business and geographical segments.

At separate level, the Management does not separate and makes decisions based on different segments, the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the business and geographical segments.

The Group's reportable segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

## 2.22. Comparative figures

Certain amounts in the separate financial statements for the year ended 31 December 2010 have been restructured to conform with the current year presentation.

## 2.23. Events in accordance with early repayment at fixed exchange rates

The Hungarian Government announced the Country Protection Action Plan on 12 September 2011. The most significant arrangement, which directly affected OTP Bank, was the opportunity of early repayment at fixed exchange rates.

If certain conditions completed by the borrowers FX based mortgage loans can be repaid in one amount at fixed conversion rate ('early repayment') determined in the Law on Credit Institutions (Swiss Franc 180 HUF/CHF, Euro 250 HUF/EUR, Japanese Yen 2 HUF/JPY). Act CXXI of 2011 ('On the amendment of the acts in connection with the protection of homes') on early repayment was acted on 29 September 2011. Under the law the bank may not charge any fees or other commissions for early repayment. Furthermore banks shall carry the loss derived from the difference between the book value recorded on market price and the paid amount calculated at fixed exchange rate as an early repayment. If the borrower meets the conditions determined by the law, the lender is not allowed to refuse the early repayment, and shall prepare the settlement of the contract in 60 days.

The final closing date of the opportunity of early repayment is 28 February 2012.

On 10 October 2011 OTP Bank and OTP Mortgage Bank Ltd. ('OTP Mortgage Bank') have made a guarantee contract about a facility in the amount of HUF 200 billion. Based on this agreement the OTP Bank must compensate the loss of OTP Mortgage Bank on early repayment of FX based mortgage loans. The fee for guarantee was determined in the amount of HUF 5 billion.

On 26 October 2011 OTP Bank and OTP Flat Lease Ltd. ('OTP Flat Lease') have made a guarantee contract about a facility in the amount of HUF 2 billion. Based on this agreement the OTP Bank must compensate the loss of OTP Flat Lease on early repayment of FX based mortgage loans. The fee for guarantee was determined in the amount of HUF 25 million.

In accordance with the guarantee contract OTP Bank compensates the losses derived from the early repayment of OTP Mortgage Bank and OTP Flat Lease.

Regarding to Act LIX of 2006 the financial institution can reduce the amount of the payable bank tax as a tax refund with 30% of the paid FX based mortgage loans. According to paragraph 11 if the tax refund exceeds the bank tax determined for the year 2011 (based on paragraph 6), the difference can be claimed at tax determination by the related parties (one or more financial institution or insurance company) ('tax refund beneficiary') of the financial institution at 1 December 2011.

Up to 31 December 2011 – together at OTP Bank, OTP Mortgage Bank and OTP Flat Lease – 21,146 customers paid back their FX mortgage loans. Therefore provision for impairment on loan losses in the amount of HUF 32,152 million was recognized at OTP Group. Provision for impairment on loan losses in the amount of HUF 2,962 million was recognized at OTP Bank relating to early repayment of OTP Bank's own customers.
According to OTP Bank's accounting policy the balance sheet date considering the events of the early repayment is 30 January 2012. Consequently OTP Bank recognizes as provision for impairment the calculated effect of the early repayment claimed and paid till 30 January 2012. Whole amount of the expected loss relating to the transactions claimed but not yet paid up to 30 January 2012 is impaired by OTP Bank as the customers could have presented the collateral or the collateral certificate relating to the repayment till this date – according to Act CXII of 1996 on Credit Institutions Section 200/B paragraph 2 to take effect on 29 December 2011.
As a consequence of guarantee contract OTP Bank recognized provision on this expected loss of above mentioned subsidiaries in the separated financial statements.

As at 31 December 2011 during balance sheet compilation period – together at OTP Bank and above subsidiaries – 14,854 customers paid back their FX mortgage loans and presented collateral certificate relating to early repayment on mortgage loan that in connection with provision in the amount of HUF 34,489 million was recognized in OTP Group. Provision in the amount of HUF 2,164 million was recognized at OTP Bank relating to early repayment of OTP Bank's own customers.

| | **2011** |
|---|---|
| Provision for impairment on loan losses relating to early repayment at OTP Bank | 2,962 |
| Provision recognized at OTP Bank relating to early repayment | 2,164 |
| **Provision for impairment on loan losses relating to early repayment at OTP Bank** | **5,126** |

Investments in subsidiaries have been raised with HUF 47,027 million – with the amount paid as compensation for OTP Mortgage Bank and OTP Flat Lease within the frames of guarantee contracts – as at 31 December 2011 and parallel with that provision for impairment are recognized on investments at the same amount.

| | **2011** |
|---|---|
| Provision for impairment on loan losses relating to early repayment at OTP Mortgage Bank and OTP Flat Lease | 61,515 |
| Loan losses recognized as provision are deducted at OTP Mortgage Bank as according to contract this loss is not refunded by OTP Bank | (588) |
| Tax refund at OTP Mortgage Bank and OTP Flat Lease – loss is not refunded by OTP Bank | (8,875) |
| **Refundable loss for OTP Mortgage Bank and OTP Flat Lease recognizing at OTP Bank in connection with the guarantee** | **52,052** |
| Fee for guarantee paid by OTP Mortgage Bank and OTP Flat Lease | (5,025) |
| **Refundable loss for OTP Mortgage Bank and OTP Flat Lease recognizing at OTP Bank in connection with the guarantee – Recognizing as increasing of Investments in subsidiaries** | **47,027** |

In case of loans related to early repayment, interest was recognized at fixed exchange rate in interest income.
During calculating the loss arising from the early repayment, loss falling to share of interest was taken into account which was recognized on the line of Interest income from loans. (See Note 22.)

Based on the arising losses at OTP Bank, OTP Mortgage Bank, OTP Flat Lease, Merkantil Bank Ltd. ('Merkantil Bank') and Merkantil Car Ltd. ('Merkantil Car') total HUF 20,606 million bank tax refund was carried out at the Group's level from the bank tax paid and recognized in 2011. The Bank recognized HUF 10,467 million as tax refund in the separate financial statements. The difference will be asserted as tax refund by the other subsidiaries of the Group.

| | 2011 |
|---|---|
| Total expenditure at OTP Group | 66,641 |
| During calculation of amount deductible from bank tax, provision for impairment owing to classification is taken into consideration | 2,047 |
| Total expenditure at OTP Group considered at calculation of bank tax | 68,688 |
| **30% of total expenditure at OTP Group refundable from bank tax paid in 2011** | **20,606** |
| Claim for bank tax refund at subsidiaries of OTP Group | |
| OTP Bank | 10,467 |
| OTP Mortgage Bank | 8,759 |
| OTP Flat Lease | 116 |
| Merkantil Bank | 1,120 |
| Merkantil Car | 144 |
| **Total** | **20,606** |

NBH has invited tenders for selling euro from 3 October 2011 what is announced regularly till 29 February 2012, above all weekly if necessary more frequently. Credit institution is obliged to utilize the same sum of foreign exchange as the amount published in information related to realized early repayment – according to Act on Credit Institutions 200/B – by the credit bank or the corresponding one. Credit institutions are obliged to exchange for HUF the unutilized part of EUR stock at original rate between 1 and 14 March 2012.

OTP Bank participated in three tenders on account of hedging the loss incurred as a consequence of early repayment at OTP Group.

| | Tender I. | Tender II. | Tender III. |
|---|---|---|---|
| Trade date of tender | 14/09/2011 | 03/10/2011 | 02/01/2012 |
| Foreign exchange rate | 287.05 | 294.45 | 315.5 |
| EUR stock | 350,000,000 | 200,000,000 | 189,000,000 |

EUR stock was recognized in OTP Bank's separate financial statements, in connection with that foreign exchange gains were realized in the amount of HUF 9,313 million in the separate financial statements as at 31 December 2011. This sum is reducing the loss incurred related to early repayment at the level of OTP Group.

## 2.24. The agreement on 15 December 2011 between the Hungarian Government and the Hungarian Banking Association

The agreement subscribed by the Hungarian Government ('Government') and the Hungarian Banking Association ('HBA') on 15 December 2011 was partly acted in 2011, and no further agreement elements were acted until 24 February 2012 therefore it has no effects for the year 2011.

### *2.24.1. Measures on behalf of performing FX mortgage debtors with up to 90 days of delinquency:*

1. Performing FX mortgage debtors with up to 90 days of delinquency are entitled to opt for the program of fixed exchange rate scheme until the end of 2012. During the program in the range HUF/CHF 180–270, HUF/EUR 250–340 and HUF/JPY 2.5–3.3 FX mortgage debtors are obliged to pay off monthly instalments calculated at the lower bound of the range. The difference between the market and the fixed rate on the principal part of the monthly instalments will be accumulated in a special buffer account over the fixed exchange rate period. This amount is to be fully borne by the client in compliance with the effective special account regulations.
2. 50% of the interest repayments above the cap shall be borne by financial institutions and 50% by the Government. Regarding the interests to be paid both by the banks and the Government, the settling of accounts shall take place on a quarterly basis.

### *2.24.2. Measures on behalf of FX mortgage debtors with more than 90 days of delinquency:*

1. Members of HBA have undertaken to convert the FX mortgage loans, reaching the sum of minimum wage on 30 September 2011, to HUF

ones in the case of debtors with more than 90 days of delinquency and they cancel 25% such debts by 15 May 2012, provided that the total market value of real estate serving as collateral did not exceeded HUF 20 million when the FX mortgage loan contract was concluded. The conversion is to take place at the average of the mid rates of the respective currencies published by NBH for the period between 15 March and 15 April 2012. Credit institutions are entitled to deduct 30% of their cancelled claims from their bank tax due in 2012.

2. In order to help the payment of the reduced debt after the preferential conversion, the Government provides a gradually decreasing interest rate subsidy to eligible clients. Creditors may reschedule the loans of debtors entering the interest rate subsidy scheme so that within 5 years from the start of the scheme debtors shall only pay interest rates.

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

The presentation of separate 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. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

### 3.1. Impairment on loans and placements

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

### 3.2. Valuation of instruments without direct quotations

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

### 3.3. Provisions

Provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and

expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 17.)
A provision is recognized by the Bank when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

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

| | 2011 | 2010 |
|---|---|---|
| **Cash on hand:** | | |
| In HUF | 52,527 | 57,246 |
| In foreign currency | 11,569 | 4,995 |
| | **64,096** | **62,241** |
| **Amounts due from banks and balances with National Bank of Hungary:** | | |
| Within one year: | | |
| In HUF | 137,412 | 100,524 |
| In foreign currency | 24,982 | 8,510 |
| | **162,394** | **109,034** |
| Accrued interest | 486 | 402 |
| **Total** | **226,976** | **171,677** |
| **Compulsory reserve** | **80,768** | **83,480** |
| **Rate of the compulsory reserve** | **2%** | **2%** |

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

| | 2011 | 2010 |
|---|---|---|
| Within one year: | | |
| In HUF | 17,230 | 52,953 |
| In foreign currency | 640,438 | 540,194 |
| | **657,668** | **593,147** |
| Over one year | | |
| In HUF | 300 | 300 |
| In foreign currency | 238,004 | 200,707 |
| | **238,304** | **201,007** |
| Total placements | 895,972 | 794,154 |
| Accrued interest | 2,146 | 1,482 |
| Provision for impairment on placement losses | (138) | (950) |
| **Total** | **897,980** | **794,686** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 950 | 1,697 |
| Provision for the period | 132 | 173 |
| Release of provision | (944) | (920) |
| **Balance as at 31 December** | **138** | **950** |

### Interest conditions of placements with other banks:

| | 2011 | 2010 |
|---|---|---|
| Placements with other banks in HUF | 7.56%–15.23% | 6.04%–10.9% |
| Placements with other banks in foreign currency | 0.73%–11.9% | 0.5%–12.6% |

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

### Securities held for trading:

| | 2011 | 2010 |
|---|---|---|
| Corporate shares | 87,871 | 105,832 |
| Government bonds | 22,846 | 13,784 |
| Mortgage bonds | 5,776 | 4,201 |
| Hungarian government discounted Treasury Bills | 4,146 | 3,635 |
| Securities issued by credit institutions | 2,093 | – |
| Securities issued by the NBH | 1,715 | 19,984 |
| Hungarian government interest bearing Treasury Bills | 115 | 26 |
| Other securities | 314 | 153 |
| | 124,876 | 147,615 |
| Accrued interest | 1,083 | 244 |
| **Subtotal** | **125,959** | **147,859** |

### Derivative financial instruments designated as held for trading:

| | 2011 | 2010 |
|---|---|---|
| CCIRS* and mark-to-market CCIRS swaps designated as held for trading | 66,281 | 42,807 |
| Interest rate swaps designated as held for trading | 39,442 | 34,414 |
| Foreign currency swaps designated as held for trading | 24,329 | 18,084 |
| Other derivative transactions | 16,566 | 5,626 |
| **Subtotal** | **146,618** | **100,931** |
| **Total** | **272,577** | **248,790** |

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

| | 2011 | 2010 |
|---|---|---|
| Within five years: | | |
| variable interest | 1,042 | 19 |
| fixed interest | 23,845 | 36,191 |
| | **24,887** | **36,210** |
| Over five years: | | |
| fixed interest | 12,104 | 5,559 |
| | **12,104** | **5,559** |
| Non-interest bearing securities | 87,885 | 105,846 |
| **Total** | **124,876** | **147,615** |

| | 2011 | 2010 |
|---|---|---|
| Securities held for trading denominated in HUF (%) | 95% | 95% |
| Securities held for trading denominated in Foreign currency (%) | 5% | 5% |
| **Securities held for trading total** | **100%** | **100%** |
| Government securities denominated in HUF (%) | 84% | 80% |
| Government securities denominated in foreign currency (%) | 16% | 20% |
| **Government securities total** | **100%** | **100%** |
| Interest rates on securities held for trading (%) | 1.6%–11.9% | 3.6%–10% |

*CCIRS: Cross Currency Interest Rate Swap

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

| | 2011 | 2010 |
|---|---|---|
| Mortgage bonds | 863,422 | 778,553 |
| Bonds issued by NBH | 497,198 | 300,648 |
| Government bonds | 260,681 | 318,637 |
| Other securities | 49,623 | 40,639 |
| – listed securities | 27,414 | 19,851 |
| in HUF | – | – |
| in foreign currency | 27,414 | 19,851 |
| – non-listed securities | 22,209 | 20,788 |
| in HUF | 20,387 | 18,398 |
| in foreign currency | 1,822 | 2,390 |
| | 1,670,924 | 1,438,477 |
| Accrued interest | 40,494 | 39,453 |
| **Securities available-for-sale total** | **1,711,418** | **1,477,930** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | – | 5,220 |
| Release of provision | – | (523) |
| Use of provision | – | (4,697) |
| **Balance as at 31 December** | **–** | **–** |

| | 2011 | 2010 |
|---|---|---|
| Securities available-for-sale denominated in HUF | 70% | 72% |
| Securities available-for-sale denominated in foreign currency | 30% | 28% |
| **Securities available-for-sale total** | **100%** | **100%** |
| Interest rates on securities available-for-sale denominated in HUF | 5.5%–12% | 5.5%–12% |
| Interest rates on securities available-for-sale denominated in foreign currency | 3.9%–10.5% | 3.6%–6.8% |

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

| | 2011 | 2010 |
|---|---|---|
| Within five years: | | |
| variable interest | 460,285 | 14,110 |
| fixed interest | 894,934 | 961,968 |
| | **1,355,219** | **976,078** |
| Over five years: | | |
| fixed interest | 288,769 | 444,001 |
| | **288,769** | **444,001** |
| Non-interest bearing securities | 26,936 | 18,398 |
| **Total** | **1,670,924** | **1,438,477** |

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

| | 2011 | 2010 |
|---|---|---|
| Net loss reclassified from equity to statement of recognized income | 585 | 491 |
| **Fair value of the hedged securities** | | |
| Corporate bonds | 16,383 | 16,342 |
| **Total** | **16,383** | **16,342** |

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

| | 2011 | 2010 |
|---|---|---|
| Short-term loans and trade bills (within one year) | 995,053 | 664,197 |
| Long-term loans and trade bills (over one year) | 1,891,447 | 2,177,421 |
| **Loans gross total** | **2,886,500** | **2,841,618** |
| Accrued interest | 15,651 | 16,787 |
| Provision of impairment on loan losses | (160,324) | (134,621) |
| **Total** | **2,741,827** | **2,723,784** |

### *An analisys of the loan portfolio by currency:*

| | 2011 | 2010 |
|---|---|---|
| In HUF | 32% | 34% |
| In foreign currency | 68% | 66% |
| **Total** | **100%** | **100%** |

### *Interest rates of the loan portfolio are as follows:*

| | 2011 | 2010 |
|---|---|---|
| Loans denominated in HUF, with a maturity within one year | 8.2%-29% | 7.8%-29% |
| Loans denominated in HUF, with a maturity over one year | 3%-24.8% | 3%-24.8% |
| Loans denominated in Foreign currency | 1.8%-28% | 1.8%-24.9% |
| Gross loan portfolio on which interest to customers is not being accrued | 9.35% | 8.4% |

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| Corporate loans | 2,044,081 | 71% | 1,944,825 | 68% |
| Consumer loans | 350,256 | 12% | 365,648 | 13% |
| Municipality loans | 308,334 | 11% | 322,120 | 11% |
| Housing loans | 115,044 | 4% | 131,609 | 5% |
| Mortgage backed loans | 68,785 | 2% | 77,416 | 3% |
| **Total** | **2,886,500** | **100%** | **2,841,618** | **100%** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 134,621 | 89,587 |
| Provision for the period | 129,912 | 184,955 |
| Release of provision | (104,209) | (139,921) |
| **Balance as at 31 December** | **160,324** | **134,621** |

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

| | 2011 | 2010 |
|---|---|---|
| Release of provision for impairment on placement losses | (656) | (780) |
| Provision for impairment on loan losses | 77,095 | 98,320 |
| **Total** | **76,439** | **97,540** |

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

## NOTE 9: MAJOR SUBSIDIARIES AND ASSOCIATES (in HUF million)

| | 2011 | 2010 |
|---|---|---|
| Investments in subsidiaries: | | |
| Controlling interest | 880,136 | 784,041 |
| Other | 1,021 | 1,006 |
| | 881,157 | 785,047 |
| Provision for impairment | (229,448) | (147,228) |
| **Total** | **651,709** | **637,819** |

### *Major subsidiaries*

Investments in companies in which the Bank has a controlling interest are detailed below.

All companies are incorporated in Hungary unless indicated otherwise:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **% Held (direct and indirect)** | **Gross book value** | **% Held (direct and indirect)** | **Gross book value** |
| OTP Bank JSC (Ukraine) | 100% | 266,513 | 100% | 266,512 |
| DSK Bank EAD (Bulgaria) | 100% | 86,832 | 100% | 86,832 |
| OAO OTP Bank (Russia) | 97.75% | 74,263 | 95.87% | 73,445 |
| OTP Mortgage Bank Ltd. | 100% | 73,440 | 100% | 27,000 |
| OTP banka Hrvatska d.d. (Croatia) | 100% | 72,940 | 100% | 72,940 |
| OTP banka Srbija a.d. (Serbia) | 92.60% | 66,984 | 91.43% | 55,997 |
| OOO AlyansReserv (Russia) | 100% | 50,074 | 100% | 50,074 |
| Crnogorska komercijalna banka a.d. (Montenegro) | 100% | 49,657 | 100% | 46,998 |
| OTP Bank Romania S.A. (Romania) | 100% | 45,204 | 100% | 45,204 |
| OTP Life Annuity Ltd. | 100% | 15,300 | 100% | 1,600 |
| OTP Factoring Ltd. | 100% | 14,775 | 100% | 225 |
| OTP Banka Slovensko a.s. (Slovakia) | 98.94% | 13,611 | 98.82% | 10,516 |
| Monicomp Ltd. | 100% | 9,234 | 100% | 9,234 |
| Air-Invest Ltd. | 100% | 8,898 | 100% | 8,298 |
| Bank Center No. 1. Ltd. | 100% | 7,330 | 100% | 7,330 |
| Inga Two Ltd. | 100% | 5,892 | 100% | 5,892 |
| OTP Real Estate Leasing Ltd. | 100% | 2,499 | 100% | 410 |
| OTP Funds Servicing and Consulting Ltd. | 100% | 2,469 | 100% | 2,469 |
| OTP Holding Ltd. (Cyprus) | 100% | 2,000 | 100% | 2,000 |
| OTP Building Society Ltd. | 100% | 1,950 | 100% | 1,950 |
| Bajor-Polár Center Ltd. | 100% | 1,933 | – | – |
| OTP Fund Management Ltd. | 100% | 1,653 | 100% | 1,653 |
| Merkantil Bank Ltd. | 100% | 1,600 | 100% | 1,600 |
| OTP Real Estate Ltd. | 100% | 1,420 | 100% | – |
| OTP Real Estate Investment Fund Management Ltd. | 100% | 1,352 | 100% | 1,353 |
| CIL Babér Ltd. | 100% | 1,025 | 100% | 1,025 |
| OTP Financing Netherlands B.V. (Netherlands) | 100% | 481 | 100% | 481 |
| OTP Card Factory Ltd. | 100% | 450 | 100% | 450 |
| Portfolion Ltd. | 100% | 150 | 100% | 150 |
| HIF Ltd. | 100% | 81 | 100% | 81 |
| OTP Hungaro-Projekt Ltd. | 100% | 81 | 100% | 81 |
| Sinvest Ltd. "v.a." | – | – | 100% | 1,311 |
| Omega Interconsult SRL | – | – | 100% | 885 |
| Other | | 45 | | 45 |
| **Total** | | **880,136** | | **784,041** |

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

| | 2011 | 2010 |
|---|---|---|
| **Balance as at 1 January** | **147,228** | **126,545** |
| Provision for the period | 83,531 | 20,683 |
| Release of provision | (1,311) | – |
| **Balance as at 31 December** | **229,448** | **147,228** |

The provision for impairment on OTP Bank JSC (Ukraine) was HUF 97,526 million, for OTP banka Srbija a.d. was HUF 25,284 million, for Crnogorska komercijalna banka a.d was HUF 18,519 million as at 31 December 2011.

OTP Bank recognized provision for impairment in amount of HUF 9,232 million for OTP banka Hrvatska d.d. and HUF 11,683 million for OTP banka Srbija a.d. in 2011.

### *Major associates*

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

### *As at 31 December 2011*

| | Moneta a.d. | Company for Cash Services LLC | Agóra-Kapos Ltd. | Suzuki Pénzügyi Szolgáltató Ltd. | Total |
|---|---|---|---|---|---|
| Assets | 436 | 2,132 | 157 | 611 | 3,336 |
| Liabilities | 336 | 204 | 108 | 9 | 657 |
| Shareholders' equity | 100 | 1,928 | 49 | 602 | 2,679 |
| Retained earnings and reserves | (58) | – | 17 | 544 | 503 |
| Total income | 304 | 892 | 934 | 44 | 2,174 |
| Profit before tax | 59 | 27 | 36 | 16 | 138 |
| Net profit | 59 | 27 | 32 | 14 | 132 |

### *As at 31 December 2010*

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

Based on sale agreement made on 2 February 2011 relating to customer investment services Est Media Plc. (previously econet.hu) shares held by the Bank in amount of 7,310,000 pieces decreased to 60,000 pieces. Therefore the Bank's influence on econet.hu decreased to 0.1%.

On 10 August 2011 the Court of Budapest Municipality acting as a Court of Registration registered a capital increase in OTP Life Annuity Ltd., a subsidiary 100% owned by OTP Bank. As a result, the registered capital of OTP Life Ltd. Has increased to HUF 2 billion.

On 14 September 2011 the Bank increased the capital of its Montenegrin subsidiary that has been registered by the Montenegrin Court of Registration. Accordingly the statutory capital of Crnogorska komercijalna banka a.d (Montenegro) has been increased from EUR 96,876,521 to EUR 106,876,368.

On 5 December 2011 the Court of Budapest Municipality acting as a Court of Registration registered a capital increase in OTP Flat Lease Ltd., subsidiary 100% owned by OTP Bank.
As a result, the registered capital of OTP Flat Lease Ltd. has increased from HUF 194 million to HUF 500 million.

Following the resolution of the Annual Meeting at OTP banka Srbija a.d. on 29 September 2011 OTP Bank completed a capital increase. As a result, the subsidiary's registered capital was increased from 6,600,560,980 RSD by 547,813,320 RSD through issuing 11,058 ordinary shares with a face value of 49,540 RSD/share.
On 12 December 2011 OTP Bank completed a capital increase. As a result, the registered capital of the Serbian subsidiary was increased by 495,400,000 RSD through issuing 10,000 ordinary shares with a face value of 49,540 RSD/share. Following the capital increase, the registered capital of the Serbian subsidiary grew from 7,148,374,300 RSD to 7,643,774,300 RSD, at the same time the ownership ratio of OTP Bank grew from 92.06% to 92.6%.

On 21 December 2011 the Court of Budapest Municipality acting as a Court of Registration registered a capital increase at OTP Real Estate Ltd. implemented by OTP Bank.
The registered capital of OTP Real Estate Ltd. has increased to HUF 2,136 million. Accordingly, the ownership ratios have been modified as follows: OTP Bank 21.82%, Bank Center Ltd. 20.69% and OTP Holding Ltd. 57.49%.

On 18 January 2012 the Slovakian Court of Registration registered a capital increase at the Slovakian subsidiary of OTP Bank. The registered capital of OTP Banka Slovensko a.s. was increased by EUR 10,019,496 from EUR 68,488,401.84 to EUR 78,507,897.84 based on the share subscription closed on 16 December 2011. Accordingly, the ownership ratio of OTP Bank grew from 98.82% to 98.94%.

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

| | 2011 | 2010 |
|---|---|---|
| Mortgage bonds | 59,887 | 60,140 |
| Government bonds | 55,260 | 87,878 |
| Hungarian government discounted Treasury bills | 346 | 395 |
| | **115,493** | **148,413** |
| Accrued interest | 4,974 | 5,590 |
| **Total** | **120,467** | **154,003** |

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

| | 2011 | 2010 |
|---|---|---|
| **Balance as at 1 January** | **–** | **4,164** |
| Release of provision | – | (1,566) |
| Use of provision | – | (2,598) |
| **Balance as at 31 December** | **–** | **–** |

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

| | 2011 | 2010 |
|---|---|---|
| Within five years: | | |
| variable interest | 34,092 | 34,090 |
| fixed interest | 69,543 | 87,060 |
| | **103,635** | **121,150** |
| Over five years: | | |
| variable interest | – | 3,334 |
| fixed interest | 11,858 | 23,929 |
| | **11,858** | **27,263** |
| **Total** | **115,493** | **148,413** |

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

| | 2011 | 2010 |
|---|---|---|
| Securities held-to-maturity denominated in HUF (%) | 100% | 100% |
| Securities held-to-maturity denominated in foreign currency (%) | 0% | 0% |
| **Securities held-to-maturity total** | **100%** | **100%** |

| | | |
|---|---|---|
| Interest rates on securities held-to-maturity (%) | 5.5%–11.9% | 5.5%–10% |

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

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

### *For year ended 31 December 2011:*

| | Intangible assets | Property | Office equipments and vehicles | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January | 98,415 | 62,011 | 73,266 | 4,968 | 238,660 |
| Additions | 24,493 | 3,333 | 5,678 | 11,424 | 44,928 |
| Disposals | (12,689) | (540) | (6,378) | (9,088) | (28,695) |
| **Balance as at 31 December** | **110,219** | **64,804** | **72,566** | **7,304** | **254,893** |
| **Depreciation and Amortization** | | | | | |
| Balance as at 1 January | 63,270 | 12,834 | 57,407 | – | 133,511 |
| Charge for the year | 16,121 | 1,598 | 6,048 | – | 23,767 |
| Disposals | (343) | (142) | (6,232) | – | (6,717) |
| **Balance as at 31 December** | **79,048** | **14,290** | **57,223** | **–** | **150,561** |
| **Net book value** | | | | | |
| Balance as at 1 January | 35,145 | 49,177 | 15,859 | 4,968 | 105,149 |
| **Balance as at 31 December** | **31,171** | **50,514** | **15,343** | **7,304** | **104,332** |

### *For the year ended 31 December 2010:*

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

## NOTE 12: OTHER ASSETS (in HUF million)

| | 2011 | 2010 |
|---|---|---|
| Current income tax receivable | 18,345 | 2,224 |
| Amounts due from guarantee contract related to early repayment | 8,875 | – |
| Trade receivables | 8,659 | 4,354 |
| Prepayments and accrued income | 3,980 | 4,334 |
| Receivables from investment services | 2,690 | 415 |
| Fair value of derivative financial instruments designated as fair value hedge | 2,329 | 8,477 |
| Loans sold under deferred payment scheme | 2,092 | 4,665 |
| Due from Hungarian Government from interest subsidies | 1,943 | 1,992 |
| Receivables from decreasing share capital of OTP Holding Ltd. | 1,800 | 4,800 |
| Inventories | 840 | 952 |
| Receivables from OTP Mortgage Bank Ltd.[1] | 775 | 6,921 |
| Advances for securities and investments | 627 | 561 |
| Other advances | 398 | 308 |
| Deferred tax assets | - | 1,887 |
| Other | 5,849 | 5,023 |
| | **59,202** | **46,913** |
| Accrued interest | 9 | 6 |
| Provision for impairment on other assets[2] | (1,807) | (2,407) |
| **Total** | **57,404** | **44,512** |

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

| | 2011 | 2010 |
|---|---|---|
| Interest rate swaps designated as fair value hedge | 2,329 | 8,477 |
| **Total** | **2,329** | **8,477** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 2,407 | 1,979 |
| Charge for the period | 415 | 1,500 |
| Release of provision | (954) | (933) |
| Use of provision | (61) | (139) |
| **Balance as at 31 December** | **1,807** | **2,407** |

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

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

| | 2011 | 2010 |
|---|---|---|
| Within one year: | | |
| In HUF | 112,067 | 149,032 |
| In foreign currency | 460,654 | 325,207 |
| | **572,721** | **474,239** |
| Over one year: | | |
| In HUF | 124,786 | 116,271 |
| In foreign currency* | 171,584 | 149,681 |
| | **296,370** | **265,952** |
| **Subtotal** | **869,091** | **740,191** |
| Accrued interest | 2,679 | 1,654 |
| **Total** | **871,770** | **741,845** |

The Bank has used mortgage bonds as collateral in relation to collateralised borrowing (EUR 300 million).

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

| | 2011 | 2010 |
|---|---|---|
| Within one year: | | |
| In HUF | 2.54%-7.1% | 1.89%-6.37% |
| In foreign currency | 0.25%-4% | 0.22%-15.9% |
| Over one year: | | |
| In HUF | 2.54%-7.6% | 0.89%-6.37% |
| In foreign currency | 1.75%-5.88% | 0.12%-4.73% |

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

| | 2011 | 2010 |
|---|---|---|
| Within one year: | | |
| In HUF | 2,791,891 | 2,595,048 |
| In foreign currency | 582,330 | 646,053 |
| | **3,374,221** | **3,241,101** |
| Over one year: | | |
| In HUF | 25,397 | 26,185 |
| In foreign currency | 4,645 | 2,421 |
| | **30,042** | **28,606** |
| **Subtotal** | **3,404,263** | **3,269,707** |
| Accrued interest | 11,958 | 9,866 |
| **Total** | **3,416,221** | **3,279,573** |

### *Interest rates on deposits from customers are as follows:*

| | 2011 | 2010 |
|---|---|---|
| Within one year in HUF | 0.1%–11% | 0.1%–10.3% |
| Over one year in HUF | 0.2%–9% | 0.2%–5.3% |
| In foreign currency | 0.01%–8.1% | 0.02%–6.1% |

* On 19 May 2011 the Bank signed a EUR 300 million Term Loan Facility. The originally planned amount was EUR 200 million, but the transaction was very well received and heavily oversubscribed, all together 21 banks took part in the deal. The facility has a 2 years tenor, carries a margin of 2.2% above Euribor and the proceeds will be used for general funding purposes.

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| Retail deposits | 1,978,914 | 58% | 2,043,644 | 63% |
| Corporate deposits | 1,260,824 | 37% | 1,056,183 | 32% |
| Municipality deposits | 164,525 | 5% | 169,880 | 5% |
| **Total** | **3,404,263** | **100%** | **3,269,707** | **100%** |

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

| | 2011 | 2010 |
|---|---|---|
| Within one year: | | |
| In HUF | 312,155 | 282,049 |
| In foreign currency | 54,820 | 140,094 |
| | **366,975** | **422,143** |
| Over one year: | | |
| In HUF | 74,279 | 45,964 |
| In foreign currency | 2,245 | 36,196 |
| | **76,524** | **82,160** |
| **Subtotal** | **443,499** | **504,303** |
| Accrued interest | 9,924 | 8,163 |
| **Total** | **453,423** | **512,466** |

### Interest rates on liabilities from issued securities are as follows:

| | 2011 | 2010 |
|---|---|---|
| Issued securities denominated in HUF | 0.25%–6.75% | 0.25%–9.5% |
| Issued securities denominated in foreign currency | 1.5%–8% | 4%–5.75% |

### Issued securities denominated in foreign currency as at 31 December 2011:

| | Name | Date of issuance | Maturity | Currency | Nominal value in FX million | Nominal value in HUF million | Interest conditions (in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|---|---|
| 1. | OTPHB402/12 | 24/02/2010 | 24/02/2012 | CHF | 88.54 | 22.657 | 4 | fixed | hedged |
| 2. | DC_EUR_2012_A | 14/10/2011 | 13/01/2012 | EUR | 14.58 | 4.535 | 1.5 | fixed | |
| 3. | OTP_EUR_2012_IV | 09/09/2011 | 08/09/2012 | EUR | 12.20 | 3.797 | 2.75 | fixed | |
| 4. | OTP_EUR_2012_IX | 18/11/2011 | 17/11/2012 | EUR | 8.49 | 2.641 | 2.75 | fixed | |
| 5. | OTP_EUR_2012_VI | 07/10/2011 | 06/10/2012 | EUR | 8.32 | 2.588 | 2.75 | fixed | |
| 6. | OTP_EUR_2012_III | 26/08/2011 | 25/08/2012 | EUR | 7.77 | 2.417 | 2.75 | fixed | |
| 7. | OTP_EUR_2012_VII | 21/10/2011 | 20/10/2012 | EUR | 5.99 | 1.864 | 2.75 | fixed | |
| 8. | OTP_EUR_2012_II | 12/08/2011 | 11/08/2012 | EUR | 4.69 | 1.458 | 2.75 | fixed | |
| 9. | OTP_EUR_2012_X | 25/11/2011 | 24/11/2012 | EUR | 4.29 | 1.336 | 2.75 | fixed | |
| 10. | OTP_EUR_2012_XI | 02/12/2011 | 01/12/2012 | EUR | 4.06 | 1.264 | 3 | fixed | |
| 11. | OTP_EUR_2012_VIII | 07/11/2011 | 06/11/2012 | EUR | 4.01 | 1.247 | 2.75 | fixed | |
| 12. | OTP_EUR_2012_V | 23/09/2011 | 22/09/2012 | EUR | 3.93 | 1.221 | 2.75 | fixed | |
| 13. | DC_USD_120113_8 | 21/10/2011 | 13/01/2012 | USD | 4.86 | 1.169 | 8 | fixed | |
| 14. | DNT_EUR_2012_A | 14/10/2011 | 13/04/2012 | EUR | 3.42 | 1.065 | indexed | floating | |
| 15. | OTP_EUR_2012_I | 05/08/2011 | 04/08/2012 | EUR | 3.15 | 981 | 2.75 | fixed | |
| 16. | OTP_EUR_2012_XII | 16/12/2011 | 15/12/2012 | EUR | 3.04 | 947 | 3 | fixed | |
| 17. | OTPX 2016C | 22/04/2011 | 22/04/2016 | EUR | 1.56 | 485 | indexed | floating | hedged |
| 18. | DNT_USD_2012_A | 14/10/2011 | 13/04/2012 | USD | 1.69 | 408 | indexed | floating | |
| 19. | OTPX 2016D | 22/12/2011 | 29/12/2016 | EUR | 1.25 | 387 | indexed | floating | hedged |
| 20. | OTP_EUR_2012_XIII | 29/12/2011 | 28/12/2012 | EUR | 1.01 | 314 | 3.25 | fixed | |
| 21. | OTPX 2015C | 22/12/2010 | 29/12/2015 | EUR | 0.97 | 302 | indexed | floating | hedged |
| 22. | OTP_EUR_2013_III | 26/08/2011 | 26/08/2013 | EUR | 0.93 | 291 | 3 | fixed | |
| 23. | OTP_EUR_2013_IV | 09/09/2011 | 09/09/2013 | EUR | 0.87 | 270 | 3 | fixed | |
| 24. | OTP_EUR_2013_VII | 21/10/2011 | 21/10/2013 | EUR | 0.63 | 194 | 3 | fixed | |

| | Name | Date of issuance | Maturity | Currency | Nominal value in FX million | Nominal value in HUF million | Interest conditions (in % p.a.) | | Hedged |
|---|---|---|---|---|---|---|---|---|---|
| 25. | OTP_EUR_2013_VI | 07/10/2011 | 07/10/2013 | EUR | 0.55 | 172 | 3 | fixed | |
| 26. | OTP_EUR_2013_V | 23/09/2011 | 23/09/2013 | EUR | 0.50 | 155 | 3 | fixed | |
| 27. | OTP_EUR_2013_I | 05/08/2011 | 05/08/2013 | EUR | 0.45 | 140 | 3 | fixed | |
| 28. | OTP_EUR_2013_II | 12/08/2011 | 12/08/2013 | EUR | 0.45 | 140 | 3 | fixed | |
| 29. | OTP_EUR_2013_IX | 18/11/2011 | 18/11/2013 | EUR | 0.43 | 135 | 3 | fixed | |
| 30. | OTP_EUR_2013_XIII | 29/12/2011 | 29/12/2013 | EUR | 0.36 | 112 | 4 | fixed | |
| 31. | OTP_EUR_2013_VIII | 07/11/2011 | 07/11/2013 | EUR | 0.27 | 84 | 3 | fixed | |
| 32. | OTP_EUR_2013_XI | 02/12/2011 | 02/12/2013 | EUR | 0.18 | 57 | 3.5 | fixed | |
| 33. | OTP_EUR_2013_X | 25/11/2011 | 25/11/2013 | EUR | 0.14 | 44 | 3 | fixed | |
| 34. | OTP_EUR_2013_XII | 16/12/2011 | 16/12/2013 | EUR | 0.11 | 33 | 3.5 | fixed | |
| | **Subtotal issued securities in FX** | | | | | **54,910** | | | |
| | Unamortized premium | | | | | 1,373 | | | |
| | Fair value hedge adjustment | | | | | 782 | | | |
| | **Total** | | | | | **57,065** | | | |

**EMTN Programme**

On 5 October 2011, the "Commission de Surveillance du Secteur Financier" (CSSF) approved the Base Prospectus relating to EUR 5 billion Euro Medium Term Note Programme of OTP Bank.

**Term Note Program in the value of HUF 500 billion**

During 2011, Hungarian Financial Supervisory Authority approved the six additions of the prospectus of Term Note Program in a total nominal value of HUF 500 billion. On 27 January 2012 the Authority approved the 7th addition of the prospectus of the program. The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Prague, Bucharest and Sofia Stock Exchange.

Certain structured bonds are hedged by interest rate swaps which may transfer to a transferee a fixed interest rate 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 quoted interest rates of EUR and CHF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and CHF IRS transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR or CHF LIBOR and EURIBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

## *Issued securities denominated in HUF as at 31 December 2011:*

| | Name | Date of issuance | | Maturity | Nominal value in HUF million | Interest conditions | | Hedged |
|---|---|---|---|---|---|---|---|---|
| 1. | OTP 2012/IV | 18/02/2011 | 25/02/2011 | 18/02/2012 | 23,160 | 5 | fixed | |
| 2. | OTP 2012/XXV | 16/12/2011 | 29/12/2011 | 15/12/2012 | 19,109 | 5.5 | fixed | |
| 3. | OTP 2012/XXII | 07/11/2011 | 11/11/2011 | 06/11/2012 | 18,768 | 5.5 | fixed | |
| 4. | OTP 2012/VII | 08/04/2011 | 15/04/2011 | 07/04/2012 | 18,312 | 5 | fixed | |
| 5. | OTP 2012/IX | 06/05/2011 | 13/05/2011 | 05/05/2012 | 15,779 | 5 | fixed | |
| 6. | OTP 2012/II | 21/01/2011 | 28/01/2011 | 07/01/2012 | 15,077 | 5 | fixed | |
| 7. | OTP 2012/V | 04/03/2011 | 11/03/2011 | 03/03/2012 | 14,881 | 5 | fixed | |
| 8. | OTP 2012/VI | 25/03/2011 | 01/04/2011 | 24/03/2012 | 14,630 | 5 | fixed | |
| 9. | OTP 2012/XXIII | 18/11/2011 | 25/11/2011 | 17/11/2012 | 14,553 | 5.5 | fixed | |
| 10. | OTP 2012/XVI | 12/08/2011 | 19/08/2011 | 11/08/2012 | 14,169 | 5 | fixed | |
| 11. | OTP 2012/VIII | 22/04/2011 | 29/04/2011 | 21/04/2012 | 13,983 | 5 | fixed | |
| 12. | OTP 2012/XVIII | 09/09/2011 | 16/09/2011 | 08/09/2012 | 13,479 | 5 | fixed | |
| 13. | OTP 2012/X | 20/05/2011 | 27/05/2011 | 19/05/2012 | 10,478 | 5 | fixed | |
| 14. | OTP 2012/XV | 29/07/2011 | 05/08/2011 | 28/07/2012 | 9,835 | 5 | fixed | |
| 15. | OTP 2012/XIX | 23/09/2011 | 30/09/2011 | 22/09/2012 | 9,635 | 5 | fixed | |
| 16. | OTP 2012/III | 04/02/2011 | 11/02/2011 | 04/02/2012 | 9,313 | 5 | fixed | |
| 17. | OTP 2012/XXIV | 02/12/2011 | 09/12/2011 | 01/12/2012 | 9,034 | 5.5 | fixed | |
| 18. | OTP 2012/XIV | 15/07/2011 | 22/07/2011 | 14/07/2012 | 8,840 | 5 | fixed | |
| 19. | OTP 2012/XI | 03/06/2011 | 10/06/2011 | 02/06/2012 | 8,520 | 5 | fixed | |
| 20. | OTP 2012/I | 07/01/2011 | 14/01/2011 | 07/01/2012 | 8,436 | 5 | fixed | |
| 21. | OTP 2012/XXI | 21/10/2011 | 28/10/2011 | 20/10/2012 | 8,214 | 5.5 | fixed | |
| 22. | OTP 2012/XIII | 01/07/2011 | 08/07/2011 | 30/06/2012 | 7,979 | 5 | fixed | |
| 23. | OTP 2012/XX | 07/10/2011 | 14/10/2011 | 06/10/2012 | 7,552 | 5 | fixed | |
| 24. | OTP 2012/XVII | 26/08/2011 | 02/09/2011 | 25/08/2012 | 6,594 | 5 | fixed | |
| 25. | TBSZ2013_I | 26/02/2010 | 28/12/2010 | 30/12/2013 | 6,179 | 5.5 | fixed | |
| 26. | TBSZ2015_I | 26/02/2010 | 28/12/2010 | 30/12/2015 | 5,677 | 5.5 | fixed | |
| 27. | OTP 2012/XII | 17/06/2011 | 24/06/2011 | 16/06/2012 | 5,599 | 5 | fixed | |
| 28. | DNT_HUF_2012_A | 14/10/2011 | | 13/04/2012 | 5,385 | indexed | floating | |
| 29. | OTPX 2015A | 25/03/2010 | | 30/03/2015 | 5,364 | indexed | floating | hedged |
| 30. | OTPX 2017A | 01/04/2011 | | 31/03/2017 | 5,255 | indexed | floating | hedged |
| 31. | OTPX 2017B | 17/06/2011 | | 20/06/2017 | 5,100 | indexed | floating | hedged |
| 32. | OTPX 2015B | 28/06/2010 | | 09/07/2015 | 4,740 | indexed | floating | hedged |
| 33. | OTPX 2017C | 19/09/2011 | | 25/09/2017 | 4,400 | indexed | floating | hedged |
| 34. | OTPX 2016A | 11/11/2010 | | 03/11/2016 | 4,380 | indexed | floating | hedged |
| 35. | OTPX 2017E | 21/12/2011 | | 28/12/2017 | 4,000 | indexed | floating | hedged |
| 36. | OTPX 2014C | 14/12/2009 | | 19/12/2014 | 3,975 | indexed | floating | hedged |
| 37. | OTPX 2014B | 05/10/2009 | | 13/10/2014 | 3,905 | indexed | floating | hedged |
| 38. | OTPRA_2013_B | 26/11/2010 | | 03/12/2013 | 3,497 | indexed | floating | hedged |
| 39. | OTPX 2016B | 16/12/2010 | | 19/12/2016 | 3,365 | indexed | floating | hedged |
| 40. | OTPX 2014A | 25/06/2009 | | 30/06/2014 | 3,041 | indexed | floating | hedged |
| 41. | 3Y_EUR_HUF | 25/06/2010 | | 25/06/2013 | 2,143 | indexed | floating | hedged |
| 42. | TBSZ2014_I | 14/01/2011 | 05/08/2011 | 15/12/2014 | 1,970 | 5.5 | fixed | |
| 43. | OTPX 2012A | 25/09/2009 | 11/09/2009 | 11/09/2012 | 1,666 | indexed | floating | hedged |
| 44. | OTPX 2014E | 17/06/2011 | | 20/06/2014 | 1,350 | indexed | floating | hedged |
| 45. | 2014_RA_Bx | 16/09/2011 | 23/09/2011 | 15/09/2014 | 1,297 | indexed | floating | hedged |
| 46. | OTP_OVK_2013_I | 26/08/2011 | 28/12/2011 | 26/08/2013 | 1,294 | 6.75 | floating | |
| 47. | TBSZ2016_I | 14/01/2011 | 05/08/2011 | 15/12/2016 | 1,227 | 5.5 | fixed | |
| 48. | OTPRA_2014_A | 25/03/2011 | | 24/03/2014 | 956 | indexed | floating | hedged |
| 49. | OTPX 2013B | 26/11/2010 | | 06/11/2013 | 840 | indexed | floating | hedged |
| 50. | TBSZ2014_II | 26/08/2011 | 29/12/2011 | 15/12/2014 | 748 | 5.5 | fixed | |
| 51. | OTPRF_2020_B | 12/07/2010 | | 20/07/2020 | 734 | indexed | floating | hedged |
| 52. | TBSZ2016_II | 26/08/2011 | 29/12/2011 | 15/12/2016 | 659 | 5.5 | fixed | |
| 53. | OTPX 2017D | 21/10/2011 | | 19/10/2017 | 650 | indexed | floating | hedged |
| 54. | OTPX 2012C | 25/03/2010 | | 30/03/2012 | 629 | indexed | floating | hedged |
| 55. | OTPX 2014D | 01/04/2011 | | 03/04/2014 | 595 | indexed | floating | hedged |
| 56. | OTPX 2014F | 20/10/2011 | | 21/10/2014 | 518 | indexed | floating | hedged |
| 57. | OTPX 2013A | 28/06/2010 | | 08/07/2013 | 480 | indexed | floating | hedged |
| 58. | OTPRF_2020_A | 12/07/2010 | | 20/07/2020 | 469 | indexed | floating | hedged |
| 59. | OTPX 2019B | 05/10/2009 | 05/02/2010 | 14/10/2019 | 461 | indexed | floating | hedged |
| 60. | OTPRF_2020_C | 11/11/2010 | | 05/11/2020 | 459 | indexed | floating | hedged |
| 61. | OTPX 2020B | 28/06/2010 | | 09/07/2020 | 450 | indexed | floating | hedged |
| 62. | OTPX 2013C | 16/12/2010 | | 19/12/2013 | 450 | indexed | floating | hedged |
| 63. | OTPX 2021D | 21/12/2011 | | 27/12/2021 | 425 | indexed | floating | hedged |
| 64. | OTPX 2020A | 25/03/2010 | | 30/03/2020 | 415 | indexed | floating | hedged |

| | Name | Date of issuance | | Maturity | Nominal value in HUF million | Interest conditions | | Hedged |
|---|---|---|---|---|---|---|---|---|
| 65. | OTPX 2019C | 14/12/2009 | | 20/12/2019 | 394 | indexed | floating | hedged |
| 66. | OTPX 2021B | 17/06/2011 | | 17/06/2021 | 390 | indexed | floating | hedged |
| 67. | OTPX 2021A | 01/04/2011 | | 01/04/2021 | 350 | indexed | floating | hedged |
| 68. | OTPX_2021_C | 19/09/2011 | | 21/06/2021 | 320 | indexed | floating | hedged |
| 69. | OTPX 2014G | 21/12/2011 | | 30/12/2014 | 320 | indexed | floating | hedged |
| 70. | OTPX 2019A | 25/06/2009 | | 01/07/2019 | 319 | indexed | floating | hedged |
| 71. | OTP_OJK_2016_I | 26/08/2011 | 21/12/2011 | 26/08/2016 | 287 | 5.75 | fixed | |
| 72. | OTPX 2020C | 11/11/2010 | | 05/11/2020 | 275 | indexed | floating | hedged |
| 73. | OTPX 2020D | 16/12/2010 | | 18/12/2020 | 245 | indexed | floating | hedged |
| 74. | OTPRF_2021_B | 20/10/2011 | | 25/10/2021 | 68 | indexed | floating | hedged |
| 75. | OTPRF_2021_A | 05/07/2011 | | 13/07/2021 | 63 | indexed | floating | hedged |
| 76. | OTPRF_2021_C | 21/12/2011 | | 30/12/2021 | 13 | indexed | floating | hedged |
| 77. | OTPRF_2021_D | 21/12/2011 | | 30/12/2021 | 9 | indexed | floating | hedged |
| 78. | OTPRF_2021_E | 21/12/2011 | | 30/12/2021 | 1 | indexed | floating | hedged |
| 79. | other | – | – | – | 237 | 0.25 | fixed | |
| | **Subtotal issued securities in HUF** | | | | **398,368** | | | |
| | Unamortized premium | | | | (1,584) | | | |
| | Fair value hedge adjustment | | | | –10.350 | | | |
| | **Total issued securities in HUF** | | | | **386,434** | | | |
| | Accrued interest | | | | 9,924 | | | |
| | **Total issued securities** | | | | **453,423** | | | |

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

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

| | 2011 | 2010 |
|---|---|---|
| CCIRS and mark-to-market CCIRS | 238,141 | 206,887 |
| Foreign currency swaps | 52,810 | 5,426 |
| Interest rate swaps | 40,577 | 40,064 |
| Other derivative contracts | 14,427 | 4,951 |
| **Total** | **345,955** | **257,328** |

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

| | 2011 | 2010 |
|---|---|---|
| Financial liabilities from OTP-MOL share swap transaction* | 82,347 | 105,766 |
| Amounts due from guarantee contract related to early repayment | 45,279 | – |
| Giro clearing accounts | 28,005 | 10,682 |
| Accrued expenses | 24,236 | 33,219 |
| Salaries and social security payable | 19,586 | 21,022 |
| Fair value of derivative financial instruments designated as fair value hedge | 12,563 | 7,143 |
| Liabilities from investment services | 12,056 | 17,528 |
| Accounts payable | 9,335 | 6,642 |
| Provision on off-balance sheet commitments, contingent liabilities | 4,878 | 8,461 |
| Current income tax payable | 4,065 | 4,066 |
| Deferred tax liabilities | 3,355 | – |
| Liabilities connected to loans for collection | 1,117 | 1,147 |
| Liabilities related to housing loans | 390 | 351 |
| Short term liabilities due to repurchase agreement transactions | 321 | 3,461 |
| Dividend payable | 149 | 193 |
| Other | 19,502 | 11,607 |
| **Total** | **267,184** | **231,288** |

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

| | 2011 | 2010 |
|---|---|---|
| Interest-rate swap transactions designated as fair value hedge | 12,563 | 7,143 |

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

| | 2011 | 2010 |
|---|---|---|
| Provision for losses on off-balance sheet commitments and contingent liabilities related to lending | 3,908 | 6,325 |
| - from this: provision for the repurchase guarantee to OTP Mortgage Bank Ltd. | – | 177 |
| Provision for litigation | 408 | 1,476 |
| Provision on other liabilities | 562 | 660 |
| **Total** | **4,878** | **8,461** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 8,461 | 18,733 |
| Provision for the period | 12,637 | 23,213 |
| Release of provision | (16,220) | (33,485) |
| **Balance as at 31 December** | **4,878** | **8,461** |

* On 16 April 2009, OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an american style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the lost of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity and a recognition of a corresponding liability. As at 31 December 2011 and 2010 HUF 82,347 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.

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

| | 2011 | 2010 |
|---|---|---|
| Over one year: | | |
| In HUF | 5,000 | 5,000 |
| In foreign currency | 317,172 | 289,184 |
| | **322,172** | **294,184** |
| Accrued interest | 3,825 | 3,454 |
| **Total** | **325,997** | **297,638** |

### *Interest rates on subordinates bonds and loans are as follows:*

| | 2011 | 2010 |
|---|---|---|
| Subordinated bonds and loans denominated in HUF | 3% | 2.7% |
| Subordinated bonds and loans denominated in foreign currency | 2%–5.9% | 1.6%–5.9% |

**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. On 21 October 2011 the Bank purchased EUR 1.85 million from the EUR 125 million subordinated Notes series. After the cancellation of these bonds the outstanding amount of the notes decreased to EUR 120 million.

On 27 January 2012 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 12 million. On 1 February 2012 the Bank purchased additional EUR 2.05 million from the same Note series. After the cancellation of these bonds the outstanding amount of the notes decreased to EUR 105,950,000.

### *Subordinated loans and bonds are detailed as follows:*

| Type | Nominal value | Date of issuance | Date of maturity | Issue price | Interest conditions | Interest rate as of 31 December 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 | 6% |
| Subordinated bond | EUR 120 million | 04/03/2005 | 04/03/2015 | 100% | three-month EURIBOR + 0.55% quarterly | – |
| Subordinated bond | EUR 475.6 million | 07/11/2006 | Perpetual bond callable after 10 years | 99.375% | Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly) | – |
| Subordinated bond (under EMTN* program) | EUR 300 million | 19/09/2006 | 19/09/2016 | 100% | Fixed 5.27% annual | 5.27% |
| Subordinated bond (under EMTN* program) | EUR 200 million | 26/02/2007 | 19/09/2016 | 100% | Fixed 5.27% annual | 5.27% |

* European Medium Term Note Program

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

| | 2011 | 2010 |
|---|---|---|
| Authorized, issued and fully paid: | | |
| Ordinary shares | 28,000 | 28,000 |
| **Total** | **28,000** | **28,000** |

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

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

### *The reserves of the Bank under Hungarian Accounting Standards:*

| | 2011 | 2010 |
|---|---|---|
| Capital reserve | 52 | 52 |
| General reserve | 134,460 | 122,799 |
| Retained earnings | 760,785 | 692,753 |
| Tied-up reserve | 8,018 | 5,729 |
| **Total** | **903,315** | **821,333** |

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

These Financial Statements subject to approval by the Board of Directors in the Annual General Meeting in April 2012. In 2011 the Bank paid dividend of HUF 20,160 million from the profit of the year 2010. In 2012 dividend of HUF 28,000 million are expected to be proposed by the management from the profit of the year 2011, which means 100 HUF payable dividend by share to the shareholders.

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

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

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

| | 2011 | 2010 |
|---|---|---|
| Nominal value (ordinary shares) | 264 | 216 |
| Carrying value at aquisition cost | 5,519 | 3,729 |

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:*

| | 2011 | 2010 |
|---|---|---|
| Number of shares as at 1 January | 2,157,671 | 2,187,444 |
| Additions | 1,085,521 | 73,232 |
| Disposals | (598,408) | (103,005) |
| **Number of shares as at 31 December** | **2,644,784** | **2,157,671** |

### *Change in carrying value:*

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 3,729 | 3,774 |
| Additions | 4,753 | 415 |
| Disposals | (2,963) | (460) |
| **Balance as at 31 December** | **5,519** | **3,729** |

## NOTE 22: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF million)

| | 2011 | 2010 |
|---|---|---|
| **Provision for impairment on loan losses** | | |
| Provision for the period | 129,912 | 184,955 |
| – from this: provision for impairment on loan losses related to early repayment | 2,164 | – |
| Release of provision | (104,209) | (139,921) |
| Provision on loan losses | 51,392 | 53,286 |
| -from this: provision on loan losses related to early repayment | 2,948 | – |
| | **77,095** | **98,320** |

| | 2011 | 2010 |
|---|---|---|
| **Provision for impairment on placement losses** | | |
| Provision for the period | 132 | 173 |
| Release of provision | (944) | (920) |
| Provision on placement losses | 156 | (33) |
| | **(656)** | **(780)** |

| | 2011 | 2010 |
|---|---|---|
| **Provision for impairment on loan and placement losses** | **76,439** | **97,540** |
| **Loss on loans related to early repayment** | **5,112** | **–** |
| Losses from early repayment recognizing in interest income from loans | 14 | – |
| **Total loss on loans related to the early repayment** | **5,126** | **–** |

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

### *Income from fees and commissions:*

| | 2011 | 2010 |
|---|---|---|
| Deposit and account maintenance fees and commissions | 42,645 | 41,173 |
| Fees and commission related to the issued bank cards | 21,732 | 21,565 |
| Fees related to the cash withdrawal | 18,764 | 20,361 |
| Fees and commissions related to security trading | 12,288 | 13,184 |
| Fees and commissions received from OTP Mortgage Bank Ltd. | 10,306 | 38,603 |
| Fees and commissions related to lending | 3,608 | 3,734 |
| Net fee income related to card insurance services and loan agreements | 1,990 | 1,884 |
| Other | 5,636 | 5,328 |
| **Total** | **116,969** | **145,832** |

### *Expenses from fees and commissions:*

| | 2011 | 2010 |
|---|---|---|
| Interchange fee | 5,681 | 5,932 |
| Fees and commissions related to issued bank cards | 5,005 | 4,340 |
| Insurance fees | 1,990 | 1,766 |
| Cash withdrawal transaction fees | 1,561 | 1,660 |
| Fees and commissions related to lending | 1,338 | 1,353 |
| Money market transaction fees and commissions | 1,152 | 1,134 |
| Fees and commissions relating to deposits | 746 | 730 |
| Fees and commissions related to security trading | 618 | 646 |
| Postal fees | 574 | 538 |
| Other | 2,948 | 2,345 |
| **Total** | **21,613** | **20,444** |
| **Net profit from fees and commissions** | **95,356** | **125,388** |

## NOTE 24: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF million)

### *Other operating income:*

| | 2011 | 2010 |
|---|---|---|
| Loss on transactions related to property activities | (21) | (15) |
| Other | 4,962 | 1,686 |
| **Total** | **4,941** | **1,671** |

### *Net other operating expenses:*

| | 2011 | 2010 |
|---|---|---|
| Provision for impairment on investments in subsidiaries | 83,531 | 20,683 |
| Provision for impairment on other assets | (472) | 567 |
| Release of provision for off-balance sheet commitments and contingent liabilities | (3,583) | (10,272) |
| Cancellation fee paid for OTP Mortgage Bank Ltd. | – | 14,510 |
| Release of provision on securities held-to-maturity | – | (4,164) |
| Release of provision on securities available-for-sale | – | (5,220) |
| Other | 5,247 | 3,438 |
| **Total** | **84,723** | **19,542** |

### *Other administrative expenses:*

| | 2011 | 2010 |
|---|---|---|
| **Personnel expenses:** | | |
| Wages | 51,063 | 52,653 |
| Taxes related to personnel expenses | 15,416 | 15,705 |
| Other personnel expenses | 7,076 | 7,279 |
| **Subtotal** | **73,555** | **75,637** |
| **Depreciation and amortization:** | **23,767** | **24,141** |

| | 2011 | 2010 |
|---|---|---|
| **Other administrative expenses:** | | |
| Taxes, other than income tax* | 29,641 | 40,908 |
| Services | 22,156 | 19,735 |
| Administration expenses, including rental fees | 20,328 | 21,155 |
| Advertising | 6,811 | 6,182 |
| Professional fees | 3,782 | 2,510 |
| **Subtotal** | **82,718** | **90,490** |
| **Total** | **180,040** | **190,268** |

## NOTE 25: INCOME TAX (in HUF million)

The Bank is presently liable for income tax at a rate of 19% of taxable income.
In 2010 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. This law has been repealed therefore the deferred tax is calculated at 19% in 2011, and the opening balances have been recalculated based on the 19% tax rate.

### *A breakdown of the income tax expense is:*

| | 2011 | 2010 |
|---|---|---|
| Current tax expense | 5,646 | 5,216 |
| Deferred tax expense | 9,349 | 4,754 |
| | **14,995** | **9,970** |

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

| | 2011 | 2010 |
|---|---|---|
| Balance as at 1 January | 1,887 | 3,828 |
| Deferred tax expense | (9,349) | (4,754) |
| Tax effect of fair value adjustment of available-for-sale securities recognized in other comprehensive income and ICES | 4,107 | 2,813 |
| **Balance as at 31 December** | **(3,355)** | **1,887** |

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

| | 2011 | 2010 |
|---|---|---|
| Fair value adjustment of held for trading and available-for-sale securities | 7,499 | 1,263 |
| Provision for impairment on investments in subsidiaries | 4,407 | 8,814 |
| Repurchase agreements and security lending | 3,336 | 1,515 |
| Difference in accounting for finance leases | 483 | 510 |
| **Deferred tax assets** | **15,725** | **12,102** |

| | 2011 | 2010 |
|---|---|---|
| Fair value adjustment of derivative financial instruments | (7,565) | (3,782) |
| Effect of redemption of issued securities | (4,706) | (2,752) |
| Valuation of equity instrument (ICES) | (3,977) | (2,182) |
| Difference in depreciation and amortization | (1,847) | (997) |
| Effect of using effective interest rate method | (985) | (502) |
| **Deferred tax liabilities** | **(19,080)** | **(10,215)** |
| **Net deferred tax asset** | **(3,355)** | **1,887** |

* Based on the amendment of the act on the special tax of financial institutions approved on 22 July 2010, a new special financial institution tax was paid by OTP Bank Plc. The total tax amount for the year 2011 and 2010 was HUF 14 billion and HUF 26 billion recognized as an expense thus decreased the corporate tax base. Based on the approved regulation, financial institutions are obliged to pay this special tax until the end of 2012.

### *A reconciliation of the income tax expense is as follows:*

| | 2011 | 2010 |
|---|---|---|
| Profit before income tax | 125,743 | 134,634 |
| Income tax at statutory tax rate (19%) | 23,891 | 25,580 |

### *Income tax adjustments due to permanent differencies are as follows:*

| | 2011 | 2010 |
|---|---|---|
| Revaluation of investments denominated in foreign currency to historical cost | 11,443 | 3,656 |
| Differences in carrying value of subsidiaries | 2,765 | 981 |
| Share-based payment | 1,176 | (2,246) |
| Effect of change of income tax rate | 912 | (912) |
| Reversal of statutory general provision | (206) | 109 |
| Accounting of equity instrument (ICES) | (711) | (4,234) |
| OTP-MOL share swap transaction | (871) | – |
| Reclassification of direct charges to reserves (self-revision) | (1,639) | (647) |
| Tax effect of amortisation of statutory goodwill and negative goodwill | (5,327) | (266) |
| Dividend income | (14,978) | (4,407) |
| Provision for impairment on investments in subsidiaries | – | (6,547) |
| Other | (1,460) | (1,097) |
| **Income tax** | **14,995** | **9,970** |
| Effective tax rate | 11.9% | 7.4% |

## NOTE 26: FINANCIAL RISK MANAGEMENT (in HUF million)

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

### 26.1 Credit risk

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

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

## Analysis by loan types and risk classes

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

### As at 31 December 2011

| Loan type | Performing | To-be-monitored | Below average | Doubtful | Bad | Total carrying amount/allowance |
|---|---|---|---|---|---|---|
| Corporate loans | **1,359,492** | **387,153** | **33,785** | **116,590** | **49,787** | **1,946,807** |
| Allowance | – | (13,696) | (8,640) | (67,851) | (39,939) | (130,126) |
| Placements with other banks | 893,205 | 2,767 | – | – | – | 895,972 |
| Allowance | – | (138) | – | – | – | (138) |
| Retail loans | 427,518 | 63,316 | 23,283 | 19,628 | 340 | 534,085 |
| Allowance | – | (2,939) | (7,339) | (10,275) | (351) | (20,904) |
| Municipal loans | 222,460 | 64,291 | 8,904 | 11,919 | 760 | 308,334 |
| Allowance | – | (773) | (899) | (4,029) | (683) | (6,384) |
| SME loans | 85,148 | 7,310 | 985 | 2,987 | 844 | 97,274 |
| Allowance | – | (81) | (131) | (1,865) | (833) | (2,910) |
| **Gross loan portfolio total** | **2,987,823** | **524,837** | **66,957** | **151,124** | **51,731** | **3,782,472** |
| **Allowance Total** | **–** | **(17,627)** | **(17,009)** | **(84,020)** | **(41,806)** | **(160,462)** |
| **Net loan portfolio total** | **2,987,823** | **507,210** | **49,948** | **67,104** | **9,925** | **3,622,010** |
| **Accrued interest** | | | | | | |
| placements with other banks | | | | | | 2,146 |
| loans | | | | | | 15,651 |
| **Total accrued interest** | | | | | | **17,797** |
| **Total placements with other banks** | | | | | | **897,980** |
| **Total loans** | | | | | | **2,741,827** |
| **Total** | | | | | | **3,639,807** |

### As at 31 December 2010

| Loan type | Performing | To-be-monitored | Below average | Doubtful | Bad | Total carrying amount/allowance |
|---|---|---|---|---|---|---|
| Corporate loans | **1,275,811** | **402,422** | **56,571** | **70,288** | **50,600** | **1,855,692** |
| Allowance | – | (12,927) | (13,173) | (40,808) | (42,335) | (109,243) |
| Placements with other banks | 787,294 | 833 | 6,027 | – | – | 794,154 |
| Allowance | – | (42) | (908) | – | – | (950) |
| Retail loans | 477,066 | 54,447 | 16,160 | 26,914 | 86 | 574,673 |
| Allowance | – | (3,520) | (3,719) | (10,775) | (72) | (18,086) |
| Municipal loans | 271,195 | 39,263 | 6,631 | 4,493 | 538 | 322,120 |
| Allowance | – | (1,219) | (582) | (2,041) | (423) | ( 4,265) |
| SME loans | 81,016 | 2,841 | 814 | 3,922 | 540 | 89,133 |
| Allowance | – | (32) | (106) | (2,356) | (533) | ( 3,027) |
| **Gross loan portfolio total** | **2,892,382** | **499,806** | **86,203** | **105,617** | **51,764** | **3,635,772** |
| **Allowance Total** | **–** | **(17,740)** | **(18,488)** | **(55,980)** | **(43,363)** | **(135,571)** |
| **Net loan portfolio total** | **2,892,382** | **482,066** | **67,715** | **49,637** | **8,401** | **3,500,201** |
| **Accrued interest** | | | | | | |
| placements with other banks | | | | | | 1,482 |
| loans | | | | | | 16,787 |
| **Total accrued interest** | | | | | | **18,269** |
| **Total placements with other banks** | | | | | | **794,686** |
| **Total loans** | | | | | | **2,723,784** |
| **Total** | | | | | | **3,518,470** |

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

### *As at 31 December 2011*

| Loan type | Performing | To-be-monitored | Below average | Doubtful | Bad | Total off balance sheet items |
|---|---|---|---|---|---|---|
| Corporate loans | **755,674** | **19,294** | **4,175** | **3,065** | **433** | **782,641** |
| Placements with other banks | 25,701 | – | – | – | – | 25,701 |
| Retail loans | 228,149 | 1,202 | 186,444* | 66 | 5 | 415,866 |
| Municipal loans | 81,619 | 5,175 | 1,230 | 598 | – | 88,622 |
| SME loans | 26,489 | 273 | – | – | 1 | 26,763 |
| **Total** | **1,117,632** | **25,944** | **191,849** | **3,729** | **439** | **1,339,593** |

### *As at 31 December 2010*

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

The Bank's loan portfolio increased by 4.04% in 2011. Analysing the contribution of loan types to the loan portfolio, the share of the SME loans business line and one of placements with other banks increased while the share of other business lines decreased. 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 4.33% to 5.36%. Among the qualified gross loan portfolio, the loans classified to the risk class of 'doubtful' expanded at the greatest level.

The Bank has a prudent provisioning policy, the coverage of loans by provision for impairment on loans classified as doubtful or bad, the coverage was 62.03% in 2011.

The off-balance sheet liabilities connected to the lending activity decreased by 3.83%, while the qualified gross loan portfolio increased by 6.9% in 2011.

## Classification into risk classes

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

As of 31 December 2011, the classification and impairment methodology of the retail exposures – which are assessed using the collective valuation method – has changed. According to the new methodology, the expected loss of the different homogenous populations is determined using historical loss experience models instead of the old method which was using expert keys. The new expected loss percentages were determined based on these new models.

Instead of the earlier used risk classes, five valuation groups have been formed based on past due days (A: 0–30 days past due - DPD, B: 31–60 DPD, C: 61–90 DPD, D: 91–365 DPD, E: over 365 days past due). The five new groups do not match one by one to the earlier used risk classes, the composition of the classes has changed due to the different criteria.

Further regrouping is caused in provision for impairment that according to the new methodology the Bank takes into account the collateral at the collective valuation as well. The consequence of the methodology change is that the loans, which has higher collateral value behind the loans are provided less than by using the previous methodology, and the loans with less collateral have in general more provision than in the previous model. The allocation of the

* From this HUF 186,352 million is related to the early repayment.

impairment of the loans is more appropriate, the new model gives a more accurate impairment amount.

Every exposure with small amounts are subject to collective valuation method according to general rules. Exposures are classified into five risk classes (performing, to-be-monitored, below average, doubtful, bad).

A certain % degree belongs to these valuation groups based on past due days and based on this degree, provision for impairment is recognised on exposures classified into above risk classes.

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

- the credit rating of the customer or the partner: the financial position, stability and income-generating capacity affected by the financial or investment service and issuer of the security, and any changes thereto;
- compliance with the rules of repayment (delay): delays in the repayment of the loan principal and its interests;
- the country risk relating to the customer (both political and transfer risks) and any changes thereto;
- the value of collaterals, their liquidity and accessibility, and any changes therein;
- the 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:***

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **Country** | **Carrying amount of the qualified gross loan portfolio** | **Allowance** | **Carrying amount of the qualified gross loan portfolio** | **Allowance** |
| Hungary | 445,537[1] | 81,702[2] | 380,257 | 61,105 |
| Netherlands | 157,788 | 5,831 | 140,327 | 1,999 |
| Cyprus | 65,331 | 13,931 | 58,955 | 10,765 |
| Montenegro | 63,093 | 37,303 | 62,421 | 38,436 |
| Romania | 37,628 | 14,990 | 29,306 | 8,332 |
| Slovakia | 8,245 | 180 | 15,715 | 4,007 |
| Seychelles | 5,268 | 806 | 4,701 | 705 |
| Ukraine | 4,030 | 2,059 | 7,758 | 1,828 |
| Croatia | 3,909 | 2,567 | 3,489 | 2,241 |
| Kazahstan | 2,170 | 111 | 6,051 | 908 |
| Russia | 937 | 623 | 836 | 544 |
| Egypt | 640 | 327 | 525 | 58 |
| Bulgaria | 4 | – | 27,222 | 1,102 |
| Serbia | – | – | 4,983 | 3,496 |
| Latvia | – | – | 836 | 42 |
| Other | 69[3] | 32 | 8 | 3 |
| **Total** | **794,649** | **160,462** | **743,390** | **135,571** |

The non-performing loans connected to the OTP Financing Solutions B.V. (The Netherlands) are related to the refinancing of retail loans at the subsidiaries, the actual exposure of non-performing loans is HUF 17.1 billion as at 31 December 2011, from that HUF 4.9 billion is related to non-performing corporate loans and HUF 12.2 billion to retail ones.

## Collaterals

The collateral value held by the Bank by collateral types is as follows (total collateral value).

The collaterals cover loans as well as off-balance sheet exposures.

[1] From this HUF 5,131 million is related to the early repayment.
[2] From this HUF 2,164 million is related to the early repayment.
[3] Italy, United Kingdom, Germany, United States of America, Austria, Switzerland, Sweden, China, Libia, Canada, Israel, Australia.

| Types of collateral | 2011 | 2010 |
|---|---|---|
| Mortgages | 868,102 | 932,807 |
| Guarantees and warranties | 222,971 | 200,274 |
| Deposit | 53,512 | 56,435 |
| from this: Securities | 6,433 | 5,881 |
| Cash | 47,079 | 50,554 |
| Assignment | 1,958 | 388 |
| Other | 140,329 | 187,194 |
| **Total** | **1,286,872** | **1,377,098** |

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

| Types of collateral | 2011 | 2010 |
|---|---|---|
| Mortgage | 399,906 | 376,372 |
| Guarantees and warranties | 180,082 | 158,246 |
| Deposit | 40,833 | 49,398 |
| from this: Securities | 4,468 | 3,821 |
| Cash | 36,365 | 45,577 |
| Assignment | 1,134 | – |
| Other | 15,057 | 42,407 |
| **Total** | **637,012** | **626,423** |

The coverage level of loan portfolio to the extent of the exposures decreased from 28.51% to 26.17% as at 31 December 2011, while coverage to the extent of the receivables decreased from 13.44% to 13.23%.

## Loans, neither past due, nor impaired

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

| Loan type | 2011 | 2010 |
|---|---|---|
| Corporate loans | 1,329,982 | 1,253,954 |
| Placements with other banks | 893,205 | 787,294 |
| Retail loans | 338,605 | 376,566 |
| Municipal loans | 140,051 | 264,736 |
| SME loans | 73,265 | 79,839 |
| **Total** | **2,775,108** | **2,762,389** |

These loans are classified by the Bank as performing loans.

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio decreased from 75.98% to 73.37% as at 31 December 2011 compared to prior year. The ratio of corporate loans and placements with other banks of corporate and placements with other banks business lines compared to the portfolio increased as at 31 December 2011, while one of the other lines decreased.

## Renegotiated loans

An analysis of the gross value of the loans that would otherwise be past due or impaired and whose terms have been renegotiated as at 31 December 2011 and 2010 is as follows:

| Loan type | 2011 | 2010 |
|---|---|---|
| Corporate loans | 124,888 | 109,040 |
| Retail loans | 76,058 | 73,425 |
| Municipal loans | 7,499 | 1,870 |
| SME loans | 1,326 | 478 |
| **Total** | **209,771** | **184,813** |

The gross amount of renegotiated loans increased considerably connected to the SME and municipal loans by 31 December 2011.

The growth of the gross amount of SME loans is a consequence of handling SME Balance Loan as restructured loans.

## Past due, but not impaired loans

### *The aging of gross loans that are past due but not impaired as at 31 December 2011 and 2010 is as follows:*

**As at 31 December 2011**

| Loan type | Up to 90 days | 91-180 days | 181-365 days | Above 365 days | Total |
|---|---|---|---|---|---|
| Retail loans | 79,171 | 1,306 | 1,175 | 7,261 | 88,913 |
| Corporate loans | 29,279 | 53 | 40 | 138 | 29,510 |
| SME loans | 11,877 | 5 | 1 | – | 11,883 |
| Municipal loans | 82,409 | – | – | – | 82,409 |
| **Total** | **202,736** | **1,364** | **1,216** | **7,399** | **212,715** |

**As at 31 December 2010**

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

The loans that are past due but not impaired are concentrated in the retail business line. During collective valuation method the Bank recognizes provision for impairment on loans over a 30 day delay. Loans past due over 30 days are considerably state guaranteed housing loans which are not impaired due to the guarantee. The level of corporate loans past due but not impaired is possible because of endorsing collaterals considering during the individual evaluation. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank.

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

An analysis of the fair value of collaterals related to past due, but not impaired loans to total collateral value and to the extent of the exposures as at 31 December 2011 and 2010 is as follows:

| Types of collateral (total collateral value) | 2011 | 2010 |
|---|---|---|
| Retail loans | 44,232 | 46,883 |
| Corporate loans | 13,501 | 13,421 |
| SME loans | 20,381 | 1,235 |
| Municipal loans | 1,019 | 24 |
| **Total** | **79,133** | **61,563** |

| Types of collateral (to the extent of the exposures) | 2011 | 2010 |
|---|---|---|
| Retail loans | 19,114 | 21,987 |
| Corporate loans | 9,188 | 12,433 |
| SME loans | 7,656 | 951 |
| Municipal loans | 794 | 18 |
| **Total** | **36,752** | **35,389** |

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

## Loans individually assessed for provision

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 31 December 2011 and 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 31 December 2011*

| Considered factors | Carrying value | Allowance for impairment | Collateral value | Off-balance sheet commitments | Provision for losses on off-balance sheet contingent liabilities |
|---|---|---|---|---|---|
| Delay of repayment | 74,887 | 48,732 | 3,238 | – | – |
| Regularity of payment | 1,711 | 158 | 739 | – | – |
| Renegotiation | 43,410 | 4,132 | 2,307 | 2,183 | 19 |
| Legal proceedings | 11,998 | 8,816 | 2,841 | 81 | 76 |
| Decrease of client classification | 124,215 | 26,717 | 1,977 | 9,544 | 1,270 |
| Loan characteristics | 41,895 | 2,993 | – | – | – |
| Business lines risks | 65,928 | 7,952 | 1,127 | 8,681 | 610 |
| Country risk | – | – | – | – | – |
| Refinancing of subsidiaries portfolio | 157,484 | 5,694 | – | – | – |
| Cross default | 29,332 | 18,638 | 332 | 392 | 120 |
| Other | 17,937 | 1,625 | 405 | 6,831 | 815 |
| **Corporate total** | **568,797** | **125,457** | **12,966** | **27,712** | **2,910** |
| Delay of repayment | 559 | 278 | – | – | – |
| Regularity of payment | – | – | – | – | – |
| Renegotiation | 7,324 | 540 | – | 113 | 53 |
| Legal proceedings | 327 | 287 | 40 | – | – |
| Decrease of client classification | 20,216 | 1,911 | – | 260 | 91 |
| Cross default | 552 | 201 | 2 | 109 | 35 |
| Other | 26,383 | 2,496 | 19 | 6,473 | 404 |
| **Municipal total** | **55,361** | **5,713** | **61** | **6,955** | **583** |
| **Placements with other banks** | **4,035** | **403** | **–** | **–** | **–** |
| **Total** | **628,193** | **131,573** | **13,027** | **34,667** | **3,493** |

### *As at 31 December 2010*

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

Regarding corporate business line in the individually rated portfolio the ratio of the carrying value of loans classified due to 'delay of repayment' increased significantly from 7.65% to 13.17% as at 31 December 2011.

**Refinancing of retail loans at the subsidiaries:**
The gross value was HUF 157.5 billion as at 31 December 2011, the actual exposure of non-performing, past due loans is HUF 17.1 billion.

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

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

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

## Non-qualified gross loan portfolio by countries

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

| Country | 2011 | 2010 |
|---|---|---|
| Hungary | 1,783,858 | 1,665,811 |
| Cyprus | 397,541 | 390,928 |
| Netherlands | 291,419 | 256,508 |
| Russia | 131,826 | 135,353 |
| United Kingdom | 94,732 | 126,264 |
| Bulgaria | 64,854 | 48,812 |
| France | 57,217 | 47,048 |
| Romania | 45,557 | 40,549 |
| Germany | 36,084 | 24,170 |
| Croatia | 26,806 | 37,209 |
| Belgium | 11,823 | 40,370 |
| Slovakia | 11,498 | 16,863 |
| Switzerland | 7,947 | 3,627 |
| Serbia | 6,031 | 13,343 |
| Ukraine | 4,710 | 19,605 |
| United States of America | 4,468 | 2,975 |
| Norway | 3,929 | 996 |
| Montenegro | 3,734 | 7,624 |
| Sweden | 1,541 | – |
| Poland | 607 | 867 |
| Azerbaijan | 602 | 627 |
| Malta* | – | 10,626 |
| Other | 1,039** | 2,207 |
| **Total** | **2,987,823** | **2,892,382** |

* The loan, purchased from Merrill Lynch, is completely granted to buy 10.64% of shares of Podravka d.d. The contract expired on 30 September 2010 without payment of the loan. OTP Bank hedged the risk taken of the asset by collateral received from MOL Plc. ('MOL'). The full amount was amortized from selling the Podravka shares and the collateral received from MOL. The transaction closed on 29 July 2011.

** Austria, Turkey, Ireland, Czech Republic, Canada, Israel, Australia, Estonia, Mongolia, Denmark, China, Chile, Egypt

## Financial instruments by rating categories*

### *Held-for-trading securities as at 31 December 2011*

| | Ba1 | | Baa3 | | Not rated | | Total |
|---|---|---|---|---|---|---|---|
| Corporate shares | – | 0.0% | – | 0.0% | 87,871** | 93.03% | 87,871 |
| Securities issued by the NBH | – | 0.0% | – | 0.0% | 1,715 | 1.82% | 1,715 |
| Government bonds | 22,846 | 89.64% | – | 0.0% | – | 0.0% | 22,846 |
| Mortgage bonds | 548 | 2.15% | 4,935 | 100.0% | 293 | 0.31% | 5,776 |
| Hungarian government discounted Treasury Bills | – | 0.0% | – | 0.0% | 4,146 | 4.39% | 4,146 |
| Hungarian government interest bearing Treasury Bills | – | 0.0% | – | 0.0% | 115 | 0.12% | 115 |
| Other securities | 2,093 | 8.21% | – | 0.0% | 314 | 0.33% | 2,407 |
| **Total** | **25,487** | **100.0%** | **4,935** | **100.0%** | **94,454** | **100.0%** | **124,876** |
| Accrued interest | | | | | | | 1,083 |
| **Total** | | | | | | | **125,959** |

### *Available-for-sale securities as at 31 December 2011*

| | Ba1 | | Baa3 | | Not rated | | Total |
|---|---|---|---|---|---|---|---|
| Mortgage bonds | – | 0.0% | 444,676 | 100.0% | 418,746*** | 43.37% | 863,422 |
| Government bonds | 260,681 | 100.0% | – | 0.0% | – | 0.0% | 260,681 |
| Bonds issued by NBH | – | 0.0% | – | 0.0% | 497,198 | 51.49% | 497,198 |
| Hungarian government discounted Treasury Bills | – | 0.0% | – | 0.0% | – | 0.0% | – |
| Other securities | – | 0.0% | – | 0.0% | 49,623 | 5.14% | 49,623 |
| **Total** | **260,681** | **100.0%** | **444,676** | **100.0%** | **965,567** | **100.0%** | **1,670,924** |
| Accrued interest | | | | | | | 40,494 |
| **Total** | | | | | | | **1,711,418** |

### Held-to-maturity securities as at 31 December 2011

| | Ba1 | | Not rated | | Total |
|---|---|---|---|---|---|
| Government bonds | 38,576 | 100.0% | 16,684 | 21.69% | 55,260 |
| Mortgage bonds | – | 0.0% | 59,887 | 77.86% | 59,887 |
| Hungarian government discounted Treasury bills | – | 0.0% | 346 | 0.45% | 346 |
| Bonds issued by NBH | – | 0.0% | – | 0.0% | – |
| Other securities | – | 0.0% | – | 0.0% | – |
| Total | 38,576 | 100.0% | 76,917 | 100.0% | 115,493 |
| Accrued interest | | | | | 4,974 |
| **Total** | | | | | **120,467** |

## 26.2. Market risk

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

### *26.2.1 Market risk sensitivity analysis*

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well

* Moody's ratings
** Corporate shares listed on Budapest Stock Exchange
*** From this HUF 402,623 million represents mortgage bonds issued by OTP Mortgage Bank Ltd. denominated in HUF

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 Bank reflects the 99% probability that the daily loss will not exceed the reported VaR. VaR methodologies are applied to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

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

| Historical VaR (99%, one-day) by risk type | Average | |
|---|---|---|
| | 2011 | 2010 |
| Foreign exchange | 1,442 | 635 |
| Interest rate | 378 | 702 |
| Equity instruments | 18 | 30 |
| Diversification | (364) | (130) |
| **Total VaR exposure** | **1,474** | **1,237** |

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

### 26.2.2. Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to an increase and decrease in the HUF exchange rate against EUR, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations were EUR (310) million as of 31 December 2011. High portion of strategic positions are considered as effective hedge of the net investment in foreign subsidiaries, and so FX risk affects the Bank's other comprehensive income and not its income.
A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

| Probability | Effects to the P&L in 3 months period In HUF billion | |
|---|---|---|
| | 2011 | 2010 |
| 1% | (11.4) | (9.6) |
| 5% | (7.8) | (6.3) |
| 25% | (3.1) | (1.9) |
| 50% | (0.1) | 0.9 |
| 25% | 2.7 | 3.5 |
| 5% | 6.6 | 7.2 |
| 1% | 9.3 | 9.7 |

**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 increased and the probability of further gains decreased.
(3) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2011.

## *26.2.3. Interest rate sensitivity analysis*

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

- Floating-rate assets and liabilities were repriced to the 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 feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.

The simulation was prepared by assuming two scenarios:

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

The net interest income in a one year period after 31 December 2011 would be decreased by HUF 825 million (probable scenario) and HUF 3,737 million (alternative scenario) as a result of these simulations. This effect is counterbalanced by capital gains (HUF 7,710 million for probable scenario, HUF 10,303 million for alternative scenario) on the government bond portfolio held for hedging.

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **Description** | **Effects to the net interest income (one-year period)** | **Effects to equity (Price change of AFS government bonds)** | **Effects to the net interest income (one-year period)** | **Effects to equity (Price change of AFS government bonds)** |
| HUF (0.1%) parallel shift | (261) | 1,008 | (396) | 1,191 |
| EUR (0.1%) parallel shift | (578) | – | (191) | – |
| USD 0.1% parallel shift | (54) | – | (48) | – |
| **Total** | **(893)** | **1,008** | **(635)** | **1,191** |

## *26.2.4. Equity price sensitivity analysis*

The following table shows the effect of the equity price sensitivity. The Bank uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by 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. This scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

| Description | 2011 | 2010 |
|---|---|---|
| VaR (99%, one day, million HUF) | 18 | 30 |
| Stress test (million HUF) | (5) | (14) |

### 26.2.5. Capital management

#### Capital management

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

The capital management of the Bank includes the management and evaluation of the shareholders` equity 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 Bank in the short run is the continous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures.

A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

#### Capital adequacy

The capital adequacy of the Bank is supervised based on the 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 Bank has entirely complied with the regulatory capital requirements in 2011 as well as in 2010.

The capital adequacy calculations of the Bank for the year ended 31 December 2011 are prepared based on the data of the audited financial statements prepared in accordance with HAS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk, market risk as well as in case of the operational risk.

### The calculation of the Capital Adequacy ratio as at 31 December 2011 and 2010 is as follows:

| | 2011 | 2010 |
|---|---|---|
| Core capital | 937,057 | 813,701 |
| Supplementary capital | 338,111 | 316,237 |
| Deductions | (485,834) | (421,408) |
| Deductions due to PIBB* investments | (442,385) | (386,837) |
| Deductions due to limit breaches | (43,449) | (34,571) |
| **Regulatory capital** | **789,334** | **708,530** |
| Credit risk capital requirement | 263,919 | 256,998 |
| Market risk capital requirement | 42,080 | 30,166 |
| Operational risk capital requirement | 46,319 | 26,073 |
| **Total requirement regulatory capital** | **352,318** | **313,237** |
| **Surplus capital** | **437,016** | **395,293** |
| Tier1 ratio | 15.8% | 15.4% |
| **Capital adequacy ratio** | **17.92%** | **18.10%** |

The positive components of the Core capital are: Issued capital, Capital reserve, Tied-up reserve, General reserve, Profit reserve, Profit for the year, General risk reserve.

The negative components of the Core capital are: Treasury shares, Intangible assets.

The positive components of the Supplementary capital are: Subsidiary loan capital, Subordinated loan capital.

Deductions: PIBB investments, limit breaches

* PIBB: Financial Institutions, Investing Entreprises, Insurance Companies

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

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

| Contingent liabilities and commitments | 2011 | 2010 |
|---|---|---|
| Legal disputes (disputed value) | 11,066,974 | 9,595,780 |
| Commitments to extend credit | 697,144 | 699,332 |
| Guarantees arising from banking activities | 642,165 | 693,526 |
| Confirmed letters of credit | 189 | 1,640 |
| Contingent liabilities related to OTP Mortgage Bank Ltd. | – | 2,532 |
| Other | 1,081 | 2,689 |
| **Total** | **12,407,553** | **10,995,499** |

### Legal disputes

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

The Victims of Hungarian Holocaust initiated a class action against, amongst others, OTP Bank Plc. before the United States District Court Northern District of Illinois. OTP Bank Plc. emphasises that 'Országos Takarékpénztár Nemzeti Vállalat' was established on 1 March 1949 with no predecessor. OTP Bank Plc. considers the claim against it entirely unfounded. The value of legal disputes has increased considerably because of changes in FX rates.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provision due to legal disputes were HUF 408 million and HUF 1,476 million as at 31 December 2011 and 2010 respectively. (See Note 17.)

### Commitments to extend credit, guarantees and letter of credit

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

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

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

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

### Guarantees, payment undertakings arising from banking activities

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

### Contingent liabilities related to OTP Mortgage Bank Ltd.

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

### Derivatives

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

#### *Foreign currency contracts*

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

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

### *Foreign exchange swaps and interest rate swaps*

The Bank enters into foreign-exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consist of a prompt and one or more futures contracts.
Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

### *Cross-currency interest rate swaps*

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

### *Forward rate agreements (FRA)*

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

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

## NOTE 28: SHARE-BASED PAYMENT

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

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

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

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

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

In connection with the equity-settled share-based payment programs the Bank did not recognize any expense in 2010 because the key performance indicators – that were the vesting conditions of the options – were not fulfilled.

| | 2011 | | 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 became available for exercise for the options of 2009 were granted 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. OTP Bank ensures the share-based payment part for the management personnel of OTP group members. The value of the discounted share-based payment at the performance assessment is determined by the OTP Bank's Directorate based on the average of the three previous trade day's middle rate of OTP Bank's 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 OTP Bank's Directorate, maximum HUF 4,000.

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

| Year | pieces* | 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 |

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with concerning EU-directives –, therefore the Board of Directors made a decison to cancel the share-based payment in refferred countries. Based on cancellation, effective performance assessment and exercise during the year effective pieces (presently) are follows as at 31 December 2011:

| Year | Pieces |
|---|---|
| 2011 | 319,400** |
| 2012 | 738,986 |
| 2013 | 432,144 |
| 2014 | 524,735 |

In connection with programs accounted as equity-settled share based transactions, HUF 6,188 million was recognized as an expense during the year ended 31 December 2011.

* Approved by the Board of Directors supposing 100% performance.
** The share-based payment period has expired as at 31 December 2011.

## NOTE 29: RELATED PARTY TRANSACTIONS (in HUF million)

The Bank provides loans to subsidiaries, and collects deposits.

### *Transactions with related parties, other than increases in share capital, are summarized below:*

### *a) Loans provided to subsidiaries*

| | 2011 | 2010 |
|---|---|---|
| OTP Holding Ltd./OTP Financing Cyprus Co. Ltd. (Cyprus) | 388,492 | 373,729 |
| OTP Mortgage Bank Ltd. | 339,849 | 119,205 |
| OTP Financing Netherlands B.V. (The Netherlands) | 281,148 | 247,227 |
| Merkantil Bank Ltd. | 202,087 | 219,628 |
| OTP Financing Solutions B.V. (The Netherlands) | 163,136 | 146,591 |
| OTP Factoring Ltd. | 118,996 | 83,401 |
| OAO OTP Bank (Russia) | 98,450 | 117,218 |
| OTP Real Estate Leasing Ltd. | 39,664 | 36,078 |
| OTP Leasing d.d. (Croatia) | 24,366 | 25,068 |
| Merkantil Lease Ltd. | 18,790 | 25,067 |
| DSK Leasing AD (Bulgaria) | 18,106 | 20,544 |
| Merkantil Car Ltd. | 10,105 | 10,373 |
| Crnogorska komercijalna banka a.d (Montenegro) | 3,734 | 3,345 |
| OTP Real Estate Ltd. | 3,181 | 2,425 |
| Project 3 Commercial Real Estate Ltd. | 2,469 | – |
| OTP Ingatlanpont Ltd. (previously OTP Factoring Trustee Ltd.) | 723 | – |
| OTP Factoring Asset Management Ltd. | 266 | – |
| OTP Banka Slovensko a.s. (Slovakia) | 55 | 62 |
| OTP banka Srbija a.d. (Serbia) | 18 | 12,183 |
| OTP Bank JSC (Ukraine) | – | 19,567 |
| DSK Bank EAD (Bulgaria) | – | 11,150 |
| OTP Life Annuity Ltd. | – | 10,658 |
| OTP banka Hrvatska Group (Croatia) | – | 9,700 |
| **Total** | **1,713,635** | **1,493,219** |

### *b) Deposits from subsidiaries*

| | 2011 | 2010 |
|---|---|---|
| Crnogorska komercijalna banka a.d (Montenegro) | 69,454 | 37,546 |
| DSK Bank EAD (Bulgaria) | 67,671 | 25,732 |
| OTP Building Society Ltd. | 30,247 | 29,339 |
| OAO OTP Bank (Russia) | 13,509 | 42,916 |
| OTP Banka Slovensko a.s. (Slovakia) | 12,710 | 12,049 |
| Merkantil Bank Ltd. | 9,131 | 15,969 |
| OTP banka Hrvatska d.d. (Croatia) | 7,559 | 5,886 |
| OTP Bank Romania S.A. (Romania) | 3,531 | – |
| OTP Funds Servicing and Consulting Ltd. | 3,493 | – |
| OTP Real Estate Leasing Ltd. | 3,422 | 1,626 |
| OTP Holding Ltd./OTP Financing Cyprus Co. Ltd. (Cyprus) | 3,335 | 5,074 |
| OTP Factoring Ltd. | 3,061 | 262 |
| OTP Financing Netherlands B. V. (The Netherlands) | 1,247 | 797 |
| OTP Mortgage Bank Ltd. | 621 | 2,317 |
| OTP Real Estate Ltd. | 588 | – |
| Air Invest Ltd. | 302 | – |
| OTP banka Srbija a.d. (Serbia) | 143 | 4,068 |
| Merkantil Lease Ltd. | 50 | 528 |
| Concordia Info Ltd.* | – | 297 |
| **Total** | **230,074** | **184,406** |

* It has merged in Inga Two Ltd. on 15 August 2011.

## c) Interests received by the Bank*

| | 2011 | 2010 |
|---|---|---|
| OTP Mortgage Bank Ltd. | 74,291 | 68,951 |
| OTP Financing Netherlands B.V. (The Netherlands) | 10,166 | – |
| OTP Holding Ltd. (Cyprus) | 8,933 | – |
| OTP Financing Solutions B.V. (The Netherlands) | 6,653 | – |
| OTP Factoring Ltd. | 5,764 | – |
| Merkantil Bank Ltd. | 5,373 | 4,599 |
| OAO OTP Bank (Russia) | 3,875 | 7,639 |
| Merkantil Lease Ltd. | 1,554 | 2,004 |
| OTP Leasing d.d. (Croatia) | 574 | – |
| OTP Banka Slovensko a.s. (Slovakia) | 573 | – |
| DSK Leasing AD (Bulgaria) | 544 | – |
| OTP Real Estate Leasing Ltd. | 522 | – |
| Merkantil Car Ltd. | 412 | – |
| OTP Bank JSC (Ukraine) | 343 | – |
| DSK Bank EAD (Bulgaria) | – | 324 |
| Other | 684 | – |
| **Total** | **120,261** | **83,517** |

## d) Interests paid by the Bank*

| | 2011 | 2010 |
|---|---|---|
| Merkantil Lease Ltd. | 2,325 | 2,840 |
| Crnogorska komercijalna banka a.d (Montenegro) | 1,772 | – |
| OTP Mortgage Bank Ltd. | 1,417 | 7,693 |
| OAO OTP Bank (Russia) | 740 | 2,276 |
| DSK Bank EAD (Bulgaria) | 760 | – |
| OTP Banka Slovensko a.s. (Slovakia) | 646 | – |
| Merkantil Bank Ltd. | 540 | 2,110 |
| OTP banka Srbija a.d. (Serbia) | 281 | – |
| OTP Real Estate Leasing Ltd. | 119 | – |
| OTP Bank Romania S.A. (Romania) | 72 | 108 |
| Other | 355 | – |
| **Total** | **9,027** | **15,027** |

## e) Commissions received by the Bank

| | 2011 | 2010 |
|---|---|---|
| From OTP Fund Management Ltd. in relation to trading activity | 6,307 | 6,934 |
| From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts) | 2,075 | 1,790 |
| From OTP Fund Management Ltd. in relation to custody activity | 546 | 549 |
| Other | 568 | – |
| **Total** | **9,496** | **9,273** |

## f) Commissions paid by the Bank

| | 2011 | 2010 |
|---|---|---|
| OTP Bank Romania S.A. (Romania) related to loan portfolio handling | 577 | 600 |
| **Total** | **577** | **600** |

## g) Transactions related to OTP Mortgage Bank Ltd.

| | 2011 | 2010 |
|---|---|---|
| Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans | 7,323 | 35,313 |
| Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest) | 5,381 | 9,893 |
| The gross book value of the loans sold | 5,379 | 9,888 |
| Provision for the purchase obligation of the non-performing loans originated by OTP Mortgage Bank Ltd. | – | 177 |

* Derivatives are not included.

## h) Transactions related to OTP Factoring Ltd.

| | 2011 | 2010 |
|---|---|---|
| The gross book value of the loans | 73,214 | 85,023 |
| Loans sold to OTP Factoring Ltd. without recourse (including interest) | 31,552 | 35,315 |
| Provision for loan losses on the loans sold | 31,141 | 39,985 |
| Loss on these transaction (recorded in the separate financial statements as loan and placement loss) | 10,521 | 9,723 |

The underlying mortgage rights were also transferred to OTP Factoring Ltd.

## i) Transactions related to Crnogorska komercijalna banka a.d (Montenegro)

| | 2011 | 2010 |
|---|---|---|
| The gross book value of the loans sold to Crnogorska komercijalna banka a.d. | 98 | 52 |
| The gross book value of the loans bought from Crnogorska komercijalna banka a.d. | 1,829 | 2,981 |

## j) Transactions related OTP Banka Slovensko a.s. (Slovakia)

| | 2011 | 2010 |
|---|---|---|
| Securities issued by OTP Banka Slovensko a.s. (Slovakia) ('OBS') held by OTP Bank (nominal value in HUF million) | 15,557 | 13,938 |
| Securities issued the Bank held by OBS (nominal value in HUF million) | – | 8,530 |

## k) Related party transactions with key management

The compensation of key management, such as the members of the Board of Directors, the members of the Supervisory Board and the employees involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

| Compensations | 2011 | 2010 |
|---|---|---|
| Short-term employee benefits | 2,782 | 6,961 |
| Share-based payment | 2,343 | – |
| Long-term employee benefits | 653 | – |
| **Total** | **5,778** | **6,961** |

| | 2011 | 2010 |
|---|---|---|
| Loans provided to companies owned by the management (in the normal course of business) | 42,806 | 36,617 |
| Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions) | 117 | 117 |
| Commitments to extend credit and bank guarantees | 6 | 9 |

In the normal course of business, the OTP Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these financial statements taken as a whole.

## NOTE 30: TRUST ACTIVITIES

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

| | 2011 | 2010 |
|---|---|---|
| Loans managed by the Bank as a trustee | 43,009 | 44,095 |

## NOTE 31: CONCENTRATION OF ASSETS AND LIABILITIES

| In the percentage of the total assets | 2011 | 2010 |
|---|---|---|
| Receivables from, or securities issued by the Hungarian Government or the NBH | 14% | 13% |
| Securities issued by the OTP Mortgage Bank Ltd. | 13.46% | 13% |

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

The OTP Bank continuously provides the Supervisory Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the OTP Bank.

Further to this obligatory reporting to the authority, the OTP Bank pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

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

## NOTE 32: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

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

| As at 31 December 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 Bank of Hungary | 226,976 | – | – | – | – | 226,976 |
| Placements with other banks, net of allowance for placement losses | 640,797 | 18,879 | 234,465 | 3,839 | – | 897,980 |
| Financial assets at fair value through profit or loss | 33,191 | 42,110 | 86,319 | 23,072 | 87,885 | 272,577 |
| Securities available-for-sale | 537,693 | 15,261 | 842,759 | 315,705 | – | 1,711,418 |
| Loans, net of allowance for loan losses | 138,685 | 797,739 | 836,916 | 968,487 | – | 2,741,827 |
| Investments in subsidiaries | – | – | – | – | 651,709 | 651,709 |
| Securities held-to-maturity | 6,155 | 57,594 | 44,860 | 11,858 | – | 120,467 |
| Property and equipment | – | – | – | – | 73,161 | 73,161 |
| Intangible assets | – | – | – | – | 31,171 | 31,171 |
| Other assets | 26,049 | 30,545 | 548 | 262 | – | 57,404 |
| **TOTAL ASSETS** | **1,609,546** | **962,128** | **2,045,867** | **1,323,223** | **843,926** | **6,784,690** |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 424,626 | 150,774 | 162,411 | 133,959 | – | 871,770 |
| Deposits from customers | 2,679,261 | 705,493 | 23,673 | 7,794 | – | 3,416,221 |
| Liabilities from issued securities | 130,345 | 246,546 | 17,617 | 58,915 | – | 453,423 |
| Financial liabilities at fair value through profit or loss | 34,679 | 90,609 | 212,311 | 8,356 | – | 345,955 |
| Other liabilities | 250,512 | 818 | 8,706 | 7,148 | – | 267,184 |
| Subordinated bonds and loans | 3,825 | – | 194,096 | – | 128,076 | 325,997 |
| **TOTAL LIABILITIES** | **3,523,248** | **1,194,240** | **618,814** | **216,172** | **128,076** | **5,680,550** |
| Share capital | – | – | – | – | 28,000 | 28,000 |
| Retained earnings and reserves | – | – | – | – | 1,081,659 | 1,081,659 |
| Treasury shares | – | – | – | – | (5,519) | (5,519) |
| TOTAL SHAREHOLDERS' EQUITY | – | – | – | – | 1,104,140 | 1,104,140 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **3,523,248** | **1,194,240** | **618,814** | **216,172** | **1,232,216** | **6,784,690** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(1,913,702)** | **(232,112)** | **1,427,053** | **1,107,051** | **(388,290)** | **–** |

| 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 Bank of Hungary | 171,677 | – | – | – | – | 171,677 |
| Placements with other banks, net of allowance for placement losses | 481,052 | 113,021 | 197,273 | 3,340 | – | 794,686 |
| Financial assets at fair value through profit or loss | 36,510 | 40,327 | 52,307 | 13,814 | 105,832 | 248,790 |
| Securities available-for-sale | 340,101 | 413,620 | 261,810 | 462,399 | – | 1,477,930 |
| Loans, net of allowance for loan losses | 164,530 | 485,384 | 1,170,145 | 903,725 | – | 2,723,784 |
| Investments in subsidiaries | – | – | – | – | 637,819 | 637,819 |
| Securities held-to-maturity | 20,475 | 19,070 | 87,195 | 27,263 | – | 154,003 |
| Property and equipment | – | – | – | – | 70,004 | 70,004 |
| Intangible assets | – | – | – | – | 35,145 | 35,145 |
| Other assets | 22,994 | 18,157 | 3,239 | 122 | – | 44,512 |
| **TOTAL ASSETS** | **1,237,339** | **1,089,579** | **1,771,969** | **1,410,663** | **848,800** | **6,358,350** |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 467,019 | 7,919 | 173,369 | 93,538 | – | 741,845 |
| Deposits from customers | 2,623,422 | 625,910 | 22,566 | 7,675 | – | 3,279,573 |
| Liabilities from issued securities | 84,689 | 345,617 | 54,870 | 27,290 | – | 512,466 |
| Financial liabilities at fair value through profit or loss | 83,073 | 73,885 | 94,376 | 5,994 | – | 257,328 |
| Other liabilities | 222,885 | 2,181 | 2,898 | 3,324 | – | 231,288 |
| Subordinated bonds and loans | 3,454 | – | 39,844 | 135,724 | 118,616 | 297,638 |
| **TOTAL LIABILITIES** | **3,484,542** | **1,055,512** | **387,923** | **273,545** | **118,616** | **5,320,138** |
| Share capital | – | – | – | – | 28,000 | 28,000 |
| Retained earnings and reserves | – | – | – | – | 1,013,941 | 1,013,941 |
| Treasury shares | – | – | – | – | (3,729) | (3,729) |
| TOTAL SHAREHOLDERS' EQUITY | – | – | – | – | 1,038,212 | 1,038,212 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **3,484,542** | **1,055,512** | **387,923** | **273,545** | **1,156,828** | **6,358,350** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(2,247,203)** | **34,067** | **1,384,046** | **1,137,118** | **(308,028)** | **–** |

## NOTE 33: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

| As at 31 December 2011 | USD | EUR | CHF | Others | Total |
|---|---|---|---|---|---|
| Assets* | 520,016 | 1,516,208 | 1,084,663 | 193,196 | 3,314,083 |
| Liabilities | (174,191) | (1,285,574) | (165,393) | (38,523) | (1,663,681) |
| Off-balance sheet assets and liabilities, net | (278,802) | (255,527) | (941,448) | (153,691) | (1,629,468) |
| **Net position** | **67,023** | **(24,893)** | **(22,178)** | **982** | **20,934** |

| As at 31 December 2010 | USD | EUR | CHF | Others | Total |
|---|---|---|---|---|---|
| Assets* | 550,292 | 1,440,636 | 872,212 | 101,832 | 2,964,972 |
| Liabilities | (169,281) | (1,292,680) | (131,374) | (32,729) | (1,626,064) |
| Off-balance sheet assets and liabilities, net | (363,785) | (295,662) | (736,050) | (92,824) | (1,488,321) |
| **Net position** | **17,226** | **(147,706)** | **4,788** | **(23,721)** | **(149,413)** |

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

* The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

## NOTE 34: INTEREST RATE RISK MANAGEMENT

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

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

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

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

## As at 31 December 2011

| | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | |
| ASSETS | | | | | | | | | | | | | | | |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 137,412 | 24,982 | – | – | – | – | – | – | – | – | 53,013 | 11,569 | 190,425 | 36,551 | 226,976 |
| fixed interest | 137,412 | 24,982 | – | – | – | – | – | – | – | – | – | – | 137,412 | 24,982 | 162,394 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 53,013 | 11,569 | 53,013 | 11,569 | 64,582 |
| Placements with other banks | 16,067 | 602,880 | – | 204,508 | 1,463 | 40,221 | – | 14,322 | – | 16,373 | 33 | 2,113 | 17,563 | 880,417 | 897,980 |
| fixed interest | 15,773 | 562,859 | – | 24,793 | 1,463 | 235 | – | 14,322 | – | 16,373 | – | – | 17,236 | 618,582 | 635,818 |
| variable interest | 294 | 40,021 | – | 179,715 | – | 39,986 | – | – | – | – | – | – | 294 | 259,722 | 260,016 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 33 | 2,113 | 33 | 2,113 | 2,146 |
| Securities held for trading | 1,872 | – | 439 | 485 | 9,665 | 303 | 2,842 | 225 | 15,675 | 5,485 | 88,756 | 212 | 119,249 | 6,710 | 125,959 |
| fixed interest | 1,872 | – | 430 | – | 9,118 | 303 | 2,842 | 225 | 15,675 | 5,485 | – | – | 29,937 | 6,013 | 35,950 |
| variable interest | – | – | 9 | 485 | 547 | – | – | – | – | – | – | – | 556 | 485 | 1,041 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 88,756 | 212 | 88,756 | 212 | 88,968 |
| Securities available-for-sale | 497,197 | – | – | 460,285 | 15,261 | – | 140,105 | – | 499,210 | 31,930 | 56,948 | 10,482 | 1,208,721 | 502,697 | 1,711,418 |
| fixed interest | 497,197 | – | – | – | 15,261 | – | 140,105 | – | 499,210 | 31,930 | – | – | 1,151,773 | 31,930 | 1,183,703 |
| variable interest | – | – | – | 460,285 | – | – | – | – | – | – | – | – | – | 460,285 | 460,285 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 56,948 | 10,482 | 56,948 | 10,482 | 67,430 |
| Loans, net of allowance for loan losses | 725,735 | 621,334 | 23,232 | 334,454 | 115,621 | 782,138 | 1,377 | 4,043 | 11,914 | 106,328 | 4,955 | 10,696 | 882,834 | 1,858,993 | 2,741,827 |
| fixed interest | 8,636 | 782 | 40 | 30 | 729 | 615 | 1,377 | 4,043 | 11,914 | 106,328 | – | – | 22,696 | 111,798 | 134,494 |
| variable interest | 717,099 | 620,552 | 23,192 | 334,424 | 114,892 | 781,523 | – | – | – | – | – | – | 855,183 | 1,736,499 | 2,591,682 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 4,955 | 10,696 | 4,955 | 10,696 | 15,651 |
| Securities held-to-maturity | – | – | 17,030 | – | 72,497 | – | 1,949 | – | 24,017 | – | 4,974 | – | 120,467 | – | 120,467 |
| fixed interest | – | – | 346 | – | 55,090 | – | 1,949 | – | 24,017 | – | – | – | 81,402 | – | 81,402 |
| variable interest | – | – | 16,684 | – | 17,407 | – | – | – | – | – | – | – | 34,091 | – | 34,091 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 4,974 | – | 4,974 | – | 4,974 |
| Derivative financial instruments | 624,957 | 1,298,127 | 971,534 | 1,546,567 | 442,972 | 171,006 | 44,653 | 9,724 | 20,735 | 6,805 | – | – | 2,104,851 | 3,032,229 | 5,137,080 |
| fixed interest | 221,998 | 662,890 | 165,240 | 247,387 | 365,126 | 96,381 | 22,655 | 7,676 | 20,735 | 5,298 | – | – | 795,754 | 1,019,632 | 1,815,386 |
| variable interest | 402,959 | 635,237 | 806,294 | 1,299,180 | 77,846 | 74,625 | 21,998 | 2,048 | – | 1,507 | – | – | 1,309,097 | 2,012,597 | 3,321,694 |

## As at 31 December 2011

| | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | |
| LIABILITIES | | | | | | | | | | | | | | | |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 100,198 | 461,309 | 8,293 | 153,036 | 127,388 | 13,055 | 711 | 1,446 | 263 | 3,392 | 1,090 | 1,589 | 237,943 | 633,827 | 871,770 |
| fixed interest | 99,534 | 304,198 | 3,033 | 3,971 | 3 | 12,650 | 711 | 1,446 | 263 | 3,392 | – | – | 103,544 | 325,657 | 429,201 |
| variable interest | 664 | 157,111 | 5,260 | 149,065 | 127,385 | 405 | – | – | – | – | – | – | 133,309 | 306,581 | 439,890 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 1,090 | 1,589 | 1,090 | 1,589 | 2,679 |
| Deposits from customers | 1,197,991 | 176,795 | 411,095 | 158,842 | 550,626 | 143,282 | 6,554 | 4,749 | 651,022 | 103,307 | 10,617 | 1,341 | 2,827,905 | 588,316 | 3,416,221 |
| fixed interest | 759,856 | 163,110 | 402,537 | 158,842 | 550,626 | 143,282 | 6,554 | 4,749 | 5,080 | – | – | – | 1,724,653 | 469,983 | 2,194,636 |
| variable interest | 438,135 | 13,685 | 8,558 | – | – | – | – | – | 645,942 | 103,307 | – | – | 1,092,635 | 116,992 | 1,209,627 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 10,617 | 1,341 | 10,617 | 1,341 | 11,958 |
| Liabilities from issued securities | 21,455 | 5,205 | 58,313 | 20,673 | 200,604 | 28,450 | 12,399 | 1,666 | 93,663 | 1,071 | 9,816 | 108 | 396,250 | 57,173 | 453,423 |
| fixed interest | 21,455 | 5,205 | 57,132 | 20,673 | 200,604 | 28,450 | 12,399 | 1,666 | 93,663 | 1,071 | – | – | 385,253 | 57,065 | 442,318 |
| variable interest | – | – | 1,181 | – | – | – | – | – | – | – | – | – | 1,181 | – | 1,181 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 9,816 | 108 | 9,816 | 108 | 9,924 |
| Derivative financial instruments | 422,162 | 1,570,353 | 78,128 | 2,548,062 | 141,246 | 492,575 | 51,593 | 8,953 | 14,138 | 19,441 | – | – | 707,267 | 4,639,384 | 5,346,651 |
| fixed interest | 416,852 | 465,133 | 63,663 | 359,821 | 59,854 | 417,951 | 20,740 | 6,943 | 14,138 | 18,309 | – | – | 575,247 | 1,268,157 | 1,843,404 |
| variable interest | 5,310 | 1,105,220 | 14,465 | 2,188,241 | 81,392 | 74,624 | 30,853 | 2,010 | – | 1,132 | – | – | 132,020 | 3,371,227 | 3,503,247 |
| Subordinated bonds and loans | – | – | 5,000 | 29,518 | – | – | – | – | – | 287,654 | – | 3,825 | 5,000 | 320,997 | 325,997 |
| fixed interest | – | – | – | – | – | – | – | – | – | 287,654 | – | – | – | 287,654 | 287,654 |
| variable interest | – | – | 5,000 | 29,158 | – | – | – | – | – | – | – | – | 5,000 | 29,518 | 34,518 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | – | 3,825 | – | 3,825 | 3,825 |
| NET POSITION | 261,434 | 333,661 | 451,406 | (363,832) | (362,385) | 316,306 | 119,669 | 11,500 | (187,535) | (247,944) | 187,156 | 28,209 | 469,745 | 77,900 | 547,645 |

## As at 31 December 2010

| | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | |
| ASSETS | | | | | | | | | | | | | | | |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 100,524 | 8,510 | – | – | – | – | – | – | – | – | 57,648 | 4,995 | 158,172 | 13,505 | 171,677 |
| fixed interest | 100,524 | 8,510 | – | – | – | – | – | – | – | – | – | – | 100,524 | 8,510 | 109,034 |
| variable interest | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 57,648 | 4,995 | 57,648 | 4,995 | 62,643 |
| Placements with other banks | 52,880 | 351,463 | 309 | 283,497 | – | 77,557 | – | 256 | – | 27,242 | 48 | 1,434 | 53,237 | 741,449 | 794,686 |
| fixed interest | 52,880 | 346,571 | – | 22,271 | – | 74,163 | – | 256 | – | 27,242 | – | – | 52,880 | 470,503 | 523,383 |
| variable interest | – | 4,892 | 309 | 261,226 | – | 3,394 | – | – | – | – | – | – | 309 | 269,512 | 269,821 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 48 | 1,434 | 48 | 1,434 | 1,482 |
| Securities held for trading | 20,000 | – | 227 | 256 | 3,690 | 4,361 | 2,483 | – | 8,680 | 2,072 | 105,954 | 136 | 141,034 | 6,825 | 147,859 |
| fixed interest | 20,000 | – | 209 | 256 | 3,690 | 4,361 | 2,483 | – | 8,680 | 2,072 | – | – | 35,062 | 6,689 | 41,751 |
| variable interest | – | – | 18 | – | – | – | – | – | – | – | – | – | 18 | – | 18 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 105,954 | 136 | 105,954 | 136 | 106,090 |
| Securities available-for-sale | 300,648 | – | – | 14,110 | 59,821 | 353,799 | 19,741 | – | 641,961 | 29,999 | 56,197 | 1,654 | 1,078,368 | 399,562 | 1,477,930 |
| fixed interest | 300,648 | – | – | – | 59,821 | 353,799 | 19,741 | – | 641,961 | 29,999 | – | – | 1,022,171 | 383,798 | 1,405,969 |
| variable interest | – | – | – | 14,110 | – | – | – | – | – | – | – | – | – | 14,110 | 14,110 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 56,197 | 1,654 | 56,197 | 1,654 | 57,851 |
| Loans, net of allowance for loan losses | 754,740 | 650,118 | 22,404 | 396,237 | 146,938 | 648,316 | 561 | 112 | 6,184 | 81,387 | 7,856 | 8,931 | 938,683 | 1,785,101 | 2,723,784 |
| fixed interest | 8,351 | – | 31 | 62 | 476 | 174 | 561 | 112 | 6,184 | 81,387 | – | – | 15,603 | 81,735 | 97,338 |
| variable interest | 746,389 | 650,118 | 22,373 | 396,175 | 146,462 | 648,142 | – | – | – | – | – | – | 915,224 | 1,694,435 | 2,609,659 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 7,856 | 8,931 | 7,856 | 8,931 | 16,787 |
| Securities held-to-maturity | 20,017 | – | 21,261 | – | 25,928 | – | 55,330 | – | 25,877 | – | 5,590 | – | 154,003 | – | 154,003 |
| fixed interest | – | – | 14,051 | – | 15,731 | – | 55,330 | – | 25,877 | – | – | – | 110,989 | – | 110,989 |
| variable interest | 20,017 | – | 7,210 | – | 10,197 | – | – | – | – | – | – | – | 37,424 | – | 37,424 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 5,590 | – | 5,590 | – | 5,590 |
| Derivative financial instruments | 811,957 | 1,132,002 | 818,718 | 557,299 | 394,740 | 106,790 | 3,479 | 3,029 | 26,202 | 2,087 | – | – | 2,055,096 | 1,801,207 | 3,856,303 |
| fixed interest | 459,293 | 817,193 | 41,739 | 100,136 | 321,630 | 106,637 | 3,479 | 3,029 | 26,202 | 2,087 | – | – | 852,343 | 1,029,082 | 1,881,425 |
| variable interest | 352,664 | 314,809 | 776,979 | 457,163 | 73,110 | 153 | – | – | – | – | – | – | 1,202,753 | 772,125 | 1,974,878 |

## As at 31 December 2010

| | within 1 month | | within 3 months over 1 month | | within 1 year over 3 months | | within 2 years over 1 year | | over 2 years | | Non-interest -bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | HUF | Foreign currency | |
| LIABILITIES | | | | | | | | | | | | | | | |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 130,132 | 427,959 | 16,001 | 34,496 | 118,884 | 3,703 | 4 | 3,729 | 283 | 5,000 | 804 | 850 | 266,108 | 475,737 | 741,845 |
| fixed interest | 127,652 | 143,407 | 8,418 | 124 | 3,874 | 3,401 | 4 | 3,729 | 283 | 5,000 | – | – | 140,231 | 155,661 | 295,892 |
| variable interest | 2,480 | 284,552 | 7,583 | 34,372 | 115,010 | 302 | – | – | – | – | – | – | 125,073 | 319,226 | 444,299 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 804 | 850 | 804 | 850 | 1,654 |
| Deposits from customers | 934,713 | 199,785 | 627,955 | 211,155 | 477,108 | 131,586 | 10,819 | 2,391 | 570,638 | 103,557 | 8,692 | 1,174 | 2,629,925 | 649,648 | 3,279,573 |
| fixed interest | 504,210 | 192,074 | 610,991 | 211,155 | 476,580 | 131,586 | 10,819 | 2,391 | 5,401 | – | – | – | 1,608,001 | 537,206 | 2,145,207 |
| variable interest | 430,503 | 7,711 | 16,964 | – | 528 | – | – | – | 565,237 | 103,557 | – | – | 1,013,232 | 111,268 | 1,124,500 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 8,692 | 1,174 | 8,692 | 1,174 | 9,866 |
| Liabilities from issued securities | 27,499 | – | 42,284 | – | 179,473 | 157,883 | 2,266 | 18,147 | 76,491 | 260 | 7,831 | 332 | 335,844 | 176,622 | 512,466 |
| fixed interest | 27,499 | – | 42,284 | – | 179,473 | 157,883 | 2,266 | 18,147 | 76,491 | 260 | – | – | 328,013 | 176,290 | 504,303 |
| variable interest | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 7,831 | 332 | 7,831 | 332 | 8,163 |
| Derivative financial instruments | 641,747 | 1,377,362 | 43,305 | 1,336,517 | 74,064 | 499,239 | 9,630 | 2,495 | 12,736 | 12,551 | – | – | 781,482 | 3,228,164 | 4,009,646 |
| fixed interest | 629,848 | 644,609 | 32,495 | 108,703 | 56,926 | 436,383 | 9,630 | 2,495 | 12,736 | 12,551 | – | – | 741,635 | 1,204,741 | 1,946,376 |
| variable interest | 11,899 | 732,753 | 10,810 | 1,227,814 | 17,138 | 62,856 | – | – | – | – | – | – | 39,847 | 2,023,423 | 2,063,270 |
| Subordinated bonds and loans | – | – | – | 34,844 | – | – | – | – | 5,000 | 254,340 | 8 | 3,446 | 5,008 | 292,630 | 297,638 |
| fixed interest | – | – | – | – | – | – | – | – | 5,000 | 254,340 | – | – | 5,000 | 254,340 | 259,340 |
| variable interest | – | – | – | 34,844 | – | – | – | – | – | – | – | – | – | 34,844 | 34,844 |
| non-interest-bearing | – | – | – | – | – | – | – | – | – | – | 8 | 3,446 | 8 | 3,446 | 3,454 |
| NET POSITION | 326,675 | 136,987 | 133,374 | (365,613) | (218,412) | 398,412 | 58,875 | (23,365) | 43,756 | (232,921) | 215,958 | 11,348 | 560,226 | (75,152) | 485,074 |

## NOTE 35: EARNINGS PER SHARE

Earnings per share attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year. Delutive potential ordinary shares are deemed to have been converted into ordinary shares.

| | 2011 | 2010 |
|---|---|---|
| Net profit for the year attributable to ordinary shareholders (in HUF mn) | 110,748 | 124,664 |
| Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share) | 277,696,699 | 277,830,864 |
| **Basic Earnings per share (in HUF)** | **399** | **449** |
| Separate net profit for the year attributable to ordinary shareholders (in HUF mn) | 110,748 | 124,664 |
| Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share) | 277,762,519 | 280,963,042 |
| **Diluted Earnings per share (in HUF)** | **399** | **444** |

| | 2011 | 2010 |
|---|---|---|
| Weighted average number of ordinary shares | 280,000,010 | 280,000,010 |
| Average number of Treasury shares | (2,303,311) | (2,169,146) |
| **Weighted average number of ordinary shares outstanding during the year for calculating basic EPS** | **277,696,699** | **277,830,864** |
| Dilutive effect of options issued in accordance with the Remuneration Policy/Management Option Program and convertible into ordinary shares* | 65,820 | 3,132,178 |
| **The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS** | **277,762,519** | **280,963,042** |

## NOTE 36: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF million)

### *As at 31 December 2011*

| Name | Net interest income and expense | Net non-interest gain and loss | Provision for impairment | Other comprehensive income |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 6,274 | – | – | – |
| Placements with other banks, net of allowance for placement losses | 19,054 | – | 812 | – |
| Securities held for trading | 2,076 | 5,224 | – | – |
| Securities available-for-sale | 115,841 | 574 | – | 23,834 |
| Loans, net of allowance for loan losses | 213,455 | 12,581 | (25,715) | – |
| from this: Corporate loans | 96,151 | | | |
| Consumer loans | 85,813 | | | |
| Housing loans | 7,722 | | | |
| Municipality loans | 17,024 | | | |
| Mortgage backed loans | 6,745 | | | |
| Securities held-to-maturity | 9,637 | 67 | – | – |
| Derivative financial instruments | 63,296 | 72 | – | – |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | (22,376) | – | – | – |
| Deposits from customers | (116,531) | 70,147 | – | – |
| Liabilities from issued securities | (28,370) | – | – | – |
| Subordinated bonds and loans | (16,538) | – | – | – |
| **Total** | **245,818** | **88,665** | **(24,903)** | **23,834** |

* In 2011 dilutive effect is in connection with the Remuneration Policy.

## *As at 31 December 2010*

| Name | Net interest income and expense | Net non-interest gain and loss | Provision for impairment | Other comprehensive income |
|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Bank of Hungary | 4,807 | – | – | – |
| Placements with other banks, net of allowance for placement losses | 20,182 | – | 748 | – |
| Securities held for trading | 2,399 | 415 | – | – |
| Securities available-for-sale | 107,113 | 4,397 | 5,220 | (5,235) |
| Loans, net of allowance for loan losses | 215,455 | 40,994 | (45,042) | – |
| from this: Corporate loans | 91,617 | | | |
| Consumer loans | 89,526 | | | |
| Housing loans | 14,780 | | | |
| Municipality loans | 12,884 | | | |
| Mortgage backed loans | 6,648 | | | |
| Securities held-to-maturity | 13,752 | (3,356) | 4,164 | – |
| Derivative financial instruments | 63,792 | (12,404) | – | – |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | (18,808) | – | – | – |
| Deposits from customers | (115,725) | 70,437 | – | – |
| Liabilities from issued securities | (33,892) | – | – | – |
| Subordinated bonds and loans | (16,243) | – | – | – |
| **Total** | **242,832** | **100,483** | **(34,910)** | **(5,235)** |

## NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 37. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

## a) Fair value of financial assets and liabilities

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 226,976 | 226,976 | 171,677 | 171,677 |
| Placements with other banks, net of allowance for placement losses | 897,980 | 902,630 | 794,686 | 795,637 |
| Financial assets at fair value through profit or loss | 272,577 | 272,577 | 248,790 | 248,790 |
| Held for trading securities | 125,959 | 125,959 | 147,859 | 147,859 |
| Derivative financial instruments designated as held for trading | 146,618 | 146,618 | 100,931 | 100,931 |
| Securities available-for-sale | 1,711,418 | 1,711,418 | 1,477,930 | 1,477,930 |
| Loans, net of allowance for loan losses | 2,741,827 | 3,020,257 | 2,723,784 | 3,007,093 |
| Securities held-to-maturity | 120,467 | 112,463 | 154,003 | 147,427 |
| Derivative financial instruments designated as hedging instruments | 2,329 | 2,329 | 8,477 | 8,477 |
| **FINANCIAL ASSETS TOTAL** | **5,973,574** | **6,248,650** | **5,579,347** | **5,857,031** |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 871,770 | 853,596 | 741,845 | 681,864 |
| Deposits from customers | 3,416,221 | 3,390,649 | 3,279,573 | 3,260,721 |
| Liabilities from issued securities | 453,423 | 420,585 | 512,466 | 490,978 |
| Derivative financial instruments designated as hedging instruments | 12,563 | 12,563 | 7,143 | 7,143 |
| Financial liabilities at fair value through profit or loss | 345,955 | 345,955 | 257,328 | 257,328 |
| Financial liabilities from OTP-MOL transaction | 82,347 | 82,347 | 105,766 | 105,766 |
| Subordinated bonds and loans | 325,997 | 206,699 | 297,638 | 226,974 |
| **FINANCIAL LIABILITIES TOTAL** | **5,508,276** | **5,312,394** | **5,201,759** | **5,030,774** |

## b) Fair value of derivative instruments

| | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|
| | Fair value | | Notional value, net | |
| **Interest rate swaps designated as held for trading** | | | | |
| Positive fair value of interest rate swaps designated as held for trading | 39,442 | 34,414 | 34,064 | 44,613 |
| Negative fair value of interest rate swaps designated as held for trading | (40,577) | (40,064) | (37,496) | (59,736) |
| **Foreign exchange swaps designated as held for trading** | | | | |
| Positive fair value of foreign exchange swaps designated as held for trading | 24,329 | 18,084 | 28,486 | 22,973 |
| Negative fair value of foreign exchange swaps designated as held for trading | (52,810) | (5,426) | (48,163) | (5,100) |
| **Interest rate swaps designated as fair value hedge** | | | | |
| Positive fair value of interest rate swaps designated in fair value hedge | 2,329 | 8,477 | 3,526 | 13,412 |
| Negative fair value of interest rate swaps designated in fair value hedge | (12,563) | (7,143) | (10,980) | (11,479) |
| **CCIRS designated as held for trading** | | | | |
| Positive fair value of CCIRS designated as held for trading | 56,312 | 35,408 | 57,825 | 21,434 |
| Negative fair value of CCIRS designated as held for trading | (232,564) | (197,450) | (257,590) | (177,976) |
| **Mark-to-market CCIRS designated as held for trading** | | | | |
| Positive fair value of mark-to-market CCIRS designated as held for trading | 9,969 | 7,399 | (7,925) | 40,124 |
| Negative fair value of mark-to-market CCIRS designated as held for trading | (5,577) | (9,437) | (10,950) | 1,852 |
| **Other derivative contracts designated as held for trading** | | | | |
| Positive fair value of other derivative contracts designated as held for trading | 16,566 | 5,626 | 14,742 | 2,161 |
| Negative fair value of other derivative contracts designated as held for trading | (14,428) | (4,951) | (12,670) | (1,700) |
| **Derivative financial assets total** | **148,947** | **109,408** | **130,718** | **144,717** |
| **Derivative financial liabilities total** | **(358,519)** | **(264,471)** | **(377,849)** | **(254,139)** |
| **Derivative financial instruments total** | **(209,572)** | **(155,063)** | **(247,131)** | **(109,422)** |

## c) Hedge accounting

The OTP Bank 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 Bank are as follows:

### As at 31 December 2011

| Types of the hedges | Description of the hedging instrument | Fair value of the hedging instrument | The nature of the risk being hedged |
|---|---|---|---|
| Cash flow hedges | – | – | – |
| Fair value hedges | IRS | HUF (10,234) million | Interest rate |
| Net investment hedge in foreign operations | – | – | – |

### As at 31 December 2010

| Types of the hedges | Description of the hedging instrument | Fair value of the hedging instrument | The nature of the risk being hedged |
|---|---|---|---|
| Cash flow hedges | – | – | – |
| Fair value hedges | IRS | HUF 1,334 million | Interest rate |
| Net investment hedge in foreign operations | – | – | – |

## d) Fair value hedges

### 1. Deposits from customers

The interest payment cash-flows of some structured deposits of the OTP Bank denominated in HUF and EUR 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 OTP Bank entered into interest rate swap transactions, where the risk of the cash-flow's from the structured deposits were swapped to payments linked to 3 month BUBOR or EURIBOR, resulting in a decrease in the fair value exposure of the deposits from customers.

| | 2011 | 2010 |
|---|---|---|
| Fair value of the hedging instruments | 70 | (61) |

### 2. Securities available-for-sale

The OTP Bank holds fixed interest rate securities denominated in foreign currencies within the available-for-sale portfolio. These fixed interest rate securities are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order to hedge the interest rate risk of the cash-flows the OTP 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 12 month EURIBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

| | 2011 | 2010 |
|---|---|---|
| Fair value of the hedging instruments | (715) | (128) |

## 3. Loans to customers

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

| | 2011 | 2010 |
|---|---|---|
| Fair value of the hedging instruments | (21) | (1,238) |

## 4. Issued securities

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

| | 2011 | 2010 |
|---|---|---|
| Fair value of the hedging instruments | (9,568) | 2,761 |

**As at 31 December 2011**

| Types of hedged items | Types of hedging instruments | Fair value of the hedged items | Fair value of the hedging instruments | Gains/losses attributable to the hedged risk | |
|---|---|---|---|---|---|
| | | | | on the hedged items | on the hedging instruments |
| Securities available-for-sale | IRS | HUF 17,694 million | HUF (715) million | HUF 587 million | HUF (587) million |
| Loans to customers | IRS | HUF 23,495 million | HUF (21) million | HUF (1,217) million | HUF 1,217 million |
| Deposits from customers | IRS | HUF 26,935 million | HUF 70 million | HUF (131) million | HUF 131 million |
| Liabilities from issued securities | IRS | HUF 130,429 million | HUF (9,568) million | HUF 12,329 million | HUF (12,329) 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 attributable to the hedged risk | |
|---|---|---|---|---|---|
| | | | | on the hedged items | on the hedging instruments |
| Securities available-for-sale | IRS | HUF 23,002 million | HUF (128) million | HUF 483 million | HUF (483) million |
| Loans to customers | IRS | HUF 47,470 million | HUF (1,238) million | HUF (160) million | HUF 160 million |
| Deposits from customers | IRS | HUF 20,436 million | HUF (61) million | HUF 3,522 million | HUF (3,522) million |
| Liabilities from issued securities | IRS | HUF 206,489 million | HUF 2,761 million | HUF 5,343 million | HUF (5,343) million |

## e) Fair value classes

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

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

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

| As at 31 December 2011 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 271,494 | 121,245 | 138,493 | 11,756 |
| from this: securities held for trading | 124,876 | 121,192 | 3,684 | – |
| from this: positive FVA of derivative financial instruments designated as held for trading | 146,618 | 53 | 134,809 | 11,756 |
| Securities available-for-sale | 1,670,924 | 749,151 | 921,773 | – |
| Positive FVA of derivative financial instruments designated as hedge accounting relationship | 2,329 | – | 2,329 | – |
| **Financial assets measured at fair value total** | **1,944,747** | **870,396** | **1,062,595** | **11,756** |
| Negative FVA of derivative financial instruments designated as held for trading | 345,955 | 4 | 290,727 | 55,224 |
| Negative FVA of derivative financial instruments designated as hedge accounting relationship | 12,563 | – | 12,563 | – |
| **Financial liabilities measured at fair value total** | **358,518** | **4** | **303,290** | **55,224** |

| As at 31 December 2010 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 248,546 | 147,433 | 101,113 | – |
| from this: securities held for trading | 147,615 | 147,333 | 282 | – |
| from this: positive FVA of derivative financial instruments designated as held for trading | 100,931 | 100 | 100,831 | – |
| Securities available-for-sale | 1,438,477 | 610,823 | 827,654 | – |
| Positive FVA of derivative financial instruments designated as hedge accounting relationship | 8,477 | – | 8,477 | – |
| **Financial assets measured at fair value total** | **1,695,500** | **758,256** | **937,244** | **–** |
| Negative FVA of derivative financial instruments designated as held for trading | 257,328 | 7 | 257,321 | – |
| Negative FVA of derivative financial instruments designated as hedge accounting relationship | 7,143 | – | 7,143 | – |
| **Financial liabilities measured at fair value total** | **264,471** | **7** | **264,464** | **–** |

## Movements in level 3 financial instruments measured at fair value

### EUR/CHF cross currency swap (CCIRS) portfolio

According to the risk management policies the Bank holds EUR/CHF cross currency swap portfolio with a notional totaling CHF 2,756 million (HUF 705,673 million equivalent), in order to hedge its foreign currency denominated mortgage loan portfolio's fx risk. These deals do not fulfill the IFRS requirements of hedge accounting, and so they are classified as held for trading.

In the second half of the year 2011 the EUR/CHF cross currency swap spreads speculation has previously unexpected volatility, which significantly differed from spreads on which the Bank could execute deals and therefore market quotations cannot be used for estimating the fair value of the Bank's CCIRS portfolio.

For the above mentioned reasons, the Bank has classified these deals to 3rd level in the valuation of financial instruments in IFRS, and applied non-market observable inputs, which resulted a more reliable valuation.

### Sensitivity

The key risk factor for these deals is the change of the spreads. The net present value impacts of +/-10 basis points change of cross currency swap spreads on the EUR/CHF CCIRS portfolio are summarized in the table below:

| | |
|---|---|
| **Fair Value (PV)** | |
| Net fair Value based on estimated inputs | (43,467) |
| **Sensitivity (dPV)** | |
| +10 bp | 1,603 |
| –10 bp | (1,608) |

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

| Movements for the year 2011 | Opening balance as at 30 September 2011 | Transfer as at 30 September 2011 | Closing balance as at 31 December 2011 | Total loss as at 31 December 2011 |
|---|---|---|---|---|
| Positive FVA of derivative financial instruments designated as held for trading | 20,797 | 20,797 | 11,756 | (9,041) |
| **Financial assets measured at fair value total** | **20,797** | **20,797** | **11,756** | **(9,041)** |
| Negative FVA of derivative financial instruments designated as held for trading | (48,088) | (48,088) | (55,224) | (7,136) |
| **Financial liabilities measured at fair value total** | **(48,088)** | **(48,088)** | **(55,224)** | **(7,136)** |

## NOTE 38: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS ('HAS') AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)

| | Retained Earnings and Reserves 1 January 2011 | Net profit for the year ended 31 December 2011 | Dividend | Direct Movements on Reserves | Retained Earnings and Reserves as at 31 December 2011 |
|---|---|---|---|---|---|
| **Financial Statements in accordance with HAS** | **899,241** | **136,607** | **(28,000)** | **(7,587)** | **1,000,261** |
| Reversal of statutory general provision | 40,156 | 1,082 | – | – | 41,238 |
| Premium and discount amortization of financial instruments measured at amortised cost | 386 | (805) | – | – | (419) |
| Effect of redemption of issued securities | 22,559 | 2,211 | – | – | 24,770 |
| Differences in carrying value of subsidiaries | 34,115 | (14,550) | – | 14,550 | 34,115 |
| Difference in accounting for finance leases | (3,456) | 914 | – | – | (2,542) |
| Effects of using effective interest rate method | 3,645 | 1,961 | – | – | 5,606 |
| Fair value adjustment of held for trading and available-for-sale financial assets | (9,205) | (1,757) | – | (28,508) | (39,470) |
| Fair value adjustment of derivative financial instruments | 19,905 | 19,909 | – | – | 39,814 |
| Reversal of statutory goodwill | 12,558 | 28,038 | – | – | 40,596 |
| Revaluation of investments denominated in foreign currency to historical cost | 20,784 | (60,226) | – | – | (39,442) |
| Difference in accounting of security lending | (15,144) | (2,415) | – | – | (17,559) |
| Treasury share transaction | – | 25 | – | (25) | – |
| Reclassification of direct charges to reserves (self-revision) | – | 6,963 | – | (6,963) | – |
| Share-based payment | – | (6,188) | – | 6,188 | – |
| Payments to ICES holders | 21,818 | 3,743 | – | (4,632) | 20,929 |
| OTP-MOL share swap transaction | (55,468) | 4,585 | – | – | (50,883) |
| Deferred taxation | 1,887 | (9,349) | – | 4,107 | (3,355) |
| Dividend paid for 2010 | 20,160 | – | (20,160) | – | – |
| Dividend payable in 2011 | – | – | 28,000 | – | 28,000 |
| **Financial Statements in accordance with IFRS** | **1,013,941** | **110,748** | **(20,160)** | **(22,870)** | **1,081,659** |

## NOTE 39: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2011

### Term Loan Facility

See details in Note 13.

### Partial cancellation of EUR 125 million subordinated notes

See details in Note 18.

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

**Fixing of the exchange rate for calculating the monthly instalments and government guarantee**

On 28 June 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 could initiate in writing 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 ('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. Following the fixed exchange rate period 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, subsequently the guarantee applies to 25% of the escrow account.

Regarding the fact that the number of debtors who took the opportunity of fixing of the exchange rate detailed above is low, its effect on the Bank's financial statements is not significant.

## NOTE 40: POST BALANCE SHEET EVENTS

### Partial cancellation of EUR 125 million subordinated notes

See details in Note 18.

## NOTE 41: STATEMENT OF THE GLOBAL, THE EUROPEAN AND THE HUNGARIAN ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF million)

In Hungary real GDP growth in 2011 reached 1.7%, helped by strengthening manufacturing production and increasing performance of agriculture on the production side. On the expenditure side, GDP growth was driven mainly by the strong export demand, while household consumption continued to decline. Nevertheless, both factors contributed to the increasing surplus of the current account balance.

Capital markets development in 2011 as a whole shaped worse than expected. In contrast to improving risk taking attitude of the first few months of 2011, the rest of the year was dominated again by mounting concerns about the Euro zone indebtedness and long-lasting structural issues within the EU. Credit downgrades across the European and other developed countries became fairly common.

In case of Hungary the overall risk aversion of markets coupled with reservations about the measures implemented by the government. As a result, the HUF weakened significantly in the second half of 2011, government bond yields and the Hungarian CDS-levels reached new heights and after 15 years the sovereign credit rating was cut back to non-investment grade level again. In 2011 the closing rate of the HUF against the EUR weakened by 12%, while the average exchange rate deteriorated by 2%. As for the CHF/HUF rate, the weakening was at 15% and 14%, respectively.

In November the Hungarian Government decided to turn to the EU and the IMF for 'precautionary' financial assistance.

In 2011 the OTP Bank continued to focus 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.

- One of the direct consequences of the crisis started late 2008 was the generally weak loan demand in the OTP Bank's Hungarian markets.

The Hungarian market was still suffering from weak loan demand. Gross loan volumes of OTP Core* continued eroding gradually by 7% from 2010 to 2011 (adjusted for the FX-effect). The early repayment scheme of FX mortgage loans accelerated the melt down of volumes in the mortgage segment. The mortgage loan portfolio decreased by 8% from 2010 to 2011 (adjusted for the FX-effect).

Though the market share of OTP Core in mortgage loan disbursement is still outstandingly high (similar to the 29% reached in 2010), the newly originated volumes in 2011 were lower by 10% on a yearly base and substantially fell short of the before crisis levels (in 2008 HUF 366 billion, in 2009 HUF 64 billion, in 2010 HUF 103 billion, in 2011 HUF 92 billion). Annual origination contracted despite the higher dynamics of disbursements in the three month period ended 31 December 2011, which was also fuelled by the significantly increasing refinancing demand related to mortgage loan prepayments.

Recovery of consumer lending is also in delay. The FX-adjusted consumer loan portfolio diminished by 4% from 2010 to 2011. OTP Core's market share in cash loan sales was at record high levels (in 2011 50% while in 2010 49%), but because of weak demand the annual volume disbursed by OTP Bank somewhat declined in this segment, too (disbursement was in 2010 HUF 52 billion and in 2011 HUF 48 billion).

In 2011 loans to corporate and municipal clients eroded by 9%. The only growing part of the portfolio was the SME segment, where the expansion was supported by technical factors, too.

* OTP Group reports its Hungarian core banking business activity under the brand „OTP Core'. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in OTP Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc, OTP Mortgage Bank Ltd, OTP Buildig Society Ltd, OTP Factoring Ltd, OTP Financing Netherlands B.V. and OTP Holding Ltd. The consolidated accounting result of these companies are segmented into OTP Core and Corporate Centre, the latter being a virtual entity responsible for rendering debt and capital market related services to the subsidiaries across OTP Group.

| Countries | Loans | Securities | Interbank placements | Total |
|---|---|---|---|---|
| Hungary | 1,669,403 | 1,886,503 | 559,992 | 4,115,898 |
| Netherlands | 444,976 | – | 4,231 | 449,207 |
| Romania | 83,133 | – | 52 | 83,185 |
| Bulgaria | 64,858 | – | – | 64,858 |
| Montenegro | 63,093 | – | 3,734 | 66,827 |
| Russia | 33,330 | 810 | 99,433 | 133,573 |
| Croatia | 30,715 | – | – | 30,715 |
| Slovakia | 19,688 | 15,609 | 55 | 35,352 |
| Ukraine | 8,740 | – | – | 8,740 |
| Serbia | 6,013 | – | 18 | 6,031 |
| Germany | 5 | – | 36,079 | 36,084 |
| Belgium | – | | 11,823 | 11,823 |
| France | – | – | 57,217 | 57,217 |
| United Kingdom | – | – | 94,731 | 94,731 |
| Other* | 1,358,518 | 8,371 | 30,753 | 1,397,642 |
| **Total** | **3,782,472** | **1,911,293** | **898,118** | **6,591,883** |

- While witnessing a generally weak loan demand, the OTP Bank has put less emphasis on deposit collection since 2010. Instead of further improving its liquidity indicators, the OTP Bank has rather focused on the improvement of deposit margins. FX-adjusted deposit volumes of OTP Core (including bonds sold to Hungarian retail investors) stagnated in 2011, followed by the 5% expansion in 2010.
- The OTP Bank has accumulated a sizable amount of liquidity reserves since the beginning of the crisis. The operating liquidity (measured by the liquid asset surplus within one month plus the repo value of government bonds, covered mortgage bonds and municipal bonds) amounted to EUR 4.5 billion equivalent by 22 February 2012. This level of the reserves is more than enough to cover all outstanding external FX maturities of OTP Core until 2016 (the latter amounting to EUR 1.6 billion), and exceeds the requirement stemming from any potential liquidity shock (estimated at EUR 2.8 billion).
  Regarding the wholesale funding activities, on 16 May 2011 OTP Bank paid back a EUR 500 million senior bond. Furthermore, on 11 July 2011 OTP Mortgage Bank repaid EUR 750 million covered bonds. On 19 May 2011 OTP Bank raised a EUR 300 million syndicated loan with 2 years of maturity. On top of this, OTP Mortgage Bank issued two covered bonds series, but only EUR 19 million was sold to third parties. Whereas, the remaining stock was bought by OTP Bank and this tranche is used for repo transactions with central banks.
- Another side effect of the crisis was the deterioration in the financial position of the clients, which led to worsening loan quality and materially increasing risk costs compared to levels obtained before the crisis. In case of OTP Core, in 2011 the ratio of loans with more than 90 days of delinquency ('DPD90+ ratio') increased further to 13.6% from 10.6% at end of 2010. The development of the ratio was heavily influenced not only by the volume of loans that fall into more than 90 days of delinquency, but the decline of total gross loans. The provision coverage of DPD90+ loans at OTP Core reached 79.1% on 31 December 2011, after improving by 3.3%-points in 2010 and by another 0.9%-point in 2011. At the same time, the provisions for impairment on loan losses declined by 9% in yearly comparison.
- Keeping strong capital position remained among top priorities for the OTP Bank in 2011. The capital adequacy ratio of OTP Bank stood at 17.9% at the end of 2011, compared to 18.1% a year ago. The slight decline is explained by the increasing risk weighted assets, as well as the higher capital requirement of market and operational risk. The OTP Bank remained profitable in 2011, resulting in further capital accumulation and

* Other category includes the PIGS countries but in Portugal, Italy, Greece and Spain the Bank had no exposure as at 31 December 2011.

building up of the guarantee capital. The Tier1 ratio improved from 15.4% to 15.8% in 2011.

- The second European stress test results published by the European Banking Authority ('EBA') on 15 July 2011 demonstrated the outstanding capital strength of OTP Bank. After reaching second position in 2010 in the first round, in the second stress test under the adverse scenario OTP Bank's Core Tier1 ratio was the third highest, at 13.6%. In December 2011 EBA had another test focusing on the securities exposure of banks, the result again was convincing: OTP Bank safely meets the 9% Core Tier1 requirement.
- In 2011 the goodwill write down related to the Croatian, Montenegrin and Serbian subsidiaries resulted in a total loss of HUF 24 billion in the Group's consolidated financial statements under IFRS.
- Concerning OTP Bank and OTP Mortgage Bank, the following rating actions were taken by international rating agencies in 2011:
  - On 5 April 2011 Moody's Investors Service affirmed OTP Bank's standalone BFSR at D+ with stable outlook. The OTP Bank's foreign-currency deposit ratings were affirmed at Baa3. Simultaneously Moody's has lowered the OTP Bank's local currency deposit ratings and foreign currency senior debt rating to Baa3 in line with the sovereign ratings. The OTP Bank's subordinated debt (lower Tier2) rating has been changed to Ba1 and its junior subordinated debt (upper Tier2) rating to Ba2. The outlook on BFSR is stable, while all other ratings carry negative outlook similarly to the sovereign.
  - On 15 November 2011 Standard & Poor's placed on watch negative 'BBB-/A-3' long- and short-term counterparty credit ratings on OTP Bank and its subsidiary OTP Mortgage Bank. The rating action followed the placement of 'BBB-/A-3' foreign and local currency sovereign credit ratings on Hungary on CreditWatch negative on 11 November 2011.
  - On 25 November 2011, reflecting the lowering of Hungarian government debt rating to 'Ba1' and the country's foreign-currency deposit ceiling to 'Ba2', Moody's Investors Service lowered the ratings of OTP Bank and OTP Mortgage Bank. The foreign currency deposit ratings of OTP Bank and OTP Mortgage Bank was downgraded to 'Ba2/Not-Prime' from 'Baa3/Prime-3' and downgraded the local-currency deposit ratings, foreign-currency senior debt rating, subordinated debt rating and junior subordinated debt rating by one notch.
  - On 16 December 2011 Moody's concluded the review for downgrade on ratings initiated on 4 October 2011 and affirmed the ratings of OTP Bank and OTP Mortgage Bank in accordance with its decision on 25 November 2011.
  - Standard & Poor's lowered Hungary's long- and short-term sovereign credit ratings to 'BB+/B' from 'BBB-/A-3'. As a consequence of the sovereign downgrade, on 23 December S&P lowered the ratings of OTP Bank and OTP Mortgage Bank to 'BB+/B' from 'BBB-/A-3'. The outlooks are negative.