



# **OTP Bank Plc.**

## **2007 Audited Annual Stock Exchange Report**

(English translation of the original report submitted to the  
Budapest Stock Exchange)

Budapest, April 25, 2008

**2007 AUDITED STOCK EXCHANGE REPORT OF OTP BANK PLC.**

OTP Bank Plc. has prepared its Audited Stock Exchange Report for 2007. The report contains International Financial Reporting Standards (IFRS) **audited** non-consolidated and consolidated balance sheet and profit and loss account for the 12 months ending December 31, 2007.

**OTP BANK CONSOLIDATED****CONSOLIDATED IFRS STATEMENT OF OPERATIONS (PROFIT AND LOSS ACCOUNT)**

| Main components of P&L account<br>in HUF million                   | 2006           | 2007           | Y-o-Y         |
|--|----------------|----------------|---------------|
| Interest income  | 542,817        | 746,980        | 37.6%         |
| Interest expense   | 186,873        | 315,288        | 68.7%         |
| <b>Net interest income</b>   | <b>355,944</b> | <b>431,692</b> | <b>21.3%</b>  |
| <b>Net interest income (adj)<sup>1</sup></b>                       | <b>340,186</b> | <b>423,698</b> | <b>24.5%</b>  |
| Provision for possible loan losses                                 | 28,559         | 58,184         | 103.7%        |
| <i>Provision for possible loan losses (adj)<sup>2</sup></i>        | 23,997         | 42,084         | 75.4%         |
| Net interest income after provision                                | 327,385        | 373,508        | 14.1%         |
| <i>Net interest income after provision (adj)</i>                   | <i>316,189</i> | <i>381,614</i> | <i>20.7%</i>  |
| Fees and commissions income  | 145,015        | 188,788        | 30.2%         |
| Fees and commissions expense                                       | 32,115         | 35,903         | 11.8%         |
| Net fees and commissions   | 112,899        | 152,885        | 35.4%         |
| Foreign exchange gains. net  | -11,884        | 8,399          | -170.7%       |
| <i>Foreign exchange gains. net(adj)<sup>3</sup></i>                | <i>4,968</i>   | <i>16,393</i>  | <i>229.9%</i> |
| Gain on securities. net  | 6,901          | 5,085          | -26.3%        |
| <i>Gain on securities. net (adj)<sup>4</sup></i>                   | <i>5,807</i>   | <i>5,085</i>   | <i>-12.4%</i> |
| Gain on real estate transactions                                   | 1,292          | 1,371          | 6.1%          |
| Dividend income  | 901            | 993            | 10.2%         |
| Insurance premiums   | 75,554         | 83,591         | 10.6%         |
| Other non-interest income  | 24,940         | 40,067         | 60.7%         |
| <i>Other non-interest income (adj)<sup>5</sup></i>                 | <i>20,378</i>  | <i>23,967</i>  | <i>17.6%</i>  |
| from this: income from provisions on loans before acquisition      | 4,562          | 16,100         | 252.9%        |
| <b>Total non-interest income (with net fees)</b>                   | <b>210,604</b> | <b>292,391</b> | <b>38.8%</b>  |
| <b>Total non-interest income (with net fees) (adj)<sup>6</sup></b> | <b>221,800</b> | <b>284,285</b> | <b>28.2%</b>  |
| <b>Total income (with net fees)</b>                                | <b>566,548</b> | <b>724,083</b> | <b>27.8%</b>  |
| <b>Total income (with net fees) (adj)<sup>7</sup></b>              | <b>561,986</b> | <b>707,983</b> | <b>26.0%</b>  |
| Personnel expenses   | 106,804        | 147,831        | 38.4%         |
| Depreciation   | 26,465         | 35,627         | 34.6%         |
| Insurance expenses   | 60,866         | 69,204         | 13.7%         |
| Other non-interest expenses  | 125,252        | 164,285        | 31.2%         |
| from this: contribution tax/special banking tax                    | 11,153         | 6,525          | -41.5%        |
| <b>Operating cost</b>  | <b>319,386</b> | <b>416,947</b> | <b>30.5%</b>  |
| <b>Total non-interest expense</b>                                  | <b>351,502</b> | <b>452,850</b> | <b>28.8%</b>  |
| <b>Income before income taxes</b>                                  | <b>218,603</b> | <b>248,952</b> | <b>13.9%</b>  |
| Income taxes   | 31,506         | 40,404         | 28.2%         |
| from this: contribution tax/special banking tax                    | 777            | 389            | -49.9%        |
| <b>After tax profit</b>  | <b>187,097</b> | <b>208,548</b> | <b>11.5%</b>  |
|  | 2006           | 2007           | Y-o-Y         |
| Net interest margin adjusted <sup>1</sup>                          | 5.53%          | 5.45%          | -0.08%        |
| Cost/income ratio adjusted <sup>8</sup>                            | 56.8%          | 58.9%          | 2.1%          |
| ROA  | 3.04%          | 2.68%          | -0.36%        |
| ROE  | 28.0%          | 24.8%          | -3.2%         |

<sup>1</sup> Including non-interest result of swap transactions

<sup>2</sup> Including income from the release of pre acquisition provisions

<sup>3</sup> Excluding fx results of swaps

<sup>4</sup> Excluding security gain results of swaps

<sup>5</sup> Excluding income from the release of pre acquisition provisions

<sup>6</sup> Excluding non-interest results of swaps and the release of pre-acquisition provisions

<sup>7</sup> Excluding income from the release of pre acquisition provisions

<sup>8</sup> Total income is reduced by the income from the release of pre-acquisition provisions

OTP Bank's consolidated **after-tax profit** for 2007 – based on IFRS – was HUF 208.5 billion, which was 11.5% or HUF 21.5 billion more than the figure for 2006. The consolidated profit before tax grew even more, by 13.9%, in 2007, reaching HUF 249.0 billion.

In 2007 the Group's consolidated **net interest income** was HUF 431.7 billion, which translates to a growth for the year of 21.3%. The net interest income adjusted by the non-interest type income from swap transactions was HUF 423.7 billion, which was 24.5% higher than in 2006.

Provisions amounted to HUF 58.2 billion, and with the release of provisions created before the acquisitions, HUF 42.1 billion. The ratio of provisions to the average gross loan portfolio was 0.82%, compared to 0.62% in 2006.

The interest margin on the average balance sheet total (HUF 7,779.7 billion) calculated on the basis of the end-of-period data in 2007 (based on calculations that exclude the impact of swap transactions on interest income) was 5.45%, which is merely 8 basis points lower than in 2006.

**Non-interest income** increased by 35.3%, to HUF 328.3 billion, in 2007. **Adjusted non-interest income**, including net fees, but less FX and securities gains on swap transactions, and adjusted for other revenues from the release of provisions set aside before the acquisitions and restated as a risk reserve, was in total 28.2% higher than one year earlier, and amounted to HUF 284.3 billion.

Net fees and commissions totalled HUF 152.9 billion, representing a 35.4% increase over 2006. The net result of securities trading without swap transactions was a gain of HUF 5.1 billion, as compared to HUF 5.8 billion in 2006. The net exchange rate gain without swap transactions amounted to HUF 16.4 billion, compared to a HUF 5.0 billion gain in 2006. Real estate transactions resulted in a profit of HUF 1.4 billion at consolidated level. Insurance premium revenues amounted to HUF 83.6 billion in 2007, which was 10.6% higher than in 2006. Compared to 2006, insurance expenses grew by 13.7%. The net profit on insurance transactions was HUF 14.4 billion. Other non-interest income less income from the release of provisions generated before the acquisitions were HUF 24.0 billion, which is 17.6% higher than in the previous year.

The **total income** of the Bank group less net fees and release of pre-acquisition provisions was HUF 708.0 billion, 26.0% more than in the previous year.

**Non-interest expenses**, amounting to HUF 452.9 billion, were 28.8% higher than in 2006. Within this, consolidated personnel expenses were 38.4% higher than in the previous year, amounting to HUF 147.8 billion. Depreciation rose by HUF 9.2 billion relative to 2006, to HUF 35.7 billion. Other non-interest expenses grew by 31.2%, to HUF 164.3 billion. In 2007, non-corporate taxes represented an expense of HUF 30.7 billion – HUF 2.1 billion, or 6.4%, less than in 2006. Within this, the HUF 6.5 billion in 'special tax' imposed on credit institutions and financial enterprises (contribution tax and solidarity tax) was recognised among other expenses (in 2006: HUF 11.2 billion).

The Bank's cost-to-income ratio calculated on the basis of its consolidated, audited figures for 2007 was 57.6%, 121 basis points higher than in the previous year. This figure, calculated on the basis of total income including net commission income and net of released pre-acquisition provisions and operating expenses, was 58.9%, or 206 basis points higher than in the previous year.

Consolidated return on average assets (**ROAA**) was 2.68% (in 2006: 3.04%), while consolidated return on average equity (**ROAE**) was 24.8%, which was 3.2 percentage points lower than that of the previous year. Basic net earnings per ordinary share (**basic EPS**) were HUF 796, up by HUF 74 on the 2007 figure, while diluted EPS was HUF 794 (in 2006: HUF 714).

**CONSOLIDATED BALANCE SHEET (IFRS)**

| Main components of balance sheet<br>in HUF million | 31/12/2006       | 31/12/2007       | Y-o-Y        |
|--|------------------|------------------|--------------|
| Cash and bank                                      | 532,625          | 353,243          | -33.7%       |
| Placements with other banks                        | 602,616          | 654,788          | 8.7%         |
| Financial assets at fair value                     | 110,576          | 285,895          | 158.6%       |
| Securities available-for-sale                      | 489,250          | 473,925          | -3.1%        |
| <b>Gross loans</b>                                 | <b>4,474,702</b> | <b>5,761,094</b> | <b>28.7%</b> |
| o/w Retail   | 2,646,414        | 3,302,583        | 24.8%        |
| Corporate  | 1,609,989        | 2,227,692        | 38.4%        |
| Municipal  | 218,299          | 230,819          | 5.7%         |
| Provisions on loans                                | 127,611          | 178,657          | 40.0%        |
| Net loans  | 4,347,091        | 5,582,437        | 28.4%        |
| Equity investments                                 | 70,938           | 9,892            | -86.1%       |
| Securities held-to-maturity                        | 268,281          | 317,557          | 18.4%        |
| Intangible assets                                  | 464,716          | 541,909          | 16.6%        |
| Other assets                                       | 211,334          | 242,228          | 14.6%        |
| <b>ASSETS</b>                                      | <b>7,097,426</b> | <b>8,461,874</b> | <b>19.2%</b> |
| Liabilities to credit institutions                 | 660,416          | 798,154          | 20.9%        |
| <b>Customer deposits</b>                           | <b>4,232,153</b> | <b>5,038,372</b> | <b>19.0%</b> |
| o/w Retail   | 2,912,755        | 3,246,589        | 11.5%        |
| Corporate  | 1,098,083        | 1,495,636        | 36.2%        |
| Municipal  | 221,315          | 296,147          | 33.8%        |
| Issued securities                                  | 781,316          | 985,265          | 26.1%        |
| Other liabilities                                  | 384,602          | 443,342          | 15.3%        |
| Subordinated loans                                 | 250,726          | 301,164          | 20.1%        |
| <b>LIABILITIES</b>                                 | <b>6,309,213</b> | <b>7,566,297</b> | <b>19.9%</b> |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                  | <b>788,213</b>   | <b>895,577</b>   | <b>13.6%</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>  | <b>7,097,426</b> | <b>8,461,874</b> | <b>19.2%</b> |
| Loan/deposit ratio                                 | 105.7%           | 114.3%           | 8.6%         |
| Share of NPLs                                      | 5.6%             | 4.2%             | -1.4%        |
| Risk cost to average loans                         | 0.73%            | 1.14%            | 0.40%        |
| Risk cost (adj.) to average loans                  | 0.62%            | 0.82%            | 0.20%        |

OTP Group's consolidated balance sheet total as at 31 December 2007 was HUF 8,461.9 billion, up by 19.2%, or HUF 1,364.4 billion, on a year earlier.

The Bank's consolidated equity was HUF 895.6 billion, representing an increase of HUF 107.4 billion, or 13.6%, over the previous year, and which was 25.2% higher than the Bank's non-consolidated equity. The ratio of consolidated equity to total assets decreased from 11.1% at year-end 2006 to 10.6%. The book value of OTP shares (BVPS) was HUF 3,198 on 31 December 2007, which was HUF 383 higher than at the end of the previous year.

On the **assets** side, cash, due from banks and balances with the National Bank of Hungary were 33.7% lower than a year earlier. Placements with other banks – thanks in part to the Bank's modified placement structure – grew by 8.7% from the end of December 2006, amounting to HUF 654.8 billion on 31 December 2007.

The fair value of financial assets, as recognised in the profit and loss account, rose by HUF 175.3 billion, to reach HUF 285.9 billion by the end of the year.

The value of securities held for sale increased by 3.1%, or HUF 473.9 billion, over the course of the year.

**Loans** net of allowances for loan losses rose by 28.4%, i.e. from HUF 4,347.1 billion on 31 December 2006 to HUF 5,582.4 billion. Net loans represented 66.0% of total assets on 31 December 2007.

The consolidated gross customer portfolio increased by 28.7% and amounted to HUF 5,761.1 billion at the end of 2007, of which the share of corporate loans was 38.7% (HUF 2,227.7 billion, annual change +38.4%), that of retail customers 57.3% (HUF 3,302.6 billion, annual change +24.8%), and loans to municipalities 4.0% (HUF 230.8 billion, annual change +5.7%). Within retail loans, housing and mortgage loans represented HUF 1,766.2 billion (annual change +16.2%), and consumer loans represented HUF 1,536.4 billion (annual change +36.4%). The share of the foreign subsidiary banks within the consolidated loan portfolio as at 31 December 2007 was 43.1% (HUF 2,526.6 billion).

The gross loan portfolio increased most dynamically at OBR in Romania (+60.8%), CJSC Bank in Ukraine (+45.1%), at the DSK Group (+43.4%) and at the Russian ISB (+41.4%). Of the total growth increment in the loan portfolio, the largest contributions came from OTP Bank's core operations<sup>1</sup> (HUF +342.8 billion), the DSK Group (HUF +231.0 billion), and the Ukrainian CJSC (HUF +164.9 billion).

Alongside a dynamic increase in the loan portfolio, the quality of the portfolio also improved, and 86.5% of the gross loan portfolio was performing as at the end of 2007, compared to 79.6% at the end of the previous year. The share of 'special watch' loans was 9.3%, and the share of the 'problematic' (non-performing) category was 4.2%, representing a 5.5 and 1.4-percentage-point decrease respectively compared to the previous year. 45.6% of the consolidated qualified portfolio and 55.9% of the non-performing loans were recorded on the balance sheets of the Bank's foreign subsidiaries.

IFRS consolidated risk provisions/impairment was HUF 178.7 billion, and of this, HUF 165.7 billion was related to the qualified portfolio, which resulted in a coverage ratio of 21.3%. Within this, the HUF 243.7 billion set aside to cover the HUF 150.8 billion in non-performing loans represented a coverage ratio of 61.9%.

The portfolio of held-to-maturity securities fell by 18.4% in 2007, with the total value of such securities reaching HUF 317.6 billion on 31 December. The securities portfolio of the Bank contained virtually no structured products or investments carrying a significant exchange rate risk.

On the **liabilities** side, deposits from customers amounted to HUF 5,038.4 billion as at 31 December 2007, up by 19.0% on a year earlier and 70.5% higher than the Bank's portfolio. 64.4% of **customer deposits** came from retail customers, while 29.7% came from corporate customers and 5.9% from municipality customers.

The main contributors to the HUF 806.2 billion growth in deposits were the parent bank (+HUF 264.9 billion), DSK (+HUF 126.6 billion) and ISB (+HUF 37.5 billion). The share of the foreign subsidiaries in the aggregate deposit portfolio grew from 34.2% to 38.9% in 2007.

The portfolio of **issued securities** grew by 26.1% over the year, to HUF 985.3 billion. The subordinated and additional debt increased by 20.1% to HUF 301.2 billion.

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<sup>1</sup> OTP Bank, OTP Mortgage Bank and OTP Building Society together

## PERFORMANCE OF OTP BANK'S CORE OPERATIONS IN HUNGARY<sup>2</sup>

### FINANCIAL HIGHLIGHTS 2007 (IFRS)

| Main components of P&L account<br>in HUF million  | 2006              | 2007              | Y-o-Y         |
|---|-------------------|-------------------|---------------|
| Net interest income   | 250,705           | 233,751           | -6.8%         |
| <i>Net interest income (adj)<sup>1</sup></i>  | 241,153           | 242,413           | 0.5%          |
| Provision for possible loan losses  | 25,314            | 21,387            | -15.5%        |
| Net fees and commissions  | 93,158            | 103,020           | 10.6%         |
| Other non-interest income   | 49,683            | 25,638            | -48.4%        |
| <i>Other non-interest (adj)<sup>1</sup></i>   | 7,683             | 8,830             | 14.9%         |
| <b>Total income</b>   | <b>393,546</b>    | <b>362,410</b>    | <b>-7.9%</b>  |
| <b>Total income (adj)<sup>1</sup></b>   | <b>341,994</b>    | <b>354,263</b>    | <b>3.6%</b>   |
| <b>Operating cost</b>   | <b>174,794</b>    | <b>172,109</b>    | <b>-1.5%</b>  |
| <b>Income before income taxes</b>   | <b>193,438</b>    | <b>168,914</b>    | <b>-12.7%</b> |
| <b>Income before income taxes (adj)<sup>1</sup></b>                                     | <b>141,885</b>    | <b>160,767</b>    | <b>13.3%</b>  |
| Income taxes  | 19,646            | 21,860            | 11.3%         |
| <b>After tax profit</b>   | <b>173,792</b>    | <b>147,054</b>    | <b>-15.4%</b> |
| <b>After tax profit (adj)<sup>3</sup></b>   | <b>121,837</b>    | <b>136,737</b>    | <b>12.2%</b>  |
|   | <b>31/12/2006</b> | <b>31/12/2007</b> | <b>Y-o-Y</b>  |
| <b>Total Assets</b>   | <b>5,688,590</b>  | <b>6,489,047</b>  | <b>14.1%</b>  |
| Placements with other banks, securities and financial assets at fair value <sup>2</sup> | 1,806,346         | 2,254,600         | 24.8%         |
| <b>Gross customer loans<sup>3</sup></b>   | <b>2,694,689</b>  | <b>3,037,488</b>  | <b>12.7%</b>  |
| o/w: retail loans   | 1,479,756         | 1,684,170         | 13.8%         |
| corporate loans <sup>3</sup>  | 1,004,773         | 1,138,889         | 13.3%         |
| municipality loans  | 210,159           | 214,428           | 2.0%          |
| Provisions  | -31,131           | -28,863           | -7.3%         |
| Liabilities to credit institutions and issued securities                                | 1,750,780         | 2,126,273         | 21.4%         |
| <b>Deposits from customers</b>  | <b>2,790,322</b>  | <b>3,086,089</b>  | <b>10.6%</b>  |
| o/w: retail deposits  | 1,906,468         | 1,965,938         | 3.1%          |
| corporate deposits  | 715,468           | 915,602           | 28.0%         |
| municipality deposits   | 168,385           | 204,550           | 21.5%         |
| <b>Total shareholders' equity</b>   | <b>712,307</b>    | <b>765,188</b>    | <b>7.4%</b>   |
|   | <b>31/12/2006</b> | <b>31/12/2007</b> | <b>Y-o-Y</b>  |
| Share of NPLs <sup>3</sup>  | 2.1%              | 1.4%              | -0.8%         |
|   | <b>31/12/2006</b> | <b>31/12/2007</b> | <b>Y-o-Y</b>  |
| Loans   | 20.6%             | 19.1%             | -1.5%         |
| Deposits  | 23.7%             | 24.1%             | 0.4%          |
| Total Assets  | 24.7%             | 25.2%             | 0.4%          |
|   | <b>2006</b>       | <b>2007</b>       | <b>Y-o-Y</b>  |
| Gross loans to deposits   | 96.6%             | 98.4%             | 1.9%          |
| Net interest margin adjusted <sup>4</sup>   | 5.21%             | 4.80%             | -0.41%        |
| Cost/income ratio   | 44.4%             | 47.5%             | 3.1%          |
| Cost/income ratio adjusted <sup>5</sup>   | 51.1%             | 48.6%             | -2.5%         |
| ROA   | 3.4%              | 2.4%              | -1.0%         |
| ROE   | 28.3%             | 19.9%             | -8.4%         |

<sup>1</sup> Including non-interest result of swaps, but excluding funding cost of Tier2 Capital and net interest income on interbank loans to subsidiaries

<sup>2</sup> Including loans to OTP Financing Cyprus and OTP Financing Netherlands

<sup>3</sup> Excluding loans to OTP Financing Cyprus and OTP Financing Netherlands

<sup>4</sup> Calculated from adjusted net interest income and total average assets adjusted by the volumes of Tier2 capital and interbank financing to subsidiaries

<sup>5</sup> Calculated from adjusted total income

<sup>2</sup> OTP Bank, OTP Mortgage Bank and OTP Building Society together

## RESULTS

In order to better illustrate the underlying fundamentals of the business, we have presented the results of the Hungarian core operation based on the consolidated audited IFRS figures of OTP Bank, OTP Mortgage Bank and OTP Building Society with the following adjustments:

- The net interest income has been stripped of the interest expense related to subordinated and additional loan capital as well as of the reported net interest income from the financing of subsidiaries;
- Other non-interest income has been stripped of the exchange rate gain on the strategic open position and the non-interest income earned on the financing of subsidiaries;
- The non-interest income from foreign currency swaps has been presented among net interest income;
- Non-interest income has been stripped of dividend received from the subsidiaries and of funds permanently transferred.

The annual **pre-tax profit** from core operations increased by 13.3%, to HUF 160.8 billion, while the after-tax profit increased by 12.2%, to HUF 136.7 billion. The growth in profit was primarily due to the favourable change in operating expenses and risk expenses; the rate of growth of total income was below that observed in previous years.

**Net interest income** – as a result of the increasing competition in the retail market, the repricing of subsidised housing loans, and intensive customer acquisition and fundraising campaigns – remained essentially unchanged in 2007, with the HUF 242.2 billion in net interest income representing a growth of just 0.5% over the previous year. The risk-related expenses of loans – as a result of the considerable improvement in the quality of the portfolio – fell significantly, by approximately HUF 3.9 billion, to HUF 21.4 billion.

Of **non-interest income**, net commission income, representing a dominant share of the total, increased by 10.6%, while net interest income as a whole grew by a similar rate of 10.9%.

The **operating costs** of the core activity – due mainly to a nearly HUF 4.3 billion, 15.4%, decrease in taxes accounted among the other expenses – fell by 1.5%. Within this category, personnel expenses increased by 6.9%, while depreciation was 14.8% higher than in the previous year. Other expenses fell by 11.0% overall. The cost-to-income ratio decreased significantly due to the above processes, from 51.1% in 2006 to 48.6% (-252bp).

## BALANCE SHEET

The gross customer loan portfolio related to the core operations of OTP Bank in Hungary<sup>3</sup> was 3,037.5 billion on 31 December 2007, which represents a significant, HUF 342.8 billion, or 12.7%, growth. Of this total, loans to corporate customers accounted for 37.5% (HUF 1,138.9 billion, annual change +13.3%), those to retail customers 55.4% (HUF 1,684.2 billion, +13.8%), and the loans of municipality 7.1% (HUF 214.4 billion, +2.0%). Within retail loans, housing and mortgage loans represented HUF 1,199.9 billion (annual change +5.8%), and consumer loans HUF 484.3 billion (annual change +40.2%).

Alongside a dynamic increase of the loan portfolio, the quality of the portfolio improved over the previous year in terms of the ratio of non-performing loans. 95.3% of the gross loan portfolio was performing as at the end of 2007, while in 2006 the comparative figure was 96.0%. 'Special watch' loans accounted for 3.4% of the portfolio (compared to 1.9% in the previous year) and non-performing loans represented 1.4% of the total (compared to 2.1% in the previous year).

<sup>3</sup> To OTP Financing Netherlands and OTP Financing Cyprus, practically financing subsidiaries, were taken out from the corporate loans of the growth loan portfolio and were moved into the interbank loans.



At the end of 2007 the provisions set aside and impairment recognised on the HUF 143.6 billion in qualified loans amounted to HUF 28.9 billion, representing a 20.1% coverage ratio. Within this, the HUF 22.3 billion in impairment provisions set aside for covering the HUF 41.9 billion in non-performing loans represented a coverage ratio of 53.4%.

The Bank Group had a market share of 9.9% in corporate loans, 36.7% in housing loans, 19.6% in consumer loans<sup>4</sup>, and 55.0% in municipality loans in Hungary at the end of 2007. The Hungarian credit institution members of the Bank Group had a share of 25.4% of the total assets of the banking sector at the end of 2007.

The total of customer deposits collected within as part of the core operations of OTP Bank in Hungary was HUF 3,086.1 billion at the end of 2007, HUF 295.8 billion higher than in 2006. Of the total customer deposits, 63.7% came from the retail segment, 29.7% from corporate customers and 6.6% from municipalities. Compared to the previous year, corporate and municipality deposits grew considerably, by 28.0% and 21.5% respectively, while the growth in retail deposits was 3.1%.

The Bank Group had a 24.1% market share of Hungarian credit-institution deposits, and within this total, it had a 31.3% share of household deposits, a 53.1% share of municipality deposits and an 11.9% share of corporate deposits.

The stock of mortgage bonds issued for the financing of mortgage loans was HUF 974.7 billion at the end of 2007, which was HUF 13.5 billion, or 1.5%, lower than at the end of the previous year. In 2007 the issue of retail mortgage bonds continued, which provided continuous forint-based funds for the company, and in the middle of the year a new multi-currency domestic mortgage-bond scheme was launched. As a result of the international subprime mortgage crisis, and due to the increase in premiums, from the third quarter on OTP Mortgage Bank decided to defer foreign issues to the following year. With regard to issued mortgage bonds, OTP Mortgage Bank achieved a 63.9% share on the Hungarian market.

## ***DIVIDEND***

The AGM held on the 25th of April 2008 decided not to declare dividend payment for the business year 2007.

## ***CAPITAL ADEQUACY (BASED ON HAR)***

As of 31 December 2007, the equity of OTP Bank according to Hungarian Accounting Standards (HAS) amounted to HUF 673.0 billion, or 21.7% more than a year earlier. The HUF 119.9 billion increase was a net result of the HUF 12.0 billion growth in the general reserve, the HUF 74.3 billion increase in the profit reserve, the HUF 52.9 billion reduction in the allocated reserve and the balance sheet profit for the year of HUF 107.9 billion. Equity per share of nominal value HUF 100, was HUF 2,404.

The portfolio of repurchased treasury shares grew from a 2006 figure of HUF 1.7 billion to HUF 54.2 billion by the end of 2007.

The risk-adjusted regulatory capital of the Bank on 31 December 2007 was HUF 379.6 billion, and its adjusted balance sheet total was HUF 3,461.6 billion.

As of 31 December 2007, the solvency ratio calculated according to Hungarian regulations was 10.97%, which is well in excess of the 8% required under the Credit Institutions Act.

The Bank's non-consolidated 2007 pre-tax profit according to HAS was HUF 142.0 billion, which was more than HUF 70.0 billion, or 33.2%, lower than that of 2006. Compared to the 2006 pre-tax result excluding the one-off impact of the ICES programme (HUF 154.6 billion), the fall was 8.1%, which was partly attributable to the growth in interest expenses on the subordinated loan capital taken up to finance the acquisition of the foreign subsidiaries. With a rise in the actual tax rate compared to 2006 (from 12.4% to 15.6%), the after-tax profit was HUF 119.9 billion, 35.6% less than in 2006. Compared to the 2006 after-

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<sup>4</sup> Without the market of vehicle loans, without Merkantil Bank.



tax result excluding the one-off impact of the ICES programme (HUF 134.8 billion), the fall in the profit after tax was 11.0%.

After setting aside HUF 12.0 billion in general risk provisions, the balance sheet profit of OTP Bank for the year 2007 amounted to HUF 107.9 billion (the Bank will not be paying dividends on its profits of 2007).

## **STAFF LEVEL AT OTP GROUP**

The closing staff number of the whole group was 33,085 persons as of December 31, 2007, during the fourth quarter the staff increased by 2,530 persons, year-on-year growth was 6,196 persons. In 4Q there was a rapid staff expansion at ISB (+1,514 people) and CJSC (+527 people).

The closing number of OTP Bank staff was 8,494 on December 31, 2007, 325 more than at the end of December, 2006 and 124 persons more than at the end of December, 2007. In the fourth quarter of 2007 the staff in the branch network decreased by 34 people, in the headquarters the number of staff increased by 56 persons.

|  | 31/12/2006 | 31/12/2007 | Y-o-Y |
|--|------------|------------|-------|
| <b>OTP Bank</b>                                |            |            |       |
| Closing staff (persons)                        | 8,169      | 8,494      | 4.0%  |
| Average staff (persons)                        | 8,017      | 8,281      | 3.3%  |
| Per capita total assets (HUF mn)               | 551.7      | 600.9      | 8.9%  |
| Per capita profit after tax quarterly (HUF mn) | 6.3        | 3.2        | -0.5  |
| <b>GROUP</b>                                   |            |            |       |
| Closing staff (persons)                        | 26,866     | 33,062     | 23.1% |
| Average staff (persons)                        | 24,535     | 30,999     | 26.0% |
| Per capita total assets (HUF mn)               | 264.2      | 255.9      | -3.1% |
| Per capita profit after tax quarterly (HUF mn) | 1.7        | 1.7        | 0.0   |

## **PERSONAL AND ORGANIZATIONAL CHANGES**

In the management, Board of Directors and Supervisory Board the following changes occurred in 2007:

Dr. Zoltán Spéder, member of the Board of OTP Bank, Vice Chairman and CFO terminated his employment with the Bank and resigned from all of his position in the Bank and its subsidiaries as of 8 January 2007. According to the relevant provisions of the Act CXII of 1996 on Credit Institutions and Financial Enterprises, parallel with the termination of Dr. Zoltán Spéder's employment in the Bank, his Board membership also ceased to exist.

The Chairman and CEO appointed Dr. László Urbán as Deputy CEO in charge of the Strategic and Financial Division effective from 15 January, 2007.

Mr. Csaba Lantos, member of the Board of Directors of OTP Bank, deputy-CEO being in charge of the retail division will terminate his employment with the Bank as of 30 June 2007, parallel with the termination of his employment in the Bank, his Board membership will also cease to exist.

The employment of Mr. Géza Lenk was ceased effective from 3 April, 2007 upon his retirement.

The Chairman and CEO appointed Mr. Antal Kovács as Deputy CEO in charge of the Retail Division effective from 1 July, 2007.

The Annual General Meeting in accordance with the conditions stipulated by the Bylaw of the Company appointed Dr. Gábor Horváth, Dr. Gábor Nagy and Mr. Tibor Tolnay as the member of the Audit Committee on April 27, 2007.

Budapest. April 25. 2008

OTP Bank Plc.

**OTP BANK PLC.**

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

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

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

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## INDEPENDENT AUDITORS' REPORT

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

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

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

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

### *Auditor's Responsibility*

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

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

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

*Opinion*

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

Budapest, March 17, 2008



.....  
Horváth Tamás  
Deloitte Auditing and Consulting Ltd.  
1068 Budapest, Dózsa György út 84/C  
000083



.....  
Horváth Attila Péter  
Registered Auditor  
005173

**OTP BANK PLC.**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2007**  
**(in HUF mn)**

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

Budapest, 17 March 2008

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

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

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

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



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

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

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

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

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

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

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

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

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

**NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS**

**1.1. General information**

OTP Bank Plc. (the “Bank” or “OTP”) was established on 31 December 1990, when the predecessor State-owned company was transformed into a public liability company.

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

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

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

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

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

**1.2. Accounting**

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

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

Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position according to the International Financial Reporting Standards in order to present the consolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the “EU”). IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. As the Group does not apply portfolio hedge accounting under IAS 39, there is no impact on these consolidated financial statements, had it been approved by the EU at the balance sheet date.

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

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

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

**1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2007**

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

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

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

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

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

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

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

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

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

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

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

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

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1. Basis of Presentation**

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

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

**2.2. Foreign currency translation**

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

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

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

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

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

**2.3. Principles of consolidation**

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

**2.4. Accounting for acquisitions**

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

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

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

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

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

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

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



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

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

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

**2.6.1. Securities held for trading**

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

**2.6.2. Derivative financial instruments**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**2.9. Sale and repurchase agreements**

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

**2.10. Associates and other investments**

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

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

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

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

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

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

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

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

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

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

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

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

**2.12. Leases**

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

**The Group as lessor**

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

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

**The Group as lessee**

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

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

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

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

**2.13. Properties held for resale**

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

**2.14. Insurance reserves**

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

**2.15. Treasury shares**

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Balance Sheet at acquisition cost as a deduction from Consolidated Shareholders' Equity.

Gains and losses on the sale of treasury shares are credited or charged directly to consolidated Retained earnings and reserves.

**2.16. Interest Income and Interest Expense**

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

**2.17. Fees and Commissions**

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

**2.18. Income taxes**

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

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

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

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

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

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

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

**2.20. Share-based compensation**

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

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

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

**2.21. Consolidated Statements of Cash Flows**

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

**2.22. Segment reporting**

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

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

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

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

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

**2.22. Segment reporting [continued]**

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

**2.23. Comparative figures**

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

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

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

**3.1. Impairment of Loans and Advances**

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

**3.2. Valuation of Instruments without Direct Quotations**

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

**3.3. Provisions**

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



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

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

**3.4. Insurance liabilities**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

|   |               |               |
|---|---------------|---------------|
| Total assets of unconsolidated subsidiaries | <u>69,265</u> | <u>31,876</u> |
|---|---------------|---------------|

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

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

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

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

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

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

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

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

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

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

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

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

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

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 11: PREMISES, EQUIPMENTS AND INTANGIBLE ASSETS, NET**  
**(in HUF mn)**

For the year ended 31 December 2007:

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

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

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



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

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

For the year ended 31 December 2006:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 16: OTHER LIABILITIES (in HUF mn) [continued]**

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

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

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

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

Movements in insurance liabilities can be summarized as follows:

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

**NOTE 17: SUBORDINATED BONDS AND LOANS**

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

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

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

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

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

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

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

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

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

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 18: SHARE CAPITAL (in HUF mn)**

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

A reconciliation of the income tax charges is as follows:

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

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

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

A reconciliation of the income tax charges is as follows:

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

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

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

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

**NOTE 24: FINANCIAL INSTRUMENTS**

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

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

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

***Credit risk***

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

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

***Market risk***

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

***Liquidity risk***

See Note 33.

***Foreign currency risk***

See Note 34.

***Interest rate risk***

See Note 35.

**OTP BANK PLC.**  
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**NOTE 25: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)**

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

**(a) *Contingent liabilities***

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

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

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

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

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

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

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

*(a) Contingent liabilities [continued]*

**Legal disputes**

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

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

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

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

**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 25: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

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

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

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

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

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

**Foreign currency contracts**

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

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

**Foreign exchange swaps and interest rate swaps**

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

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

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

**Forward rate agreements**

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

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

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



**OTP BANK PLC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 26: SHARE-BASED COMPENSATION**

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

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

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

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

The exercise period of the options granted for the year of 2005 is two years and for the years of 2006 to 2010 is 19 months. The exercise period of the option program for the years of 2006 to 2010 must be opened at 1 June in the actual year. If the options remain unexercised before the end of the exercise period the options expire. Additionally, options are forfeited if the employee leaves the Bank before the options vest.

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

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

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

The inputs into the Binomial model are as follows:

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

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

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

**NOTE 27: RELATED PARTY TRANSACTIONS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**NOTE 30: MAJOR SUBSIDIARIES**

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

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

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

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

**NOTE 31: TRUST ACTIVITIES**

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

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

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

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn)**

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

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

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



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**NOTE 34: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)**

As at 31 December 2007

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

As at 31 December 2006

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

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

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

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

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

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

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

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

As at 31 December 2007

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

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

As at 31 December 2007

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

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

As at 31 December 2006

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

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

As at 31 December 2006

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

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**NOTE 36: EARNINGS PER SHARE**

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

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

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

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

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

**As at 31 December 2007**

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

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**NOTE 38: SENSIVITY ANANLYSIS**

**38.1. Market Risk sensitivity analysis**

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

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

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

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

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

**38.2. Foreign currency sensitivity analysis**

The following table details the Group's sensitivity to a increase and decrease in the HUF exchange rate against the foreign currencies, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items at the Group members and the strategic open positions related to foreign activities of the Bank also. The strategic open position related to the foreign operations was EUR 570 million and EUR 570 million as of 31 December 2007 and 2006, respectively. A positive number below indicates an increase in profit where the HUF strengthens against foreign currency. For a weakening of the HUF against FX, there would be an equal and opposite impact on the profit, and the balances below would be negative.

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

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

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

Notes:

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

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

**38.3. Interest rate sensitivity analysis**

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

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

The simulations were prepared by assuming two scenarios:

1. 0.50%-0.75% decrease in average HUF yields (probable scenario)
2. 1 % - 1.50% decrease in average HUF yields (alternative scenario)

The net interest income in a one year period after 31 December 2007 would be decreased by HUF 853 million (probable scenario) and HUF 4.674 million (alternative scenario) as a result of these simulations.



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

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

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

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

**38.4. Equity price sensitivity analysis**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recognition of Cash Flow of the insurance business line:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**NOTE 42: POST BALANCE SHEET EVENTS**

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

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

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

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

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

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**NOTE 42: POST BALANCE SHEET EVENTS [continued]**

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