OTP Mortgage Bank Ltd.

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

FOR THE YEAR ENDED
DECEMBER 31, 2009

Deloitte.

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of *OTP Mortgage Bank Ltd.*

We have audited the accompanying financial statements of OTP Mortgage Bank Ltd., which comprise the statement of financial Position as at December 31, 2009, and the related statement of recognized and comprehensive income, statement of changes in shareholder's equity and statement of cash flows 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements give a true and fair view of the financial position of OTP Mortgage Bank Ltd. as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest, March 5, 2010

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Gion Gábor
Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/c

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OTP MORTGAGE BANK LTD.
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009
(in HUF million)

	Note	2009	2008
Cash, amounts due from banks and balances with the National Bank of Hungary	4	732	1,666
Placements with other banks	5	318,044	91,399
Financial assets at fair value through profit or loss	6	951	1,914
Securities available-for-sale	7	216,365	32,468
Loans	8	1,443,296	1,464,820
Property and equipment	9	143	225
Intangible assets	9	257	249
Other assets	10	951	5,374
TOTAL ASSETS		**1,980,739**	**1,598,115**
Amounts due to OTP Bank Plc. and other banks	11	261,287	113,122
Liabilities from issued securities	12	1,599,594	1,375,061
Financial liabilities at fair value through profit or loss	13	1,469	12,706
Deferred tax liabilities	23	1,957	1,597
Other liabilities	14	21,815	30,047
Subordinated bonds and loans	15	2,755	-
TOTAL LIABILITIES		**1,888,877**	**1,532,533**
Share capital	16	27,000	27,000
Retained earnings and reserves	17	64,862	38,582
TOTAL SHAREHOLDER'S EQUITY		**91,862**	**65,582**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,980,739**	**1,598,115**

Budapest, 5 March 2010

OTP JELZÁLOGBANK Zrt.
otp Jelzálogbank
elnök-vezérigazgató
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Zsolt Oszlányi
Chief Executive Officer

OTP MORTGAGE BANK LTD.
STATEMENT OF RECOGNIZED INCOME FOR THE YEAR ENDED 31 DECEMBER 2009
(in HUF million)

	Note	2009	2008
Interest Income:			
Loans		76,901	59,303
Placements with other banks		31,080	17,771
Amounts due from banks and balances with the National Bank of Hungary		232	375
Interest subsidy on housing loans financed by mortgage bonds		50,830	51,295
Securities available-for-sale		1,985	4,390
Total Interest Income		161,028	133,134
Interest Expense:			
Amounts due to OTP Bank Plc. and other banks		6,475	21,902
Deposits from customers		173	44
Liabilities from issued securities		98,282	82,389
Subordinated bonds and loans		112	-
Total Interest Expense		105,042	104,335
NET INTEREST INCOME		**55,986**	**28,799**
Release of provision for impairment on loan and placement losses		-	19
NET INTEREST INCOME AFTER RELEASE OF PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**55,986**	**28,818**
Fee and commission income	19	1,524	1,595
Fee and commission expense	20	23,375	16,200
NET FEES AND COMMISSIONS		**(21,851)**	**(14,605)**
Foreign exchange gains, net		1,789	14,633
Gains on securities, net		7,492	878
Other operating income		1,413	277
Other operating expenses		(11)	(5)
NET OPERATING INCOME		**10,683**	**15,783**
Personnel expenses		614	648
Depreciation and amortization		196	192
Other administrative expenses	21	6,987	6,635
OTHER ADMINISTRATIVE EXPENSES		**7,797**	**7,475**
INCOME BEFORE INCOME TAXES		**37,021**	**22,521**
Income taxes	23	7,070	4,354
NET PROFIT FOR THE YEAR		**29,951**	**18,167**
Earnings per share (in HUF)			
Basic and diluted	24	**110,930**	**67,285**

OTP MORTGAGE BANK LTD.
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009
(in HUF milion)

	Note	2009	2008
NET PROFIT FOR THE YEAR		**29,951**	**18,167**
Fair value adjustment of securities available-for-sale	7	(105)	(612)
Net gain on cash-flow hedge		434	788
Other comprehensive income, net of income tax		329	176
NET COMPREHENSIVE INCOME		**30,280**	**18,343**

The accompanying notes to financial statements on pages 8 to 53 form an integral part of these financial statements.

OTP MORTGAGE BANK LTD.
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009
(in HUF milion)

	Note	2009	2008
OPERATING ACTIVITIES			
Profit before income tax		37,021	22,521
Income tax paid		(5,658)	(2,203)
Depreciation and amortization		196	192
Release of provision for impairment on loan and placement losses		-	(19)
Unrealised (gains)/ losses on fair value adjustment of derivative financial instruments		(1,806)	4,601
Net changes in financial assets at fair value through profit or loss		963	(684)
Net changes in financial liabilities at fair value through profit or loss		(1,469)	-
Net decrease/ (increase) in other assets before provisions for losses		5,236	(7,177)
Net decrease in other liabilities		(9,057)	(6,497)
Net cash provided by operating activities		**25,426**	**10,734**
INVESTING ACTIVITIES			
Net increase in placements with other banks		(226,645)	(79,593)
Net (increase)/ decrease in securities available-for-sale		(184,027)	42,085
Net decrease/ (increase) in loans		22,993	(317,395)
Net additions to property, equipment and intangible assets		(122)	(182)
Net cash used in investing activities		**(387,801)**	**(355,085)**

(in HUF million) [continued]

	Note	2009	2008
FINANCING ACTIVITIES			
Net increase/ (decrease) in amounts due to OTP Bank Plc. and other banks		148,165	(53,530)
Issuance of securities		881,763	736,592
Repurchase and redemption of issued securities		(667,242)	(338,486)
Net increase in subordinated bonds and loans		2,755	-
Dividend paid		(4,000)	-
Net cash provided by financing activities		**361,441**	**344,576**
Net (decrease)/ increase in cash and cash equivalents		**(934)**	**225**
Cash and cash equivalents as at 1 January		1,666	1,441
Cash and cash equivalents as at 31 December		**732**	**1,666**
Analysis of cash and cash equivalents opening and closing balance			
Cash, amounts due from banks and balances with the National Bank of Hungary		1,666	1,441
Cash and cash equivalents as at 1 January		**1,666**	**1,441**
Cash, amounts due from banks and balances with the National Bank of Hungary	4	732	1,666
Cash and cash equivalents as at 31 December		**732**	**1,666**

OTP MORTGAGE BANK LTD.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009 (in HUF million)

	Share Capital	Retained Earnings and Reserves	Total
Balance as at 1 January 2008	**27,000**	**20,239**	**47,239**
Net comprehensive income for the year	-	18,343	18,343
Balance as at 31 December 2008	**27,000**	**38,582**	**65,582**
Dividend paid	-	(4,000)	(4,000)
Net comprehensive income for the year	-	30,280	30,280
Balance as at 31 December 2009	**27,000**	**64,862**	**91,862**

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General

OTP Bank Plc. ("OTP Bank") established OTP Mortgage Bank Ltd. (“OTP Mortgage Bank” or the “Bank”) as a fully owned subsidiary on 15 May 2001. The State Financial Supervisory Authority issued the operating license on 10 January 2002, and the Bank commenced operations on 1 February 2002.

The Bank’s registered office address is 21 Nádor u., Budapest 1051.

The Bank is a specialized financial institution with its main business being governed by Act XXX of 1997 on Mortgage Lending Institutions and Mortgage Bonds.

The Bank started the operations in foreign currency in 2004 with the issuance of EUR denominated medium term mortgage bonds. In 2005, the Bank started to extend its mortgage loan portfolio with CHF denominated assets. In 2007, the Bank started to disburse JPY based loans. According to the above-mentioned law, the net foreign currency position must be hedged by derivative instruments.

The Bank employs limited staff at its head office and relies on approximately 382 branches of OTP Bank engaged in the housing loan business. Under a syndication agreement between OTP Bank and OTP Mortgage Bank, OTP Bank, through its branch network, provides services for OTP Mortgage Bank concerning the administration of the mortgage loans, for which fees are paid by OTP Mortgage Bank. Credit scoring and lending are performed at the branches of OTP Bank according to the regulations of OTP Mortgage Bank. Loans are approved by OTP Mortgage Bank and OTP Bank acts for and on behalf of OTP Mortgage Bank during the conclusion of a loan agreement. The mortgage right, along with the restraint of transfer and encumbrance on property pledged to secure loans is entered in the property register for the benefit of OTP Mortgage Bank.

As the sole shareholder, OTP Bank provides financial and adminstrative support to the Bank. Additionally, any short-term liquidity gaps which may arise from the timing difference between the loan disbursements and issuance of mortgage backed securities are generally financed by OTP Bank. Details of related party balances and transactions are summarised in Note 28 to these financial statements.

A significant proportion of mortgage loans are extended for periods for more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity (1-10 years). One reason for this mismatch was that the interest subsidy (see Note 18 for details) on mortgage bonds was only for a period of up to five years. As a result of change in 2004, the interest subsidy regime now allows mortgage bond subsidies for up to twenty years. As a result the Bank is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

As at 31 December 2009 the number and the average number of the employees at the Bank were 36.

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

1.2. Accounting

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

OTP Mortgage Bank's functional currency is the Hungarian Forint ("HUF").

The accounting policies followed by the Bank in the preparation of these financial statements conform with International Financial Reporting Standards (IFRS). Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to OTP Mortgage Bank's Hungarian statutory accounts (see Note 32), in order to present the financial position and results of operations of OTP Mortgage Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as IFRS.

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

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2009

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

- IAS 1 (Revised) Presentation of Financial Statements – a revised presentation (effective for annual periods beginning on or after 1 January 2009)
- IAS 23 (Revised) Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)
- IAS 32 (Amendment) Financial Instruments: Presentation and IAS 1 Presentation of Financial statements – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009)
- IFRS 1 (Amendment) First-time adoption of IFRS and IAS 27 (Amendment) Consolidated and Separate Financial Statements – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009)
- IFRS 2 (Amendment) Share-based Payment – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009)
- IFRS 7 (Amendment) Financial Instruments: Disclosures - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009)*

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

1.2. Accounting [continued]

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2009 [continued]

- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009)
- IFRIC 9 (Amendment) Reassessment of Embedded Derivatives and IAS 39 (Amendment) Financial Instruments: Recognition and Measurement – Embedded derivatives (effective for annual periods ending on or after 30 June 2009)
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)
- IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009)*
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008)*
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009),

The adoption of the above presented Amendments and new Standards and Interpretations had no significant impact on these financial statements.

1.2.2. Amendments to IFRSs effective on or after 1 January 2010, not yet adopted

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

- IAS 24 (Amendment) Related party disclosures - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011)*
- IAS 27 (Amendment) Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009)
- IAS 32 (Amendment) Financial instruments: Presentation – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010)
- IAS 39 (Amendment) Financial Instruments: Recognition and Measurement – Eligible hedged items (effective for annual periods beginning on or after 1 July 2009)
- IFRS 1 (Amendment) First time adoption of IFRS – Additional exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010)*
- IFRS 2 (Amendment) Share based payment – Group cash-settled share based payment transactions (effective for annual periods beginning on or after 1 January 2010)*
- IFRS 3 (Revised) Business Combinations (effective for annual periods beginning on or after 1 July 2009)

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

1.2. Accounting [continued]

1.2.2. Amendments to IFRSs effective on or after 1 January 2010, not yet adopted [continued]

- IFRS 9 Financial instruments (effective for annual periods beginning on or after 1 January 2013)*
- IFRIC 14 (Amendment) The Limit on a defined benefit Asset, Minimum Funding Requirements and their interaction – Prepayments of a minimum funding requirement (effective for annual periods beginning on or after 1 January 2011)*
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)
- IFRIC 18 Transfers of Assets from Customers (effective for transfer of assets from customers received on or after 1 July 2009)
- IFRIC 19 Extinguishing Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)*
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010*

*Not yet endorsed by the EU.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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

The presentation of 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 at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation

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

2.3. Securities and other financial assets

The Bank classifies its securities into the following categories: held for trading, held-to-maturity and available-for-sale. Securities that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as securities held for trading. Investments with fixed maturity that the management has the expressed intention and ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale.

The Bank had no securities classified as held for trading or held-to-maturity as at 31 December 2009 and 2008 respectively.

2.3.1. 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 Hungarian government bonds and bonds issued by the NBH.

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.

2.3.2. Derivative financial instruments

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.3.2. Derivative financial instruments [continued]

Derivative financial instruments are initially measured at fair value and at subsequent reporting dates also at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss and included in the Statement of Recognized Income for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.3.3. 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 Statement of Recognized Income along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Statement of Recognized Income.

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

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management policy, 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 Statement of Recognized Income.

2.4. Loans and allowance for loan losses

Loans are presented at amortized cost, net of allowance for loan losses, if any (see below). The direct cost and revenue related to the lending, which is a part of the effective interest rate, is included in the amortized cost and amortized over the term of the loans. Interest is accrued and credited to income based on the effective interest income earned on the amortized cost of the loans. When a borrower is unable to meet payments as they fall due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they fall due, all accrued unpaid interest is reversed.

From the third quarter of 2007 the foreign currency denominated mortgage loans have mainly been provided by OTP Mortgage Bank.

Due to changes of related rules effective from 2008 allowance shall be recorded only in case of loss. Since OTP Bank is committed to purchase non-performing loans, no losses are expected, and at the end of 2009 there was no allowance for loan losses.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Liabilities from issued securities

Issued mortgage bonds are measured at amortized cost. The costs related to their issuance is included in the amortized cost of the issued securities and amortized over the term of the securities. Mortgage bonds are issued based on the total amount of property pledged as collateral to the Bank and recorded in the Bank's collateral register.

2.6. Property, equipment and intangible assets

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

Buildings	6%
Machinery and equipment	14.5-33%
Vehicles	20%
Software	33%
Property rights	33%

Depreciation and amortization on property, equipment and intangible assets starts on the day when such assets are placed into service.

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

2.7. Interest Income and Interest Expense

Interest income and expense are recognised in the Statement of Recognized Income on the accrual basis and based on the IAS 18 Revenue, referring to IAS 39. Any fees received or paid related to the origination of the loan are an integral part of the effective interest rate and revenue is recognized with the effective interest rate, that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.8. Income taxes

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

2.9. Government subsidies

The Bank receives subsidies from the Hungarian government designed to compensate for the difference between the amount of interest charged to the customer, such interest being capped by legislation, and the interest charge on the issued mortgage bonds. Such subsidies are calculated on a monthly basis, are applicable over the life of the loan and are recognised among interest income in the Statement of Recognized Income in the period to which they relate.

2.10. Statement of Cash Flows

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

2.11. Segment reporting

The Bank's main operation is mortgage lending to retail customers in Hungary, and the related value-appraisal services. The management believes that the Bank operates in a single business and geographical segment.

2.12. Comparative figures

Certain amounts in the 2008 financial statements have been reclassified to conform with the current year presentation. These reclassifications were not material.

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

The presentation of financial statements in conformity with IFRS requires the management of the Bank 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:

(a) Impairment on loans and advances

The Bank 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, considering received collaterals and guarantees provided by OTP Bank.

(b) Valuation of instruments without direct quotations

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

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

	2009	2008
Cash on hand	-	-
Due from banks		
Within one year in HUF	528	1,630
Within one year in foreign currency	200	1
	728	1,631
Accrued interest for the period	4	35
Total	**732**	**1,666**
From this: amounts due from OTP Bank	214	6
Compulsory reserves set by the NBH	798	3,851

The main amount of cash due from banks represents the balance of the Bank's clearing account placed at the NBH of HUF 514 million and HUF 1,625 million as at 31 December 2009 and 2008 respectively. The remaining amounts show the balances of the nostro accounts placed at the OTP Bank.

The Bank fulfilled the compulsory reserve requirement on an average monthly basis.

NOTE 5: PLACEMENTS WITH OTHER BANKS (in HUF million)

	2009	2008
Within one year		
in HUF	4,900	37,700
in CHF	3,837	3,150
in EUR	308,966	50,298
in JPY	-	72
Total in foreign currency	312,803	53,520
Accrued interest for the period	341	179
Total	**318,044**	**91,399**
From this: amounts due from OTP Bank	299,348	81,198

NOTE 5: PLACEMENTS WITH OTHER BANKS (in HUF million) [continued]

	2009	2008
Interest rates on placements with other banks	1.9-5.3%	1.25% - 10%

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

	2009	2008
Foreign exchange swaps designated as held for trading	951	1,397
Foreign currency forward contracts	-	517
Total	**951**	**1,914**

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

	2009	2008
Discounted bonds issued by the NBH	214,479	-
Hungarian Government bonds	1,743	21,900
Hungarian Government discounted Treasury Bills	-	9,277
	216,222	31,177
Accrued interest for the period	143	1,291
Total	**216,365**	**32,468**

The whole portfolio was denominated in HUF as at 31 December 2009 and 2008.
The government and NBH securities are pledged as additional collateral of the issued mortgage bonds.

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

	2009	2008
Within five years, fixed interest	216,222	31,177
Interest rate on interest-bearing securities available-for-sale	6.75%	6.25-9.5%

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

The valuation of the securities available-for-sale were as follows as at 31 December 2009:

	2009	
	Cost	**Fair value**
Discounted bonds issued by the NBH	214,479	214,479
Hungarian Government bonds	1,761	1,743
Total	216,240	216,222

The valuation of the securities available-for-sale were as follows as at 31 December 2008:

	2008	
	Cost	**Fair value**
Hungarian Government discounted Treasury Bills	9,289	9,277
Hungarian Government bonds	21,775	21,900
Total	31,064	31,177

NOTE 8: LOANS (in HUF million)

	2009	**2008**
Short-term loans (within one year)		
in HUF	53,899	54,295
in foreign currency	288	18
	54,187	54,313
Long-term loans (over one year)		
in HUF	599,514	628,355
in CHF	617,232	626,852
in JPY	132,797	140,602
in EUR	29,655	5,161
Total in foreign currency	779,684	772,615
	1,379,198	1,400,970
Accrued interest for the period	9,911	9,537
Total	**1,443,296**	**1,464,820**

NOTE 8: LOANS (in HUF million) [continued]

A significant part of the loans above are mortgage loans for housing. The loans have collateral notified in the public property register in favour of OTP Mortgage Bank. Such loans and their collateral are included in the Bank's register and mortgage bonds can be issued up to this registered amount. The remaining part of the loans are real estate development loans given to individual farmers that work in the agro-industry. Real estate and arable land can be accepted as a collateral of these loans.

Interest conditions on loans, net of allowance for loan losses

	2009	2008
Loans denominated in HUF with the maturity over one year	5-22.47%	6-19.25%
Mortgage loans denominated in foreign currency for housing purposes		
CHF	8.94%	8.40%
EUR	8.73%	10.79%
JPY	5.84%	4.81%
Mortgage loans denominated in foreign currency for free purposes		
CHF	10.15%	11.65%
EUR	9.60%	13.00%
JPY	5.72%	7.94%
Real estate development loans	10.47%	9.99%

OTP Mortgage Bank Ltd. only provides loans with the original maturity over one year.

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

	2009		2008	
Housing loans	1,110,152	77.45%	1,129,070	77.58%
Free purpose mortgage loans	314,001	21.91%	317,963	21.85%
Commercial loans	9,232	0.64%	8,250	0.57%
	1,433,385	100.00%	1,455,283	100.00%

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

	2009	2008
Balance as at 1 January	-	19
Release of provision for loan losses	-	(19)
Balance as at 31 December	-	-

See note 2.4 for further information on impairment.

NOTE 9: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF million)

As at 31 December 2009

Cost	Intangible assets	Land and buildings	Office equipment	Construction in progress	Total
Balance as at 1 January 2009	702	109	202	45	1,058
Additions	161	-	6	126	293
Disposals	-	-	(18)	(171)	(189)
Balance as at 31 December 2009	863	109	190	-	1,162
Depreciation and Amortization					
Balance as at 1 January 2009	453	16	115	-	584
Charge for the year	154	3	39	-	196
Disposals	(1)	-	(17)	-	(18)
Balance as at 31 December 2009	606	19	137	-	762
Net book value					
Balance as at 1 January 2009	249	93	87	45	474
Balance as at 31 December 2009	257	90	53	-	400

As at 31 December 2008

Cost	Intangible assets	Land and buildings	Office equipment	Construction in progress	Total
Balance as at 1 January 2008	574	17	278	91	960
Additions	162	94	23	199	478
Disposals	(34)	(2)	(99)	(245)	(380)
Balance as at 31 December 2008	702	109	202	45	1,058
Depreciation and Amortization					
Balance as at 1 January 2008	327	12	137	-	476
Charge for the year	127	4	61	-	192
Disposals	(1)	-	(83)	-	(84)
Balance as at 31 December 2008	453	16	115	-	584
Net book value					
Balance as at 1 January 2008	247	5	141	91	484
Balance as at 31 December 2008	249	93	87	45	474

NOTE 10: OTHER ASSETS (in HUF million)

	2009	2008
Receivables from the Hungarian Government	178	4,426
Prepayments and other assets	565	680
Customer receivables, given loans	112	140
Current income tax receivable	95	99
Total	**950**	**5,345**

Receivables from the Hungarian Government represent receivables from government subsidies on housing mortgage loans.

Positive fair value adjustment of derivative financial instruments designated as hedging relationship were as follows:

	2009	2008
Option contracts hedging	1	29
Total	1	29

NOTE 11: AMOUNTS DUE TO OTP BANK PLC. AND OTHER BANKS (in HUF million)

	2009	2008
Within one year		
In HUF	225,539	101,634
In CHF	35,711	7,340
In EUR	-	2,359
Total in foreign currency	35,711	9,699
Accrued interest for the priod	37	1,789
Total	**261,287**	**113,122**
From this: amounts due to OTP Bank	261,287	108,974

Interest conditions on amounts due to OTP Bank Plc. and other banks

	2009	2008
In HUF	6.25 - 7.25%	8.50% - 11.00%
In foreign currency	0.55 - 2.21%	1.03% - 9.61%

NOTE 12: LIABILITIES FROM ISSUED SECURITIES (in HUF million)

	2009	2008
With expiration date:		
Within one year in HUF	47,011	174,318
Within one year in EUR	270,840	64
	317,851	174,382
Over one year in HUF	669,660	625,287
Over one year in EUR	549,303	523,849
	1,218,963	1,149,136
Accrued interest for the priod	62,780	51,543
Total	**1,599,594**	**1,375,061**

Issued mortgage bonds during the period (nominal value)	814,382	686,657
Mortgage bonds became due or were repurchased during the period	667,242	347,242

Interest conditions on issued securities

	2009	2008
In HUF	7.2 - 12%	7 - 10.5%
In foreign currency	4 - 4.5%	3.7 - 4.5%

A reconciliation of the face value and the amortized cost is as follows:

	2009	2008
Face value of the issued securities	1,511,653	1,311,912
Unamortized premiums	16,260	3,002
Fair value hedge adjustment	8,901	8,604
Amortized cost	1,536,814	1,323,518

NOTE 12: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]

OTP Mortgage Bank can issue mortgage bonds up to the total amount of collateral in the form of property notified in the public property register in favour of OTP Mortgage Bank. A coverage register of the mortgage property constituting the ultimate coverage for the mortgage bonds and the value of the collateral is recorded. An independent coverage supervisor is appointed for monitoring and certifying the existence and valuation of eligible collateral and the registration of such collateral in the coverage register.

Main conditions of issued securities as at 31 December 2009

Name	Date of issuance	Date of maturity	Currency	Nominal value in original currency (HUF or EUR million)	Nominal value in HUF million	Interest conditions	
OJB2010_I	25/11/2002	31/03/2010	HUF	2,700	2,700	8.00	fixed
OJB2010_II	16/02/2007	16/02/2010	HUF	1,991	1,991	8.75	fixed
OJB2010_III	05/09/2008	06/09/2010	HUF	3,280	3,280	10.00	fixed
OJB2010_IV	30/10/2008	31/03/2010	HUF	38,800	38,800	8.00	fixed
OJB2011_I	20/12/2002	12/02/2011	HUF	16,111	16,111	8.00	fixed
OJB2011_II	28/05/2004	12/09/2011	HUF	8,780	8,780	10.00	fixed
OJB2011_III	28/02/2005	30/11/2011	HUF	5,002	5,002	9.00	fixed
OJB2011_IV	31/08/2006	31/08/2011	HUF	7,932	7,932	8.00	fixed
OJB2011_V	08/02/2008	08/02/2011	HUF	1,116	1,116	7.50	fixed
OJB2012_I	17/03/2004	21/03/2012	HUF	13,870	13,870	9.83	fixed
OJB2012_II	14/04/2004	16/05/2012	HUF	95,063	95,063	10.00	fixed
OJB2012_III	19/11/2004	15/08/2012	HUF	20,000	20,000	10.50	fixed
OJB2012_IV	28/02/2005	31/01/2012	HUF	5,508	5,508	9.00	fixed
OJB2013_A	30/10/2008	30/10/2013	HUF	8,516	8,516	7.20	floating
OJB2013_II	20/12/2002	31/08/2013	HUF	17,000	17,000	8.25	fixed
OJB2013_III	29/05/2009	29/05/2013	HUF	80,000	80,000	12.00	fixed
OJB2014_I	14/11/2003	12/02/2014	HUF	13,500	13,500	8.00	fixed
OJB2014_J	17/09/2004	17/09/2014	HUF	701	701	8.69	fixed
OJB2015_I	10/06/2005	10/06/2015	HUF	3,243	3,243	7.70	fixed
OJB2015_J	28/01/2005	28/01/2015	HUF	441	441	8.69	fixed
OJB2016_I	03/02/2006	03/02/2016	HUF	1,269	1,269	7.50	fixed
OJB2016_II	31/08/2006	31/08/2016	HUF	4,692	4,692	10.00	fixed
OJB2016_III	17/02/2009	17/02/2016	HUF	150,000	150,000	10.75	fixed
OJB2016_J	18/04/2006	28/09/2016	HUF	368	368	7.59	fixed
OJB2019_I	17/03/2004	18/03/2019	HUF	39,250	39,250	9.48	fixed
OJB2020_I	19/11/2004	12/11/2020	HUF	10,000	10,000	9.00	fixed
OJB2025_I	31/07/2009	31/07/2025	HUF	150,000	150,000	11.00	fixed
OMB2010_I	03/03/2008	04/03/2010	EUR	1,000	270,840	4.50	fixed
OMB2011_I	10/07/2006	11/07/2011	EUR	750	203,130	4.25	fixed
OMB2011_II	04/12/2009	05/12/2011	EUR	1,050	284,382	4.13	fixed
OMB2014_I	15/12/2004	15/12/2014	EUR	200	54,168	4.00	fixed
					1,511,653		
Unamortized premium					16,260		
Fair value hedge adjustment					8,901		
Total					**1,536,814**		

NOTE 13: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF millionn)

	2009	2008
Foreign exchange swaps	1,469	10,265
Foreign currency forward contracts	-	2,441
Total	**1,469**	**12,706**

NOTE 14: OTHER LIABILITIES (in HUF million)

	2009	2008
Fair value adjustment of derivative financial instruments designated as hedging relationship	18,615	23,448
Deferred tax liabilities	1,957	1,597
Accrued fees	1,194	2,952
Liabilities to customers	1,062	3,073
Trade payables	387	61
Advances to Government subsidies	223	-
Taxes payable	163	473
Other	171	40
Total	**23,772**	**31,644**

Fair value adjustment of derivative financial instruments designated as hedging relationship were as follows:

	2009	2008
Cross-currency Interest rate swap transactions	18,615	23,448

NOTE 15: SUBORDINATED BONDS AND LOANS

	2009	2008
With the maturity over one year denominated in CHF	2,755	-

On 30 January 2009 OTP Bank Plc. provided CHF 15 million subordinated loan to the Bank with the maturity of 8 years. The loan is due at 30 January 2017. The interest of the loan is 3 month CHF LIBOR + 3.88%.

NOTE 16: SHARE CAPITAL (in HUF million)

All shares are ordinary shares with a nominal value of HUF 100 thousand and are authorised and fully paid.

	2009	2008
Share capital (in HUF million)	27,000	27,000

NOTE 17: RETAINED EARNINGS AND RESERVES (in HUF milllion)

	2009	2008
Balance as at 1 January	38,582	20,239
Dividend paid	(4,000)	-
Net income after income taxes	29,951	18,167
Other comprehensive income	329	176
Balance as at 31 December	**64,862**	**38,582**

The Bank's reserves under Hungarian Accounting Standards ("HAS") were HUF 32,628 million and HUF 28,470 million as at 31 December 2009 and 2008 respectively. These amounts include legal reserves amounting to HUF 7,162 thousands and HUF 4,347 million respectively. The legal reserve is not available for distribution.

A dividend of HUF 4,000 million was paid to OTP Bank in 2009.

NOTE 18: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

There were three government subsidy regimes in operation, which are effective over the life of the loan; (i) for loans granted before 16 June 2003; (ii) for loans granted between 16 June 2003 and 22 December 2003; and (iii) for loans granted after 22 December 2003.

All subsidy systems have the following basic structure:

1. A maximum interest rate on loans for (i) the purchase of new property or (ii) the purchase, renovation and /or enlargement of existing properties.
2. A basic interest subsidy calculated based on a percentage of the Hungarian Government Securities Yield or a percentage of the covered mortgage bond coupon rate.
3. A supplementary interest subsidy for mortgage loans that have certain specific criteria.

In addition, a one-off payment (regarding registration of collateral) of 0.5% on the outstanding capital amount of each loan acquired by OTP Mortgage Bank is received from the Hungarian State and payable to OTP Bank, once the collateral of the loan is registered at its collateral register. As this one-off payment is fully transferred to OTP Bank, it is presented net in these financial statements. The one-off payment was HUF 175 million and HUF 218 million for the years ended 31 December 2009 and 2008 respectively.

NOTE 18: INTEREST SUBSIDIES RELATED TO HOUSING LOANS [continued]

Since 1 October 2009 the government subsidy system has changed. The main components of the new system are summarised as follows:

- Only people can apply for the subsidized loan aged under 35 or aged under 45 but having children,
- The purpose of the loan is to purchase or build a new property or the renovation of existing properties,
- The price or the costs of building a new property can be up to HUF 25 million in Budapest and other cities, HUF 5 million in other places. In the case of renovation there is no amount restrictions,
- The amount of the loan subsidized can be up to HUF 12.5 million in Budapest and other cities, HUF 10 million in other places and HUF 5 million in the case of renovation or enlargement.

The amount of the subsidy depends on the number of the dependent children, calculated on the basis of the Hungarian Government Securities Yield and only be granted for 20 years.

Due to the strict conditions the demand on the loans was moderate. At the end of 2009 about HUF 100 million at the and of February 2010 about HUF 198 million was the amount of the loans granted.

NOTE 19: FEES AND COMMISSION INCOME (in HUF million)

	2009	2008
Fees and commissions relating to loans	1,507	1,580
Other	17	15
Total	**1,524**	**1,595**

NOTE 20: FEES AND COMMISSION EXPENSE (in HUF million)

	2009	2008
Guarantee and administrative fees paid to OTP Bank	21,767	13,641
Other	1,608	2,559
Total	**23,375**	**16,200**

Guarantee fees are calculated on the basis of the loan portfolio held at the beginning of each month and are payable to OTP Bank in exchange for a commitment from OTP Bank related to the qualified or recalled debt repurchasing and costs-compensation in relation to the collection of the qualified loans which have been disbursed with governmental guarantee.

Collection fee is payable for the collection activities done by OTP Bank before the buy back procedure.

NOTE 20: FEES AND COMMISSION EXPENSE (in HUF million) [continued]

Account handling fees are charged to the customers in relation to front and back office services related to their loan accounts. These activities are carried out by the OTP Bank and are billed as intermediated service to the customers in the same amount as charged by OTP Bank, therefore revenues and expenditures related to account handling fees are presented net in these financial statements. Such account handling fees were HUF 29,374 million and HUF 24,720 million for the years ended 31 December 2009 and 2008 respectively.

The other fees mainly consist of the cost of services in connection with mortgage bond issues, which are not directly attributable to separate issuance.

NOTE 21: OTHER ADMINISTRATIVE EXPENSES (in HUF million)

	2009	2008
Taxes, other than income	6,283	5,930
Services	361	410
Professional fees	222	202
Rental fees	66	55
Material type expenses	37	-
Administration expenses	18	18
Advertising	-	20
Total	**6,987**	**6,635**

NOTE 22: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)

	2009	2008
Key executives (Managing Director and Deputies)	101	121
Members of Board of Directors and Supervisory Board	-	-
Total	**101**	**121**

The remunerations of key management personnel includes only short-term benefits.

NOTE 23: INCOME TAXES (in HUF million)

The Bank is presently liable for income tax at a rate of 16% of taxable income, and an additional 4% of special tax is also to be paid. From 2010 the income tax rate is decreased to 19% and the 4% special banking tax is abandoned.
In the calculation of deferred tax the 19% tax rate was taken into account.

A reconciliation of the total income tax charge for the years ended 31 December 2009 and 2008 is as follows:

	2009	2008
Current tax expense	5,384	2,108
Special tax expense (4%)	1,398	564
Deferred tax expense	288	1,682
Total income tax expense	7,070	4,354

A reconciliation of the deferred tax assets as at 31 December 2009 and 2008 are as follows:

	2009	2008
Balance as at 1 January	(1,597)	129
Recognised in other comprehensive income	(72)	(44)
Deferred tax expense	(288)	(1,682)
Balance as at 31 December	(1,957)	(1,597)

Reconciliation of deferred tax assets and liabilities as at 31 December 2009 and 2008 are as follows:

	2009	2008
Fair value adjustment of available-for-sale financial assets	3	-
Other provision	27	110
Amortized cost of issued securities	-	252
Deferred tax assets	30	362
Fair value adjustment of available-for-sale financial assets	-	(54)
Fair value adjustment of derivative financial instruments	(132)	-
Effect of applying effective interest rate method	(1,783)	(1,868)
Amortized cost of issued securities	(41)	-
Fixed assets	(31)	(37)
Deferred tax liabilities	(1,987)	(1,959)
Net deferred tax liabilities	**(1,957)**	**(1,597)**

NOTE 23: INCOME TAXES (in HUF million) [continued]

Reconciliation of the effective tax rate as at 31 December 2009 and 2008 are as follows:

	2009	2008
Net income before income taxes	37,021	22,521
Tax at statutory income tax rate (16%)	5,923	3,603
Special tax (4%)	1,398	564
Permanent differences due to local tax	(183)	(138)
Effect of change in tax rate for deffered tax	(76)	-
Other permanent differences	8	324
Income tax	7,070	4,354
Effective tax-rate	19.10%	19.33%

NOTE 24: EARNINGS PER SHARE (in HUF million)

Earnings per share attributable to ordinary shares are determined based by dividing Net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The Bank has no preference shares and no options or other rights related to shares.

	2009	2008
Net profit for the year	29,951	18,167
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	270,000	270,000
EPS (in HUF) basic and diluted	110,930	67,285

NOTE 25: FINANCIAL RISK MANAGEMENT

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 Bank. The most significant risks the Bank faces include:

Credit risk

The Bank takes on exposure to credit risk, which is the risk that the counter-party will be unable to pay amounts in full when due. The risk of the mortgage lending activity is controlled and the safety is enhanced by the legal environment, which provides that loans can only be extended against a specific collateral of real property and with certain legal assurances. OTP Bank has a commitment to repurchase substandard loans at book value. In the treasury activity the Bank structures the levels of credit risk it undertakes by placing limits to each counter-party. Actual exposures against limits are monitored daily.

NOTE 25: FINANCIAL RISK MANAGEMENT [continued]

Credit risk [continued]

This following table shows a breakdown of the gross credit risks of the Bank by loan types as at 31 December 2009 and 2008 respectively. The table consist of only on-balance sheet items.

in HUF million	2009	2008
Housing and free-purpose mortgage loans	1,424,153	1,447,033
Corporate loans	9,232	8,250
Total	**1,433,385**	**1,455,283**

The table consist of only on-balance sheet items.

According to the types of collateral, the values of collateral recorded in the Bank's books are detailed as follows (at a total value and to the extent of the receivables). The collaterals apply to on- balance sheet items as well as off-balance sheet exposures.

Types of collateral (at the total value):

in HUF million	2009	2008
Government guarantees	196,023	199,190
Mortgage	2,741,598	2,737,294
Other	5,538	6,343
Total	**2,943,159**	**2,942,827**

Types of collateral (to the extent of the receivables):

in HUF million	2009	2008
Government guarantees	191,816	195,115
Mortgage	1,201,661	1,220,510
Other	2,076	32
Total	**1,395,553**	**1,415,657**

The following table shows a breakdown of the Bank's gross loan portfolio by loan types which has no provision for impairment and is not in default as at 31 December 2009 and 2008. The table consists of only on-balance sheet items.

in HUF million	2009	2008
Housing and free-purpose mortgage loans	1,221,421	1,394,004
Corporate loans	8,737	8,039
Total	**1,230,158**	**1,402,043**

NOTE 25: FINANCIAL RISK MANAGEMENT [continued]

Credit risk [continued]

The following table shows the Bank's renegotiated gross loan portfolio broken down by loan types as at 31 December 2009 and 2008 (loans that are not in default, loans that are in default but not impared and loans that are in default and impared)

in HUF million	2009	2008
Housing and mortgage loans	75,027	706
Corporate loans	-	-
Total	**75,027**	**706**

The gross amount of renegotiated loans increased considerably by the end of 2009, which is a consequence of the debtor compensation program launched in June 2009 in order to handle the effects of the economic crises.

By days of delay and loan types, this table shows a breakdown of gross loan portfolio overdue but not impared as at 31 December 31 2009 and 2008.

At at 31 December 2009

In HUF million	1-90 overdue days	91-180 overdue days	181-365 overdue days	more than 365 overdue days	Total
Housing and free purpose mortgage loans	189,966	10,398	1,564	778	202,706
Corporate loans	420	59	42	-	521
Total	**190,386**	**10,457**	**1,606**	**778**	**203,227**

At at 31 December 2008

In HUF million	1-90 overdue days	91-180 overdue days	181-365 overdue days	more than 365 overdue days	Total
Housing and free purpose mortgage loans	43,939	8,308	754	10	53,011
Corporate loans	198	28	3	-	229
Total	**44,137**	**8,336**	**757**	**10**	**53,240**

NOTE 25: FINANCIAL RISK MANAGEMENT [continued]

Market risk

Market risks arise from positions taken in securities and other instruments. The Bank takes no significant exposure to market risks. Market risk generally monitored and controlled by the Asset and Liability Management function.

25.1 Interest rate sensitivity analysis

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

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

The simulation 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 2009 would be decreased by HUF 892 million (probable scenario) and HUF 4.029 million (alternative scenario) as a result of these simulation.

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:

Description	Effects to the net interest income in one year period 2009	2008
HUF (0.1%) parallel shift	(288)	(25)
EUR (0.1%) parallel shift	(318)	(44)
USD 0.1% parallel shift	-	-
Total	(606)	(69)

In HUF million

NOTE 25: FINANCIAL RISK MANAGEMENT [continued]

25.2 Foreign exchange rate sensitivity analysis

The foreign exchange sensitivity analysis have been determined based on the net open position, taking into account both balance sheet exposure and off balance sheet exposure. The simulation was made on the assumption, that the price changes happens as a one off event, and neither does it take into consideration possible balance sheet dynamics, nor the potential increase or decrease of risk costs related to foreign exchange denominated assets.

The total net open position of OTP Mortgage Bank Ltd. was HUF 2,896 million long on 31 December 2009, which consisted of EUR, CHF and JPY exposure. Considering the volatilities estimated at the given reference date (9.4%, 9.6% and 19.1% respectively), we assumed a +/- 11.5%, 11.8% and 24.9% price shock for a one quarter long time horizon, which is equivalent to the 99% VaR of the price distribution. Based on this, the following profit or loss impact was estimated.

	2009			2008		
	Price Shock	-	+	Price Shock	-	+
EUR	11.5%	(37.9)	42.3	14.8%	(22.4)	26.6
CHF	11.8%	(259.2)	289.8	22.0%	(295.9)	382.2
JPY	24.9%	(15.5)	19.4	32.5%	(143.2)	209.1
TOTAL		(312.6)	351.5		(461.5)	617.9

In HUf mn

OTP Mortgage Bank Ltd. will have negative P/L impact, when HUF strengthens against key currencies, which coincides with the decrease of risk costs. Compared to 2008, the main reason of decreasing loss is due to stabilizing fx markets which resulted in decreasing volatility. Besides this, the relative weight of low volatility currencies (EUR and CHF) has increased which helped to decrease risk despite of increasing open positions. At the same time, it has to be pointed out, thet potential loss is marginal compared to the regulatory capital of the bank.

25.3 Equity sensitivity analysis

The Bank has no equity instruments held in 2009 and 2008, therefore not exposed to equity risk.

25.4 Capital management

Capital management

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

NOTE 25: FINANCIAL RISK MANAGEMENT [continued]

Market risk [continued]

25.4 Capital management [continued]

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

Capital adequacy

The capital adequacy of the Bank is supervised based on the finacial statements data prepared according to the Hungarian Accounting Standards („HAS") applying the directives, rulings and indicators defined by the Basel Committee, that has been adopted in Hungary in 2008.
The Bank has entirely complied with the regulatory capital requirements in 2009 and in 2008.
The capital adequacy calculations of the Bank for the year 2009 are prepared based on the data of the audited financial statements prepared according to HAS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and the alternative standard method in case of the opeartional risk.

In HUF million	**2009**	**2008**
Core capital	59,628	55,471
Supplementary capital	2,735	-
Deductions	(257)	(293)
Regulatory capital	**62,106**	**55,178**
Credit risk capital requirement	43,490	43,875
Market risk capital requirement	344	311
Operational risk capital requirement	6,286	4,588
Total eligible regulatory capital	**50,120**	**48,774**
Surplus capital	**11,986**	**6,404**
Solvency ratio	**9.91%**	**9.06%**

The positive components of the Core capital are the following: Issued capital, Capital reserve, Tied-up reserve, Profit reserve, Profit for the year, General risk reserve.
The negative components of the Core capital are the following: Intangible assets.
The positive components of the Supplementary capital are the following: Subsidiary loan capital, Subordinated loan capital.
Deductions are deductions due to PIBB investments and deductions due to limit braches.

NOTE 26: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Bank 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 represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Off balance sheet items

In the normal course of business, the Bank 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 represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

The Bank's off-balance sheet assets and liabilities as at 31 December 2009 and 2008, with respect to financial instruments are as follows (in HUF million):

	2009	2008
Future portion of swap transactions	705,989	726,065
Liabilities from option contracts	21	981
Future liabilities from FX forward transactions	-	29,683
Contingent and future liabilities	706,010	756,729
Future portion of swap transactions	664,284	675,283
Receivables from option contracts	23	1,076
Future receivables from FX forward transactions	-	27,855
Contingent and future receivables	664,307	704,214
Total off-balance sheet (liability)/asset, net	**(41,703)**	**(52,515)**

NOTE 26: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

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

Foreign currency contracts

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

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

Foreign exchange swaps and interest rate swaps

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

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

Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Cross-currency interest rate swap

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

NOTE 26: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

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

NOTE 27: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

Net foreign currency position (in HUF million)

As at 31 December 2009

	CHF	EUR	JPY	Other	Total
Assets	614,692	354,354	133,316	1	1,102,363
Liabilities	(41,288)	(828,049)	(403)	(2)	(869,742)
Off-balance sheet assets and liabilities, net	(572,064)	473,970	(132,869)	-	(230,963)
Net position	**1,340**	**275**	**44**	**(1)**	**1,658**

As at 31 December 2008

	CHF	EUR	JPY	Other	Total
Assets	623,271	70,305	140,994	1	834,571
Liabilities	(14,360)	(533,382)	(681)	-	(548,423)
Off-balance sheet assets and liabilities, net	(607,477)	463,365	(140,178)	-	(284,290)
Net position	**1,434**	**288**	**135**	**1**	**1,858**

NOTE 28: RELATED PARTY TRANSACTIONS (in HUF million)

The Bank, under a syndication agreement with OTP Bank, disbursed housing loans of HUF 64,164 million and HUF 57,418 million during the years ended 31 December 2009 and 2008 respectively. The gross book value of these receivables was HUF 64,090 million and HUF 57,347 million as at 31 December 2009 and 2008 respectively.

Assets/Liabilities

The Bank had the following assets and liabilities due from, or due to the OTP Group:

Assets	2009	2008
Cash, amounts due from banks and balances with the National Bank of Hungary	214	6
Placements with other banks	299,348	81,198

Liabilities	2009	2008
Amounts due to OTP Bank Plc. and other banks	261,287	108,974
Other liabilities due to OTP Bank	2,486	19,441
Issued mortgage bonds held by OTP Group	824,899	509,737
Accrued interest payable related to mortgage bonds held by OTP Group	41,825	23,565

Income/expense (in HUF million)

	2009	2008
Interest expense	71,479	65,489
Fees and commissions paid to OTP Bank Plc. relating to the loans	22,933	38,715
Account handling fees charged to customers and transferred to OTP Bank Plc.	29,374	24,720
One-off payments fee (0.5%)	175	218
Revenue from the value appraisal activity for OTP Group	687	773

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 90 million as at 31 December 2009. These loans were covered by HUF 397 million mortgage.

In the normal course of the business the Bank enters into other transactions with the entities within the OTP Group, the amounts and volumes of which are not significant to these financial statements taken as a whole.

NOTE 29: INTEREST RATE RISK MANAGEMENT

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

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

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

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

NOTE 29: INTEREST RATE RISK MANAGEMENT [continued]

31 December 2009	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	**528**	**200**	-	-	-	-	-	-	-	-	**4**	-	**532**	**200**	**732**
variable interest	528	200	-	-	-	-	-	-	-	-	-	-	528	200	728
non-interest bearing	-	-	-	-	-	-	-	-	-	-	4	-	4	-	4
Placements with other banks	**4,900**	**312,249**	-	**554**	-	-	-	-	-	-	-	**341**	**4,900**	**313,144**	**318,044**
fixed interest	4,900	293,894	-	554	-	-	-	-	-	-	-	-	4,900	294,448	299,348
variable interest	-	18,355	-	-	-	-	-	-	-	-	-	-	-	18,355	18,355
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	341	-	341	341
Securities available-for-sale	**214,479**	-	-	-	-	-	-	-	**1,743**	-	**143**	-	**216,365**	-	**216,365**
fixed interest	214,479	-	-	-	-	-	-	-	1,743	-	-	-	216,222	-	216,222
non-interest bearing	-	-	-	-	-	-	-	-	-	-	143	-	143	-	143
Loans	**120,293**	**779,972**	**11,545**	-	**48,056**	-	**53,472**	-	**420,046**	-	**6,684**	**3,228**	**660,096**	**783,200**	**1,443,296**
variable interest	120,293	779,972	11,545	-	48,056	-	53,472	-	420,046	-	-	-	653,412	779,972	1,433,384
non-interest bearing	-	-	-	-	-	-	-	-	-	-	6,684	3,228	6,684	3,228	9,912
Derivatives	**189,397**	-	-	**270,982**	-	-	-	**203,130**	-	-	-	-	**189,397**	**474,112**	**663,509**
fixed interest	189,397	-	-	270,982	-	-	-	203,130	-	-	-	-	189,397	474,112	663,509

NOTE 29: INTEREST RATE RISK MANAGEMENT [continued]

31 December 2009	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
LIABILITIES	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	Total
Amounts due to OTP Bank and other banks	**212,500**	**-**	**13,039**	**35,711**	**-**	**-**	**-**	**-**	**-**	**-**	**37**	**-**	**225,576**	**35,711**	**261,287**
fixed interest	212,500	-	13,039	-	-	-	-	-	-	-	-	-	225,539	-	225,539
variable interest	-	-	-	35,711	-	-	-	-	-	-	-	-	-	35,711	35,711
non-interest bearing	-	-	-	-	-	-	-	-	-	-	37	-	37	-	37
Liabilities from issued securities	**8,516**	**-**	**44,561**	**270,840**	**3,361**	**-**	**39,899**	**494,373**	**620,334**	**54,930**	**47,641**	**15,139**	**764,312**	**835,282**	**1,599,594**
fixed interest	-	-	44,561	270,840	3,361	-	39,899	494,373	620,334	54,930	-	-	708,155	820,143	1,528,298
variable interest	8,516	-	-	-	-	-	-	-	-	-	-	-	8,516	-	8,516
non-interest bearing	-	-	-	-	-	-	-	-	-	-	47,641	15,139	47,641	15,139	62,780
Derivatives	**-**	**404,609**	**139**	**300,466**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**139**	**705,075**	**705,214**
fixed interest	-	190,588	139	-	-	-	-	-	-	-	-	-	139	190,588	190,727
variable interest	-	214,021	-	300,466	-	-	-	-	-	-	-	-	-	514,487	514,487
Subordinated bonds and loans	**-**	**2,735**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**20**	**-**	**2,755**	**2,755**
variable interest	-	2,735	-	-	-	-	-	-	-	-	-	-	-	2,735	2,735
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	20	-	20	20
NET POSITION	**308,581**	**685,077**	**(46,194)**	**(335,481)**	**44,695**	**-**	**13,573**	**(291,243)**	**(198,545)**	**(54,930)**	**(40,847)**	**(11,590)**	**81,263**	**(8,167)**	**73,096**

NOTE 29: INTEREST RATE RISK MANAGEMENT [continued]

31 December 2008	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	**1,630**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**35**	**-**	**1,665**	**1**	**1,666**
variable interest	1,630	1	-	-	-	-	-	-	-	-	-	-	1,630	1	1,631
non-interest bearing	-	-	-	-	-	-	-	-	-	-	35	-	35	-	35
Placements with other banks	**37,700**	**52,066**	**-**	**1,454**	**-**	**-**	**-**	**-**	**-**	**-**	**83**	**96**	**37,783**	**53,616**	**91,399**
fixed interest	37,700	42,044	-	-	-	-	-	-	-	-	-	-	37,700	42,044	79,744
variable interest	-	10,022	-	1,454	-	-	-	-	-	-	-	-	-	11,476	11,476
non-interest bearing	-	-	-	-	-	-	-	-	-	-	83	96	83	96	179
Securities available-for-sale	**9,277**	**-**	**1,500**	**-**	**18,779**	**-**	**-**	**-**	**1,621**	**-**	**1,291**	**-**	**32,468**	**-**	**32,468**
fixed interest	9,277	-	1,500	-	18,779	-	-	-	1,621	-	-	-	31,177	-	31,177
non-interest bearing	-	-	-	-	-	-	-	-	-	-	1,291	-	1,291	-	1,291
Loans	**152,586**	**772,633**	**42,490**	**-**	**33,318**	**-**	**56,818**	**-**	**397,438**	**-**	**6,590**	**2,947**	**689,240**	**775,580**	**1,464,820**
variable interest	152,586	772,633	42,490	-	33,318	-	56,818	-	397,438	-	-	-	682,650	772,633	1,455,283
non-interest bearing	-	-	-	-	-	-	-	-	-	-	6,590	2,947	6,590	2,947	9,537
Derivatives	**-**	**-**	**237,159**	**2,583**	**-**	**-**	**-**	**264,780**	**-**	**198,585**	**-**	**-**	**237,159**	**465,948**	**703,107**
fixed interest	-	-	237,159	2,583	-	-	-	264,780	-	198,585	-	-	237,159	465,948	703,107

NOTE 29: INTEREST RATE RISK MANAGEMENT [continued]

31 December 2008	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
LIABILITIES															
Amounts due to OTP Bank and other banks	**101,634**	**9,699**	-	-	-	-	-	-	-	-	**1,788**	**1**	**103,422**	**9,700**	**113,122**
fixed interest	92,000	-	-	-	-	-	-	-	-	-	-	-	92,000	-	92,000
variable interest	9,634	9,699	-	-	-	-	-	-	-	-	-	-	9,634	9,699	19,333
non-interest bearing	-	-	-	-	-	-	-	-	-	-	1,788	1	1,788	1	1,789
Liabilities from issued securities	**243,900**	-	**28,482**	-	**135,137**	**64**	**47,196**	**267,179**	**344,890**	**256,670**	**37,558**	**13,985**	**837,163**	**537,898**	**1,375,061**
fixed interest	13,900	-	28,482	-	135,137	64	47,196	267,179	344,890	256,670	-	-	569,605	523,913	1,093,518
variable interest	230,000	-	-	-	-	-	-	-	-	-	-	-	230,000	-	230,000
non-interest bearing	-	-	-	-	-	-	-	-	-	-	37,558	13,985	37,558	13,985	51,543
Derivatives	-	**208,669**	**2,505**	**541,569**	-	-	-	-	-	-	-	-	**2,505**	**750,238**	**752,743**
fixed interest	-	-	1,079	245,542	-	-	-	-	-	-	-	-	1,079	245,542	246,621
variable interest	-	208,669	1,426	296,027	-	-	-	-	-	-	-	-	1,426	504,696	506,122
Subordinated bonds and loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NET POSITION	**(144,341)**	**606,332**	**250,162**	**(537,532)**	**(83,040)**	**(64)**	**9,622**	**(2,399)**	**54,169**	**(58,085)**	**(31,347)**	**(10,943)**	**55,225**	**(2,691)**	**52,534**

NOTE 30: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the 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.

As at 31 December 2009	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	732	-	-	-	-	732
Placements with other banks	318,044	-	-	-	-	318,044
Financial assets at fair value through profit or loss	951	-	-	-	-	951
Securities available-for-sale	214,622	-	1,743	-	-	216,365
Loans	23,480	40,618	217,397	1,161,801	-	1,443,296
Property and equipment, net	-	-	-	-	143	143
Intangible assets, net	-	-	-	-	257	257
Other assets	858	93	-	-	-	951
TOTAL ASSETS	**558,687**	**40,711**	**219,140**	**1,161,801**	**400**	**1,980,739**
Amounts due to OTP Bank Plc. and other banks	261,287	-	-	-	-	261,287
Liabilities from issued securities	377,352	3,279	842,162	376,801	-	1,599,594
Financial liabilities at fair value through profit or loss	1,469	-	-	-	-	1,469
Other liabilities	4,744	131	18,897	-	-	23,772
Subordinated bonds and loans	20	-	-	2,735	-	2,755
TOTAL LIABILITIES	**644,872**	**3,410**	**861,059**	**379,536**	**-**	**1,888,877**
Share capital	-	-	-	-	27,000	27,000
Retained earnings and reserves	-	-	-	-	64,862	64,862
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**91,862**	**91,862**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**644,872**	**3,410**	**861,059**	**379,536**	**91,862**	**1,980,739**
LIQUIDITY (DEFICIENCY)/EXCESS	**(86,185)**	**37,301**	**(641,919)**	**782,265**	**(91,462)**	**-**

NOTE 30: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]

As at 31 December 2008	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	1,666	-	-	-	-	1,666
Placements with other banks	91,399	-	-	-	-	91,399
Financial assets at fair value through profit or loss	1,914	-	-	-	-	1,914
Securities available-for-sale	11,483	20,985	-	-	-	32,468
Loans	23,130	40,720	219,932	1,181,038	-	1,464,820
Property and equipment, net	-	-	-	-	225	225
Intangible assets, net	-	-	-	-	249	249
Other assets	5,275	99	-	-	-	5,374
TOTAL ASSETS	134,867	61,804	219,932	1,181,038	474	1,598,115
Amounts due to OTP Bank Plc. and other banks	113,122	-	-	-	-	113,122
Liabilities from issued securities	40,805	133,577	1,074,039	126,640	-	1,375,061
Fair value adjustment of derivative financial instruments designated as held fog trading	12,706	-	-	-	-	12,706
Other liabilities	11,731	49	19,864	-	-	31,644
TOTAL LIABILITIES	178,364	133,626	1,093,903	126,640	-	1,532,533
Share capital	-	-	-	-	27,000	27,000
Retained earnings and reserves	-	-	-	-	38,582	38,582
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	65,582	65,582
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	178,364	133,626	1,093,903	126,640	65,582	1,598,115
LIQUIDITY (DEFICIENCY)/ EXCESS	(43,497)	(71,822)	(873,971)	1,054,398	(65,108)	-

NOTE 31: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

Fair value of financial assets and liabilities

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, due from banks and balances with the National Bank of Hungary	732	732	1,666	1,666
Placements with other banks	318,044	318,044	91,399	91,399
Financial assets at fair value through profit and loss	951	951	1,914	1,914
Securities available-for-sale	216,365	216,365	32,468	32,468
Loans	1,443,296	1,753,030	1,464,820	1,833,613
FINANCIAL ASSETS TOTAL	**1,979,388**	**2,289,122**	**1,592,267**	**1,961,060**
Amounts due to OTP Bank Plc. and other banks	261,287	261,287	113,122	113,122
Issued securities	1,599,594	1,555,855	1,375,061	1,279,007
Derivative financial instruments designated as hedging instruments	18,615	18,615	23,448	23,448
Financial liabilities at fair value through profit or loss	1,469	1,469	12,706	12,706
Subordinated bonds and loans	2,755	2,755	-	-
FINANCIAL LIABILITIES TOTAL	**1,883,720**	**1,839,981**	**1,524,337**	**1,428,283**

NOTE 31: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Fair value of derivative inrtuments

	Fair value		Notional value, net	
	2009	**2008**	**2009**	**2008**
Foreign exchange swaps designated as held for trading				
Positive fair value of foreign exchange swaps designated as held for trading	951	1,397	215	(649)
Negative fair value of foreign exchange swaps designated as held for trading	(1,469)	(10,265)	(1,402)	(8,801)
CCIRS designated as hedged relationship				
Positive fair value of CCIRS designated as hedged relationship	14,176	13,891	-	-
Negative fair value of CCIRS designated as hedged relationship	(32,791)	(37,339)	(40,518)	(41,331)
Other derivative contracts designated as hedged relationship				
Positive fair value of other derivative contracts designated as hedged realtionship	1	29	2	95
Negative fair value of other derivative contracts designated as hedged realtionship	-	-	-	-
Other derivative contracts designated as held for trading				
Positive fair value of other derivative contracts designated as held for trading	-	517	-	(1,828)
Negative fair value of other derivative contracts designated as held for trading	-	(2,441)	-	-
Derivative financial assets total	**15,128**	**15,834**	**217**	**(2,382)**
Derivativeive financial liabilities total	**(34,260)**	**(45,163)**	**(41,920)**	**(50,132)**
Derivative financial instruments total	**(19,132)**	**(29,329)**	**(41,703)**	**(52,514)**

NOTE 31: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Hedge accounting

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

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

As at 31 December 2009

Type of hedge	Description of the hedging instrument	Fair value of the hedging instrument	Type of the risk being hedged
1) Cash Flow hedges	-	-	-
2) Fair value hedges	CCIRS	(18,615)	Interest rate, foreign exchange
3) Hedges of net investments in foreign operations	-	-	-

As at 31 December 2008

Type of hedge	Hedging instrument	Fair value of the hedging instrument	Type of the risk being hedged
1) Cash Flow hedges	-	-	-
2) Fair value hedges	CCIRS	(23,448)	Interest rate, foreign exchange
3) Hedges of net investments in foreign operations	-	-	-

Cash-flow hedge

1. Issued securities

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the EUR/HUF foreign exchange rate. The FX risk arising from this type of securities was hedged by EUR-HUF CCIRS transactions, where the fixed EUR cash-flows were swapped to fixed HUF cash-flows. The critical terms of the issued securities and the swap transactions are matched (maturity, cash-flows). The hedging transactions were terminated as of 15 December 2008. The net gains on the settlement of the swap transaction were reported in the cash-flow hedging reserve in the other comprehensive income. During 2009 HUF 531 million was recognized as income in proportion with the profit or loss impacts of the hedged item to the net income.

Cash-flow hedges	2009	2008
Amount recognised in other comprehensive income during the period	-	3,185
Amount reclassified from equity to profit or loss for the period	531	23

NOTE 31: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Fair value hedges

1. Loans to customers

Hedges of foreign exchange rate risk

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

The fair value of the hedging instruments are HUF 1 million and HUF 29 million as at 31 December 2009 and 2008 respectively.

2. Issued securities

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

The fair value of the hedging instruments are HUF (18,615) million and HUF (23,448) million as at 31 December 2009 and 2008 respectively.

As at 31 December 2009

Types of hedged instrument	Types of hedging items	Fair value of the hedging instrument	Fair value of the hedged item	Gain/ loss attributable to the hedged risk	
				hedging instrument	hedged item
Liabilities from issued securities	CCIRS	1,049	203,130	2,495	(2,495)
Liabilities from issued securities	CCIRS	(11,229)	216,672	(23)	(23)
Liabilities from issued securities	CCIRS	(8,435)	54,168	2,361	(2,361)

As at 31 December 2008

Types of hedged instrument	Types of hedging items	Fair value of the hedging instrument	Fair value of the hedged item	Gain/ loss attributable to the hedged risk	
				hedging instrument	hedged item
Liabilities from issued securities	CCIRS	(1,447)	198,585	(13,274)	13,274
Liabilities from issued securities	CCIRS	(11,206)	211,824	(11,206)	11,206
Liabilities from issued securities	CCIRS	(10,795)	52,956	(10,795)	10,795

NOTE 31: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

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

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

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

As at 31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	-	951	-	**951**
from this: positive FVA of derivative financial instruments designated as held for trading	-	951	-	**951**
Securities available-for-sale	216,365	-	-	**216,365**
Positive FVA of derivative financial instruments designated as hedge accounting relationship	-	1	-	**1**
Financial assets measured at fair value total	**216,365**	**952**	**-**	**217,317**
Negative FVA of derivative financial instruments designated as held for trading	-	1,469	-	**1,469**
Negative FVA of derivative financial instruments designated as hedge accounting relationship	-	18,615	-	**18,615**
Financial liabilities measured at fair value total	**-**	**20,084**	**-**	**20,084**

As at 31 December 2008	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	-	1,914	-	**1,914**
from this: positive FVA of derivative financial instruments designated as held for trading	-	1,914	-	**1,914**
Securities available-for-sale	32,468	-	-	**32,468**
Positive FVA of derivative financial instruments designated as hedge accounting relationship	-	29	-	**29**
Financial assets measured at fair value total	**32,468**	**1,943**	**-**	**34,411**
Negative FVA of derivative financial instruments designated as held for trading	-	12,706	-	**12,706**
Negative FVA of derivative financial instruments designated as hedge accounting relationship	-	23,448	-	**23,448**
Financial liabilities measured at fair value total	**-**	**36,154**	**-**	**36,154**

NOTE 32: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)

	Retained Earnings and Reserves as at 1 January 2009	Net profit for the year ended 31 December 2009	FVA of securities available-for-sale and FVA of cash-flow hedge	Dividend and permanent money transfer	Retained Earnings and Reserves as at 31 December 2009
Hungarian financial statements	**28,471**	**28,157**	**-**	**(24,000)**	**32,628**
Fair value adjustment of available-for-sale financial assets	271	(158)	(130)	-	(17)
Application of effective interest rate on direct issuance costs of securities	(1,264)	1,478	-	-	214
Effect of using effective interest rate method for loan origination fees and cost	9,339	48	-	-	9,387
Fair value adjustment of derivative financial instruments	(638)	714	531	-	607
Deferred taxation	(1,597)	(288)	(72)	-	(1,957)
Dividend paid in 2009	4,000	-	-	(4,000)	-
Dividend payable for 2009	-	-	-	24,000	24,000
IFRS financial statements	**38,582**	**29,951**	**329**	**(4,000)**	**64,862**

NOTE 33: SUBSEQUENT EVENTS

On 1 March 2010 EUR 1 billion mortgage bond issued in 2008 became due and was repurchased by the Bank.

The repurchase guarantee contract of non-performing loans between OTP Mortgage Bank Ltd. and OTP Bank Plc. was modified in 2010. According to the new arrangement the repurchase guarantee was cancelled and the OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

NOTE 34: THE EFFECT OF THE FINANCIAL SITUATION ON THE BANK

Since the autumn of 2008 with the decline of the FX rate of the HUF against the relevent currencies and the lack of trust at the local and international financial markets the financial crisis reached Hungary. During 2009 the effects of the crisis in the retail sector caused an increased number of overdue loans and the lower demand of new loans. To handle this problem OTP Mortgage Bank has taken measures detailed as below:

1. Reduce credit risk and decrease the disbursement of new loans

   - Due to lack of funds, the Bank implemented stricter conditions in CHF denominated loans origination, and made JPY denominated loans available only for private banking customers;
   - The interest margin of foreign currency denominated loans are reset to the conditions of the funding costs, and a significant increase in interest rates;
   - Loans for customers having the minimum wage has been cancelled;
   - Stricter conditions and increased risk factors in determining the covering value of properties;
   - Decreasing costs for prepayments for clients with and cancelling account handling fees and prepayment fees in the first quarter of the year, after that it is applicable only for the mandatory prepayments due to excessing the covering value of the properties;
   - The Bank made it possible to change the currency of the loans with favourable conditions.

   Due to the measures mentioned above the volume of new loan origination has decreased in 2009 compared to the previous year.

2. New loan origination has set in line with the funds available, providing loans mainly in EUR and HUF;
3. The loan monitoring became more important, personalized techniques and less strict conditions were applied.;
4. Making the debtor protection program available for clients, better conditions for loan restructuring for customer having problems with loan repayment, fee cancellation
5. The Bank signed the Banking Code of Conduct and applied its regulations.
6. Decreasing the operating expenses and delaying the capital expenditures, developments which were not necessary for the safe operation.
7. Keeping the regulatory capital at an appropriate level.

On 30 January 2009 OTP Bank Plc. provided CHF 15 million subordinated loan to the Bank with the maturity of 8 years. The loan is due at 30 January 2017. The interest of the loan is 3 month CHF LIBOR + 3.88%. This loan was provided to offset the effect of changes in the foreign exchange rate of loans denominated in foreign currency that represent more than the half of the whole loan portfolio of the Bank by providing additional regulatory capital.