

OTP Mortgage Bank Ltd.

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

*FOR THE YEAR ENDED
DECEMBER 31, 2010*

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, 2010, 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.

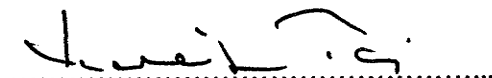
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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, 2010, 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, April 4, 2011



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

OTP MORTGAGE BANK LTD.

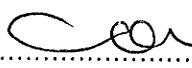
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OTP MORTGAGE BANK LTD.
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010
(in HUF million)

	Note	2010	2009
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	26	732
Placements with other banks	5.	105,109	318,044
Financial assets at fair value through profit or loss	6.	87	951
Securities available-for-sale	7.	1,851	216,365
Loans, net of allowances for loan losses	8.	1,562,402	1,443,296
Property and equipment	9.	119	143
Intangible assets	9.	217	257
Other assets	10.	<u>10,634</u>	<u>951</u>
TOTAL ASSETS		<u>1,680,445</u>	<u>1,980,739</u>
Amounts due to OTP Bank Plc. and other banks	11.	121,950	261,287
Liabilities from issued securities	12.	1,360,566	1,599,594
Financial liabilities at fair value through profit or loss	13.	1,564	1,469
Deferred tax liabilities	23.	1,421	1,957
Other liabilities	14.	112,552	21,815
Subordinated bonds and loans	15.	<u>3,364</u>	<u>2,755</u>
TOTAL LIABILITIES		<u>1,601,417</u>	<u>1,888,877</u>
Share capital	16.	27,000	27,000
Retained earnings and reserves	17.	<u>52,028</u>	<u>64,862</u>
TOTAL SHAREHOLDER'S EQUITY		<u>79,028</u>	<u>91,862</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u>1,680,445</u>	<u>1,980,739</u>

Budapest, 5 March 2011


Dániel Gyuris
Chief Executive Officer



OTP MORTGAGE BANK LTD.
STATEMENT OF RECOGNIZED INCOME FOR THE YEAR ENDED 31 DECEMBER 2010
(in HUF million)

	Note	2010	2009
Interest Income:			
Loans		76,615	76,901
Placements with other banks		19,672	31,080
Amounts due from banks and balances with the National Bank of Hungary		16	232
Interest subsidy on housing loans financed by mortgage bonds		47,028	50,830
Securities available-for-sale		<u>2,341</u>	<u>1,985</u>
Total Interest Income		<u>145,672</u>	<u>161,028</u>
Interest Expense:			
Amounts due to OTP Bank Plc. and other banks		5,629	6,475
Deposits from customers		177	173
Liabilities from issued securities		94,299	98,282
Subordinated bonds and loans		<u>124</u>	<u>112</u>
Total Interest Expense		<u>100,229</u>	<u>105,042</u>
NET INTEREST INCOME		45,443	55,986
Provision for impairment on loan and placement losses		<u>(26,493)</u>	<u>-</u>
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		18,950	55,986
Income from fees and commissions	19.	2,013	1,524
Expenses from fees and commissions	20.	<u>9,097</u>	<u>23,375</u>
NET FEES AND COMMISSIONS		<u>(7,084)</u>	<u>(21,851)</u>
Foreign exchange gains, net		3,172	1,789
Gains on securities, net		-	7,492
Other operating income	28.	14,607	1,413
Other operating expenses		<u>(2,473)</u>	<u>(11)</u>
NET OPERATING INCOME		<u>15,306</u>	<u>10,683</u>
Personnel expenses		667	614
Depreciation and amortization		183	196
Other administrative expenses	21.	<u>14,582</u>	<u>6,987</u>
OTHER ADMINISTRATIVE EXPENSES		<u>15,432</u>	<u>7,797</u>
INCOME BEFORE INCOME TAXES		11,740	37,021
Income tax	23.	<u>911</u>	<u>7,070</u>
NET PROFIT FOR THE YEAR		<u>10,829</u>	<u>29,951</u>
Earnings per share (in HUF)			
Basic and diluted	24.	<u>40,107</u>	<u>110,930</u>

The accompanying notes to financial statements on pages 8 to 50 form an integral part
of these financial statements.

OTP MORTGAGE BANK LTD.
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010
(in HUF million)

	Note	2010	2009
NET PROFIT FOR THE YEAR		<u>10,829</u>	<u>29,951</u>
Fair value adjustment of securities available-for-sale	7.	1	(105)
Net gain on cash-flow hedge		<u>336</u>	<u>434</u>
Other comprehensive income, net of income tax		<u>337</u>	<u>329</u>
NET COMPREHENSIVE INCOME		<u>11,166</u>	<u>30,280</u>

OTP MORTGAGE BANK LTD.
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010
(in HUF million)

	Note	2010	2009
OPERATING ACTIVITIES			
Profit before income tax		11,740	37,021
Depreciation and amortization		183	196
Provision for impairment on loan and placement losses		26,493	-
Unrealised losses/(gains) on fair value adjustment of derivative financial instruments		1,490	(1,806)
<i>Net changes in assets and liabilities in operating activities:</i>			
Changes in financial assets at fair value through profit or loss		-	963
Changes in financial liabilities at fair value through profit or loss		-	(1,470)
(Increase)/decrease in loans, net of allowances for loan losses		(145,599)	21,524
(Increase)/decrease in other assets before provisions for losses		(9,683)	5,236
Increase/(decrease) in other liabilities		12,600	(9,057)
Income tax paid		<u>(3,732)</u>	<u>(5,658)</u>
Net cash (used in)/provided by operating activities		<u>(106,508)</u>	<u>46,949</u>
INVESTING ACTIVITIES			
Net decrease/(increase) in placements with other banks		212,935	(226,645)
Net decrease/(increase) in securities available-for-sale		214,517	(184,027)
Net additions to property, equipment and intangible assets		<u>(119)</u>	<u>(122)</u>
Net cash provided by/(used in) investing activities		<u>427,333</u>	<u>(410,794)</u>

OTP MORTGAGE BANK LTD.
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010
(in HUF million) [continued]

	Note	2010	2009
FINANCING ACTIVITIES			
Net (decrease)/increase in amounts due to OTP Bank Plc. and other banks		(139,337)	148,165
Cash received from issuance of securities		82,432	881,763
Cash used for repurchase and redemption of issued securities		(241,235)	(667,242)
Net increase in subordinated bonds and loans		609	2,755
Dividend paid		<u>(24,000)</u>	<u>(4,000)</u>
Net cash (used in)/provided by financing activities		<u>(321,531)</u>	<u>361,441</u>
Net decrease in cash and cash equivalents		(706)	(934)
Cash and cash equivalents at the beginning of the year		<u>732</u>	<u>1,666</u>
Cash and cash equivalents at the end of the year		<u>26</u>	<u>732</u>
<i>Analysis of cash and cash equivalents opening and closing balance</i>			
Cash, amounts due from banks and balances with the National Bank of Hungary		<u>732</u>	<u>1,666</u>
Cash and cash equivalents at the beginning of the year		<u>732</u>	<u>1,666</u>
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	<u>26</u>	<u>732</u>
Cash and cash equivalents at the end of the year		<u>26</u>	<u>732</u>

OTP MORTGAGE BANK LTD.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED
31 DECEMBER 2010 (in HUF million)

	Share Capital	Retained earnings and reserves	Total
Balance as at 1 January 2009	27,000	38,582	65,582
Dividend paid	-	(4,000)	(4,000)
Net comprehensive income for the year	<u>-</u>	<u>30,280</u>	<u>30,280</u>
Balance as at 31 December 2009	<u>27,000</u>	<u>64,862</u>	<u>91,862</u>
Dividend paid	-	(24,000)	(24,000)
Net comprehensive income for the year	<u>-</u>	<u>11,166</u>	<u>11,166</u>
Balance as at 31 December 2010	<u>27,000</u>	<u>52,028</u>	<u>79,028</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

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. In accordance with 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 380 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 in accordance with 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 administrative 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 2010 the number and the average number of the employees at the Bank were 35 and 36.

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.

These IFRS financial statements were prepared for the purpose to comply with the regulatory requirement to publish IFRS financial information of the stock exchange where the mortgage bonds of the Bank are listed.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010

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

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

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

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 2011, not yet adopted

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

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

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

¹ Not yet endorsed by the EU

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

When preparing these financial statements, management makes an assessment of the Bank's ability to continue its operation as a going concern. These financial statements have also 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.

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 Recognized 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 2010 and 2009.

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 recognized directly in equity, unless such available-for-sale security is part of an effective fair value hedge. Such gains and losses will be reported when realised in profit and loss for the applicable period. As at 31 December 2010 such securities consist of Hungarian government bonds.

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 recognized 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 recognized in Other Comprehensive Income. 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, there is an indication that a borrower may be unable to meet payments as agreed all accrued unpaid interest is reversed.

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

Due to the composition of the loan portfolio, the Bank does not have loans which are individually significant. The impairment is recorded on portfolio basis for the loans which are individually not significant, based on the type of the loans, overdue days, historical probability of default and expected losses.

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

The Bank classifies the renegotiated loans as impaired loans (at least to-be-monitored), and records at least 1 percent provision for impairment on them, until a certain time period of repayment depending on the frequency of the renegotiated loan's cash-flows.

Since OTP Bank was committed to purchase non-performing loans, previously no losses were expected and therefore at the end of 2009 there was no allowance for loan losses. The agreement on guarantee of purchasing and repurchasing non-performing loans was modified during 2010. In accordance with the modifications, the guarantee of purchasing and repurchasing non-performing housing and free-purpose mortgage loans at book value was ceased.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 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 recognized 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.

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 recognized among interest income in the Statement of Recognized Income in the period to which they relate.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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. The segment reporting is disclosed at consolidated level in the OTP Bank's consolidated financial statements.

2.12. Offsetting of financial assets and liabilities

Comply with IAS 32 "Financial Instruments: Presentation", the Bank and related parties in OTP Group as well as OTP Bank's partners do not intend to offset financial assets and liabilities among themselves.

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:

3.1. Impairment on loans and placements

The Bank regularly assesses its loan portfolio for impairment. Management determines the adequacy of 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.

3.2. Valuation of instruments without direct quotations

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

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

	2010	2009
Cash on hand	-	-
Amounts due from banks and balances with the National Bank of Hungary:		
Within one year		
In HUF	22	528
In foreign currency	<u>4</u>	<u>200</u>
	26	728
Accrued interest	-	4
Total	<u>26</u>	<u>732</u>
From this: amounts due from OTP Bank	25	214
Compulsory reserve	19	798

In 2010, the main amount of cash due from banks shows the balance of the nostro accounts placed at OTP Bank of HUF 25 million and HUF 214 million as at 31 December 2010 and 2009, respectively. The remaining amounts represent the balances of the Bank's clearing account placed at the National Bank of Hungary (NBH).

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

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

	2010	2009
Within one year		
in HUF	-	4,900
in CHF	2,087	3,837
in EUR	102,787	308,966
in JPY	<u>205</u>	<u>-</u>
Total in foreign currency	<u>105,079</u>	<u>312,803</u>
Accrued interest	30	341
Total	<u>105,109</u>	<u>318,044</u>
From this: amounts due from OTP Bank	2,292	299,348

	2010	2009
Interest rates on placements with other banks	1.38%-4.25%	1.9%-5.3%

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

	2010	2009
Foreign exchange swaps designated as held for trading	<u>87</u>	<u>951</u>
Total	<u>87</u>	<u>951</u>

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

	2010	2009
Discounted bonds issued by the NBH	-	214,479
Hungarian Government bonds	<u>1,746</u>	<u>1,743</u>
	<u>1,746</u>	<u>216,222</u>
Accrued interest	105	143
Total	<u>1,851</u>	<u>216,365</u>

The whole portfolio was denominated in HUF as at 31 December 2010 and 2009.

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:

	2010	2009
Within five years, fixed interest	1,746	216,222
Interest rate on interest-bearing securities available-for-sale	6.75%	6.75%

The valuation of the securities available-for-sale was as follows as at 31 December 2010:

	2010	
	Cost	Fair value
Hungarian Government bonds	<u>1,761</u>	<u>1,746</u>
Total	<u>1,761</u>	<u>1,746</u>

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

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

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

	2010	2009
Short-term loans (within one year)		
in HUF	52,818	53,899
in foreign currency	<u>226</u>	<u>288</u>
	<u>53,044</u>	<u>54,187</u>
Long-term loans (over one year)		
in HUF	626,195	599,514
in CHF	694,050	617,232
in JPY	163,002	132,797
in EUR	<u>37,340</u>	<u>29,655</u>
Total in foreign currency	<u>894,392</u>	<u>779,684</u>
	<u>1,520,587</u>	<u>1,379,198</u>
Accrued interest	9,454	9,911
Total	<u>1,562,402</u>	<u>1,443,296</u>

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:

	2010	2009
Loans denominated in HUF with the maturity over one year	5%-21.49%	5%-22.47%
Mortgage loans denominated in foreign currency for housing purposes		
CHF	7.99%	8.94%
EUR	8.01%	8.73%
JPY	5.34%	5.84%
Mortgage loans denominated in foreign currency for free purposes		
CHF	9.25%	10.15%
EUR	8.96%	9.60%
JPY	5.22%	5.72%
Real estate development loans		
HUF	10.58%	10.47%
EUR	7.51%	-

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

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 8: LOANS, NET OF ALLOWANCES FOR LOAN LOSSES (in HUF million) [continued]

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

	2010		2009	
Housing loans	1,164,801	74.02%	1,110,152	77.45%
Free purpose mortgage loans	400,168	25.43%	314,001	21.91%
Commercial loans	<u>8,662</u>	<u>0.55%</u>	<u>9,232</u>	<u>0.64%</u>
Total	<u>1,573,631</u>	<u>100.00%</u>	<u>1,433,385</u>	<u>100.00%</u>

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

	2010	2009
Balance as at 1 January	-	-
Provision for the period	<u>20,683</u>	-
Balance as at 31 December	<u>20,683</u>	-

See Note 2.4 for further information on impairment.

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

For year ended 31 December 2010

<u>Cost</u>	Intangible assets	Land and buildings	Office equipment	Construction in progress	Total
Balance as at 1 January 2010	863	109	190	-	1,162
Additions	233	1	6	7	247
Disposals	<u>(122)</u>	-	<u>(2)</u>	<u>(6)</u>	<u>(130)</u>
Balance as at 31 December 2010	<u>974</u>	<u>110</u>	<u>194</u>	<u>1</u>	<u>1,279</u>

Depreciation and Amortization

Balance as at 1 January 2010	606	19	137	-	762
Charge for the year	151	1	31	-	183
Disposals	-	-	<u>(2)</u>	-	<u>(2)</u>
Balance as at 31 December 2010	<u>757</u>	<u>20</u>	<u>166</u>	<u>-</u>	<u>943</u>

Net book value

Balance as at 1 January 2010	257	90	53	-	400
Balance as at 31 December 2010	<u>217</u>	<u>90</u>	<u>28</u>	<u>1</u>	<u>336</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

For the year ended 31 December 2009

<u>Cost</u>	<u>Intangible assets</u>	<u>Land and buildings</u>	<u>Office equipment</u>	<u>Construction in progress</u>	<u>Total</u>
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	<u>863</u>	<u>109</u>	<u>190</u>	<u>=</u>	<u>1,162</u>

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	<u>606</u>	<u>19</u>	<u>137</u>	<u>=</u>	<u>762</u>

Net book value

Balance as at 1 January 2009	249	93	87	45	474
Balance as at 31 December 2009	<u>257</u>	<u>90</u>	<u>53</u>	<u>=</u>	<u>400</u>

NOTE 10: OTHER ASSETS (in HUF million)

	2010	2009
Customer receivables, given loans	3,898	112
Receivables from the Hungarian Government	3,801	178
Current income tax receivable	2,441	95
Prepayments and other assets	<u>506</u>	<u>565</u>
Total	<u>10,646</u>	<u>950</u>

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

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

	2010	2009
Within one year		
In HUF	36,434	225,539
In EUR	83,401	-
In CHF	<u>2,100</u>	<u>35,711</u>
Total in foreign currency	<u>85,501</u>	<u>35,711</u>
Accrued interest	15	37
Total	<u>121,950</u>	<u>261,287</u>
From this: amounts due to OTP Bank	121,950	261,287
Interest conditions on amounts due to OTP Bank Plc. and other banks		
	2010	2009
In HUF	5.75% - 6.25%	6.25% - 7.25%
In foreign currency	0.44% - 3.17%	0.55% - 2.21%

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

	2010	2009
Within one year:		
In HUF	39,203	47,011
In EUR	<u>585,375</u>	<u>270,840</u>
Subtotal	<u>624,578</u>	<u>317,851</u>
Over one year		
In HUF	628,258	669,660
In EUR	<u>56,349</u>	<u>549,303</u>
Subtotal	<u>684,607</u>	<u>1,218,963</u>
Accrued interest	51,381	62,780
Total	<u>1,360,566</u>	<u>1,599,594</u>
Issued mortgage bonds during the period (nominal value)	83,625	814,382
Mortgage bonds became due or were repurchased during the period	313,271	667,242
Interest conditions on issued securities		
	2010	2009
In HUF	7.5% - 11%	7.2% - 12%
In foreign currency	4% - 4.25%	4% - 4.5%

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

	2010	2009
Face value of the issued securities	1,293,246	1,511,653
Unamortized premiums	15,228	16,260
Fair value hedge adjustment	<u>711</u>	<u>8,901</u>
Amortized cost	<u>1,309,185</u>	<u>1,536,814</u>

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.

Issued securities denominated in HUF as at 31 December 2010 (in HUF million)

Name	Date of issue	Maturity	Nominal value in HUF million	Interest conditions (in % p.a.)
OJB2011_I	20/12/2002	12/02/2011	16,111	8.00 fixed
OJB2011_II	28/05/2004	12/09/2011	8,780	10.00 fixed
OJB2011_III	28/02/2005	30/11/2011	5,002	9.00 fixed
OJB2011_IV	31/08/2006	31/08/2011	7,932	8.00 fixed
OJB2011_V	08/02/2008	08/02/2011	1,116	7.50 fixed
OJB2012_I	17/03/2004	21/03/2012	13,870	9.83 fixed
OJB2012_II	14/04/2004	16/05/2012	95,063	10.00 fixed
OJB2012_III	19/11/2004	15/08/2012	20,000	10.50 fixed
OJB2012_IV	28/02/2005	31/01/2012	5,508	9.00 fixed
OJB2013_A	30/10/2008	30/10/2013	8,516	5.76 floating
OJB2013_II	20/12/2002	31/08/2013	17,000	8.25 fixed
OJB2013_III	29/05/2009	29/05/2013	80,000	12.00 fixed
OJB2014_I	14/11/2003	12/02/2014	13,500	8.00 fixed
OJB2014_J	17/09/2004	17/09/2014	576	8.69 fixed
OJB2015_I	10/06/2005	10/06/2015	3,243	7.70 fixed
OJB2015_J	28/01/2005	28/01/2015	369	8.69 fixed
OJB2016_I	03/02/2006	03/02/2016	1,269	7.50 fixed
OJB2016_II	31/08/2006	31/08/2016	4,692	10.00 fixed
OJB2016_III	17/02/2009	17/02/2016	150,000	10.75 fixed
OJB2016_J	18/04/2006	28/09/2016	325	7.59 fixed
OJB2019_I	17/03/2004	18/03/2019	39,250	9.48 fixed
OJB2020_I	19/11/2004	12/11/2020	10,000	9.00 fixed
OJB2025_I	31/07/2009	31/07/2025	150,000	11.00 fixed
Total issued securities in HUF			<u>652,122</u>	
Unamortized premium			15,340	
Total issued securities in HUF			<u>667,462</u>	
Accrued interest			<u>45,965</u>	
Total in HUF			<u>713,427</u>	

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

Issued securities denominated in foreign currency as at 31 December 2010 (in HUF million):

Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % p.a.)
OMB2011_I	10/07/2006	11/07/2011	EUR	750	209,062	4.25 fixed
OMB2011_II	04/12/2009	05/12/2011	EUR	1,350	376,312	4.13 fixed
OMB2014_I	15/12/2004	15/12/2014	EUR	200	55,750	4.00 fixed
Total issued securities in FX					641,124	
Unamortized discount					(112)	
Fair value hedge adjustment					711	
Total issued securities in FX					641,723	
Accrued interest					5,416	
Total in FX					647,139	
Total					1,360,566	

The EUR denominated mortgage bonds are being hedged in fair value hedge relationship. See Note 31 for further details of hedge accounting.

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

	2010	2009
Foreign exchange swaps	1,564	1,469
Total	1,564	1,469

NOTE 14: OTHER LIABILITIES (in HUF million)

	2010	2009
Fair value of derivative financial instruments designated as fair value hedge	108,012	18,615
Provision for impairment off-balance sheet commitments and contingent liabilities	2,361	146
Deferred tax liabilities	1,421	1,957
Accounts payable	879	387
Liabilities to customers	563	1,062
Accrued fees	483	1,194
Current income tax payable	97	163
Advances to Government subsidies	-	223
Other	157	25
Total	113,973	23,772

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 15: SUBORDINATED BONDS AND LOANS (in HUF million)

	2010	2009
With the maturity over one year denominated in CHF	3,364	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.

	2010	2009
Share capital (in HUF million)	27,000	27,000

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

	2010	2009
Balance as at 1 January	64,862	38,582
Dividend paid	(24,000)	(4,000)
Net income after income taxes	10,829	29,951
Other comprehensive income	<u>337</u>	<u>329</u>
Balance as at 31 December	<u>52,028</u>	<u>64,862</u>

The Bank's reserves under Hungarian Accounting Standards ("HAS") were HUF 39,728 million and HUF 32,628 million as at 31 December 2010 and 2009 respectively. These amounts include legal reserves amounting to HUF 8,008 million and HUF 7,162 million respectively. The legal reserve is not available for distribution.

A dividend of HUF 24,000 million was paid to OTP Bank in 2010 from the profit of the year 2009.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 23 million and HUF 175 million for the years ended 31 December 2010 and 2009 respectively.

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 2010 about HUF 2,011 million and at the end of 2009 about HUF 100 million was the amount of the loans granted. The balance as at 31 December 2010 is HUF 1,973 million.

NOTE 19: INCOME FROM FEES AND COMMISSIONS (in HUF million)

	2010	2009
Fees and commissions relating to loans	1,842	1,507
Other	<u>171</u>	<u>17</u>
Total	<u>2,013</u>	<u>1,524</u>

NOTE 20: EXPENSE FROM FEES AND COMMISSIONS (in HUF million)

	2010	2009
Guarantee and administrative fees paid to		
OTP Bank	5,325	21,767
Other	<u>3,772</u>	<u>1,608</u>
Total	<u>9,097</u>	<u>23,375</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

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. The guarantee fees were HUF 5,325 million and HUF 21,767 million for the years ended 31 December 2010 and 2009 respectively. The decrease is attributable to the amendments made during 2010 of the agreement on guarantee of purchasing and repurchasing non-performing loans, as described in note 2.4.

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

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 29,881 million and HUF 29,374 million for the years ended 31 December 2010 and 2009 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)

	2010	2009
Special banking tax	8,267	-
Taxes, other than income tax	5,606	6,283
Services	356	361
Professional fees	240	222
Rental fees	55	66
Material type expenses	39	37
Administration expenses	<u>19</u>	<u>18</u>
Total	<u>14,582</u>	<u>6,987</u>

Taxes, other than income tax are taxes payable by the Bank on HUF denominated loans having interest subsidy from the Hungarian government.

Based on the amendment of the act on the special tax of financial institutions (Special banking tax) approved on 22 July 2010, a new special financial institution tax was paid by the Bank. The total tax amount for the year 2010 was HUF 8,267 million recognised as an expense thus decreased the corporate tax base. The tax is based on the total assets of the Bank as of 31 December 2009, adjusted with certain items. Based on the approved regulation, financial institutions are obliged to pay this special tax until the end of 2012.

The amount of the special tax payable in 2011 is HUF 8,759 million that is payable in four equal instalments until 10th of the last month of every quarter.

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

	2010	2009
Key executives (Managing Director and Deputies)	140	101
Members of Board of Directors and Supervisory Board	—	—
Total	<u>140</u>	<u>101</u>

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

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 23: INCOME TAX (in HUF million)

In 2009, the Bank was liable for income tax at a rate of 16% of taxable income, and an additional 4% of special tax was also to be paid. In 2010 the income tax rate is 19% and the 4% special banking tax was canceled. In 2013 the rate of income tax will be decreased to 10%.

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

A reconciliation of the total income tax charge for the years ended 31 December 2010 and 2009 is as follows:

	2010	2009
Current tax expense	1,643	5,384
Special tax expense (4%)	-	1,398
Deferred tax (benefit)/expense	(732)	288
Total income tax expense	<u>911</u>	<u>7,070</u>

A reconciliation of the deferred tax liability as at 31 December 2010 and 2009 is as follows:

	2010	2009
Balance as at 1 January	(1,957)	(1,597)
Recognized in other comprehensive income	(196)	(72)
Deferred tax benefit/ (expense)	<u>732</u>	<u>(288)</u>
Balance as at 31 December	<u>(1,421)</u>	<u>(1,957)</u>

A reconciliation of deferred tax assets and liabilities as at 31 December 2010 and 2009 is as follows:

	2010	2009
Fair value adjustment of available-for-sale financial assets	1	3
Other provision	<u>15</u>	<u>27</u>
Deferred tax assets	<u>16</u>	<u>30</u>
Effect of applying effective interest rate method	(1,350)	(1,783)
Fair value adjustment of derivative financial instruments	(67)	(132)
Fixed assets	(13)	(31)
Amortized cost of issued securities	<u>(7)</u>	<u>(41)</u>
Deferred tax liabilities	<u>(1,437)</u>	<u>(1,987)</u>
Net deferred tax liabilities	<u>(1,421)</u>	<u>(1,957)</u>

A reconciliation of the effective tax rate as at 31 December 2010 and 2009 is as follows:

	2010	2009
Net income before income taxes	11,740	37,021
Tax at statutory income tax rate (19% in 2010, 16% in 2009)	2,230	5,923
Special tax (4%)	-	1,398
Permanent differences due to local tax	(205)	(183)
Effect of change in tax rate for deferred tax	(1,105)	(76)
Other permanent differences	<u>(9)</u>	<u>8</u>
Income tax	<u>911</u>	<u>7,070</u>
Effective tax-rate	7.76%	19.10%

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 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.

	2010	2009
Net profit for the year	10,829	29,951
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	<u>270,000</u>	<u>270,000</u>
EPS (in HUF) basic and diluted	<u>40,107</u>	<u>110,930</u>

NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million)

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.

In 2009, OTP Bank had a commitment to repurchase substandard loans at book value. The agreement on guarantee of purchasing and repurchasing non-performing loans was modified during 2010. In accordance with the modifications, the guarantee of purchasing and repurchasing non-performing housing and free-purpose mortgage loans at book value was ceased.

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.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

Credit risk [continued]

Analysis by loan types and risk classes

An analysis of the gross loan portfolio by loan types and financial risk classes is as follows. The table consists of only on-balance sheet items.

As at 31 December 2010

Loan type/allowance	Performing	To-be-monitored	Below average	Doubtful	Bad	Total carrying amount
Corporate loans	4,334	-	-	-	-	4,334
<i>Allowance</i>	-	-	-	-	-	-
Placements with other banks	105,079	-	-	-	-	105,079
<i>Allowance</i>	-	-	-	-	-	-
Retail loans	1,319,090	189,234	15,647	40,998	-	1,564,969
<i>Allowance</i>	-	(4,420)	(2,389)	(13,874)	-	(20,683)
SME loans	4,328	-	-	-	-	4,328
<i>Allowance</i>	-	-	-	-	-	-
Gross loan portfolio total	<u>1,432,831</u>	<u>189,234</u>	<u>15,647</u>	<u>40,998</u>	=	<u>1,678,710</u>
Allowance Total	<u>-</u>	<u>(4,420)</u>	<u>(2,389)</u>	<u>(13,874)</u>	=	<u>(20,683)</u>
Net loan portfolio total	<u>1,432,831</u>	<u>184,814</u>	<u>13,258</u>	<u>27,124</u>	=	<u>1,658,027</u>
Accrued interest						
placements with other banks						30
loans						9,454
Total accrued interest						<u>9,484</u>
Total						<u>1,667,511</u>

As at 31 December 2009

Loan type/allowance	Performing	To-be-monitored	Below average	Doubtful	Bad	Total carrying amount
Corporate loans	4,791	-	-	-	-	4,791
<i>Allowance</i>	-	-	-	-	-	-
Placements with other banks	317,703	-	-	-	-	317,703
<i>Allowance</i>	-	-	-	-	-	-
Retail loans	1,424,153	-	-	-	-	1,424,153
<i>Allowance</i>	-	-	-	-	-	-
SME loans	4,441	-	-	-	-	4,441
<i>Allowance</i>	-	-	-	-	-	-
Gross loan portfolio total	<u>1,751,088</u>	=	=	=	=	<u>1,751,088</u>
Allowance Total	<u>-</u>	=	=	=	=	<u>-</u>
Net loan portfolio total	<u>1,751,088</u>	=	=	=	=	<u>1,751,088</u>
Accrued interest						
placements with other banks						341
loans						9,911
Total accrued interest						<u>10,252</u>
Total						<u>1,761,340</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

Credit risk [continued]

In accordance with classification rules effective in 2009, the whole loan portfolio was classified as performing.

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

As at 31 December 2010

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total off-balance sheet items
Housing and free-purpose mortgage loans	<u>275</u>	<u>537</u>	<u>1,467</u>	<u>5,903</u>	=	<u>8,182</u>
Total	<u>275</u>	<u>537</u>	<u>1,467</u>	<u>5,903</u>	=	<u>8,182</u>

In 2009 there are no off-balance sheet liabilities connected to the lending activity since the agreement on guarantee of purchasing and repurchasing non-performing loans was modified during 2010. Due to changes in contractual conditions, in 2010 off-balance sheet liabilities connected to lending activity relate to housing and free-purpose mortgage loans. See note 2.4 for further information.

Collaterals

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

Types of collateral	2010	2009
Government guarantees	182,291	196,023
Mortgage	2,759,000	2,741,598
Other	<u>6,395</u>	<u>5,538</u>
Total	<u>2,947,686</u>	<u>2,943,159</u>

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

Types of collateral	2010	2009
Government guarantees	178,298	191,816
Mortgage	1,295,152	1,201,661
Other	<u>4,765</u>	<u>2,076</u>
Total	<u>1,478,215</u>	<u>1,395,553</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

Credit risk [continued]

Loans, neither past due, nor impaired

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

The table consist of only on-balance sheet items and these loans are classified by the Bank as performing loans.

Loan type	2010	2009
Housing and free-purpose mortgage loans	1,188,352	1,221,421
Corporate loans	<u>8,055</u>	<u>8,737</u>
Total	<u>1,196,407</u>	<u>1,230,158</u>

Renegotiated loans

The gross value of the loans that would otherwise be past due or impaired and whose terms have been renegotiated were HUF 132,042 million and HUF 75,027 million as at 31 December 2010 and 2009, respectively.

The gross amount of renegotiated loans increased considerably by the end of 2010, which is a consequence of the debtor compensation program launched in June 2009 in order to handle the effects of the economic crises. All renegotiated loans were housing and mortgage loans.

Past due, but not impaired loans

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

As at 31 December 2010

Loan type	Up to 90 days	91-180 days	181-365 days	Above 365 days	Total
Housing and free purpose mortgage loans	129,418	1,320	-	-	130,738
Corporate loans	<u>407</u>	<u>110</u>	<u>16</u>	<u>74</u>	<u>607</u>
Total	<u>129,825</u>	<u>1,430</u>	<u>16</u>	<u>74</u>	<u>131,345</u>

As at 31 December 2009

Loan type	Up to 90 days	91-180 days	181-365 days	Above 365 days	Total
Housing and free purpose mortgage loans	189,966	10,398	1,564	778	202,706
Corporate loans	<u>420</u>	<u>59</u>	<u>42</u>	-	<u>521</u>
Total	<u>190,386</u>	<u>10,457</u>	<u>1,606</u>	<u>778</u>	<u>203,227</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [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 was 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 2010 would be decreased by HUF 829 million (probable scenario) and HUF 3,844 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 (in HUF million):

Description	Effects to the net interest income in one year period	
	2010	2009
HUF (0.1%) parallel shift	(280)	(288)
EUR (0.1%) parallel shift	46	(318)
USD 0.1% parallel shift	-	-
Total	(234)	(606)

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 5,770 million on 31 December 2010, which consisted of EUR, CHF and JPY exposure. Considering the volatilities estimated at the given reference date (8.49%, 15.9% and 16.6% respectively), we assumed a +/- 9.9%, 18.5% and 19.3% 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.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

25.2 Foreign exchange rate sensitivity analysis (in HUF million) [continued]

		2010			2009	
	Price Shock	-	+	Price Shock	-	+
EUR	9.9%	14.0	(15.5)	11.5%	(37.9)	42.3
CHF	18.5%	(826.1)	994.3	11.8%	(259.2)	289.8
JPY	19.3%	(181.5)	220.1	24.9%	(15.5)	19.4
Total		(993.6)	1,198.9		(312.6)	351.5

OTP Mortgage Bank Ltd have negative P/L impact, when HUF strengthens against key currencies, which concurs with the decrease of risk costs. Compared to 2009, the main reason of increasing loss is due to the considerably increasing open position, which effect is partially compensated by decreasing volatilities. At the same time, it has to be pointed out, that 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 2010 and 2009, 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 shareholder's equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Bank in the short turn is the continuous monitoring of its capital position, in the long turn the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.

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

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 25: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

25.4 Capital management [continued]

Capital adequacy

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

The Bank has entirely complied with the regulatory capital requirements in 2010 and in 2009, similar to prior years.

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

In HUF million	2010	2009
Core capital	66,728	59,628
Supplementary capital	3,340	2,735
Deductions	(217)	(257)
Regulatory capital	69,851	62,106
Credit risk capital requirement	51,064	43,490
Market risk capital requirement	503	344
Operational risk capital requirement	7,974	6,286
Total eligible regulatory capital	59,541	50,120
Surplus capital	10,310	11,986
Solvency ratio	9.39%	9.91%

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 PIBB¹ investments and deductions due to limit breaches.

¹ PIBB: Financial Institutions, Investing Enterprises, Insurance Companies

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

The Bank's off-balance sheet assets and liabilities as at 31 December 2010 and 2009, with respect to financial instruments are as follows (in HUF million):

	2010	2009
Future portion of swap transactions	826,108	705,989
Liabilities from option contracts	-	21
Contingent liabilities deriving from guarantee of selling loans to OTP Bank	8,183	-
Other	5	-
Contingent and future liabilities	<u>834,296</u>	<u>706,010</u>
Future portion of swap transactions	711,040	664,284
Receivables from option contracts	-	23
Contingent and future receivables	<u>711,040</u>	<u>664,307</u>
Total off-balance sheet liabilities	<u>(123,256)</u>	<u>(41,703)</u>

Derivatives

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

Foreign currency contracts

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

Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge 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.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

Derivatives [continued]

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 – in accordance with the foreign exchange prices – revalue the notional amount during lifetime of the transaction.

Forward rate agreements (FRA)

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

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

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

As at 31 December 2010

	CHF	EUR	JPY	Other	Total
Assets	672,934	145,304	158,712	1	976,951
Liabilities	(8,287)	(730,839)	(375)	(2)	(739,503)
Off-balance sheet assets and liabilities, net	(662,885)	585,375	(157,862)	=	(235,372)
Net position	<u>1,762</u>	<u>(160)</u>	<u>475</u>	<u>(1)</u>	<u>2,076</u>

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	<u>1,340</u>	<u>275</u>	<u>44</u>	<u>(1)</u>	<u>1,658</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 28: RELATED PARTY TRANSACTIONS (in HUF million)

The Bank, under a syndication agreement with OTP Bank, disbursed housing loans of HUF 9,893 million and 64,164 HUF million during the years ended 31 December 2010 and 2009 respectively. The gross book value of these receivables was HUF 9,888 million and HUF 64,090 million as at 31 December 2010 and 2009 respectively.

(a) Assets/Liabilities

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

Assets	2010	2009
Cash, amounts due from banks and balances with the National Bank of Hungary	26	214
Placements with other banks	2,292	299,348
Accrued receivables	112	28
Liabilities	2010	2009
Amounts due to OTP Bank Plc. and other banks	121,950	261,287
Other liabilities due to OTP Bank	3,333	2,486
Issued mortgage bonds held by OTP Group	935,598	824,899
Accrued interest payable related to mortgage bonds held by OTP Group	39,416	41,825

(b) Income/expense

	2010	2009
Interest expense	78,338	71,479
Fees and commissions paid to OTP Bank relating to the loans	5,440	22,933
Account handling fees charged to customers and transferred to OTP Bank	29,881	29,374
Other operating income ¹	14,501	-
One-off payments fee (0.5%)	23	175
Revenue from the value appraisal activity for OTP Group	463	687

(c) Transactions related to OTP Bank Plc. and OTP Faktoring Ltd:

	2010	2009
Loans purchased from OTP Bank Plc.	9,893	64,164
Book value of non-performing loans sold to OTP Bank Plc.	10,783	21,588
Book value of non-performing loans sold to OTP Faktoring Ltd.	10,225	-
Selling price of the non-performing loans to OTP Bank Plc and OTP Faktoring Ltd.	16,522	21,588

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 165,5 million as at 31 December 2010. These loans were covered by HUF 529,7 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.

¹ As disclosed in Note 2.4., during 2010 the Guarantee of purchasing and repurchasing non-performing loans by OTP Bank was ceased. As a compensation for the cancellation OTP Bank paid HUF 14,501 million to OTP Mortgage Bank which was approximately the fair value of the cancellation of similar agreements between non-related parties at the date of the cancellation.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

NOTE 29: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

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OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 29: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

31 December 2010	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest-bearing		Total	
LIABILITIES	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency
Amounts due to OTP Bank and other banks	33,035	82,672	-	-	-	-	-	-	-	-	3,410	2,833	36,445	85,505
fixed interest	33,035	82,672	-	-	-	-	-	-	-	-	-	-	33,035	82,672
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest bearing	-	-	-	-	-	-	-	-	-	-	3,410	2,833	3,410	2,833
Liabilities from issued securities	8,516	-	17,227	-	21,714	585,974	149,720	-	470,284	55,750	45,966	5,415	713,427	647,139
fixed interest	-	-	17,227	-	21,714	585,974	149,720	-	470,284	55,750	-	-	658,945	641,724
variable interest	8,516	-	-	-	-	-	-	-	-	-	-	-	8,516	-
non-interest bearing	-	-	-	-	-	-	-	-	-	-	45,966	5,415	45,966	5,415
Derivatives	2,391	385,960	-	437,271	-	-	-	-	-	-	-	-	2,391	823,231
fixed interest	2,391	124,589	-	-	-	-	-	-	-	-	-	-	2,391	124,589
variable interest	-	261,371	-	437,271	-	-	-	-	-	-	-	-	-	698,642
Subordinated bonds and loans	-	3,340	-	-	-	-	-	-	-	-	-	24	-	3,364
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	3,340	-	-	-	-	-	-	-	-	-	-	-	3,340
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	24	-	24
NET POSITION	189,473	510,844	3,083	(437,271)	94,007	(599)	(56,359)	-	(130,930)	(55,750)	(42,879)	(5,180)	56,395	12,044
														68,439

NOTE 29: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

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OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 29: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

31 December 2009	LIABILITIES	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	
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

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 shareholder's equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at 31 December 2010	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	26	-	-	-	-	26
Placements with other banks	105,109	-	-	-	-	105,109
Financial assets at fair value through profit or loss	87	-	-	-	-	87
Securities available-for-sale	105	-	1,746	-	-	1,851
Loans, net of allowance for loan losses	22,751	39,680	221,995	1,277,976	-	1,562,402
Property and equipment	-	-	-	-	119	119
Intangible assets	-	-	-	-	217	217
Other assets	8,193	2,441	-	-	-	10,634
TOTAL ASSETS	<u>136,271</u>	<u>42,121</u>	<u>223,741</u>	<u>1,277,976</u>	<u>336</u>	<u>1,680,445</u>
Amounts due to OTP Bank Plc. and other banks	121,950	-	-	-	-	121,950
Liabilities from issued securities	84,146	607,089	313,395	355,936	-	1,360,566
Financial liabilities at fair value through profit or loss	1,564	-	-	-	-	1,564
Other liabilities	4,332	108,220	1,421	-	-	113,973
Subordinated bonds and loans	24	-	-	3,340	-	3,364
TOTAL LIABILITIES	<u>212,016</u>	<u>715,309</u>	<u>314,816</u>	<u>359,276</u>	<u>-</u>	<u>1,601,417</u>
Share capital	-	-	-	-	27,000	27,000
Retained earnings and reserves	-	-	-	-	52,028	52,028
TOTAL SHAREHOLDER'S EQUITY	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,028</u>	<u>79,028</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>212,016</u>	<u>715,309</u>	<u>314,816</u>	<u>359,276</u>	<u>79,028</u>	<u>1,680,445</u>
LIQUIDITY (DEFICIENCY)/ EXCESS	<u>(75,745)</u>	<u>(673,188)</u>	<u>(91,075)</u>	<u>918,700</u>	<u>(78,692)</u>	<u>-</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

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, net of allowance for loan losses	23,480	40,618	217,397	1,161,801	-	1,443,296
Property and equipment	-	-	-	-	143	143
Intangible assets	-	-	-	-	257	257
Other assets	<u>858</u>	<u>93</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>951</u>
TOTAL ASSETS	<u>558,687</u>	<u>40,711</u>	<u>219,140</u>	<u>1,161,801</u>	<u>400</u>	<u>1,980,739</u>
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	<u>20</u>	<u>-</u>	<u>-</u>	<u>2,735</u>	<u>-</u>	<u>2,755</u>
TOTAL LIABILITIES	<u>644,872</u>	<u>3,410</u>	<u>861,059</u>	<u>379,536</u>	<u>-</u>	<u>1,888,877</u>
Share capital	-	-	-	-	27,000	27,000
Retained earnings and reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,862</u>	<u>64,862</u>
TOTAL SHAREHOLDER'S EQUITY	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,862</u>	<u>91,862</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>644,872</u>	<u>3,410</u>	<u>861,059</u>	<u>379,536</u>	<u>91,862</u>	<u>1,980,739</u>
LIQUIDITY (DEFICIENCY)/EXCESS	<u>(86,185)</u>	<u>37,301</u>	<u>(641,919)</u>	<u>782,265</u>	<u>(91,462)</u>	<u>-</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 31 for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

Fair value of financial assets and liabilities

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, due from banks and balances with the National Bank of Hungary	26	26	732	732
Placements with other banks	105,109	105,109	318,044	318,044
Financial assets at fair value through profit and loss	87	87	951	951
Securities available-for-sale	1,851	1,851	216,365	216,365
Loans, net of allowance for loan losses	<u>1,562,402</u>	<u>2,325,476</u>	<u>1,443,296</u>	<u>1,753,030</u>
FINANCIAL ASSETS TOTAL	<u>1,669,475</u>	<u>2,432,549</u>	<u>1,979,388</u>	<u>2,289,122</u>
Amounts due to OTP Bank Plc. and other banks	121,950	121,950	261,287	261,287
Issued securities	1,360,566	1,300,008	1,599,594	1,555,855
Derivative financial instruments designated as hedging instruments	108,012	108,012	18,615	18,615
Financial liabilities at fair value through profit or loss	1,564	1,564	1,469	1,469
Subordinated bonds and loans	<u>3,364</u>	<u>3,364</u>	<u>2,755</u>	<u>2,755</u>
FINANCIAL LIABILITIES TOTAL	<u>1,595,456</u>	<u>1,534,898</u>	<u>1,883,720</u>	<u>1,839,981</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

Fair value of derivative instruments

	Fair value		Notional value, net	
	2010	2009	2010	2009
Foreign exchange swaps designated as held for trading				
Positive fair value of foreign exchange swaps designated as held for trading	87	951	125,665	215
Negative fair value of foreign exchange swaps designated as held for trading	(1,564)	(1,469)	(127,467)	(1,402)
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated as fair value hedge	-	14,176	-	-
Negative fair value of CCIRS designated as fair value hedge	(108,012)	(32,791)	(113,266)	(40,518)
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated as fair value hedge	-	1	-	2
Negative fair value of other derivative contracts designated as fair value hedge	-	-	-	-
Other derivative contracts designated as held for trading				
Positive fair value of other derivative contracts designated as held for trading	-	-	-	-
Negative fair value of other derivative contracts designated as held for trading	-	-	-	-
Derivative financial assets total	<u>87</u>	<u>15,128</u>	<u>125,665</u>	<u>217</u>
Derivative financial liabilities total	<u>(109,576)</u>	<u>(34,260)</u>	<u>(240,733)</u>	<u>(41,920)</u>
Derivative financial instruments total	<u>(109,489)</u>	<u>(19,132)</u>	<u>(115,068)</u>	<u>(41,703)</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

Hedge accounting

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

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

As at 31 December 2010

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	(108,012)	Interest rate, foreign exchange
3) Net investment hedge in foreign operations	-	-	-

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) Net investment hedge 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 2010 and 2009 HUF 531 million was recognized as income in proportion with the profit or loss impacts of the hedged item to the net income.

<u>Cash-flow hedges</u>	2010	2009
Amount reclassified from equity to profit or loss for the period	531	531

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 31: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [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 Bank has no FX transactions as at 31 December 2010. The fair value of the hedging instruments was HUF 1 million as at 31 December 2009.

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 is HUF (108,012) million and HUF (18,615) million as at 31 December 2010 and 2009 respectively.

As at 31 December 2010

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	(45,125)	209,063	(4,761)	4,761
Liabilities from issued securities	CCIRS	(54,799)	320,563	(2,912)	2,912
Liabilities from issued securities	CCIRS	(8,088)	55,750	(517)	517

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)

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

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

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

As at 31 December 2010

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	87	-	87
from this: positive fair value of derivative financial instruments designated as held for trading	-	87	-	87
Securities available-for-sale	1,746	-	-	1,746
Positive fair value of derivative financial instruments designated as fair value hedge	-	-	-	-
Financial assets measured at fair value total	<u>1,746</u>	<u>87</u>	<u>-</u>	<u>1,833</u>
Negative fair value of derivative financial instruments designated as held for trading	-	1,564	-	1,564
Negative fair value of derivative financial instruments designated as fair value hedge	-	108,012	-	108,012
Financial liabilities measured at fair value total	<u>-</u>	<u>109,576</u>	<u>-</u>	<u>109,576</u>

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 fair value of derivative financial instruments designated as held for trading	-	951	-	951
Securities available-for-sale	216,365	-	-	216,365
Positive fair value of derivative financial instruments designated as fair value hedge	-	1	-	1
Financial assets measured at fair value total	<u>216,365</u>	<u>952</u>	<u>-</u>	<u>217,317</u>
Negative fair value of derivative financial instruments designated as held for trading	-	1,469	-	1,469
Negative fair value of derivative financial instruments designated as fair value hedge	-	18,615	-	18,615
Financial liabilities measured at fair value total	<u>-</u>	<u>20,084</u>	<u>-</u>	<u>20,084</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010	Net profit for the year ended 31 December 2010	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 2010
Hungarian financial statements	32,628	8,461	(361)	(1,000)	39,728
Fair value adjustment of available- for-sale financial assets	(17)	-	3	-	(14)
Application of effective interest rate on direct issuance costs of securities	214	(146)	-	-	68
Effect of using effective interest rate method for loan origination fees and cost	9,387	2,696	-	-	12,083
Fair value adjustment of derivative financial instruments	607	(553)	531	-	585
Direct changes in reserves	-	(361)	361	-	-
Deferred taxation	(1,957)	732	(197)	-	(1,422)
Dividend paid in 2010	24,000	-	-	(24,000)	-
Dividend payable for 2010	-	-	-	1,000	1,000
IFRS financial statements	<u>64,862</u>	<u>10,829</u>	<u>337</u>	<u>(24,000)</u>	<u>52,028</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 33: POST BALANCE SHEET EVENTS

There were no relevant events.

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 relevant currencies and the lack of trust at the local and international financial markets the financial crisis reached Hungary. The negative effects of the crises influenced the financial conditions of 2010. During 2010 the effects of the crisis in the retail sector caused an increased number of overdue loans, worsening of the loan portfolio and 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:
 - The Bank terminated lending loans denominated in CHF and JPY;
 - The interest margin of foreign currency denominated loans are reset to the conditions of the funding costs;
 - Loans for customers adjusted to wages has been expanded;
 - Stricter conditions and increased risk factors in determining the covering value of properties;
 - Consistent adaption of the governmental decree about the terms of the prudent lending in the retail sector;
 - The Bank made it possible to change the currency of the loans with favourable conditions.
2. New loan origination has set in line with the funds available, providing loans mainly in HUF;
3. The loan monitoring became more important, personalized techniques and less strict conditions were applied;
4. The guarantee of purchasing and repurchasing non-performing housing and free-purpose mortgage loans at book value by OTP Bank was ceased in 2010. In order to address the change in risk exposure, the Bank recorded provision for impairment for the credit risks;
5. Applying the debtor protection program for clients, better conditions for loan restructuring for customer having problems with loan repayment, fee cancellation;
6. Decreasing the operating expenses and delaying the capital expenditures, developments which were not necessary for the safe operation.

In 2010 the volume of lending increased. Compared to previous years, there were some signs of improvements regarding the retail sector.