OTP Mortgage Bank Ltd.

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

FOR THE YEAR ENDED
31 DECEMBER 2011

Deloitte.

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements (pages 2 to 54) of OTP Mortgage Bank Ltd. (the "Bank"), which comprise the statement of financial position as at December 31, 2011 and the related statement of recognized and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 Bank'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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 fionancial statements give a true and fair view of the financial position of OTP Mortgage Bank Ltd. as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporing Standards as adopted by the European Union.

Budapest, April 18, 2012

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Horváth Tamás

Deloitte Auditing and Consulting Ltd.

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OTP MORTGAGE BANK LTD.
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011
(in HUF million)

	Note	2011	2010
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	1,729	26
Placements with other banks	*5.*	80,652	105,109
Financial assets at fair value through profit or loss	*6.*	2,028	87
Securities available-for-sale	*7.*	1,845	1,851
Loans, net of allowances for loan losses	*8.*	1,482,103	1,562,402
Property and equipment	*9.*	126	119
Intangible assets	*9.*	183	217
Other assets	*10.*	90,733	10,634
TOTAL ASSETS		**1,659,399**	**1,680,445**
Amounts due to OTP Bank Plc. and other banks	*11.*	336,250	121,950
Liabilities from issued securities	*12.*	1,202,215	1,360,566
Financial liabilities at fair value through profit or loss	*13.*	7,122	1,564
Deferred tax liabilities	*23.*	2,631	1,421
Other liabilities	*14.*	21,035	112,552
Subordinated bonds and loans	*15.*	3,865	3,364
TOTAL LIABILITIES		**1,573,118**	**1,601,417**
Share capital	*16.*	27,000	27,000
Retained earnings and reserves	*17.*	59,281	52,028
TOTAL SHAREHOLDER'S EQUITY		**86,281**	**79,028**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,659,399**	**1,680,445**

OTP JELZÁLOGBANK Zrt.
otp jelzálogbank
elnök-vezérigazgató
1.

Budapest, 23 March 2012

Dániel Gyuris
Chief Executive Officer

OTP MORTGAGE BANK LTD.
STATEMENT OF RECOGNIZED INCOME FOR THE YEAR ENDED 31 DECEMBER 2011
(in HUF million)

	Note	2011	2010
Interest Income:			
Loans		106,817	76,615
Placements with other banks		28,192	19,672
Amounts due from banks and balances with the National Bank of Hungary		48	16
Interest subsidy on housing loans financed by mortgage bonds		42,719	47,028
Securities available-for-sale		794	2,341
Total Interest Income		**178,570**	**145,672**
Interest Expense:			
Amounts due to OTP Bank Plc. and other banks		19,898	5,629
Deposits from customers		375	177
Liabilities from issued securities		89,963	94,299
Subordinated bonds and loans		139	124
Total Interest Expense		**110,375**	**100,229**
NET INTEREST INCOME		**68,195**	**45,443**
Provision for impairment on loan and placement losses	*8., 19.*	40,448	26,493
Losses on loans relating to early repayment	*19.*	60,694	-
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**(32,947)**	**18,950**
Income from fees and commissions	*20.*	2,116	2,013
Expenses from fees and commissions	*20.*	3,928	9,097
Net fees and commissions		**(1,812)**	**(7,084)**
Foreign exchange gains, net		4,198	3,172
Gains on securities, net		-	-
Other operating income	*28.*	2,377	14,607
Other operating expenses		(1,003)	(2,473)
Net operating income		**5,572**	**15,306**
Personnel expenses		653	667
Depreciation and amortization		157	183
Other administrative expenses	*21.*	6,443	14,582
Other administrative expenses		**7,253**	**15,432**
LOSS/PROFIT BEFORE INCOME TAX		**(36,440)**	**11,740**
Income tax	*23.*	(6,702)	911
NET LOSS/PROFIT FOR THE YEAR		**(29,738)**	**10,829**
Loss/Earnings per share (in HUF)			
Basic and diluted	*24.*	(110,141)	40,107

The accompanying notes to financial statements on pages 8 to 54 form an integral part of these financial statements.

OTP MORTGAGE BANK LTD.
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011
(in HUF million)

	Note	2011	2010
NET LOSS/PROFIT FOR THE YEAR		**(29,738)**	**10,829**
Fair value adjustment of securities available-for-sale	7.	(3)	1
Net gain on cash-flow hedge		377	336
Other comprehensive income, net of income tax		374	337
NET COMPREHENSIVE INCOME		**(29,364)**	**11,166**

OTP MORTGAGE BANK LTD.
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011
(in HUF million)

	Note	2011	2010
OPERATING ACTIVITIES			
Profit before income tax		(36,440)	11,740
Depreciation and amortization		157	183
Provision for impairment on loan and placement losses		101,142	26,493
Unrealised losses on fair value adjustment of derivative financial instruments		4,148	1,490
Net changes in assets and liabilities in operating activities:			
Increase in loans, net of allowances for loan losses		(20,843)	(145,599)
Increase in other assets before provisions for losses		(80,099)	(9,683)
Increase in other liabilities		20,334	12,600
Income tax paid		(1,062)	(3,732)
Net cash used in by operating activities		**(12,663)**	**(106,508)**
INVESTING ACTIVITIES			
Net decrease in placements with other banks		24,457	212,935
Net decrease/(increase) in securities available-for-sale		-	214,517
Net additions to property, equipment and intangible assets		(130)	(119)
Net cash provided by investing activities		**24,327**	**427,333**

(in HUF million) [continued]

	Note	2011	2010
FINANCING ACTIVITIES			
Net increase/(decrease) in amounts due to OTP Bank Plc. and other banks		214,300	(139,337)
Cash received from issuance of securities		102,531	82,432
Cash used for repurchase and redemption of issued securities		(372,733)	(241,235)
Net increase in subordinated bonds and loans		501	609
Dividend paid		(1,000)	(24,000)
Early final repayment		46,440	-
Net cash used in financing activities		**(9,961)**	**(321,531)**
Net increase/(decrease) in cash and cash equivalents		**1,703**	**(706)**
Cash and cash equivalents at the beginning of the year		**26**	**732**
Cash and cash equivalents at the end of the year		**1,729**	**26**
Analysis of cash and cash equivalents opening and closing balance			
Cash, amounts due from banks and balances with the National Bank of Hungary		26	732
Cash and cash equivalents at the beginning of the year		**26**	**732**
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	1,729	26
Cash and cash equivalents at the end of the year		**1,729**	**26**

OTP MORTGAGE BANK LTD.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011 (in HUF million)

	Note	Share Capital	Retained earnings and reserves	Total
Balance as at 1 January 2010		**27,000**	**64,862**	**91,862**
Dividend paid		-	(24,000)	(24,000)
Net profit for the year		-	10,829	10,829
Other comprehensive income		-	337	337
Balance as at 31 December 2010		**27,000**	**52,028**	**79,028**
Dividend paid		-	(1,000)	(1,000)
Net profit for the year		-	(29,738)	(29,738)
Guarantee for early final repayment	*2.14.*	-	46,440	46,440
Current tax receivables on early final repayment			(8,823)	(8,823)
Other comprehensive income		-	374	374
Balance as at 31 December 2011		**27,000**	**59,281**	**86,281**

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. In 2011, based on the effect of the financial crisis and the debtor's exposure in foreign currencies FX loan financing activities are continued with stricter conditions. JPY loan disbursements are stopped.

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 and 2011 the number and the average number of the employees at the Bank were 36 and 38.

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.

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 2011

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

- **IAS 24 (Amendment) "Related Party Disclosures"** - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- **IAS 32 (Amendment) "Financial Instruments: Presentation"** – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- **IFRS 1 (Amendment) "First-time Adoption of IFRS"**- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),
- **Various standards and interpretations (Amendment) "Improvements to IFRSs (2010)"** resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- **IFRIC 14 (Amendment) "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction"** - Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- **IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"**, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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 to 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 2011 and 2010.

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 2011 such securities consist of Hungarian government bonds.

Available-for-sale securities are re-measured 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 calculated using the EPS ratio.

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 and options. These financial instruments are used by the Bank to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.3.2. Derivative financial instruments [continued]

Derivative financial instruments are accounted for on a trade date basis and 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.

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

Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognized 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, including accrued interest. 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 impaired.

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

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.

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:

Intangible assets	
Software	33.3%
Property rights	33.3%
Property	6%
Office equipments and vehicles	14.5-33.3%

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

2.7. 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 the provisions of IAS 39. The Bank recognises interest income when it assumes that the interest associated with the transaction will flow to the Bank and the amount of the revenue can be reasonably measured. All interest income and expense arising from loans, placements with other banks, securities available-for-sale and amounts due to OTP Bank Plc. and other banks, liabilities from issued securities, subordinated bonds and loans are presented under these lines of the financial statements. 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. Fees and Commissions

Fees and commissions are recognized in the statement of recognized income on an accrual basis based on IAS 18 Revenue Standard, fees and commissions are recognized using the effective interest method referring to provisions IAS 39.

2.9. Income tax

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.10. 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.

2.11. 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 monetary items which were being revaluated.

2.12. 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. From 2011 the loan financing activity is widened with loan portfolio from OTP Bank Romania. The significant part of the total loan portfolio is from Hungary.

2.13. Offsetting of financial assets and liabilities

Complying 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.

2.14. Events in accordance with early final repayment at fixed exchange rates

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

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

On 10 October 2011 OTP Bank and OTP Mortgage Bank have made a guarantee contract about a facility in the amount of HUF 200 billion. Based on this agreement the OTP Bank must compensate the loss of OTP Mortgage Bank on early repayment of FX based mortgage loans. The fee for guarantee was determined in the amount of HUF 5 billion, and it is recognised directly in Shareholder's Equity.

Until December 31, 2011 more than 17 thousand debtors paid back their FX mortgage loans, therefore under the early repayment scheme the loss recorded in the Mortgage Bank's books was HUF 28,850 million.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.14. Events in accordance with early final repayment at fixed exchange rates [continued]

According to the Bank's accounting policy the balance sheet date considering the events of the early repayment is 30 January 2012. Consequently the Mortgage Bank recognises as provision for impairment the calculated effect of the early repayment claimed and paid till 30 January 2012. Whole amount of the expected loss relating to the transactions claimed but not yet paid up to 30 January 2012 is impaired by the Bank as the customers could have presented the collateral or the collateral certificate relating to the repayment till this date – according to Act CXII of 1996 on Credit Institutions Section 200/B paragraph 2 that entered into force on 29 December 2011.

During the balance sheet compilation period at the Mortgage Bank approximately 13 thousand customers paid back their FX mortgage loans and presented collateral certificate under the early final repayment and in connection with this, a provision of HUF 31,937 million was recognised in the Mortgage Bank's books.
In accordance with the guarantee contract with OTP Bank HUF 46,440 million was recorded in the Mortgage Bank's shareholder`s equity for December 2011 that OTP Bank provided for the Bank cover of the loan losses.

	2011
Provision for impairment on loan losses relating to early repayment	60,787
Loan losses recognized as provision are deducted	(588)
Tax refund at OTP Mortgage Bank – loss is not refunded by OTP Bank	(8,759)
Refundable loss for OTP Mortgage Bank recognized at OTP Bank in connection with the guarantee – Recognized directly in equity at the Mortgage Bank	**51,440**
Fee for guarantee paid by OTP Mortgage Bank	(5,000)
Refundable loss for OTP Mortgage Bank recognized as equity in connection with the guarantee	**46,440**

In case of loans related to early repayment, interest was recognized at fixed exchange rate in interest income. During calculating the loss arising from the early repayment, loss falling to share of interest was taken into account which was recognized on the line of Interest income from loans. (See Note 19.)

HUF 8,759 million bank tax refunds, the total of the bank tax paid and recognised in 2011 could be reclaimed from the Hungarian State as compensation for the arising loan losses on early final repayment, based on the respective tax law. This amount was recognised as other receivables. Since the law allows only 30% of the losses on early final repayment to be reclaimed, and 30% of loan losses on early final repayment at the Bank exceed this amount, based on the law the surplus can be utilised by other members of OTP Group as tax refund.

2.15. The agreement on 15 December 2011 between the Hungarian Government and the Hungarian Banking Association ("Agreement")

The Agreement of the Hungarian Government ("Government") and the Hungarian Banking Association ("HBA") on 15 December 2011 was partially enacted in 2011, but most of the planned measures of the agreement were not enacted until 24 February 2012 therefore these schemes defined in the Agreement, detailed in points 1, and 2. below have no effect for the year 2011.

I. Measures regarding performing FX mortgage debtors with up to 90 days of delinquency:

1. FX mortgage debtors rated performing of up to 90 days of delinquency will be entitled to opt for the program of fixed exchange rate scheme. During the program in the FX range CHF/HUF 180-270, EUR/HUF 250-340 and JPY/HUF 2.5-3.3 FX mortgage debtors are obliged to pay monthly instalments calculated using FX rates only at the lower bound of the range, so their monthly instalments will be lower in forint. The difference between the market and the fixed rate on the principal of the monthly instalments will be accumulated in a special buffer account over a certain period. This amount is to be fully paid later by the client.
2. 50% of the interest above a cap defined (upper bound of the ranges above) shall be borne by financial institutions and 50% shall be borne by the Government. Settlements between the banks and the state shall take place on a quarterly basis.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.15. The agreement on 15 December 2011 between the Hungarian Government and the Hungarian Banking Association [continued]

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

   1. Members of HBA have undertaken to convert the FX mortgage loans, reaching the sum of the compulsory minimum wage on 30 September 2011, to HUF loans in the case of debtors with more than 90 days of delinquency and they cancel 25% such debts by 15 May 2012, provided that the total market value of real estate serving as collateral did not exceed HUF 20 million when the FX mortgage loan contract was concluded.
      The conversion is to take place at the average of the mid rates of the respective currencies published by NBH for the period between 15 March and 15 April 2012.
      Credit institutions are entitled to deduct 30% of their cancelled claims from their special tax due in 2012.

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

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 (e.g. for correlations, volatilities, etc). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.

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

	2011	2010
Cash on hand	-	-
Amounts due from banks and balances with the National Bank of Hungary:		
Within one year		
In HUF	1,139	22
In foreign currency	581	4
	1,720	**26**
Accrued interest	9	-
Total	**1,729**	**26**
From this: amounts due from OTP Bank	621	25
Compulsory reserve	1,529	19
Rate of the compulsory reserve	2%	2%

In 2011, the main amount of cash due from banks shows the balance of the nostro accounts placed at OTP Bank of HUF 621 million and HUF 25 million as at 31 December 2011 and 2010, 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)

	2011	2010
Within one year		
in HUF	19,800	-
in CHF	30,642	2,087
in EUR	25,202	102,787
in JPY	4,922	205
Total in foreign currency	60,766	105,079
Subtotal	**80,566**	**105,079**
Accrued interest	86	30
Total	**80,652**	**105,109**
From this: amounts due from OTP Bank	80,652	2,292

	2011	2010
Interest conditions on placements with other banks		
in HUF	4.75-7.50%	1.38%-4.25%
in foreign currency	0.10-4.22%	-

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

	2011	2010
Foreign currency swaps designated as held for trading	2,028	87
Total	**2,028**	**87**

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

	2011	2010
Hungarian Government bonds	1,740	1,746
Accrued interest	105	105
Total	**1,845**	**1,851**

The whole portfolio was denominated in HUF as at 31 December 2011 and 2010.

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

	2011	2010
Within five years, fixed interest	1,740	1,746
Interest condition 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 2011:

	2011	
	Cost	Fair value
Hungarian Government bonds	1,761	1,740
Total	1,761	1,740

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

	2010	
	Cost	Fair value
Hungarian Government bonds	1,761	1,746
Total	1,761	1,746

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

	2011	2010
Short-term loans (within one year)		
in HUF	51,367	52,818
in foreign currency	175	226
	51,542	53,044
Long-term loans (over one year)		
in HUF	644,830	626,195
in CHF	643,080	694,050
in JPY	168,728	163,002
in EUR	37,436	37,340
Total in foreign currency	849,244	894,392
	1,494,074	1,520,587
Loans Total	**1,545,616**	**1,573,631**
Provision for impairment	(72,913)	(20,683)
Accrued interest	9,400	9,454
Total	**1,482,103**	**1,562,402**

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 parts 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 collateral of these loans.

Interest conditions on loans, net of allowance for loan losses:

	2011	2010
Loans denominated in HUF with the maturity over one year	5%-22.21%	5%-21.49%
Mortgage loans denominated in foreign currency for housing purposes		
CHF	8.74%	7.99%
EUR	8.01%	8.01%
JPY	5.83%	5.34%
Mortgage loans denominated in foreign currency for free purposes		
CHF	10.00%	9.25%
EUR	8.95%	8.96%
JPY	5.72%	5.22%
Real estate development loans		
HUF	10.73%	10.58%
EUR	7.89%	7.51%

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

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:

	2011		2010	
Housing loans	1,108,794	71.74%	1,164,801	74.02%
Free purpose mortgage loans	428,867	27.75%	400,168	25.43%
Commercial loans	7,955	0.51%	8,662	0.55%
Total	1,545,616	100.00%	1,573,631	100.00%

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

	2011	2010
Balance as at 1 January	**20,683**	-
Provision for the period	99,176	52,011
Provision released for the period	(46,946)	(31,328)
Balance as at 31 December	**72,913**	**20,683**

See Note 2.4 for further information on provisions for impairment.
The Bank sells non-performing loans without recourse at estimated fair value to an OTP Group member, OTP Factoring Ltd.

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

For year ended 31 December 2011

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January 2011	**974**	**110**	**194**	**1**	**1,279**
Additions	207	-	7	28	242
Disposals	(112)	(17)	(81)	(7)	(217)
Balance as at 31 December 2011	**1,069**	**93**	**120**	**22**	**1,304**
Depreciation and Amortization					
Balance as at 1 January 2011	**757**	**20**	**166**	-	**943**
Charge for the year	136	2	19	-	157
Disposals	(7)	(17)	(81)	-	(105)
Balance as at 31 December 2011	**886**	**5**	**104**	-	**995**
Net book value					
Balance as at 1 January 2011	**217**	**90**	**28**	**1**	**336**
Balance as at 31 December 2011	**183**	**88**	**16**	**22**	**309**

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

For year ended 31 December 2010

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January 2010	**863**	**109**	**190**	**-**	**1,162**
Additions	233	1	6	7	247
Disposals	(122)	-	(2)	(6)	(130)
Balance as at 31 December 2010	**974**	**110**	**194**	**1**	**1,279**
Depreciation and Amortization					
Balance as at 1 January 2010	**606**	**19**	**137**	-	**762**
Charge for the year	151	1	31	-	183
Disposals	-	-	(2)	-	(2)
Balance as at 31 December 2010	**757**	**20**	**166**	**-**	**943**
Net book value					
Balance as at 1 January 2010	**257**	**90**	**53**	**-**	**400**
Balance as at 31 December 2010	**217**	**90**	**28**	**1**	**336**

NOTE 10: OTHER ASSETS (in HUF million)

	2011	**2010**
Other receivables in connection with early final repayment - Guarantee from OTP Bank Plc.	44,760	-
Current income tax receivable	2,962	2,441
Income tax receivable relating to early final repayment[1]	8,759	-
Prepayments and other assets	3,372	506
Customer receivables, given loans	3,610	3,898
Receivables from the Hungarian Government	70	3,801
Derivatives qualified for hedge accounting	27,211	-
	90,744	10,646
Provision for other assets	(11)	(12)
Total	**90,733**	**10,634**

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

[1] See Note 2.14.

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

	2011	2010
Within one year		
In HUF	328	36,434
In EUR	-	83,401
In CHF	258,239	2,100
In JPY	76,975	-
Total in foreign currency	335,214	85,501
Subtotal	**335,542**	**121,935**
Accrued interest	708	15
Total	**336,250**	**121,950**
From this: amounts due to OTP Bank	336,250	121,950

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

	2011	2010
In HUF	5.45 - 7.00%	5.75% - 6.25%
In foreign currency	1.67 - 2.57%	0.44% - 3.17%

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

	2011	2010
Within one year:		
In HUF	134,725	39,203
In EUR	-	585,375
Over one year		
In HUF	490,988	628,258
In EUR	530,666	56,349
Subtotal	**1,156,379**	**1,309,185**
Accrued interest	45,836	51,381
Total	**1,202,215**	**1,360,566**
Issued mortgage bonds during the period (nominal value)	560,943	83,625
Mortgage bonds became due or were repurchased during the period	727,019	313,271

Interest conditions on issued securities

	2011	2010
In HUF	6.53 - 13.41%	7.5% - 11%
In foreign currency	4.00 - 6.70%	4% - 4.25%

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

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

	2011	2010
Face value of the issued securities	1,141,840	1,293,246
Unamortized premiums	12,567	15,228
Fair value hedge adjustment	1,972	711
Amortized cost	1,156,379	1,309,185

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 2011 (in HUF million)

Name	Date of issue	Maturity	Nominal value in HUF million	Interest conditions (in % p.a.)		Hedged
OJB 2012/I	17/03/2004	21/03/2012	13,870	9.83%	fixed	not hedged
OJB 2012/II	14/04/2004	16/05/2012	36,283	10.00%	fixed	not hedged
OJB 2012/III	19/11/2004	15/08/2012	14,353	10.50%	fixed	not hedged
OJB 2012/VI	31/05/2011	16/05/2012	58,780	10.43%	fixed	not hedged
OJB 2012/VII	31/05/2011	15/08/2012	5,647	10.50%	fixed	not hedged
OJB 2012/VIII	31/05/2011	31/01/2012	5,508	13.41%	fixed	not hedged
OJB 2013/B	31/05/2011	30/10/2013	8,516	6.53%	floating	not hedged
OJB 2013/II	20/12/2002	31/08/2013	13,433	8.25%	fixed	not hedged
OJB 2013/III	29/05/2009	29/05/2013	80,000	12.00%	fixed	not hedged
OJB 2013/IV	31/05/2011	31/08/2013	3,567	8.25%	fixed	not hedged
OJB 2014/I	14/11/2003	12/02/2014	13,500	8.00%	fixed	not hedged
OJB 2014/J	17/09/2004	17/09/2014	440	8.68%	fixed	not hedged
OJB 2015/I	10/06/2005	10/06/2015	3,243	7.70%	fixed	not hedged
OJB 2015/J	28/01/2005	28/01/2015	291	8.69%	fixed	not hedged
OJB 2016/I	03/02/2006	03/02/2016	1,269	7.50%	fixed	not hedged
OJB 2016/II	31/08/2006	31/08/2016	4,692	10.00%	fixed	not hedged
OJB 2016/III	17/02/2009	17/02/2016	150,000	10.75%	fixed	not hedged
OJB 2016/J	18/04/2006	28/09/2016	2787	7.59%	fixed	not hedged
OJB 2019/I	17/03/2004	18/03/2019	31,517	9.48%	fixed	not hedged
OJB 2019/II	31/05/2011	18/03/2019	7,733	9.48%	fixed	not hedged
OJB 2020/I	19/11/2004	12/11/2020	5,503	9.00%	fixed	not hedged
OJB 2020/II	31/05/2011	12/11/2020	4,497	9.00%	fixed	not hedged
OJB 2025/I	31/07/2009	31/07/2025	150,000	11.00%	fixed	not hedged

Total issued securities in HUF	612,919
Unamortized premium	12,794
Total issued securities in HUF	625,713
Accrued interest	41,961
Total in HUF	667,674

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

Issued securities denominated in foreign currency as at 31 December 2011 (in HUF million):

Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % p.a.)	Hedged
OMB 2013/I	11/17/2011	18/11/2013	EUR	750	233,348	6.71% floating	hedged
OMB 2014/I	15/12/2004	15/12/2014	EUR	200	62,226	4.00% fixed	not hedged
OMB 2014/II	08/10/2011	10/08/2014	EUR	750	233,347	4.47% floating	hedged

Total issued securities in FX	**528,921**
Unamortized discount	(227)
Fair value hedge adjustment	1,972
Total issued securities in FX	**530,666**
Accrued interest	3,875
Total in FX	**534,541**
Total	**1,202,215**

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)

	2011	2010
Foreign currency swaps	7,122	1,564
Total	**7,122**	**1,564**

NOTE 14: OTHER LIABILITIES (in HUF million)

	2011	2010
Other liabilities on early final repayment at fixed rates due to OTP Bank Plc. – tax refund reimbursed	8,759	-
Fair value of derivative financial instruments designated as fair value hedge	4,385	108,012
Accrued fees	4,205	483
Liabilities to customers	2,867	563
Deferred tax liabilities	2,631	1,421
Accounts payable	587	879
Current income tax payable	110	97
Advances to government subsidies	80	-
Salaries and social security payable	16	18
Provision for impairment off-balance sheet commitments and contingent liabilities	5	2,361
Other	21	139
Total	**23,666**	**113,973**

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

	2011	2010
With the maturity over one year denominated in CHF	3,865	3,364

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.

	2011	2010
Share capital (in HUF million)	27,000	27,000

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

	2011	2010
Balance as at 1 January	**52,028**	**64,862**
Dividend paid	(1,000)	(24,000)
Net income after income taxes	(29,738)	10,829
Guarantee for early final repayment at fixed exchange rates[1]	46,440	-
Current tax receivables on early final repayment	(8,823)	-
Other comprehensive income	374	337
Balance as at 31 December	**59,281**	**52,028**

The Bank's reserves under Hungarian Accounting Standards ("HAS") were HUF 52,028 million and HUF 64,862 million as at 31 December 2011 and 2010 respectively. These amounts include legal reserves amounting to HUF 8,752 million and HUF 8,008 million respectively. The legal reserve is not available for distribution.

A dividend of HUF 1,000 million was paid to OTP Bank in 2011 from the profit of the year 2010.

[1] See Note 2.14.

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 6 million and HUF 23 million for the years ended 31 December 2011 and 2010 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 2011 about HUF 4,516 million was the amount of the loans granted. The balance as at 31 December 2011 is HUF 4,001 million.

NOTE 19: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF million)

Provision for impairment on loan losses

	2011	2010
Provision for the period	99,176	51,745
from this: provision on impairment on loan losses related to early final repayment	*31,937*	-
Provision released for the period	(46,946)	(31,328)
Loan losses	48,912	6,076
from this: provision on impairment on loan losses related to early final repayment	*28,757*	-
Provision for impairment on loan losses	**101,142**	**26,493**
from this: provision on impairment on loan losses related to early final repayment	*60,694*	-
Losses on early final repayment presented as interest income	93	-
Losses on early final repayment	**60,787**	-

NOTE 20: FEES AND COMMISSIONS (in HUF million)

Income from fees and commissions

	2011	2010
Fees and commissions relating to loans	1,891	1,842
Other	225	171
Total	**2,116**	**2,013**

Expense from fees and commissions

	2011	2010
Guarantee and administrative fees paid to OTP Bank	-	5,325
Other	3,928	3,772
Total	**3,928**	**9,097**

In 2011 the guarantee on sale of non-performing loans to OTP Bank Plc. was cancelled by the parties. 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 for the year ended 31 December 2010.

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)

	2011	2010
Taxes, other than income tax	5,738	5,606
Services	366	356
Professional fees	239	240
Rental fees	49	55
Material type expenses	31	39
Administration expenses	18	19
Advertising	2	-
Special banking tax	-	8,267
Total	**6,443**	**14,582**

Taxes, other than income tax are taxes payable by the Bank on HUF denominated loans having interest subsidy from the Hungarian government and other local taxes.
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 would be HUF 8,759 million and was paid in four equal instalments until 10th of the last month of every quarter of 2011 as well as in 2010. Based on the amendment of the law on bank tax at the end of 2011, the whole amount of the bank tax for the year 2011 will be refunded to the as compensation for the losses on early final repayment (see note 2.14.). This refundable tax has to be then returned to OTP Bank based on the Guarantee contract between OTP Bank and OTP Mortgage Bank, as OTP Bank has compensated OTP Mortgage Bank for the total of its losses on early final repayment, and is entitled for the refund of any return received by OTP Mortgage Bank in connection with the losses on early final repayment.

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

	2011	2010
Key executives (Managing Director and Deputies)	72	140
Members of Board of Directors and Supervisory Board	-	-
Total	**72**	**140**

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

NOTE 23: INCOME TAX (in HUF million)

The Bank is presently liable for income tax at a rate of 19% of taxable income.
In 2010 due to the fact that the Hungarian Government approved a law effected that the income tax rate will be reduced to 10% from 1 January 2013 the deferred tax is calculated at 10% for those temporary differences that are expected to be resulted in taxable amounts or amounts deductable from the taxable profit after 2012. 19% was used for the calculation of the deferred tax for the remaining items. This law has been repealed therefore the deferred tax is calculated at 19% in 2011, and the opening balances have been recalculated based on the 19% tax rate.

A reconciliation of the total income tax charge for the years ended 31 December 2011 and 2010 is as follows:

	2011	2010
Current tax expense	(7,761)	1,643
Special tax expense (4%)	-	-
Deferred tax expense/(benefit)	1,059	(732)
Total income tax expense	**(6,702)**	**911**

A reconciliation of the deferred tax liability as at 31 December 2011 and 2010 is as follows:

	2011	2010
Balance as at 1 January	**(1,421)**	**(1,957)**
Recognized in other comprehensive income	(151)	(196)
Deferred tax (expense)/benefit	(1,059)	732
Balance as at 31 December	**(2,631)**	**(1,421)**

A reconciliation of deferred tax assets and liabilities as at 31 December 2011 and 2010 is as follows:

	2011	2010
Fair value adjustment of available-for-sale financial assets	4	1
Other provision	-	15
Deferred tax assets	**4**	**16**
Effect of applying effective interest rate method	(2,310)	(1,350)
Fair value adjustment of derivative financial instruments	(108)	(67)
Fixed assets	(18)	(13)
Amortized cost of issued securities	(199)	(7)
Deferred tax liabilities	**(2,635)**	**(1,437)**
Net deferred tax liabilities	**(2,631)**	**(1,421)**

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

A reconciliation of the effective tax rate as at 31 December 2011 and 2010 is as follows:

	2011	2010
Net income before income taxes	(36,440)	11,740
Tax at statutory income tax rate (19%)	(6,924)	2,230
Permanent differences due to income tax	(753)	(205)
Effect of change in tax rate for deferred tax	1,015	(1,105)
Other permanent differences	(40)	(9)
Income tax	(6,702)	911
Effective tax-rate	18.39%	7.76%

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.

	2011	2010
Net profit for the year	(29,738)	10,829
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	270,000	270,000
EPS (in HUF) basic and diluted	(110,141)	40,107

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.

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 2011

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total carrying amount/ allowance
Corporate loans	4,040	120	3	114	9	4,286
Allowance	-	*1*	-	*56*	*9*	*66*
Placements with other banks	80,566	-	-	-	-	80,566
Allowance	-	-	-	-	-	-
Retail loans	881,562	453,044	125,709	77,019	-	1,537,334
Allowance	-	*12,566*	*33,042*	*27,212*	-	*72,820*
SME loans	3,857	96	-	43	-	3,996
Allowance	-	*1*	-	*26*	-	*27*
Gross loan portfolio total	**970,025**	**453,260**	**125,712**	**77,176**	**9**	**1,626,182**
Allowance Total	**-**	***(12,568)***	***(33,042)***	***(27,294)***	***(9)***	***(72,913)***
Net loan portfolio total	**970,025**	**440,692**	**92,670**	**49,882**	**-**	**1,553,269**
Accrued interest						
Placements with other banks						86
Loans						9,400
Total accrued interest						**9,486**
Total						**1,562,755**

As at 31 December 2010

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

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

Credit risk [continued]

From the total carrying amount of performing loan portfolio was HUF 969,980 million relating to Hungary and HUF 45 million relating to Romania. The qualified loan portfolio is relating to Hungary.

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

As at 31 December 2011

Loan type	Performing	To-be-monitored	Below average	Doubtful	Bad	Total off-balance sheet items
Housing and free-purpose mortgage loans	11,869	7	-	-	-	11,876
Total	**11,869**	**7**	**-**	**-**	**-**	**11,876**

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	2011	2010
Government guarantees	216,942	182,291
Mortgage	2,594,362	2,759,000
Other	6,200	6,395
Total	**2,817,504**	**2,947,686**

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	2011	2010
Government guarantees	213,262	178,298
Mortgage	1,217,386	1,295,152
Other	5,367	4,765
Total	**1,436,015**	**1,478,215**

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

Loan type	2011	2010
Housing and free-purpose mortgage loans	1,261,451	1,188,352
Corporate loans	5,948	8,055
Total	**1,267,399**	**1,196,407**

Renegotiated loans

The gross value of the loans that would otherwise be past due or impaired and whose terms have been renegotiated were HUF 152,293 million and HUF 132,042 million as at 31 December 2011 and 2010, respectively.

The gross amount of renegotiated loans increased considerably by the end of 2011. Renegotiated loans related to the debtor compensation program launched in June 2009 in order to handle the effects of the economic crisis. In the framework of this programme the Bank tries to help the debtors that have difficulties in managing their repayments and keeping their repayment ability. This is done by lowering the monthly repayment amounts, providing a grace period, converting the FX loans to HUF, providing special debt settlement loans, etc. All of these loans qualify as rescheduled ones, they cannot be rated as performing, and a one year period has to pass, until they might be qualified as performing. 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 2011 and 2010 is as follows:

As at 31 December 2011

Loan type	Up to 90 days	91-180 days	181-365 days	Above 365 days	Total
Housing and free purpose mortgage loans	73,078	71	6	-	73,155
Corporate loans	2,165	-	-	-	2,165
Total	**75,243**	**71**	**6**	**-**	**75,320**

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	407	110	16	74	607
Total	**129,825**	**1,430**	**16**	**74**	**131,345**

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

Credit risk [continued]

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

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

Types of collateral (total collateral value)	2011	2010
Retail loans	121,470	194,055
Corporate loans	1,452	424
SME loans	1,709	415
Total	**124,631**	**194,894**

Types of collateral (to the extent of the exposures)	2011	2010
Retail loans	840	117,810
Corporate loans	69,681	314
SME loans	1,078	284
Total	**71,599**	**118,408**

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

Financial instruments by rating categories

Available-for-sale securities as at 31 December 2011

	Ba1		Not rated		Total
Government bonds	1,740	100.0%	-	0.0%	1,740
Total	**1,740**	**100.0%**	**-**	**0.0%**	**1,740**
Accrued interest					105
Total					**1,845**

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 were 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 was 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 2011 would be decreased by HUF 419 million (probable scenario) and HUF 2,297 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**	
		2011	**2010**
HUF	(0.1%) parallel shift	(130)	(280)
EUR	(0.1%) parallel shift	(64)	46
USD	0.1% parallel shift	-	-
Total		**(194)**	**(234)**

25.2 Foreign exchange rate sensitivity analysis

The foreign exchange sensitivity analysis has 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 (4,747) million on 31 December 2011, which consisted of EUR, CHF and JPY exposure. Considering the volatilities estimated at the given reference date (14.71%, 17.2% and 20.5% respectively), we assumed a +/- 17.1%, 20.0% and 23.9% price shock for a one quarter long time horizon, which is equivalent to the 99% VaR of the price distribution. Based on this, the following profit or loss impact was estimated.

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

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

		2011			2010	
	Price Shock	-	+	Price Shock	-	+
EUR	17.1%	(32.4)	38.4	9.9%	14.0	(15.5)
CHF	20.0%	745.2	(910.1)	18.5%	(826.1)	994.3
JPY	23.9%	178.7	(226.9)	19.3%	(181.5)	220.1
Total		**891.5**	**(1,098.6)**		**(993.6)**	**1,198.9**

It has a negative impact on the Statement of Recognised Income of the Bank when HUF weakens against key currencies. Compared to 2010, the main reason of decreasing of the loss is due to the decreasing open position. 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 2011 and 2010, 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.

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 2011 and in 2010, similar to prior years.
The capital adequacy calculations of the Bank for the year 2011 are prepared based on the data of the audited financial statements prepared in accordance with HAS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and the alternative standard method in case of the operational risk. In 2011 the Mortgage Bank's solvency ratio is 9.73%. Surplus capital is 62,817, the total required regulatory capital is 51,632.

In HUF million	**2011**	**2010**
Core capital	59,161	66,728
Supplementary capital	3,839	3,340
Deductions	(183)	(217)
Regulatory capital	**62,817**	**69,851**
Credit risk capital requirement	48,414	51,064
Market risk capital requirement	1,112	503
Operational risk capital requirement	2,106	7,974
Total required regulatory capital	**51,632**	**59,541**
Surplus capital	**11,185**	**10,310**
Solvency ratio	9.73%	9.39%

The positive components of the Core capital are the following: Issued capital, Capital reserve, Tied-up reserve, Profit reserve, Profit for the year, General risk reserve.
The negative components of the Core capital are the following: Intangible assets.
The positive components of the Supplementary capital are the following: Subsidiary loan capital, Subordinated loan capital.
Deductions are deductions due to PIBB[1] investments and deductions due to limit breaches.

[1] PIBB: Financial Institutions, Investing Enterprises, Insurance Companies

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 2011 and 2010, with respect to financial instruments are as follows (in HUF million):

	2011	2010
Future portion of swap transactions	605,263	826,108
Contingent liabilities deriving from guarantee of selling loans to OTP Bank	-	8,183
Other	5	5
Contingent and future liabilities	605,268	834,296
Future portion of swap transactions	619,666	711,040
Contingent and future receivables	619,666	711,040
Total off-balance sheet liabilities	**14,398**	**(123,256)**

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.

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. Special types 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 2011

	CHF	EUR	JPY	Other	Total
Assets	635,377	65,960	166,622	-	867,959
Liabilities	(267,087)	(532,739)	(77,547)	-	(877,373)
Off-balance sheet assets and liabilities, net	(386,130)	466,695	(94,178)	-	(13,613)
Net position	**(17,840)**	**-84**	**(5,103)**	**-**	**(23,027)**

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	**1,762**	**(160)**	**475**	**(1)**	**2,076**

NOTE 28: RELATED PARTY TRANSACTIONS (in HUF million)

The Bank disbursed housing loans of 5,381 HUF million and 9,893 HUF million from OTP Bank during the years ended 31 December 2011 and 2010 respectively. The gross book value of these receivables was HUF 5,379 million and HUF 9,888 million as at 31 December 2011 and 2010 respectively.

(a) *Assets/Liabilities*

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

Assets	**2011**	**2010**
Cash, amounts due from banks and balances with the National Bank of Hungary	621	26
Placements with other banks	80,656	2,292
Accrued receivables	33	112
Other receivables - early final repayment during balance sheet compilation period[1]	31,937	-
Other receivables - early final repayment until 31 December 2011[1]	4,064	-

Liabilities	**2011**	**2010**
Amounts due to OTP Bank Plc. and other banks	335,542	121,950
Other liabilities due to OTP Bank	17,412	3,333
Issued mortgage bonds held by OTP Group	1,040,042	935,598
Accrued interest payable related to mortgage bonds held by OTP Group	41,004	39,416
Early final repayment – liabilities to OTP Bank relating to tax refund[1]	8,759	-

(b) *Income/expense*

	2011	**2010**
Interest expense	87,029	78,338
Fees and commissions paid to OTP Bank relating to the loans	92	5,440
Account handling fees paid to OTP Bank	7,282	29,881
Other operating income[2]	42	14,501
One-off payments fee (0.5%)	6	23
Revenue from the value appraisal activity for OTP Group	234	463

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

	2011	**2010**
Loans purchased from OTP Bank Plc.	5,381	9,893
Book value of non-performing loans sold to OTP Bank Plc.	5,379	10,783
Book value of non-performing loans sold to OTP Faktoring Ltd.	26,233	10,225
Selling price of the non-performing loans to OTP Bank Plc. and OTP Faktoring Ltd.	23,538	16,522

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 468,5 million as at 31 December 2011. These loans were covered by HUF 954,7 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.

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[1] See Note 2.14.
[2] As disclosed in Note 2.4., during 2010 and 2011 the Guarantee of purchasing and repurchasing non-performing loans by OTP Bank was ceased.

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]

31 December 2011	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
ASSETS	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	**1,139**	**581**	-	-	-	-	-	-	-	-	**9**	-	**1,148**	**581**	**1,729**
variable interest	1,139	581	-	-	-	-	-	-	-	-	-	-	1,139	581	1,720
non-interest bearing	-	-	-	-	-	-	-	-	-	-	9	-	9	-	9
Placements with other banks	**19,800**	**60,766**	-	-	-	-	-	-	-	-	**11**	**75**	**19,811**	**60,841**	**80,652**
fixed interest	19,800	35,564	-	-	-	-	-	-	-	-	-	-	19,800	35,564	55,364
variable interest	-	25,202	-	-	-	-	-	-	-	-	-	-	-	25,202	25,202
non-interest bearing	-	-	-	-	-	-	-	-	-	-	11	75	11	75	86
Securities available-for-sale	-	-	-	-	-	-	**1,740**	-	-	-	**105**	-	**1,845**	-	**1,845**
fixed interest	-	-	-	-	-	-	1,740	-	-	-	-	-	1,740	-	1,740
non-interest bearing	-	-	-	-	-	-	-	-	-	-	105	-	105	-	105
Loans, net of allowances for loan losses	**217,897**	**778,566**	**24,618**	-	**101,386**	-	**175,308**	-	**174,928**	-	**6,451**	**2,949**	**700,588**	**781,515**	**1,482,103**
variable interest	217,897	778,566	24,618	-	101,386	-	175,308	-	174,928	-	-	-	694,137	778,566	1,472,703
non-interest bearing	-	-	-	-	-	-	-	-	-	-	6,451	2,949	6,451	2,949	9,400
Derivative financial instruments	**89,116**	**63,233**	-	**511,697**	-	-	-	-	-	-	-	-	**89,116**	**574,930**	**664,046**
fixed interest	89,116	63,233	-	-	-	-	-	-	-	-	-	-	89,116	63,233	152,349
variable interest	-	-	-	511,697	-	-	-	-	-	-	-	-	-	511,697	511,697

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

31 December 2011	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
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	**328**	**335,214**	-	-	-	-	-	-	-	-	-	**708**	**328**	**335,922**	**336,250**
fixed interest	-	335,214	-	-	-	-	-	-	-	-	-	-	-	335,214	335,214
variable interest	328	-	-	-	-	-	-	-	-	-	-	-	328	-	328
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	708	-	708	708
Liabilities from issued securities	**14,084**	-	**13,872**	**468,588**	**116,060**	-	**98,350**	-	**383,347**	**62,078**	**42,336**	**3,500**	**668,049**	**534,166**	**1,202,215**
fixed interest	5,533	-	13,872	-	116,060	-	98,350	-	383,347	62,078	-	-	617,162	62,078	679,240
variable interest	8,551	-	-	468,588	-	-	-	-	-	-	-	-	8,551	468,588	477,139
non-interest bearing	-	-	-	-	-	-	-	-	-	-	42,336	3,500	42,336	3,500	45,836
Derivative financial instruments	**61,226**	**96,217**	-	**488,871**	-	-	-	-	-	-	-	-	**61,226**	**585,088**	**646,314**
fixed interest	61,226	96,217	-	-	-	-	-	-	-	-	-	-	61,226	96,217	157,443
variable interest	-	-	-	488,871	-	-	-	-	-	-	-	-	-	488,871	488,871
Subordinated bonds and loans	-	**3,839**	-	-	-	-	-	-	-	-	-	**26**	-	**3,865**	**3,865**
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	3,839	-	-	-	-	-	-	-	-	-	-	-	3,839	3,839
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	26	-	26	26
NET POSITION	**252,314**	**467,876**	**10,746**	**(445,762)**	**(14,674)**	**0**	**78,698**	**0**	**(208,419)**	**(62,078)**	**(35,760)**	**(1,210)**	**82,905**	**(41,474)**	**41,730**

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		Total
ASSETS	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	**22**	**4**	-	-	-	-	-	-	-	-	-	-	**22**	**4**	**26**
variable interest	22	4	-	-	-	-	-	-	-	-	-	-	22	4	26
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Placements with other banks	-	**105,079**	-	-	-	-	-	-	-	-	-	**30**	-	**105,109**	**105,109**
fixed interest		2,292	-	-	-	-	-	-	-	-	-	-	-	2,292	2,292
variable interest	-	102,787	-	-	-	-	-	-	-	-	-	-	-	102,787	102,787
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	30	-	30	30
Securities available-for-sale	-	-	-	-	-	-	-	-	**1,746**	-	**105**	-	**1,851**	-	**1,851**
fixed interest	-	-	-	-	-	-	-	-	1,746	-	105	-	1,851	-	1,851
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans, net of allowances for loan losses	**110,698**	**875,250**	**20,310**	-	**115,721**	-	**93,361**	-	**337,608**	-	**6,392**	**3,062**	**684,090**	**878,312**	**1,562,402**
variable interest	110,698	875,250	20,310	-	115,721	-	93,361	-	337,608	-	-	-	677,698	875,250	1,552,948
non-interest bearing	-	-	-	-	-	-	-	-	-	-	6,392	3,062	6,392	3,062	9,454
Derivative financial instruments	**122,695**	**2,483**	-	-	-	**585,375**	-	-	-	-	-	-	**122,695**	**587,858**	**710,553**
fixed interest	122,695	2,483	-	-	-	585,375	-	-	-	-	-	-	122,695	587,858	710,553
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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		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**	**121,950**
fixed interest	33,035	82,672	-	-	-	-	-	-	-	-	-	-	33,035	82,672	115,707
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest bearing	-	-	-	-	-	-	-	-	-	-	3,410	2,833	3,410	2,833	6,243
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**	**1,360,566**
fixed interest	-	-	17,227	-	21,714	585,974	149,720	-	470,284	55,750	-	-	658,945	641,724	1,300,669
variable interest	8,516	-	-	-	-	-	-	-	-	-	-	-	8,516	-	8,516
non-interest bearing	-	-	-	-	-	-	-	-	-	-	45,966	5,415	45,966	5,415	51,381
Derivative financial instruments	**2,391**	**385,960**	-	**437,271**	-	-	-	-	-	-	-	-	**2,391**	**823,231**	**825,622**
fixed interest	2,391	124,589	-	-	-	-	-	-	-	-	-	-	2,391	124,589	126,980
variable interest	-	261,371	-	437,271	-	-	-	-	-	-	-	-	-	698,642	698,642
Subordinated bonds and loans	-	**3,340**	-	-	-	-	-	-	-	-	-	**24**	-	**3,364**	**3,364**
fixed interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable interest	-	3,340	-	-	-	-	-	-	-	-	-	-	-	3,340	3,340
non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	24	-	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 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 2011	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	1,729	-	-	-	-	1,729
Placements with other banks	80,652	-	-	-	-	80,652
Financial assets at fair value through profit or loss	2,028	-	-	-	-	2,028
Securities available-for-sale	105	-	1,740	-	-	1,845
Loans, net of allowance for loan losses	22,040	36,860	198,620	1,224,583	-	1,482,103
Property and equipment	-	-	-	-	126	126
Intangible assets	-	-	-	-	183	183
Other assets	79,012	11,721	-	-	-	90,733
TOTAL ASSETS	**185,566**	**48,581**	**200,360**	**1,224,583**	**309**	**1,659,399**
Amounts due to OTP Bank Plc. and other banks	336,250	-	-	-	-	336,250
Liabilities from issued securities	65,241	116,060	809,142	211,772	-	1,202,215
Financial liabilities at fair value through profit or loss	7,122	-	-	-	-	7,122
Other liabilities	16,650	-	4,385	2,631	-	23,666
Subordinated bonds and loans	26	-	-	3,839	-	3,865
TOTAL LIABILITIES	**425,289**	**116,060**	**813,527**	**218,242**	-	**1,573,118**
Share capital	-	-	-	-	27,000	27,000
Retained earnings and reserves	-	-	-	-	59,281	59,281
TOTAL SHAREHOLDER'S EQUITY	-	-	-	-	**86,281**	**86,281**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**425,289**	**116,060**	**813,527**	**218,242**	**86,281**	**1,659,399**
LIQUIDITY (DEFICIENCY)/ EXCESS	**(239,723)**	**(67,479)**	**(613,167)**	**1,006,341**	**(85,972)**	-

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

As at 31 December 2010	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National 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	**136,271**	**42,121**	**223,741**	**1,277,976**	**336**	**1,680,445**
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	**212,016**	**715,309**	**314,816**	**359,276**	**-**	**1,601,417**
Share capital	-	-	-	-	27,000	27,000
Retained earnings and reserves	-	-	-	-	52,028	52,028
TOTAL SHAREHOLDER'S EQUITY	**-**	**-**	**-**	**-**	**79,028**	**79,028**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**212,016**	**715,309**	**314,816**	**359,276**	**79,028**	**1,680,445**
LIQUIDITY (DEFICIENCY)/ EXCESS	**(75,745)**	**(673,188)**	**(91,075)**	**918,700**	**(78,692)**	**-**

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 amortised 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

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, due from banks and balances with the National Bank of Hungary	1,729	1,729	26	26
Placements with other banks	80,652	80,652	105,109	105,109
Financial assets at fair value through profit and loss	2,028	2,028	87	87
Securities available-for-sale	1,845	1,845	1,851	1,851
Loans, net of allowance for loan losses	1,482,103	2,356,785	1,562,402	2,325,476
FINANCIAL ASSETS TOTAL	**1,568,357**	**2,443,039**	**1,669,475**	**2,432,549**
Amounts due to OTP Bank Plc. and other banks	336,250	336,250	121,950	121,950
Liabilities from issued securities	1,202,215	1,148,412	1,360,566	1,300,008
Derivative financial instruments designated as hedging instruments	4,385	4,385	108,012	108,012
Financial liabilities at fair value through profit or loss	7,122	7,122	1,564	1,564
Subordinated bonds and loans	3,865	3,865	3,364	3,364
FINANCIAL LIABILITIES TOTAL	**1,553,837**	**1,500,034**	**1,595,456**	**1,534,898**

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

Fair value of derivative instruments

	Fair value		Notional value, net	
	2011	2010	2011	2010
Foreign exchange swaps designated as held for trading				
Positive fair value of foreign exchange swaps designated as held for trading	1,872	87	150,689	125,665
Negative fair value of foreign exchange swaps designated as held for trading	(7,122)	(1,564)	(155,841)	(127,467)
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated as fair value hedge	27,211	-	19,377	-
Negative fair value of CCIRS designated as fair value hedge	(4,385)	(108,012)	-	(113,266)
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated as fair value hedge	-	-	-	-
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	156	-	2,282	-
Negative fair value of other derivative contracts designated as held for trading	-	-	(2,104)	-
Derivative financial assets total	29,239	87	172,348	125,665
Derivative financial liabilities total	(11,507)	(109,576)	(157,945)	(240,733)
Derivative financial instruments total	17,732	(109,489)	14,403	(115,068)

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 2011

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	HUF 22,826 million	Interest rate, foreign exchange
3) Net investment hedge in foreign operations	-		-

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	HUF (108,012) million	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 2011 and 2010 HUF 531 million was recognized as income in proportion with the profit or loss impacts of the hedged item to the net income.

Cash-flow hedges	2011	2010
Amount reclassified from equity to profit or loss for the period	531	531

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 financial instruments for hedges of foreign exchange rate risk as at 31 December 2011 and 31 December 2010.

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 22,826 million and HUF (108,012) million as at 31 December 2011 and 2010 respectively.

As at 31 December 2011

Types of hedged instrument	**Types of hedging items**	**Fair value of the hedged item**	**Fair value of the hedging instrument**	**Gain/ loss attributable to the hedged risk**	
				hedging instrument	hedged item
Liabilities from issued securities	CCIRS	233,348	27,211	(811)	811
Liabilities from issued securities	CCIRS	233,348	(4,385)	1,802	(1,802)

As at 31 December 2010

Types of hedged instrument	**Types of hedging items**	**Fair value of the hedged item**	**Fair value of the hedging instrument**	**Gain/ loss attributable to the hedged risk**	
				hedging instrument	hedged item
Liabilities from issued securities	CCIRS	209,063	(45,125)	(4,761)	4,761
Liabilities from issued securities	CCIRS	320,563	(54,799)	(2,912)	2,912
Liabilities from issued securities	CCIRS	55,750	(8,088)	(517)	517

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 2011

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	2,028	-	**2,028**
from this: positive fair value of derivative financial instruments designated as held for trading	-	2,028	-	**2,028**
Securities available-for-sale	1,740	-	-	**1,740**
Positive fair value of derivative financial instruments designated as fair value hedge	-	-	27,211	**27,211**
Financial assets measured at fair value total	**1,740**	**2,028**	**27,211**	**30,979**
Negative fair value of derivative financial instruments designated as held for trading	-	7,122	-	**7,122**
Negative fair valueof derivative financial instruments designated as fair value hedge	-	-	4,385	**4,385**
Financial liabilities measured at fair value total	-	**7,122**	**4,385**	**11,507**

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	**1,746**	**87**	-	**1,833**
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	-	**109,576**	-	**109,576**

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

Movements in level 3 financial instruments measured at fair value

EUR/CHF cross currency swap (CCIRS) portfolio

According to the risk management policies the Bank holds EUR/CHF cross currency swap portfolio with a notional totalling CHF 1,748 million (HUF 447,318 million equivalent) designed as hedging deals, in order to hedge its foreign currency denominated mortgage loan portfolio's fx risk.

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

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

Sensitivity

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

Fair Value (PV)	
Net fair Value based on estimated inputs	22,826
Sensitivity (dPV)	
+10 bp	-1,047
-10 bp	1,050

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

Movements for the year 2011	**Opening balance as at 30 September 2011**	**Transfer as at 30 September 2011**	**Closing balance as at 31 December 2011**	**Total loss as at 31 December 2011**
Positive FVA of hedging instruments	26,550	26,550	27,211	661
Financial assets measured at fair value total	**26,550**	**26,550**	**27,211**	**661**
Negative FVA of hedging instruments	(55,800)	(55,800)	(4,385)	51,415
Financial liabilities measured at fair value total	**(55,800)**	**(55,800)**	**(4,385)**	**51,415**

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 2011	Net profit for the year ended 31 December 2011	FVA of securities available-for-sale and FVA of cash-flow hedge	Dividend and Direct Movements on Reserves	Retained Earnings and Reserves as at 31 December 2011
Hungarian financial statements	**39,728**	**7,430**	**-**	**(14,996)**	**32,162**
Fair value adjustment of available-for-sale financial assets	(15)	-	(6)	-	(21)
Application of effective interest rate on direct issuance costs of securities	68	977	-	-	1,045
Effect of using effective interest rate method for loan origination fees and cost	12,083	77	-	-	12,160
Fair value adjustment of derivative financial instruments	585	(550)	531	-	566
Reclassification of direct charges to reserves (self-revision)	-	1,004	-	(1,004)	-
Effect of capital contribution received from OTP Bank Plc. related to early final repayment at fixed rates	-	(37,617)	-	37,617	-
Deferred taxation	(1,421)	(1,059)	(151)	-	(2,631)
Dividend paid in 2011	1,000	-	-	(1,000)	-
Dividend payable for 2011	-	-	-	16,000	16,000
IFRS financial statements	**52,028**	**(29,738)**	**374**	**36,617**	**59,281**

NOTE 33: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2011

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

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

The Government backs the escrow account in full through a State Guarantee during the fixed exchange rate period, subsequently the guarantee applies to 25% of the escrow account.

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

Relevant transactions related to issued securities for the year 2011

Issued securities became due in amount of HUF 17.2 billion in February, EUR 750 million in July, HUF 7.9 billion in August, HUF 8.8 billion in September, HUF 5 billion in November and EUR 91 million in December. Issued securities are repurchased in amount of face value EUR 500 million in November, EUR 759 million in December. The Bank repurchased in May an amount of HUF 99.25 billion mortgage bond, and parallel issued with the same face value. In August and November EUR 750-750 million mortgage bond was issued, from which EUR 15.5 million and 3.5 EUR million was purchased investors besides OTP Group – foreign insurance companies, fund managers and banks.

End of guarantee on sales of loans to OTP Bank Plc.

OTP Bank and the Bank terminated the contract on selling qualified loans at book value to OTP Bank relating to the subsidised HUF loans, too. Provision previously created was released in October. According to the agreement signed at November 25, 2011 the parties settled the items originated from the guarantee on the affected loan portfolio in one amount.

NOTE 34: POST BALANCE SHEET EVENTS

There were no significant events after the date of the balance sheet.

NOTE 35: THE EFFECT OF THE FINANCIAL SITUATION ON THE BANK

Negative effects of the lasting financial crisis brought new challenges to the financial institutions in 2011. After temporary strengthening in the early period of the year the Hungarian Forint weakened to their historically lowest levels against the Swiss Franc and the Japanese Yen, the two foreign currencies in which the housing loans are denominated in a significant proportion. Hence, repayments rose dramatically, but the financial situation did not change in the same way at the vast majority of the debtors. Consequently, payment delays increased and loan portfolio further deteriorated. According to NBH the ratio of housing mortgage loans past due 90 days increased from 8.4% to 12.3%. On behalf of the debtors with worsened financial situation new government arrangements were introduced and planned as part of the Home Protection Action Plan, and OTP group participated in it in the framework of its Debtor Compensation Program:

- opportunity of early repayment at fixed exchange rates (buffer account loan)
- opportunity of early repayment at fixed exchange rates
- new loans with subsidised interest for debtors with delayed payments.
- establishing the National Asset Manager for helping families hit by the crisis to have homes
- establishing eviction quotes after release of moratorium

Further arrangement made in other areas of lending:

- introducing transparent pricing and risk based pricing
- restarting lending activity in foreign currencies

The attention and resources of the Government and the bank concentrated on the saving of the debtors with worsened payment outlooks, therefore lower amounts of loans have been placed of stricter conditions compared to the periods before the financial crisis. Partly due to high interest levels, partly to the tightened subsidies, loan demand for the year 2011 – in spite of the early repayment at fixed exchanges rates – was lower by 10% compared to previous year, and it was the lowest level since the start of the financial crisis of 2008.

Keeping strong capital position remained among top priorities for the Bank in 2011. The capital adequacy ratio stood at 9.73% at the end of 2011, compared to 9.39% a year ago. The rise in the ratio is due to the decrease in the core capital and the market risk capital requirement.

Concerning OTP Mortgage Bank, the following rating actions were taken by international rating agencies in 2011:

- On 15 November 2011 Standard & Poor's placed on watch negative "BBB-/A-3" long- and short-term counterparty credit ratings on OTP Mortgage Bank. The rating action followed the placement of "BBB-/A-3" foreign and local currency sovereign credit ratings on Hungary on CreditWatch negative on 11 November 2011.

- On 25 November 2011, reflecting the lowering of Hungarian government debt rating to "Ba1" and the country's foreign-currency deposit ceiling to "Ba2", Moody's Investors Service lowered the ratings of OTP Mortgage Bank. The foreign currency deposit ratings of OTP Mortgage Bank was downgraded to 'Ba2/Not-Prime' from 'Baa3/Prime-3' and downgraded the local-currency deposit ratings, foreign-currency senior debt rating, subordinated debt rating and junior subordinated debt rating by one notch.

- On 16 December 2011 Moody's concluded the review for downgrade on ratings initiated on 4 October 2011 and affirmed the ratings of OTP Mortgage Bank in accordance with its decision on 25 November 2011.

- Standard & Poor's lowered Hungary's long- and short-term sovereign credit ratings to 'BB+/B' from 'BBB-/A-3'. As a consequence of the sovereign downgrade, on 23 December S&P lowered the ratings of OTP Mortgage Bank to 'BB+/B' from 'BBB-/A-3'. The outlooks are negative.