

OTP Mortgage Bank Ltd.

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

*FOR THE YEAR ENDED
DECEMBER 31, 2007*

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of OTP Mortgage Bank Ltd., which comprise the balance sheet as at December 31, 2007, and the related statement of operations, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of OTP Mortgage Bank Ltd. as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest, March 3, 2008

Deloitte Kft.

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

OTP MORTGAGE BANK LTD.

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OTP MORTGAGE BANK LTD.
BALANCE SHEET AS AT 31 DECEMBER 2007
(in HUF million)

	Note	2007	2006
Cash, due from banks and balances with the National Bank of Hungary	3	1,429	59
Placements with other banks	4	11,788	35,945
Financial assets at fair value through statement of operations	5	1,230	31
Securities available-for-sale	6	72,993	107,805
Loans, net of allowance for loan losses	7	1,126,018	907,764
Accrued interest receivable		14,943	15,680
Premises, equipment and intangible assets, net	8	484	354
Other assets	9	<u>10,142</u>	<u>7,208</u>
TOTAL ASSETS		<u>1,239,027</u>	<u>1,074,846</u>
Related party and other bank financing	10	166,615	1,653
Issued securities	11	972,571	987,871
Accrued interest payable		45,284	41,366
Other liabilities	12	<u>7,318</u>	<u>4,682</u>
TOTAL LIABILITIES		<u>1,191,788</u>	<u>1,035,572</u>
Share capital	13	27,000	20,000
Retained earnings and reserves	14	<u>20,239</u>	<u>19,274</u>
TOTAL SHAREHOLDER'S EQUITY		<u>47,239</u>	<u>39,274</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u>1,239,027</u>	<u>1,074,846</u>

Budapest, 3 March 2008

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Zsolt Oszlányi
Chief Executive Officer



OTP MORTGAGE BANK LTD.
STATEMENT OF OPERATIONS FOR THE YEAR ENDED
31 DECEMBER 2007
(in HUF million)

	Note	2007	2006
Interest Income:			
Loans		44,176	38,624
Placements with other banks		3,474	7,667
Due from banks and balances with the National Bank of Hungary		115	453
Interest subsidy on housing loans financed by mortgage bonds		63,190	68,428
Securities available-for-sale		<u>6,407</u>	<u>6,471</u>
<i>Total Interest Income</i>		<u>117,362</u>	<u>121,643</u>
Interest Expense:			
Related party and other bank financing		1,324	7,512
Issued securities		<u>73,591</u>	<u>71,128</u>
<i>Total Interest Expense</i>		<u>74,915</u>	<u>78,640</u>
NET INTEREST INCOME		42,447	43,003
Release of provision for loan and placement losses	7	<u>63</u>	<u>120</u>
NET INTEREST INCOME AFTER PROVISION		42,510	43,123
Non-Interest Income:			
Fees and commissions		2,700	2,687
Foreign exchange gains, net		379	111
Gains on securities trading, net		2	1,383
Other		<u>198</u>	<u>49</u>
<i>Total Non-Interest Income</i>		<u>3,279</u>	<u>4,230</u>
Non-Interest Expenses:			
Fees and commissions	16	31,125	34,106
Personnel expenses		566	954
Depreciation and amortization		179	115
Other	17	<u>7,468</u>	<u>2,146</u>
<i>Total Non-Interest Expenses</i>		<u>39,338</u>	<u>37,321</u>
INCOME BEFORE INCOME TAXES		6,451	10,032
Income taxes	19	<u>1,148</u>	<u>2,023</u>
NET INCOME		<u>5,303</u>	<u>8,009</u>
Earnings per share (in HUF)			
Basic and diluted	20	<u>23,813</u>	<u>40,045</u>

OTP MORTGAGE BANK LTD.
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2007
(in HUF million)

	Note	2007	2006
OPERATING ACTIVITIES			
Income before income taxes		6,451	10,032
Income tax paid		(1,225)	(1,529)
Depreciation and amortization		179	115
Release of provision for loan and placement losses		(63)	(120)
Unrealised gains on fair value adjustment of derivative financial instruments		(1,196)	(570)
Net changes in financial assets through statement of operations		-	(62)
Net decrease/(increase) in accrued interest receivable		737	(11,866)
Net (increase)/decrease in other assets before provisions for losses		(3,037)	1,735
Net increase in accrued interest payable		3,919	7,172
Net increase /(decrease) in other liabilities		<u>(431)</u>	<u>(26,827)</u>
Net cash provided by/(used in) operating activities		<u>5,334</u>	<u>(21,920)</u>
INVESTING ACTIVITIES			
Net decrease/(increase) in placements with other banks, before provision for placement losses		24,157	(33,334)
Net decrease/(increase) in securities available-for-sale		35,885	(81,024)
Net increase in loans, before provision for loan losses		(218,191)	(58,594)
Net additions to premises, equipment and intangible assets		<u>(309)</u>	<u>(147)</u>
Net cash used in investing activities		<u>(158,458)</u>	<u>(173,099)</u>

OTP MORTGAGE BANK LTD.
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2007
(in HUF million) [continued]

	Note	2007	2006
FINANCING ACTIVITIES			
Net increase/(decrease)in related party and other bank financing		164,962	(40,742)
Cash received from issuance of securities		12,101	270,844
Cash used for repurchase and redemption of issued securities		(25,569)	(94,578)
Permanent money transfer to OTP Bank Plc.	14	-	(5,000)
Dividend paid	14	(4,000)	-
Share capital increase	13	<u>7,000</u>	<u>-</u>
Net cash provided by financing activities		<u>154,494</u>	<u>130,524</u>
Net decrease/(increase) in cash and cash equivalents		1,370	(64,495)
Cash and cash equivalents at the beginning of the year		<u>59</u>	<u>64,554</u>
Cash and cash equivalents at the end of the year		<u>1,429</u>	<u>59</u>
<i>Analysis of cash and cash equivalents opening and closing balance</i>			
Cash, due from banks and balances with the National Bank of Hungary		<u>59</u>	<u>64,554</u>
Cash and cash equivalents at the beginning of the year		<u>59</u>	<u>64,554</u>
Cash, due from banks and balances with the National Bank of Hungary	3	<u>1,429</u>	<u>59</u>
Cash and cash equivalents at the end of the year		<u>1,429</u>	<u>59</u>

OTP MORTGAGE BANK LTD.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007
(in HUF million)

	Share Capital	Retained Earnings and Reserves	Fair value reserve	Total
Balance as at 1 January 2006	20,000	18,594	(1,651)	36,943
Net income	-	8,009	-	8,009
Fair value adjustment of securities available-for-sale	-	-	230	230
Fair value adjustment of financial instrument designated as cash-flow hedge	-	-	(905)	(905)
Permanent money transfer to OTP Bank (Note 14)	-	(5,000)	-	(5,000)
Effect of tax rate modification (Note 19)	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>(3)</u>
Balance as at 31 December 2006	<u>20,000</u>	<u>21,603</u>	<u>(2,329)</u>	<u>39,274</u>
Net income	-	5,303	-	5,303
Fair value adjustment of securities available-for-sale	-	-	858	858
Fair value adjustment of financial instrument designated as cash-flow hedge	-	-	(1,196)	(1,196)
Dividend for the year 2006	-	(4,000)	-	(4,000)
Share capital increase (Note 13)	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>7,000</u>
Balance as at 31 December 2007	<u>27,000</u>	<u>22,906</u>	<u>(2,667)</u>	<u>47,239</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2007

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General

OTP Bank Plc. ("OTP Bank") established OTP Mortgage Bank Ltd. ("OTP Mortgage Bank" or the "Bank") as a fully owned subsidiary on 15 May 2001.

The State Financial Supervisory Authority issued an operating license on 10 January 2002, and the Bank commenced operations on 1 February 2002.

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

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

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

The Bank employs limited staff at its head office and relies on approximately 388 branches of OTP Bank engaged in the housing loan business. Under a syndication agreement between OTP Bank and OTP Mortgage Bank, OTP Bank, through its branch network, provides services for OTP Mortgage Bank concerning the administration of the mortgage loans, for which fees are paid by OTP Mortgage Bank. Credit scoring and lending are performed at the branches of OTP Bank according to the regulations of OTP Mortgage Bank. Loans are approved by OTP Mortgage Bank and OTP Bank acts for and on behalf of OTP Mortgage Bank during the conclusion of a loan agreement. The mortgage right, along with the restraint of transfer and encumbrance on property pledged to secure loans is entered in the property register for the benefit of OTP Mortgage Bank.

As the sole shareholder, OTP Bank provides financial and 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 22 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 15 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 2007 the number of employees at the Bank was 35. The average number of employees as at 31 December 2007 was 35.

On 1 March 2006 the real estate appraisal and coverage assessment activity of the OTP Group was integrated into the OTP Mortgage Bank. This supplementary financial service is partly carried out by subcontractors and the Bank mainly provides the service to other members of the OTP Group. The main purpose of the integration is to create a good foundation to the redesign of appraisal and coverage value assessment processes on order to increase efficiency and reduce credit risk.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2007

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

1.2. Accounting

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

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

The accounting policies followed by the Bank in the preparation of these financial statements conform with International Financial Reporting Standards (IFRS). Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to OTP Mortgage Bank's Hungarian statutory accounts (see Note 26), 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 International Financial Reporting Standards. These standards and interpretations were previously called International Accounting Standards (IAS).

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

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

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

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Bank's financial instruments and management of capital.

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

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

The adoption of these Interpretations has not led to any changes in the Bank's accounting policies and had no significant impact on the 2007 financial statements.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2007

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

1.2.2. Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2008

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

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

The directors anticipate that all of the above Interpretations will be adopted in the Bank's financial statements for the period commencing 1 January 2008 or 1 January 2009 and that the adoption of those Interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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

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

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation

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

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 held for trading investments. Investments with fixed maturity that the management has the intent 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 2007 and 2006.

2.3.1. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognised directly in equity, unless such available-for-sale security is part of an effective fair value hedge. Such gains and losses will be reported when realised in profit and loss for the applicable period. Such securities consist of discounted treasury bills and Hungarian government bonds.

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

2.3.2. Derivative financial instruments

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

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

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.3.2. Derivative financial instruments (continued)

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit/loss and included in the Statement of Operations for the period. All derivatives are reported 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 Operations along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Statement of Operations.

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

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, 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 Operations.

2.4. Loans and allowance for loan losses

Loans are stated at amortized cost, net of allowance for loan losses. The cost and revenue related to the lending is included in the amortized cost and amortized over the term of the loans. Interest is accrued and credited to income based on the principal amounts outstanding. When a borrower is unable to meet payments as they come due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they come due, all accrued unpaid interest is reversed. After approval by OTP Mortgage Bank the loans are disbursed by the parent company, OTP Bank Plc., under a syndication agreement and are subsequently acquired at principle plus interest and charges by OTP Mortgage Bank.

In addition to buying loans from 2006 OTP Mortgage Bank started to provide real estate development loans to individual farmers as its own. From the third quarter of 2007 the foreign currency denominated mortgage loans have mainly been provided by OTP Mortgage Bank.

The Bank records minimal allowance for possible loan losses as under the syndication agreement between the Bank and OTP Bank, guarantee fees are paid and non-performing loans are sold back to OTP Bank at face value within a 90-day period. The guarantee fees are calculated on a monthly based on the amount of the loan portfolio and are recognised as an expense in the related period.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. 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. Premises, equipment and intangible assets

Premises, equipment and intangible assets are stated at cost, less accumulated depreciation, amortization and impairment, if any. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

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

Depreciation and amortization on premises, equipment and intangible assets commences on the day 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 any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss.

2.7. Interest Income and Interest Expense

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

2.8. Income taxes

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

2.9. Government subsidies

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.10. Statement of cash flows

For the purposes of reporting cash flows, cash and cash equivalents include cash, due from banks and balances with the NBH. Cash flows from hedging activities are classified in the same category as the item being hedged.

2.11. Significant accounting estimates and decisions in the application of accounting policies

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

(a) Impairment of Loans and Advances

The Bank regularly assesses its loan portfolio for possible impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.

(b) Valuation of Instruments without Direct Quotations

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

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.

2.13. Comparative figures

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

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2007

**NOTE 3: CASH, DUE FROM BANKS AND BALANCES WITH THE
NATIONAL BANK OF HUNGARY (in HUF million)**

	2007	2006
Cash on hand	-	-
Due from banks		
Within one year	<u>1,429</u>	<u>59</u>
Total	<u>1,429</u>	<u>59</u>

The above balance of cash due from banks consists of HUF 7.7 million and 7.2 million due from OTP Bank as at 31 December 2007 and 2006 respectively. The main amount of cash due from banks consists of the balance of the Bank's clearing account placed at the National Bank of Hungary (HUF 1,421 million) as at 31 December 2007.

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the balance of compulsory reserves amounted to approximately HUF 1,928 million and 1,036 million as at 31 December 2007 and 2006 respectively. The Bank fulfilled the compulsory reserve requirement on an average monthly basis.

NOTE 4: PLACEMENTS WITH OTHER BANKS (in HUF million)

	2007	2006
Within one year	<u>11,788</u>	<u>35,945</u>

The balance as at 31 December 2007 consists of a placement with OTP Bank of HUF 6,509 million. From this amount HUF 634 million is denominated in foreign currency (CHF 4 million). The remaining balance consist of placements with other foreign banks denominated EUR (HUF 5,279 million). The balance as at 31 December 2006 mainly consists of a placement denominated in CHF (HUF 33,647 million) with OTP Bank. The remaining balance consist of placements with other foreign banks denominated in EUR (HUF 2,298 million).

Interest rates on placements with other banks ranged from 2.97% to 6.5% and from 1.99% to 3.60% as at 31 December 2007 and 2006 respectively.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2007

NOTE 5: FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF OPERATIONS (in HUF million)

	2007	2006
Derivative financial instruments designated as held for trading	<u>1,230</u>	<u>31</u>

NOTE 6: SECURITIES AVAILABLE-FOR-SALE (in HUF million)

	2007	2006
Hungarian Government discounted Treasury Bills	5,534	40,518
Hungarian Government bonds	<u>67,459</u>	<u>67,287</u>
Total	<u>72,993</u>	<u>107,805</u>

The entire securities portfolio was denominated in HUF as at 31 December 2007 and 2006. Interest rates on securities ranged from 6.25% to 9.5% as at 31 December 2007 and 2006 respectively.

The government securities serve as additional collateral of the issued mortgage bonds. The government securities with a fair value of HUF 107,805 million were pledged as a collateral of the issued mortgage bonds as at 31 December 2006. There were no government securities pledged as a collateral of the issued mortgage bonds as at 31 December 2007.

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

	2007	2006
Within five years:		
Fixed interest	<u>71,260</u>	<u>106,072</u>
Over five years:		
Fixed interest	<u>1,733</u>	<u>1,733</u>
Total	<u>72,993</u>	<u>107,805</u>

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NOTE 6: SECURITIES AVAILABLE-FOR-SALE (in HUF million) [continued]

The valuation of the securities available-for-sale were as follows as at 31 December 2007:

	2007	
	Cost	Fair value
Hungarian Government discounted Treasury Bills	5,537	5,534
Hungarian Government bonds	<u>66,579</u>	<u>67,459</u>
Total	<u>72,116</u>	<u>72,993</u>

The valuation of the securities available-for-sale were as follows as at 31 December 2006:

	2006	
	Cost	Fair value
Hungarian Government discounted Treasury Bills	40,557	40,518
Hungarian Government bonds	<u>67,445</u>	<u>67,287</u>
Total	<u>108,002</u>	<u>107,805</u>

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NOTE 7: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES
(in HUF million)

	2007	2006
Short-term loans (within one year)		
in HUF	55,334	55,272
in foreign currency	<u>-</u>	<u>-</u>
	<u>55,334</u>	<u>55,272</u>
Long-term loans (over one year)		
in HUF	677,605	714,063
in CHF	353,442	136,715
in EUR	5,014	1,796
in JPY	<u>34,642</u>	<u>-</u>
Total in foreign currency	<u>393,098</u>	<u>138,511</u>
	<u>1,070,703</u>	<u>852,574</u>
Total	<u>1,126,037</u>	<u>907,846</u>
Allowance for loan losses	<u>(19)</u>	<u>(82)</u>
Total	<u>1,126,018</u>	<u>907,764</u>

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

Loans denominated in HUF with maturity over one year as at 31 December 2007 and 2006 bear interest rates in the range from 5% to 22.18% and from 8.35% to 19.11% respectively, including the impact of interest subsidy by the state. The interest rate, account handling fee and interest subsidy on loans are also included in this figures.

Interest on foreign currency loans for housing purposes was 5.11% for loans denominated in CHF and 6.18% for loans denominated in EUR and 2.67% for loans denominated in JPY as at 31 December 2007. Interest on free purpose loans denominated in foreign currency was 6.32% for loans denominated in CHF and 7.29% for loans denominated in EUR as at 31 December 2007.

As at 31 December 2006 the interest rate of foreign exchange denominated housing loans with maturity over one year was actually 5.99% for loans denominated in CHF and 7.24% for loans denominated in EUR. Interest on free purpose loans denominated in foreign currency was 8.5% for loans denominated in CHF and 8% for loans denominated in EUR as at 31 December 2006.

At the beginning of 2006, the Bank started to provide mortgage loans for acquiring land with the purpose of agricultural production. Interest subsidy on the loans is given by the government directly to the borrowers if special conditions are met. These loans bear interest at a market level interest rate. The average interest rate on these loans was 9.82% and 15.81% as at 31 December 2007 and 2006 respectively.

OTP Mortgage Bank Ltd. only gives loans with an original maturity over one year.

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NOTE 7: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES
(in HUF million) [continued]

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

	2007		2006	
Commercial loans	6,965	0.62%	3,256	0.36%
Housing loans	986,482	88.61%	904,590	99.64%
Real estate backed free purpose loans	<u>132,590</u>	<u>11.77%</u>	<u>-</u>	<u>0.00%</u>
	<u>1,126,037</u>	<u>100.00%</u>	<u>907,846</u>	<u>100.00%</u>

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

	2007	2006
Balance as at 1 January	82	202
Release of provision for loan losses	(63)	(120)
Balance as at 31 December	<u>19</u>	<u>82</u>

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NOTE 8: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS
(in HUF million)

As at 31 December 2007

<u>Cost</u>	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
Balance as at					
1 January 2007	449	17	215	13	694
Additions	303	-	99	324	726
Disposals	(178)	-	(36)	(246)	(460)
Balance as at					
31 December 2007	<u>574</u>	<u>17</u>	<u>278</u>	<u>91</u>	<u>960</u>
<u>Depreciation and Amortization</u>					
Balance as at					
1 January 2007	224	9	107	-	340
Additions	124	3	52	-	179
Disposals	(21)	-	(22)	-	(43)
Balance as at					
31 December 2007	<u>327</u>	<u>12</u>	<u>137</u>	<u>-</u>	<u>476</u>
<u>Net book value</u>					
Balance as at					
1 January 2007	225	8	108	13	354
Balance as at					
31 December 2007	<u>247</u>	<u>5</u>	<u>141</u>	<u>91</u>	<u>484</u>

As at 31 December 2006

<u>Cost</u>	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
Balance as at					
1 January 2006	318	17	221	-	556
Additions	132	-	44	58	234
Disposals	(1)	-	(50)	(45)	(96)
Balance as at					
31 December 2006	<u>449</u>	<u>17</u>	<u>215</u>	<u>13</u>	<u>694</u>
<u>Depreciation and Amortization</u>					
Balance as at					
1 January 2006	135	6	93	-	234
Additions	90	3	47	-	140
Disposals	(1)	-	(33)	-	(34)
Balance as at					
31 December 2006	<u>224</u>	<u>9</u>	<u>107</u>	<u>-</u>	<u>340</u>
<u>Net book value</u>					
Balance as at					
1 January 2006	183	11	128	-	322
Balance as at					
31 December 2006	<u>225</u>	<u>8</u>	<u>108</u>	<u>13</u>	<u>354</u>

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NOTE 9: OTHER ASSETS (in HUF million)

	2007	2006
Customer receivables, given loans	179	126
Taxes recoverable	671	215
Deferred tax assets	129	39
Receivables from the state	323	180
Prepayments and accrued income	79	58
Receivables from OTP Bank Plc.	-	512
Fair value adjustment of derivative financial instruments designated as fair value hedge	<u>8,761</u>	<u>6,078</u>
Total	<u>10,142</u>	<u>7,208</u>

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

NOTE 10: RELATED PARTY AND OTHER BANK FINANCING (in HUF million)

	2007	2006
Within one year		
In HUF	24,540	1,653
In CHF	131,986	-
In EUR	<u>10,089</u>	<u>-</u>
Total in foreign currency	<u>142,075</u>	<u>-</u>
Total	<u>166,615</u>	<u>1,653</u>

The balance as at 31 December 2007 and 2006 consists of HUF 156,702 million and HUF 1,653 million payables due to OTP Bank.

Due to banks and deposits from other banks payable in HUF within one year have an interest rate of 7.55% and bear in the range from 6.14% to 9.79% as at 31 December 2007 and 2006 respectively. The interest rates on deposits denominated in foreign currency were 3.92% and were from 2.48 % to 2.54% as at 31 December 2007 and 2006 respectively.

The Bank had HUF 169 million and HUF 1,644 million of other liabilities due to OTP Bank as at 31 December 2007 and 2006 in connection with guarantee fees for repurchase of non-performing loans, collection fees and loan administration charges.

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NOTE 11: ISSUED SECURITIES (in HUF million)

During the year ended 31 December 2007 the Bank issued mortgage bonds with a face value of HUF 11,988 million and HUF 25,569 million was expired and paid off. During the year ended 31 December 2006 the Bank issued mortgage bonds with a face value of HUF 271,450 million, and re-purchased or redeemed mortgage bonds for HUF 93,005 million.

	2007	2006
With expiration date:		
Within one year in HUF	200,898	24,075
Within one year in EUR	<u>113</u>	<u>1,681</u>
	<u>201,011</u>	<u>25,756</u>
 Over one year in HUF	 534,974	 724,919
Over one year in EUR	<u>236,586</u>	<u>237,197</u>
	<u>771,560</u>	<u>962,116</u>
 Total	 <u>972,571</u>	 <u>987,872</u>

Liabilities from issued securities denominated in HUF bear interest rates in the range from 6.5% to 10.5% and from 5.5% to 12% as at 31 December 2007 and 2006 respectively.

Liabilities from issued securities denominated in EUR bear interest rates in the range from 3.5% to 4.25% as at 31 December 2007 and 2006 respectively.

The Bank issued a fixed rate interest bearing mortgage bond denominated in EUR on 15 December 2004 with EUR 200 million face value with the carrying amount of HUF 50,385 million and HUF 50,135 million as at 31 December 2007 and 2006 respectively. The foreign exchange risk of cash-flows to interest payment of the mortgage bond was hedged by a fixed interest rate cross-currency swap transaction, whereby the Bank swapped EUR interest payments to fixed HUF interest payments. Under the rules of interest subsidies, any subsidy can only be claimed on the basis of foreign exchange mortgage bonds swapped to domestic currency.

The Bank issued fixed rate interest bearing mortgage bonds denominated in EUR in 2006 with a face value of EUR 750 million with the carrying amount of HUF 186,201 million and HUF 187,062 million as at 31 December 2007 and 2006 respectively. EUR 750 million of this amount was hedged by a fixed interest rate cross-currency swap transaction whereby the Bank swapped EUR interest payments to floating CHF interest payments, linked to 3 months CHF LIBOR.

The fair value adjustment of the instrument which were attributable to the hedged risk were recognized in the issued securities, which were HUF 2,927 million as at 31 December 2007.

OTP MORTGAGE BANK LTD.
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NOTE 11: ISSUED SECURITIES (in HUF million) [continued]

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

	2007	2006
Face value of the issued securities	971,834	984,605
Unamortized premiums	3,664	3,267
Fair value hedge adjustment	<u>(2,927)</u>	<u>-</u>
Amortized cost	<u>972,571</u>	<u>987,872</u>

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

NOTE 12: OTHER LIABILITIES (in HUF million)

	2007	2006
Current taxes payable	89	165
Accounts payable due to OTP Bank	-	21
Trade payables	67	107
Salaries and social security payable	22	57
Accrued fees	2,463	437
Fair value of derivative financial instruments designated as cash-flow hedge	2,816	3,203
Fair value adjustment of derivative financial instruments	26	-
Liabilities to customers	1,831	677
Other	<u>4</u>	<u>15</u>
Total	<u>7,318</u>	<u>4,682</u>

NOTE 13: SHARE CAPITAL (in HUF million)

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

	2007	2006
Share capital (in HUF million)	<u>27,000</u>	<u>20,000</u>

On 4 September 2007 OTP Bank, the 100% owner of OTP Mortgage Bank, increased the registered capital of its subsidiary by HUF 7 billion.

OTP MORTGAGE BANK LTD.
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NOTE 14: RETAINED EARNINGS AND RESERVES (in HUF million)

	2007	2006
Balance as at 1 January	19,274	16,943
Dividend paid	(4,000)	-
Permanent money transfer to OTP Bank	-	(5,000)
Net income after income taxes	5,303	8,009
Deferred tax effect of tax rate change	-	(3)
Fair value adjustment of securities available-for-sale	858	230
Fair value adjustment of financial instrument designated as cash-flow hedge	<u>(1,196)</u>	<u>(905)</u>
Balance as at 31 December	<u>20,239</u>	<u>19,274</u>

The Bank's reserves under Hungarian Accounting Standards ("HAS") were HUF 21,024 million and HUF 15,634 million as at 31 December 2007 and 2006 respectively. These amounts include legal reserves amounting to HUF 3,202 thousands and HUF 2,663 million respectively. The legal reserve is not available for distribution.

In 2006 there was a HUF 5,000 million permanent money transfer provided to OTP Bank. These payments were treated as not dividend for HAS purposes, but do not meet the definition of an expense under IFRS, therefore the transactions were considered as payments to the shareholder and recorded directly through retained earnings and reserves. In the accompanying financial statements.

A dividend of HUF 4,000 million was paid to OTP Bank in 2007.

NOTE 15: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

There are three government subsidy regimes currently 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 284 million and HUF 305 million for the years ended 31 December 2007 and 2006 respectively.

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NOTE 16: FEES AND COMMISSIONS (in HUF million)

	2007	2006
Fees and commissions paid		
Guarantee and administrative fees paid to		
OTP Bank	20,779	21,209
Collection fees paid to OTP Bank	8,946	11,488
Other	<u>1,400</u>	<u>1,409</u>
Total expense	<u>31,125</u>	<u>34,106</u>

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

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

Account handling fees are charged to the customers in relation to front and back office services related to their loan accounts. These activities are carried out by the OTP Bank and are billed as intermediated service to the customers in the same amount as charged by OTP Bank, therefore revenues and expenditures related to account handling fees are presented net in these financial statements. Such account handling fees were HUF 19,875 million and HUF 17,491 million for the years ended 31 December 2007 and 2006 respectively.

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

NOTE 17: OTHER EXPENSES (in HUF million)

	2007	2006
Material type expenses	16	37
Administration expenses	17	43
Rental fees	53	66
Advertising	1	-
Taxes, other than income tax	6,687	1,111
Services	402	553
Professional fees	285	300
Other	<u>7</u>	<u>36</u>
Total	<u>7,468</u>	<u>2,146</u>

HUF 5,591 million of taxes, other than income tax, represents the new subsidized loans interest income tax introduced in 2007. Credit institutions have to pay bankers' contribution at the rate of five per cent on their interest and similar income earned during the tax year from loans which are directly or indirectly affected by any interest subsidy or interest compensation system.

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NOTE 18: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)

	2007	2006
Key executives (Managing Director and Deputies)	78	91
Members of Board of Directors and Supervisory Board	<u>-</u>	<u>4</u>
Total	<u>78</u>	<u>95</u>

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

NOTE 19: INCOME TAXES (in HUF million)

The Bank is presently liable for income tax at a rate of 16% of taxable income. In 2006 an additional special banking tax was also payable by financial institutions according to a Hungarian Government decree. This special banking tax represented 8% of the taxable net income and recorded as a current income tax charge. From 2006 the special banking tax of 8% was abolished and from 1 September 2006 a new type of tax was introduced and payable by affiliated companies. This tax represents 4% of the taxable net income.

A reconciliation of the total income tax charge for the years ended 31 December 2007 and 2006 is as follows:

	2007	2006
Current tax charge	893	1,381
Solidarity tax (4%)	261	123
Special banking tax (8%)	-	407
Deferred tax (credit)/charge	<u>(6)</u>	<u>112</u>
Total income tax charge	<u>1,148</u>	<u>2,023</u>

A reconciliation of the deferred tax assets as at 31 December 2007 and 2006 are as follows:

	2007	2006
Balance as at 1 January	39	(14)
Recognised in retained earnings and reserves	84	168
Effect of tax rate modification	-	(3)
Deferred tax credit/(charge)	<u>6</u>	<u>(112)</u>
Balance as at 31 December	<u>129</u>	<u>39</u>

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Reconciliation of deferred tax as at 31 December 2007 and 2006 are as follows:

	2007	2006
Fair value adjustment of available-for-sale financial assets	-	6
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	<u>810</u>	<u>417</u>
Deferred tax assets	<u>810</u>	<u>423</u>
Fair value adjustment of available-for-sale financial assets	(209)	-
Fair value adjustment of other derivative financial instruments	(75)	(18)
Effect of applying effective interest rate method	(129)	-
Amortized cost of issued securities	(233)	(343)
Fixed assets	<u>(35)</u>	<u>(23)</u>
Deferred tax liabilities	<u>(681)</u>	<u>(384)</u>
Net deferred tax assets	<u>129</u>	<u>39</u>

Reconciliation of the effective tax rate as at 31 December 2007 and 2006 are as follows:

	2007	2006
Net income before income taxes	6,451	10,032
Tax with statutory income tax rate (16%)	1,032	1,605
Solidarity tax (4%)	261	123
Special banking tax (8%)	-	407
Permanent differences due to local tax	(152)	(154)
Other permanent differences	<u>7</u>	<u>42</u>
Income tax	<u>1,148</u>	<u>2,023</u>
Effective tax-rate	17.80%	20.17%

NOTE 20: EARNINGS PER SHARE (in HUF million)

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

	2007	2006
Net income	5,303	8,009
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (piece)	<u>222,692</u>	<u>200,000</u>
Earnings per share (in HUF)	<u>23,813</u>	<u>40,045</u>

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NOTE 21: FINANCIAL INSTRUMENTS

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

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

Credit risk

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

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.

Liquidity risk

A significant proportion of mortgage loans are extended for periods of more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity. One reason for this mismatch was that the interest subsidy on mortgage bonds was only for a period of up to five years. A change in 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.

The Bank purchases disbursed loans under purchase agreements from OTP Bank on a weekly basis, which is followed by the issuance of covered mortgage bonds after the approval procedure. As a result, the source of funds used to finance the purchase of mortgage loans held in the Bank's portfolio includes the income from selling covered mortgage bonds. The funds raised through the sale of mortgage bonds is complemented by borrowings from banks (currently OTP Bank) in addition to the use of the cash which represents share capital.

See Note 24. Maturity analysis of assets and liabilities and liquidity risk.

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NOTE 21: FINANCIAL INSTRUMENTS [continued]

Interest rate risk

Interest rate risk is regularly monitored so as to limit any possible impact on the Bank's results. Fixed rate mortgage loans are predominantly financed through fixed rate mortgage bonds and floating rate mortgage loans are predominantly financed through floating rate or short maturity mortgage bonds. As a result, in the overall portfolio, the structure of interest rates on liabilities almost completely matches the structure of interest rates on assets. Thus, the Bank tries to balance the diverse structure of asset and liability re-pricing periods. The use of floating rate short term funding is kept to a minimum. The Bank can be exposed to interest rate risk as a result of a mismatch in the interest rate basis that may exist between assets (deposits, securities, and loans) and liabilities (primarily mortgage bonds). In these instances, the Bank applies derivatives as hedging instruments.

See Note 23. Interest rate risk management.

Foreign currency risk

The Bank monitors its foreign currency position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. Foreign exchange risk arises by the difference of the mortgage lending denominated in foreign currency and the issuance of mortgage bonds denominated in foreign exchange. The foreign currency risk taken by the Bank is decreased by using foreign exchange swap transactions.

Derivative financial instruments

The Bank entered into certain swap and forward contracts, which providing effective economic hedges under the Bank's risk management positions, 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 Operations.

Designated hedge relationships:

(i) EUR 200 million bond issuance

The Bank issued a fixed rate interest bearing mortgage bond due 2014 denominated in EUR on 15 December 2004, with EUR 200 million face value. The foreign exchange risk of cash-flows from interest payment of the mortgage bond was hedged by a fixed interest rate cross-currency swap transaction, whereby the Bank swapped EUR interest and notional payments to fixed HUF interest and notional payments. Accordingly the interest payment part of the hedging instrument was designated as a cash-flow hedge.

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NOTE 21: FINANCIAL INSTRUMENTS [continued]

Designated hedge relationships [continued]

(i) EUR 200 million bond issuance [continued]

The liability arising from the mortgage bond issuance denominated in EUR was revalued to the current foreign exchange rate in accordance with IAS 21 (Revised): The Effects of Changes in Foreign Exchange Rates. The part of the hedging instrument which is related to the notional of the mortgage bond was designated as a fair value hedge in respect of foreign exchange risk.

The fair value of the hedging instrument was HUF 3,228 million and HUF 2,718 million liabilities as at 31 December 2007 and 2006 respectively.

The fair value of the hedging instrument designated as cash-flow hedge was HUF 1,494 million and HUF 1,153 million liabilities as at 31 December 2007 and 2006 respectively, which were recognized directly in the retained earnings and reserves.

(ii) EUR 750 million bond issuance

The Bank issued fixed rate interest bearing mortgage bond denominated in EUR on 10 July 2006 with the face value of EUR 750 million. The foreign exchange risk of cash-flows of this mortgage bond and the notional of CHF denominated loans were hedged by a fixed-floating interest rate cross-currency swap transaction whereby the Bank swapped EUR interest and notional payments to floating interest and notional payments denominated in CHF.

The notional and interest payments of the EUR denominated mortgage bond considered as the hedged item in the fair value hedge relationship, and the notional of the CHF denominated loans were also considered as a hedged item in the fair value hedge relationship. The fair value adjustment of the instrument which were attributable to the hedged risk were recognized in the issued securities, which were HUF 3,438 million as at 31 December 2007.

The fair value adjustment of the hedging instrument was HUF 10,307 and HUF 6,872 million as at 31 December 2007 and 2006 respectively.

Off balance sheet items

The Bank's off-balance sheet assets and liabilities as at 31 December 2007 and 2006, with respect to financial instruments are as follows (in HUF million)

	2007	2006
Future liabilities from FX forward transactions	44,578	498
Future portion of swap transactions	261,517	304,839
Liabilities from option contracts	4,477	-
Contingent and future liabilities	<u>310,572</u>	<u>305,337</u>
Future receivables from FX forward transactions	45,015	483
Future portion of swap transactions	274,472	310,660
Receivables from option contracts	4,067	-
Contingent and future receivables	<u>323,554</u>	<u>311,143</u>
Total off-balance sheet asset, net	<u><u>12,982</u></u>	<u><u>5,806</u></u>

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NOTE 21: FINANCIAL INSTRUMENTS [continued]

Derivatives (nominal amount, unless otherwise stated, in HUF million)

	2007	2006
Foreign currency contracts designated as held for trading		
Assets	45,015	483
Liabilities	<u>44,578</u>	<u>498</u>
Net	<u>437</u>	<u>(15)</u>
Net fair value	<u>540</u>	<u>(33)</u>
Foreign exchange swaps and interest rate swaps designated as held for trading		
Assets	33,790	14,595
Liabilities	<u>33,274</u>	<u>14,570</u>
Net	<u>516</u>	<u>25</u>
Net fair value	<u>664</u>	<u>48</u>
Cross-currency interest rate swaps designated in hedge accounting relationships		
Assets	240,682	239,685
Liabilities	<u>228,243</u>	<u>233,607</u>
Net	<u>12,439</u>	<u>6,078</u>
Net fair value	<u>(6,505)</u>	<u>2,901</u>
Option contracts		
Assets	4,067	-
Liabilities	<u>4,477</u>	<u>-</u>
Net	<u>(410)</u>	<u>-</u>
Net fair value	<u>10</u>	<u>-</u>

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NOTE 21: FINANCIAL INSTRUMENTS [continued]

Net foreign currency position (in HUF million)

As at 31 December 2007

	CHF	EUR	JPY	USD	Total
Assets	354,634	15,251	34,624	-	404,509
Liabilities	(135,047)	(256,025)	(6)	-	(391,078)
Off-balance sheet assets and liabilities, net	(220,732)	240,686	(33,522)	=	(13,568)
Net position	<u>(1,145)</u>	<u>(88)</u>	<u>(1,096)</u>	<u>=</u>	<u>(137)</u>

As at 31 December 2006

	CHF	EUR	JPY	USD	Total
Assets	170,759	9,291	-	-	180,050
Liabilities	(1,547)	(246,625)	-	(2)	(248,174)
Off-balance sheet assets and liabilities, net	(169,916)	237,255	-	=	67,339
Net position	<u>(704)</u>	<u>(79)</u>	<u>-</u>	<u>(2)</u>	<u>(785)</u>

NOTE 22: RELATED PARTY TRANSACTIONS (in HUF million)

The Bank, under a syndication agreement with OTP Bank, disbursed housing loans of HUF 269,300 million and HUF 157,617 million during the years ended 31 December 2007 and 2006 respectively. The gross book value of these receivables was HUF 269,205 million and HUF 157,504 million as at 31 December 2007 and 2006 respectively.

Assets/Liabilities

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

Assets	2007	2006
Cash, due from banks and balances with the National Bank of Hungary	8	7
Placements with other banks	6,509	33,646
Liabilities	2007	2006
Related party and other bank financing	156,702	1,653
Other liabilities due to OTP Bank	1,644	169
Issued mortgage bonds held by OTP Group	478,929	506,696
Accrued interest payable related to mortgage bonds held by OTP Group	28,223	24,082

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
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NOTE 22: RELATED PARTY TRANSACTIONS (in HUF million) [continued]

The revenue from the value appraisal activity from OTP Group entities was HUF 1,726 million and HUF 1,674 million for the years ended 31 December 2007 and 2006 respectively.

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.

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 132 million as at 31 December 2007. These loans were covered by HUF 510.2 million mortgage.

Income/expense

During the year ended 31 December 2007 and 2006 the Bank paid HUF 50,501 million and HUF 47,017 million of interest expense to OTP Bank respectively. Such interest relates to intercompany financing and also issued securities.

During the year ended 31 December 2007 and 2006 the Bank paid HUF 50,111 million and HUF 32,728 million fees and commissions to OTP Bank, respectively. Such fees and commissions are based on the syndication agreement between the Bank and OTP Bank.

The amount of one-off payments (regarding registration of collateral) of 0.5% on each loan acquired by OTP Mortgage Bank, received from the Hungarian State and transferred to OTP Bank was HUF 284 million and HUF 305 million as at 31 December 2007 and 2006 respectively.

The account handling fees charged to customers and transferred to OTP Bank were HUF 19,875 million and HUF 17,491 million for the years ended 31 December 2007 and 2006 respectively.

OTP MORTGAGE BANK LTD.
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NOTE 23: INTEREST RATE RISK MANAGEMENT

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

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

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

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

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NOTE 23: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

As at 31 December 2007

ASSETS	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
Cash due from banks and balances with the National Bank of Hungary	1,429	-	-	-	-	-	1,429
<i>fixed interest</i>	-	-	-	-	-	-	-
<i>variable interest</i>	1,429	-	-	-	-	-	1,429
Placements with other banks	11,788	-	-	-	-	-	11,788
<i>fixed interest</i>	6,508	-	-	-	-	-	6,508
<i>variable interest</i>	5,280	-	-	-	-	-	5,280
Securities available-for-sale	5,533	-	45,405	20,322	1,733	-	72,993
<i>fixed interest</i>	5,533	-	45,405	20,322	1,733	-	72,993
<i>variable interest</i>	-	-	-	-	-	-	-
Loans, net of allowance for loan losses	562,699	33,227	194,469	98,567	237,056	-	1,126,018
<i>fixed interest</i>	34,642	-	-	-	-	-	34,642
<i>variable interest</i>	528,057	33,227	194,469	98,567	237,056	-	1,091,376
Derivative assets	78,799	-	23	22	240,683	-	319,527
<i>fixed interest</i>	78,799	-	23	22	240,683	-	319,527
<i>variable interest</i>	-	-	-	-	-	-	-
LIABILITIES							
Related party and other bank financing	156,702	9,913	-	-	-	-	166,615
<i>fixed interest</i>	12,000	-	-	-	-	-	12,000
<i>variable interest</i>	144,702	9,913	-	-	-	-	154,615
<i>non-interest-bearing</i>	-	-	-	-	-	-	-
Liabilities from issued securities	21,078	7,392	193,245	146,226	604,630	-	972,571
<i>fixed interest</i>	-	7,392	156,547	146,226	604,630	-	914,795
<i>variable interest</i>	21,078	-	36,698	-	-	-	57,776
Derivative liabilities	256,135	-	24	21	49,340	-	305,520
<i>fixed interest</i>	77,232	-	24	21	49,340	-	126,617
<i>variable interest</i>	178,903	-	-	-	-	-	178,903
Net position	226,333	15,922	46,628	(27,336)	(174,499)	-	87,049

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
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NOTE 23: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

As at 31 December 2006

ASSETS	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
Cash due from banks and balances with the National Bank of Hungary	59	-	-	-	-	-	59
<i>fixed interest</i>	-	-	-	-	-	-	-
<i>variable interest</i>	59	-	-	-	-	-	59
<i>non-interest-bearing</i>	-	-	-	-	-	-	-
Placements with other banks	35,945	-	-	-	-	-	35,945
<i>fixed interest</i>	35,945	-	-	-	-	-	35,945
<i>variable interest</i>	-	-	-	-	-	-	-
Securities available-for-sale	28,985	11,532	863	44,777	21,648	-	107,805
<i>fixed interest</i>	28,985	11,532	863	44,777	21,648	-	107,805
<i>variable interest</i>	-	-	-	-	-	-	-
Loans, net of allowance for possible loan losses	314,669	3,256	105,787	271,622	212,430	-	907,764
<i>fixed interest</i>	-	-	-	-	-	-	-
<i>variable interest</i>	314,669	3,256	105,787	271,622	212,430	-	907,764
<i>non-interest-bearing</i>	-	-	-	-	-	-	-
Derivative assets	15,049	-	-	-	239,685	-	254,734
<i>fixed interest</i>	15,049	-	-	-	239,685	-	254,734
<i>variable interest</i>	-	-	-	-	-	-	-
LIABILITIES							
Related party financing	1,653	-	-	-	-	-	1,653
<i>fixed interest</i>	-	-	-	-	-	-	-
<i>variable interest</i>	-	-	-	-	-	-	-
<i>non-interest-bearing</i>	1,653	-	-	-	-	-	1,653
Liabilities from issued securities	21,282	6,127	56,104	154,005	750,353	-	987,871
<i>fixed interest</i>	-	6,127	19,601	154,005	750,353	-	930,086
<i>variable interest</i>	21,282	-	36,503	-	-	-	57,785
Derivative liabilities	199,332	-	-	-	49,340	-	248,672
<i>fixed interest</i>	15,065	-	-	-	49,340	-	64,405
<i>variable interest</i>	184,267	-	-	-	-	-	184,267
Net position	172,440	8,661	50,546	162,394	(325,930)	-	68,111

OTP MORTGAGE BANK LTD.
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NOTE 24: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

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

As at 31 December 2007	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	1,429	-	-	-	1,429
Placements with other banks, net of allowance for placement losses	11,788	-	-	-	11,788
Financial assets at fair value through statement of operations	1,230	-	-	-	1,230
Securities available-for-sale	5,534	45,405	20,321	1,733	72,993
Loans, net of allowance for loan losses	10,555	44,787	216,499	854,177	1,126,018
Accrued interest receivable	14,943	-	-	-	14,943
Premises, equipment and intangible assets, net	-	-	371	113	484
Other assets	<u>9,286</u>	<u>856</u>	<u>-</u>	<u>-</u>	<u>10,142</u>
TOTAL ASSETS	<u>54,765</u>	<u>91,048</u>	<u>237,191</u>	<u>856,023</u>	<u>1,239,027</u>
Related party financing	166,615	-	-	-	166,615
Issued securities	7,382	193,629	621,469	150,091	972,571
Accrued interest payable	45,284	-	-	-	45,284
Other liabilities	<u>4,691</u>	<u>87</u>	<u>2,905</u>	<u>3,635</u>	<u>7,318</u>
TOTAL LIABILITIES	<u>219,972</u>	<u>193,716</u>	<u>624,374</u>	<u>153,726</u>	<u>1,191,788</u>
Share capital	-	-	-	27,000	27,000
Retained earnings and reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,239</u>	<u>20,239</u>
TOTAL SHAREHOLDERS' EQUITY	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,239</u>	<u>47,239</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>219,972</u>	<u>193,716</u>	<u>624,374</u>	<u>200,965</u>	<u>1,239,027</u>
LIQUIDITY (DEFICIENCY)/EXCESS	<u>(165,207)</u>	<u>(102,668)</u>	<u>(387,183)</u>	<u>655,058</u>	=

During 2007, disruptions in the credit markets caused the Bank to delay the issuance of mortgage bonds resulting in a substantial increase in short-term funding from the parent company at the end of the year 2007. Longer term financing was put in place early 2008. (see Note 27.)

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NOTE 24: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]

As at 31 December 2006	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	59	-	-	-	59
Placements with other banks, net of allowance for placement losses	35,945	-	-	-	35,945
Financial assets at fair value through statement of operations	31	-	-	-	31
Securities available-for-sale	40,518	863	64,691	1,733	107,805
Loans, net of allowance for loan losses	13,749	41,522	216,947	635,546	907,764
Accrued interest receivable	15,278	402	-	-	15,680
Premises, equipment and intangible assets, net	-	-	328	26	354
Other assets	<u>306</u>	<u>6,863</u>	<u>39</u>	<u>-</u>	<u>7,208</u>
TOTAL ASSETS	<u>105,886</u>	<u>49,650</u>	<u>282,005</u>	<u>637,305</u>	<u>1,074,846</u>
Related party financing	1,653	-	-	-	1,653
Issued securities	6,162	19,594	607,582	354,533	987,871
Accrued interest payable	23,144	18,222	-	-	41,366
Other liabilities	<u>1,446</u>	<u>58</u>	<u>526</u>	<u>2,652</u>	<u>4,682</u>
TOTAL LIABILITIES	<u>32,405</u>	<u>37,874</u>	<u>608,108</u>	<u>357,185</u>	<u>1,035,572</u>
Share capital	-	-	-	20,000	20,000
Retained earnings and reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,274</u>	<u>19,274</u>
TOTAL SHAREHOLDERS' EQUITY	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,274</u>	<u>39,274</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>32,405</u>	<u>37,874</u>	<u>608,108</u>	<u>396,459</u>	<u>1,074,846</u>
LIQUIDITY EXCESS/ (DEFICIENCY)	<u>73,481</u>	<u>11,776</u>	<u>(326,103)</u>	<u>240,846</u>	<u>-</u>

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NOTE 25: SENSITIVITY ANALYSIS

25.1 Value-at-Risk

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

VaR methodologies employed to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure. The trading portfolio includes the government bonds classified as available-for-sale. VaR calculation did not prepared for foreign exchange risk.

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

Historical VaR (99%, one-day) by risk type	Average	
	2007	2006
Foreign exchange	-	-
Interest rate	234	353
Equity instruments	-	-
Diversification	-	-
Total VaR exposure	<u>234</u>	<u>353</u>

While VaR captures the OTP Mortgage Bank's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the OTP Mortgage Bank to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in 25.2 below and, for interest rate risk, in 25.3 below.

25.2 Foreign exchange sensitivity analysis

The Bank is mainly exposed to the currency risk of CHF and EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

The Bank's sensitivity to a 10% increase and decrease in the exchange rate of the HUF against the relevant foreign currencies were HUF 19 million and HUF 25 million as at 31 December 2007 and 2006, respectively.

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
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NOTE 25: SENSITIVITY ANALYSIS [continued]

25.3 Interest rate sensitivity analysis

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

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

The simulation were prepared by assuming two scenarios:

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

The net interest income in a one year period after December 31, 2007 would be decreased by HUF 427 million (probable scenario) and HUF 1.628 million (alternative scenario) as a result of these simulation.

The effects of the parallell 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	
	2007	2006
HUF (0.1%) paralell shift	(128)	(82)
EUR (0.1%) paralell shift	(5)	(5)
USD 0.1% paralell shift	—	—
Total	(133)	(87)

25.4 Equity sensitivity analysis

The Bank has no equity instruments held in 2007 and 2006, therefore not exposed to equity risk.

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR
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NOTE 26: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)

	Retained Earnings and Reserves 1 January 2007	Net income for the year ended 31 December 2007	FVA of securities available-for-sale and derivative financial instruments	Dividend and permanent money transfer	Retained Earnings and Reserves 31 December 2007
Hungarian financial statements	15,634	5,390	-	-	21,024
<i>Adjustments to Hungarian financial statements:</i>					
Fair value adjustment of available-for-sale financial assets	(30)	-	1,073	-	1,043
Deferred fees on issuance of securities	1,714	(550)	-	-	1,164
Effect of using effective interest rate method	-	650	-	-	650
Fair value adjustment of derivative financial instruments	(2,083)	(193)	(1,495)	-	(3,771)
Deferred taxation	39	6	84	-	129
Dividend payable for 2006	<u>4,000</u>	<u>-</u>	<u>-</u>	<u>(4,000)</u>	<u>-</u>
IFRS financial statements	<u>19,274</u>	<u>5,303</u>	<u>(338)</u>	<u>(4,000)</u>	<u>(20,239)</u>

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NOTE 27: POST BALANCE SHEET EVENTS

On 11 February 2008 the Bank received a notice made by the Hungarian Authority of Market Competition ("GVH") on an investigation because of assumed abuse of market power. At the date when these financial statements were authorised for issue there was not enough information to make a reliable estimate concerning the amount of a provision for a possible future penalty, if any.

From 1 January 2008 to 15 February 2008 the Bank issued securities with the face value of HUF 9,791 million. On 11 February 2008 expired bonds with the face value of 5,129 were redeemed by the Bank.

OTP Mortgage Bank Ltd. has launched a listed Euro Mortgage Securities Programme ("Programme") of EUR 3,000 million in Luxemburg (the date of the disclosure letter and its amendment is 23 January 2008 and 28 January 2008). Under the Programme, bonds with a face value of EUR 50 million were issued with the value date of the issuance of 30 January 2008, due 2008.

Under the Programme, EUR 1,000 million mortgage notes with fixed 4.50 percent interest rate, due in 2010 were issued on 3 March 2008.