OTP Mortgage Bank Ltd.

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

FOR THE YEAR ENDED
DECEMBER 31, 2008

Deloitte.

Deloitte Auditing and Consulting Ltd.
H-1068 Budapest, Dózsa György út 84/C., Hungary
H-1438 Budapest, P.O.Box 471, Hungary

Tel: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.com/Hungary

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, 2008, 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.

Registered by the Budapest Court of Registration
Company Reg. No.: 01-09-071057

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, 2008, 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, 2009

Deloitte Ltd.

....

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

CONTENTS

OTP MORTGAGE BANK LTD.
BALANCE SHEET AS AT 31 DECEMBER 2008
(in HUF million)

	Note	2008	2007
Cash, amounts due from banks and balances with the National Bank of Hungary	3	1,631	1,429
Placements with other banks, net of allowance for placement losses	4	91,220	11,788
Financial assets at fair value through profit or loss	5	1,914	1,230
Securities available-for-sale	6	31,177	72,993
Loans, net of allowance for loan losses	7	1,455,283	1,126,018
Accrued interest receivable		24,933	14,943
Property, equipment and intangible assets	8	474	484
Other assets	9	5,374	10,142
TOTAL ASSETS		**1,612,006**	**1,239,027**
Amounts due to OTP Bank Plc. and other banks	10	111,333	166,615
Liabilities from issued securities	11	1,323,518	972,571
Accrued interest payable		58,513	45,284
Other liabilities	12	53,060	7,318
TOTAL LIABILITIES		**1,546,424**	**1,191,788**
Share capital	13	27,000	27,000
Retained earnings and reserves	14	38,582	20,239
TOTAL SHAREHOLDER'S EQUITY		**65,582**	**47,239**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,612,006**	**1,239,027**

Budapest, 3 March 2009

OTP JELZÁLOGBANK Zrt.
otp Jelzálogbank
elnök-vezérigazgató
1.

....
Zsolt Oszlányi
Chief Executive Officer

OTP MORTGAGE BANK LTD.
STATEMENT OF OPERATIONS FOR THE YEAR ENDED
31 DECEMBER 2008
(in HUF million)

	Note	2008	2007
Interest Income:			
Loans		59,303	44,176
Placements with other banks		17,771	3,474
Amounts due from banks and balances with the National Bank of Hungary		375	115
Interest subsidy on housing loans financed by mortgage bonds		51,295	63,190
Securities available-for-sale		4,390	6,407
Total Interest Income		*133,134*	*117,362*
Interest Expense:			
Amounts due to OTP Bank Plc. and other banks		21,902	1,324
Deposits from customers		44	-
Liabilities from issued securities		82,389	73,591
Total Interest Expense		*104,335*	*74,915*
NET INTEREST INCOME		**28,799**	**42,447**
Release of provision for impairment on loan and placement losses	7	19	63
NET INTEREST INCOME AFTER RELEASE OF PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**28,818**	**42,510**
Non-Interest Income:			
Fees and commissions		1,595	2,700
Foreign exchange gains, net		14,633	379
Gains on securities trading, net		878	2
Other		277	198
Total Non-Interest Income		*17,383*	*3,279*
Non-Interest Expenses:			
Fees and commissions	16	16,200	31,125
Personnel expenses		648	566
Depreciation and amortization		192	179
Other	17	6,640	7,468
Total Non-Interest Expenses		*23,680*	*39,338*
PROFIT BEFORE INCOME TAX		**22,521**	**6,451**
Income tax	19	4,354	1,148
NET PROFIT FOR THE YEAR		**18,167**	**5,303**
Earnings per share (in HUF)			
Basic and diluted	20	**67,285**	**23,813**

The accompanying notes to financial statements on pages 7 to 47 form an integral part of these financial statements.

OTP MORTGAGE BANK LTD.
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008
(in HUF milion)

	Note	2008	2007
OPERATING ACTIVITIES			
Profit before income tax		22,521	6,451
Income tax paid		(2,203)	(1,225)
Depreciation and amortization		192	179
Release of provision for impairment on loan and placement losses		(19)	(63)
Unrealised losses/(gains) on fair value adjustment of derivative financial instruments		4,601	(1,196)
Net changes in financial assets through profit or loss		(684)	-
Net (increase)/decrease in accrued interest receivable		(9,990)	737
Net decrease/(increase) in other assets before provisions for losses		2,808	(3,037)
Net increase in accrued interest payable		12,650	3,919
Net increase/(decrease) in other liabilities		(8,639)	(431)
Net cash provided by operating activities		**21,237**	**5,334**
INVESTING ACTIVITIES			
Net (increase)/decrease in placements with other banks, before provision for placement losses		(79,432)	24,157
Net decrease in securities available-for-sale		41,051	35,885
Net increase in loans, net of allowance for loan losses		(316,540)	(218,191)
Net additions to property, equipment and intangible assets		(182)	(309)
Net cash used in investing activities		**(355,103)**	**(158,458)**

OTP MORTGAGE BANK LTD.
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2008
(in HUF million) [continued]

	Note	2008	2007
FINANCING ACTIVITIES			
Net (decrease)/increase in amounts due to OTP Bank Plc. and other banks		(55,282)	164,962
Issuance of securities		736,592	12,101
Repurchase and redemption of issued securities		(347,242)	(25,569)
Permanent money transfer to OTP Bank Plc.	14	-	-
Dividend paid	14	-	(4,000)
Increase in share capital	13	-	7,000
Net cash provided by financing activities		**334,068**	**154,494**
Net decrease in cash and cash equivalents		**202**	**1,370**
Cash and cash equivalents as at 1 January		1,429	59
Cash and cash equivalents as at 31 December		**1,631**	**1,429**
Analysis of cash and cash equivalents opening and closing balance			
Cash, amounts due from banks and balances with the National Bank of Hungary		1,429	59
Cash and cash equivalents as at 1 January		**1,631**	**59**
Cash, amounts due from banks and balances with the National Bank of Hungary	3	1,631	1,429
Cash and cash equivalents as at 31 December		**1,631**	**1,429**

OTP MORTGAGE BANK LTD.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
(in HUF million)

	Share Capital	Retained Earnings and Reserves	Fair value reserve	Total
Balance as at 1 January 2007	**20,000**	**21,603**	**(2,329)**	**39,274**
Net profit for the year	-	5,303	-	5,303
Fair value adjustment of securities available-for-sale recognised directly through equity	-	-	858	858
Derivative financial instruments designated as cash-flow hedge	-	-	(1,196)	(1,196)
Dividend for the year 2006	-	(4,000)	-	(4,000)
Share capital increase (Note 13)	7,000	-	-	7,000
Balance as at 31 December 2007	**27,000**	**22,906**	**(2,667)**	**47,239**
Net profit for the year	-	18,167	-	18,167
Fair value adjustment of securities available-for-sale recognised directly through equity	-	-	(612)	(612)
Derivative financial instruments designated as cash-flow hedge	-	-	788	788
Balance as at 31 December 2008	**27,000**	**41,073**	**(2,491)**	**65,582**

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General

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

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

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

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

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

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

As the sole shareholder, OTP Bank provides financial and adminstrative support to the Bank. Additionally, any short-term liquidity gaps which may arise from the timing difference between the loan disbursements and issuance of mortgage backed securities are generally financed by OTP Bank. Details of related party balances and transactions are summarised in Note 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 2008 the number of employees at the Bank was 36. The average number of employees for the year ended 31 December 2008 was also 36.

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 in order to increase efficiency and reduce credit risk.

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 IFRS.

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

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2008

Four Standard and Interpretations issued by the IASB and IFRIC are effective for the current period. These are:

- IAS 39 (Amendment) *Financial Instruments: Recognition and Measurement and IFRS 7: Reclassification of Financial Assets* (effective from 1 July 2008)
- IFRIC 11 *IFRS 2 – Group and Treausury share transactions* (effective for accounting periods beginning on or after 1 March 2007)
- IFRIC 12 *Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008);
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1 January 2008)

The adoption of the above Amendments and Interpretations had no significant impact on the unconsolidated financial statements of the Bank. IFRIC 12 is not yet endorsed by the EU.

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

1.2.2. Amendments to IFRSs effective from 1 January 2009, not yet adopted

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

- IAS 1 (Revised) *Presentation of Financial Statements* (effective for accounting periods beginning on or after 1 January 2009)
- IAS 23 (Revised) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009);
- IAS 27 (Amendment) *Consolidated and Separate Financial Statements* (effective from 1 January 2009)
- IAS 32 (Amendment) *Financial Instruments: Presentation* (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39 (Amendment) *Financial instruments: Recognition and Measurement* (effective for accounting periods on or after July 1, 2009)
- IFRS 2 (Amendment) *Share-based Payment* (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 3 (Revised) *Business Combinations* (effective from 1 July 2009)*
- IFRS 5 (Amendment) *Non-Current Assets Held for Sale and Discontinued Operations (And Consequental Amendment to IFRS 1: First-Time Adoption)* (effective from 1 July 2009)*
- IFRS 7 (Amendment) *Financial Instruments: Disclosures* (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 15 *Agreements for the Construction of Real Estate* (effective for accounting periods beginning on or after 1 January 2009)*
- IFRIC 16 *Hedges of Net Investment in a Foreign Operation* (effective for accounting periods beginning on or after 1 October 2008)*
- IFRIC 17 *Distributions of Non-Cash Assets to Owners* (effective for accounting periods beginning on or after 1 July 2009)*
- IFRIC 18 *Transfers of Assets from Customers* (effective from 1 January 2009)*
- Improvements to International Financial Reporting Standards 2008 (effective for accounting periods beginning on or after 1 January 2009)

*not yet endorsed by the EU

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

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.

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 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 2008 and 2007.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.3.1. Securities available-for-sale [continued]

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

2.3.2. Financial assets and liabilities at fair value through profit or loss

The investment in securities acquired for and designed as held for trading are are accounted for on a settlement date basis and are initially measured at fair value. Held for trading investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognised in profit or loss and included in the Consolidated Statements of Operations for the period.

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 also at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss and included in the Statement of Operations 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 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 Statement of Operations for the period. The ineffective element of the hedge is charged directly to the Statement of Operations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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 Operations.

2.4. Loans and allowance for loan losses

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

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

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

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, 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 property, equipment 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.7. Interest Income and Interest Expense

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

2.8. Income taxes

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

2.9. Government subsidies

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

2.10. Statement of cash flows

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

2.11. 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:

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

(a) Impairment on loans and advances

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

(b) Valuation of instruments without direct quotations

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

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 2007 financial statements have been reclassified to conform with the current year presentation. These reclassifications were not material.

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

	2008	2007
Cash on hand	-	-
Due from banks		
Within one year	1,631	1,429
Total	1,631	1,429

The main amount of cash due from banks represents the balance of the Bank's clearing account placed at the NBH. The balance of this account was HUF 1,625 million and HUF 1,421 million as at 31 December 2008 and 2007 respectively.

The above balance of cash due from banks contains HUF 6 million and 8 million due from OTP Bank as at 31 December 2008 and 2007 respectively.

Based on the requirements for compulsory reserves set by the NBH, the balance of compulsory reserves amounted to approximately HUF 3,851 million and HUF 1,928 million as at 31 December 2008 and 2007 respectively. The Bank fulfilled the compulsory reserve requirement on an average monthly basis.

NOTE 4: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF million)

	2008	2007
Within one year		
in HUF	37,700	5,875
in CHF	3,150	633
in EUR	50,298	5,280
in JPY	72	-
Total in foreign currency	53,520	5,913
Total	91,220	11,788

The balance as at 31 December 2008 and 2007 consists of placements with OTP Bank of HUF 81,198 million and HUF 6,509 million respectively. From these amounts HUF 53,520 million and HUF 633 million is denominated in foreign currency as at 31 December 2008 and 2007 respectively.

Interest rates on placements with other banks ranged from 1.25% to 10% and from 2.97% to 6.5% as at 31 December 2008 and 2007 respectively.

NOTE 5: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF million)

	2008	2007
Derivative financial instruments designated as held for trading	1,914	1,230

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

	2008	2007
Hungarian Government discounted Treasury Bills	9,277	5,534
Hungarian Government bonds	21,900	67,459
Total	31,177	72,993

The whole portfolio was denominated in HUF as at 31 December 2008 and 2007. Interest rates on securities ranged from 6.25% to 9.5% as at 31 December 2008 and 2007 respectively.

The government securities are pledged as additional collateral of the issued mortgage bonds.

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

	2008	2007
Within five years:		
Fixed interest	31,177	71,260
Over five years:		
Fixed interest	-	1,733
Total	31,177	72,993

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 2008:

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

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	66,579	67,459
Total	72,116	72,993

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

	2008	2007
Short-term loans (within one year)		
in HUF	54,295	55,334
in foreign currency	18	-
	54,313	55,334
Long-term loans (over one year)		
in HUF	628,355	677,605
in CHF	626,852	353,442
in EUR	5,161	5,014
in JPY	140,602	34,642
Total in foreign currency	772,615	393,098
	1,400,970	1,070,703
Total	1,400,970	1,126,037
Provision for impairment on loan losses	-	(19)
Total	1,455,283	1,126,018

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 2008 and 2007 bear interest rates in the range of 6% to 19.25% and of 5% to 22.18% respectively, including the impact of interest subsidy by the state. The interest rate and interest subsidy on loans are also included in this figures.

Interest rates on foreign currency loans for housing purposes (%):

	2008	2007
CHF	8.40	5.11
EUR	10.79	6.18
JPY	4.81	2.67

Interest rates on foreign currency loans for free purposes (%):

	2008	2007
CHF	11.65	6.32
EUR	13.00	7.29
JPY	7.94	-

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

At the beginning of 2006, the Bank started to extend mortgage loans for aquiring 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 9.99% and 9.82% as at 31 December 2008 and 2007 respectively.

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

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

	2008		2007	
Housing loans	1,129,070	77.58%	986,482	87.61%
Mortgage loans	317,963	21.85%	132,590	11.77%
Commercial loans	8,250	0.57%	6,965	0.62%
	1,455,283	100.00%	1,126,037	100.00%

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

	2008	2007
Balance as at 1 January	19	82
Release of provision for loan losses	(19)	(63)
Balance as at 31 December	-	19

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

As at 31 December 2008

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

As at 31 December 2007

Cost	Intangible assets	Land and buildings	Office 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	574	17	278	91	960
Depreciation and Amortization					
Balance as at 1 January 2007	224	9	107	-	340
Change for the year	124	3	52	-	179
Disposals	(21)	-	(22)	-	(43)
Balance as at 31 December 2007	327	12	137	-	476
Net book value					
Balance as at 1 January 2007	225	8	108	13	354
Balance as at 31 December 2007	247	5	141	91	484

NOTE 9: OTHER ASSETS (in HUF million)

	2008	2007
Receivables from the state	4,426	323
Prepayments and other assets	680	79
Customer receivables, given loans	140	179
Current income tax receivable	99	671
Fair value adjustment of derivative financial instruments designated as fair value hedge	29	8,761
Deferred tax assets	-	129
Total	5,374	10,142

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

NOTE 10: AMOUNTS DUE TO OTP BANK PLC. AND OTHER BANKS (in HUF million)

	2008	2007
Within one year		
In HUF	101,634	24,540
In CHF	7,340	131,986
In EUR	2,359	10,089
Total in foreign currency	9,699	142,075
Total	111,333	166,615

The balance as at 31 December 2008 and 2007 includes of HUF 108,974 million and HUF 156,702 million payables due to OTP Bank.

Due to banks and deposits from other banks payable in HUF within one year bear interest rates in the range of 8.5% to 11% as at 31 December 2008 and had an interest rate of 7.55% as at 31 December 2007. Deposits denominated in foreign currency bear interest rates in the range of 1.03% to 9.61% as at 31 December 2008 and were 3.92% as at 31 December 2007.

The Bank had HUF 16,974 million and HUF 1,644 million of other liabilities due to OTP Bank as at 31 December 2008 and 2007 in connection with guarantee fees for repurchase of non-performing loans, collection fees and loan administration charges.

NOTE 11: LIABILITIES FROM ISSUED SECURITIES (in HUF million)

During the year ended 31 December 2008 the Bank issued mortgage bonds with a face value of HUF 686,657 million and HUF 347,242 million became due and matured. 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 became due and matured.

	2008	2007
With expiration date:		
Within one year in HUF	174,318	200,898
Within one year in EUR	64	113
	174,382	201,011
Over one year in HUF	625,287	534,974
Over one year in EUR	523,849	236,586
	1,149,136	771,560
Total	1,323,518	972,571

Liabilities from issued securities denominated in HUF bear interest rates in the range of 7% to 10.5% and of 6.5% to 10.5% as at 31 December 2008 and 2007.

Liabilities from issued securities denominated in EUR bear interest rates in the range of 3.7% to 4.5% as at 31 December 2008 and 2007.

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 52,956 million and HUF 50,385 million as at 31 December 2008 and 2007 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. As of 15 December 2008, the Bank terminated the hedging instrument related to the issued mortgage bond. In accordance with IAS 39, the cumulative loss of the hedging instrument remains recognized directly in reserves, and will be reclassified to Statement of Operations, when the hedged item affects to profit or loss.

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 198,585 million and HUF 186,201 million as at 31 December 2008 and 2007 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 (fix 4.25%) 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 8,575 million and minus HUF 2,927 million as at 31 December 2008 and 2007 respectively.

NOTE 11: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]

The Bank issued fixed rate interest bearing mortgage bonds denominated in EUR in 2008 with a face value of EUR 1,000 million with the carrying amount of HUF 264,780 million as at 31 December 2008. EUR 800 million of this amount was hedged by fixed interest rate cross-currency swap transactions whereby the Bank swapped EUR interest payments (fix 4.5%) to floating CHF interest payments, linked to 6 months CHF LIBOR. The remaning amount of EUR 200 million was hedged by fixed interest rate cross-currency swap transactions whereby the Bank swapped EUR interest payments (fix 4.5%) to floating JPY interest payments, linked to 6 months JPY LIBOR.
The fair value adjustment of the instrument which were attributable to the hedged risk were recognized in the issued securities, which were HUF 2,956 million as at 31 December 2008.
The fair value adjustment of the hedging instrument was HUF 21,453 million as at 31 December 2008.

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

	2008	2007
Face value of the issued securities	1,311,912	971,834
Unamortized premiums	3,002	3,664
Fair value hedge adjustment	8,604	(2,927)
Amortized cost	1,323,518	972,571

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)

	2008	2007
Derivative financial instruments designated as cash-flow hedge	32,158	2,816
Fair value adjustment of derivative financial instruments	12,706	26
Liabilities to customers	3,073	1,831
Accrued fees	2,952	2,463
Deferred tax liability	1,597	-
Current income tax payable	473	89
Other	101	93
Total	53,060	7,318

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.

	2008	2007
Share capital (in HUF million)	27,000	27,000

On 4 September 2007 OTP Bank, the 100% owner of OTP Mortgage Bank, increased the registered capital of its subsidiary by HUF 7,000 million.

NOTE 14: RETAINED EARNINGS AND RESERVES (in HUF milllion)

	2008	2007
Balance as at 1 January	20,239	19,274
Dividend paid	-	(4,000)
Net income after income taxes	18,167	5,303
Fair value adjustment of securities available-for-sale	(612)	858
Derivative financial instrument designated as cash-flow hedge	788	(1,196)
Balance as at 31 December	38,582	20,239

The Bank's reserves under Hungarian Accounting Standards ("HAS") were HUF 28,470 million and HUF 21,024 million as at 31 December 2008 and 2007 respectively. These amounts include legal reserves amounting to HUF 4,347 thousands and HUF 3,202 million respectively. The legal reserve is not available for distribution.

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.

NOTE 15: INTEREST SUBSIDIES RELATED TO HOUSING LOANS [continued]

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 218 million and HUF 284 million for the years ended 31 December 2008 and 2007 respectively.

NOTE 16: FEES AND COMMISSIONS (in HUF million)

	2008	2007
Fees and commissions paid		
Guarantee and administrative fees paid to OTP Bank	13,641	20,779
Collection fees paid to OTP Bank	-	8,946
Other	2,559	1,400
Total expense	16,200	31,125

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.

The Guarantee and administrative fees paid to OTP Bank has decreased from 2007 to 2008, because the fee is determined on market prices of similar services. The charge for the collection activities before the buy-back procedure is cancelled from October 1, 2007.

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 24,720 million and HUF 19,875 million for the years ended 31 December 2008 and 2007 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)

	2008	2007
Taxes, other than income tax	5,930	6,687
Services	410	418
Professional fees	202	285
Rental fees	55	53
Advertising	20	1
Administration expenses	18	17
Other	5	7
Total	**6,640**	**7,468**

As at 31 December 2008 and 2007 HUF 4,784 million and HUF 5,591 million of taxes, other than income tax, represents the 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.

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

	2008	2007
Key executives (Managing Director and Deputies)	121	91
Members of Board of Directors and Supervisory Board	-	4
Total	**121**	**95**

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 Hungary, an additional 4% of special tax is to be paid.
In the calculation of deferred tax the 20% tax rate was taken into account.

A reconciliation of the total income tax charge for the years ended 31 December 2008 and 2007 is as follows:

	2008	2007
Current tax charge	2,108	893
Special tax (4%)	564	261
Deferred tax charge/(credit)	1,682	(6)
Total income tax charge	4,354	1,148

A reconciliation of the deferred tax assets and liabilities as at 31 December 2008 and 2007 are as follows:

	2008	2007
Balance as at 1 January	129	39
Recognised in retained earnings and reserves	(44)	84
Deferred tax (charge)/credit	(1,682)	6
Balance as at 31 December – asset (liability)	(1,597)	129

NOTE 19: INCOME TAXES (in HUF million) [continued]

Reconciliation of deferred tax as at 31 December 2008 and 2007 are as follows:

	2008	2007
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	110	810
Amortized cost of issued securities	252	-
Deferred tax assets	362	810
Fair value adjustment of available-for-sale financial assets	(54)	(209)
Fair value adjustment of other derivative financial instruments	-	(75)
Effect of applying effective interest rate method	(1,868)	(129)
Amortized cost of issued securities	-	(233)
Difference in depreciation and amortization	(37)	(35)
Deferred tax liabilities	(1,959)	(681)
Net deferred tax assets (liabilities)	**(1,597)**	**129**

Reconciliation of the effective tax rate as at 31 December 2008 and 2007 are as follows:

	2008	2007
Net income before income taxes	22,521	6,451
Tax at statutory income tax rate (16%)	3,603	1,032
Special tax (4%)	564	261
Permanent differences due to local tax	(138)	(152)
Other permanent differences	324	7
Income tax	4,354	1,148
Effective tax-rate	19.33%	17.80%

NOTE 20: EARNINGS PER SHARE (in HUF million)

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

	2008	2007
Net income	18,167	5,303
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	270,000	222,692
Earnings per share (in HUF)	67,285	23,813

NOTE 21: FINANCIAL RISK MANAGEMENT

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

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

Credit risk

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

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.

NOTE 21: FINANCIAL RISK MANAGEMENT [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. As of 15 December 2008, the Bank terminated the hedging instrument related to the issued mortgage bond. In accordance with IAS 39, the cumulative loss of the hedging instrument remains recognized directly in reserves, and will be reclassified to Statement of Operations, when the hedged item affects to profit or loss.

NOTE 21: FINANCIAL RISK MANAGEMENT [continued]

Designated hedge relationships [continued]

(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 8,575 million and HUF 3,438 million as at 31 December 2008 and 2007 respectively.
The fair value adjustment of the hedging instrument was HUF (2,296) and HUF 10,307 million as at 31 December 2008 and 2007 respectively.

(iii) EUR 1,000 million bond issuance

The Bank issued fixed rate interest bearing mortgage bonds denominated in EUR on 3 March 2008 with the face value of EUR 1,000 million with the carrying amount of HUF 264,780 million as at 31 December 2008. EUR 800 million of this amount was hedged by fixed interest rate cross-currency swap transactions whereby the Bank swapped EUR interest payments (fix 4.5%) to floating CHF interest payments, linked to 6 months CHF LIBOR. The remaning amount of EUR 200 million was hedged by fixed interest rate cross-currency swap transactions whereby the Bank swapped EUR interest payments (fix 4.5%) to floating JPY interest payments, linked to 6 months JPY LIBOR.

The fair value adjustment of the instrument which were attributable to the hedged risk were recognized in the issued securities, which were HUF 2,956 million as at 31 December 2008.
The fair value adjustment of the hedging instrument was HUF 21,453 million as at 31 December 2008.

NOTE 21: FINANCIAL RISK MANAGEMENT [continued]

Off balance sheet items

The Bank's off-balance sheet assets and liabilities as at 31 December 2008 and 2007, with respect to financial instruments are as follows (in HUF million)

	2008	2007
Future portion of swap transactions	726,065	261,517
Future liabilities from FX forward transactions	29,683	44,578
Liabilities from option contracts	981	4,477
Contingent and future liabilities	756,729	310,572
Future portion of swap transactions	675,283	274,472
Future receivables from FX forward transactions	27,855	45,015
Receivables from option contracts	1,076	4,067
Contingent and future receivables	704,214	323,554
Total off-balance sheet (liability)/asset, net	(52,515)	12,982

NOTE 21: FINANCIAL RISK MANAGEMENT [continued]

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

	2008	2007
Foreign currency contracts designated as held for trading		
Off-balance sheet assets	27,855	45,015
Off-balance sheet liabilities	29,683	44,578
Net	(1,828)	437
Net fair value	(1,924)	540
Foreign exchange swaps and interest rate swaps designated as held for trading		
Off-balance sheet assets	211,918	33,790
Off-balance sheet liabilities	221,368	33,274
Net	(9,450)	516
Net fair value	(8,869)	664
Cross-currency interest rate swaps designated in hedge accounting relationships		
Off-balance sheet assets	463,365	240,682
Off-balance sheet liabilities	504,696	228,243
Net	(41,331)	12,439
Net fair value	9,173	(6,505)
Option contracts		
Off-balance sheet assets	1,076	4,067
Off-balance sheet liabilities	981	4,477
Net	95	(410)
Net fair value	30	10

NOTE 21: FINANCIAL RISK MANAGEMENT [continued]

Net foreign currency position (in HUF million)

As at 31 December 2008

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

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	**(1,145)**	**(88)**	**1,096**	**-**	**(137)**

NOTE 22: RELATED PARTY TRANSACTIONS (in HUF million)

The Bank, under a syndication agreement with OTP Bank, disbursed housing loans of HUF 57,418 million and HUF 269,300 million during the years ended 31 December 2008 and 2007 respectively. The gross book value of these receivables was HUF 57,347 million and HUF 269,205 million as at 31 December 2008 and 2007 respectively.

Assets/Liabilities

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

Assets	**2008**	**2007**
Cash, amounts due from banks and balances with the National Bank of Hungary	6	8
Placements with other banks net of allowance for placement losses	81,198	6,509

Liabilities	**2008**	**2007**
Amounts due to OTP Bank Plc. and other banks	108,974	156,702
Other liabilities due to OTP Bank	19,441	1,644
Issued mortgage bonds held by OTP Group	509,737	478,929
Accrued interest payable related to mortgage bonds held by OTP Group	23,565	28,223

NOTE 22: RELATED PARTY TRANSACTIONS (in HUF million) [continued]

The revenue from the value appraisal activity from OTP Group entities was HUF 773 million and HUF 1,726 million for the years ended 31 December 2008 and 2007 respectively.

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 104,7 million as at 31 December 2008. These loans were covered by HUF 299 million mortgage.

Income/expense

During the year ended 31 December 2008 and 2007 the Bank paid HUF 65,489 million and HUF 50,501 million of interest expense to OTP Bank respectively. Such interest relates to intercompany financing and also issued securities.

During the year ended 31 December 2008 and 2007 the Bank paid HUF 38,715 million and HUF 50,493 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 218 million and HUF 284 million as at 31 December 2008 and 2007 respectively.

The account handling fees charged to customers and transferred to OTP Bank were HUF 24,720 million and HUF 19,875 million for the years ended 31 December 2008 and 2007 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.

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.

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

As at 31 December 2008

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 , amounts due from banks and balances with the National Bank of Hungary	**1,631**	-	-	-	-	-	**1,631**
fixed interest	-	-	-	-	-	-	-
variable interest	1,631	-	-	-	-	-	1,631
Placements with other banks, net of allowance for placement losses	**89,766**	**1,454**	-	-	-	-	**91,220**
fixed interest	79,744	1,454	-	-	-	-	81,198
variable interest	10,022	-	-	-	-	-	10,022
Securities available-for-sale	**9,277**	**1,500**	**18,779**	-	**1,621**	-	**31,177**
fixed interest	9,277	1,500	18,779	-	1,621	-	31,177
variable interest	-	-	-	-	-	-	-
Loans, net of allowance for loan losses	**925,219**	**42,490**	**33,318**	**56,818**	**397,438**	-	**1,455,283**
fixed interest	-	-	-	-	-	-	-
variable interest	925,219	42,490	33,318	56,818	397,438	-	1,455,283
Derivative assets	-	**239,742**	-	**264,780**	**198,585**		**703,107**
fixed interest	-	239,742	-	264,780	198,585		703,107
variable interest	-	-	-	-	-		-
LIABILITIES							
Amounts due to OTP Bank Plc. and other banks	**111,333**	-	-	-	-	-	**111,333**
fixed interest	92,000	-	-	-	-	-	92,000
variable interest	19,333	-	-	-	-	-	19,333
non-interest-bearing	-	-	-	-	-	-	-
Liabilities from issued securities	**243,900**	**28,482**	**135,201**	**314,375**	**601,560**	-	**1,323,518**
fixed interest	13,900	28,482	135,201	314,375	601,560	-	1,093,518
variable interest	230,000	-	-	-	-	-	230,000
Derivative liabilities	**208,669**	**544,074**	-	-	-	-	**752,743**
fixed interest	-	246,621	-	-	-	-	246,621
variable interest	208,669	297,453	-	-	-	-	506,122
Net position	461,991	(287,370)	(83,104)	7,223	(3,916)	-	94,824

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 , amounts due from banks and balances with the National Bank of Hungary	**1,429**	-	-	-	-	-	**1,429**
fixed interest	-	-	-	-	-	-	-
variable interest	1,429	-	-	-	-	-	1,429
Placements with other banks, net of allowance fo placement losses							
fixed interest	**11,788**	-	-	-	-	-	**11,788**
variable interest	6,508	-	-	-	-	-	6,508
Securities available-for-sale	5,280	-	-	-	-	-	5,280
fixed interest	**5,533**	-	**45,405**	**20,322**	**1,733**	-	**72,993**
variable interest	5,533	-	45,405	20,322	1,733	-	72,993
Loans, net of allowance for loan losses	-	-	-	-	-	-	-
fixed interest	**562,699**	**33,227**	**194,469**	**98,567**	**237,056**	-	**1,126,018**
variable interest	34,642	-	-	-	-	-	34,642
Derivative assets	528,057	33,227	194,469	98,567	237,056	-	1,091,376
fixed interest	**78,799**	-	**23**	**22**	**240,683**		**319,527**
variable interest	78,799	-	23	22	240,683		319,527
LIABILITIES	-	-	-	-	-		-
Amounts due to OTP Bank Plc. and other banks							
fixed interest	**156,702**	**9,913**	-	-	-	-	**166,615**
variable interest	12,000	-	-	-	-	-	12,000
non-interest-bearing	144,702	9,913	-	-	-	-	154,615
Liabilities from issued securities	-	-	-	-	-	-	-
fixed interest	**21,078**	**7,392**	**193,245**	**146,226**	**604,630**	-	**972,571**
variable interest	-	7,392	156,547	146,226	604,630	-	914,795
Derivative liabilities	21,078	-	36,698	-	-	-	57,776
fixed interest	**256,135**	-	**24**	**21**	**49,340**	-	**305,520**
variable interest	77,232	-	24	21	49,340	-	126,617
	178,903	-	-	-	-	-	178,903
Net position	226,333	15,922	46,628	(27,336)	(174,498)	-	87,049

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 2008	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	1,631	-	-	-	1,631
Placements with other banks, net of allowance for placement losses	91,220	-	-	-	91,220
Financial assets at fair value through profit or loss	1,914	-	-	-	1,914
Securities available-for-sale	10,777	20,400	-	-	31,177
Loans, net of allowance for loan losses	13,593	40,720	219,932	1,181,038	1,455,283
Accrued interest receivable	24,933	-	-	-	24,933
Property, equipment and intangible assets, net	-	-	451	23	474
Other assets	5,275	99	-	-	5,374
TOTAL ASSETS	149,343	61,219	220,383	1,181,061	1,612,006
Amounts due to OTP Bank Plc. and other banks	111,333	-	-	-	111,333
Liabilities from issued securities	40,805	133,577	1,022,496	126,640	1,323,518
Accrued interest payable	58,513	-	-	-	58,513
Other liabilities	19,256	49	33,755	-	53,060
TOTAL LIABILITIES	229,907	133,626	1,056,251	126,640	1,546,424
Share capital	-	-	-	27,000	27,000
Retained earnings and reserves	-	-	-	38,582	38,582
TOTAL SHAREHOLDERS' EQUITY	-	-	-	65,582	65,582
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	229,907	133,626	1,056,251	192,222	1,612,006
LIQUIDITY (DEFICIENCY)/EXCESS	(80,564)	(72,407)	(835,868)	988,839	-

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

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, amounts 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 profit or loss	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
Property, equipment and intangible assets, net	-	-	371	113	484
Other assets	9,286	856	-	-	10,142
TOTAL ASSETS	**54,765**	**91,048**	**237,191**	**856,023**	**1,239,027**
Amounts due to OTP Bank Plc. and other banks	166,615	-	-	-	166,615
Liabilities from issued securities	7,382	193,629	621,469	150,091	972,571
Accrued interest payable	45,284	-	-	-	45,284
Other liabilities	691	87	2,905	3,635	7,318
TOTAL LIABILITIES	**219,972**	**193,716**	**624,374**	**153,726**	**1,191,788**
Share capital	-	-	-	27,000	27,000
Retained earnings and reserves	-	-	-	20,239	20,239
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**47,239**	**47,239**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**219,972**	**193,716**	**624,374**	**200,965**	**1,239,027**
LIQUIDITY (DEFICIENCY)/ EXCESS	**(165,207)**	**(102,668)**	**(387,183)**	**655,058**	**-**

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.)

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 2008	2007
Foreign exchange	28	-
Interest rate	136	234
Equity instruments	-	-
Diversification	(53)	-
Total VaR exposure	**111**	**234**

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 25.3 below and, for interest rate risk, in 25.2 below.

NOTE 25: SENSITIVITY ANALYSIS [continued]

25.2 Interest rate sensitivity analysis

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

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

The simulation were prepared by assuming two scenarios:

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

The net interest income in a one year period after 31 December 2008 would be decreased by HUF 207 million (probable scenario) and HUF 781 million (alternative scenario) as a result of these simulation.

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

Description	Effects to the net interest income in one year period	
	2008	2007
	In HUF million	In HUF million
HUF (0.1%) parallel shift	(25)	(128)
EUR (0.1%) parallel shift	(44)	(5)
USD 0.1% parallel shift	0	0
Total	(69)	(133)

NOTE 25: SENSITIVITY ANALYSIS [continued]

25.3 Foreign exchange rate sensitivity analysis

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

The total net open position of OTP Mortgage Bank Ltd. was 1,906 million HUF long on 31 December 2008, which consisted of EUR, CHF and JPY exposure. Considering the volatilities estimated at the given reference date (14.8%, 22.0% and 32.5% respectively), we assumed a +/- 17.3%, 25.6% and 37.8% 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.

		2008			**2007**	
	Price Shock	-	+	Price Shock	-	+
EUR	14.8%	(22.4)	26.6	4.7%	4.8	(5.1)
CHF	22.0%	(295.9)	382.2	7.4%	136.5	(148.8)
JPY	32.5%	(143.2)	209.1	14.0%	(113.0)	132.9
TOTAL		(461.5)	617.9		28.3	(21.0)

figures in millon HUF

OTP Mortgage Bank Ltd. will have negative P/L impact, when HUF strengthens against key currencies, which coincides with the decrease of risk costs. Compared to 2007, the increased loss is partially due to increased exposure, the second key impact is the increased volatility of the market. Yet potential loss is marginal compared to the regulatory capital of the bank.

25.4 Equity sensitivity analysis

The Bank has no equity instruments held in 2008 and 2007, therefore not exposed to equity risk.

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 2008	Net profit for the year ended 31 December 2008	FVA of securities available-for-sale and derivative financial instruments	Dividend and permanent money transfer	Retained Earnings and Reserves as at 31 December 2008
Hungarian financial statements	**21,024**	**11,447**	**-**	**(4,000)**	**28,471**
Adjustments to Hungarian financial statements:					
Fair value adjustment of available-for-sale financial assets	1,043	(7)	(765)	-	271
Deferred fees on issuance of securities	1,164	(2,428)	-	-	(1,264)
Effect of using effective interest rate method	650	8,689	-	-	9,339
Fair value adjustment of derivative financial instruments	(3,771)	2,148	985	-	(638)
Deferred taxation	129	(1,682)	(44)	-	(1,597)
Dividend payable for 2007	-	-	-	4,000	4,000
IFRS financial statements	**20,239**	**18,167**	**176**	**-**	**38,582**

NOTE 27: POST BALANCE SHEET EVENTS

From 1 January 2009 to 28 February 2009 the Bank issued securities with the face value of HUF 300,000 million. During the two months period ended 28 February 2009 bonds with the face value of 302,076 million were repurchased by the Bank.

On 30 January 2009 OTP Bank Plc. provided CHF 15 million subordinated loan to OTP Mortgage Bank with 3 month interest period and with the maturity of 8 years. The capital adequacy ratio of the Bank was 9.06% at the date of disbursement.

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 by the Bank. The investigation process was extended by 180 days at August 2008.
In March 2008 the GVH involved the Bank in an investigation because of assumed unfair influence of consumers decisions by the Bank.
At the date when these financial statements were authorised for issue (2 February 2009) there was not enough information to make a reliable estimate concerning the amount of a provision for a possible future penalty, if any.

NOTE 28: THE EFFECT OF THE FINANCIAL SITUATION ON THE BANK

The lack of trust and liquidity problems pursuant to the bankruptcy of Lehman Brothers on 15 September 2008 seriously hit Hungary in October 2008, having a high level of external debt and a banking system with a considerable debt denominated in foreign currencies, but the situation was mitigated and turned better after a 25.1 billion USD financial aid in form of a stand-by loan agreement with International Monetary Fund. The lack of trust caused the course of the forint to fall, accompanied by the fall of the other currencies in the region. The government bond yields raised sharply by hundreds of basis points. To stabilise the situation, the National Bank of Hungary raised the interest rates by 300 basis points, moreover – similarly to other central banks in the region – took various measures to resolve the lack of liquidity and to increase the stability of the banking sector.

The measures taken - affecting the risk costs in Hungary - are the following:

- Based on the agreement of the Hungarian Bank Association and the Ministry of Finance, the transformation of loans from foreign currencies and other types of transactions for the customers having foreign currency loans were free of any commission or charge until 28 February 2009,
- In March 2009, a law came into force about the state guarantee for the retail customers having lost their employment in consequence of the crisis.

NOTE 28: THE EFFECT OF THE FINANCIAL SITUATION ON THE BANK [continued]

- The global lack of liquidity caused the market to appreciate those having stable liquidity and sufficient own funds. As a consequence, the management put considerable emphasis on generating own funds (i.e. issuing retail securities) and set up stricter conditions in loan origination. The increasing refinancing costs were partially devolved to customers, and stricter conditions in loan origination were introduced:

  - decrease in the available contract limits
  - suspension of the purely collateral based mortgage loans
  - suspension of the disbursements in some segments

  As a consequence of the above measures, the volume of the loans disbursed reduced significantly in the fourth quarter.

- The possibility of receiving new funds from the capital markets have decreased considerably, and no other external fund has been received by the Bank. However, the Bank could preserve its stable liquidity position. The Bank has a stable liquid asset surplus beyond its liquid funds, furthermore the National Bank of Hungary took several new measures to enhance the liquidity and stability of the banking sector parallel to the similar measures of the central banks in the region.

- The swap markets potential to provide the necessary liqudity for the lending activity in foreign currencies, have shrinked significantly in 2008, mainly in the last quarter. Despite this, the renewal of the swap transactions were continous, although accompanied by decreasing spreads. The increasing loss on the swap deals is partially compensated by the devolution of the costs to customers in the form of higher interest rates on loans.

For 2009, the management expects a slackening market in the regional banking sector. Due to the shrinkening interbank funds, potential growth of the loan portfolio will only be possible if the growth in the deposits in the commercial banking sector remains stable.