Financial Reports

Deloitte

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of OTP Bank Plc.

We have audited the accompanying consolidated financial statements of OTP Bank Plc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2008, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 60 to 108 of this Annual Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of OTP Bank Plc. and its subsidiaries as of December 31, 2008, and of its consolidated 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 20, 2009

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Gion Gábor	Nagyváradiné Szépfalvi Zsuzsanna
Deloitte Auditing and Consulting Ltd.	Registered Auditor
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Balance Sheet

(consolidated, based on IFRS, as at 31 December 2008, in HUF million)

	Note	2008	2007
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	348,849	353,243
Placements with other banks, net of allowance for placement losses	5.	593,542	654,788
Financial assets at fair value through profit or loss	6.	129,332	285,895
Securities available-for-sale	7.	481,257	473,925
Loans, net of allowance for loan losses	8.	6,730,170	5,582,437
Accrued interest		87,793	63,459
Associates and other investments	9.	10,467	9,892
Securities held-to-maturity	10.	321,733	317,557
Property and equipment	11.	200,359	188,486
Intangible assets	11.	269,342	353,423
Other assets	12.	206,592	178,769
TOTAL ASSETS		**9,379,436**	**8,461,874**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	13.	842,867	798,154
Deposits from customers	14.	5,219,226	5,038,372
Liabilities from issued securities	15.	1,526,639	985,265
Accrued interest payable		99,141	60,153
Fair value of derivative financial instruments designated as held for trading		125,487	12,920
Other liabilities	16.	200,957	370,269
Subordinated bonds and loans	17.	316,148	301,164
TOTAL LIABILITIES		**8,330,465**	**7,566,297**
Share capital	18.	28,000	28,000
Retained earnings and reserves	19.	1,160,935	976,225
Treasury shares	20.	(146,749)	(114,001)
Minority interest	21.	6,785	5,353
TOTAL SHAREHOLDERS' EQUITY		**1,048,971**	**895,577**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**9,379,436**	**8,461,874**

The accompanying notes to consolidated financial statements on pages 64 to 108 form an integral part of these consolidated financial statements.

Statements of Operations

(consolidated based on IFRS, for the year ended 31 December 2008, in HUF million)

	Note	2008	2007
Interest Income:			
Loans		720,650	586,883
Placements with other banks		172,586	95,793
Amounts due from banks and balances with the National Bank of Hungary		16,161	12,824
Securities held for trading		7,029	7,272
Securities available-for-sale		32,402	34,145
Securities held-to-maturity		26,624	29,938
Total Interest Income		975,452	766,855
Interest Expense:			
Amounts due to banks and deposits from the National Bank of Hungary and other banks		226,809	76,147
Deposits from customers		221,607	172,506
Liabilities from issued securities		72,750	50,197
Subordinated bonds and loans		17,009	16,438
Total Interest Expense		538,175	315,288
NET INTEREST INCOME		**437,277**	**451,567**
Provision for impairment on loan and placement losses	5., 8.	111,449	58,184
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES		**325,828**	**393,383**
Non-Interest Income:			
Fees and commissions		181,765	168,913
Foreign exchange gains, net		130,527	8,399
(Losses)/gains on securities, net		(1,096)	5,085
Gains on real estate transactions		1,807	1,371
Dividend income and gains and losses of associated companies		2,466	993
Insurance premiums		60,432	83,591
Gain on sale of insurance business line	40.	121,186	–
Other		27,801	40,067
Total Non-Interest Income		524,888	308,419
Non-Interest Expenses:			
Fees and commissions		46,534	35,903
Personnel expenses		167,461	147,831
Depreciation and amortization	11.	132,201	35,627
Insurance expenses		47,178	69,204
Administration expenses		116,783	106,484
Other	22.	66,192	57,801
Total Non-Interest Expense		576,349	452,850
PROFIT BEFORE INCOME TAX		**274,367**	**248,952**
Income tax	23.	(33,299)	(40,404)
NET PROFIT FOR THE YEAR		**241,068**	**208,548**
From this, attributable to:			
Minority interest		596	340
Equity holders		240,472	208,208
Consolidated earnings per share (in HUF)			
Basic	36.	938	796
Diluted	36.	935	794

The accompanying notes to consolidated financial statements on pages 64 to 108 form an integral part of these consolidated financial statements.

Statement of Cash Flows

(consolidated, based on IFRS, for the year ended 31 December 2008, in HUF million)

OPERATING ACTIVITIES	Note	2008	2007
Profit before income tax		**274,367**	**248,952**
Income tax paid		(35,475)	(45,005)
Goodwill impairment	11.	93,592	–
Depreciation and amortization	11.	38,609	35,627
Provision for impairment on loan and placement losses	5., 8.	111,449	58,184
Provision for impairment on permanent diminution in value of equity investments	9.	463	131
Provision for impairment on other assets	22.	11,290	8,386
Provision for impairment on off-balance sheet commitments and contingent liabilities	16.	4,731	4,018
Net (decrease)/increase in insurance reserves		(183,211)	20,604
Share-based payment	2., 26.	28	5,123
Changes in fair value adjustment of securities held for trading		(5,010)	695
Unrealised gains/(losses) on fair value adjustment of derivative financial instruments		78,937	(44,522)
Changes in financial assets at fair value through profit or loss		168,518	(32,298)
Increase in accrued interest		(24,259)	(8,338)
Increase in other assets, excluding advances for investments and before provisions for losses		(37,808)	(18,649)
Increase in accrued interest payable		38,886	14,021
(Decrease)/increase in other liabilities		(66,897)	4,072
Net Cash Provided by Operating Activities		**468,210**	**251,001**
INVESTING ACTIVITIES			
Net decrease in placement with other banks before provision for placements losses		61,922	16,315
Net increase in securities available-for-sale		(31,827)	(94,121)
Net (increase)/decrease in equity investments, before provision		(990)	61,133
Net cash outflow from acquisition of subsidiaries	29.	(4,806)	(58,303)
Net increase in securities held-to-maturity		(4,169)	(47,990)
Net (increase)/decrease in advances for investments, included in other assets		(246)	254
Net increase in loans, net of allowance for loan losses		(1,175,078)	(1,179,630)
Net additions to property, equipment and intangible assets		(53,126)	(66,744)
Net Cash Provided by Investing Activities		**(1,208,320)**	**(1,369,086)**
FINANCING ACTIVITIES			
Net increase in amounts due to banks and deposits from the National Bank of Hungary and other banks		44,713	118,469
Net increase in deposits from customers		160,449	671,271
Net increase in liabilities from issued securities		591,307	203,950
Increase in subordinated bonds and loans		14,723	50,438
Increase of minority interest		1,432	127
Foreign currency translation losses		(21,978)	(5,579)
Effect on ICES – exchangeable bond transaction recognised through equity		(11,202)	(5,640)
Effect of Treasury share transactions		(7,499)	–
Net change in Treasury shares		(36,172)	(54,182)
Net decrease/(increase) in compulsory reserves at National Bank of Hungary	4.	87,857	(22,416)
Dividends paid		(57)	(40,151)
Net Cash Provided by Financing Activities		**823,573**	**916,287**
Net Increase in Cash and cash equivalents		**83,463**	**(201,798)**
Cash and cash equivalents as at 1 January		194,860	396,658
Cash and cash equivalents as at 31 December		**278,323**	**194,860**
Analysis of cash and cash equivalents opening and closing balance			
Cash, amounts due from banks and balances with the National Bank of Hungary		353,243	532,625
Compulsory reserve established by the National Bank of Hungary		(158,383)	(135,967)
Cash and cash equivalents as at 1 January		**194,860**	**396,658**
Cash, amounts due from banks and balances with the National Bank of Hungary		348,849	353,243
Compulsory reserve established by the National Bank of Hungary		(70,526)	(158,383)
Cash and cash equivalents as at 31 December		**278,323**	**194,860**

The accompanying notes to consolidated financial statements on pages 64 to 108 form an integral part of these consolidated financial statements.

Statement of Changes in Shareholders' Equity

(consolidated, based on IFRS, for the year ended 31 December 2008, in HUF million)

	Note	Share Capital	Retained Earnings and Reserves	Treasury shares	Minority interest	Total
Balance as at 1 January 2007		**28,000**	**820,819**	**(63,716)**	**3,110**	**788,213**
Net profit for the year		–	208,548	–	(340)	208,208
Fair value adjustment of securities available-for-sale recognised directly through equity		–	(858)	–	–	(858)
Fair value adjustment of derivatives on equity instruments recognised through equity		–	(387)	–	–	(387)
Share-based payment	26.	–	5,123	–	–	5,123
Dividend for the year 2006		–	(40,320)	–	–	(40,320)
Loss on sale of Treasury shares		–	(3,897)	–	–	(3,897)
Acquisition of Treasury shares		–	–	(50,285)	–	(50,285)
Derivative financial instruments designated as cash flow hedge		–	(1,196)	–	–	(1,196)
Dividend on equity instrument (ICES)		–	(5,640)	–	–	(5,640)
Foreign currency translation gain	19.	–	(5,627)	–	–	(5,627)
Minority interest		–	(340)	–	2,583	2,243
Balance as at 31 December 2007		**28,000**	**976,225**	**(114,001)**	**5,353**	**895,577**
Net profit for the year		–	241,068	–	(596)	240,472
Fair value adjustment of securities available-for-sale recognised directly through equity		–	(12,862)	–	–	(12,862)
Fair value adjustment of derivatives on equity instruments recognised through equity		–	387	–	–	387
Share-based payment	26.	–	28	–	–	28
Effect of Treasury shares transaction		–	(7,499)	–	–	(7,499)
Loss on sale of Treasury shares		–	(3,424)	–	–	(3,424)
Acquisition of Treasury shares		–	–	(32,748)	–	(32,748)
Derivative financial instruments designated as cash flow hedge		–	788	–	–	788
Dividend on equity instrument (ICES)	19.	–	(11,202)	–	–	(11,202)
Foreign currency translation gain		–	(21,978)	–	–	(21,978)
Minority interest		–	(596)	–	2,028	1,432
Balance as at 31 December 2008		**28,000**	**1,160,935**	**(146,749)**	**6,785**	**1,048,971**

The accompanying notes to consolidated financial statements on pages 64 to 108 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. (the 'Bank' or 'OTP') was established on 31 December 1990, when the previously State-owned company was transformed into a public liability company. The Bank's registered office address is 16, Nador street, Budapest 1051.

In 1995, the shares of the Bank were listed on the Budapest and the Luxembourg stock exchanges and were also listed on the SEAQ board on the London Stock Exchange and PORTAL in the USA.

As at 31 December 2008 approximately 91% of the shares of the Bank were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (2%) and the Bank itself (7%).

The Bank and its subsidiaries ('Entities of the Group', together the 'Group') provide a full range of commercial banking services through a wide network of 1,601 branches. The Group has operations in Hungary, Bulgaria, Slovakia, Romania, Croatia, Serbia, Ukraine, Russia and Montenegro.

As at 31 December 2008 the number of employees at the Group was 30,776. The average number of employees for year ended 31 December 2008 was 30,710.

1.2. Accounting

The Entities of the Group maintain their accounting records and prepare its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary and in case of foreign subsidiaries in accordance with the local commercial, banking and fiscal regulations.

The Group's functional currency is the Hungarian Forint ('HUF').

Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with International Financial Reporting Standards ('IFRS'). Certain adjustments have been made to the entities' statutory accounts in order to present the consolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ('IASB'), which are referred to as IFRS.

The consolidated 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 Group does not apply portfolio hedge accounting under

IAS 39, there would be no impact on these consolidated financial statements, had it been approved by the EU at the balance sheet date.

The Financial Statements were authorised for issue on 20 March 2009.

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

Four Standards and Interpretations issued by the IASB and International Financial Reporting Interpretations Committee ('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 Treasury 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 presented Amendment and Interpretations had no significant impact on the consolidated financial statements of the Group. IFRIC 12 is not yet endorsed by the EU.

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 July 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 1 July 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 a 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)

The adoption of the above presented Amendment and Interpretations would have no significant impact on the consolidated financial statements of the Group.

*Not yet endorsed by the EU.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

These Consolidated 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 Consolidated Financial Statements in conformity with IFRS requires the management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates, quoted by the National Bank of Hungary ('NBH'), or if there is no official rate, at exchange rates quoted by OTP as at the date of the Consolidated 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 Consolidated Statements of Operations.

Net differences resulting from translating foreign currency financial statements of consolidated subsidiaries are presented as an element of the Retained earnings and reserves in the Consolidated Balance Sheet.

Goodwill arising on acquisition is expressed in the functional currency of the foreign operation and translated at the closing rate in the Consolidated Balance Sheet. The resulting the foreign currency translation difference is presented as an element of the Retained earnings and reserves in the Consolidated Balance Sheet.

2.3. Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank holds a controlling interest. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 30. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.10.).

2.4. Accounting for acquisitions

Upon acquisition, subsidiaries are accounted for under the purchase method of accounting. Any goodwill arising on acquisition is recognized in the Consolidated Balance Sheet and accounted for as indicated below.

The Group has applied IFRS 3 Business Combinations since 31 March 2004 for acquisitions after that date. Goodwill, which represents the residual cost of the acquisition after recognizing the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements. If the Group losses control of a subsidiary, derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognises any difference as a gain or loss on the sale attributable to the parent in Statement of Operation.

Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

OTP Group calculates the fair value of the goodwill using a discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which OTP Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

OTP Group, in its strategic plan, has taken into consideration the effects of the present global economic crisis, the probable economic decline and their possible influence on the financial sector as well as the limited external refinancing funds, the lower possibility of the expansion and the prospective effects of all these above mentioned factors.

Negative goodwill, when the interest of the acquierer in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statements of Operations as other income.

2.5. Securities held-to-maturity

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts.

The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognised in each period represents a constant yield on the investment.

Held-to-maturity securities include securities, which the Group has the ability and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government and NBH and mortgage bonds.

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities 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. Such securities consist of Hungarian and foreign discounted and interest bearing Treasury bills, Hungarian government bonds, mortgage bonds, corporate bonds and other securities. Other securities include shares in commercial companies and shares in investment funds.

2.6.2. Derivative financial instruments

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Group 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 Consolidated Statements of Operations for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.6.3. 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 Consolidated Statements 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 Consolidated Statements 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 the hedged risk are recognised in the reserve among Consolidated Shareholders' Equity. Amounts deferred in equity are transferred to the Consolidated Statements of Operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Consolidated Statements of Operations for the period. The ineffective element of the hedge is charged directly to the Consolidated Statements of Operations.

Certain derivative transactions, while providing effective economic hedges under the risk management policy of the Group, 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 Consolidated Statements of Operations.

2.7. 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 Hungarian and foreign discounted and interest bearing Treasury bills, government bonds, mortgage bonds and other securities. Other securities include shares in investment funds, shares in commercial companies, municipality bonds, foreign government bonds. Available-for-sale securities are remeasured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and any unquoted equity instruments are measured at cost.

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less provision for impairment, when appropriate.

2.8. Loans, placements with other banks and allowance for loan and placement losses

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amount outstanding. 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 unpaid interest is reversed and accruals are stopped.

The amount of allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including

amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.
Allowance for losses on loans and placements with other banks represent management assesment for potential losses in relation to these activities.

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified and for potential losses which may be present based on portfolio performance.

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

2.9. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in Other liabilities or Amounts due to banks and deposits from the NBH and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Other assets. Interest is accrued evenly over the life of the repurchase agreement.

2.10. Associates and other investments

Companies where the Bank has the ability to exercise significant influence are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is not material to the consolidated financial statements as a whole.

Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a controlling or significant interest are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate.

Gains and losses on the sale of equity investments are determined on the basis of the specific identification of the cost of each investment.

2.11. Property and equipment, Intangible assets

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

Property	1–10%
Office equipment	2.5–64%
Vehicles	3–33.33%
Leased assets	1.2–33%
Software	4–50%
Property rights	10–50%

Depreciation and amortization on Property and equipment and Intangible assets commence on the day such assets are placed into service.

At each balance sheet date, the Group 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of Property and equipment and Intangible assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

2.12. Financial liabilities

The financial liabilities are disclosed within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. In connection to the financial liabilities at fair value through profit or loss, the Bank presented the amount of change in their fair value originated from the changes of market conditions and business environment.

2.13. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as other receivables at the amount of the net investment in the lease of the Group. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the net investment outstanding of the Group in respect of the leases. Direct costs such as commissions are included in the initial measurement of the finance lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Consolidated Statements of Operations over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding. Payments made under operating leases are charged to the Consolidated Statements of Operations on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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2.14. Insurance reserves

The insurance business line was sold in September 2008.

Insurance reserves are accrued for liabilities from life and non-life insurance contracts and are included in Other liabilities. The level of such reserves reflects the amount of future liabilities expected as at the date of the Consolidated Financial Statements. The provision for outstanding claims and claim settlement expenses for non-life policies are based upon estimates of the expected losses for all classes of business. The reserve includes reported claims, claims incurred but not reported and claim adjustment expenses. This provision takes into account mortality factors within Hungary and other countries where insurance operations are conducted and is based upon mortality tables approved by regulatory authorities.

2.15. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Balance Sheet at acquisiton cost as a deduction from Consolidated Shareholders' Equity.

Gains and losses on the sale of Treasury shares are credited or charged directly to consolidated Retained earnings and reserves. Derecognition of Treasury shares is based on the FIFO method.

2.16. Interest income and interest expense

The interest income and expense are recognised on the accrual basis and based on the IAS 18 Revenue, referring to IAS 39.

2.17. Fees and Commissions

Fees and commissions are recognised in the Consolidated Statements of Operations on an accrual basis based on IAS 18, referring to IAS 39 fees and commissions are recognised using the effective interest method.

2.18. Income taxes

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, 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 apply to the future period when the asset is expected to be realised or the liability is settled.

Deferred tax assets are recognized by the Group 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.

2.19. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The provision for impairment on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Group recognises a provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.20. Share-based payment

The Bank issues equity-settled share-based payment to certain employees. Equity-settled share-based payment is measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest.

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2.21. Consolidated Statement of Cash Flows

For the purposes of reporting consolidated cash flows, cash and cash equivalents include cash, due from banks and balances with the NBH, excluding the compulsory reserve established by the NBH. Consolidated cash flows from hedging activities are classified in the same category as the item being hedged. The unrealised 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.

2.22. Segment reporting

Segment information is based on two segments formats. The primary format represents the geographical markets of the Group. The secondary format represents three business segments – banking (finance), insurance and other. The insurance business line was sold in September 2008.

Segment results include revenue and expenses directly attributable to a segment and the revelant portion of revenue and expenses that can be allocated to a segment, whether from external transactions or from transactions with other segments of the Group.

Unallocated items mainly comprise administrative expenses. Segment results are determined before any adjustments for minority interest.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment on a resonable basis. Segment assets are determined after deducting related adjustments that are reported as direct offsets in the balance sheet of the Group.

2.23. Comparative figures

Certain amounts in the consolidated financial statements for the year ended 31 December 2007 have been reclassified to conform with the current year presentation. These reclassifications were not material.

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

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

3.1. Impairment on loans and advances

The Group regularly assesses its loan portfolio for 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. Provisioning involves many uncertainties about the outcome of those risks and requires the management of the Group to make many subjective judgements in estimating the loss amounts.

3.2. Valuation of instruments without direct quotations

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

3.3. Provisions

Provisions are recognised and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for (see Note 16.).

A provision is recognised by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3.4. Insurance liabilities

The insurance business line was sold in September 2008. See Note 40.

Insurance liabilities for life and non-life insurance contracts reflect the amount of future liabilities expected at the date of the consolidated financial statements. Such reserves are based on past experience, mortality tables and management estimates. Changes in these assumptions may affect the level of such liabilities.

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

	2008	2007
Cash on hand:		
In HUF	67,012	51,038
In foreign currency	101,946	90,850
	168,958	**141,888**
Amounts due from banks and balances with the NBH:		
Within one year:		
In HUF	73,909	170,019
In foreign currency	105,982	41,336
	179,891	**211,355**
Total	**348,849**	**353,243**

Based on the requirements for compulsory reserve, set by the NBH, the balance of compulsory reserves maintained by the Group amounted to HUF 70,526 million and HUF 158,383 million for the years ended 31 December 2008 and 2007, respectively.

NOTE 5: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn)

	2008	2007
Within one year:		
In HUF	65,873	22,721
In foreign currency	510,219	594,408
	576,092	**617,129**
Over one year:		
In HUF	2,000	2,700
In foreign currency	15,820	35,001
	17,820	**37,701**
Provision for impairment on placement losses	(370)	(42)
Total	**593,542**	**654,788**

An analysis of the change in the provision for impairment on placement with other banks, net of allowance for placement losses is as follows:

	2008	2007
Balance as at 1 January	**42**	**–**
Provision for the year	329	40
Foreign currency translation difference	(1)	2
Balance as at 31 December	**370**	**42**

Placements by foreign subsidiaries with their respective National Banks amounted to HUF 180,547 million and HUF 284,885 million for the years ended 31 December 2008 and 2007, respectively.

Placements with other banks in foreign currency bear interest rates in the range of 0.02% to 30% and of 0.05% to 11.99% as at 31 December 2008 and 2007, respectively.

Placements with other banks in HUF bear interest rates in the range of 5.7% to 16.0% and of 3.9% to 14.13% as at 31 December 2008 and 2007, respectively.

The provision for impairment on placement losses amounted to HUF 370 million and HUF 42 million as at 31 December 2008 and 2007, respectively.

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

	2008	2007
Securities held for trading:		
Government bonds	48,388	90,330
Hungarian government interest bearing Treasury bills	2,608	2,406
Treasury bills	1,373	24,143
Mortgage bonds	422	807
Corporate bonds	352	72,443
Other securities	3,530	31,828
	56,673	**221,957**
Derivative financial instruments designated as held for trading	**72,659**	**63,938**
Total	**129,332**	**285,895**

Securities held for trading are measured at fair value in the financial statements of the Group which approximates book value.

Approximately 13% and 17% of the government bonds were denominated in foreign currency as at 31 December 2008 and 2007, respectively. Approximately 29%, 24%, 33% and 14% of this portfolio was denominated in EUR, BGN, RUB and RON as at 31 December 2008, and 10%, 22%, 17%, and 51% of this portfolio was denominated in USD, EUR, BGN and RUB as at 31 December 2007.

Interest rates on securities held for trading ranges from 2.8% to 13.7% and from 2% to 12.1% as at 31 December 2008 and 2007, respectively.

Interest conditions and the remaining maturities of held for trading securities can be analysed as follows:

	2008	2007
Within five years		
with variable interest	401	25,803
with fixed interest	34,362	138,752
	34,763	**164,555**
Over five years		
with variable interest	1,208	–
with fixed interest	17,822	51,820
	19,030	**51,820**
Non-interest bearing securities	**2,880**	**5,582**
Total	**56,673**	**221,957**

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

	2008	2007
Securities available-for-sale:		
Government bonds	298,558	271,111
Corporate bonds	141,878	133,778
Treasury bills	19,792	25,247
Mortgage bonds	415	264
Other securities	23,977	43,555
	484,620	**473,955**
Provision for impairment on securities available-for-sale	**(3,363)**	**(30)**
Total	**481,257**	**473,925**

Securities available-for-sale are measured at fair value in the financial statements of the Group which approximates book value. Except when these is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity were reclassified from equity to Statement of Operations.

Approximately 57% and 60% of the available-for-sale securities portfolio was denominated in HUF as at 31 December 2008 and 2007, respectively.

Approximately 19% of the government bonds were denominated in foreign currency as at 31 December 2008 and 2007. Approximately 8%, 12%, 30%, 24%, 6%, 20% of this portfolio was denominated in USD, EUR, HRK, BGN, UAH and SKK as at 31 December 2008 , and 7%, 35%, 29%, 16%, 11% and 2% of this portfolio was denominated in USD, EUR, HRK, BGN, UAH and other foreign currencies as at 31 December 2007.

Interest rates on securities available-for-sale ranges from 1% to 26% and from 2% to 16.5% as at 31 December 2008 and 2007, respectively.

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

	2008	2007
Within five years		
with variable interest	154,598	30,672
with fixed interest	163,571	256,643
	318,169	**287,315**
Over five years		
with variable interest	82,736	66,247
with fixed interest	63,330	85,137
	146,066	**151,384**
Non-interest bearing securities	**20,385**	**35,256**
Total	**484,620**	**473,955**

An analysis of the change in the provision for impairment on securities available-for-sale is as follows:

	2008	2007
Balance as at 1 January	**30**	**29**
Provision for the year	3,332	1
Foreign currency translation difference	1	–
Balance as at 31 December	**3,363**	**30**

Certain fixed-rate corporate bonds and other securities mainly denominated in foreign currency are hedged by derivative financial instruments to reduce the exposure to interest rate risk or the changes in fair value of these assets. Where the hedging relationships are designated and a HUF 1,102 million gain and HUF 308 million net loss that had been recognised directly in equity was removed from equity and recognised in net profit and loss as at 31 December 2008 and 2007, respectively in line with IAS 39.

The fair value of the hedged bonds was HUF 20,335 million and HUF 29,457 million as at 31 December 2008 and 2007, respectively.

NOTE 8: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn)

	2008	2007
Short-term loans and trade bills (within one year)	1,776,696	1,640,455
Long-term loans and trade bills (over one year)	5,224,154	4,120,640
	7,000,850	**5,761,095**
Provision for impairment on loan losses	(270,680)	(178,658)
Total	**6,730,170**	**5,582,437**

Approximately 77% and 69% of total loan portfolio represent foreign currency loans, before allowance for losses as at 31 December 2008 and 2007, respectively.

Short-term loans and bills denominated in HUF bear interest rates in the range of 6% to 30% as at 31 December 2008 and 2007, respectively.

Long-term loans and trade bills denominated in HUF bear interest rates in the range of 2% to 25% and of 4% to 23% as at 31 December 2008 and 2007, respectively.

Foreign currency loans bear interest rates in the range of 1% to 66% and of 1% to 40% as at 31 December 2008 and 2007, respectively.

Approximately 4% and 3% of the gross loan portfolio represented loans on which interest is not being accrued as at 31 December 2008 and 2007, respectively.

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

	2008		2007	
Corporate loans	2,535,027	36%	2,227,693	39%
Retail loans	2,194,562	31%	1,536,364	27%
Housing loans	2,061,881	30%	1,766,219	30%
Municipality loans	209,380	3%	230,819	4%
Total	**7,000,850**	**100%**	**5,761,095**	**100%**

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

	2008	2007
Balance as at 1 January	178,658	127,611
Provision for the year	110,933	58,144
Write-offs	(10,537)	(6,274)
Foreign currency translation difference	(8,374)	(823)
Balance as at 31 December	**270,680**	**178,658**

The Group issued fixed rate mortgage bonds with the face value of EUR 1,000 million to finance its mortgage lending activity. Since the Group grants most of its mortgage loans in CHF, the Group entered into cross currency interest rate swap (CCIRS) contracts to hedge its exchange rate risk exposure. The hedging relationship is proved and documented.

According to IAS 39 an amount of HUF 9,173 million was recognised on hedging derivative instruments as a positive fair value adjustment and the same amount is recognised as a negative adjustment on mortgage bonds as at 31 December 2008. The nominal value of loans as designated hedged items is CHF 1,294 million and JPY 31,720 million.

NOTE 9: ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)

	2008	2007
Equity investments:		
Unconsolidated subsidiaries	7,529	6,741
Associated companies (non-listed)	987	998
Other investments (non-listed)	2,830	2,495
	11,346	**10,234**
Provision for impairment on equity investment	(879)	(342)
Total	**10,467**	**9,892**

	2008	2007
Total assets of unconsolidated subsidiaries	**122.597**	**69.265**

An analysis of the change in the provision for impairment on equity investment is as follows:

	2008	2007
Balance as at 1 January	342	207
Provision for the year	463	131
Foreign currency translation difference	74	4
Balance as at 31 December	**879**	**342**

NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn)

	2008	2007
Government securities	172,753	201,670
Bonds issued by NBH	109,684	97,085
Mortgage bonds	15,171	13,022
Hungarian government discounted Treasury bills	4,545	1,140
Other securities	19,692	4,688
Total	321,845	317,605
Provision for impairment on securities held-to-maturity	(112)	(48)
Total	**321,733**	**317,557**

Interest conditions and the remaining maturities of securities held-to-maturity can be analysed as follows:

	2008	2007
Within five years		
with variable interest	34,118	30,304
with fixed interest	244,157	228,191
	278,275	**258,495**
Over five years		
with variable interest	17,280	32,856
with fixed interest	26,290	26,254
	43,570	**59,110**
Total	**321,845**	**317,605**

Approximately 83% and 85% of the securities held-to-maturity portfolio was denominated in HUF as at 31 December 2008 and 2007, respectively. In most cases, interest on variable rate bonds is based on the interest rates of 90 day Hungarian government Treasury bills and is adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF ranges from 2.8% to 13.8% and from 2.5% to 9.5% as at 31 December 2008 and 2007, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

The fair value of securities held-to-maturity was HUF 310,723 million and HUF 310,513 million as at 31 December 2008 and 2007, respectively.

An analysis of the change in the provision for impairment on securities held-to-maturity is as follows:

	2008	2007
Balance as at 1 January	48	–
Provision for the year	173	168
Release of provision	(102)	(120)
Foreign currency translation difference	(7)	–
Balance as at 31 December	**112**	**48**

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the year ended 31 December 2008:

	Intangible assets and goodwill	Land and buildings	Office equipments	Construction in progress	Total
Cost					
Balance as at 1 January	409,437	129,034	131,647	16,544	686,662
Acquisition of subsidiary	17	1,714	246	9	1,986
Additions	22,833	18,615	22,971	24,057	88,476
Foreign currency translation differences	2,444	(887)	1,601	540	3,698
Disposals	**(22,407)**	**(6,155)**	**(12,759)**	**(25,502)**	**(66,823)**
Balance as at 31 December	**412,324**	**142,321**	**143,706**	**15,648**	**713,999**
Depreciation and Amortization					
Balance as at 1 January	56,014	17,108	71,631	–	144,753
Charge for the year (except for Goodwill impairment)	16,447	4,594	16,968	–	38,009
Goodwill impairment	93,592	–	–	–	93,592
Foreign currency translation differences	**(182)**	**(78)**	**762**	**–**	**502**
Disposals	**(22,889)**	**(1,325)**	**(8,344)**	**–**	**(32,558)**
Balance as at 31 December	**142,982**	**20,299**	**81,017**	**–**	**244,298**
Net book value					
Balance as at 1 January	353,423	111,926	60,016	16,544	541,909
Balance as at 31 December	**269,342**	**122,022**	**62,689**	**15,648**	**469,701**

An analysis of the changes in the goodwill for the year ended 31 December 2008 is as follows:

	Goodwill
Cost	
Balance as at 1 January	296,336
Additions	6,956
Foreign currency translation difference	3,115
Decrease	(322)
Balance as at 31 December	**306,085**
Net book value	
Balance as at 1 January	296,336
Balance as at 31 December	**212,493**

The Bank performed impairment tests to investigate, whether it is necessary to impair any goodwill for its cash generating units. Based on the result of the tests, HUF 21,118 million goodwill impairment was booked for OTP banka Srbija a.d. (Serbia) and HUF 72,474 million for CJSC OTP Bank (Ukraine), altogether HUF 93,592 million. As a result of the test, the goodwill for OTP banka Srbija a.d. was fully impaired as of 31 December 2008. The Bank performed the goodwill impairment test for all the cash generating units, but no further impairment was identified.

For the year ended 31 December 2007:

	Intangible assets and goodwill	Land and buildings	Office equipments	Construction in progress	Total
Cost					
Balance as at 1 January	346,370	110,186	111,398	13,537	581,491
Additions	62,896	24,451	29,029	28,976	145,352
Foreign currency translation differences	752	(487)	(167)	(61)	37
Disposals	(581)	(5,116)	(8,613)	(25,908)	(40,218)
Balance as at 31 December	**409,437**	**129,034**	**131,647**	**16,544**	**686,662**
Depreciation and Amortization					
Balance as at 1 January	40,110	15,404	61,261	–	116,775
Charge for the year	15,956	3,575	15,882	–	35,413
Foreign currency translation differences	(69)	(11)	90	–	10
Disposals	17	(1,860)	(5,602)	–	(7,445)
Balance as at 31 December	**56,014**	**17,108**	**71,631**	**–**	**144,753**
Net book value					
Balance as at 1 January	306,260	94,782	50,137	13,537	464,716
Balance as at 31 December	**353,423**	**111,926**	**60,016**	**16,544**	**541,909**

An analysis of the changes in the goodwill for the year ended 31 December 2007 is as follows:

	Goodwill
Cost	
Balance as at 1 January	256,685
Additions	38,442
Foreign currency translation difference	1,209
Balance as at 31 December	**296,336**
Net book value	
Balance as at 1 January	256,685
Balance as at 31 December	**296,336**

NOTE 12: OTHER ASSETS (in HUF mn)

	2008	2007
Receivables from leasing activities	69,195	48,908
Current income tax receivable	30,030	12,266
Inventories	29,521	23,372
Receivables from trade refinancing	15,033	29,213
Trade receivables	14,913	12,237
Fair value of derivative financial instruments designated as hedge accounting relationships	8,970	11,405
Due from Hungarian government for interest subsidies	7,630	3,552
Prepayments and accrued income	6,707	8,807
Other advances	6,188	8,538
Receivables due from pension funds and fund management	1,079	2,444
Receivables from investment services	929	1,425
Advances for securities and investments	758	512
Receivables due from insurance bond holders*	–	2,665
Other	22,334	20,086
	213,287	185,430
Provision for impairment on other assets	**(6,695)**	**(6,661)**
Total	**206,592**	**178,769**

* The insurance business line was sold in September 2008.

Provision for impairment on other assets mainly consists of provision for impairment on receivables from leasing activities and trade receivables.

An analysis of the movement in the provision for impairment on other assets is as follows:

	2008	2007
Balance as at 1 January	6,661	4,076
Provision for the year	117	2,726
Write-offs	(58)	(129)
Foreign currency translation difference	(25)	(12)
Balance as at 31 December	**6,695**	**6,661**

NOTE 13: AMOUNTS DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	2008	2007
Within one year:		
In HUF	131,773	98,269
In foreign currency	467,211	349,777
	598,984	**448,046**
Over one year:		
In HUF	88,865	70,185
In foreign currency	155,018	279,923
	243,883	**350,108**
Total	**842,867**	**798,154**

Amounts due to banks and deposits from the NBH and other banks payable in HUF within one year bear interest rates in the range of 7.5% to 11% and of 5.79% to 7.52% as at 31 December 2008 and 2007, respectively.

Amounts due to banks and deposits from the NBH and other banks payable in HUF over one year bear interest rates in the range of 3% to 9.9% and of 3% to 6.28% as at 31 December 2008 and 2007, respectively.

Amounts due to banks and deposits from the NBH and other banks payable in foreign currency within one year bear interest rates in the range of 0.01% to 18.9% and of 0.5% to 18.5% as at 31 December 2008 and 2007, respectively.

Amounts due to banks and deposits from the NBH and other banks payable in foreign currency over one year bear interest rates in the range of 0.5% to 8.9% and of 0.5% to 8% as at 31 December 2008 and 2007, respectively.

No assets are pledged as collateral against the amounts due to banks.

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2008	2007
Within one year:		
In HUF	2,528,185	2,487,829
In foreign currency	2,452,147	2,385,075
	4,980,332	**4,872,904**
Over one year:		
In HUF	131,651	107,279
In foreign currency	107,243	58,189
	238,894	**165,468**
Total	**5,219,226**	**5,038,372**

Deposits from customers payable in HUF within one year bear interest rates in the range of 0.2% to 13.8% and of 0.2% to 12% as at 31 December 2008 and 2007, respectively.

Deposits from customers payable in HUF over one year bear interest rates in the range of 0.2% to 11% and of 1.3% to 7.75% as at 31 December 2008 and 2007, respectively.

Deposits from customers payable in foreign currency within one year bear interest rates in the range of 0.05% to 30% and of 0.05% to 18%, as at 31 December 2008 and 2007, respectively.

Deposits from customers payable in foreign currency over one year bear interest rates in the range of 0.1% to 25% and of 0.1% to 19.6%, as at 31 December 2008 and 2007, respectively.

An analysis of deposits from customers by type, is as follows:

	2008		2007	
Retail deposits	3,573,985	69%	3,246,589	64%
Corporate deposits	1,366,459	26%	1,495,636	30%
Municipality deposits	278,782	5%	296,147	6%
Total	**5,219,226**	**100%**	**5,038,372**	**100%**

NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2008	2007
With original maturity:		
Within one year		
In HUF	165,977	201,761
In foreign currency	238,394	20,110
	404,371	221,871
Over one year		
In HUF	212,843	81,851
In foreign currency	909,425	681,543
	1,122,268	763,394
Total	**1,526,639**	**985,265**

Approximately 24% and 29% of the issued securities are denominated in HUF as at 31 December 2008 and 2007, respectively. They bear interest rates from 0.3% to 11% and from 0.3% to 10.5% as 31 December 2008 and 2007, respectively.
Liabilities from issued securities in foreign currency bear interest rates from 3.1% to 13.1% and from 2.6% to 10.5% as at 31 December 2008 and 2007, respectively.

The Bank issued variable-rate bonds with a face value of EUR 500 million on 1 July 2005 which are due on 1 July 2010, at 99.9%. Interest on these bonds is three month EURIBOR+0.16% that is payable quarterly.

The Bank issued variable-rate bonds with a face value of EUR 300 million on 20 December 2005 which are due on 20 December 2010, at 99.81%. Interest on these bonds is three months EURIBOR+0.15% that is payable quarterly.

On 26 February 2007, the Bank issued EUR 750 million floating rate notes due on 27 February 2009 at 99.87% under the European Medium Term Note Program (EMTN Program). Interest on these bonds is three month EURIBOR + 0.125% that is payable quarterly.

The Bank issued bonds with a nominal value of EUR 500 million at 99.812 % of the face value on 16 May 2008.

The bonds are fixed-rate senior bonds with a 3 year maturity. The bonds bear a coupon with a fixed rate of 5.75% interest paid annually. See Note 41. The price of the fixed rate senior bonds with 3 years maturity was set on 7 May 2008. The agents of the issue (which attracted approximately 30% oversubscription of the accepted amount) were DZ Bank AG and Morgan Stanley Ltd. The re-offer spread is 140 bps over the 3 year mid-swap, the bond bears a coupon of 5.75% fixed rate, with annual interest payments. The bonds were introduced to the Luxembourg Stock Exchange.

The Bank issued two series of bonds under HUF 100 billion bond issue program on 2 August 2007. The first series has a nominal value of HUF 7,143 million, and was issued between 16 June and 25 July 2008. The bonds are fixed-rate senior bonds with maturity as of 27 June 2009. The bonds bear a coupon of 8.7% fixed rate. The second series has a nominal value of HUF 50,984 million and was issued between 3 November and 31 December 2008. The bonds are fixed-rate senior bonds with maturity as of 31 October 2009. The bonds bear a coupon of 10% fixed rate.

OTP Mortgage Bank Ltd. issued fixed rate interest bearing mortgage bonds with a 5 year maturity denominated in EUR on 10 July 2006 with a value of EUR 750 million. Interest on these bonds is 4.25%.

OTP Mortgage Bank Ltd. issued fixed rate interest bearing mortgage bonds with a 2 year maturity denominated in EUR on 3 March 2008 with a value of EUR 1 billion. Interest on these bonds is 4.5%.

OTP Mortgage Bank Ltd. issued a fixed rate interest bearing mortgage bond with a 10 years maturity denominated in EUR on 15 December 2004 with a value of EUR 200 million. Interest on these bonds is 4%.

An analysis of significant issued securities by type is as follows:

	2008	2007
Mortgage bonds	877,266	540,753
Variable-rate Euro Bonds	550,187	392,557
Other securities	99,186	51,955
Total	**1,526,639**	**985,265**

NOTE 16: OTHER LIABILITIES (in HUF mn)

	2008	2007
Fair value of derivative financial instruments designated as hedge accounting relationship	33,514	3,471
Salaries and social security payable	25,253	13,012
Giro clearing accounts	24,805	21,547
Provision for impairment on off-balance sheet commitments and contingent liabilities	24,234	19,759
Accounts payable	13,890	18,721
Current income tax payable	12,843	9,211
Accrued expenses	12,697	18,100
Deferred tax liabilities	5,352	5,373
Liabilities from security trading	2,829	20,697
Advance for housing loans	1,698	3,890
Loans for collections	1,340	1,523
Dividends payable	864	930
Advances received from customers	582	5,631
Insurance liabilities*	–	183,211
Other	41,056	45,193
Total	**200,957**	**370,269**

* The insurance business line was sold in September 2008.

The provision for losses on off-balance sheet commitments and contingent liabilities are detailed as follows:

	2008	2007
Provision for litigation	4,989	4,621
Provision for expected pension commitments	554	409
Provision for losses on other off-balance sheet commitments and contingent liabilities	16,720	9,456
Other provision for expected liabilities	1,971	5,273
Total	**24,234**	**19,759**

Provision for losses on other off-balance sheet commitments and contingent liabilities are recognized on guarantees and commitments on loan facilities given by the Group.

The movements of provision for losses on off-balance sheet commitments and contingent liabilities can be summarized as follows:

	2008	2007
Balance as at 1 January	19,759	15,156
Provision for the year	4,731	4,018
Release of provision	(32)	–
Increase due to acquisitions	–	659
Foreign currency translation differences	(224)	(74)
Balance as at 31 December	**24,234**	**19,759**

NOTE 17: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and held by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interest is based on condition of interest of 2013/C credit consolidation government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 4.02% as at 20 June 2007, 3.76% as at 20 December 2007, 4.15% as at 20 June 2008 and 4.75% as at 20 December 2008. The maturity is 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

The Bank had a subordinated loan from the European Bank for Reconstruction and Development ('EBRD') that has been repaid in 2008. The Bank obtained it in December 1996 in the amount of USD 30 million and DEM 31.14 million (15.92 million in EUR) with an original maturity of 27 December 2006. The maturity date was modified to 27 August 2008 on 22 August 2003. The loan was unsecured, subordinated to the other liabilities and had a twelve-year maturity, with interest payable at six-month LIBOR + 1.35% from 28 December 2003 until 27 August 2008.

In December 1999, the CJSC OTP Bank obtained a USD 10 million subordinated loan from the EBRD with the maturity date of 23 December 2009. The interest on this subordinated loan is six-month LIBOR + 2.75%. The loan is secured by a bank guarantee of the Bank. The repayment of the loan will be completed semi-annually, in five equal instalments, the first repayment date was 23 December 2007.

On 3 July 2003, CJSC OTP Bank obtained a USD 5 million subordinated loan from the EBRD with the maturity date of 23 June 2010. The interest on subordinated loan is three-month LIBOR + 2.75%. The repayment of the loan will be completed semi-annually in four equal instalments, the first repayment date is 3 January 2009.

On 4 March 2005, the Bank issued EUR 125 million in bonds, which are subordinated to the other liabilities of the Bank. Interest on subordinated bonds is variable and payable at three-month EURIBOR + 0.55% quarterly. The maturity of the bonds is 10 years.

On 31 October 2006, the Bank issued perpetual subordinated (UT2) bonds to finance acquisitions. The 500 EUR million nominal value bonds were issued at 99.375% of the face value with 7 November 2006 as payment date. The re-offer spread is 200 basis points over 10 year mid-swap. The bonds are perpetual and callable after year 10. The bonds bear a fixed coupon of 5.875%, with annual interest payments in the first 10 years, and a floating (variable) coupon of 3 months EURIBOR + 3%, quarterly thereafter. The bonds were listed on the Luxembourg Stock Exchange.

On 30 August 2006, the Bank updated the EMTN Program and increased its amount from EUR 1 billion to EUR 3 billion.

Under the EMTN Program on 12 September 2006 the Bank issued fixed rate subordinated bonds in a total nominal value of EUR 300 million to finance acquisitions. The EUR 300 million nominal value bonds were issued at 100% of the face value with 19 September 2016 as maturity date. The bonds bear a coupon of 5.27%, interest is paid annually.
On 26 February 2007, the Bank also issued EUR 200 million subordinated bonds due on 19 September 2016 under the same program.

On 21 April 2008, the CJSC OTP Bank obtained a USD 65 million subordinated loan from the EBRD with a maturity date of 13 October 2015 which is covered by a bank guarantee of the Bank. The interest on this subordinated loan is payable at six-month LIBOR + 2.75% with 7 years maturity. The repayment of the loan will be completed semi-annually in four equal instalments, the first repayment date was on 13 October 2008.

OOO Donskoy Narodny Bank obtained a RUB 38.12 million subordinated loan from Russian third party lenders 12 times. The original maturity of the loans varies between 10 and 12 years, the interest rate fixed at 13%. The interest is to be paid on 31 December annually, the principal is to be repaid at the maturity date. The first loan was granted on 15 June 2001 and the last is to be repaid on 30 November 2016.

NOTE 18: SHARE CAPITAL (in HUF mn)

	2008	2007
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000
Total	**28,000**	**28,000**

On 21 April 2007 the law on abolishment of 'Aranyrészvény' (special share assigning voting rights to the Hungarian State) came into force (Act XXVI of 2007). Consequently, this special voting share was transformed into 10 ordinary shares with a face value of HUF 100. Therefore the registered capital of the Bank consists of 280,000,010 ordinary shares with a face value of HUF 100.

NOTE 19: RETAINED EARNINGS AND RESERVES (in HUF mn)

The reserves of the Bank under Hungarian Accounting Standards were HUF 652,297 million and HUF 537,211 million as at 31 December 2008 and 2007, respectively. Of these amounts, legal reserves represent HUF 156,975 million and HUF 152,569 million as at 31 December 2008 and 2007, respectively. The legal reserves are not available for distribution. The dividend has been determined on the basis of the net profit for the year determined in the unconsolidated financial statements according to the Hungarian Accounting Standards.
Dividends of HUF 40,320 million for the year 2006 were approved by the Annual General Meeting on 28 April 2007.
According to the decision made at the Annual General Meeting on 25 April 2008, the Bank did not pay dividend for the year 2007.

These Financial Statements will be approved by the Annual General Meeting in April 2009. No dividend is proposed.

On 19 October 2006, the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares ('ICES'). Within the transaction 10 million shares owned by the Bank, and 4.5 million shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A., which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are without final maturity and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to buy back the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%.
If the Bank pays a dividend for the ordinary shares, the Bank under a subordinated swap contract, will pay the interest of ICES payable to Opus and receives the same amount of money from Opus as the dividend that is payable for the shares held by Opus.

NOTE 20: TREASURY SHARES (in HUF mn)

	2008	2007
Nominal value (Ordinary shares)	3,402	2,340
Carrying value at acquisition cost	**146,749**	**114,001**

The changes in the carrying value of Treasury shares are due to purchase and sale transactions on market authorised by the General Assembly.

NOTE 21: MINORITY INTEREST (in HUF mn)

	2008	2007
Balance as at 1 January	5,353	3,110
Minority interest purchased	–	2,116
Foreign currency translation difference	(434)	171
Changes due to ownership structure	1,270	(384)
Minority interest included in net profit for the year	596	340
Balance as at 31 December	**6,785**	**5,353**

NOTE 22: OTHER EXPENSES (in HUF mn)

	2008	2007
Taxes, other than income taxes	29,955	30,664
Provision for impairment on accrued interest	7,770	5,612
Provision for impairment on off-balance sheet commitments and contingent liabilities	4,731	4,018
Provision for impairment on securities available-for-sale	3,332	1
Provision for impairment on securities held-to-maturity	71	47
Provision for impairment on equity investments	463	131
Provision for impairment on other assets	117	2,726
Other	19,753	14,602
Total	**66,192**	**57,801**

NOTE 23: INCOME TAXES (in HUF mn)

The Group is presently liable for income tax at rates between 9% and 28.5% of taxable income.

Deferred tax is calculated at the income tax rate of 9% in Montenegro, 10% in Bulgaria and Serbia, 16% in Hungary and Romania, 19% in Slovakia, 20% in Croatia and 24% in Russia and 25% in Ukraine.

In Hungary an additional 4% of special tax is to be paid. In the calculation below, 20% tax rate was taken into account for entities operating in Hungary.

A reconciliation of the income tax charges is as follows:

	2008	2007
Current tax	29,356	42,134
Deferred tax	3,943	(1,730)
Total	**33,299**	**40,404**

A reconciliation of the net deferred tax liability is as follows:

	2008	2007
Balance as at 1 January	(5,373)	(8,337)
Acquisition of subsidiaries	111	(165)
Foreign currency translation difference	362	202
Deferred tax (charge)/credit	(3,943)	1,730
Recognised in equity	3,491	1,197
Balance as at 31 December	**(5,352)**	**(5,373)**

A reconciliation of the income tax charges is as follows:

	2008	2007
Profit before income tax	274,367	248,952
Income tax at statutory tax rates	45,001	41,923
Special tax	**5,351**	**7,445**

Income tax adjustments are as follows:

	2008	2007
Reversal of statutory general provision	(188)	(1,896)
Tax effect of provision for loan losses	(268)	–
Tax effect of amortization of statutory goodwill	4,608	(1,762)
Revaluation of investments denominated in foreign currency to historical cost	(2,826)	(2,514)
Profit on sale of Treasury shares	–	(779)
Fair value of share-based payment	6	1,025
Treasury share transactions	(10,283)	–
Profit on disposal of shares and equities	(19,619)	–
Other	11,517	(3,038)
Income tax	**33,299**	**40,404**
Effective tax rate	**12.1%**	**16.2%**

A breakdown of the deferred tax assets and liabilities are as follows:

	2008	2007
Premium and discount amortization on bonds	395	–
Difference in accounting for leases	–	322
Provision for losses on off-balance sheet commitments and contingent liabilities on derivative financial instruments	–	55
Fair value adjustment of securities held for trading, securities available-for-sale and equity investments	356	–
Fair value adjustment of derivative financial instruments	–	1,115
Repurchase agreements	–	1,818
Temporary differences arising on consolidation	746	633
Provision for impairment on equity investments	3,184	–
Other	2,807	1,177
Deferred tax asset	**7,488**	**5,120**

	2008	2007
Premium and discount amortization on bonds	–	(233)
Provision for impairment on off-balance sheet commitments and contingent liabilities on derivative financial instruments	(10)	–
Difference in accounting for leases	(278)	–
Fair value adjustment of securities held for trading, securities available-for-sale and equity investments	–	(301)
Fair value adjustment of derivative financial instruments	(451)	–
Repurchase agreements	(2,498)	–
Valuation of equity instrument (ICES)	(1,964)	(2,760)
Difference in depreciation and amortization	(3,726)	(3,882)
Accrued losses	**(3,913)**	**(3,317)**
Deferred tax liabilities	**(12,840)**	**(10,493)**

NOTE 24: FINANCIAL RISK MANAGEMENT

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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

Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

Liquidity risk

See Note 33.

Foreign currency risk

See Note 34.

Interest rate risk

See Note 35.

NOTE 25: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

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

(a) Contingent liabilities

	2008	2007
Commitments to extend credit	792,042	999,639
Guarantees arising from banking activities	260,175	224,616
Confirmed letters of credit	20,890	12,757
Legal disputes	6,798	6,558
Other	61,035	53,772
Total	**1,140,940**	**1,297,342**

Commitments to extend credit, guarantees and letters of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans.
The management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments to be minimal.

Legal disputes

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 4,989 million and HUF 4,621 million as at 31 December 2008 and 2007, respectively. (See Note 16.)

(b) Derivatives and other options (nominal amount, unless otherwise stated)

	2008	2007
Foreign currency contracts		
Off-balance sheet assets	134,190	145,810
Off-balance sheet liabilities	138,778	146,795
Net	(4,588)	(985)
Net fair value	(3,422)	(119)
Foreign currency contracts designated as hedge accounting relationships		
Off-balance sheet assets	59,883	41,858
Off-balance sheet liabilities	59,883	41,857
Net	–	1
Net fair value	12	–
Foreign exchange swaps and interest rate swaps designated as held for trading		
Off-balance sheet assets	3,244,043	1,947,648
Off-balance sheet liabilities	3,065,336	1,849,946
Net	178,707	97,702
Net fair value	(32,286)	2,033
Foreign exchange swaps and interest rate swaps designated as hedge accounting relationships		
Off-balance sheet assets	499,242	260,777
Off-balance sheet liabilities	534,938	245,626
Net	(35,696)	15,151
Net fair value	16,597	(5,071)
Option contracts		
Off-balance sheet assets	9,945	119,004
Off-balance sheet liabilities	9,716	119,467
Net	229	(463)
Net fair value	210	25,910
Forward rate agreements designated as held for trading		
Off-balance sheet assets	37	–
Off-balance sheet liabilities	–	–
Net	37	–
Net fair value	33	–
Forward security agreements designated as held for trading		
Off-balance sheet assets	2,101	175
Off-balance sheet liabilities	2,101	175
Net	–	–
Net fair value	52	(1)

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

As at 31 December 2008, the Group has derivative instruments with positive fair values of HUF 81,629 million and negative fair values of HUF 159,001 million. Positive fair values of derivative instruments designated as hedge accounting relationships are included in Other assets, while positive fair values of derivative instruments designated as held for trading are included in Financial assets at fair value through profit or loss. Negative fair values of hedgeing derivative instruments are included in Other liabilities. Corresponding figures as at 31 December 2007 were HUF 75,343 million and HUF 16,391 million, respectively.

Foreign currency contracts

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

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

Foreign exchange swaps and interest rate swaps

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

Interest rate swaps oblige two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.

The interest rate swaps of the Group were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Cross-currency interest rate swap

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

Forward rate agreements

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

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

NOTE 26: SHARE-BASED PAYMENT

The terms of the options relating to the years of 2005 to 2009 were approved by the Annual General Meeting of 2005. The grant date of these options is 29 April 2005. The maximum number of shares which are available is 2.92 million.

The 2006 Annual General Meeting approved a five year share option program for the years from 2006 to 2010. In the framework of the program, the options are granted annually. The current grant dates of these options are 28 April 2006 and 27 April 2007, the dates of the Annual

General Meetings of the Bank. At this second Annual General Meeting, the amount provided in the program has been increased.

The exercise price of the options of 2005 is calculated as the average of the market price of OTP shares quoted by the Budapest Stock Exchange ('BSE') daily during the two month period ending on the last day of the month of the Annual General Meeting.

The exercise prices of the options relating to the years of 2006 to 2010 are calculated as the average of the market price of OTP shares quoted by the BSE daily during the period between 30 April and 30 May in the actual year and decreased by HUF 1,000. In that case if the average price of the shares exceeds by more than HUF 3,000 the exercise price one day before the date of exercise the exercise price would be increased by the amount above the HUF 3,000.

The 2007 Annual General Meeting approved a few changes in the program:
The exercise prices of the options relating to the years of 2006 to 2010 is calculated as the average of the market price of OTP shares quoted by the BSE daily during the three month period ended 31 March in the actual year and decreased by HUF 2,000. In that case if the average price of the shares exceeds by more than HUF 4,000 the exercise price one day before the date of exercise the exercise price would be increased by the amount above the HUF 4,000.

To be able to practice the option program, two of the following conditions should be fulfilled:

- the growth of the net income should be 10%
- the ROA indicator for the actual year ended 31 December should be at least 2.1%
- the ROE indicator for the actual year ended 31 December should be at least 20%

The exercise period of the options granted for the year of 2005 is two years and for the years of 2006 to 2010 is 19 months. The exercise period of the option program for the years of 2006 to 2010 must be opened at 1 June in the actual year, the period can be prolongated by two years. If the options remain unexercised before the end of the exercise period the options expire. Additionally, options are forfeited if the employee leaves the Bank before the options vest.

	2008		2007	
	Options (number of shares)	**Weighted average exercise price** (in HUF)	**Options** (number of shares)	**Weighted average exercise price** (in HUF)
Outstanding at beginning of period	6,678,130	7,957	4,799,825	7,231
Granted during the period	–	–	3,510,000	8,419
Forfeited during the period	965,050	6,484	187,250	7,648
Exercised during the period	257,500	6,536	1,444,445	6,706
Outstanding at the end of the period	2,534,950	6,484	6,678,130	7,957
Exercisable at the end of the period	**1,774,466**	**8,424**	**2,334,304**	**7,369**

For the year ended 31 December 2008 the key vesting conditions are not met, in accordance with the option program the Bank did not recognise any personnel expense.

The options outstanding as at 31 December 2008 and 2007 had a weighted average exercise price of HUF 6,484 and HUF 7,957 with a weighted average remaining contractual life of 18 and 22 months, respectively.

The inputs into the Binomial model at grant date were as follows:

	2008	2007
Weighted average share price (HUF)	7,828	7,663
Weighted average exercise price (HUF)	7,941	7,594
Expected volatility (%)	29	29
Expected life (average year)	3.56	3.18
Risk free rate (%)	6.84	7.01
Expected dividends (%)	**2.31**	**2.45**

Expected volatility was determined by calculating the historical volatility of the Bank's share price three months prior to the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

In connection with the share-based payment programs approved by the Bank and applying IFRS 2, HUF 28 million and HUF 5,123 million has been recognised as expense as at 31 December 2008 and 2007, respectively.

NOTE 27: RELATED PARTY TRANSACTIONS (in HUF mn)

The members of the Board of Directors and the Supervisory Board had credit lines of HUF 121 million and HUF 169.3 million as at 31 December 2008 and 2007, respectively. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other subsidiaries at normal market conditions. The amount of these loans was HUF 27,366 million and HUF 3,862 million, with commitments to extend credit and guarantees of HUF 121 million and HUF 5,456 million as at 31 December 2008 and 2007, respectively.

The amount of loans extended to unconsolidated subsidiaries was HUF 65,643 million and HUF 41,899 million as at 31 December 2008 and 2007, respectively.

The compensation of key management personnel, such as the members of the Board of Directors, members of the Supervisory Board, key employees of the Bank and its major subsidiaries involved in the decision-making process according to the compensation categories defined in IAS 24 Related party disclosures, is summarised below:

	2008	2007
Short-term employee benefits	12,642	7,545
Redundancy payments	57	–
Other long-term employee benefits	71	41
Termination benefits	13	1,519
Share-based payment	16	2,459
Total	**12,799**	**11,564**

NOTE 28: CASH AND CASH EQUIVALENTS (in HUF mn)

	2008	2007
Cash, amounts due from banks and balances with the NBH	348,849	353,243
Compulsory reserve established by the NBH	(70,526)	(158,383)
Total	**278,323**	**194,860**

The compulsory reserve is not considered to be a part of cash and cash equivalents due to restrictions placed on its use by the NBH.

NOTE 29: ACQUISITIONS (in HUF mn)

(a) Purchase and consolidation of subsidiary undertakings

On 12 November 2007 the Bank signed the purchase agreement on acquiring 100% interest in the Russian OOO Donskoy Narodny Bank. The sale and purchase transaction of the 100% stake of OOO Donskoy Narodny Bank was completed on 6 May 2008.

The total purchase price was USD 40.95 million. On 29 August 2006 the Bank signed the purchase agreement on acquiring 100% interest in Crnogorska komerčijalna banka a.d. The total price was EUR 104 million. The control over this company is exercised from 1 January 2007.

The fair value of the assets and liabilities acquired, and related goodwill is as follows:

	2008 **At acquisition date** OOO Donskoy Narodny Bank	2007 **At acquisition date** CKB a.d.
Cash, amounts due from banks, and balances with the National Bank	(1,880)	(11,095)
Placements with other banks, net of allowance for placement losses	(1,192)	(68,528)
Securities held for trading	(1,021)	(119)
Securities available-for-sale	–	(585)
Loans, net of allowance for loan losses	(16,454)	(113,860)
Accrued interest	(75)	(898)
Associates and other investments	(48)	(217)
Securities held-to-maturity	(7)	(1,287)
Property, equipment and intangible assets	(1,555)	(9,378)
Other assets	(91)	(2,303)
Amounts due to banks and deposits from the National Bank of Hungary and other banks	–	19,268
Deposits from customers	20,405	134,948
Liabilities from issued securities	2	–
Accrued interest payable	102	121
Other liabilities	179	19,117
Subordinated bonds and loans	261	–
Minority Interest	–	2,116
Net assets	(1,374)	(32,700)
Goodwill	(5,312)	(36,698)
Cash consideration	**(6,686)**	**(69,398)**

(b) Analysis of net outflow of cash in respect of purchase of subsidiaries

	2008	2007
Cash consideration	(6,686)	(69,398)
Cash acquired	1,880	11,095
Net cash outflow	**(4,806)**	**(58,303)**

NOTE 30: MAJOR SUBSIDIARIES

Equity investments in companies in which the Bank has a controlling interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless indicated otherwise.

Name	Ownership (Direct and Indirect) 2008	2007	Activity
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	flat finance and reconstruction
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
OTP Factoring Ltd.	100.00%	100.00%	work-out
Inga Two Commercial Ltd.	100.00%	100.00%	property management
OTP Fund Management Ltd.	100.00%	100.00%	fund management
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
TradeNova Commercial Ltd. (former OTP Trade Ltd.)	100.00%	100.00%	trade finance
OTP Real Estate Leasing Ltd.	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services
OTP Garancia Insurance Ltd.	–	100.00%	insurance
OTP Banka Slovensko a. s. (Slovakia)	97.23%	97.23%	commercial banking services
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	91.43%	91.43%	commercial banking services
Crnogorska komerčijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
CJSC OTP Bank (Ukraine)	100.00%	100.00%	commercial banking services
OAO OTP Bank (Russia) (former OAO Investsberbank)	95.51%	97.22%	commercial banking services
OOO Donskoy Narodny Bank (Russia)	100.00%	–	commercial banking services
OTP Holding Ltd. (Cyprus)	100.00%	–	holding activity
OTP Financing Netherlands B.V. (Netherlands)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd. (Cyprus)	100.00%	100.00%	refinancing activities

NOTE 31: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying Consolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 45,196 million and HUF 45,081 million as at 31 December 2008 and 2007, respectively.

NOTE 32: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 7% and 9% of the total assets of the Group consist of receivables from, or securities issued by the Hungarian Government or the NBH as at 31 December 2008 and 2007, respectively. There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2008 and 2007.

NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn)

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations prescribed by the NBH. 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, due from banks and balances with the National Bank of Hungary	348,623	226	–	–	348,849
Placements with other banks, net of allowance for placements losses	522,611	53,365	16,941	625	593,542
Financial assets at fair value through profit or loss	16,183	16,446	68,895	27,808	129,332
Securities available-for-sale	21,143	65,472	237,743	156,899	481,257
Loans, net of allowance for loan losses	615,529	1,071,120	1,781,483	3,262,038	6,730,170
Accrued interest receivable	83,575	3,693	340	185	87,793
Associates and other investments	–	–	–	10,467	10,467
Securities held-to-maturity	131,078	36,792	110,294	43,569	321,733
Property and equipment, Intangible assets	874	2,693	111,454	354,680	469,701
Other assets	50,555	58,984	40,324	56,729	206,592
TOTAL ASSETS	**1,790,171**	**1,308,791**	**2,367,474**	**3,913,000**	**9,379,436**
Due to banks and deposits from the National Bank of Hungary and other banks	159,172	439,813	153,472	90,410	842,867
Deposits from customers	3,897,230	1,083,102	213,473	25,421	5,219,226
Liabilities from issued securities	300,563	103,808	1,000,065	122,203	1,526,639
Accrued interest payable	90,110	5,548	3,122	361	99,141
Fair value of derivative financial instruments designated as held for trading	29,313	10,989	78,475	6,710	125,487
Other liabilities	150,551	15,010	27,036	8,360	200,957
Subordinated bonds and loans	–	745	5,993	309,410	316,148
TOTAL LIABILITIES	**4,626,939**	**1,659,015**	**1,481,636**	**562,875**	**8,330,465**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	1,160,935	1,160,935
Treasury shares	–	–	(67,407)	(79,342)	(146,749)
Minority interest	–	–	–	6,785	6,785
TOTAL SHAREHOLDERS' EQUITY	**–**	**–**	**(67,407)**	**1,116,378**	**1,048,971**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,626,939**	**1,659,015**	**1,414,229**	**1,679,253**	**9,379,436**
LIQUIDITY (DEFICIENCY)/EXCESS	**(2,836,768)**	**(350,224)**	**953,245**	**2,233,747**	**–**

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 NBH	348,281	4,962	–	–	353,243
Placements with other banks, net of allowance for placements losses	540,504	72,025	42,127	132	654,788
Financial assets at fair value through profit or loss	65,732	35,038	124,691	60,434	285,895
Securities available-for-sale	27,493	95,423	182,848	168,161	473,925
Loans, net of allowance for loan losses	601,781	957,762	1,637,614	2,385,280	5,582,437
Accrued interest	56,873	3,898	1,276	1,412	63,459
Associates and other investments	–	–	–	9,892	9,892
Securities held-to-maturity	111,014	25,278	124,808	56,457	317,557
Property and equipment, Intangible assets	1,258	6,533	118,433	415,685	541,909
Other assets	84,043	29,079	27,999	37,648	178,769
TOTAL ASSETS	**1,836,979**	**1,229,998**	**2,259,796**	**3,135,101**	**8,461,874**
Amount due to banks and deposits from the National Bank of Hungary and other banks	338,051	108,821	253,228	98,054	798,154
Deposits from customers	4,326,480	529,282	164,351	18,259	5,038,372
Liabilities from issued securities	18,796	71,194	757,493	137,782	985,265
Accrued interest payable	54,178	2,409	3,332	234	60,153
Fair value of derivative financial instruments designated as held for trading	4,377	4,170	2,380	1,993	12,920
Other liabilities	147,464	24,474	74,273	124,058	370,269
Subordinated bonds and loans	–	10,111	1,339	289,714	301,164
TOTAL LIABILITIES	**4,889,346**	**750,461**	**1,256,396**	**670,094**	**7,566,297**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	976,225	976,225
Treasury shares	(3,554)	(14,217)	(36,437)	(59,793)	(114,001)
Minority interest	–	–	–	5,353	5,353
TOTAL SHAREHOLDERS' EQUITY	**(3,554)**	**(14,217)**	**(36,437)**	**949,785**	**895,577**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,885,792**	**736,244**	**1,219,959**	**1,619,879**	**8,461,874**
LIQUIDITY (DEFICIENCY)/EXCESS	**(3,048,813)**	**493,754**	**1,039,837**	**1,515,222**	**–**

NOTE 34: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 31 December 2008

	USD	EUR	CHF	Others	Total
Assets	1,080,932	2,128,718	1,674,082	2,107,467	6,991,199
Liabilities	(302,851)	(3,099,310)	(157,686)	(1,596,545)	(5,156,392)
Off-balance sheet assets and liabilities, net	(777,603)	1,046,251	(1,495,153)	(462,828)	(1,689,333)
Net position	**478**	**75,659**	**21,243**	**48,094**	**145,474**

As at 31 December 2007

	USD	EUR	CHF	Others	Total
Assets	705,470	1,744,616	1,076,700	1,941,768	5,468,554
Liabilities	(281,588)	(2,297,282)	(141,825)	(1,533,702)	(4,254,397)
Off-balance sheet assets and liabilities, net	(464,046)	507,759	(943,333)	(8,162)	(907,782)
Net position	**(40,164)**	**(44,907)**	**(8,458)**	**399,904**	**306,375**

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within 'Others'. Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurment of the open foreign currency position of the Group involves monitoring the 'value at risk' ('VaR') limit on the foreign exchange exposure of the Group.

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn)

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 interest bearing assets of the Group 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 Group 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 Group. 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.

As at 31 December 2008

	within 1 month		over 1 month and within 3 month		over 3 month and within 12 month		over 1 year and within 2 years		over 2 years		Non-interest-bearing		Total		Total
	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	74,058	37,890	2	189	3	–	–	–	–	–	66,859	169,848	140,922	207,927	348,849
fixed rate	72,069	34,896	2	–	3	–	–	–	–	–	–	–	72,074	34,896	106,970
variable rate	1,989	2,994	–	189	–	–	–	–	–	–	–	–	1,989	3,183	5,172
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	66,859	169,848	66,859	169,848	236,707
Placements with other banks, net of allowance for placements losses	66,142	321,855	2,506	10,826	–	90,734	–	–	–	6,656	1	94,822	68,649	524,893	593,542
fixed rate	65,751	264,125	2,506	10,826	–	21	–	–	–	6,521	–	–	68,257	281,493	349,750
variable rate	391	57,730	–	–	–	90,713	–	–	–	135	–	–	391	148,578	148,969
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1	94,822	1	94,822	94,823
Securities held for trading	1,093	1,805	1,059	214	7,972	421	10,531	876	26,263	3,589	2,299	551	49,217	7,456	56,673
fixed rate	1,093	597	903	201	7,900	262	10,531	876	26,263	3,559	–	–	46,690	5,495	52,823
variable rate	–	1,208	156	13	72	159	–	–	–	30	–	–	228	1,410	1,638
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	2,299	551	2,299	551	2,850
Securities available-for-sale	9,277	2,531	5,935	101,306	48,461	14,938	36,961	14,113	158,283	69,391	15,874	4,187	274,791	206,466	481,257
fixed rate	9,277	–	1,500	3,241	47,935	14,935	36,961	13,534	158,283	67,594	–	–	253,956	99,307	353,263
variable rate	–	2,531	4,435	98,065	526	–	–	579	–	1,797	–	–	4,961	102,972	107,933
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	15,874	4,187	15,874	4,187	20,061
Loans, net of allowance for loan losses	812,804	3,796,739	84,325	350,728	119,661	714,209	56,516	67,318	380,973	297,118	10,753	39,026	1,465,032	5,265,138	6,730,170
fixed rate	8,656	37,847	2,515	91,129	3,140	173,389	1,604	30,442	11,737	175,038	–	–	27,652	507,845	535,497
variable rate	804,148	3,461,667	81,810	198,231	116,521	355,496	54,912	34,953	369,236	122,080	–	–	1,426,627	4,172,427	5,599,054
non-interest-bearing	–	297,225	–	61,368	–	185,324	–	1,923	–	–	10,753	39,026	10,753	584,866	595,619
Securities held-to-maturity	114,963	8,553	20,670	1,310	64,331	7,,386	38,930	11,777	27,057	26,756	–	–	265,951	55,782	321,733
fixed rate	114,963	3,558	12,670	806	26,862	7,336	38,930	11,777	27,057	26,756	–	–	220,482	50,233	270,715
variable rate	–	4,995	8,000	504	37,469	50	–	–	–	–	–	–	45,469	5,549	51,018
Fair value of derivative financial instruments	10,266	827,755	13,306	274,293	97,434	131,782	94,099	443,479	712,125	368,637	–	8,839	927,230	2,054,785	2,982,015
fixed rate	10,266	826,457	13,306	274,274	95,523	129,863	93,805	441,380	708,625	367,563	–	–	921,525	2,039,537	2,961,062
variable rate	–	1,298	–	19	1,911	1,919	294	2,099	3,500	1,074	–	–	5,705	6,409	12,114
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	8,839	–	8,839	8,839

As at 31 December 2008

	within 1 month		over 1 month and within 3 month		over 3 month and within 12 month		over 1 year and within 2 years		over 2 years		Non-interest-bearing		Total		Total
	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	
LIABILITIES															
Amounts due to banks and deposits from the National bank of Hungary and other banks	2,442	341,082	7,287	192,395	212,210	78,268	1	699	559	5,649	–	2,275	222,499	620,368	842,867
fixed rate	1,755	183,627	1,746	26,511	118,618	18,823	–	699	–	5,619	–	92	122,119	235,371	357,490
variable rate	687	157,455	5,541	165,884	93,592	59,445	1	–	559	30	–	–	100,380	382,814	483,194
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	2,183	–	2,183	2,183
Deposits from customers	1,146,698	1,640,823	474,388	298,603	376,758	369,806	27,029	48,831	633,399	96,450	1,178	105,263	2,659,450	2,559,776	5,219,226
fixed rate	468,786	502,881	445,811	298,593	376,169	369,806	27,029	48,774	80,071	68,285	–	–	1,398,866	1,288,339	2,687,205
variable rate	676,912	1,137,942	28,577	10	589	–	–	57	533,328	28,165	–	–	1,259,406	1,166,174	2,425,580
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,178	105,263	1,178	105,263	106,441
Liabilities from issued securities	20,260	4,272	46,891	445,658	124,232	20,123	47,226	281,207	139,013	396,894	511	352	378,133	1,148,506	1,526,639
fixed rate	9,253	4,272	27,735	1,866	124,232	11,333	47,226	281,207	139,013	396,894	–	–	347,459	695,572	1,043,031
variable rate	11,007	–	19,156	443,792	–	8,790	–	–	–	–	–	–	30,163	452,582	482,745
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	511	352	511	352	863
Fair value of derivative financial instruments	433,865	621,519	107,118	487,413	63,840	163,285	9,894	263,533	8,956	898,303	–	96	623,673	2,434,149	3,057,822
fixed rate	433,865	411,583	107,118	191,386	62,589	161,395	8,656	261,452	6,364	896,870	–	88	618,592	1,922,774	2,541,366
variable rate	–	209,936	–	296,027	1,251	1,890	1,238	2,081	2,592	1,433	–	–	5,081	511,367	516,448
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	8	–	8	8
Subordinated bonds and loans	–	942	5,000	28,551	–	12,999	–	–	–	268,411	–	245	5,000	311,148	316,148
fixed rate	–	–	–	–	–	–	–	–	–	268,411	–	–	–	268,411	268,411
variable rate	–	942	5,000	28,551	–	12,999	–	–	–	–	–	–	5,000	42,492	47,492
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	245	–	245	245
Net position	(514,662)	2,388,490	(512,881)	(713,754)	(439,178)	314,989	152,887	(56,707)	522,774	(893,560)	94,097	209,042	(696,963)	1,248,500	551,537

As at 31 December 2007

	within 1 month		over 1 month and within 3 month		over 3 month and within 12 month		over 1 year and within 2 years		over 2 years		Non-interest-bearing		Total		Total
	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	176,105	18,694	490	7,718	12	16	–	–	–	–	44,451	105,757	221,058	132,185	353,243
fixed rate	174,741	13,448	–	58	–	–	–	–	–	–	–	–	174,741	13,506	188,247
variable rate	1,359	5,245	490	7,660	12	16	–	–	–	–	–	–	1,861	12,921	14,782
non-interest-bearing	5	1	–	–	–	–	–	–	–	–	44,451	105,757	44,456	105,758	150,214
Placements with other banks, net of allowance for placements losses	21,284	303,762	3,000	6,973	550	115,691	–	1,927	–	165	6	200,850	25,420	629,368	654,788
fixed rate	21,859	296,252	–	3,967	550	58,868	–	1,927	–	135	–	–	22,409	361,149	383,558
variable rate	5	7,510	3,000	3,006	–	56,823	–	–	–	30	–	–	3,005	67,369	70,374
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	6	200,850	6	200,850	200,856
Securities held for trading	24,149	1,225	36,648	1,476	9,270	4,649	7,587	8,241	82,675	40,456	4,688	893	165,017	56,940	221,957
fixed rate	23,165	24	15,141	1,388	9,199	4,339	7,586	8,241	82,675	40,456	–	–	137,766	54,448	192,214
variable rate	984	1,201	21,507	88	71	310	1	–	–	–	–	–	22,563	1,599	24,162
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	4,688	893	4,688	893	5,581
Securities available-for-sale	14,090	22,813	4,922	59,726	77,433	22,436	45,753	5,160	112,590	73,776	28,109	7,117	282,897	191,028	473,925
fixed rate	12,342	767	1,952	1,717	77,194	10,947	45,753	5,160	112,590	73,776	–	–	249,831	92,367	342,198
variable rate	1,748	22,046	2,970	58,009	239	11,489	–	–	–	–	–	–	4,957	91,544	96,501
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	28,109	7,117	28,109	7,117	35,226
Loans, net of allowance for loan losses	899,026	2,431,583	220,358	744,860	192,480	275,535	94,539	96,759	237,070	336,337	17,081	36,809	1,660,554	3,921,883	5,582,437
fixed rate	9,616	132,870	6,903	115,980	3,801	223,218	1,235	87,918	4,769	299,691	–	–	26,324	859,677	886,001
variable rate	889,410	2,298,713	213,455	628,880	188,679	52,317	93,304	8,841	232,301	36,646	–	–	1,617,149	3,025,397	4,642,546
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	17,081	36,809	17,081	36,809	53,890
Securities held-to-maturity	97,085	15,961	38,035	2,286	31,040	1,999	39,882	10,048	65,413	15,808	–	–	271,455	46,102	317,557
fixed rate	97,085	3,460	–	1,999	20,249	1,068	39,882	9,826	65,413	15,327	–	–	222,629	31,590	254,219
variable rate	–	12,501	38,035	377	10,791	931	–	222	–	481	–	–	48,826	14,512	63,338
Fair value of derivative financial instruments	366,501	454,187	645,215	356,623	38,095	33,924	1,237	34,016	1,770	241,366	–	–	1,052,818	1,120,116	2,172,934
fixed rate	273,123	343,091	212,118	182,451	37,545	32,838	1,237	34,016	1,770	241,366	–	–	525,793	833,762	1,359,555
variable rate	93,378	111,096	433,097	174,172	550	1,086	–	–	–	–	–	–	527,025	286,354	813,379

As at 31 December 2007

	within 1 month		over 1 month and within 3 month		over 3 month and within 12 month		over 1 year and within 2 years		over 2 years		Non-interest-bearing		Total		Total
	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	
LIABILITIES															
Due to banks and deposits from the National bank of Hungary and other banks	59,664	287,216	26,138	141,177	81,840	70,053	298	37,633	514	90,195	–	3,426	168,454	629,700	798,154
fixed rate	59,313	207,136	24,936	48,041	156	61,755	29	17,988	1	72,131	–	–	84,435	407,051	491,486
variable rate	351	80,080	1,202	93,136	81,684	8,298	269	19,645	513	18,064	–	–	84,019	219,223	303,242
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	3,426	–	3,426	3,426
Deposits from customers	2,081,493	1,758,308	364,691	231,818	49,870	268,089	28,520	36,213	68,984	34,203	1,551	114,632	2,595,109	2,443,263	5,038,372
fixed rate	659,069	740,215	360,674	231,818	49,870	268,089	28,520	36,213	68,984	34,203	–	–	1,167,117	1,310,538	2,477,655
variable rate	1,422,424	1,018,093	4,017	–	–	–	–	–	–	–	–	–	1,426,441	1,018,093	2,444,534
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,551	114,632	1,551	114,632	116,183
Liabilities from issued securities	13,155	137,539	27,023	300,178	35,409	10,012	77,342	4,819	130,158	248,516	3	1,111	283,090	702,175	985,265
fixed rate	6	7,229	7,257	1,781	34,988	2,472	77,342	4,819	130,158	248,516	–	–	249,751	264,817	514,568
variable rate	13,149	130,310	19,766	298,397	421	7,540	–	–	–	–	–	–	33,336	436,247	469,583
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3	1,111	3	1,111	1,114
Fair value of derivative financial instruments	116,423	878,365	33,849	943,177	23,878	19,971	11,796	25,072	5,179	49,559	–	–	191,125	1,916,144	2,107,269
fixed rate	104,131	509,689	26,017	366,880	23,687	19,927	11,796	25,072	5,179	49,559	–	–	170,810	971,127	1,141,937
variable rate	12,292	368,676	7,832	567,297	191	44	–	–	–	–	–	–	20,315	945,017	965,332
Subordinated bonds and loans	–	856	5,000	33,015	–	9,202	–	–	–	253,091	–	–	5,000	296,164	301,164
fixed rate	–	–	–	–	–	–	–	–	–	253,091	–	–	–	253,091	253,091
variable rate	–	856	5,000	33,015	–	9,202	–	–	–	–	–	–	5,000	43,073	48,073
Net position	(671,915)	185,941	491,967	(469,703)	157,883	76,923	71,042	52,414	294,683	32,344	92,781	232,257	436,441	110,176	546,617

NOTE 36: EARNINGS PER SHARE

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the year attributable to ordinary shareholders, by the weighted average number of ordinary shares outstanding during the year.

	2008	2007
Consolidated Net profit for the year (in HUF mn)	240,472	208,208
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number)	256,317,324	261,699,756
Consolidated Basic Earnings per share (in HUF)	938	796
Weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number)	257,117,270	262,326,040
Consolidated Diluted Earnings per share (in HUF)	**935**	**794**

The weighted average number of ordinary shares outstanding during the period does not include Treasury shares.

Diluted Earnings per share are determined after additionally taking into consideration the option rights granted.

NOTE 37: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS(in HUF mn)

As at 31 December 2008

	Net interest gain and loss	Net non-interest gain and loss	Provision	Equity
Cash, amounts due from banks and balances with the National Bank of Hungary	16,161	–	–	–
Placements with other banks, net of allowance for placements losses	21,837	–	(516)	–
Securities held for trading	7,029	(4,668)	–	–
Securities available-for-sale	32,402	(1,958)	–	(16,078)
Loans, net of allowance for loan losses	710,869	7,708	(110,933)	–
Securities held-to-maturity	26,624	2,513	–	–
Derivative financial instruments	(27,048)	(7,313)	–	–
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(44,957)	–	–	–
Deposits from customers	(215,881)	109,360	–	–
Liabilities from issued securities	(72,750)	–	–	–
Subordinated bonds and loans	(17,009)	–	–	–
Total	**437,277**	**105,642**	**(111,449)**	**(16,078)**

As at 31 December 2007

	Net interest gain and loss	Net non-interest gain and loss	Provision	Equity
Cash, amounts due from banks and balances with the National Bank of Hungary	12,825	–	–	–
Placements with other banks, net of allowance for placements losses	22,729	–	(41)	–
Securities held for trading	7,272	(353)	–	–
Securities available-for-sale	34,145	1,345	–	(1,073)
Loans, net of allowance for loan losses	561,391	28,985	(58,144)	–
Securities held-to-maturity	29,938	–	–	–
Derivative financial instruments	30,174	(2,040)	–	–
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(31,294)	–	–	–
Deposits from customers	(168,853)	101,991	–	–
Liabilities from issued securities	(50,197)	–	–	–
Subordinated bonds and loans	(16,438)	54	–	–
Total	**431,692**	**129,982**	**(58,185)**	**(1,073)**

NOTE 38: SENSITIVITY ANALYSIS (in HUF mn)

38.1. Market Risk sensitivity analysis

The 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 Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are 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 VaR of the trading portfolio can be summarized as follows:

Historical VaR (99%, one-day) by risk type	Average 2008	Average 2007
Foreign exchange	1,254	443
Interest rate	728	559
Equity instruments	68	96
Diversification	(373)	(262)
Total VaR exposure	**1,677**	**836**

While VaR captures the Group'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 Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in 38.2., for interest rate risk, in 38.3. and for equity price sensitivity analysis, in 38.4 below.

38.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR, over a 3 months period. Monte Carlo simulation is 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 as strategic open positions related to foreign activities. The strategic open position related to the foreign operations were EUR (300) million and USD (75) million as of 31 December 2008 and EUR 570 million as of 31 December 2007. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the Consolidated Statements of Operations in 3 months period (in HUF billion) 2008	2007
1%	(8.6)	(16.4)
5%	(5.4)	(11.0)
25%	(1.3)	(4.2)
50%	1.3	0.3
25%	3.8	3.7
5%	7.1	6.4
1%	9.5	6.9

Notes:

(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.

(2) Considerable decrease in estimated VaR is due to the decrease of foreign exchange exposure.

(3) Monte Carlo simulation is based on the empirical distribution of the exchange rate movements. Recent market turmoil can result in extreme price movements not observable in the past, and so VaR might underestimate short term risk.

38.3 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 was prepared by assuming only adverse interest rate changes. The main assumptions were as follows:

- Floating rate assets and liabilities were repriced to the modeled 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 by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- Assets and liabilities with an interest rate lower than 0.3% were assumed to be unchanged for the whole period.

The simulations 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 845 million (probable scenario) and HUF 4,316 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 (in HUF million)	
	2008	2007
HUF (0.1%) parallel shift	(242)	(354)
EUR (0.1%) parallel shift	(33)	(41)
USD 0.1% parallel shift	(20)	(79)
Total	**(295)**	**(474)**

38.4 Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% 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.

The daily loss will not exceed the reported VaR number with 99% of probability. The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2008	2007
VaR (99%, one day, million HUF)	68	96
Stress test (million HUF)	(287)	(73)

NOTE 39: SEGMENT REPORTING (in HUF mn)

Geographical segments provide products or services within a particular economic environment that is subject to different risks and rewards that are different to those of components operating in other economic environments. The Group has chosen geographical segments as primary reporting segments.

Business segments are distinguishable components of the Group that provide products or services that are subject to risks and rewards that are different to those of other business segments. Business segments are the secondary reporting segments.

39.1. Primary reporting format by geographical segments

	Hungary	Slovakia	Montenegro	Bulgaria	Romania	Croatia	Serbia	Russia	Ukraine	Cyprus	Eliminations	Consolidated
Interest income												
External	612,676	23,686	18,482	83,795	19,625	25,711	11,278	91,219	88,977	–	–	975,452
Intersegment	65,049	34	–	224	–	76	–	99	–	502	(65,984)	–
Total	**677,725**	**23,723**	**18,482**	**84,019**	**19,625**	**25,787**	**11,278**	**91,318**	**88,977**	**502**	**(65,984)**	**975,452**
Non-interest income												
External	390,508	10,222	7,115	24,607	20,416	8,143	10,572	19,361	30,132	3,812	–	524,888
Intersegment	21,693	2,636	–	890	3,057	–	–	68	–	–	(28,344)	–
Total	**412,201**	**12,858**	**7,115**	**25,497**	**23,473**	**8,143**	**10,572**	**19,429**	**30,132**	**3,812**	**(28,344)**	**524,888**
Segment profit before income tax	67,066	8,040	3,116	39,116	1,586	6,593	4,519	11,689	22,945	4,187	105,327	274,367
Income tax	–	–	–	–	–	–	–	–	–	–	–	(33,299)
Net profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**241,068**
Segment assets	6,356,989	431,715	308,140	1,197,862	218,856	498,841	147,798	582,003	969,327	37,874	(1,369,696)	9,379,436
Segment liabilities	6,189,660	401,099	289,970	1,006,599	190,065	407,481	104,557	465,603	766,626	4,829	(1,496,024)	8,330,465
Capital expenditures	3,131	5,356	–	8,191	3,412	3,524	336	36	17	33	–	24,036
Depreciation	117,294	1,258	498	3,797	1,331	993	870	4,312	1,848	–	–	132,201
Allowance for loan and placement losses	**42,339**	**2,559**	**2,836**	**9,625**	**3,021**	**1,717**	**2,144**	**20,735**	**26,473**	**–**	**–**	**111,449**

39.2. Secondary segment information by business segments

	Banking segment	Insurance segment*	Other segment	Total
Total segment income	1,386,750	80,495	33,095	1,500,340
Segment profit before income tax	242,881	12,917	18,569	274,367
Segment assets	9,290,966	–	88,470	9,379,436
Capital expenditure	21,2434	–	2,793	24,036

* The insurance segment includes OTP Garancia Insurance Ltd. and its insurance subsidiaries. See Note 40.

NOTE 40: SALE OF THE INSURANCE BUSINESS LINE (in HUF mn)

On 11 February 2008, Groupama S.A. signed a contractual agreement to buy 100 % of the shares in OTP Garancia Insurance Ltd. as well as to acquire the minority shares held by the local subsidiaries of the Bank in the Romanian, Slovakian and Bulgarian subsidiaries of OTP Garancia Insurance Ltd. The purchase price was paid and the transaction settled on 17 September 2008. Furthermore, the Bank and Groupama S.A. entered into a mutual co-operation agreement about (in some of the countries exclusive) cross-selling of banking and insurance products in the branch networks of the parties in Hungary, Slovakia, Romania, Bulgaria, Ukraine, Russia, Serbia, Montenegro and Croatia. In the framework of this strategic co-operation, Groupama S.A. bought 7.99% of the shares of the Bank. New shares have not been issued.

The main figures of the transaction is as follows:

	2008
Sales price	160,161
Carrying amount of the net assets	(29,872)
Expenses arising in connection with the transaction	(9,103)
Recognized net income	**121,186**
Corporate tax recognized	(3,840)
Gain on sale of insurance business line	117,346

NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2008

The Bank purchased the 100% of the participation interests of OOO Donskoy Narodny Bank on 12 November 2007. In possession of the necessary approvals the closing of the sale and purchase transaction of OOO Donskoy Narodny Bank was completed on 6 May 2008. According to this fact the financial closing (deal value USD 40.95 million, (HUF 6,687 million) was also completed.

The Bank issued bonds in nominal value of EUR 500 million on 16 May 2008. See Note 15.

The Bank has launched a bond issue program in amount of HUF 300 billion on 31 July 2008, approved by the Hungarian Financial Supervisory Authority. The Bank does not intend to introduce the bonds to the stock exchange.

As at 31 December 2008 the direct and indirect stake of the Bank in MOL Plc. are 7,094,302 shares, meaning 6.47% interest. From these shares 6,987,362 were obtained in the framework of a security lending agreement.

On 21 February 2008 the General Meeting of OTP banka Hrvatska d.d. has increased the registered capital of its subsidiary by HRK 217 million. The capital increase has been registered on 6 March 2008.

On 7 March 2008 the Bank, the 100% owner of CJSC OTP Bank has increased the registered capital of its subsidiary by UAH 204 million corresponding with the retained earnings.

On 4 April 2008 the Bank, the 100% owner of Crnogorska komerčijalna banka a.d. has increased the registered capital of its subsidiary by EUR 15 million. The capital increase has been registered on 8 May 2008.

On 14 August 2008 the Bank, the 100% owner of CJSC OTP Bank has increased the registered capital of its subsidiary by UAH 861 million. The capital increase has been registered on 25 November 2008.

In September 2008 the Bank, the 95.51% owner of OAO OTP Bank has increased the registered capital of its subsidiary by RUB 2,501 million.

NOTE 42: POST BALANCE SHEET EVENTS

On 9 February 2009 Board of Directors of the Bank has approved the increase of the registered capital of CJSC OTP Bank by UAH 800 million (USD 100 million).

NOTE 43: EFFECT OF THE FINANCIAL CRISIS ON THE GROUP

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 hunderds 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 operations and profitability of the Group have been influenced by the following factors, generated by the financial crisis:

- The Bank met a HUF 4.7 billion revaluation loss on the strategic open foreign currency position held for hedging the net profit of the foreign subsidiaries, due to the fall of the forint exchange rate. The management has reduced the hedged position in the last quarter of 2008, as the contribution of the subsidiaries to the consolidated net profit of OTP Group is expected to be lower than previously planned.
- The management, based on the deteriorating economic and financial sector outlook, decided for a HUF 93,592 million of goodwill impairment for the Ukranian (CJSC OTP Bank) and Serbian (OTP banka Srbija a.d.) subsidaries, which has considerably reduced the net profit of the Bank in 2008.
- The deteriorating macroeconomic situation in the region and the devaluation of most of the regional currencies made necessary an even more conservative provisionning for the loans. Besides the constantly raising loan risk costs, the Group took a wide range of measures to minimise the risk in its clients because of the devaluating currencies in the region.

  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.

- 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 deposit collection or other types of activities generating own funds (i.e. issuing retail securities) and set up stricter conditions in loan origination. The Group made higher deposit interest-rate offers for the customers and introduced some innovative products based on the customer demands (i.e. multicurrency deposits).

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 Group. 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 remains stable.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of OTP Bank Plc.

We have audited the accompanying unconsolidated financial statements of OTP Bank Plc., which comprise the unconsolidated balance sheet as at December 31, 2008, and the related unconsolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 111 to 155 of this Annual Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated 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 unconsolidated 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 unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated 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 unconsolidated 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 unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of OTP Bank Plc. as of December 31, 2008, and of its unconsolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw attention to Note 2.3 to the unconsolidated financial statements which states that the consolidated financial statements of OTP Group prepared in accordance with International Financial Reporting Standards have been issued separately. The consolidated financial statements of OTP Group as of and for the year ended December 31, 2008 were audited by us and our report dated March 20, 2009 expressed an unqualified opinion.

Budapest, March 20, 2009

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Gion Gábor
Deloitte Auditing and Consulting Ltd.

Balance Sheet

(unconsolidated, based on IFRS, 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.	157,437	229,644
Placements with other banks, net of allowance for placement losses	4.	920,455	725,458
Financial assets at fair value through profit or loss	5.	151,716	123,371
Securities available-for-sale	6.	549,911	320,615
Loans, net of allowance for loan losses	7.	2,715,382	2,188,632
Accrued interest		60,360	46,421
Investments in subsidiaries	8.	596,244	630,703
Securities held-to-maturity	9.	437,535	558,510
Property and equipment	10.	72,844	74,007
Intangible assets	10.	39,539	36,266
Other assets	11.	70,892	177,047
TOTAL ASSETS		**5,772,315**	**5,110,674**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	12.	705,565	590,748
Deposits from customers	13.	3,090,762	2,955,035
Liabilities from issued securities	14.	601,791	394,196
Accrued interest payable		36,428	18,411
Fair value of derivative financial instruments designated as held for trading	15.	127,061	22,543
Other liabilities	16.	136,284	115,568
Subordinated bonds and loans	17.	301,951	298,914
TOTAL LIABILITIES		**4,999,842**	**4,395,415**
Share capital	18.	28,000	28,000
Retained earnings and reserves	19.	842,318	741,467
Treasury shares	20.	(97,845)	(54,208)
TOTAL SHAREHOLDERS' EQUITY		**772,473**	**715,259**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,772,315**	**5,110,674**

The accompanying notes to unconsolidated financial statements on pages 115 to 155 form an integral part of these unconsolidated financial statements

Statements of Operations

(unconsolidated, based on IFRS, for the year ended 31 December 2008, in HUF million)

	Note	2008	2007
Interest Income:			
Loans		243,170	199,770
Placements with other banks		203,352	104,968
Amounts due from banks and balances with the National Bank of Hungary		14,147	11,754
Securities held for trading		4,979	2,808
Securities available-for sale		23,959	24,952
Securities held-to-maturity		42,695	51,298
Total Interest Income		532,302	395,550
Interest Expense:			
Amounts due to banks and deposits from the National Bank of Hungary and other banks		206,208	65,939
Deposits from customers		150,729	110,504
Liabilities from issued securities		25,079	16,151
Subordinated bonds and loans		16,444	16,086
Total Interest Expense		398,460	208,680
NET INTEREST INCOME		**133,842**	**186,870**
Provision for impairment on loan and placement losses	4.,7.,	29,211	21,453
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES		**104,631**	**165,417**
Non-Interest Income:			
Fees and commissions		157,575	153,449
Foreign exchange gains, net		58,228	633
Gains on securities, net		118	2,232
Dividend income	39.	138,264	18,920
Other		21,497	4,663
Total Non-Interest Income		375,682	179,897
Non-Interest Expenses:			
Fees and commissions		24,535	20,611
Personnel expenses		77,354	71,018
Depreciation and amortization		21,032	20,035
Other	21.	215,850	71,868
– from this: provision for impairment on investments in subsidiaries		124,880	56
Total Non-Interest Expenses		338,771	183,532
PROFIT BEFORE INCOME TAX		**141,542**	**161,782**
Income tax	22.	7,587	20,101
NET PROFIT FOR THE YEAR		**133,955**	**141,681**
Earnings per share (in HUF)			
Basic	33.	495	508
Diluted	33.	493	507

The accompanying notes to unconsolidated financial statements on pages 115 to 155 form an integral part of these unconsolidated financial statements

Statement of Cash Flows

(unconsolidated, based on IFRS, for the year ended 31 December 2008, in HUF million)

OPERATING ACTIVITIES	Note	2008	2007
Profit before income tax		**141,542**	**161,782**
Income tax paid		(14,566)	(24,101)
Depreciation and amortization		21,032	20,035
Provision for impairment on securities available-for-sale		2,769	–
Provision for impairment on loan and placement losses		29,211	21,453
Provision for impairment on investments in subsidiaries	8.	124,880	56
Provision for impairment on other assets	11.	(731)	351
Provision for impairment on off-balance sheet commitments and contingent liabilities	16.	14,012	512
Share-based payment	25.	28	5,123
Unrealised losses on fair value adjustment of securities held for trading		(7,673)	688
Unrealised losses on fair value adjustment of derivative financial instruments		(8,676)	(1,620)
Changes in financial assets at fair value through profit or loss		6,238	(24,698
Increase in accrued interest		(11,915)	(2,023)
Decrease/ (increase) in other assets, excluding advances for investments and before provisions for losses		11,528	(45,697)
Increase in accrued interest payable		18,017	2,236
(Decrease)/ increase in other liabilities		(15,362)	8,070
Net cash provided by operating activities		**310,334**	**122,167**
INVESTING ACTIVITIES			
Net increase in placements with other banks, before provision for placement losses		(66,389)	(199,711)
Net (increase)/ decrease in securities available-for-sale		(249,769)	25,422
Net increase in investments in subsidiaries, before provision		(90,421)	(47,461)
Net decrease/(increase) in securities held-to-maturity		121,451	(54,399)
Net increase in advances for investments included in other assets		(23)	(2)
Net increase in loans, net of allowance for loan losses		(501,171)	(458,407)
Net disposal/ (additions) to property, equipment and intangible assets		9,524	(29,088)
Net cash provided by investing activities		**(776,798)**	**(763,646)**
FINANCING ACTIVITIES			
Net increase in amounts due to banks and deposits from the National Bank of Hungary and other banks		114,817	32,891
Net increase in deposits from customers		136,302	264,937
Net increase in liabilities from issued securities		199,921	192,146
Increase in subordinated bonds and loans		3,037	51,049
Effect on ICES - exchangeable bond transaction recognised through equity		(5,203)	(2,715)
Effect of treasury share transaction		(7,499)	–
Net change in Treasury shares		(47,061)	(56,359)
Net decrease/ (increase) in the compulsory reserve established by the National Bank of Hungary		91,832	(21,459)
Dividends paid		(57)	(40,151)
Net cash provided by financing activities		**486,089**	**420,339**
Net increase/ (decrease) in cash and cash equivalents		**19,625**	**(221,140)**
Cash and cash equivalents at the beginning of the year		73,441	294,581
Cash and cash equivalents at the end of the year		**93,066**	**73,441**
Analysis of cash and cash equivalents			
Cash, amounts due from banks and balances with the National Bank of Hungary		229,644	429,325
Compulsory reserve established by the National Bank of Hungary		(156,203)	(134,744)
Cash and cash equivalents at the beginning of the year		**73,441**	**294,581**
Cash, amounts due from banks and balances with the National Bank of Hungary	3., 27.	157,437	229,644
Compulsory reserve established by the National Bank of Hungary	3., 27.	(64,371)	(156,203)
Cash and cash equivalents at the end of the year		**93,066**	**73,441**

The accompanying notes to unconsolidated financial statements on pages 115 to 155 form an integral part of these unconsolidated financial statements

Statement of Changes in Shareholders' Equity

(unconsolidated, based on IFRS, for the year ended 31 December 2008, in HUF million)

	Note	Share Capital	Retained Earnings and Reserves	Treasury Shares	Total
Balance as at 1 January 2007		**28,000**	**644,000**	**(1,746)**	**670,254**
Net profit for the year		–	141,681	–	141,681
Fair value adjustment of securities available-for-sale recognised directly through equity		–	(2,018)	–	(2,018)
Fair value adjustment of derivatives on equity instruments recognised through equity		–	(387)	–	(387)
Share-based payment			5,123		5,123
Effect on ICES - exchangeable bond transaction recognised through equity		–	(2,715)	–	(2,715)
Dividend for the year 2006			(40,320)		(40,320)
Aquisition of Treasury shares		–	(3,897)	–	(3,897)
Change in carrying value of Treasury shares		–	–	(52,462)	(52,462)
Balance as at 31 December 2007		**28,000**	**741,467**	**(54,208)**	**715,259**
Net profit for the year		–	133,955	–	133,955
Fair value adjustment of securities available-for-sale recognised directly through equity		–	(17,393)	–	(17,393)
Fair value adjustment of derivatives on equity instruments recognised through equity		–	387	–	387
Share-based payment	25.	–	28	–	28
Effect on ICES - exchangeable bond transaction recognised through equity		–	(5,203)	–	(5,203)
Effect of Treasury share transaction		–	(7,499)	–	(7,499)
Loss on sale of Treasury shares		–	(3,424)	–	(3,424)
Change in carrying value of Treasury shares		–	–	(43,637)	(43,637)
Balance as at 31 December 2008		**28,000**	**842,318**	**(97,845)**	**772,473**

The accompanying notes to unconsolidated financial statements on pages 115 to 155 form an integral part of these unconsolidated financial statements

NOTES TO UNCONSOLIDATED IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. (the 'Bank' or 'OTP') was established on 31 December 1990, when the previously State-owned company was transformed into a limited liability company. The Bank's registered office address is 16, Nador Street, Budapest 1051.

In 1995, the shares of the Bank were listed on the Budapest and the Luxembourg Stock Exchanges and were also listed on the SEAQ board on the London Stock Exchange and PORTAL in the USA.

As at 31 December 2008, approximately 91% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (2%) and the Bank itself (7%).

The Bank provides a full range of commercial banking services through a nationwide network of 382 branches in Hungary.

As at 31 December 2008, the number of employees at the Bank was 8,297. The average number of employees in the year ended 31 December 2008 was 8,333.

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.

The functional currency of the Bank is the Hungarian Forint ('HUF').

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with the International Financial Reporting Standards ('IFRS'). Certain adjustments have been made to the Bank's Hungarian unconsolidated statutory accounts (see Note 36), in order to present the unconsolidated financial position and results of operations of the 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 .

The unconsolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union (the 'EU') except for the matters discussed in Note 2.3. 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 unconsolidated financial statements, had it been approved by the EU at the balance sheet date.

The Financial Statements were authorised for issue on 20 March 2009.

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

Four Standards and Interpretations issued by the IASB and International Financial Reporting Interpretations Committee ('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 Treasury 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 presented Amendments and Interpretations had no significant impact on the unconsolidated financial statements of the Bank. IFRIC 12 is not yet endorsed by the EU.

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 July 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 1 July 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 a 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)

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

*Not yet endorsed by the EU.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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

2.2. Foreign currency translation

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

2.3. Consolidated financial statements

These financial statements present the unconsolidated financial position and results of operations of the Bank. Consolidated financial statements are currently being prepared by the Bank and consolidated net profit for the year and shareholders' equity differs significantly from that presented in these unconsolidated financial statements. See Note 2.8. For the description of the method of accounting for investments in subsidiaries and associated companies in these unconsolidated financial statements. The consolidated financial statements and the unconsolitated financial statements will be published on the same date.

2.4. Securities held-to-maturity

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Bank has the express intention and ability to hold to maturity (securities held-to-maturity) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognised in each period represents a constant yield on the investment.

Securities held-to-maturity include securities, which the Bank has the ability and intention to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government and NBH and mortgage bonds.

2.5. Financial assets at fair value through profit or loss

2.5.1. Securities held for trading

Investments in securities 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/loss and included in the unconsolidated statements of operations for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in commercial companies and shares in investment funds.

2.5.2. Derivative financial instruments

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

Derivative financial instruments are initially measured at fair value and at subsequent reporting dates also at 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/loss and included in the unconsolidated statements of operations for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.5.3. 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 unconsolidated statements 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 unconsolidated statements 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 shareholders' equity. Amounts deferred in equity are transferred to the unconsolidated statements of operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the unconsolidated statement of operation for the period. The ineffective element of the hedge is charged directly to the unconsolidated statements of operations.

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, 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 unconsolidated statements of operations.

2.6. 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, Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in investment funds, bonds issued by NBH, companies or municipalities and foreign government bonds.

Available-for-sale securities are remeasured at fair value based on quoted prices or values 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 the future cash flows and the fair value of any unquoted equity instruments are measured at cost.

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less provision for impairment when appropriate.

2.7. Loans, placements with other banks and allowance for loan and placement losses

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amounts outstanding. 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 unpaid interest is reversed and accruals are stopped.

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

Allowance for losses on loans and placements with other banks represent management assesment for potential losses in relation to these activities. The allowances for loan and placement losses are maintained to cover losses that have been specifically identified and for potential losses which may be present based on portfolio performance.

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

2.8. Investments in subsidiaries

Investments in subsidiaries comprise those investments where the Bank, through direct and indirect ownership interest, controls the financial and operating policies of the investee.

If the Group loses control of a subsidiary, derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognises any difference as a gain or loss on the sale attributable to the parent in Statement of Operation.

Investments in subsidiaries are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate. Allowance is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

OTP calculates the fair value of the investment in subsidiaries using a discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash generating units.
OTP in its strategic plan, has taken into consideration the effects of the present global economic crisis, the probable economic decline and their possible influence on the

financial sector as well as the limited external refinancing funds, the lower possibility of the expansion and the prospective effects of all these above mentioned factors.

2.9. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in Other liabilities or Amounts due to banks and deposits from the NBH and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in placement with other Banks. Interest is accrued evenly over the life of the repurchase agreement.

2.10. Property, equipment and intangible assets

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

Property	1–2%
Office equipment	8–33.3%
Leased assets	16.7–33.3%
Vehicles	15–20%
Software	20–33.3%
Property rights	16.7%

Depreciation and amortization on properties, equipments and intangible assets starts on the day when such assets are placed into service. At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss.

If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

2.11. Financial liabilities

The financial liabilities are disclosed within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. In connection to the financial liabilities at fair value through profit or loss, the Bank discloses the amount of change in their fair value originated from the changes of market conditions and business environment.

2.12. Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the unconsolidated statements of operations over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.
Payments made under operating leases are charged to the unconsolidated statements of operations on a straight-line basis over the life of the lease terms. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.13. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the Unconsolidated

Balance Sheet at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of Treasury shares are credited or charged directly to retained earnings and reserves. Derecognition of Treasury shares is based on the FIFO method.

2.14. Interest income and interest expense

The interest income and expense are recognised on the accrual basis and based on the IAS 18 Revenue, referring to IAS 39.

2.15. Fees and Commissions

Fees and commissions are recognised in the unconsolidated statements of operations on an accrual basis based on IAS 18, fees and commissions are recognised using the effective interest method referring to IAS 39.

2.16. 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. 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.

2.17. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit and transactions with financial instruments. The provision for impairment on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Bank recognises a provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.18. Share-based payment

The Bank has applied the requirements of IFRS 2 Share-based Payment.

The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest.

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2.19. Unconsolidated 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. The unrealized gains and losses from the translation of monetary items to the closing foreign exchange rates and the unrealized gains and losses from derivative financial instruments are presented net in the statement of cash-flows for the items being hedged.

2.20. Comparative figures

Certain amounts in the unconsolidated financial statements for the year ended 31 December 2007 have been reclassified to conform with the current year presentation. These reclassifications were not material.

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

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

(a) Impairment on loans and advances

The Bank regularly assesses its loan portfolio for 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.

(c) Provisions

Provision is recognised and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for (see Note 16). A provision recognised by the Bank when it has a present obligation as result of a past event , it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

	2008	2007
Cash on hand:		
In HUF	66,542	50,601
In foreign currency	8,120	3,486
	74,662	**54,087**
Amounts due from banks and balances with NBH:		
Within one year:		
In HUF	71,857	162,268
In foreign currency	10,918	13,289
	82,775	**175,557**
Total	**157,437**	**229,644**

Based on the requirements for compulsory reserves set by the NBH, the balance of the compulsory reserves amounted to HUF 64,371 million and HUF 156,203 million as at 31 December 2008 and 2007 respectively. The rate of the compulsory reserve decreased from 5% to 2% at 1 December 2008.

NOTE 4: PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn)

	2008	2007
Within one year:		
In HUF	157,903	35,330
In foreign currency	389,055	289,789
	546,958	**325,119**
Over one year:		
In HUF	2,300	3,000
In foreign currency	371,559	397,339
	373,859	**400,339**
Total placements	**920,817**	**725,458**
Provision for impairment on placement losses	**(362)**	**–**
Total	**920,455**	**725,458**

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

	2008	2007
Balance as at 1 January	–	–
Provision for the year	362	–
Balance as at 31 December	**362**	**–**

Placements with other banks in foreign currency bear interest rates in the range of 1% to 10.7% and of 1% to 11.99% as at 31 December 2008 and 2007 respectively. Placements with other banks in HUF bear interest rates in the range of 8.94% to 12.67% and of 6.7% to 8.94% as at 31 December 2008 and 2007 respectively.

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

	2008	2007
Securities held for trading		
Government bonds	43,031	47,964
Mortgage bonds	5,057	3,549
Hungarian government interest bearing Treasury bills	2,608	2,406
Hungarian government discounted Treasury Bills	1,373	2,147
Other securities	2,750	4,318
	54,819	**60,384**
Derivative financial instruments designated as held for trading	96,897	62,987
Total	**151,716**	**123,371**

Securities held for trading are measured at fair value in the financial statements of the Bank which approximates book value.

Mortgage bonds issued by OTP Mortgage Bank Ltd. was HUF 4,635 million and HUF 2,976 million as at 31 December 2008 and 2007 respectively.

Approximately 94% and 100% of the held for trading securities portfolio was denominated in HUF as at 31 December 2008 and 2007 respectively.

The 98% and 100% of the government bond portfolio was denominated in HUF as at 31 December 2008 and 2007 respectively.

Interest rates on securities held for trading on interest bearing securities ranged from 3.7% to 12.2% and from 5.5% to 11.1% as at 31 December 2008 and 2007 respectively.

Interest conditions and the remaining maturities of held for trading securities can be analysed as follows:

	2008	2007
Within five years:		
variable interest	228	369
fixed interest	34,779	33,918
	35,007	**34,287**
Over five years:		
variable interest	–	–
fixed interest	17,514	21,779
	17,514	**21,779**
Non-interest bearing securities	**2,298**	**4,318**
Total	**54,819**	**60,384**

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

	2008	2007
Mortgage bonds	290,820	161,545
Government bonds	126,177	41,773
Other securities	135,683	117,297
	552,680	320,615
Provision for impairment on securities available-for-sale	(2,769)	–
Total	**549,911**	**320,615**

An analysis of the changes in the provision for impairment is as follows:

	2008	2007
Balance as at 1 January	–	–
Provision for the year	2,769	–
Balance as at 31 December	2,769	–

Mortgage bonds are issued by OTP Mortgage Bank Ltd.

Securities available-for-sale are measured at fair value in the financial statements of the Bank which approximates book value, except when there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity were reclassified from equity to Statement of Operations.

Approximately 78% and 67% of the available-for-sale securities portfolio was denominated in HUF as at 31 December 2008 and 2007 respectively. The 100% and 88% of the government bonds were denominated in HUF as at 31 December 2008 and 2007 respectively. The entire foreign currency denominated government bond portfolio was denominated in EUR as at 31 December 2007.

Interest rates on avaible-for-sale securities ranged from 1% to 11% and from 3% to 10% as at 31 December 2008 and 2007 respectively.

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

	2008	2007
Within five years:		
variable interest	360,460	63,187
fixed interest	90,213	171,723
	450,673	**234,910**
Over five years:		
variable interest	79,758	56,519
fixed interest	8,666	17,240
	88,424	**73,759**
Non-interest bearing securities	**10,814**	**11,946**
Total	**549,911**	**320,615**

Certain fixed-rate mortgage bonds and other securities mainly denominated in foreign currency are hedged by derivative financial instruments – interest rate swap – to reduce the exposure to interest rate risk or the changes in fair value of these assets. Where the hedging relationships are designated and a HUF 934 million and HUF 298 million net loss that had been recognised directly in the equity. It was removed from equity and recognised through profit or loss as at 31 December 2008 and 2007 respectively in line with IAS 39.

The fair value of the hedged mortgage bonds was HUF 16,841 million and HUF 16,557 million as at 31 December 2008 and 2007 respectively. The fair value of the other hedged bonds was HUF 20,335 million and HUF 30,491 million as at 31 December 2008 and 2007 respectively.

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

	2008	2007
Short-term loans and trade bills (within one year)	650,160	563,007
Long-term loans and trade bills (over one year)	2,110,541	1,654,445
	2,760,701	**2,217,452**
Provision of impairment on loan losses	(45,319)	(28,820)
Total	**2,715,382**	**2,188,632**

Loans denominated in foreign currency represent approximately 70% and 58% of the loan portfolio, before provision for impairment on loan losses as at 31 December 2008 and 2007 respectively.

Loans denominated in HUF, with a maturity within one year bear interest rates in the range of 14% to 30% and of 10% to 30% as at 31 December 2008 and 2007 respectively.

Loans denominated in HUF with a maturity over one year bear interest rates in the range of 3% to 24.8% and of 4% to 22.8% as at 31 December 2008 and 2007 respectively.

Foreign currency loans bear interest rates in the range of 1.8% to 22% and of 2% to 18% as at 31 December 2008 and 2007 respectively.

Approximately 3% and 2% of the gross loan portfolio represented loans on which interest is not being accrued as at 31 December 2008 and 2007 respectively.

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

	2008		2007	
Commercial loans	1,862,963	67.00%	1,446,354	64.00%
Consumer loans	361,148	13.00%	280,925	13.00%
Housing loans	235,375	9.00%	211,504	10.00%
Municipality loans	180,670	7.00%	214,428	10.00%
Mortgage backed loans	120,545	4.00%	64,241	3.00%
Total	**2,760,701**	**100.00%**	**2,217,452**	**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	28,820	31,021
Provision for the year	28,849	21,453
Release / write-offs for the year	(12,350)	(23,654)
Balance as at 31 December	**45,319**	**28,820**

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (See Note 26).

NOTE 8: INVESTMENTS IN SUBSIDIARIES (in HUF mn)

	2008	2007
Investments in subsidiaries:		
Controlling interest	721,180	630,805
Significant interest	72	75
Other	987	938
	722,239	**631,818**
Provision for impairment	**(125,995)**	**(1,115)**
Total	**596,244**	**630,703**

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

	2008	2007
Balance as at 1 January	1,115	1,059
Provision for the year	124,880	56
Balance as at 31 December	**125,995**	**1,115**

The provision for impairment on CJSC OTP Bank (Ukraine) was HUF 97,526, for OTP banka Srbija a.d. was HUF 25,284 million as at 31 December 2008.

Investments in companies in which the Bank has a controlling interest are detailed below. All companies are incorporated in Hungary unless indicated otherwise.

	2008		2007	
	% Held (direct and indirect)	Cost	% Held (direct and indirect)	Cost
CJSC OTP Bank (Ukraine)	100.00%	210,673	100.00%	182,537
DSK Bank EAD (Bulgaria)	100.00%	86,831	100.00%	86,831
OTP banka Hrvatska d.d. (Croatia)	100.00%	72,940	100.00%	65,065
OAO OTP Bank (Russia) (former OAO Investsberbank)	95.51%	66,723	97.22%	50,078
OTP banka Srbija a.d. (Serbia)	91.43%	55,997	91.43%	55,997
OTP Bank Romania S.A. (Romania)	100.00%	38,117	100.00%	38,117
Crnogorska komerčijalna banka a.d. (Montenegro)	100.00%	32,988	100.00%	29,130
OTP Holding Ltd. (Cyprus)	100.00%	29,000	–	–
OTP Mortgage Bank Ltd.	100.00%	27,000	100.00%	27,000
OOO Invest Oil (Russia)	100.00%	21,224	100.00%	21,224
OOO Megaform Inter (Russia)	100.00%	17,704	100.00%	17,704
OOO AlyansReserv (Russia)	100.00%	11,147	100.00%	11,147
OTP Banka Slovensko a.s. (Slovakia)	97.23%	10,038	97.23%	10,038
Air-Invest Ltd.	100.00%	7,948	100.00%	3,854
Bank Center No. 1. Ltd.	100.00%	7,330	100.00%	7,330
OOO Donskoy Narodny Bank (Russia)	100.00%	6,687	–	–
Inga Two Ltd.	100.00%	5,892	100.00%	5,892
OTP Funds Servicing and Consulting Ltd.	100.00%	2,469	100.00%	2,392
OTP Building Society Ltd.	100.00%	1,950	100.00%	1,950
OTP Fund Management Ltd.	100.00%	1,653	100.00%	1,653
Merkantil Bank Ltd.	100.00%	1,600	100.00%	1,600
TradeNova Commercial Ltd. (former OTP Trade Ltd.)	100.00%	1,258	100.00%	30
OTP Life Annuity Ltd.	100.00%	1,250	100.00%	1,250
S.C. OTP Fond de Pensii (Romania)	100.00%	885	–	–
OTP Financing Netherlands B.V. (Netherlands)	100.00%	481	100.00%	5
OTP Card Factory Ltd.	100.00%	450	100.00%	450
OTP Real Estate Leasing Ltd.	100.00%	410	100.00%	410
OTP Factoring Ltd.	100.00%	225	100.00%	150
OTP Garancia Insurance Ltd.	–	–	100.00%	7,472
OTP Real Estate Ltd.	–	–	100.00%	1,228
Other	–	310	–	271
Total		**721,180**		**630,805**

NOTE 9: SECURITIES HELD-TO-MATURITY (in HUF mn)

	2008	2007
Mortgage bonds	172,988	288,959
Government securities	150,573	172,125
Bonds issued by NBH	109,684	97,085
Hungarian government discounted Treasury bills	4,290	341
Total	**437,535**	**588,510**

Interest conditions and the remaining maturities of held-to-maturity investments can be analysed as follows:

	2008	2007
Within five years:		
variable interest	29,118	16,765
fixed interest	369,624	485,475
	398,742	**502,240**
Over five years:		
variable interest	15,023	30,657
fixed interest	23,770	25,613
	38,793	**56,270**
Total	**437,535**	**558,510**

100% of the securities portfolio was denominated in HUF as at 31 December 2008 and 2007. In most cases, interest on variable rate securities is based on the interest rates of 90 day Hungarian government Treasury bills and is adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF ranged from 5.5% to 19.2% and from 5.5% to 10% as at 31 December 2008 and 2007 respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

The fair value of securities held-to-maturity was HUF 428,571 million and HUF 562,404 million as at 31 December 2008 and 2007 respectively.

NOTE 10: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the year ended 31 December 2008:

	Intangible assets	Land and buildings	Office equipments	Construction in progress	Total
Cost					
Balance as at 1 January 2008	80,272	55,301	69,115	6,173	210,861
Additions	9,329	3,902	6,408	-	19,639
Disposals	(14,915)	(849)	(3,082)	(1,304)	(20,150)
Balance as at 31 December 2008	**74,686**	**58,354**	**72,441**	**4,869**	**210,350**
Depreciation and Amortization					
Balance as at 1 January 2008	44,006	9,411	47,171	–	100,588
Charge for the year	11,609	1,813	8,172	–	21,594
Disposals	(20,468)	(639)	(3,108)	–	(24,215)
Balance as at 31 December 2008	**35,147**	**10,585**	**52,235**	**–**	**97,967**
Net book value					
Balance as at 1 January 2008	36,266	45,890	21,944	6,173	110,273
Balance as at 31 December 2008	**39,539**	**47,769**	**20,206**	**4,869**	**112,383**

For the year ended 31 December 2007:

	Intangible assets	Land and buildings	Office equipments	Construction in progress	Total
Cost					
Balance as at 1 January 2007	64,186	49,624	67,653	5,998	187,461
Additions	16,108	7,107	7,390	175	30,780
Disposals	(22)	(1,430)	(5,928)	–	(7,380)
Balance as at 31 December 2007	**80,272**	**55,301**	**69,115**	**6,173**	**210,861**
Depreciation and Amortization					
Balance as at 1 January 2007	33,342	8,443	44,955	–	86,740
Charge for the year	10,669	1,288	8,078	–	20,035
Disposals	(5)	(320)	(5,862)	–	(6,187)
Balance as at 31 December 2007	**44,006**	**9,411**	**47,171**	**–**	**100,588**
Net book value					
Balance as at 1 January 2007	30,844	41,181	22,698	5,998	100,721
Balance as at 31 December 2007	**36,266**	**45,890**	**21,944**	**6,173**	**110,273**

NOTE 11: OTHER ASSETS (in HUF mn)

	2008	2007
Current income tax receivable	23,882	7,279
Receivables from OTP Mortgage Bank Company Ltd.*	17,012	144,927
Fair value of derivative financial instruments designated as hedge accounting relationships	8,871	2,309
Trade receivables	5,791	5,649
Prepayments and accrued income	5,645	6,441
Due from government for interest subsidies	3,128	2,860
Receivables from investment services	929	1,425
Inventories	602	473
Advances for securities and investments	533	510
Credits sold under deferred payment scheme	420	119
Other advances	162	1,767
Other	4,527	4,663
	71,502	**178,422**
Provision for impairment on other assets	**(610)**	**(1,375)**
Total	**70,892**	**177,047**

* The Bank, under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Ltd. Provision for impairment on other assets mainly consists of provision for trade receivables, advances and inventories.

An analysis of the movement in the provision for impairment on other assets is as follows:

	2008	2007
Balance as at 1 January	1,375	1,046
(Release)/charge for the year	(731)	351
Write-offs	(34)	(22)
Balance as at 31 December	**610**	**1,375**

NOTE 12: AMOUNTS DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	2008	2007
Within one year:		
In HUF	207,354	124,641
In foreign currency	353,971	173,276
	561,325	**297,917**
Over one year:		
In HUF	88,577	70,065
In foreign currency	55,663	222,766
	144,240	**292,831**
Total	**705,565**	**590,748**

Amounts due to banks and deposits from the NBH and other banks payable in HUF within one year bear interest rates in the range of 9.4% to 10.8% and of 6.5% to 7.52% as at 31 December 2008 and 2007 respectively.

Amounts due to banks and deposits from the NBH and other banks payable in HUF over one year bear interest rates in the range of 3% to 9.18% and of 3% to 6.28% as at 31 December 2008 and 2007 respectively.

Amounts due to banks and deposits from the NBH and other banks payable in foreign currency within one year bear interest rates in the range of 0.5% to 13.75% and of 1% to 10.5% as at 31 December 2008 and 2007 respectively.

Amounts due to banks and deposits from the NBH and other banks payable in foreign currency over one year bear interest rates in the range of 1.4% to 6.3% and of 2.69% to 6.15% as at 31 December 2008 and 2007 respectively. No assets are pledged as collaterals against the amounts due to banks.

NOTE 13: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2008	2007
Within one year:		
In HUF	2,508,553	2,462,047
In foreign currency	556,332	483,208
	3,064,885	**2,945,255**
Over one year:		
In HUF	24,553	9,780
In foreign currency	**1,324**	**–**
	25,877	**9,780**
Total	**3,090,762**	**2,955,035**

Deposits from customers payable in HUF within one year bear interest rates in the range of 0.2% to 13.8% and of 0.2% to 12% as at 31 December 2008 and 2007 respectively.

Deposits from customers payable in HUF over one year bear interest rates in the range of 0.2% to 11% and of 1.3% to 7% as at 31 December 2008 and 2007 respectively.

Deposits from customers payable in foreign currency bear interest rates in the range of 0.1% to 21.5% and of 0.1% to 6% as at 31 December 2008 and 2007 respectively.

An analysis of deposits from customers by type, is as follows:

	2008		2007	
Retail deposits	2,027,357	66,00%	1,844,330	62.00%
Corporate deposits	836,781	27,00%	906,160	31.00%
Municipality deposits	226,624	7,00%	204,545	7.00%
Total	**3,090,762**	**100,00%**	**2,955,035**	**100.00%**

NOTE 14: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2008	2007
Within one year:		
In HUF	57,548	245
In foreign currency	198,585	–
	256,133	245
Over one year:		
In HUF	1,863	1,393
In foreign currency	343,795	392,558
	345,658	393,951
Total	**601,791**	**394,196**

Liabilities from issued securities denominated in HUF bear interest rates in the range of 0.3% to 9% as at 31 December 2008 and 2007.

Liabilities from issued securities denominated in foreign currency bear interest rates in the range of 3.1% to 5.8% and of 4.8% to 5% as at 31 December 2008 and 2007 respectively.

The Bank issued variable-rate bonds with a face value of EUR 500 million on 1 July 2005 which are due on 1 July 2010 at 99.9%. Interest on these bonds is three month EURIBOR + 0.16% that is payable quarterly.

The Bank issued variable-rate bonds with a face value of EUR 300 million on 20 December 2005, which are due on 20 December 2010 at

99.81%. Interest on these bonds is three month EURIBOR + 0.15% that is payable quarterly.

On 26 February 2007, the Bank issued EUR 750 million of floating rate notes due on 27 February 2009 at 99.87% under the European Medium Term Note Program (EMTN Program). Interest on these bonds is three month EURIBOR + 0.125% that is payable quarterly.

The Bank issued bonds with a nominal value of EUR 500 million at 99.812 % of the face value on 16 May 2008. The price of the fixed rate senior bonds with a 3 year maturity was set on 7 May 2008. The Lead Managers of the successful bond issue (which attracted approximately 30% oversubscription of the accepted amount) were DZ Bank and Morgan Stanley. The re-offer spread is 140 bps over 3 year mid-swap, the bonds bear a coupon of 5.75% fixed rate, with annual interest payments. The bonds will be introduced to the Luxembourg Stock Exchange.

The Bank has launched a bond issue program of HUF 100,000 million on 2 August 2007.

The Bank issued bonds with a nominal value of HUF 7,143 million face value between 16 June and 25 July 2008 under the above mentioned 100,000 million HUF Bond Issuance Program. The bonds are fixed-rate senior bonds with 1 year maturity. The bonds bear a coupon of 8.7 % fixed rate.

The Bank issued bonds with a nominal value of HUF 50,984 million face value between 3 November and 31 December 2008 under the 100,000 million HUF Bond Issuance Program. The bonds are fixed-rate senior bonds with 1 year maturity. The bonds bear a coupon of 10 % fixed rate.

NOTE 15: FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HELD FOR TRADING (in HUF mn)

	2008	2007
Futures contracts	10	115
Forward contracts	5,829	1,205
Foreign exchange swap contracts	88,657	2,644
Interest rate swap contracts	32,565	18,579
Total	**127,061**	**22,543**

NOTE 16: OTHER LIABILITIES (in HUF mn)

	2008	2007
Accrued expenses	36,052	11,245
Provision for losses on off-balance sheet commitments, contingent liabilities	28,233	14,221
Giro clearing accounts	20,129	19,017
Salaries and social security payable	19,789	8,372
Accounts payable	6,616	10,902
Taxes payable	4,493	4,269
Liabilities from security trading	2,828	20,697
Advance of Government grants for housing purposes	1,698	3,666
Loans for collection	1,340	1,523
Fair value of derivative financial instruments designated as hedge accounting relationships	1,268	612
Deferred tax liabilities	759	2,969
Dividends payable	735	792
Other	12,344	17,283
Total	**136,284**	**115,568**

The provision for losses on off-balance sheet commitments and contingent liabilities are detailed as follows:

	2008	2007
Provision for litigation*	3,038	2,845
Provision for losses on other off-balance sheet commitments and contingent liabilities	23,924	6,524
Other provision (for expected liabilities)	1,271	4,852
Total	**28,233**	**14,221**

* The provision for losses on other off-balance sheet commitments and contingent liabilities primarily relates to commitments stemming from guarantees and credit lines issued by the Bank.

Movements in the provision for losses on commitments and contingent liabilities can be summarized as follows:

	2008	2007
Balance as at 1 January	14,221	13,709
Provision for the year	21,292	2,742
Write-offs	(7,280)	(2,230)
Balance as at 31 December	**28,233**	**14,221**

NOTE 17: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and held by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interest is based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 4.02% as at 20 June 2007, 3.76% as at 20 December 2007 and 4.15% as at 20 June 2008 and 4.75% as at 20 December 2008. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

In December 1996, the Bank obtained a USD 30 million and DEM 31.14 million (15.92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development with an original mautурity of 27 December 2006. The maturity date was modified to 27 August 2008 on 22 August 2003. The loan is unsecured, subordinate to the other liabilities and has a twelve-year maturity, with interest payable at six-month LIBOR + 1.35% from 28 December 2003 until 27 August 2008. The loan has already been repayed in 2008.

On 4 March 2005, the Bank issued EUR 125 million in bonds, which are subordinated to the other liabilities of the Bank. Interest on subordinated bonds is variable and payable at three-month EURIBOR + 0.55% quarterly. The original maturity of the bonds is 10 years. On 31 October 2006, the Bank issued perpetual subordinated (UT2) bonds to finance acquisitions. The 500 EUR million nominal value bonds were issued at 99.375 % of the face value with 7 November 2006 as payment date. The re-offer spread is 200 basis points over the 10 year mid-swap. The bonds are perpetual and callable after year 10. The bonds bear a fixed coupon of 5.875%, with annual interest payments in the first 10 years, and a floater (variable) coupon of 3 months EURIBOR + 300 basis points per annum, quaterly thereafter. The bonds were listed on the Luxembourg Stock Exchange.

On 30 August 2006, the Bank updated EMTN Program and increased the Program amount from EUR 1 billion to EUR 3 billion. Under the EMTN Program on 12 September 2006 the Bank issued fixed rate subordinated bonds in a total nominal value of EUR 300 million to finance acquisitions. The EUR 300 million nominal value bonds were issued at 100% of the face value with 19 September 2016 as maturity date. The bonds bear a coupon of 5.27%, interests are paid annually.
On 26 February 2007 the Bank also issued EUR 200 million subordinated notes due on 19 September 2016 under the same program.

NOTE 18: SHARE CAPITAL (in HUF mn)

	2008	2007
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000
Total	**28,000**	**28,000**

On 21 April 2007 the law on abolishment of 'aranyrészvény' (special share assigning voting rights to the Hungarian State) came into force (Act XXVI of 2007). As a result of this, this special voting share was transformed into 10 ordinary shares with a face value of HUF 100. Therefore, the registered capital of the Bank consists of 280,000,010 ordinary shares with a face value of HUF 100.

NOTE 19: RETAINED EARNINGS AND RESERVES (in HUF mn)

The reserves of the Bank under Hungarian Accounting Standards were HUF 652,297 million and HUF 537,211 million as at 31 December 2008 and 2007 respectively. Of these amounts, legal reserves represent HUF 156,975 million and HUF 152,569 million as at 31 December 2008 and 2007 respectively. The legal reserves are not available for distribution. Dividends of HUF 40,320 million for the year 2006 were approved by the Annual General Meeting on 28 April 2007.
According to the decision made at the Annual General Meeting on 25 April 2008, the Bank did not pay dividends for the year 2007.

These Financial Statements will be approved by the Annual General Meeting in April 2009. No dividends are proposed.

On 19 October 2006 the Bank sold 14.5 million Treasury shares owned by OTP Bank through an issue of Income Certificates Exchangeable for Shares ('ICES'). Within the transaction 10 million shares owned by OTP Bank, and 4.5 million shares owned by OTP Fund Management Ltd were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A., which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are without final maturity and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to buy back the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%.
Under a subordinated swap contract, the Bank pays the interest of ICES payable to Opus and if the Bank pays dividend for the ordinary shares, receives the same amount of money from Opus than the dividend that is payable for the shares held by Opus.

NOTE 20: TREASURY SHARES (in HUF mn)

	2008	2007
Nominal value (ordinary shares)	1,742	610
Carrying value at aquisition cost	**97,845**	**54,208**

NOTE 21: OTHER EXPENSES (in HUF mn)

	2008	2007
Provision for impairment on investments in subsidiaries	124,880	56
Administration expenses, including rental fees	24,534	23,996
Services	21,188	17,803
Taxes, other than income tax	15,707	16,903
Provision for impairment on off-balance sheet commitments and contingent liabilities	14,012	512
Advertising	5,670	5,129
Provision for impairment on securities available-for-sale	2,769	–
Professional fees	2,216	2,762
(Release)/provision for impairment on other assets	–731	351
Other	5,605	4,356
Total	**215,850**	**71,868**

NOTE 22: INCOME TAXES (in HUF mn)

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 breakdown of the income tax expense is:

	2008	2007
Current tax	4,749	22,169
Deferred tax	2,838	(2,068)
Total	**7,587**	**20,101**

A reconciliation of the deferred tax liability is as follows:

	2008	2007
Balance as at 1 January	(2,969)	(5,831)
Deferred tax charge	(2,838)	2,068
Tax effect of fair value adjustment of available-for-sale securities and ICES recognised through equity	5,048	794
Balance as at 31 December	**(759)**	**(2,969)**

A breakdown of the deferred tax liability is as follows:

	2008	2007
Difference in accounting for finance leases	669	510
Fair value adjustment of held for trading and available-for-sale securities	2,347	–
Repurchase agreements	–	1,818
Fair value adjustment of derivative financial instruments	–	378
Provision for impairment on investments in subsidiaries	3,183	–
Deferred tax asset	6,199	2,706
Fair value adjustment of held for trading and available-for-sale financial assets	–	(1,021)
Premium and discount amortization on bonds	(365)	(339)
Repurchase agreements	(2,498)	–
Fair value adjustment of derivative financial instruments	(555)	–
Valuation of equity instrument (ICES)	(1,964)	(2,760)
Difference in depreciation and amortization	(1,576)	(1,555)
Deferred tax liabilities	(6,958)	(5,675)
Net deferred tax liabilities	**(759)**	**(2,969)**

A reconciliation of the income tax charge is as follows:

	2008	2007
Profit before income tax	141,542	161,782
Income tax at statutory tax rate (16%)	22,647	25,885
Special tax (4%)	**3,366**	**5,763**

Income tax adjustments are as follows:

	2008	2007
Reversal of statutory general provision	(15)	(1,819)
Provision for impairment on loan losses	(268	–
Change in statutory goodwill and negative goodwill	4,608	(1,762)
Revaluation of investments denominated in foreign currency to historical cost	(2,828)	(2,514)
Fair value of share-based payment	6	1,025
Permanent differences related to issued equity instruments (ICES)	(404)	(389)
Treasury share transaction	(10,319)	–
Dividend income	(22,122)	(3,027)
Other	12,916	(3,061)
Income tax	7,587	20,101
Effective tax rate	**5.4%**	**12.4%**

NOTE 23: FINANCIAL RISK MANAGEMENT

A financial instrument is any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity.

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 a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

Liquidity risk

See Note 30.

Foreign currency risk

See Note 31.

Interest rate risk

See Note 32.

NOTE 24: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments.

The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

(a) Contingent liabilities and commitments

	2008	2007
Commitments to extend credit	604,348	749,015
Guarantees arising from banking activities	222,554	255,406
Contingent liabilities related to OTP Mortgage Bank Ltd.	68,336	38,702
Confirmed letters of credit	9,267	5,892
Legal disputes	6,332	5,708
Other	669	5,178
Total	**911,506**	**1,059,901**

Commitments to extend credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments to be minimal.

Contingent liabilities related to OTP Mortgage Bank Ltd.

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank guarantees, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. OTP Mortgage Bank Ltd. utilises credit risk granting and monitoring policies similar to those used by the Bank.
Provision for the year due to recourse agreements were HUF 6,834 million and HUF 3,870 million as at 31 December 2008 and 2007 respectively.

Legal disputes

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings correspond to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provision due to legal disputes were HUF 3,038 million and HUF 2,845 million as at 31 December 2008 and 2007 respectively. (See Note 16)

(b) Derivatives (nominal amount, unless otherwise stated)

	2008	2007
Foreign currency contracts designated as held for trading		
Off-balance sheet assets	150,461	97,699
Off-balance sheet liabilities	153,867	99,161
Net	(3,406)	(1,462)
Net fair value	(2,158)	(649)
Foreign exchange swaps and interest rate swaps designated as held for trading		
Off-balance sheet assets	3,701,859	2,063,109
Off-balance sheet liabilities	3,540,780	1,980,414
Net	161,079	82,695
Net fair value	(28,091)	15,413
Interest rate swaps designated in hedge accounting relationships		
Off-balance sheet assets	35,077	20,041
Off-balance sheet liabilities	29,441	17,320
Net	5,636	2,721
Net fair value	7,424	1,478
Option contracts		
Off-balance sheet assets	10,927	123,467
Off-balance sheet liabilities	10,792	123,520
Net	135	(53)
Net fair value	180	25,900
Forward security agreements designated as held for trading		
Off-balance sheet assets	2,101	175
Off-balance sheet liabilities	2,101	175
Net	–	–
Net fair value	52	(1)
Forward rate agreements designated as held for trading		
Off-balance sheet assets	37	–
Off-balance sheet liabilities	–	–
Net	37	–
Net fair value	33	–

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

As at 31 December 2008 the Bank has derivative instruments with positive fair values of HUF 105,768 million and negative fair values of HUF 128,328 million. Positive fair values of derivative instruments designated as hedge accounting relationships are included in other assets, while positive fair values of derivative instruments designated as held for trading are included in financial assets at fair value through profit or loss. Negative fair values of hedging derivative instruments are included in other liabilities. Corresponding figures as at 31 December 2007 are HUF 65,296 million and HUF 23,155 million.

Foreign currency contracts

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

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

Foreign exchange swaps and interest rate swaps

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

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

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

Cross-currency interest rate swap

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

Forward rate agreements

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

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

NOTE 25: SHARE-BASED PAYMENT

The terms of the options relating to the years of 2005 to 2009 were approved by the Annual General Meeting of 2005. The grant date of these options is 29 April 2005. The maximum number of shares which are available is 2.92 million.

The 2006 Annual General Meeting approved a five year share option program for the years of 2006 to 2010 under which options are granted annually. The grant date of these options is 28 April 2006 and the date of the Annual General Meeting of 2007 (27 April 2007) for the amount increased under the modified program.

The exercise price of the options of 2005 is calculated as the average of the market price of OTP shares quoted by the Budapest Stock Exchange ('BSE') daily during the two month period ending on the last day of the month of the Annual General Meeting.

The exercise prices of the options relating to the years of 2006 to 2010 are calculated as the average of the market price of OTP shares quoted by the BSE daily during the period between 30 April and 30 May in the actual year and decreased by HUF 1,000. In that case if the average price of the shares exceeds by more than HUF 3,000 the exercise price one day before the date of exercise the exercise price would be increased by the amount above the HUF 3,000.

The 2007 Annual General Meeting approved a few changes in the program:
The exercise prices of the options relating to the years of 2006 to 2010 is calculated as the average of the market price of OTP shares quoted by the BSE daily during the three month period ended 31 March in the actual year and decreased by HUF 2,000. In that case if the average price of the shares exceeds by more than HUF 4,000 the exercise price one day before the date of exercise the exercise price would be increased by the amount above the HUF 4,000.

To be able to practice the option program, two of following conditions should be fulfilled:
– the growth of the net income obtains 10%
– the ROA indicator for the actual year ended 31 December should be at least 2.1%
– the ROE indicator for the actual year ended 31 December should be at least 20%

The exercise period of the options granted for the year of 2005 is two years and for the years of 2006 to 2010 is 19 months. The exercise period of the option program for the years of 2006 to 2010 must be opened at 1 June in the actual year, the period can be prolongated by two years. If the options remain unexercised before the end of the exercise period the options expire. Additionally, options are forfeited if the employee leaves the Bank before the options vest.

	2008		2007	
	Options (number of shares)	**Weighted average exercise price** (in HUF)	**Options** (number of shares)	**Weighted average exercise price** (in HUF)
Outstanding at beginning of period	6,678,130	7,957	4,799,825	7,231
Granted during the period	–	–	3,510,000	8,419
Forfeited during the period	965,050	6,484	187,250	7,648
Exercised during the period	257,500	6,536	1,444,445	6,706
Outstanding at the end of the period	2,534,950	6,484	6,678,130	7,957
Exercisable at the end of the period	**1,774,466**	**8,424**	**2,334,304**	**7,369**

For the year ended 31 December 2008 the key accomplishment factors – which are preconditions of the option program – are not fulfilled, in accordance of the option program the Bank did not recognise any personnel expense.

The options outstanding as at 31 December 2008 and 2007 had a weighted average exercise price of HUF 6,484 and HUF 7,957 with a weighted average remaining contractual life of 18 and 22 months, respectively.

The inputs into the Binominal model are as follows:

	2008	2007
Weighted average share price (HUF)	7,828	7,663
Weighted average exercise price (HUF)	7,941	7,594
Expected volatility (%)	29	29
Expected life (average year)	3,56	3,18
Risk free rate (%)	6.84	7.01
Expected dividends (%)	**2.31**	**2.45**

Expected volatility was determined by calculating the historical volatility of the Bank's share price three months prior to the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

In connection with the share-based payment programs approved by the Bank and applying IFRS 2, HUF 28 million and HUF 5,123 million has been recognised as an expense as at 31 December 2008 and 2007 respectively.

NOTE 26: RELATED PARTY TRANSACTIONS

Transactions with related parties, other than increases in share capital, are summarized below:

The Bank under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Company Ltd. of HUF 57,418 million and HUF 269,300 million during the years ended 31 December 2008 and 2007 (including interest). The book value of these receivables were HUF 57,347 million and 269,205 million.

During the year ended 31 December 2008 the Bank received HUF 38,715 million fees and commission from OTP Mortgage Bank Company Ltd. For the year ended 31 December 2007 such fees and commissions were HUF 50,493 million. Such fees and commissions are related to loans originated by the Bank and sold to OTP Mortgage Bank Company Ltd.

Provision for the year due to recourse agreements were HUF 6,834 million and HUF 3,870 million as at 31 December 2008 and 2007 respectively. During the years ended 31 December 2008 and 2007 the Bank sold, without recourse, non-performing loans and the related accrued interest receivable to OTP Factoring Ltd. for HUF 12,419 million and HUF 8,479 million respectively. The gross book value of such credits were HUF 23,838 million and HUF 29,873 million respectively, with a corresponding allowance for loan losses of HUF 9,149 million and HUF 19,547 million respectively. The underlying mortgage rights were also transferred to OTP Factoring Ltd. Provision for losses related to such transactions are recorded in the unconsolidated financial statements, among for loans and placement losses, which were HUF 2,270 million and HUF 1,847 million as at 31 December 2008 and 2007 respectively.

Commissions received by the Bank from related parties and commissions paid by the Bank to related parties are summarized below:

a) Commissions received by the Bank

	2008	2007
Commissions received by the Bank from OTP Building Society Ltd. in relation to finalised customer contracts	2,384	1,949
Commissions received by the Bank from OTP Fund Management Ltd. in relation to trading activity	6,095	5,066
Commissions received by the Bank from OTP Fund Management Ltd. in relation to custody activity	406	437
Total	**8,885**	**7,452**

b) Commissions paid by the Bank

	2008	2007
Commissions paid by the Bank to OTP Real Estate Leasing Ltd. in relation to its activity	353	1,413
Total	**353**	**1,413**

In the normal course of business, the Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these financial statements taken as a whole. The Bank provides loans to subsidiaries, and collects deposits.

c) Loans provided to subsidiaries

	2008	2007
OTP Financing Cyprus Co. Ltd. (Cyprus)	535,636	258,621
OTP Financing Netherlands B. V. (Netherlands)	245,721	50,670
Merkantil Bank Ltd.	225,377	175,567
OAO OTP Bank (Russia) (former OAO Investsberbank)	155,443	63,675
DSK Bank EAD (Bulgaria)	114,380	139,671
Merkantil Car Ltd.	39,212	41,896
OTP Banka Hrvatska Group (Croatia)	35,810	30,478
OTP Real Estate Leasing Ltd.	29,363	15,458
Crnogorska komerčijalna banka a.d. (Montenegro)	22,572	11,907
OTP banka Srbija a.d. (Serbia)	21,447	22,889
TradeNova Commercial Ltd. (former OTP Trade Ltd.)	18,974	29,584
OTP Bank Romania S.A. (Romania)	7,874	98,525
CJSC OTP Bank* (Ukraine)	–	61,692
Total	**1,451,809**	**1,000,633**

*CJSC OTP Bank is financed by OTP Financing Cyprus Co. Ltd. from 2008.

d) Deposits from subsidiaries

	2008	2007
OTP Building Society Ltd.	28,222	17,622
DSK Bank EAD (Bulgaria)	6,450	58,741
Total	**34,672**	**76,363**

The members of the Board of Directors and the Supervisory Board have credit lines of HUF 121 million and HUF 169.3 million as at 31 December 2008 and 2007 respectively. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other subsidiaries at normal market conditions. The amount of these loans was HUF 27,366 million and HUF 3,862 million, with commitments to extend credit and guarantees of HUF 121 million and HUF 5,456 million as at 31 December 2008 and 2007 respectively.

The compensation of key management, such as the members of the Board of Directors, the members of the Supervisory Board and the employees involved in the decision-making process according to the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

Compensations	2008	2007
Short-term employee benefits	8,153	2,700
Redundancy payments	–	1,500
Share-based compensations	16	2,459
Total	**8,169**	**6,659**

NOTE 27: CASH AND CASH EQUIVALENTS (in HUF mn)

	2008	2007
Cash, amounts due from banks and balances with the NBH	157,437	229,644
Compulsory reserve established by the NBH	(64,371)	(156,203)
Total	**93,066**	**73,441**

The management does not consider the compulsory reserve to be a part of cash and cash equivalent due to restrictions placed on its use by the NBH.

NOTE 28: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying Unconsolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 45,196 million and HUF 45,081 million as at 31 December 2008 and 2007 respectively.

NOTE 29: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 9% and 10% of the total assets of the Bank consisted of receivables from, or securities issued by the Hungarian Government or the National Bank of Hungary as at 31 December 2008 and 2007 respectively. Approximately 8% and 9% of the Banks total assets consisted of securities issued by the OTP Mortgage Bank Ltd. as at 31 December 2008 and 2007 respectively. There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2008 and 2007 respectively.

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

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 NBH 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	157,437	–	–	–	157,437
Placements with other banks, net of allowance for placement losses	431,339	115,510	359,000	14,606	920,455
Financial assets at fair value through profit or loss	32,809	16,795	75,822	26,290	151,716
Securities available-for-sale	123	34,351	416,199	99,238	549,911
Loans, net of allowance for loan losses	178,823	446,352	1,251,158	839,049	2,715,382
Accrued interest	60,340	16	3	1	60,360
Investments in subsidiaries	–	–	–	596,244	596,244
Securities held-to-maturity	131,418	98,504	168,820	38,793	437,535
Property and equipment	–	–	38,766	34,078	72,844
Intangible assets	–	–	39,539	–	39,539
Other assets	17,668	44,600	7,945	679	70,892
TOTAL ASSETS	**1,009,957**	**756,128**	**2,357,252**	**1,648,978**	**5,772,315**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	253,561	307,764	80,380	63,860	705,565
Deposits from customers	2,459,062	605,823	24,256	1,621	3,090,762
Liabilities from issued securities	256,133	–	345,658	–	601,791
Accrued interest payable	36,428	–	–	–	36,428
Fair value of derivative financial instruments designated as held for trading	30,885	10,989	78,476	6,711	127,061
Other liabilities	132,757	2,815	712	–	136,284
Subordinated bonds and loans	–	–	5,000	296,951	301,951
TOTAL LIABILITIES	**3,168,826**	**927,391**	**534,482**	**369,143**	**4,999,842**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	842,318	842,318
Treasury shares	–	–	(67,407)	(30,438)	(97,845)
TOTAL SHAREHOLDERS' EQUITY	**–**	**–**	**(67,407)**	**839,880**	**772,473**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,168,826**	**927,391**	**467,075**	**1,209,023**	**5,772,315**
LIQUIDITY (DEFICIENCY)/EXCESS	**(2,158,869)**	**(171,263)**	**1,890,177**	**439,955**	**–**

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	229,644	–	–	–	229,644
Placements with other banks, net of allowance for placement losses	254,245	70,874	388,037	12,302	725,458
Financial assets at fair value through profit or loss	26,396	22,485	45,624	28,866	123,371
Securities available-for-sale	95	35,149	199,665	85,706	320,615
Loans, net of allowance for loan losses	131,755	414,334	1,012,213	630,330	2,188,632
Accrued interest	46,071	300	48	2,	46,421
Investments in subsidiaries	–	–	–	630,703	630,703
Securities held-to-maturity	97,920	142,583	261,737	56,270	558,510
Property, equipment and intangible assets	–	–	92,622	17,651	110,273
Other assets	164,111	10,820	77	2,039	177,047
TOTAL ASSETS	**950,237**	**696,545**	**2,000,023**	**1,463,869**	**5,110,674**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	294,010	3,907	228,722	64,109	590,748
Deposits from customers	2,794,724	150,531	8,948	832	2,955,035
Liabilities from issued securities	245	–	393,951	–	394,196
Accrued interest payable	18,411	–	–	–	18,411
Fair value of derivative financial instruments designated as held for trading	4,347	4,170	12,033	1,993	22,543
Other liabilities	93,970	18,017	3,581	–	115,568
Subordinated bonds and loans	–	9,212	–	289,702	298,914
TOTAL LIABILITIES	**3,205,707**	**185,837**	**647,235**	**356,636**	**4,395,415**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	741,467	741,467
Treasury shares	(3,554)	(14,217)	(36,437)	–	(54,208)
TOTAL SHAREHOLDERS' EQUITY	**(3,554)**	**(14,217)**	**(36,437)**	**769,467**	**715,259**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,202,153**	**171,620**	**610,798**	**1,126,103**	**5,110,674**
LIQUIDITY (DEFICIENCY)/EXCESS	**(2,251,916)**	**524,925**	**1,389,225**	**337,766**	**–**

NOTE 31: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 31 December 2008

	USD	EUR	CHF	Others	Total
Assets*	813,638	1,083,198	931,192	580,837	3,408,865
Investments in subsidiaries	–	(61,988)	–	(476,524)	(538,512)
Liabilities	(110,033)	(1,583,773)	(134,322)	(24,319)	(1,852,447)
Off-balance sheet assets and liabilities, net	(789,408)	442,961	(859,969)	(144,318)	(1,350,734)
Net position	**(85,803)**	**(119,602)**	**(63,099)**	**(64,324)**	**(332,828)**

* The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

As at 31 December 2007

	USD	EUR	CHF	Others	Total
Assets	542,607	982,164	715,792	565,159	2,805,722
Investments in subsidiaries	–	(29,135)	–	(538,821)	(567,956)
Liabilities	(109,108)	(1,309,605)	(135,431)	(30,368)	(1,584,512)
Off-balance sheet assets and liabilities, net	(479,265)	97,133	(574,874)	10,748	(946,258)
Net position	**(45,766)**	**(259,443)**	**5,487**	**6,718**	**(293,004)**

The table above provides an analysis of the Bank's main foreign currency exposures. The remaining foreing currencies are shown within 'Others'. Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the National Bank of Hungary and own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the 'Value at Risk' ('VaR')limit on the foreign exchange exposure of the Bank.

NOTE 32: INTEREST RATE RISK MANAGEMENT (in HUF mn)

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.

As at 31 December 2008

	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest bearing		Total		Total
	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	
ASSETS															
Cash, amounts due from banks and balances with the national Bank of Hungary	71,857	10,919	–	–	–	–	–	–	–	–	66,542	8,119	138,399	19,038	157,437
fixed interest	71,857	10,919	–	–	–	–	–	–	–	–	–	–	71,857	10,919	82,776
variable interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	66,542	8,119	66,542	8,119	74,661
Placements with other banks	157,697	310,556	2,506	139,481	–	136,232	–	47,894	–	126,089	–	–	160,203	760,252	920,455
fixed interest	157,009	167,699	2,506	9,694	–	–37,867	–	47,894	–	126,089	–	–	159,515	389,243	548,758
variable interest	688	142,857	–	129,787	–	98,365	–	–	–	–	–	–	688	371,009	371,697
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities held for trading	1,454	–	1,496	–	8,850	1	10,564	875	27,071	2,210	2,298	–	51,733	3,086	54,819
fixed interest	1,454	–	1,340	–	8,778	1	10,564	875	27,071	2,210	–	–	49,207	3,086	52,293
variable interest	–	–	156	–	72	159	–	–	–	–	–	–	228	–	228
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	2,298	–	2,298	–	2,298
Securities available-for-sale	–	–	217,002	97,039	27,707	5,852	22,078	3,311	156,387	9,720	10,543	272	433,717	116,194	549,911
fixed interest	–	–	–	–	27,707	5,852	22,078	3,311	156,387	9,720	–	–	206,172	18,883	225,055
variable interest	–	–	217,002	97,039	–	–	–	–	–	–	–	–	217,002	97,039	314,041
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	10,543	272	10,543	272	10,815
Loans, net of allowance for loan losses	651,042	1,097,469	40,190	304,205	97,416	514,201	487	196	9,980	196	–	–	799,115	1,916,267	2,715,382
fixed interest	6,419	–	26	98	326	98	487	196	9,980	196	–	–	17,238	588	17,826
variable interest	644,623	1,097,469	40,164	304,107	97,090	514,103	–	–	–	–	–	–	781,877	1,915,679	2,697,556
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities held-to-maturity	119,263	–	19,935	–	132,772	–	38,930	–	126,635	–	–	–	437,535	–	437,535
fixed interest	117,914	–	12,670	–	95,971	–	38,930	–	126,635	–	–	–	392,120	–	392,120
variable interest	1,349	–	7,265	–	36,801	–	–	–	–	–	–	–	45,415	–	45,415
Fair value of derivative financial instruments	10,266	827,730	15,811	524,591	97,434	131,770	94,099	178,698	712,125	170,052	–	–	929,735	1,832,841	2,762,576
fixed interest	10,266	826,457	15,811	524,591	95,523	129,863	93,805	176,600	708,625	168,978	–	–	924,030	1,826,489	2,750,519
variable interest	–	1,273	–	–	1,911	1,907	294	2,098	3,500	1,074	–	–	5,705	6,352	12,057

As at 31 December 2008

	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest bearing		Total		Total
	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	
LIABILITIES															
Amounts due to banks and deposits with the National Bank of Hungary	77,435	252,583	7,287	151,120	211,209	1,492	–	–	–	4,439	–	–	295,931	409,634	705,565
fixed interest	77,062	128,125	1,746	15,051	118,618	1,404	–	–	–	4,439	–	–	197,426	149,019	346,445
variable interest	373	124,458	5,541	136,069	92,591	88	–	–	–	–	–	–	98,505	260,615	359,120
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Deposits from customers	1,173,542	269,453	457,665	161,007	348,569	83,475	–	153	553,330	43,568	–	–	2,533,106	557,656	3,090,762
fixed interest	472,460	220,469	428,956	160,997	345,646	83,475	–	153	2	15,753	–	–	1,247,064	480,847	1,727,911
variable interest	701,082	48,984	28,709	10	2,923	–	–	–	553,328	27,815	–	–	1,286,042	76,809	1,362,851
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Liabilities from issued securities	–	–	–	409,652	59,410	–	–	–	–	132,729	–	–	59,410	542,381	601,791
fixed interest	–	–	–	–	59,410	–	–	–	–	132,729	–	–	59,410	132,729	192,139
variable interest	–	–	–	409,652	–	–	–	–	–	–	–	–	–	409,652	409,652
Financial instruments	433,865	412,929	344,277	193,970	63,840	163,285	9,894	263,533	8,956	898,303	–	–	860,832	1,932,020	2,792,852
fix kamatozású	433,865	411,662	344,277	193,970	62,589	161,395	8,656	261,452	6,364	896,870	–	–	855,751	1,925,349	2,781,100
variable interest	–	1,267	–	–	1,251	1,890	1,238	2,081	2,592	1,433	–	–	5,081	6,671	11,752
Subordinated bonds and loans	–	–	5,000	28,550	–	–	–	–	–	268,401	–	–	5,000	296,951	301,951
fixed interest	–	–	–	–	–	–	–	–	–	268,401	–	–	–	268,401	268,401
variable interest	–	–	5,000	28,550	–	–	–	–	–	–	–	–	5,000	28,550	33,550
Net position	–673,263	1,311,709	–517,289	121,017	–318,849	539,804	156,264	–32,712	469,912	–1,039,173	79,383	8,391	-803,842	909,036	105,194

As at 31 December 2007

	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest bearing		Total		Total
	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	
ASSETS															
Cash, amounts due from banks and balances with the national Bank of Hungary	168,212	13,289	–	–	–	–	–	–	–	–	44,657	3,486	212,869	16,775	229,644
fixed interest	168,212	13,289	–	–	–	–	–	–	–	–	–	–	168,212	13,289	181,501
variable interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	44,657	3,486	44,657	3,486	48,143
Placements with other banks	34,780	385,154	3,000	188,622	550	113,352	–	–	–	–	–	–	38,330	687,128	725,458
fixed interest	34,780	192,056	–	63	550	32,984	–	–	–	–	–	–	35,330	225,103	260,433
variable interest	–	193,098	3,000	188,559	–	80,368	–	–	–	–	–	–	3,000	462,025	465,025
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities held for trading	401	–	2,432	–	6,865	–	12,245	–	34,123	–	4,317	1	60,383	1	60,384
fixed interest	401	–	2,135	–	6,794	–	12,244	–	34,123	–	–	–	55,697	–	55,697
variable interest	–	–	297	–	71	–	1	–	–	–	–	–	369	–	369
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	4,317	1	4,317	1	4,318
Securities available-for-sale	22,727	6,540	2,119	57,838	31,452	12,342	–	4,653	148,330	22,668	11,200	746	215,828	104,787	320,615
fixed interest	–	–	–	–	12,458	853	–	4,653	148,330	22,668	–	–	160,788	28,174	188,962
variable interest	22,727	6,540	2,119	57,838	18,994	11,489	–	–	–	–	–	–	43,840	75,867	119,707
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	11,200	746	11,200	476	11,946
Loans, net of allowance for loan losses	718,099	609,275	186,173	638,107	1,367	31,007	278	123	3,958	245	–	–	909,875	1,278,757	2,188,632
fixed interest	5,533	–	44	62	184	62	278	123	3 958	245	–	–	9,997	492	10,489
variable interest	712,566	609,275	186,129	638,045	1,183	30,945	–	–	–	–	–	–	899,878	1,278,265	2,178,143
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities held-to-maturity	97,085	–	37,300	–	150,174	–	108,344	–	165,607	–	–	–	558,510	–	558,510
fixed interest	97,085	–	–	–	140,051	–	108,344	–	165,607	–	–	–	511,087	–	511,087
variable interest	–	–	37,300	–	10,123	–	–	–	–	–	–	–	47,423	–	47,423
Fair value of derivative financial instruments	288,643	453,246	645,215	347,062	38,095	33,901	1,237	33,994	1,770	683	–	–	974,960	868,886	1,843,846
fixed interest	195,265	342,150	212,118	182,451	37,545	32,815	1,237	33,994	1,770	683	–	–	447,935	592,093	1,040,028
variable interest	93,378	111,096	433,097	164,611	550	1,086	–	–	–	–	–	–	527,025	276,793	803,818

As at 31 December 2007

	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest bearing		Total		Total
	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	HUF	Deviza	
LIABILITIES															
Amounts due to banks and deposits with the National Bank of Hungary	86,054	223,769	26,138	167,446	82,487	1,265	26	–	1	3,562	–	–	194,706	396,042	590,748
fix kamatozású	84,188	130,829	24,935	659	153	1,265	26	–	1	3,562	–	–	109,303	136,315	245,618
változó kamatozású	1,866	92,940	1,203	166,787	82,334	–	–	–	–	–	–	–	85,403	259,727	345,130
Nem kamatozó	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Deposits from customers	2,090,732	321,364	349,174	107,262	31,915	54,212	6	370	–	–	–	–	2,471,827	483,208	2,955,035
fix kamatozású	688,459	243,725	344,667	107,262	31,915	54,212	6	370	–	–	–	–	1,045,047	405,569	1,450,616
változó kamatozású	1,422,273	77,639	4,507	–	–	–	–	–	–	–	–	–	1,426,780	77,639	1,504,419
Nem kamatozó	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Liabilities from issued securities	1,639	126,540	–	266,017	–	–	–	–	–	–	–	–	1,639	392,557	394,196
fix kamatozású	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
változó kamatozású	1,639	126,540	–	266,017	–	–	–	–	–	–	–	–	1,639	392,557	394,196
Fair value of derivative financial instruments	39,191	699,462	33,849	943,177	23,878	19,903	11,796	25,051	5,179	219	–	–	113,893	1,687,812	1,801,705
fix kamatozású	26,899	509,689	26,017	366,880	23,687	19,903	11,796	25,051	5,179	219	–	–	93,578	921,742	1,015,320
változó kamatozású	12,292	189,773	7,832	576,297	191	–	–	–	–	–	–	–	20,315	766,070	786,385
Subordinated bonds and loans	–	–	5,000	31,635	–	9,202	–	–	–	253,077	–	–	5,000	293,914	298,914
fix kamatozású	–	–	–	–	–	–	–	–	–	253,077	–	–	–	253,077	253,077
változú kamatozású	–	–	5,000	31,635	–	9,202	–	–	–	–	–	–	5,000	40,837	45,837
Net position	–887,669	96,369	462,078	–283,908	90,223	106,020	110,276	13,349	348,608	–233,262	60,174	4,233	183,690	–297,199	–113,509

NOTE 33: EARNINGS PER SHARE

Earnings per share attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year.

	2008	2007
Net profit for the year (in HUF mn)	133,955	141,681
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	270,758,317	278,742,688
Basic Earnings per share (in HUF)	495	508
Weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	271,558,263	279,368,972
Diluted Earnings per share (in HUF)	**493**	**507**

The weighted average number of ordinary shares outstanding during the period does not include Treasury shares.

Diluted Earnings per share are determined after additionally taking into consideration the option rights granted.

NOTE 34: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2008

	Net interest income and expense	Net non-interest gain and loss	Provision	Equity
Cash, amounts due from banks and balances with the National Bank of Hungary	14,147	–	–	–
Placements with other banks, net of allowance for placement losses	43,622	–	–	–
Securities held for trading	4,978	(4,668)	(362)	–
Securities available-for-sale	23,960	1,958	–	(21,742)
Loans, net of allowance for loan losses	233,388	45,630	(28,849)	–
Securities held-to-maturity	42,695	2,513	–	–
Derivative financial instruments	(6,609)	(7,438)	–	–
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(35,802)	–	–	–
Deposits from customers	(145,014)	55,402	–	–
Liabilities from issued securities	(25,079)	–	–	–
Subordinated bonds and loans	(16,444)	–	–	–
Total	**133,842**	**89,481**	**(29,211)**	**(21,742)**

As at 31 December 2007

	Net interest income and expense	Net non-interest gain and loss	Provision	Equity
Cash, amounts due from banks and balances with the National Bank of Hungary	11,754	–	–	–
Placements with other banks, net of allowance for placement losses	41,920	–	–	–
Securities held for trading	2,807	(353)	–	–
Securities available-for-sale	24,952	1,345	–	(2,523)
Loans, net of allowance for loan losses	194,803	51,326	(21,453)	–
Securities held-to-maturity	51,298	–	–	–
Derivative financial instruments	20,928	(1,853)	–	(484)
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(22,471)	–	–	–
Deposits from customers	(106,884)	73,850	–	–
Liabilities from issued securities	(16,151)	–	–	–
Subordinated bonds and loans	(16,086)	54	–	–
Total	**186,870**	**124,369**	**(21,453)**	**(3,007)**

NOTE 35: SENSITIVITY ANALYSIS

35.1. Market Risk sensitivity analysis

The 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 Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are 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 VaR of the trading portfolio can be summarized as follows:

Historical VaR (99%, one-day) by risk type	Average (in HUF mn) 2008	2007
Foreign exchange	178	158
Interest rate	435	130
Equity instruments	68	96
Diversification	(202)	(141)
Total VaR exposure	**479**	**243**

While VaR captures the 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 Bank to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in 35.2 below and, for interest rate risk, in 35.3 below.

35.2. Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to an increase and decrease in the HUF exchange rate against the EUR, over a 3 months period. Monte Carlo simulation is 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 as strategic open positions related to foreign activities. The strategic open position related to the foreign operations were EUR 300 million and USD 75 million loss as of 31 December 2008 and EUR 570 million profit as of 31 December 2007 respectively. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the P&L in 3 months period (in HUF billion)	
	2008	2007
1%	(8.6)	(16.7)
5%	(5.4)	(11.3)
25%	(1.3)	(4.3)
50%	1.3	0.3
25%	3.8	3.8
5%	7.1	6.5
1%	9.5	7.0

Notes:

(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.

(2) Considerable decrease in estimated VaR is due to the decrease of foreign exchange exposure.

(3) Monte Carlo simulation is based on the empirical distribution of the exchange rate movements. Recent market turmoil can result in extreme price movements not observable in the past, and so VaR might underestimate short term risk.

35.3. 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 was prepared by assuming only adverse interest rate changes. The main assumptions were as follows:

- Floating-rate assets and liabilities were repriced to the modeled 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 by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- Assets and liabilities with an interest rate lower than 0.3% were assumed to be unchanged for the whole period.

The simulations 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 551 million (probable scenario) and HUF 3,094 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 (in HUF million)	
	2008	2007
HUF –0.1% parallel shift	(192)	(195)
EUR –0.1% parallel shift	(85)	(36)
USD +0.1% parallel shift	(149)	18
Total	**(426)**	**(213)**

35.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% 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. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2008	2007
VaR (99%, one day, million HUF)	68	96
Stress test (million HUF)	(287)	(73)

NOTE 36: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS ('HAS') AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF mn)

	Retained Earnings and Reserves	Net profit for the year ended	Direct Movements on Reserves	Retained Earnings and Reserves
Financial Statements according to HAS	**645,037**	**54,211**	**1,839**	**701,087**
Reversal of statutory general provision	43,269	75	–	43,344
Premium and discount amortization of financial instruments measured at amortised cost	1,694	134	–	1,828
Allowance for loan losses	(1,340)	1,340	–	–
Differences in carrying value of subsidiaries	799	–	1,227	2,026
Difference in accounting for finance leases	(2,551)	(795)	–	(3,346)
Fair value adjustment of held for trading and available-for-sale financial assets	5,104	4,903	(21,742)	(11,735)
Fair value adjustment of derivative financial instruments	(1,888)	4,180	484	2,776
Loss on sale of Treasury shares	–	3,424	(3,424)	–
Reversal of statutory goodwill	33,632	(23,047)	–	10,585
Revaluation of investments denominated in foreign currency to historical cost	15,967	14,141	–	30,108
Difference in accounting of repo transactions	(9,089)	21,577	–	12,488
Treasury share transaction	–	51,594	(7,499)	44,095
Reclassification of direct charges	–	3,066	(3,066)	–
Share-based payment	–	(28)	28	–
Effect on ICES - exchangeabled bond transaction recognised through equity	13,802	2,018	(5,999)	9,821
Deferred taxation	(2,969)	(2,838)	5,048	(759)
Financial Statements according to IFRS	**741,467**	**133,955**	**(33,104)**	**842,318**

NOTE 37: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2008

The Bank purchased 100% of OOO Donskoy Narodny Bank on 12 November 2007. In possession of the necessary approvals the closing of the sale and purchase transaction of OOO Donskoy Narodny Bank was completed on 6 May 2008. According to this fact the financial closing deal value USD 40.95 million (HUF 6,687 million) was also completed.

The Bank issued bonds in nominal value of EUR 500 million at 99.812% of the face value on 16 May 2008 (See Note 14.).

The Bank has launched a bond issue program of HUF 300,000 million.
The Committee for Product Development, Marketing and Pricing of OTP Bank Plc. adopted the resolution no. 456/2008 about the bond issue program on 31 July 2008. The Information Memorandum related to the program and this announcement were approved by the Hungarian Financial Supervisory Authority. The Bank does not intend to introduce the bonds on the market.

The Bank announces that as at 31 December 2008, its current direct and indirect stake in MOL Hungarian Oil and Gas Plc. are 7,094,302 shares. The direct and indirect interest of the Bank in MOL Hungarian Oil and Gas Company is 6.47% , it is under 10%. 6,987,362 shares of the Banks total stake were obtained in a framework of a securities lending agreement with the aim of developing this new business activity at the Bank.

During the year 2008, due to the OAO OTP Banks continuous share purchasing program the Bank purchased shares of RUB 45.17 million. The direct and indirect interest of the Bank in OAO OTP Bank has increased to 61.62%.

On 21 February 2008 OTP Bank Plc., the 100% owner of OTP banka Hrvatska d.d. has increased the registered capital of its subsidiary by HRK 217 million.

On 4 April 2008 OTP Bank Plc., the 100% owner of Crnogorska komerčijalna banka a.d. has increased the registered capital of its subsidiary by EUR 15 million.

OTP Bank Plc. announces that – according to the approval of National Bank of Ukraine on 31 October 2008 and the Ukrainian State Registry on 6 November 2008 – it increased the registered capital of CJSC OTP Bank by EUR 120 million (UAH 861.4 million).

According to the approval of Annual General Meeting of CJSC OTP Bank on 7 March 2008 CJSC OTP Bank increased the registered capital from its retained earnings by UAH 304.27 million.

In September 2008 OTP Bank Plc., the 95.51% owner of OAO OTP Bank has increased the registered capital of its subsidiary by RUB 2,501.18 million.

NOTE 38: POST BALANCE SHEET EVENTS

On 9 February 2009 the Bank, 100.00% owner of CJSC OTP Bank has increased the registered capital of its subsidiary by UAH 800 million (USD 100 million).

NOTE 39: SALE OF THE INSURANCE BUSINESS LINE (in HUF mn)

On 11 February 2008, Groupama S.A. has signed a contractual agreement to buy 100 % of the shares in OTP Garancia Insurance Ltd. as well as to acquire the minority shares held by the local subsidiaries of OTP Bank Plc. in the Romanian, Slovakian and Bulgarian subsidiaries of OTP Garancia Insurance Ltd. The purchase price was paid and the transaction settled on 17 September 2008.

Furthermore, OTP and Groupama S.A. entered into a mutual co-operation agreement about (in some of the countries exclusive) cross-selling of banking and insurance products in the branch networks of the parties in Hungary, Slovakia, Romania, Bulgaria, Ukraine, Russia, Serbia, Montenegro and Croatia. In the framework of this strategic co-operation, Groupama S.A. bought 7.99% of the shares of OTP Bank. New shares have not been issued.

The net result of the transaction is recognized in the unconsolidated statements of operations as income.

The main figures of the transaction the follows:

	2008
Apport to OTP Holding Ltd.	
Book value	(7,472)
Purchase price	23,009
	15,537
Purchase to Groupama SA	
Dividend income from OTP Holding Ltd. (result of the transaction)	120,000
Transaction costs	(2,103)
Net gain	**133,434**

NOTE 40: 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 hunderds 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 operations and profitability of the Bank have been influenced by the following factors, generated by the financial crisis:

- The Bank met a HUF 4.7 billion revaluation loss on the strategic open foreign currency position held for hedging the net profit of the foreign subsidiaries, due to the fall of the forint exchange rate. The management has reduced the hedged position in the last quarter of 2008, as the contribution of the subsidiaries to the consolidated net profit of OTP Group is expected to be lower than previously planned.
- The management, based on the deteriorating economic and financial sector outlook, decided for a HUF 122,810 million of goodwill impairment for the Ukranian (CJSC OTP Bank) and Serbian (OTP banka Srbija a.d.) subsidaries, which has considerably reduced the net profit of the Bank in 2008.
- The deteriorating macroeconomic situation in the region and the devaluation of most of the regional currencies made necessary an even more conservative provisionning for the loans. Besides the constantly raising loan risk costs, the Bank took a wide range of measures to minimise the risk in its clients because of the devaluating currencies in the region.

  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.
- The worsening economic situation led to the deterioration of the loan portfolio: the ratio of the non-performing loans reached 3.23%.
- 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 deposit collection or other types of activities generating own funds (i.e. issuing retail securities) and set up stricter conditions in loan origination. The Bank made higher deposit interest-rate offers for the customers and introduced some innovative products based on the customer demands (i.e. multicurrency deposits). 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 remains stable.