OTP BANK PLC.

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

FOR THE YEAR ENDED
31 DECEMBER 2008

OTP BANK PLC.
CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

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.

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

....	....
Gion Gábor	Nagyváradiné Szépfalvi Zsuzsanna
Deloitte Auditing and Consulting Ltd.	Registered Auditor
1068 Budapest, Dózsa György út 84/C	005313
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OTP BANK PLC.
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008
(in HUF mn)

	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**

Budapest, 20 March 2009

OTP BANK Nyrt.

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dr. Sándor Csányi
Chairman and Chief Executive Officer

OTP BANK PLC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2008
(in HUF mn)

	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 7 to 66 form an integral part of these consolidated financial statements.

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008
(in HUF mn)

	Note	*2008*	*2007*
OPERATING ACTIVITIES			
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)**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008
(in HUF mn)
[continued]

	Note	*2008*	*2007*
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**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008
(in HUF mn)

	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)	19	-	(5,640)	-	-	(5,640)
Foreign currency translation gain		-	(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**

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.

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

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)*

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

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

- 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)

*Not yet endorsed by the EU.

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

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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 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.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.4. Accounting for acquisitions [continued]

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6.2 Derivative financial instruments [continued]

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. Leases [continued]

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.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

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

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

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

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.

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

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 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 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.

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

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

	2008	*2007*
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%

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

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
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:

Cost	Intangible assets and goodwill	Land and buildings	Office equipments	Construction in progress	Total
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:

Cost	Goodwill
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.

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

For the year ended 31 December 2007:

Cost	**Intangible assets and goodwill**	**Land and buildings**	**Office equipments**	**Construction in progress**	**Total**
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:

Cost	**Goodwill**
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

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]

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.

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

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%.

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

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.

NOTE 16: OTHER LIABILITIES (in HUF mn) [continued]

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.

NOTE 17: SUBORDINATED BONDS AND LOANS [continued]

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

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)

NOTE 23: INCOME TAXES (in HUF mn) [continued]

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:		
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

NOTE 23: INCOME TAXES (in HUF mn) [continued]

	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.

NOTE 24: FINANCIAL RISK MANAGEMENT [continued]

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

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

(a) Contingent liabilities [continued]

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.)

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

(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	-

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

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

	2008	*2007*
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.

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

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

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.

NOTE 26: SHARE-BASED PAYMENT [continued]

	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)
	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)

NOTE 29: ACQUISITIONS (in HUF mn) [continued]

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

NOTE 30: MAJOR SUBSIDIARIES [continued]

Name	Ownership (Direct and Indirect) 2008	2007	Activity
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**	**-**

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

As at 31 December 2007	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Total
Cash, amounts due from banks and balances with the 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.

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

As at 31 December 2008

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

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
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*	*52 185*
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*	*14 938*	*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*

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

As at 31 December 2008

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

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
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	*469 786*	*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*	*553 328*	*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**

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

As at 31 December 2007

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

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, 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	**21 864**	**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*	*-*	*1 909*	*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*

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

As at 31 December 2007

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

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
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*	*576 297*	*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 NBH and other banks	(44,957)	-	-	-
Deposits from customers	(215,881)	109,360	-	-
Liabilities from issued securities	(72,750)	-	-	-
Subordinated bonds and loans	(17,009)	-	-	-
	437,277	**105,642**	**(111,449)**	**(16,078)**

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

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	-	-
	431,692	**129,982**	**(58,185)**	**(1,073)**

NOTE 38: SENSITIVITY ANALYSIS

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.

NOTE 38: SENSITIVITY ANALYSIS [continued]

38.1. Market Risk sensitivity analysis [continued]

The VaR of the trading portfolio can be summarized as follows:

Historical VaR (99%, one-day) by risk type	**Average** *2008*	*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** *2008* In HUF billion	*2007* In HUF billion
1%	(8.6)	(16.4)
5%	(5.4)	(11)
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

NOTE 38: SENSITIVITY ANALYSIS [continued]

38.2. Foreign currency sensitivity analysis [continued]

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.

NOTE 38: SENSITIVITY ANALYSIS [continued]

38.3. Interest rate sensitivity analysis [continued]

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

Description	Effects to the net interest income in one year period	
	2008	*2007*
	In HUF million	In HUF million
HUF (0.1%) parallel shift	(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.

NOTE 39: SEGMENT REPORTING (in HUF mn) [continued]

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	23 689	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	39 299	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	6 356 986	431 715	308 140	1 197 862	218 586	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**

NOTE 39: SEGMENT REPORTING (in HUF mn) [continued]

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	21,243	-	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:

NOTE 43: EFFECT OF THE FINANCIAL CRISIS ON THE GROUP [continued]

- 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.