FINANCIAL REPORT

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of National Savings and Commercial Bank Ltd.

We have audited, in accordance with the Hungarian National Standards on Auditing, the consolidated financial statements of National Savings and Commercial Bank Ltd. (the "Bank") for the year ended December 31, 2004, prepared in accordance with Hungarian accounting regulations, from which the accompanying summarized consolidated financial statements (balance sheet and profit and loss account), included on pages 63 to 70 of this Annual Report, were derived. In our independent auditors' report dated March 18, 2005, we expressed an unqualified opinion on the consolidated financial statements, prepared in accordance with the Hungarian accounting regulations, from which the accompanying summarized consolidated financial statements were derived.

In our opinion, the accompanying summarized consolidated financial statements are consistent, in all material respects, with the consolidated financial statements, prepared in accordance with Hungarian accounting regulations, from which they were derived.

For a better understanding of the Bank's consolidated financial position as at December 31, 2004 and the consolidated results of its operations for the year then ended, prepared in accordance with the Hungarian accounting regulations and of the scope of our audit, the accompanying summarized consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes from which the summarized consolidated financial statements were derived and our independent auditors' report thereon.

Budapest, May 8, 2005

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Company Reg. No.: [illegible]

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BALANCE SHEET

(consolidated, based on HAR, in HUF mn)

ASSETS	Dec 31, 2003	Dec 31, 2004
1. CASH IN HAND, BALANCES WITH CENTRAL BANKS	276,501	425,263
2. TREASURY BILLS	630,642	548,900
a) held-for-trade	246,870	220,831
b) held as financial fixed assets (for long term investment)	383,772	328,069
3. LOANS AND ADVANCES TO CREDIT INSTITUTIONS	252,314	314,726
a) repayable on demand	9,915	9,136
b) other receivables from financial services	242,399	305,536
ba) maturity not more than one year	232,088	295,407
From this: – by affiliated undertaking	1	0
– by undertaking with which the credit institution is linked by virtue of participating	13,025	21,000
– by Hungarian National Bank	13,070	40,624
bb) maturity more than one year	10,311	10,129
From this: – by affiliated undertaking	0	1
c) receivables from investment services	0	54
4. LOANS AND ADVANCES TO CUSTOMERS	2,025,694	2,511,101
a) receivables from financial services	2,024,574	2,510,960
aa) maturity not more than one year	505,539	645,440
From this: – by affiliated undertaking	836	3,958
– by undertaking with which the credit institution is linked by virtue of participating	40	0
ab) maturity more than one year	1,519,035	1,865,520
From this: – by affiliated undertaking	20,805	24,898
– by undertaking with which the credit institution is linked by virtue of participating	284	7,906
b) receivables from investment services	1,120	141
From this: – by affiliated undertaking	(1)	0
bc) receivables from clients for investment service activities	1,120	141
5. DEBT SECURITIES INCLUDING FIXED-INCOME SECURITIES	32,590	38,871
a) securities issued by local self-governing bodies and by other public body (not include the treasury bills issued by Hungarian state and securities issued by Hungarian National Bank)	1,559	700
aa) held-for-trade	600	0
ab) held as financial fixed assets (for long term investment)	959	700
b) securities issued by other bodies	31,031	38,171
ba) held-for-trade	7,362	3,042
From this: – own-debt securities (own issued and repurchased)	299	299
bb) held as financial fixed assets (for long term investment)	23,669	35,129
From this: – by affiliated undertaking	62	21

ASSETS *(continued)*	Dec 31, 2003	Dec 31, 2004
6. SHARES AND OTHER VARIABLE-YIELD SECURITIES	12,762	9,541
a) shares and participations for trade	94	123
From this: – by undertaking with which the credit institution is linked by virtue of participating	1	4
b) other variable-yield securities	12,668	9,418
ba) held-for-trade	4,502	1,067
bb) held as financial fixed assets (for long term investment)	8,166	8,351
7. SHARES AND PARTICIPATING INTEREST AS FINANCIAL FIXED ASSETS	6,396	7,379
a) shares and participating interest as financial fixed assets	6,396	7,379
From this: – shares and participating interest in credit institutions	345	1
8. SHARES AND PARTICIPATING INTEREST IN AFFILIATED UNDERTAKINGS	43,663	39,668
a) shares and participating interest in affiliated undertakings	4,926	4,589
c) capital consolidation difference	38,737	35,079
– from subsidiaries and joint managed companies	38,737	35,079
9. INTANGIBLE ASSETS	9,569	21,738
10. TANGIBLE ASSETS	108,698	114,243
a) tangible assets for financial and investment services	93,544	100,890
aa) land and buildings	67,897	70,068
ab) technical equipment, fittings and vehicles	19,719	23,945
ac) investment	5,910	6,828
ad) advance payments on investment	18	49
b) tangible assets not for directly financial and investment services	15,037	13,243
ba) land and buildings	8,880	8,943
bb) technical equipment, fittings and vehicles	5,680	3,826
bc) investment	476	474
bd) advance payments on investment	1	0
c) revaluation surplus on tangible assets	117	110
11. OWN SHARES	25,420	25,867
12. OTHER ASSETS	39,241	76,544
a) stocks (inventories)	12,763	15,381
b) other receivables (not from financial and investment securities)	26,478	61,071
From this: – by affiliated undertaking	1,100	3,836
– by undertaking with which the credit institution is linked by virtue of participating	2	62
b.1.) receivables of consolidated financial and investment service companies	20,884	54,401
b.2.) receivables of consolidated insurance companies	2,367	2,397
b.3.) receivables of consolidated other companies	3,227	4,273
c) receivables from income tax due to consolidation (calculated)	0	92
13. PREPAYMENTS AND ACCRUED INCOME	39,173	48,603
a) accrued income	32,965	41,692
b) prepayments	6,208	6,911
TOTAL ASSETS	**3,502,663**	**4,182,444**
From this:		
– CURRENT ASSETS	1,349,252	1,702,915
– FIXED ASSETS	2,114,238	2,430,926

LIABILITIES	Dec 31, 2003	Dec 31, 2004
1. LIABILITIES TO CREDIT INSTITUTIONS	126,353	254,646
a) repayable on demand	2,829	3,347
b) liabilities from financial services with maturity dates or periods of notice	123,524	251,212
ba) not more than one year	54,896	135,079
From this: – by affiliated undertaking	0	121
– by Hungarian National Bank	166	128
bb) more than one year	68,628	116,133
From this: – by affiliated undertaking	0	6
– by Hungarian National Bank	1,212	1,066
c) liabilities from investment services	0	87
2. LIABILITIES TO CUSTOMERS	2,697,843	2,910,378
a) saving deposits	442,155	425,510
aa) repayable on demand	137,023	146,312
ab) maturity not more than one year	304,890	279,008
ac) maturity more than one year	242	190
b) other liabilities from financial services	2,254,810	2,484,249
ba) repayable on demand	894,949	961,761
From this: – by affiliated undertaking	2,372	4,911
– by undertaking with which the credit institution is linked by virtue of participating	288	1,181
bb) maturity not more than one year	1,298,772	1,453,433
From this: – by affiliated undertaking	2,129	3,422
– by undertaking with which the credit institution is linked by virtue of participating	433	2,298
bc) maturity more than one year	61,089	69,055
c) liabilities from investment services	878	619
cc) liabilities from clients for investment service activities	878	619
3. LIABILITIES FROM ISSUED DEBT SECURITIES	136,661	326,580
a) issued bond	1,104	1,104
aa) maturity not more than one year	0	1,104
From this: – by affiliated undertaking	0	3
ab) maturity more than one year	1,104	0
From this: – by affiliated undertaking	3	0
b) issued other debt securities	79,766	278,016
ba) maturity not more than one year	10,885	58,776
From this: – by affiliated undertaking	10,000	0
bb) maturity more than one year	68,881	219,240
From this: – by affiliated undertaking	2,539	0
c) issued debt securities according to act on accounting, but the act on securities not qualifies that certificates as securities	55,791	47,460
ca) maturity not more than one year	18,444	26,562
cb) maturity more than one year	37,347	20,898

LIABILITIES *(continued)*	Dec 31, 2003	Dec 31, 2004
4. OTHER LIABILITIES	63,645	91,027
a) maturity not more than one year	60,942	89,470
From this: – by affiliated undertaking	236	1,053
– by undertaking with which the credit institution is linked by virtue of participating	0	85
a.1.) receivables of consolidated financial and investment service companies	50,880	80,254
a.2.) receivables of consolidated insurance companies	3,320	2,963
a.3.) receivables of consolidated other companies	6,742	6,253
b) maturity more than one year	2,530	1,557
b.1.) receivables of consolidated financial and investment service companies	2,530	1,511
b.3.) receivables of consolidated other companies	0	46
c) calculated income tax difference due to consolidation	173	0
5. ACCRUALS AND DEFERRED INCOME	37,089	56,513
a) accrued liabilities	2,442	7,918
b) accrued costs and expenses	34,607	48,564
c) deferred income	40	31
6. PROVISIONS	116,232	135,329
a) provisions for pensions and similar obligations	1,546	748
b) risk provision for off-balance sheet items (for pending and future liabilities)	5,492	5,851
c) general risk provision	20,738	26,588
d) other provision	88,456	102,142
d.1.) receivables of consolidated financial and investment service companies	3,481	2,964
d.2.) receivables of consolidated insurance companies	84,188	98,578
d.3.) receivables of consolidated other companies	787	600
7. SUBORDINATED LIABILITIES	19,720	18,617
a) subordinated loan capital	15,413	14,324
aa) capital consolidation difference	4,307	4,293
– from subsidiaries and joint management companies	4,307	4,293
8. SUBSCRIBED CAPITAL	28,000	28,000
From this: repurchased own shares at face value	2,115	1,801
9. SUBSCRIBED BUT UNPAID CAPITAL (–)		
10. CAPITAL RESERVES	52	52
11. GENERAL RESERVES	41,325	51,807
12. RETAINED EARNINGS (ACCUMULATED PROFIT RESERVE) (+)	132,733	178,946
a) retained earnings	130,699	178,281
b) changes in equity of equity consolidated subsidiaries	2,034	665

LIABILITIES *(continued)*	Dec 31, 2003	Dec 31, 2004
13. LEGAL RESERVES	14,328	14,588
14. REVALUATION RESERVE		
15. PROFIT OR LOSS FOR THE FINANCIAL YEAR ACCORDING TO THE BALANCE SHEET (+/–)	58,101	72,783
16. CHANGES IN EQUITY OF SUBSIDIARIES AND JOINT MANAGED COMPANIES (+/–)	29,313	39,938
17. CHANGES DUE TO CONSOLIDATION (+/–)	851	2,837
– debt consolidation	6,646	6,748
– difference of intermediate results	(5,795)	(3,911)
18. SHARES OF OTHER OUTSIDE OWNERS	417	403
TOTAL LIABILITIES	**3,502,663**	**4,182,444**
From this:		
– SHORT-TERM LIABILITIES	2,784,681	3,155,558
– LONG-TERM LIABILITIES	259,541	445,690
– EQUITY (CAPITAL AND RESERVES)	305,120	389,354
OFF-BALANCE SHEET COMMITMENTS	**796,571**	**995,198**
1. CONTINGENT LIABILITIES	520,106	686,646
2. FUTURE LIABILITIES	276,465	308,552
OFF-BALANCE SHEET ASSETS	**4,022,812**	**4,908,095**

PROFIT AND LOSS ACCOUNT

(consolidated, based on HAR, for the year ended December 31, 2004 in HUF mn)

	2003	2004
1. Interest received and interest-type income	279,087	424,120
a) interest received on securities with fixed-interest signifying a creditor relationship	79,965	109,146
Including: – from related companies	32	0
b) other interest received and interest-type income	199,122	314,974
Including: – from related companies	1,560	1,717
– from other participation companies	818	2,116
2. Interest paid and interest-type expenses	102,025	173,205
Including: – to related companies	350	723
– to other participation companies	169	315
INTEREST DIFFERENCE (1.–2.)	**177,062**	**250,915**
3. Incomes from securities	668	572
a) from trading securities and participations (dividend, profit participation)	0	98
b) from related companies (dividend, profit participation)	522	44
c) from other participation companies (dividend, profit participation)	146	430
4. Fees and Commission received	73,825	85,275
a) revenues from other financial services	70,427	81,712
Including: – from related companies	47	212
– from other participation companies	3	3
b) revenues from investment services (except incomes from trading activities)	3,398	3,563
Including: – from related companies	65	105
5. Fees and Commission paid	15,620	16,329
a) expenses on other financial services	15,279	15,993
Including: – to related companies	688	547
– to other participation companies	115	968
b) expenses on investment services (except expenses from trading activities)	341	336
6. Profit or loss from financial transactions [6/a)–6/b)+6/c)–6/d)]	(5,854)	5,196
a) revenues from other financial services	20,872	22,145
Including: – from related companies	(1,139)	(3,736)
– from other participation companies	67	(349)
b) expenses on other financial services	26,328	17,961
Including: – from related companies	(3,712)	54
– from other participation companies	1,695	77
c) revenues from investment services (revenues from trading activities)	11,920	8,032
Including: – from related companies	45	116
– from other participation companies	0	199
d) expenses on investment services (expenses from trading activities)	12,318	7,020
Including: – to related companies	116	52
– to other participation companies	43	115
– write-off of trading securities	0	403

	2003	2004
7. Other incomes from business activities	119,768	104,961
a) incomes from non financial and investment services	99,505	97,498
Including: – from related companies	851	3,234
– from other participation companies	5	932
a.1.) income of consolidated investment service providers	12,230	11,026
a.2.) income of consolidated insurance companies	61,662	61,055
a.3.) income of other consolidated companies	25,613	25,417
b) other revenues	20,102	7,227
Including: – from related companies	965	496
– reversal of write-off of inventory	7	34
b.1.) income of consolidated investment service providers	19,186	4,922
b.2.) income of consolidated insurance companies	107	127
b.3.) income of other consolidated companies	809	2,178
ba) consolidation difference income due to debtor consolidation	0	9
bb) other income due to consolidation	161	227
8. General administration expenses	94,632	116,821
a) personnel expenses	51,707	66,797
aa) wage costs	30,849	38,554
ab) other payments to personnel	8,156	10,825
Including: – social security expenses	2,971	3,552
– pension related expenses	2,183	2,413
ac) contributions on wages and salaries	12,702	17,418
Including: – social security expenses	10,763	14,946
– pension related expenses	5,986	8,705
b) other administration expenses	42,925	50,024
9. Depreciation and amortization	11,613	14,282
10. Other expenses from business activities	132,828	135,996
a) expenses from non-financial and investment services	52,013	50,519
Including: – to related companies	52	144
– to other participation companies	0	21
a.1.) expense of consolidated investment service providers	9,803	10,429
a.2.) expense of consolidated insurance companies	42,184	40,021
a.3.) expense of other consolidated companies	26	69
b) other expenses	42,422	38,423
Including: – to related companies	35	63
– write-off of inventory	49	199
b.1.) expense of consolidated investment service providers	40,668	34,908
b.2.) expense of consolidated insurance companies	541	621
b.3.) expense of other consolidated companies	1,213	2,894

	2003	2004
ba) consolidation difference expense due to debt consolidation	11	0
bb) other expense due to consolidation	2,378	9,371
c) expense of consolidated investment service providers	36,004	37,683
c.1.) expense of consolidated insurance companies	15,668	16,308
c.2.) expense of other consolidated companies	20,336	21,375
11. Write-off of loans and provision for contingent and future liabilities	31,417	40,842
a) write-off of loans	27,314	36,822
b) provision for contingent and future liabilities	4,103	4,020
12. Reversal of write-off of loans and credit for contingent and future liabilities	27,012	34,829
a) reversal of write-off of loans	23,875	31,202
b) credit for contingent and future liabilities	3,137	3,627
12/a Difference between the creation and write-off of general risk provision	(3,189)	(6,004)
13. Write-off of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company	183	2
14. Reversal of write-off of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company	349	84
15. Result of ordinary business activities	**103,348**	**151,556**
Including:		
– RESULT OF FINANCIAL AND INVESTMENT SERVICES	92,698	143,470
– RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES	10,650	8,086
16. Extraordinary revenues	141	194
17. Extraordinary expenses	738	385
18. Extraordinary profit or loss (16. – 17.)	(597)	(191)
19. Profit or loss before tax (±15.±18.)	**102,751**	**151,365**
20. Tax liabilities	19,956	25,756
a) tax difference due to consolidation (+/–)	(227)	(266)
21. After-tax profit or loss (±19.–20.)	**83,022**	**125,875**
22. Formation and utilization of general reserves (±)	(8,128)	(11,890)
23. Use of accumulated profit reserve for dividends and profit-sharings	0	0
24. Dividends and profit-sharings paid (approved)	16,793	41,202
25. Balance-sheet profit or loss figure (±21.±22.+23.–24.)	**58,101**	**72,783**

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of National Savings and Commercial Bank Ltd.

We have audited, in accordance with the Hungarian National Standards on Auditing, the unconsolidated financial statements of National Savings and Commercial Bank Ltd. (the "Bank") for the year ended December 31, 2004, prepared in accordance with Hungarian accounting regulations, from which the accompanying summarized unconsolidated financial statements (balance sheet and profit and loss account), included on pages 72 to 74 of this Annual Report, were derived. In our independent auditors' report dated March 11, 2005, we expressed an unqualified opinion on the unconsolidated financial statements, prepared in accordance with the Hungarian accounting regulations, from which the accompanying summarized unconsolidated financial statements were derived.

In our opinion, the accompanying summarized unconsolidated financial statements are consistent, in all material respects, with the unconsolidated financial statements, prepared in accordance with Hungarian accounting regulations, from which they were derived.

For a better understanding of the Bank's unconsolidated financial position as at December 31, 2004 and the unconsolidated results of its operations for the year then ended, prepared in accordance with the Hungarian accounting regulations and of the scope of our audit, the accompanying summarized unconsolidated financial statements should be read in conjunction with the unconsolidated financial statements and the related notes from which the summarized unconsolidated financial statements were derived and our independent auditors' report thereon.

Budapest, May 8, 2005

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

BALANCE SHEET

(unconsolidated, based on HAR, in HUF mn)

ASSETS	Dec 31, 2003	Dec 31, 2004
1. CASH IN HAND, BALANCES WITH CENTRAL BANKS	252,975	399,401
2. TREASURY BILLS	402,543	294,802
a) held-for-trade	135,011	86,187
b) held as financial fixed assets (for long term investment)	267,532	208,615
3. LOANS AND ADVANCES TO CREDIT INSTITUTIONS	165,209	188,033
a) repayable on demand	4,700	4,191
b) other receivables from financial services	160,509	183,789
c) receivables from investment services	0	53
4. LOANS AND ADVANCES TO CUSTOMERS	1,089,158	1,264,489
a) receivables from financial services	1,088,064	1,264,375
aa) maturity not more than one year	399,920	463,122
ab) maturity more than one year	688,144	801,253
b) receivables from investment services	1,094	114
5. DEBT SECURITIES INCLUDING FIXED-INCOME SECURITIES	533,136	540,175
a) securities issued by local self-governing bodies and by other public body (not include the treasury bills issued by Hungarian state and securities issued by Hungarian National Bank)	1,300	700
b) securities issued by other bodies	531,836	539,475
6. SHARES AND OTHER VARIABLE-YIELD SECURITIES	7,628	7,639
a) shares and participations for trade	90	119
b) other variable-yield securities	7,538	7,520
7. SHARES AND PARTICIPATING INTEREST AS FINANCIAL FIXED ASSETS	754	999
8. SHARES AND PARTICIPATING INTEREST IN AFFILIATED UNDERTAKINGS	100,199	108,749
9. INTANGIBLE ASSETS	43,961	52,231
10. TANGIBLE ASSETS	63,589	69,592
a) tangible assets for financial and investment services	60,450	66,682
b) tangible assets not for directly financial and investment services	3,139	2,910
c) revaluation surplus on tangible assets	0	0
11. OWN SHARES	14,328	13,808
12. OTHER ASSETS	45,070	49,906
13. PREPAYMENTS AND ACCRUED INCOME	40,056	54,948
TOTAL ASSETS	**2,758,606**	**3,044,772**
From this:		
– CURRENT ASSETS	1,128,176	1,191,878
– FIXED ASSETS	1,590,374	1,797,946

LIABILITIES	Dec 31, 2003	Dec 31, 2004
1. LIABILITIES TO CREDIT INSTITUTIONS	91,080	203,864
a) repayable on demand	5,430	2,596
b) liabilities from financial services with maturity dates or periods of notice	85,650	201,181
c) liabilities from investment services	0	87
2. LIABILITIES TO CUSTOMERS	2,228,287	2,314,092
a) saving deposits	345,772	318,628
b) other liabilities from financial services	1,881,637	1,994,846
c) liabilities from investment services	878	618
3. LIABILITIES FROM ISSUED DEBT SECURITIES	58,130	49,756
a) issued bond	2,101	2,101
b) issued other debt securities	238	196
c) issued debt securities according to act on accounting, but the act on securities not qualifies that certificates as securities	55,791	47,459
4. OTHER LIABILITIES	49,879	74,393
a) maturity not more than one year	49,879	74,393
b) maturity more than one year	0	0
5. ACCRUALS AND DEFERRED INCOME	27,268	30,781
a) accrued liabilities	338	241
b) accrued costs and expenses	24,450	28,823
c) deferred income	2,480	1,717
6. PROVISIONS	26,773	32,584
a) provisions for pensions and similar obligations	1,546	740
b) risk provision for off-balance sheet items (for pending and future liabilities)	7,294	9,002
c) general risk provision	17,057	21,571
d) other provision	876	1,271
7. SUBORDINATED LIABILITIES	15,413	14,324
a) subordinated loan capital	15,413	14,324
8. SUBSCRIBED CAPITAL	28,000	28,000
From this: repurchased own shares at face value	1,324	1,010
9. SUBSCRIBED BUT UNPAID CAPITAL (–)		
10. CAPITAL RESERVES	52	52
a) premium (from share issue)		
b) other	52	52
11. GENERAL RESERVES	41,325	51,807
12. RETAINED EARNINGS (ACCUMULATED PROFIT RESERVE) (+)	130,465	177,401
13. LEGAL RESERVES	14,328	14,588
14. REVALUATION RESERVE		
15. PROFIT OR LOSS FOR THE FINANCIAL YEAR ACCORDING TO THE BALANCE SHEET (+/–)	47,606	53,130
TOTAL LIABILITIES	**2,758,606**	**3,044,772**
From this:		
– SHORT-TERM LIABILITIES	2,326,249	2,526,042
– LONG-TERM LIABILITIES	116,540	130,387
– EQUITY (CAPITAL AND RESERVES)	261,776	324,978
OFF-BALANCE SHEET COMMITMENTS	**776,970**	**938,850**
1. CONTINGENT LIABILITIES	503,429	684,995
2. FUTURE LIABILITIES	273,541	253,855
OFF-BALANCE SHEET ASSETS	**2,400,843**	**2,430,856**

PROFIT AND LOSS ACCOUNT

(unconsolidated, based on HAR, for the year ended December 31, 2004 in HUF mn)

	2003	2004
1. Interest received and interest-type income	205,634	288,185
a) interest received on securities with fixed-interest signifying a creditor relationship	63,919	82,057
b) other interest received and interest-type income	141,715	206,128
2. Interest paid and interest-type expenses	87,452	140,199
INTEREST DIFFERENCE (1.–2.)	**118,182**	**147,986**
3. Incomes from securities	7,691	8,500
4. Fees and Commission received	94,680	112,507
5. Fees and Commission paid	10,872	9,656
6. Profit or loss from financial transactions [6/a)–6/b)+6/c)–6/d)]	(5,194)	4,868
a) revenues from other financial services	14,393	12,466
b) expenses on other financial services	19,315	8,833
c) revenues from investment services (revenues from trading activities)	11,961	7,702
d) expenses on investment services (expenses from trading activities)	12,233	6,467
7. Other incomes from business	475,008	229,636
8. General administration expenses	81,204	92,489
a) personnel expenses	43,820	52,280
b) other administration expenses	37,384	40,209
9. Depreciation and amortization	11,913	18,072
10. Other expenses from business	493,749	254,757
11. Write-off of loans and provision for contingent and future liabilities	17,114	16,517
a) write-off of loans	11,152	11,520
b) provision for contingent and future liabilities	5,962	4,997
12. Reversal of write-off of loans and credit for contingent and future liabilities	13,895	15,481
a) reversal of write-off of loans	11,394	12,248
b) credit for contingent and future liabilities	2,501	3,233
12/a Difference between the creation and write-off of general risk provision	(2,803)	(4,514)
13. Write-off of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company	97	2
14. Reversal of write-off of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company	322	257
15. Result of ordinary business activities	**86,732**	**123,228**
Including:		
– RESULT OF FINANCIAL AND INVESTMENT SERVICES	85,392	121,996
– RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES	1,340	1,232
16. Extraordinary revenues	1,735	2,220
17. Extraordinary expenses	1,766	1,927
18. Extraordinary profit or loss (16.–17.)	(31)	293
19. Profit or loss before tax (±15.±18.)	**86,701**	**123,521**
20. Tax liabilities	15,139	18,703
21. After-tax profit or loss (±19.–20.)	**71,562**	**104,818**
22. Formation and utilization of general reserves (±)	(7,156)	(10,482)
23. Use of accumulated profit reserve for dividends and profit-sharings	0	0
24. Dividends and profit-sharings paid (approved)	16,800	41,206
25. Balance-sheet profit or loss figure (±21.±22.+23.–24.)	**47,606**	**53,130**

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INDEPENDENT AUDITORS' OPINION

To the Shareholders and Board of Directors of National Savings and Commercial Bank Ltd.

We have audited the accompanying consolidated balance sheets of National Savings and Commercial Bank Ltd. and its subsidiaries ("the Bank") as at December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the years then ended, included on pages 76 to 106 of this Annual Report. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2004 and 2003, and the consolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended in accordance with International Financial Reporting Standards.

Budapest, March 25, 2005

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BALANCE SHEET

(consolidated, based on IFRS, in HUF mn)

	Dec 31, 2004	Dec 31, 2003
Cash, due from banks and balances with the National Bank of Hungary	465,887	276,501
Placements with other banks, net of allowance for possible placement losses	286,200	252,335
Securities held-for-trading and available-for-sale	363,093	377,016
Loans, net of allowance for possible loan losses	2,506,795	1,982,587
Accrued interest receivable	31,400	32,432
Equity investments	9,389	5,878
Securities held-to-maturity	247,259	299,772
Premises, equipment and intangible assets, net	174,775	167,337
Other assets	77,561	66,981
TOTAL ASSETS	**4,162,359**	**3,460,839**
Due to banks and deposits from the National Bank of Hungary and other banks	254,125	126,402
Deposits from customers	2,902,190	2,689,833
Liabilities from issued securities	317,222	124,887
Accrued interest payable	27,015	16,395
Other liabilities	213,798	175,677
Subordinated bonds and loans	14,324	15,413
TOTAL LIABILITIES	3,728,674	3,148,607
Share capital	28,000	28,000
Retained earnings and reserves	431,127	309,220
Treasury shares	(25,867)	(25,420)
TOTAL SHAREHOLDERS' EQUITY	433,260	311,800
MINORITY INTEREST	425	432
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,162,359**	**3,460,839**

The accompanying notes to consolidated financial statements on pages 80 to 106 form an integral part of these consolidated financial statements.

PROFIT AND LOSS ACCOUNT

(consolidated, based on IFRS, for the year ended December 31, 2004 in HUF mn)

	2004	2003
INTEREST INCOME:		
Loans	241,233	159,054
Placements with other banks	42,431	20,820
Due from banks and balances with the National Bank of Hungary	33,818	18,499
Securities held-for-trading and available-for-sale	89,201	56,874
Securities held-to-maturity	26,995	28,155
TOTAL INTEREST INCOME	*433,678*	*283,402*
INTEREST EXPENSE:		
Due to banks and deposits from the National Bank of Hungary and other banks	20,640	18,096
Deposits from customers	131,824	81,418
Liabilities from issued securities	19,382	7,044
Subordinated bonds and loans	943	748
TOTAL INTEREST EXPENSE	*172,789*	*107,306*
Net interest income	**260,889**	**176,096**
Provision for possible loan and placement losses	16,048	10,817
Net interest income after provision for possible loan and placement losses	**244,841**	**165,279**
NON-INTEREST INCOME:		
Fees and commissions	91,625	81,644
Foreign exchange gains and losses, net	1,250	5,167
Gains and losses on securities, net	14,770	(7,591)
Gains on real estate transactions, net	1,818	1,473
Dividend income and gains and losses of associated companies	593	437
Insurance premiums	49,337	56,269
Other	10,680	12,249
TOTAL NON-INTEREST INCOME	*170,073*	*149,648*
NON-INTEREST EXPENSES:		
Fees and commissions	20,588	19,944
Personnel expenses	77,190	61,303
Depreciation and amortization	29,150	19,793
Insurance expenses	40,264	41,825
Other	81,046	69,401
TOTAL NON-INTEREST EXPENSE	*248,238*	*212,266*
Income before income taxes	**166,676**	**102,661**
Income taxes	(25,844)	(19,324)
Net income after income texas	**140,832**	**83,337**
Minority interest	(12)	(1)
Net income	**140,820**	**83,336**
Consolidated earnings per share (in HUF)		
basic	537	320
diluted	534	319

The accompanying notes to consolidated financial statements on pages 80 to 106 form an integral part of these consolidated financial statements.

STATEMENT OF CASH FLOW

(consolidated, based on IFRS, for the year ended December 31, 2004 in HUF mn)

	2004	2003
OPERATING ACTIVITIES		
Income before income taxes	166,676	102,661
Adjustments to reconcile Net Income before income taxes to net cash provided by operating activities		
Income tax paid	(26,871)	(20,276)
Depreciation and amortization	29,150	19,793
Provision for possible loan and placement losses	16,048	10,817
Provision for permanent diminution in value of equity investments	426	34
(Release of provision)/provision for possible losses on other assets	(569)	1,507
(Release of provision)/provision for possible losses on off-balance sheet commitments and contingent liabilities, net	(924)	997
Net income from accounting for associates under the equity method of accounting	0	(268)
Net increase in insurance reserves	14,390	15,657
Unrealised (gains)/losses on fair value adjustment of securities held-for-trading and available-for-sale	(20,847)	6,263
Unrealised (gains)/losses on fair value adjustment of derivative financial instruments	(631)	2,860
Changes in operating assets and liabilities		
Net decrease/(increase) in accrued interest receivable	1,257	(3,481)
Net (increase)/decrease in other assets, excluding advances for investments and before allowance for possible losses	(6,915)	12,444
Net increase in accrued interest payable	10,244	1,385
Net increase in other liabilities	22,744	9,436
Net Cash Provided by Operating Activities	**204,178**	**159,829**
INVESTING ACTIVITIES		
Net (increase)/decrease in placements with other banks, before provision for possible placement losses	(19,638)	100,523
Net decrease/(increase) in securities held-for-trading and available-for-sale, before unrealised gains or losses	34,984	(111,346)
Net (increase)/decrease in equity investments, before provision for permanent diminution in value	(3,902)	554
Purchase of investment in subsidiary, net	(9,441)	(67,908)
Net decrease in debt securities held-to-maturity	52,888	70,183
Net decrease/(increase) in advances for investments, included in other assets	56	(74)
Net increase in loans, before provision for possible loan losses	(522,581)	(564,303)
Net additions to premises, equipment and intangible assets	(29,957)	(36,289)
Net Cash Used in Investing Activities	**(497,591)**	**(608,660)**

	2004	2003
FINANCING ACTIVITIES		
Net increase in due to banks and deposits from the National Bank of Hungary and other banks	122,254	47,259
Net increase in deposits from customers	187,356	277,847
Net increase in liabilities from issued securities	192,335	40,025
Decrease in subordinated bonds and loans	(1,089)	(98)
(Decrease)/increase of minority interest	(7)	15
Foreign currency translation (losses)/gains	(2,740)	2,467
Net change in treasury shares	1,513	2,385
Net decrease/(increase) in compulsory reserves at National Bank of Hungary	1,627	(16,627)
Dividends paid	(16,823)	(8)
Net Cash Provided by Financing Activities	**484,426**	**353,265**
Net Increase/(Decrease) in Cash and Cash Equivalents	**191,013**	**(95,566)**
Cash and cash equivalents as at January 1	***164,660***	***260,226***
Cash and Cash Equivalents as at end of period	**355,673**	**164,660**
Analysis of cash and cash equivalents opening and closing balance		
Cash, due from banks and balances with the National Bank of Hungary	276,501	355,440
Compulsory reserve established by the National Bank of Hungary	(111,841)	(95,214)
Cash and cash equivalents as at January 1	**164,660**	**260,226**
Cash, due from banks and balances with the National Bank of Hungary	465,887	276,501
Compulsory reserve established by the National Bank of Hungary	(110,214)	(111,841)
Cash and cash equivalents as at end of period	**355,673**	**164,660**

The accompanying notes to consolidated financial statements on pages 80 to 106 form an integral part of these consolidated financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(consolidated, based on IFRS, for the year ended December 31, 2004 in HUF mn)

	Share Capital	Retained Earnings and Reserves	Treasury Shares	Total
Balance as at January 1, 2003	**28,000**	**223,412**	**(27,800)**	**223,612**
Net income after income taxes	–	83,336	–	83,336
Gain on sale of treasury shares	–	5	–	5
Change in carrying value of treasury shares	–	–	2,380	2,380
Foreign currency translation gain	–	2,467	–	2,467
Balance as at December 31, 2003	**28,000**	**309,220**	**(25,420)**	**311,800**
Net income after income taxes	–	140,820	–	140,820
Dividend for the year 2003	–	(16,800)	–	(16,800)
Gain on sale of treasury shares	–	1,960	–	1,960
Change in carrying value of treasury shares	–	–	(447)	(447)
Derivative financial instruments designated as cash flow hedge	–	(1,333)	–	(1,333)
Foreign currency translation loss	–	(2,740)	–	(2,740)
Balance as at December 31, 2004	**28,000**	**431,127**	**(25,867)**	**433,260**

The accompanying notes to consolidated financial statements on pages 80 to 106 form an integral part of these consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

(consolidated, based on IFRS)

NOTE 1: **ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS**

1.1. GENERAL

National Savings and Commercial Bank Ltd. (the "Bank" or "OTP") was established on December 31, 1990, when the predecessor State-owned company was transformed into a limited liability company.

The Bank's registered office address is 16 Nador street, Budapest 1051.

As at December 31, 1994, 79% of the Bank's shares were held directly or indirectly by the Hungarian Government and the remaining 21% were held by domestic investors or represented as own shares (less than 3%). In spring 1995, 20% of the shares were transferred by the Hungarian Government to the Hungarian Social Security Funds. Subsequent to the successful privatization of the Bank by a public offering in summer 1995, the Bank's shares were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London and PORTAL (USA).

At an extraordinary General Assembly, on September 3, 1997, the Bank issued a preferential voting share with a nominal value of HUF 1 thousand (the "Special Share") to the State Privatization and Holding Company. The Special Share gives the power to the State Privatization and Holding Company to control the outcome of certain shareholder votes in accordance with the Bank's Articles of Association and the right to delegate one member to the Bank's Board of Directors and one member to the Supervisory Board of the Bank.

By public offerings in fall 1997 and fall 1999, the State Privatization and Holding Company sold the remaining common shares.

The Annual General Meeting on April 25, 2001 approved the conversion of HUF 1,150 million nominal value preference shares issued by the Bank to common shares.

In the first quarter of the year of 2002 the nominal value of the common shares of the Bank has decreased from HUF 1,000 to HUF 100 per share.

As at December 31, 2004 approximately 90.3% of the Bank’s shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (3.3%) and the Bank (6.4%).

The Bank provides a full range of commercial banking services through a wide network of 786 branches. 377 branches are in Hungary, 327 branches are in Bulgaria, 68 branches are in Slovakia and 14 branches are in Romania.

As at December 31, 2004 the number of employees at the Bank and its subsidiary companies (together the “Group”) was 16,973. The average number of employees for the year ended December 31, 2004 was 17,184.

1.2. ACCOUNTING

The Group maintains its accounting records and prepares 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”).

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to the Bank’s Hungarian consolidated 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 International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).

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 on fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.

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 rate quoted by OTP Bank as of 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 Statement of Operations.

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

Effective for acquisitions after March 31, 2004 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 exchange difference is presented as an element of 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 27. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated in accordance with IFRS because it is either intended that the shares shall be disposed of in the near future or the effect of consolidating such companies is immaterial to the consolidated financial statements as a whole (see Note 2.9.).

2.4. ACCOUNTING FOR ACQUISITIONS

Upon acquisition, subsidiaries are accounted for under the fair value method of accounting. Any goodwill or negative goodwill arising on acquisition is recognized in the consolidated balance sheet and accounted for as indicated below.

Acquisition before March 31, 2004

Goodwill, which represents the residual cost of the acquisition after recognizing the acquirer's interest in the fair value of the identifiable assets and liabilities acquired, is held as an intangible asset and recorded as Depreciation and amortization in the

Consolidated Statement of Operations, in anticipation of future economic benefits, on a straight-line basis over a period of five years. The value of any goodwill held in the Consolidated Balance Sheet is reassessed on an annual basis, determined on the basis of specific identification of the investment. If it is no longer probable that the goodwill will be recovered from future economic benefits, it is recognized immediately as an expense.

The excess, as at the date of the exchange transaction, of the Bank's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, is recognised as negative goodwill among intangible assets.

The extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Bank's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised as Other income in the Consolidated Statement of Operations when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably at the date of acquisition, negative goodwill is recognised as other income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.

Acquisition after March 31, 2004

The Bank has applied IFRS 3 Business Combinations since March 31, 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.

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.

Negative goodwill, when the acquirer's interest in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statement of Operations as a gain.

2.5. SECURITIES HELD-TO-MATURITY

Investments in securities are accounted on a settlement (value) date basis and are initially measured at cost. At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) 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 investments include securities, which the Group is able and has the ability and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government.

2.6. SECURITIES HELD-FOR-TRADING AND AVAILABLE-FOR-SALE

Investments in securities are accounted on a settlement (value) date basis and are initially measured at cost. Held for trading and available-for-sale investments are measured at subsequent reporting dates at fair value and unrealised gains and losses are included in the Consolidated Statement of Operations for the period. Such securities consist of Hungarian and foreign discounted and interest bearing Treasury bills and government bonds and other securities. Other securities include shares in commercial companies, shares in investment funds, bonds issued by companies and mortgage bonds issued by other financial institutions.

Securities held-for-trading and available-for-sale securities are remeasured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the user.

Those held-for-trading and 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 allowance for permanent diminution in value, when appropriate.

2.7. LOANS, PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR POSSIBLE LOAN AND PLACEMENT LOSSES

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for possible loan or placements 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 become due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they become due, all unpaid interests are reversed. Loan origination fees and costs are recognized in the Consolidated Statement of Operations in full at the time of the loan origination.

The amount of provision 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.

The allowances for possible loan and placement losses are maintained at levels adequate to absorb probable future losses. 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.

2.8. SALE AND REPURCHASE AGREEMENTS

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. 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 over the life of the repurchase agreement.

2.9. EQUITY INVESTMENTS

Companies where the Bank has a significant interest 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 immaterial to the consolidated financial statements as a whole. Shares which are intended to be disposed of are included among securities available-for-sale.

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

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

2.10. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

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

Buildings	1–15%
Machinery and equipment	7–50%
Vehicles	10–50%
Leased assets	14.5–33.3%
Goodwill and negative goodwill	20%
Software	16–50%
Property rights	14.5–33%

Depreciation and amortization on premises, equipment and intangible assets commences on the day such assets are placed into service.

At each balance sheet date, the 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 premises, equipment and other tangible fixed assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

2.11. 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 classifies as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the lease. Finance lease income in allocated to accounting periods so as to reflect a constant rate of return on the Group's net investment outstanding in respect of the leases.

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 Statement 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 Statement 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.

2.12. PROPERTIES HELD FOR RESALE

Properties held for resale are accounted for at historical cost less allowance for permanent diminution in value and are included in other assets in the Consolidated Balance Sheet. Properties held for resale include property held for sale in the normal course of business as a result of construction or development, real estate held due to work out of loans and property acquired exclusively with a view to subsequent disposal in the near future.

2.13. INSURANCE RESERVES

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.

2.14. TREASURY SHARES

Treasury shares 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 acquisition 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.

2.15. 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 in 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.

2.16. 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 allowance for possible losses on 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 an allowance 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.

2.17. 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 swaps. 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 recognised at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Consolidated Statement of Operations as they arise. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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 profit Consolidated Statement of Operations along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Consolidated Statement of Operations.

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

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held-for-trading with fair value gains and losses charged directly to the Consolidated Statement of Operations.

2.18. CONSOLIDATED STATEMENT OF CASH FLOW

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

2.19. SEGMENT REPORTING

Segment information is based on two segments formats. The primary format represents the Group's geographical markets. The secondary format represents two business segments – banking and insurance.

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 reasonable basis. Segment assets are determined after deducting related adjustments that are reported as direct offsets in the Group's balance sheet.

2.20. COMPARATIVE FIGURES

Certain amounts in the 2003 consolidated financial statements have been reclassified to conform to the current year presentation.

NOTE 3: **CASH, DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY**

		2004	***(in HUF mn)*** **2003**
Cash on hand:	In HUF	53,364	55,073
	In foreign currency	19,298	21,730
		72,662	*76,803*
Due from banks and balances with the National Bank of Hungary:			
Within one year:	In HUF	390,267	195,402
	In foreign currency	2,958	4,296
		393,225	*199,698*
Total		**465,887**	**276,501**

Based on the requirements for compulsory reserve set by the National Bank of Hungary, the balance of compulsory reserves maintained by the Group amounted to HUF 110,214 million and HUF 111,841 million as at December 31, 2004 and 2003, respectively.

NOTE 4: **PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR POSSIBLE PLACEMENT LOSSES**

		2004	2003 *(in HUF mn)*
Within one year:	In HUF	126,866	99,079
	In foreign currency	149,206	143,127
		276,072	*242,206*
Over one year:	In HUF	–	3,000
	In foreign currency	10,129	7,311
		10,129	*10,311*
		286,201	**252,517**
Allowance for possible placement losses		(1)	(182)
Total		**286,200**	**252,335**

Placements of OTP Banka Slovensko, a.s. with the National Bank of Slovakia amounted to HUF 24,362 million and HUF 21,940 million as at December 31, 2004 and 2003, respectively.

Placements of DSK Bank EAD with the National Bank of Bulgaria amounted to HUF 30,358 million and HUF 15,226 million as at December 31, 2004 and 2003, respectively.

Placements of Robank SA with the National Bank of Romania amounted to HUF 16,700 million as at December 31, 2004.

Placements with other banks in foreign currency as at December 31, 2004 and 2003 bear interest rates in the range from 0.4% to 7.0% and from 0.3% to 5.1%, respectively.

Placements with other banks in HUF as at December 31, 2004 and 2003 bear interest rates in the range from 8.5% to 12.5% and from 9.6% to 13.7%, respectively.

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

	2004	2003 *(in HUF mn)*
Balance as at January 1	182	163
(Release of provision)/provision for possible placement losses	(181)	19
Balance as at December 31	**1**	**182**

NOTE 5: **SECURITIES HELD-FOR-TRADING AND AVAILABLE-FOR-SALE**

	2004	2003 *(in HUF mn)*
Held-for-trading securities:		
Discounted Treasury bills	40,225	60,178
Hungarian Government interest bearing Treasury bills	2,756	473
Government bonds	22,478	105,804
Mortgage bonds	680	1,476
Other securities	1,119	5,539
	67,258	*173,470*
Available-for-sale securities:		
Government bonds	204,436	142,952
Discounted Treasury bills	49,949	21,993
Mortgage bonds	1,493	1,443
Other securities	39,957	37,158
	295,835	*203,546*
Total	**363,093**	**377,016**

Approximately 78% and 76% of the held-for-trading and available-for-sale securities portfolio was denominated in HUF as at December 31, 2004 and 2003, respectively.

Approximately 25% and 26% of the government bonds were denominated in foreign currency as at December 31, 2004 and 2003, respectively. Approximately 8.1%, 29.6%, 30.9%, and 31.4% of this portfolio was denominated in USD, EUR, SKK and BGN as at December 31, 2004, respectively, and 9.3%, 2.3%, 0.4%, 31.6%, 27.1% and 29.3% of this portfolio was denominated in USD, JPY, GBP, EUR, SKK and BGN as at December 31, 2003, respectively.

Interest rates on securities held-for-trading are ranged from 1.4% to 13.4% and from 1.2% to 13.1% as at December 31, 2004 and 2003, respectively.

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

	2004	2003 *(in HUF mn)*
Within five years		
with variable interest	62,034	64,609
with fixed interest	235,753	223,443
	297,787	*288,052*
Over five years		
with variable interest	7,460	8,184
with fixed interest	38,531	60,033
	45,991	*68,217*
Non-interest bearing securities	**19,315**	**20,747**
Total	**363,093**	**377,016**

NOTE 6: **LOANS, NET OF ALLOWANCE FOR POSSIBLE LOAN LOSSES**

	2004	2003 *(in HUF mn)*
Loans and trade bills within one year	689,286	519,671
Loans and trade bills over one year	1,896,824	1,527,072
	2,586,110	*2,046,743*
Allowance for possible loan losses	(79,315)	(64,156)
Total	**2,506,795**	**1,982,587**

Foreign currency loans represent approximately 33.8% and 24.6% of the total loan portfolio, before allowance for possible losses, as December 31, 2004 and 2003, respectively.

Loans denominated in HUF, with maturity within one year as at December 31, 2004 and 2003, bear interest rates in the range from 6% to 32%.

Loans denominated in HUF, with maturity over one year as at December 31, 2004 and 2003, bear interest rates in the range from 4% to 22.8%.

Approximately 3.9% and 3% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2004 and 2003, respectively.

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

	2004		2003 *(in HUF mn)*	
Commercial loans	920,606	36%	764,864	37%
Municipality loans	118,115	5%	92,774	5%
Housing loans	1,015,491	39%	826,808	40%
Consumer loans	531,898	20%	362,297	18%
Total	**2,586,110**	**100%**	**2,046,743**	**100%**

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

	2004	2003 *(in HUF mn)*
Balance as at January 1	64,156	56,235
Provision for possible loan losses	16,229	10,798
Write-offs	(835)	(2,820)
Foreign currency translation loss	(235)	(57)
Balance as at December 31	**79,315**	**64,156**

NOTE 7: **EQUITY INVESTMENTS**

	2004	2003 *(in HUF mn)*
Equity investments:		
Unconsolidated subsidiaries	8,389	3,673
Associated companies	141	2,065
Other	2,837	1,692
	11,367	*7,430*
Allowance for permanent diminution in value	(1,978)	(1,552)
Total	**9,389**	**5,878**
Total assets of unconsolidated subsidiaries	**34,145**	**13,626**

An analysis of the change in the allowance for permanent diminution in value is as follows:

	2004	2003 *(in HUF mn)*
Balance as at January 1	1,552	1,537
Provision for permanent diminution in value	426	34
Foreign currency translation gain	–	(19
Balance as at December 31	**1,978**	**1,552**

NOTE 8: **SECURITIES HELD-TO-MATURITY**

	2004	2003 *(in HUF mn)*
Government securities	226,355	293,388
Hungarian Government discounted Treasury Bills	6,125	987
Mortgage bonds	9,526	–
Other debt securities	5,283	5,427
	247,289	*299,802*
Allowance for permanent diminution in value	(30)	(30)
Total	**247,259**	**299,772**

Interest conditions and the remaining maturities of investments in debt securities can be analysed as follows:

		2004	2003 *(in HUF mn)*
Within five years	with variable interest	68,536	93,081
	with fixed interest	106,492	125,151
		175,028	*218,232*
Over five years	with variable interest	42,870	46,222
	with fixed interest	29,391	35,348
		72,261	*81,570*
Total		**247,289**	**299,802**

Approximately 88.4% and 93.5% of the debt securities portfolio was denominated in HUF as at December 31, 2004 and 2003, respectively. In most cases, interests on variable rate bonds are based on the interest rates of 90-day Hungarian Government Treasury bills and are adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF are ranged from 6.3% to 10% and from 6.3% to 10.5% as at December 31, 2004 and 2003, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

The fair value of held-to-maturity investments was HUF 247,477 million and HUF 302,738 million as at December 31, 2004 and 2003, respectively.

An analysis of the change in the allowance for permanent diminution in value is as follows:

	2004	2003 *(in HUF mn)*
Balance as at January 1	30	26
Foreign currency translation loss	–	4
Balance as at December 31	**30**	**30**

NOTE 9: **PREMISES, EQUIPMENT AND INTANGIBLE ASSETS, NET**

For the year ended December 31, 2004:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	*(in HUF mn)* Total
Cost					
Balance as at January 1, 2004	68,374	89,997	90,695	6,516	255,582
Acquisition of subsidiary	430	903	339	33	1,705
Additions	17,421	5,508	22,637	40,505	86,071
Foreign currency translation differences	(93)	(882)	(198)	(46)	(1,219)
Disposals	(3,804)	(900)	(29,503)	(34,781)	(68,988)
Balance as at December 31	**82,328**	**94,626**	**83,970**	**12,227**	**273,151**
Depreciation and Amortization					
Balance as at January 1, 2004	18,524	13,392	56,329	–	88,245
Charge	13,602	2,482	13,066	–	29,150
Foreign currency translation differences	(36)	(31)	(91)	–	(158)
Disposals	(1,709)	(170)	(16,982)	–	(18,861)
Balance as at December 31	**30,381**	**15,673**	**52,322**	**–**	**98,376**
Net book value					
Balance as at January 1	49,850	76,605	34,366	6,516	167,337
Balance as at December 31	**51,947**	**78,953**	**31,648**	**12,227**	**174,775**

An analysis of the changes in the goodwill and negative goodwill for the year ended December 31, 2004 is as follows:

	Goodwill	*(in HUF mn)* Negative goodwill
Cost		
Balance as at January 1, 2004	39,288	4,216
Additions	4,928	–
Foreign currency translation differences	(39)	–
Disposals	–	(12)
Balance as at December 31	**44,177**	**4,204**
Amortization		
Balance as at January 1, 2004	2,964	1,040
Charge	7,668	130
Balance as at December 31	**10,632**	**1,170**
Net book value		
Balance as at January 1	36,324	3,176
Balance as at December 31	**33,545**	**3,034**

For the year ended December 31, 2003:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	*(in HUF mn)* Total
Cost					
Balance as at January 1, 2003	29,554	59,357	79,403	8,527	176,841
Acquisition of subsidiary	1,183	15,931	3,192	804	21,110
Additions	47,502	13,487	15,512	31,204	107,705
Foreign currency translation differences	118	1,513	927	23	2,581
Disposals	(9,983)	(291)	(8,339)	(34,042)	(52,655)
Balance as at December 31	**68,374**	**89,997**	**90,695**	**6,516**	**255,582**
Depreciation and Amortization					
Balance as at January 1, 2003	20,191	11,451	51,631	–	83,273
Charge	7,405	1,634	10,754	–	19,793
Foreign currency translation differences	104	579	826	–	1,509
Disposals	(9,176)	(272)	(6,882)	–	(16,330)
Balance as at December 31	**18,524**	**13,392**	**56,329**	**–**	**88,245**
Net book value					
Balance as at January 1	9,363	47,906	27,772	8,527	93,568
Balance as at December 31	**49,850**	**76,605**	**34,366**	**6,516**	**167,337**

An analysis of the changes in the goodwill and negative goodwill for the year ended December 31, 2003 is as follows:

	Goodwill	Negative goodwill (in HUF mn)
Cost		
Balance as at January 1	1,062	4,216
Additions	38,226	–
Balance as at December 31	**39,288**	**4,216**
Amortization		
Balance as at January 1	1,009	892
Charge	1,955	148
Balance as at December 31	**2,964**	**1,040**
Net book value		
Balance as at January 1	53	3,324
Balance as at December 31	**36,324**	**3,176**

NOTE 10: **OTHER ASSETS**

	2004	2003 (in HUF mn)
Property held-for-sale	13,289	10,641
Due from Hungarian Government for interest subsidies	19,964	1,885
Trade receivables	3,734	3,240
Advances for securities and investments	497	553
Taxes recoverable	1,438	2,400
Inventories	1,899	1,587
Other advances	3,250	2,563
Receivables from leasing activities	13,391	21,023
Receivables due from insurance bond holders	1,667	2,136
Receivables due from pension funds and fund management	1,283	1,195
Prepayments and accrued income	6,793	7,307
Receivables from investing services	203	1,139
Fair value of derivative financial instruments	4,134	1,993
Other	9,391	13,258
	80,933	*70,920*
Allowance for possible losses on other assets	(3,372)	(3,939)
Total	**77,561**	**66,981**

Allowance for possible losses on other assets mainly consists of allowances for property held for sale, trade receivables, receivables from leasing activities and reinsurance receivables.

An analysis of the change in the allowance for possible losses on other assets is as follows:

	2004	2003 (in HUF mn)
Balance as at January 1	3,939	2,471
(Release of provision)/provision for possible losses on other assets	(569)	1,507
Foreign currency translation loss/(gain)	2	(39)
Balance as at December 31	**3,372**	**3,939**

NOTE 11: **DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS**

		2004	2003 (in HUF mn)
Within one year:	In HUF	18,366	2,417
	In foreign currency	119,574	55,357
		137,940	*57,774*
Over one year:	In HUF	8,609	4,291
	In foreign currency	107,576	64,337
		116,185	*68,628*
Total		**254,125**	**126,402**

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2004 and 2003, bear interest rates in the range from 8.9% to 12% and from 11.4% to 12.9%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at December 31, 2004 and 2003, bear interest rates in the range from 3% to 9.5% and from 3% to 9.4%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at December 31, 2004 and 2003, bear interest rates in the range from 0.5% to 17.4% and from 0.2% to 6%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at December 31, 2004 and 2003, bear interest rates in the range from 0.5% to 6% and from 0.5% to 8%, respectively.

NOTE 12: **DEPOSITS FROM CUSTOMERS**

		2004	2003 *(in HUF mn)*
Within one year:	In HUF	2,071,188	1,961,435
	In foreign currency	769,103	661,761
		2,840,291	*2,623,196*
Over one year:	In HUF	60,654	66,049
	In foreign currency	1,245	588
		61,899	*66,637*
Total		**2,902,190**	**2,689,833**

Deposits from customers payable in HUF within one year as at December 31, 2004 and 2003, bear interest rates in the range from 0.5% to 9.9% and from 0.8% to 11%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2004 and 2003, bear interest rates in the range from 3% to 6.5% and from 3% to 8.8%, respectively.

Deposits from customers payable in foreign currency within one year as at December 31, 2004 and 2003, bear interest rates in the range from 0.1% to 21% and from 0% to 5.3%, respectively.

Deposits from customers payable in foreign currency over one year as at December 31, 2004 and 2003, bear interest rates in the range from 2% to 19% and from 0% to 6%, respectively.

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

	2004		2003 *(in HUF mn)*	
Commercial deposits	549,830	19%	501,371	19%
Municipality deposits	196,515	7%	188,487	7%
Consumer deposits	2,155,845	74%	1,999,975	74%
Total	**2,902,190**	**100%**	**2,689,833**	**100%**

NOTE 13: **LIABILITIES FROM ISSUED SECURITIES**

		2004	2003 *(in HUF mn)*
With original maturity:	Within one year	66,949	23,161
	Over one year	250,273	101,726
Total		**317,222**	**124,887**

78.1% and 95.7% of issued securities are denominated in HUF as at December 31, 2004 and 2003, and bear interest at rates in the range from 1.2% to 12% and from 2% to 9.3%, respectively.

NOTE 14: **OTHER LIABILITIES**

	2004	2003 *(in HUF mn)*
Deferred tax liabilities	2,175	2,579
Taxes payable	7,224	3,231
Giro clearing accounts	10,250	13,191
Accounts payable	14,199	11,723

(continued)	2004	*(in HUF mn)* 2003
Insurance reserves	98,591	84,201
Salaries and social security payable	12,140	8,082
Liability from security trading	17,041	15,876
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	7,378	8,357
Dividends payable	566	588
Advances received from customers	2,400	3,863
Accrued expenses	14,565	11,366
Loan for collection	2,005	2,202
Suspense accounts	829	2,083
Fair value of derivative financial instruments	3,187	90
Liabilities from trading activities (repurchase agreement)	12,523	–
Other	8,725	8,245
Total	**213,798**	**175,677**

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

	2004	*(in HUF mn)* 2003
Allowance for litigation	1,430	1,509
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	4,460	4,463
Other allowances (for expected liabilities)	1,126	2,046
Allowance for housing warranties	362	339
Total	**7,378**	**8,357**

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

As part of its operations, until 1991, the Bank financed and constructed residential accommodations for resale on which it was required to provide a ten year guarantee against defective workmanship. The Bank has recourse against the constructors for any claims. The recovery of such claims is, however, dependent upon the financial status of the constructors, which is impaired in certain cases. An allowance has been recorded to account for the estimated possible future losses due to housing warranties. The allowance for housing warranties for pre 1991 construction was reversed by December 31, 2004 in line with the expenses related to housing warranties.
The remaining allowance for housing warranties relates to warranties from OTP Building Society Ltd.

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

	2004	*(in HUF mn)* 2003
Balance as at January 1	8,357	7,511
Allowance for possible off-balance sheet commitments and contingent liabilities	(924)	997
Release of allowance for housing warranties	(76)	(151)
Additions through business combinations	21	–
Balance as at December 31	**7,378**	**8,357**

Movements in insurance reserves can be summarized as follows:

	2004	*(in HUF mn)* 2003
Balance as at January 1	84,201	68,544
Net increase in insurance reserves	14,390	15,657
Balance as at December 31	**98,591**	**84,201**

NOTE 15: **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 subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 4.36% as at December 20, 2002, 3.25% as at June 20, 2003, 4.8% as at December 20, 2003, 4.88% as at June 20, 2004 and 6.05% as at December 20, 2004. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

In December 1996, the Bank obtained a USD 30 million and DEM 31.14 million (15.92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development with the original maturity of December 27, 2006. The maturity date was modified to August 27, 2008 on August 22, 2003. The loan is unsecured, subordinate to the other liabilities and has a twelve-year maturity, with interest payable at six-month LIBOR+1.4% from December 27, 1996 until December 29, 1997, at six-month LIBOR+1.0% from December 29, 1997 until June 28, 1999, at six-month LIBOR+1.7% from June 28, 1999 until December 27, 2003 and at six-month LIBOR+1.35% from December 28, 2003 until August 27, 2008.

NOTE 16: **SHARE CAPITAL**

	2004	*(in HUF mn)* 2003
Authorized, issued and fully paid:		
Common shares	28,000	28,000
	28,000	**28,000**

From September 3, 1997, the Bank has one preferential voting share (the “Special Share”) outstanding with a nominal value of HUF 1 thousand (see Note 1.1).

NOTE 17: **RETAINED EARNINGS AND RESERVES**

	2004	*(in HUF mn)* 2003
Balance as at January 1	309,220	223,412
Net income after income taxes	140,820	83,336
Gain on sale of treasury shares	1,960	5
Foreign currency translation (loss)/gain	(2,740)	2,467
Derivative financial instruments designated as cash-flow hedge	(1,333)	–
Dividends for the year 2003	(16,800)	–
Balance as at December 31	**431,127**	**309,220**

The Bank's unconsolidated reserves under Hungarian Accounting Standards were HUF 243,848 million and HUF 233,776 million as at December 31, 2004 and 2003, respectively. Of these amounts, legal reserves represent HUF 66,395 million and HUF 55,653 million as at December 31, 2004 and 2003, respectively. The legal reserves are not available for distribution.

The Annual General Meeting on April 29, 2004 decided that the Bank would pay HUF 16,800 million dividend for the year ended December 31, 2003.

Dividends for the year ended December 31, 2004 will be proposed at the Annual General Meeting in April 2005. The proposed dividend for the year 2004 is HUF 41,206 million.

NOTE 18: **TREASURY SHARES**

	2004	*(in HUF mn)* 2003
Nominal value (Common Shares)	1,801	2,115
Carrying value at acquisition cost	25,867	25,420

NOTE 19: **MINORITY INTEREST**

	2004	*(in HUF mn)* 2003
Balance as at January 1	432	405
Minority interest purchased	(18)	(23)
Foreign currency translation gain	(1)	49
Minority interest included in net income	12	1
Balance as at December 31	**425**	**432**

NOTE 20: **OTHER EXPENSES**

(in HUF mn)	2004	2003
Provision for permanent diminution in value of equity investments	426	34
(Release of provision)/provision for other assets	(569)	1,507
(Release of provision)/provision for off-balance sheet commitments and contingent liabilities	(924)	997
Administration expenses, including rent	25,996	23,290
Advertising	5,975	5,071
Taxes, other than income taxes	15,667	13,774
Services	22,029	19,211
Professional fees	4,003	2,884
Other	8,443	2,633
Total	**81,046**	**69,401**

NOTE 21: **INCOME TAXES**

The Group is presently liable for income tax at rates of 16%, 19.5%, 19%, 25% and 30% of taxable income. The 16% rate relates to the Bank and its subsidiaries incorporated in Hungary. The 19.5% rate relates to the Bank's subsidiaries incorporated in Bulgaria. The 19% rate relates to the Bank's subsidiaries incorporated in Slovakia. The 25% rate relates to the Bank's subsidiaries incorporated in Romania and the 30% rate relates to the Bank's United Kingdom subsidiary.

Deferred tax is calculated at the income tax rate of 16% in Hungary and Romania and 15% in Bulgaria.

A reconciliation of the income tax charges is as follows:

(in HUF mn)	2004	2003
Current tax	25,774	20,164
Deferred tax	70	(840)
Total	**25,844**	**19,324**

A reconciliation of the deferred tax liability is as follows:

(in HUF mn)	2004	2003
Balance as at January 1	(2,579)	(699)
Effect of purchase of subsidiary undertakings	97	(2,720)
Foreign currency translation gain	123	–
Deferred tax (charge)/income	(70)	840
Recognised in retained earnings and reserves	254	–
Balance as at December 31	**(2,175)**	**(2,579)**

A reconciliation of the deferred tax asset and liability is as follows:

(in HUF mn)	2004	2003
Premium and discount amortization on investment securities	115	57
Provision for possible losses on off-balance sheet commitments and contingent liabilities, on derivative financial instruments	5	17
Difference in accounting for finance leases	20	39
Fair value adjustment of held-for-trading and available-for-sale financial assets	–	775
Fair value adjustment of derivative financial instruments	217	–
Reclassification of direct charges	4	–
Other	142	116
Deferred tax asset	*503*	*1,004*
Fair value adjustment of held-for-trading and available-for-sale financial assets	(558)	–
Fair value adjustment of derivative financial instruments	–	(315)
Reclassification of direct charges	–	(7)
Fixed assets	(1,842)	(2,660)
Temporary differences arising on consolidation	(278)	(601)
Deferred tax liability	*(2,678)*	*(3,583)*
Deferred tax liability, net	**(2,175)**	**(2,579)**

NOTE 22: **FINANCIAL INSTRUMENTS**

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

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

CREDIT RISK

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

MARKET RISK

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

FOREIGN CURRENCY RISK

See Note 30.

LIQUIDITY RISK

See Note 31.

INTEREST RATE RISK

See Note 32.

NOTE 23: **OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS**

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

(in HUF mn)

	2004	**2003**
Commitments to extend credit	464,843	414,543
Guarantees arising from banking activities	98,514	65,727
Confirmed letters of credit	3,094	983
Legal disputes	2,567	2,893
Others	113	2,263
Total	**569,131**	**486,409**

COMMITMENTS TO EXTEND CREDIT, FROM 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 loans 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 correspond 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.

b) DERIVATIVES AND OTHER OPTIONS (nominal amount, unless otherwise stated)

	2004	*(in HUF mn)* 2003
Foreign currency contracts		
Assets	35,946	57,763
Liabilities	(38,672)	(59,244)
Net	**(2,726)**	**(1,481)**
Net fair value	**(3,636)**	**(189)**
Foreign exchange swaps and interest rate swaps		
Assets	305,950	231,222
Liabilities	(309,839)	(217,210)
Net	**(3,889)**	**14,012**
Net fair value	**18,413**	**14,713**
Option contracts		
Assets	2,205	20,029
Liabilities	–	(18,184)
Net	**2,205**	**1,845**
Net fair value	**2,205**	**1,755**
Other options		
Assets	6,834	5,373
Liabilities	(704)	(772)
Net	**6,130**	**4,601**
Net fair value	**6,130**	**4,601**
Forward rate agreements		
Assets	–	–
Liabilities	–	(1)
Net	**–**	**(1)**
Net fair value	**–**	**(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 of trading with clients, where the Group in most of the cases requires margin deposits.

As at December 31, 2004, the Group has derivative instruments with positive fair values of HUF 4,134 million and negative fair values of HUF 3,187 million. Positive fair values of derivative instruments are included in other assets, while negative fair values of derivative instruments are included in other liabilities. Corresponding figures as at December 31, 2003 are HUF 1,993 million and HUF 90 million.

FOREIGN CURRENCY CONTRACTS

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

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

FOREIGN EXCHANGE SWAPS AND INTEREST RATE SWAPS

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

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. 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 counter-parties. The Group's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

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.

For an analysis of the allowance for possible losses on off balance sheet commitments and contingent liabilities, see Note 14.

NOTE 24: **RELATED PARTY TRANSACTIONS**

The members of the Board of Directors and the Supervisory Board had credit lines of HUF 194 million and HUF 139 million as at December 31, 2004 and 2003. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other related parties at normal market conditions. The amount of these loans was HUF 294 million and HUF 1,700 million, with commitments to extend credit and guarantees of HUF 126 million and HUF 135 million as at December 31, 2004 and 2003, respectively.

The amount of loans extended to unconsolidated subsidiaries is HUF 16,991 million as at December 31, 2004 and HUF 5,399 million as at December 31, 2003.

NOTE 25: **CASH AND CASH EQUIVALENTS**

	2004	***(in HUF mn)*** **2003**
Cash, due from banks and balances with the National Bank of Hungary	465,887	276,501
Compulsory reserve established by the National Bank of Hungary	(110,214)	(111,841)
	355,673	**164,660**

NOTE 26: **CASH-FLOW STATEMENT**

a) PURCHASE AND CONSOLIDATION OF SUBSIDIARY UNDERTAKINGS

On October 1, 2003 the Bank completed the acquisition of 100% of the shares of DSK Bank EAD, a leading universal bank in Bulgaria. The purchase price of DSK Bank EAD of EUR 311 million was provided in cash.

On July 30, 2004 the Bank completed the acquisition of 100% of the shares of Robank SA, a Romanian bank. The purchase price of Robank SA of USD 47.5 million was provided in cash.

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

(in HUF mn)	2004	2003
Cash, due from banks, and balances with the National Bank	(326)	(11,405)
Placements with other banks, net of allowance for possible placement losses	(14,046)	(56,985)
Securities held-for-trading and available-for-sale	(214)	(51,842)
Loans, net of allowance for possible loan losses	(17,856)	(148,372)
Accrued interest receivable	(225)	(2,756)
Equity investment	(35)	(734)
Debt securities held-to-maturity	(375)	(17,039)
Premises, equipment and intangible assets	(1,705)	(19,047)
Other assets	(1,011)	(1,026)
Due to banks and deposits from the National Bank and other banks	5,469	83
Deposits from customers	25,001	260,817
Accrued interest payable	376	2,383
Other liabilities	106	4,824
Minority interest	–	12
	(4,841)	*(41,087)*
Goodwill	(4,926)	(38,226)
Cash consideration	**(9,767)**	**(79,313)**

b) ANALYSIS OF NET OUTFLOW OF CASH IN RESPECT OF PURCHASE OF SUBSIDIARIES

(in HUF mn)	2004	2003
Cash consideration	(9,767)	(79,313)
Cash acquired	326	11,405
Net cash outflow	**(9,441)**	**(67,908)**

NOTE 27: **MAJOR SUBSIDIARIES**

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

Name	Ownership (Direct and Indirect) 2004	2003	Activity
OTP Garancia Insurance Ltd.	100.00%	100.00%	insurance
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
OTP Real Estate Management Ltd.	100.00%	100.00%	real estate management
HIF Ltd. (United Kingdom)	100.00%	100.00%	forfeiting
Merkantil Bank Ltd.	100.00%	100.00%	financing car purchases
Merkantil Car Ltd.	100.00%	100.00%	financing car purchases, leasing
OTP Building Society Ltd.	100.00%	100.00%	financing flat purchase and reconstruction
Bank Center No. 1. LLC	100.00%	100.00%	letting real estates
OTP Factoring Ltd.	100.00%	100.00%	work-out
Inga Companies	100.00%	100.00%	property management
OTP Fund Management Ltd.	100.00%	100.00%	fund management
OTP Mortgage Bank Company Ltd.	100.00%	100.00%	mortgage lending
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Banka Slovensko, a. s. (Slovakia)	97.23%	97.10%	commercial banking services
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
Robank SA (Romania)	100.00%	–	commercial banking services

NOTE 28: **TRUST ACTIVITIES**

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying Consolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 47,301 million and HUF 46,187 million as at December 31, 2004 and 2003, respectively.

NOTE 29: **CONCENTRATION OF ASSETS AND LIABILITIES**

Approximately 22.5% and 21.8% of the Group's total assets consist of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary as at December 31, 2004 and 2003, respectively.

NOTE 30: **NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK**

As at December 31, 2004

(in HUF mn)

	USD	EUR	Others	Total
Assets	121,154	421,323	623,386	1,165,863
Liabilities	(115,360)	(417,814)	(567,746)	(1,100,920)
Off-balance sheet assets and liabilities, net	(16,449)	286	(30,990)	(47,153)
Net position	**(10,655)**	**3,795**	**24,650**	**17,790**

As at December 31, 2003

(in HUF mn)

	USD	EUR	Others	Total
Assets	110,933	300,078	411,599	822,610
Liabilities	(125,574)	(287,008)	(394,605)	(807,187)
Off-balance sheet assets and liabilities, net	18,097	(93,515)	(121,109)	(196,527)
Net position	**3,456**	**(80,445)**	**(104,115)**	**(181,104)**

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

NOTE 31: **MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK**

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 laid down by the National Bank of Hungary. The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at December 31, 2004

(in HUF mn)

	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	465,887	–	–	–	465,887
Placements with other banks, net of allowance for possible placement losses	258,986	17,147	9,755	312	286,200
Securities held-for-trading and available-for-sale	58,143	72,175	168,416	64,359	363,093
Loans, net of allowance for possible loan losses	221,991	406,757	1,022,698	855,349	2,506,795
Accrued interest receivable	27,677	2,738	622	363	31,400
Equity investments	–	–	–	9,389	9,389
Debt securities held-to-maturity	1,577	63,378	113,186	69,118	247,259
Premises, equipment and intangible assets, net	(2,719)	1,056	45,670	130,768	174,775
Other assets	44,825	17,706	14,311	719	77,561
Total Assets	**1,076,367**	**580,957**	**1,374,658**	**1,130,377**	**4,162,359**

(continued)	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	*(in HUF mn)* Total
Due to banks and deposits from the National Bank of Hungary and other banks	76,319	61,340	98,175	18,291	254,125
Deposits from customers	2,619,350	220,945	55,693	6,202	2,902,190
Liabilities from issued securities	24,780	42,159	42,222	208,061	317,222
Accrued interest payable	15,451	8,574	2,891	99	27,015
Other liabilities	104,237	10,131	30,624	68,806	213,798
Subordinated bonds and loans	–	–	9,324	5,000	14,324
TOTAL LIABILITIES	**2,840,137**	**343,149**	**238,929**	**306,459**	**3,728,674**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	431,127	431,127
Treasury shares	(327)	(14,659)	(1,300)	(9,581)	(25,867)
TOTAL SHAREHOLDERS' EQUITY	**(327)**	**(14,659)**	**(1,300)**	**449,546**	**433,260**
MINORITY INTEREST	**–**	**–**	**–**	**425**	**425**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,839,810**	**328,490**	**237,629**	**756,430**	**4,162,359**
LIQUIDITY (DEFICIENCY)/EXCESS	**(1,763,443)**	**252,467**	**1,137,029**	**373,947**	**–**

As at December 31, 2003

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	*(in HUF mn)* Total
Cash, due from banks and balances with the National Bank of Hungary	276,501	–	–	–	276,501
Placements with other banks, net of allowance for possible placement losses	234,145	7,879	9,874	437	252,335
Securities held-for-trading and available-for-sale	63,994	70,756	176,078	66,188	377,016
Loans, net of allowance for possible loan losses	93,074	363,600	780,960	744,953	1,982,587
Accrued interest receivable	22,761	4,813	1,563	3,295	32,432
Equity investments	–	–	–	5,878	5,878
Debt securities held-to-maturity	24,821	44,069	149,314	81,568	299,772
Premises, equipment and intangible assets, net	2,135	6,892	53,320	104,990	167,337
Other assets	25,438	20,435	19,392	1,716	66,981
TOTAL ASSETS	**742,869**	**518,444**	**1,190,501**	**1,009,025**	**3,460,839**
Due to banks and deposits from the National Bank of Hungary and other banks	26,909	30,533	66,217	2,743	126,402
Deposits from customers	2,239,798	383,401	63,017	3,617	2,689,833
Liabilities from issued securities	6,505	16,655	32,845	68,882	124,887
Accrued interest payable	9,352	4,613	2,382	48	16,395
Other liabilities	75,902	13,548	24,100	62,127	175,677
Subordinated bonds and loans	–	–	10,413	5,000	15,413
TOTAL LIABILITIES	**2,358,466**	**448,750**	**198,974**	**142,417**	**3,148,607**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	309,220	309,220
Treasury shares	–	(25,420)	–	–	(25,420)
TOTAL SHAREHOLDERS' EQUITY	**–**	**(25,420)**	**–**	**337,220**	**311,800**
MINORITY INTEREST	**–**	**–**	**–**	**432**	**432**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,358,466**	**423,330**	**198,974**	**480,069**	**3,460,839**
LIQUIDITY (DEFICIENCY)/EXCESS	**(1,615,597)**	**95,114**	**991,527**	**528,956**	**–**

NOTE 32: **INTEREST RATE RISK MANAGEMENT**

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

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

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

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

As at December 31, 2004 (in HUF mn)

ASSETS	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 year		Over 2 years		Non-interest-bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Cash, due from banks and balances with the National Bank of Hungary	**390,087**	**1,021**	**353**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**53,191**	**21,235**	**443,631**	**22,256**	**465,887**
Fixed rate	383,007	944	–	–	–	–	–	–	–	–	–	–	383,007	944	383,951
Variable rate	7,080	77	353	–	–	–	–	–	–	–	–	–	7,433	77	7,510
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	53,191	21,235	53,191	21,235	74,426
Placements with other banks, net of allowance for possible placement losses	**121,879**	**101,553**	**800**	**16,873**	**200**	**10,035**	**–**	**7**	**24**	**–**	**3,962**	**30,867**	**126,865**	**159,335**	**286,200**
Fixed rate	119,108	97,140	500	5,066	200	4,802	–	7	24	–	–	–	119,832	107,015	226,847
Variable rate	2,771	4,413	300	11,807	–	5,233	–	–	–	–	–	–	3,071	21,453	24,524
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3,962	30,867	3,962	30,867	34,829
Securities held-for-trading and available-for-sale	**30,390**	**17,365**	**64,142**	**11,473**	**68,195**	**5,162**	**28,037**	**3,870**	**76,127**	**39,017**	**18,076**	**1,239**	**284,967**	**78,126**	**363,093**
Fixed rate	7,471	–	47,742	1,772	67,790	2,458	28,037	3,870	76,127	39,017	–	–	227,167	47,117	274,284
Variable rate	22,919	17,365	16,400	9,701	405	2,704	–	–	–	–	–	–	39,724	29,770	69,494
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	18,076	1,239	18,076	1,239	19,315
Loans	**552,944**	**495,624**	**394,328**	**305,704**	**32,782**	**37,767**	**33,079**	**7,686**	**628,101**	**12,382**	**1,640**	**4,758**	**1,642,874**	**863,921**	**2,506,795**
Fixed rate	7,653	8,972	17,508	6,356	4,713	13,455	4,962	4,069	12,165	10,286	–	–	47,001	43,138	90,139
Variable rate	545,291	486,652	376,820	299,348	28,069	24,312	28,117	3,617	615,936	2,096	–	–	1,594,233	816,025	2,410,258
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,640	4,758	1,640	4,758	6,398
Debt securities held-to-maturity	**24,187**	**811**	**75,795**	**190**	**53,130**	**1,832**	**26,167**	**3,718**	**39,490**	**21,939**	**–**	**–**	**218,769**	**28,490**	**247,259**
Fixed rate	499	53	–	190	42,340	1,519	26,167	3,718	39,490	21,907	–	–	108,496	27,387	135,883
Variable rate	23,688	758	75,795	–	10,790	313	–	–	–	32	–	–	110,273	1,103	111,376
Fair value of derivative financial instruments in other assets	**74,029**	**26,963**	**70,431**	**17,475**	**53,073**	**19,693**	**24,000**	**3,935**	**29,261**	**6,099**	**–**	**–**	**250,794**	**74,165**	**324,959**
Fixed rate	53,729	26,963	255	17,475	14,312	18,709	24,000	3,935	29,261	6,099	–	–	121,557	73,181	194,738
Variable rate	20,300	–	70,176	–	38,761	984	–	–	–	–	–	–	129,237	984	130,221

LIABILITIES	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 year		Over 2 years		Non-interest-bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Due to banks and deposits from the National Bank of Hungary and other banks	**16,356**	**151,394**	**3,460**	**62,873**	**6,679**	**6,944**	**–**	**3,351**	**–**	**2,024**	**480**	**564**	**26,975**	**227,150**	**254,125**
Fixed rate	14,486	51,530	–	9,198	72	3,339	–	337	–	2,024	–	–	14,558	66,428	80,986
Variable rate	1,870	99,864	3,460	53,675	6,607	3,605	–	3,014	–	–	–	–	11,937	160,158	172,095
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	480	564	480	564	1,044
Deposits from customers	**1,735,862**	**680,874**	**345,501**	**41,204**	**12,552**	**42,108**	**11,533**	**518**	**26,098**	**126**	**296**	**5,518**	**2,131,842**	**770,348**	**2,902,190**
Fixed rate	538,670	213,563	345,501	41,204	12,552	42,108	11,533	518	26,098	126	–	–	934,354	297,519	1,231,873
Variable rate	1,197,192	467,311	–	–	–	–	–	–	–	–	–	–	1,197,192	467,311	1,664,503
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	296	5,518	296	5,518	5,814
Liabilities from issued securities	**13,030**	**1,205**	**42,435**	**127**	**38,295**	**210**	**–**	**52**	**153,987**	**67,708**	**95**	**78**	**247,842**	**69,380**	**317,222**
Fixed rate	263	1,205	20,627	127	38,193	210	–	52	153,987	67,708	–	–	213,070	69,302	282,372
Variable rate	12,767	–	21,808	–	102	–	–	–	–	–	–	–	34,677	–	34,677
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	95	78	95	78	173
Fair value of derivative financial instruments in other liabilities	**13,087**	**87,629**	**29,353**	**67,794**	**58,173**	**18,559**	**5,000**	**3,935**	**31,761**	**7,133**	**–**	**1**	**137,374**	**185,051**	**322,425**
Fixed rate	1,587	79,662	3,353	17,430	28,412	18,559	5,000	3,935	31,761	7,133	–	–	70,113	126,719	196,832
Variable rate	11,500	7,967	26,000	50,364	29,761	–	–	–	–	–	–	–	67,261	58,331	125,592
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	1	–	1	1
Subordinated bonds and loans	**–**	**–**	**–**	**–**	**5,000**	**9,324**	**–**	**–**	**–**	**–**	**–**	**–**	**5,000**	**9,324**	**14,324**
Variable rate	–	–	–	–	5,000	9,324	–	–	–	–	–	–	5,000	9,324	14,324
Net position	**(584,819)**	**(277,765)**	**185,100**	**179,717**	**86,681**	**(2,656)**	**94,750**	**11,360**	**561,157**	**2,446**	**75,998**	**51,938**	**418,867**	**(34,960)**	**383,907**

As at December 31, 2003 (in HUF mn)

ASSETS	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 year		Over 2 years		Non-interest-bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Cash, due from banks and balances with the National Bank of Hungary	**195,058**	**3,979**	**481**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**55,004**	**21,979**	**250,543**	**25,958**	**276,501**
Fixed rate	195,004	3,875	–	–	–	–	–	–	–	–	–	–	195,004	3,875	198,879
Variable rate	54	104	481	–	–	–	–	–	–	–	–	–	535	104	639
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	55,004	21,979	55,004	21,979	76,983
Placements with other banks, net of allowance for possible placement losses	**92,972**	**121,031**	**2,500**	**8,130**	**2,500**	**4,913**	**–**	**–**	**24**	**–**	**3,901**	**16,364**	**101,897**	**150,438**	**252,335**
Fixed rate	89,972	116,862	2,500	3,325	2,500	–	–	–	24	–	–	–	94,996	120,187	215,183
Variable rate	3,000	4,169	–	4,805	–	4,913	–	–	–	–	–	–	3,000	13,887	16,887
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3,901	16,364	3,901	16,364	20,265
Securities held for trading and available-for-sale	**25,933**	**5,130**	**48,751**	**14,540**	**61,112**	**17,045**	**40,292**	**6,588**	**93,575**	**44,030**	**17,689**	**2,331**	**287,352**	**89,664**	**377,016**
Fixed rate	3,218	1,370	31,498	2,577	60,098	2,688	40,292	6,588	93,575	44,030	–	–	228,681	57,253	285,934
Variable rate	22,715	3,760	17,253	11,963	1,014	14,357	–	–	–	–	–	–	40,982	30,080	71,062
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	17,689	2,331	17,689	2,331	20,020
Loans	**741,583**	**374,414**	**154,269**	**142,550**	**34,258**	**31,417**	**25,970**	**3,752**	**462,898**	**8,252**	**2,229**	**995**	**1,421,207**	**561,380**	**1,982,587**
Fixed rate	14,022	2,119	3,813	907	5,029	6,083	5,482	1,700	44,835	4,545	–	–	73,181	15,354	88,535
Variable rate	727,561	372,295	150,456	141,643	29,229	25,334	20,488	2,052	418,063	3,707	–	–	1,345,797	545,031	1,890,828
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	2,229	995	2,229	995	3,224
Debt securities held-to-maturity	**22,697**	**2,272**	**103,867**	**–**	**51,083**	**662**	**36,672**	**2,065**	**65,640**	**14,348**	**–**	**466**	**279,959**	**19,813**	**299,772**
Fixed rate	–	–	766	–	39,798	571	36,672	2,065	65,640	14,348	–	–	142,876	16,984	159,860
Variable rate	22,697	2,272	103,101	–	11,285	91	–	–	–	–	–	–	137,083	2,363	139,446
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	466	–	466	466
Fair value of derivative financial instruments in other assets	**43,526**	**50,501**	**112,327**	**16,869**	**45,652**	**25,189**	**10,805**	**7,567**	**43,314**	**3,893**	**–**	**3**	**255,624**	**104,022**	**359,646**
Fixed rate	23,569	50,501	46,725	15,118	5,288	25,189	10,805	7,567	43,314	3,893	–	–	129,701	102,268	231,969
Variable rate	19,957	–	65,602	1,751	40,364	–	–	–	–	–	–	–	125,923	1,751	127,674
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	3	–	3	3

LIABILITIES	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 year		Over 2 years		Non-interest-bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Due to banks and deposits from the National Bank of Hungary and other banks	**8,815**	**59,451**	**–**	**28,190**	**–**	**16,739**	**6**	**7,435**	**1,198**	**2,363**	**665**	**1,540**	**10,684**	**115,718**	**126,402**
Fixed rate	2,807	20,232	–	8,421	–	9,298	6	6,129	1,198	281	–	–	4,011	44,361	48,372
Variable rate	6,008	39,219	–	19,769	–	7,441	–	1,306	–	2,082	–	–	6,008	69,817	75,825
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	665	1,540	665	1,540	2,205
Deposits from customers	**1,769,174**	**399,843**	**217,867**	**217,323**	**14,613**	**39,239**	**9,075**	**1,543**	**16,753**	**13**	**3**	**4,387**	**2,027,485**	**662,348**	**2,689,833**
Fixed rate	364,763	127,753	217,867	217,323	14,613	39,239	9,075	1,543	16,753	13	–	–	623,071	385,871	1,008,942
Variable rate	1,404,411	272,090	–	–	–	–	–	–	–	–	–	–	1,404,411	272,090	1,676,501
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3	4,387	3	4,387	4,390
Liabilities from issued securities	**16,879**	**249**	**25,562**	**1,018**	**10,467**	**828**	**1,801**	**97**	**64,698**	**3,187**	**101**	**–**	**119,508**	**5,379**	**124,887**
Fixed rate	609	249	761	1,018	10,467	828	1,801	97	64,698	3,187	–	–	78,336	5,379	83,715
Variable rate	16,270	–	24,801	–	–	–	–	–	–	–	–	–	41,071	–	41,071
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	101	–	101	–	101
Fair value of derivative financial instruments in other liabilities	**14,301**	**85,576**	**23,510**	**90,428**	**56,382**	**6,696**	**41,579**	**–**	**42,766**	**–**	**–**	**–**	**178,538**	**182,700**	**361,238**
Fixed rate	8,054	67,063	5,102	59,384	24,026	6,696	41,579	–	42,766	–	–	–	121,527	133,143	254,670
Variable rate	6,247	18,513	18,408	31,044	32,356	–	–	–	–	–	–	–	57,011	49,557	106,568
Subordinated bonds and loans	**–**	**–**	**–**	**–**	**5,000**	**10,413**	**–**	**–**	**–**	**–**	**–**	**–**	**5,000**	**10,413**	**15,413**
Variable rate	–	–	–	–	5,000	10,413	–	–	–	–	–	–	5,000	10,413	15,413
Net position	**(687,400)**	**12,208**	**155,256**	**(154,870)**	**108,143**	**5,311**	**61,278**	**10,897**	**540,036**	**64,960**	**78,054**	**36,211**	**255,367**	**(25,283)**	**230,084**

NOTE 33: **EARNINGS PER SHARE**

Consolidated Earnings per share attributable to the Group's common shares are determined based on dividing consolidated income after income taxes for the year attributable to common shareholders, by the weighted average number of common shares outstanding during the period.

	2004	2003
Consolidated net income after income taxes (in HUF mn)	140,832	83,336
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	262,425,151	260,408,048
Consolidated Basic Earnings per share (in HUF)	**537**	**320**
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	263,565,631	261,463,569
Consolidated Diluted Earnings per share (in HUF)	**534**	**319**

The weighted average number of common shares outstanding during the period does not include treasury shares.

Diluted Earnings per share are determined after additionally taking into consideration the optional rights granted to Senior Management of OTP Bank.

NOTE 34: **SEGMENT REPORTING**

34.1. PRIMARY REPORTING FORMAT BY GEOGRAPHICAL SEGMENTS

	Hungary	Other European Union	Other countries	Elimination	*(in HUF mn)* Consolidated
Interest income					
External	*389,637*	*10,569*	*33,472*	*–*	*433,678*
Inter-segment	*84*	*22*	*–*	*(106)*	*–*
Total	389,721	10,591	33,472	(106)	433,678
Interest income and non-interest income					
External	*543,280*	*13,524*	*46,947*	*–*	*603,751*
Inter-segment	*84*	*172*	*–*	*(256)*	*–*
Total	543,364	13,696	46,947	(256)	603,751
Segment income before income taxes	159,972	821	5,883	–	166,676
Income taxes	–	–	–	–	(25,844)
Net income after income taxes	–	–	–	–	140,832
Segment assets	3,470,454	224,153	488,310	(21,996)	4,160,921
Unallocated corporate assets	–	–	–	–	1,438
Consolidated total assets	–	–	–	–	4,162,359
Segment liabilities	3,140,493	210,182	390,596	(21,996)	3,719,275
Unallocated corporate liabilities	–	–	–	–	9,399
Consolidated total liabilities	–	–	–	–	3,728,674

	Hungary	Other European Union	Other Countries	*(in HUF mn)* Consolidated
Capital expenditure	35,823	1,276	3,406	40,505
Depreciation	16,971	775	11,404	29,150
Provision for possible loan and placement losses	11,020	(242)	5,270	16,048

34.2. SECONDARY SEGMENT INFORMATION BY BUSINESS SEGMENTS

(in HUF mn)

	Banking segment	Insurance segment
External segment income	527,984	61,499
Segment income before income taxes	162,925	5,770
Segment assets	4,050,366	118,391
Capital expenditure	38,733	65

NOTE 35: **IMPLEMENTATION OF NEW ACCOUNTING STANDARDS**

During 2004 there have been many changes relating to future IFRS. The revised standards should be applied for annual periods beginning after January 1, 2005.

The effect of changes to IAS 39, the introduction of IFRS 2 and the transitional provisions of IFRS 3 will effect the consolidated financial statements of the Bank from January 1, 2005.

35.1. IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

The revised IAS 39 standard, which is effective after January 1, 2005 will change the category held-for-trading instruments by introducing a new category „a financial asset at fair value through profit or loss". In this category could be classified the previous held-for-trading assets and other instruments upon initial recognition it is designated by the Group as at fair value through profit or loss.

Previously changes in the fair value of available-for-sale assets could be recognised in the profit/loss or directly in the equity. Effective from January 1, 2005 unrealised gains and losses on available-for-sale financial instruments shall be 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 in the profit and loss for the applicable period.

A summary of the effects of the introduction of IAS 39 Revised, as if it had been introduced on January 1, 2004 is as follows:

(in HUF mn)

	2004	Restated 2004 due to IAS 39 Revised
Fair value adjustment of available-for-sale securities recognized in profit and loss	8,507	–
Deferred tax effect	(1,337)	–
Contribution to net income	7,170	–
Net income after income taxes	**140,832**	**133,662**
Fair value adjustment of available-for-sale securities recognized in equity	–	8,507
Deferred tax effect	–	(1,337)
Contribution to shareholders' equity	–	7,170
Total shareholders' equity	**433,260**	**433,260**

35.2. IFRS 2 SHARE BASED PAYMENTS

For equity settled share based compensation, under IFRS 2 the Bank is required to measure the fair value of services received, based on the fair value of the equity instrument granted, and to recognise such expense in the consolidated financial statements. IFRS 2 will be adopted from January 1, 2005 retrospectively, in respect of options which have a grant date later than November 7, 2002.

The Annual General Meeting of the year of 2000 approved a five year share option and bonus program for the years 2000 to 2004 which are granted on an annual basis. For the options after the year 2003 and 2004, which are under the scope of IFRS 2, the grant date is December 31, 2002.

If IFRS 2 had been applied in 2004, the net income for the year would have been lower by HUF 2,348 million. As an opening adjustment at January 1, 2005, HUF 4,433 million will be reclassified within retained earnings and reserves.

35.3. IFRS 3 BUSINESS COMBINATIONS

The Group has applied IFRS 3 Business Combinations from March 31, 2004 for new acquisitions. Effective from January 1, 2005 the Group will for all the subsidiaries:

– discontinue amortising goodwill and the amount of goodwill net of accumulated amortization will become the carrying amount;
– test the goodwill for impairment in accordance with IAS 36 Impairment of Assets;
– negative goodwill shall be derecognised with a corresponding adjustment to the opening balance of retained earnings

The most significant item is the goodwill acquired through the acquisition of DSK Bank EAD, the related balances in HUF million as of December 31, 2004 are the following:

Cost	38,076
Accumulated amortization	(9,535)
Net book value	28,541
Amortization for the year 2004	7,615

Negative goodwill was acquired through the acquisition of OTP Banka Slovensko, a.s. the related balances in HUF million as of December 31, 2004 are the following:

Cost	4,204
Accumulated amortization	(1,170)
Net book value	3,034
Amortization for the year 2004	130

As of January 1, 2005 derecognition of negative goodwill will increase the opening balance of retained earnings and reserves by 3,034 million HUF.

NOTE 36: **POST BALANCE SHEET EVENTS**

On November 24, 2004 the Bank made a binding bid for purchasing the shares of Nova Banka d. d. (Nova Banka), registered in Croatia. The purchase agreement was signed on December 7, 2004 with a price of EUR 236 million. After obtaining necessary approvals, the transaction was closed on March 10, 2005. As at December 31, 2004 the total assets of Nova Banka is 256,017 million HUF and the shareholder’s equity is 23,701 million HUF.

The Bank issued EUR 125 million floating subordinated notes due March 2015 on March 4, 2005.

The 2004 financial statements do not include any adjustments for these matters in accordance with IFRS.

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INDEPENDENT AUDITORS' OPINION

To the Shareholders and Board of Directors of National Savings and Commercial Bank Ltd.

We have audited the accompanying unconsolidated balance sheets of National Savings and Commercial Bank Ltd. ("the Bank") as at December 31, 2004 and 2003, and the related unconsolidated statements of operations, cash flows and changes in shareholders' equity for the years then ended, included on pages 108 to 134 of this Annual Report. These unconsolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these unconsolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Consolidated financial statements have not been presented at the date of this report, as required by International Accounting Standard No. 27. We draw attention to Notes 2.3 and 2.7 to the unconsolidated financial statements, which explain why consolidated financial statements have not been presented and the method of accounting for unconsolidated subsidiaries, respectively.

In our opinion, except for the effects on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at December 31, 2004 and 2003, and the unconsolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended in accordance with International Financial Reporting Standards.

Budapest, March 11, 2005

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BALANCE SHEET

(unconsolidated, based on IFRS, in HUF mn)

	Dec 31, 2004	Dec 31, 2003
Cash, due from banks and balances with the National Bank of Hungary	399,401	252,975
Placements with other banks, net of allowance for possible placement losses	200,100	165,209
Securities held-for-trading and available-for-sale	342,888	312,395
Loans, net of allowance for possible loan losses	1,276,241	1,070,425
Accrued interest receivable	41,180	31,792
Investments in subsidiaries	154,298	138,808
Securities held-to-maturity	507,503	625,309
Premises, equipment and intangible assets, net	96,538	86,400
Other assets	36,326	48,315
TOTAL ASSETS	**3,054,475**	**2,731,628**
Due to banks and deposits from the National Bank of Hungary and other banks	203,777	91,081
Deposits from customers	2,340,924	2,264,528
Liabilities from issued securities	1,997	2,039
Accrued interest payable	9,414	7,895
Other liabilities	94,987	74,496
Subordinated bonds and loans	14,324	15,413
TOTAL LIABILITIES	**2,665,423**	**2,455,452**
Share capital	28,000	28,000
Retained earnings and reserves	374,860	262,504
Treasury shares	(13,808)	(14,328)
TOTAL SHAREHOLDERS' EQUITY	**389,052**	**276,176**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,054,475**	**2,731,628**

The accompanying notes to unconsolidated financial statements on pages 112 to 134 form an integral part of these unconsolidated financial statements.

PROFIT AND LOSS ACCOUNT

(unconsolidated, based on IFRS, for the year ended December 31, 2004 in HUF mn)

	2004	2003
INTEREST INCOME		
Loans	136,968	103,415
Placements with other banks	40,634	20,350
Due from banks and balances with the National Bank of Hungary	30,872	17,148
Securities held-for-trading or available-for-sale	29,258	19,553
Securities held-to-maturity	53,203	43,779
TOTAL INTEREST INCOME	*290,935*	*204,245*
INTEREST EXPENSE		
Due to banks and deposits from the National Bank of Hungary and other banks	19,699	16,508
Deposits from customers	119,116	75,311
Liabilities from issued securities	167	169
Subordinated bonds and loans	870	748
TOTAL INTEREST EXPENSE	*139,852*	*92,736*
NET INTEREST INCOME	**151,083**	**111,509**
Provision for possible loan and placement losses	8,628	7,053
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES	**142,455**	**104,456**
NON-INTEREST INCOME		
Fees and commissions	113,299	95,850
Foreign exchange gains, net	914	5,903
Gains/(losses) on securities, net	14,618	(8,909)
Losses on real estate transactions, net	(103)	(35)
Dividend income	8,500	7,691
Other	2,654	3,266
TOTAL NON-INTEREST INCOME	*139,882*	*103,766*
NON-INTEREST EXPENSES		
Fees and commissions	9,692	11,067
Personnel expenses	51,994	43,555
Depreciation and amortization	13,401	12,745
Other	59,006	56,327
TOTAL NON-INTEREST EXPENSE	*134,093*	*123,694*
INCOME BEFORE INCOME TAXES	**148,244**	**84,528**
Income taxes	21,048	14,387
NET INCOME AFTER INCOME TAXES	**127,196**	**70,141**
Earnings per share (in HUF)		
Basic	471	261
Diluted	469	260

The accompanying notes to unconsolidated financial statements on pages 112 to 134 form an integral part of these unconsolidated financial statements.

STATEMENT OF CASH FLOW

(unconsolidated, based on IFRS, for the year ended December 31, 2004 in HUF mn)

	2004	2003
OPERATING ACTIVITIES		
Income before income taxes	148,244	84,528
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Income tax paid	(19,508)	(15,817)
Depreciation and amortization	13,401	12,745
Provision for possible loan and placement losses	8,628	7,053
Release of provision for permanent diminution in value of investments in subsidiaries	(253)	(111)
Release of provision for possible losses of other assets	(1,314)	(205)
Provision for possible losses on off-balance sheet commitments and contingent liabilities, net	901	3,705
Unrealised (gains)/losses on fair value adjustment of securities held-for-trading and available-for-sale	(14,609)	8,454
Unrealised (gains)/losses on fair value adjustment of derivative financial instruments	(635)	2,889
Changes in operating assets and liabilities:		
Net increase in accrued interest receivable	(9,388)	(8,385)
Net decrease in other assets, excluding advances for investments and before provisions for possible losses	15,393	4,372
Net increase in accrued interest payable	1,519	416
Net increase in other liabilities	16,585	6,387
Net cash provided by operating activities	**158,964**	**106,031**
INVESTING ACTIVITIES		
Net (increase)/decrease in placements with other banks, before provision for possible placement losses	(34,710)	112,399
Net increase in securities held-for-trading or available-for-sale before unrealised gains/lower of cost and market adjustment	(15,884)	(116,441)
Net increase in investments in subsidiaries, before provision for permanent diminution in value	(15,237)	(89,809)
Net decrease/increase in securities held-to-maturity	117,806	(263,264)
Net decrease/increase in advances for investments included in other assets	33	(53)
Net increase in loans, before provision for possible loan losses	(214,625)	(82,465)
Net additions to premises, equipment and intangible assets	(23,539)	(27,840)
Net cash used in investing activities	**(186,156)**	**(467,473)**

	2004	2003
FINANCING ACTIVITIES		
Net increase in due to banks and deposits from the National Bank of Hungary and other banks	112,696	44,680
Net increase in deposits from customers	76,396	218,875
Net decrease in liabilities from issued securities	(42)	(15)
Decrease in subordinated bonds and loans	(1,089)	(98)
Net change in treasury shares	2,480	2,560
Net decrease/(increase) in the compulsory reserve established by the National Bank of Hungary	3,816	(16,465)
Dividends paid	(16,823)	(9)
Net cash provided by financing activities	**177,434**	**249,528**
Net increase/(decrease) in cash and cash equivalents	**150,242**	**(111,914)**
Cash and cash equivalents at the beginning of the period	***143,443***	***255,357***
Cash and cash equivalents at the end of the period	***293,685***	***143,443***
Analysis of cash and cash equivalents		
Cash, due from banks and balances with the National Bank of Hungary	252,975	348,424
Compulsory reserve established by the National Bank of Hungary	(109,532)	(93,067)
Cash and cash equivalents at the beginning of the period	**143,443**	**255,357**
Cash, due from banks and balances with the National Bank of Hungary	399,401	252,975
Compulsory reserve established by the National Bank of Hungary	(105,716)	(109,532)
Cash and cash equivalents at the end of the period	**293,685**	**143,443**

The accompanying notes to unconsolidated financial statements on pages 112 to 134 form an integral part of these unconsolidated financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(unconsolidated, based on IFRS, for the year ended December 31, 2004 in HUF mn)

	Share Capital	Retained Earnings and Reserves	Treasury Share	Total
Balance as at January 1, 2003	**28,000**	**192,358**	**(16,883)**	**203,475**
Net income after income taxes	–	70,141	–	70,141
Gain on sale of treasury shares	–	5	–	5
Change in carrying value of treasury shares	–	–	2,555	2,555
Balance as at December 31, 2003	**28,000**	**262,504**	**(14,328)**	**276,176**
Net income after income taxes	–	127,196	–	127,196
Dividend for the year 2003	–	(16,800)	–	(16,800)
Gain on sale of treasury shares	–	1,960	–	1,960
Change in carrying value of treasury shares	–	–	520	520
Balance as at December 31, 2004	**28,000**	**374,860**	**(13,808)**	**389,052**

The accompanying notes to unconsolidated financial statements on pages 112 to 134 form an integral part of these unconsolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

(unconsolidated, based on IFRS)

NOTE 1: **ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS**

1.1. GENERAL

National Savings and Commercial Bank Ltd. (the “Bank” or “OTP”) was established on December 31, 1990, when the predecessor State-owned company was transformed into a limited liability company. The Bank’s registered office address is 16, Nador street, Budapest 1051.

As at December 31, 1994, 79% of the Bank's shares were held directly or indirectly by the Hungarian Government and the remaining 21% were held by domestic investors or represented as own shares (less than 3%). In spring 1995, the Hungarian Government transferred 20% of the Bank’s shares to the Hungarian Social Security Funds. Subsequent to the successful initial public offering in summer 1995, the Bank's shares were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London and PORTAL (USA).

At an extraordinary General Assembly on September 3, 1997, the Bank issued a preferential voting share with a nominal value of HUF 1 thousand (the “Special Share”) to the State Privatization and Holding Company. The Special Share gives the power to the State Privatization and Holding Company to control the outcome of certain shareholder votes in accordance with the Bank's Articles of Association and the right to delegate one member to the Bank’s Board of Directors and one member to the Supervisory Board of the Bank.

By public offerings in fall 1997 and fall 1999, the State Privatization and Holding Company sold the remaining common shares.

The Annual General Meeting on April 25, 2001 approved the conversion of HUF 1,150 million nominal value preference shares issued by the Bank to common shares.

In the first quarter of the year of 2002 the nominal value of the common shares of the Bank decreased from HUF 1,000 to HUF 100 per share.

As at December 31, 2004 approximately 90.3% of the Bank’s shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (3.3%) and the Bank (6.4%).

The Bank provides a full range of commercial banking services through a nationwide network of 377 branches in Hungary.

As at December 31, 2004 the number of employees at the Bank was 7,894. The average number of employees for the year ended December 31, 2004 was 7,974.

1.2. ACCOUNTING

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

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

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to the Bank's Hungarian unconsolidated statutory accounts (see Note 31), in order to present the unconsolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

2.1. BASIS OF PRESENTATION

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

2.2. FOREIGN CURRENCY TRANSLATION

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

2.3. CONSOLIDATED FINANCIAL STATEMENTS

These financial statements present the Bank's unconsolidated financial position and results of operations. Consolidated financial statements are currently being prepared by the Bank and consolidated net income and shareholders' equity may differ significantly from that presented in these unconsolidated financial statements. See Note 2.7 for the description of the method of accounting for investments in subsidiaries and associated companies in these unconsolidated financial statements.

2.4. SECURITIES HELD-TO-MATURITY

Investments in securities are accounted on a settlement date basis and are initially measured at cost. At subsequent reporting dates, securities that the Bank has the expressed intention and ability to hold to maturity (held-to-maturity securities) 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 investments include securities, which the Bank has the ability and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government and mortgage bonds.

2.5. SECURITIES HELD FOR TRADING AND AVAILABLE-FOR-SALE

Investments in securities are accounted on a settlement date basis and are initially measured at cost. Held for trading and available-for-sale investments are measured at subsequent reporting dates at fair value and unrealised gains and losses are included in the Unconsolidated Statement of Operations for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, bonds issued by NBH, mortgage bonds and other securities. Other securities include shares in commercial companies, shares in investment funds, bonds issued by companies and 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 future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the user.

Those held-for-trading and 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 allowance for permanent diminution in value, when appropriate.

2.6. LOANS, PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR POSSIBLE LOAN AND PLACEMENT LOSSES

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for possible loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amounts outstanding. When a borrower is unable to meet payments as they come due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they come due, all unpaid interest is reversed. Loan origination fees and costs are recognized in the Unconsolidated Statement of Operations in full at the time of the loan origination.

The amount of provision 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.

The allowances for possible loan and placement losses are maintained at levels adequate to absorb probable future losses. 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.

2.7. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries representing a controlling interest comprise those investments where the Bank, through direct and indirect ownership interest, has the power to govern the financial and operating policies of the investee.

Investments in subsidiaries are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate.

2.8. SALE AND REPURCHASE AGREEMENTS

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. 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.

2.9. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

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

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

Depreciation and amortization on premises, equipment and intangible assets commences on the day such assets are placed into service.

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

2.10. LEASES

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Unconsolidated Statement of Operations over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

Payments made under operating leases are charged to the Unconsolidated Statement 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.

2.11. TREASURY SHARES

Treasury shares are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the Unconsolidated Balance Sheet at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of treasury shares are credited or charged directly to retained earnings and reserves.

2.12. INCOME TAXES

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

2.13. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The allowance for possible losses on 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 Bank recognises an allowance 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.

2.14. DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivative financial instruments are initially recognised at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Unconsolidated Statement of Operations as they arise. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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 profit Unconsolidated Statement of Operations along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Unconsolidated Statement of Operations.

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

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held-for-trading with fair value gains and losses charged directly to the Unconsolidated Statement of Operations.

2.15. UNCONSOLIDATED STATEMENT OF CASH FLOWS

For the purposes of reporting cash flows, cash and cash equivalents include cash, due from banks and balances with the National Bank of Hungary, excluding compulsory reserve established by the National Bank of Hungary. Cash flows from hedging activities are classified in the same category as the item being hedged.

2.16. COMPARATIVE FIGURES

Certain amounts in the 2004 unconsolidated financial statements have been reclassified to conform with the current year presentation.

NOTE 3: **CASH, DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY**

(in HUF mn)

		2004	2003
Cash on hand:	In HUF	53,122	54,918
	In foreign currency	2,743	3,111
		55,865	*58,029*
Due from banks and balances with NBH:			
Within one year:	In HUF	341,940	191,911
	In foreign currency	1,596	3,035
		343,536	*194,946*
Total		**399,401**	**252,975**

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the balance of compulsory reserves amounted to approximately HUF 105,716 million and HUF 109,532 million as at December 31, 2004 and 2003, respectively.

NOTE 4: **PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR POSSIBLE PLACEMENT LOSSES**

(in HUF mn)

		2004	2003
Within one year:	In HUF	127,437	85,141
	In foreign currency	61,339	69,719
		188,776	*154,860*
Over one year:	In HUF	300	3,300
	In foreign currency	11,025	7,231
		11,325	*10,531*
Total		**200,101**	**165,391**
Allowance for possible placement losses		(1)	(182)
		200,100	**165,209**

Placements with other banks in foreign currency as at December 31, 2004 and 2003 bear interest rates in the range from 0.4% to 7% and from 0.3% to 5.1%, respectively.

Placements with other banks in HUF as at December 31, 2004 and 2003 bear interest rates in the range from 9% to 12.5% and from 9.6% to 13.7%, respectively.

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

(in HUF mn)

	2004	2003
Balance as at January 1	182	163
(Credit)/provision for possible placement losses	(181)	19
Balance as at December 31	**1**	**182**

NOTE 5: **SECURITIES HELD FOR TRADING AND AVAILABLE-FOR-SALE**

(in HUF mn)

	2004	2003
Securities held-for-trading		
Hungarian Government discounted Treasury bills	5,055	2,632
Hungarian Government interest bearing Treasury bills	2,756	473
Government bonds	8,538	42,331
Mortgage bonds	2,238	4,260
Other securities	171	257
	18,758	*49,953*
Securities available-for-sale		
Government bonds	60,252	56,336
Hungarian Government discounted Treasury bills	–	20,293
Mortgage bonds	235,405	156,929
Other securities	28,473	28,884
	324,130	*262,442*
Total	**342,888**	**312,395**

Approximately 95% and 93% of the held-for-trading and available-for-sale securities portfolio was denominated in HUF as at December 31, 2004 and 2003, respectively.

Approximately 0.5% and 2% of the government bonds were denominated in foreign currency as at December 31, 2004 and 2003. Approximately 90% and 10% of this portfolio was denominated in USD and EUR as at December 31, 2004 and 75%, 2%, 15% and 8% of this portfolio was denominated in JPY, EUR, GBP and USD as at December 31, 2003, respectively.

Interest rates on securities held-for-trading ranged from 2.9% to 13.4% and from 2.1% to 13.1% as at December 31, 2004 and 2003, respectively.

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

		(in HUF mn)
	2004	**2003**
Within five years		
variable interest	89,538	91,041
fixed interest	122,461	141,561
	211,999	*232,602*
Over five years		
variable interest	21,185	21,489
fixed interest	100,485	50,169
	121,670	*71,658*
Non-interest bearing securities	9,219	8,135
Total	**342,888**	**312,395**

NOTE 6: **LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES**

		(in HUF mn)
	2004	**2003**
Short-term loans and trade bills (within one year)	491,209	406,091
Long-term loans and trade bills (over one year)	804,842	682,970
	1,296,051	*1,089,061*
Allowance for possible loan losses	(19,810)	(18,636)
Total	**1,276,241**	**1,070,425**

Foreign currency loans represent approximately 34% and 29% of the loan portfolio, before allowance for possible losses, as at December 31, 2004 and 2003, respectively.

Loans denominated in HUF, with a maturity within one year as at December 31, 2004 and 2003 bear interest rates in the range from 13.8% to 32% and from 15.8% to 32% respectively.

Loans denominated in HUF, with a maturity over one year as at December 31, 2004 and 2003 bear interest rates in the range from 4% to 22.8%, respectively.

Foreign currency loans as at December 31, 2004 and 2003, bear interest rates in the range from 1.9% to 8.4% and from 2% to 7%, respectively.

Approximately 2.5% and 3.2% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2004 and 2003, respectively.

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

				(in HUF mn)
	2004		**2003**	
Commercial loans	805,804	62%	678,986	62%
Municipality loans	116,175	9%	91,529	8%
Housing loans	169,415	13%	182,640	17%
Consumer loans	180,421	14%	104,646	10%
Mortgage loans	24,236	2%	31,260	3%
Total	**1,296,051**	**100%**	**1,089,061**	**100%**

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

	2004	2003 *(in HUF mn)*
Balance as at January 1	18,636	18,418
Provision for possible loan losses	8,809	7,034
Write-offs	(7,635)	(6,816)
Balance as at December 31	**19,810**	**18,636**

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd, see Note 23.

NOTE 7: **INVESTMENTS IN SUBSIDIARIES**

	2004	2003 *(in HUF mn)*
Investments in subsidiaries:		
Controlling interest	158,521	143,158
Significant interest	75	371
Other	1,119	949
	159,715	*144,478*
Allowance for permanent diminution in value	(5,417)	(5,670)
Total	**154,298**	**138,808**

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

	2004		2003	*(in HUF mn)*
	% Held *(direct and indirect)*	**Cost**	**% Held** *(direct and indirect)*	**Cost**
OTP Garancia Insurance Ltd.	100.00%	7,472	100.00%	7,472
OTP Real Estate Ltd.	100.00%	1,228	100.00%	1,228
OTP Real Estate Management Ltd.	100.00%	750	100.00%	750
Merkantil Bank Ltd.	100.00%	1,600	100.00%	1,600
OTP Building Society Ltd.	100.00%	1,950	100.00%	1,950
HIF Ltd. (United Kingdom)	100.00%	1,132	100.00%	1,132
Bank Center No. 1. Ltd.	100.00%	9,364	100.00%	9,364
OTP Factoring Ltd.	100.00%	150	100.00%	150
INGA One Ltd.	100.00%	407	100.00%	407
INGA Two Ltd.	100.00%	5,892	100.00%	5,892
OTP Fund Servicing and Consulting Ltd.	100.00%	1,372	100.00%	1,317
OTP Fund Management Ltd.	100.00%	1,653	100.00%	1,653
OTP Mortgage Bank Company Ltd.	100.00%	20,000	100.00%	20,000
AIR-Invest Ltd.	100.00%	3,524	100.00%	1,000
DSK Bank EAD (Bulgaria)	100.00%	79,162	100.00%	79,162
OTP Banka Slovensko a.s. (Slovakia)	97.23%	10,037	97.10%	10,006
Robank SA (Romania)	100.00%	12,273	–	–
OTP Card Factory Ltd.	100.00%	450	–	–
Other		105		75
Total		**158,521**		**143,158**

An analysis of the change in the allowance for permanent diminution in value is as follows:

	2004	2003 *(in HUF mn)*
Balance as at January 1	5,670	5,781
Credit for permanent diminution in value	(253)	(111)
Balance as at December 31	**5,417**	**5,670**

NOTE 8: **HELD-TO-MATURITY INVESTMENTS**

	2004	(in HUF mn) 2003
Government securities	210,891	276,892
Hungarian Government discounted Treasury bills	6,125	987
Mortgage bonds	289,787	346,130
Other debt securities	700	1,300
Total	**507,503**	**625,309**

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

	2004	(in HUF mn) 2003
Within five years, variable interest	66,778	90,234
Within five years, fixed interest	283,114	351,908
	349,892	*442,142*
Over five years, variable interest	40,642	43,995
Over five years, fixed interest	116,969	139,172
	157,611	*183,167*
Total	**507,503**	**625,309**

A portfolio of mortgage bonds with a fair value of HUF 216,957 million issued by OTP Mortgage Bank Company Ltd. were reclassified as of June 30, 2003 from available-for-sale to the held-to-maturity as management decided and has the intention to hold such securities until maturity.

Approximately 99.6% and 99.7% of the debt securities portfolio was denominated in HUF as at December 31, 2004 and 2003, respectively. In most cases, interest on variable rate securities is based on the interest rates of 90 day Hungarian Government Treasury bills and is adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF ranged from 6.3% to 10% and from 6.3% to 10.5% as at December 31, 2004 and 2003, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

The fair value of held-to maturity investments was HUF 508,581 million and HUF 610,189 million as at December 31, 2004 and 2003, respectively.

NOTE 9: **PREMISES, EQUIPMENT AND INTANGIBLE ASSETS**

For the year ended December 31, 2004:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	(in HUF mn) Total
Cost					
Balance as at January 1, 2004	30,666	49,366	62,452	4,386	146,870
Additions	10,285	4,198	15,494	33,767	63,744
Disposals	(2,450)	(786)	(21,372)	(28,026)	(52,634)
Balance as at December 31, 2004	**38,501**	**52,778**	**56,574**	**10,127**	**157,980**
Depreciation and Amortization					
Balance as at January 1, 2004	14,830	6,369	39,271	–	60,470
Additions	4,888	1,263	7,352	–	13,503
Disposals	(1,184)	(131)	(11,216)	–	(12,531)
Balance as at December 31, 2004	**18,534**	**7,501**	**35,407**	**–**	**61,442**
Net book value					
Balance as at January 1, 2004	15,836	42,997	23,181	4,386	86,400
Balance as at December 31, 2004	**19,967**	**45,277**	**21,167**	**10,127**	**96,538**

For the year ended December 31, 2003:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	*(in HUF mn)* Total
Cost					
Balance as at January 1, 2003	31,454	37,241	54,609	8,152	131,456
Additions	9,156	12,325	11,251	27,664	60,396
Disposals	(9,944)	(200)	(3,408)	(31,430)	(44,982)
Balance as at December 31, 2003	**30,666**	**49,366**	**62,452**	**4,386**	**146,870**
Depreciation and Amortization					
Balance as at January 1, 2003	18,862	5,475	35,814	–	60,151
Additions	4,998	940	6,807	–	12,745
Disposals	(9,030)	(46)	(3,350)	–	(12,426)
Balance as at December 31, 2003	**14,830**	**6,369**	**39,271**	**–**	**60,470**
Net book value					
Balance as at January 1, 2003	12,592	31,766	18,795	8,152	71,305
Balance as at December 31, 2003	**15,836**	**42,997**	**23,181**	**4,386**	**86,400**

NOTE 10: **OTHER ASSETS**

	2004	*(in HUF mn)* 2003
Receivables due to collection of Hungarian Government securities	33	69
Property held for sale	205	307
Due from Government for interest subsidies	5,619	1,885
Trade receivables	2,621	2,628
Advances for securities and investments	495	528
Deferred tax assets	–	559
Taxes recoverable	2	821
Inventories	784	736
Other advances	638	327
Credits sold under deferred payment scheme	176	4,453
Receivables from OTP Mortgage Bank Company Ltd.	13,216	28,186
Receivables from investing services	203	227
Prepayments and accrued incomes	5,749	3,935
Fair value of derivative financial instruments	4,113	1,990
Other	3,371	3,877
	37.225	*50.528*
Allowance for possible losses on other assets	(899)	(2,213)
Total	**36,326**	**48,315**

Allowance for possible losses on other assets mainly consists of allowances for property held for sale, credits sold under deferred payment scheme and allowances for trade receivables.

An analysis of the change in the allowance for possible losses on other assets is as follows:

	2004	*(in HUF mn)* 2003
Balance as at January 1	2,213	2,418
Credit for possible losses	(1,314)	(205)
Balance as at December 31	**899**	**2,213**

NOTE 11: **DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS**

		2004	*(in HUF mn)* 2003
Within one year:	In HUF	22,334	7,478
	In foreign currency	86,356	22,690
		108,690	*30,168*

(continued)		2004	*(in HUF mn)* 2003
Over one year:	In HUF	8,491	4,291
	In foreign currency	86,596	56,622
		95,087	*60,913*
Total		**203,777**	**91,081**

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2004 and 2003, bear interest rates in the range from 8.9% to 12% and from 11.4% to 12.9%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at December 31, 2004 and 2003, bear interest rates in the range from 3% to 9.5% and from 3% to 9.4% respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at December 31, 2004 and 2003, bear interest rates in the range from 0.5% to 4.9% and from 0.3% and 2.7%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at December 31, 2004 and 2003, bear interest rates in the range form 0.5% to 5% and from 0.5% and 4.7%, respectively.

NOTE 12: **DEPOSITS FROM CUSTOMERS**

		2004	*(in HUF mn)* 2003
Within one year:	In HUF	2,050,048	1,947,081
	In foreign currency	269,900	279,332
		2,319,948	*2,226,413*
Over one year:	In HUF	20,976	38,115
		20,976	*38,115*
Total		**2,340,924**	**2,264,528**

Deposits from customers payable in HUF within one year as at December 31, 2004 and 2003, bear interest rates in the range from 0.5% to 9.9% and from 0.8% to 11%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2004 and 2003, bear interest rates in the range from 4.3% to 6.5% and from 5.3% to 8.8%, respectively.

Deposits from customers payable in foreign currency as at December 31, 2004 and 2003, bear interest rates in the range from 0.1% to 5% and from 0.1% to 4.1%, respectively.

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

	2004		2003	*(in HUF mn)*
Commercial deposits	431,921	19%	440,034	20%
Municipality deposits	170,431	7%	164,571	7%
Consumer deposits	1,738,572	74%	1,659,923	73%
	2,340,924	**100%**	**2,264,528**	**100%**

NOTE 13: **LIABILITIES FROM ISSUED SECURITIES**

	2004	*(in HUF mn)* 2003
With original maturity:		
Within one year	1,997	238
Over one year	–	1,801
	1,997	**2,039**

Liabilities from issued securities are denominated in HUF at interest rates in the range from 2% to 2.8% and from 2% to 4.3% as at December 31, 2004 and 2003, respectively.

NOTE 14: **OTHER LIABILITIES**

(in HUF mn)

	2004	2003
Taxes payable	4,992	2,044
Deferred tax liabilities	1,761	–
Giro clearing accounts	7,603	12,604
Accounts payable	10,799	8,145
Salaries and social security payable	8,038	5,882
Liabilities from security trading	17,040	15,852
Allowances for possible losses on off-balance sheet commitments, contingent liabilities	9,866	9,041
Margin account balance	87	34
Dividends payable	617	639
Accrued expenses	10,242	8,484
Suspense accounts	846	2,083
Loans for collection	2,005	2,202
Fair value of derivative financial instruments	1,578	90
Liabilities from trading activities (repurchase agreement)	12,523	–
Other	6,990	7,396
Total	**94.987**	**74.496**

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

(in HUF mn)

	2004	2003
Allowance for litigation	1,414	1,509
Allowance for other off-balance sheet commitments, contingent liabilities	7,588	5,785
Other allowances for expected liabilities	864	1,671
Allowance for housing warranties	–	76
Total	**9,866**	**9,041**

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

As part of its operations, until 1991, the Bank financed and constructed residential accommodations for resale on which it was required to provide a ten year guarantee against defective workmanship. The Bank has recourse against the constructors for any claims. The recovery of such claims is, however, dependent upon the financial status of the constructors, which is impaired in certain cases. An allowance has been recorded to account for the estimated possible future losses due to housing warranties. The allowance for housing warranties were reversed until December 31, 2004 in line with the expenses related to housing warranties.

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

(in HUF mn)

	2004	2003
Balance as at January 1	9,041	5,488
Allowance for off-balance sheet commitments and contingent liabilities, net	901	3,705
Release of allowance for housing warranties	(76)	(152)
Balance as at December 31	**9,866**	**9,041**

NOTE 15: **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 subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 4.36% as at December 20, 2002, 3.25% as at June 20, 2003, 4.8% as at December 20, 2003, 4.88% as at June 20, 2004, and 6.05% as at December 20, 2004. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

In December 1996, the Bank obtained a USD 30 million and DEM 31.14 million (15.92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development with the original maturity of December 27, 2006. The maturity date was modified to August 27, 2008 on August 22, 2003. The loan is unsecured, subordinate to the other liabilities and has a twelve-year maturity, with interest payable at six-month LIBOR+1.4% from December 27, 1996 until December 29, 1997, at six-month LIBOR+1.0% from December 29, 1997 until June 28, 1999, at six-month LIBOR+1.7% from June 28, 1999 until December 27, 2003 and at six-month LIBOR+1.35% from December 28, 2003 until August 27, 2008.

NOTE 16: **SHARE CAPITAL**

		(in HUF mn)
	2004	**2003**
Authorized, issued and fully paid:		
Common shares	28,000	28,000
	28,000	**28,000**

From September 3, 1997, the Bank has one preferential voting share (the “Special Share”) outstanding with a nominal value of HUF 1 thousand (see Note 1.1).

NOTE 17: **RETAINED EARNINGS AND RESERVES**

		(in HUF mn)
	2004	**2003**
Balance as at January 1	262,504	192,358
Net income after income taxes	127,196	70,141
Profit on sale of Treasury Shares	1,960	5
Dividend for the year 2003	(16,800)	–
Balance as at December 31	**374,860**	**262,504**

The Bank's reserves under Hungarian Accounting Standards were HUF 243,848 million and HUF 233,776 million as at December 31, 2004 and 2003, respectively. Of these amounts, legal reserves represent HUF 66,395 million and HUF 55,653 million as at December 31, 2004 and 2003, respectively. The legal reserves are not available for distribution.

Dividends of HUF 16,800 million for the year ended December 31, 2003 were proposed and approved by the Annual General Meeting on April 29, 2004.

Dividends for the year ended December 31, 2004 will be proposed at the Annual General Meeting in April 2005. The proposed dividend for the year 2004 is HUF 41,206 million.

NOTE 18: **TREASURY SHARES**

		(in HUF mn)
	2004	**2003**
Nominal Value	1,010	1,324
Carrying Value at acquisition cost	13,808	14,328

NOTE 19: **OTHER EXPENSES**

		(in HUF mn)
	2004	**2003**
Credit for permanent diminution in value of investments in subsidiaries	(253)	(111)
Credit for other assets	(1,314)	(205)
Provision for possible losses on off-balance sheet commitments, contingent liabilities	901	3,705
Administration expenses, including rent	19,002	18,329
Advertising	3,810	3,406
Taxes, other than income	11,493	11,184
Services	16,099	15,062
Professional fees	2,278	2,305
Other	6,990	2,652
Total	**59,006**	**56,932**

NOTE 20: **INCOME TAXES**

The Bank is presently liable for income tax at a rate of 16% of taxable income. The tax rate was 18% in 2003.

A reconciliation of the income tax is as follows:

	2004	2003 *(in HUF mn)*
Current tax	18,728	15,139
Deferred tax	2,320	(752)
Total	**21,048**	**14,387**

A reconciliation of the deferred tax asset/(liability) is as follows

	2004	2003 *(in HUF mn)*
Balance as at January 1	559	(193)
Deferred tax (credit)/charge	(2,320)	752
Balance as at December 31	**(1,761)**	**559**

A reconciliation of the income tax charge is as follows:

	2004	2003 *(in HUF mn)*
Net income before income taxes	148,244	84,528
Permanent differences due to movements in statutory provisions	(4,514)	(2,803)
Reversal of statutory goodwill and negative goodwill	(7,663)	(1,257)
Revaluation of investments denominated in foreign currency to historical cost	(2,163)	2,405
Profit on sale of Treasury Shares	1,960	5
Dividend income	(8,500)	(7,691)
Other permanent differences	4,187	4,219
Adjusted tax base	131,551	79,406
Income tax	**21,048**	**14,387**

A breakdown of the deferred tax asset/(liability) is as follows:

	2004	2003 *(in HUF mn)*
Premium and discount amortization on investment securities	115	57
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	5	17
Difference in accounting for finance leases	60	81
Fair value adjustment of held-for-trading and available-for-sale financial assets	–	726
Reclassification of direct charges	4	–
Deferred tax asset	*184*	*881*
Fair value adjustment of held-for-trading and available-for-sale financial assets	(1,611)	–
Fair value adjustment of derivative financial instruments	(37)	(315)
Reclassification of direct charges	–	(7)
Fixed assets	(297)	–
Deferred tax liability	*(1,945)*	*(322)*
Net deferred tax (liability)/asset	**(1,761)**	**559**

NOTE 21: **FINANCIAL INSTRUMENTS**

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

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

CREDIT RISK

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

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

MARKET RISK

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

LIQUIDITY RISK

See Note 27.

FOREIGN CURRENCY RISK

See Note 28.

INTEREST RATE RISK

See Note 29.

NOTE 22: **OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS**

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

a) CONTINGENT LIABILITIES AND COMMITMENTS

(in HUF mn)

	2004	2003
Commitments to extend credit	446,702	392,308
Guarantees arising from banking activities	92,780	65,010
Confirmed letters of credit	2,480	956
Legal disputes	2,127	2,469
Contingent liabilities related to OTP Mortgage Bank Company Ltd.	38,783	24,440
Other	102	62
	582,974	**485,245**

COMMITMENTS TO EXTEND CREDIT, FROM 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 Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

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

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

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

LEGAL DISPUTES

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

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

Contingent liabilities related to OTP Mortgage Bank Company Ltd.

Under a syndication agreement with its fully owned subsidiary, OTP Mortgage Bank Company Ltd., the Bank guarantees in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Company Ltd. that become non-performing. OTP Mortgage Bank Company Ltd. utilises credit risk monitoring and credit policies for the granting of loans similar to those used by the Bank.

b) DERIVATIVES (nominal amount, unless otherwise stated)

	2004	***(in HUF mn)*** **2003**
Foreign currency contracts		
Assets	32,604	55,164
Liabilities	35,320	56,691
Net	**(2,716)**	**(1,527)**
Net fair value	**(3,627)**	**(235)**
Foreign exchange swaps and interest rate swaps		
Assets	235,080	230,852
Liabilities	218,528	216,839
Net	**16,552**	**14,013**
Net fair value	**19,998**	**14,711**
Option contracts		
Assets	2,205	20,029
Liabilities	–	18,184
Net	**2,205**	**1,845**
Net fair value	**2,205**	**1,755**
Other options		
Assets	6,834	5,373
Liabilities	–	–
Net	**6,834**	**5,373**
Net fair value	**6,834**	**5,373**

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

As at December 31, 2004 the Bank has derivative instruments with positive fair values of HUF 4,113 million and negative fair values of HUF 1,578 million. Positive fair values of derivative instruments are included in other assets, while negative fair values of derivative instruments are included in other liabilities. Corresponding figures as at December 31, 2003 are HUF 1,990 million and HUF 90 million.

FOREIGN CURRENCY CONTRACTS

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

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

FOREIGN EXCHANGE SWAPS AND INTEREST RATE SWAPS

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

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. 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 counter-parties. The Bank's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

FORWARD RATE AGREEMENTS

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

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

For an analysis of the allowance for possible losses on off balance sheet commitments and contingent liabilities, see Note 14.

NOTE 23: **RELATED PARTY TRANSACTIONS**

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

During the years ended December 31, 2004 and 2003 the Bank sold, without recourse, non-performing loans and the related accrued interest receivable to OTP Factoring for HUF 4,132 million and HUF 3,634 million, respectively. The gross book value of such credits was HUF 11,224 million and HUF 10,043 million, respectively, with a corresponding allowance for possible loan losses of HUF 2,345 million and HUF 5,503 million, respectively. The underlying mortgage rights were also transferred to OTP Factoring. Gains or losses related to such transactions are included in the unconsolidated financial statements.

Commissions received by the Bank from OTP Building Society in relation to finalised customer contracts were HUF 1,085 million and HUF 924 million for the years ended December 31, 2004 and 2003, respectively.

Insurance premiums paid by the Bank to OTP Garancia Insurance were HUF 1,209 million and HUF 1,054 million for the years ended December 31, 2004 and 2003, respectively.

Commissions received by the Bank from OTP Fund Management in relation to custody activity were HUF 337 million and HUF 509 million in relation to trading activity were HUF 2,505 million and HUF 2,445 million for the years ended December 31, 2004 and 2003, respectively.

Commissions paid by the Bank to OTP Real Estate in relation to its activity were HUF 2,913 million and HUF 3,735 million for the years ended December 31, 2004 and 2003, respectively.

The Bank under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Company Ltd. of HUF 213,954 million and HUF 448,034 million during the years ended December 31, 2004 and 2003 (including interest). The book value of these receivables were HUF 213,517 million and HUF 447,289 million.

During the year ended December 31, 2004 the Bank received HUF 37,386 million in fees and commissions from OTP Mortgage Bank Company Ltd. For the year ended December 31, 2003 such fees and commissions were HUF 25,072 million. Such fees and commissions are related to services provided to OTP Mortgage Bank Company Ltd. under the syndication agreement.

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

The members of the Board of Directors and the Supervisory Board have credit lines of HUF 184 million and HUF 139 million as at December 31, 2004 and 2003 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 related parties at normal market conditions. The amount of these loans was HUF 294 million and HUF 1,700 million, with commitments to extend credit and guarantees of HUF 126 million and HUF 135 million as at December 31, 2004 and 2003, respectively.

NOTE 24: **CASH AND CASH EQUIVALENTS**

	2004	***(in HUF mn)*** **2003**
Cash, due from banks and balances with the NBH	399,401	252,975
Compulsory reserve established by the NBH	(105,716)	(109,532)
	293,685	**143,443**

NOTE 25: **TRUST ACTIVITIES**

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying Unconsolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 47,301 million and HUF 46,187 million as at December 31, 2004 and 2003, respectively.

NOTE 26: **CONCENTRATION OF ASSETS AND LIABILITIES**

Approximately 21% and 22% of the Bank's total assets consisted of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary as at December 31, 2004 and 2003, respectively. Approximately 17% and 19%of the Bank's total assets consisted of securities issued by the OTP Mortgage Bank Company Ltd. as at December 31, 2004 and 2003, respectively. There were no other significant concentrations of the Bank's assets or liabilities as at December 31, 2004 and 2003, respectively.

NOTE 27: **MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK**

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

As at December 31, 2004

	Within 3 months	**Within one year and over 3 months**	**Within 5 years and over one year**	**Over 5 years**	***(in HUF mn)*** **Total**
Cash, due from banks and balances with the National Bank of Hungary	399,401	–	–	–	399,401
Placements with other banks, net of allowance for possible placement losses	171,652	17,123	11,013	312	200,100
Securities held-for-trading and available-for-sale	2,527	14,384	195,095	130,882	342,888
Loans, net of allowance for possible loan losses	207,259	274,298	568,366	226,318	1,276,241
Accrued interest receivable	41,176	4	–	–	41,180
Investments in subsidiaries	–	–	–	154,298	154,298
Securities held-to-maturity	1,334	61,614	286,944	157,611	507,503
Premises, equipment and intangible assets, net	–	–	42,941	53,597	96,538
Other assets	34,766	1,560	–	–	36,326
TOTAL ASSETS	**858,115**	**368,983**	**1,104,359**	**723,018**	**3,054,475**

(continued)	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	(in HUF mn) Total
Due to banks and deposits from the National Bank of Hungary and other banks	54,443	54,247	77,762	17,325	203,777
Deposits from customers	2,177,994	141,954	20,976	–	2,340,924
Liabilities from issued securities	196	1,801	–	–	1,997
Accrued interest payable	7,714	1,700	–	–	9,414
Other liabilities	84,546	10,441	–	–	94,987
Subordinated bonds and loans	–	–	9,324	5,000	14,324
TOTAL LIABILITIES	**2,324,893**	**210,143**	**108,062**	**22,325**	**2,665,423**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	374,860	374,860
Treasury shares	(327)	(2,600)	(1,300)	(9,581)	(13,808)
TOTAL SHAREHOLDERS' EQUITY	(327)	(2,600)	(1,300)	393,279	389,052
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,324,566**	**207,543**	**106,762**	**415,604**	**3,054,475**
LIQUIDITY (DEFICIENCY)/EXCESS	**(1,466,451)**	**161,440**	**997,597**	**307,414**	**–**

As at December 31, 2003

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	(in HUF mn) Total
Cash, due from banks and balances with the National Bank of Hungary	252,975	–	–	–	252,975
Placements with other banks, net of allowance for possible placement losses	146,823	7,855	10,174	357	165,209
Securities held-for-trading and available-for-sale	12,105	27,740	200,892	71,658	312,395
Loans, net of allowance for possible loan losses	109,641	285,516	461,162	214,106	1,070,425
Accrued interest receivable	31,789	1	2	–	31,792
Investments in subsidiaries	–	–	–	138,808	138,808
Securities held-to-maturity	115,358	69,298	257,486	183,167	625,309
Premises, equipment and intangible assets, net	–	–	20,540	65,860	86,400
Other assets	44,389	3,926	–	–	48,315
TOTAL ASSETS	**713,080**	**394,336**	**950,256**	**673,956**	**2,731,628**
Due to banks and deposits from the National Bank of Hungary and other banks	15,336	14,832	58,258	2,655	91,081
Deposits from customers	1,905,485	320,928	38,115	–	2,264,528
Liabilities from issued securities	238	–	1,801	–	2,039
Accrued interest payable	5,697	2,198	–	–	7,895
Other liabilities	63,762	10,734	–	–	74,496
Subordinated bonds and loans	–	–	10,413	5,000	15,413
TOTAL LIABILITIES	**1,990,518**	**348,692**	**108,587**	**7,655**	**2,455,452**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	262,504	262,504
Treasury shares	–	(14,328)	–	–	(14,328)
TOTAL SHAREHOLDERS' EQUITY	–	(14,328)	–	290,504	276,176
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,990,518**	**334,364**	**108,587**	**298,159**	**2,731,628**
LIQUIDITY (DEFICIENCY)/EXCESS	**(1,277,438)**	**59,972**	**841,669**	**375,797**	**–**

NOTE 28: **NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK**

As at December 31, 2004

(in HUF mn)

	USD	EUR	Others	Total
Assets	79,851	342,490	175,954	598,295
Liabilities	(77,445)	(288,127)	(88,355)	(453,927)
Off-balance sheet assets and liabilities, net	(14,283)	(49,401)	(32,659)	(96,343)
Net position	**(11,877)**	**4,962**	**54,940**	**48,025**

As at December 31, 2003

(in HUF mn)

	USD	EUR	Others	Total
Assets	75,018	301,021	93,382	469,421
Liabilities	(91,700)	(244,969)	(34,086)	(370,755)
Off-balance sheet assets and liabilities, net	19,596	(91,036)	(7,094)	(78,534)
Net position	**2,914**	**(34,984)**	**52,202**	**20,132**

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

NOTE 29: **INTEREST RATE RISK MANAGEMENT**

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

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

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

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

As at December 31, 2004

(in HUF million)

ASSETS	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 year		Over 2 years		Non-interest-bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Cash due from banks and balances with the National Bank of Hungary	**342,214**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**52,848**	**4,339**	**395,062**	**4,339**	**399,401**
Fixed rate	342,214	–	–	–	–	–	–	–	–	–	–	–	342,214	–	342,214
Variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	52,848	4,339	52,848	4,339	57,187
Placements with other banks	**122,774**	**43,995**	**800**	**17,838**	**200**	**10,035**	**–**	**–**	**–**	**–**	**3,962**	**496**	**127,736**	**72,364**	**200,100**
Fixed rate	119,704	39,635	500	5,066	200	4,802	–	–	–	–	–	–	120,404	49,503	169,907
Variable rate	3,070	4,360	300	12,772	–	5,233	–	–	–	–	–	–	3,370	22,365	25,735
Non-interest-bearing	–	–	–	–	–	–	–	—	–	–	3,962	496	3,962	496	4,458
Securities held-for-trading and available-for-sale	**44,799**	**3,606**	**15,697**	**9,273**	**51,458**	**2,704**	**16,361**	**–**	**188,583**	**1,188**	**8,990**	**229**	**325,888**	**17,000**	**342,888**
Fixed rate	937	–	1,321	202	14,353	–	16,361	–	188,583	1,188	–	–	221,555	1,390	222,945
Variable rate	43,862	3,606	14,376	9,071	37,105	2,704	–	–	–	–	–	–	95,343	15,381	110,724
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8,990	229	8,990	229	9,219
Loans	**434,790**	**30,831**	**386,288**	**392,852**	**11,403**	**16,163**	**512**	**1,691**	**1,711**	**–**	**–**	**–**	**834,704**	**441,537**	**1,276,241**
Fixed rate	5,215	–	14,043	174	1,126	890	511	984	1,711	–	–	–	22,606	2,048	24,654
Variable rate	429,575	30,831	372,245	392,678	10,277	15,273	1	707	–	–	–	–	812,098	439,489	1,251,587
Securities held-to-maturity	**23,196**	**–**	**74,601**	**–**	**52,462**	**–**	**26,167**	**1,801**	**329,276**	**–**	**–**	**–**	**505,702**	**1,801**	**507,503**
Fixed rate	499	–	–	–	42,340	–	26,167	1,801	329,276	–	–	–	398,282	1,801	400,083
Variable rate	22,697	–	74,601	–	10,122	–	–	–	–	–	–	–	107,420	–	107,420
Fair value of derivative financial instruments in other assets	**74,029**	**26,963**	**70,431**	**17,475**	**53,073**	**19,693**	**24,000**	**3,935**	**29,261**	**6,099**	**–**	**–**	**250,794**	**74,165**	**324,959**
Fixed rate	53,729	26,963	255	17,475	14,312	18,709	24,000	3,935	29,261	6,099	–	–	121,557	73,181	194,738
Variable rate	20,300	–	70,176	–	38,761	984	–	–	–	–	–	–	129,237	984	130,221

(in HUF million)

LIABILITIES	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 year		Over 2 years		Non-interest-bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Due to banks and deposits with the National Bank of Hungary	**20,399**	**126,534**	**3,339**	**42,741**	**6,607**	**3,501**	**–**	**–**	**–**	**–**	**480**	**176**	**30,825**	**172,952**	**203,777**
Fixed rate	18,414	28,055	–	4,970	–	1,753	–	–	–	–	–	–	18,414	34,778	53,192
Variable rate	1,985	98,479	3,339	37,771	6,607	1,748	–	–	–	–	–	–	11,931	137,998	149,929
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	480	176	480	176	656
Deposits from customers	**1,724,869**	**217,930**	**342,659**	**24,562**	**3,496**	**27,408**	**–**	**–**	**–**	**–**	**–**	**–**	**2,071,024**	**269,900**	**2,340,924**
Fixed rate	528,076	150,293	342,659	24,562	3,496	27,408	–	–	–	–	–	–	874,231	202,263	1,076,494
Variable rate	1,196,793	67,637	–	–	–	–	–	–	–	–	–	–	1,196,793	67,637	1,246,430
Liabilities from issued securities	**105**	**–**	**–**	**–**	**1,800**	**–**	**–**	**–**	**–**	**–**	**92**	**–**	**1,997**	**–**	**1,997**
Fixed rate	–	–	–	–	1,800	–	–	–	–	–	–	–	1,800	–	1,800
Variable rate	105	–	–	–	–	–	–	–	–	–	–	–	105	–	105
Non-interest-bearing	–	–	–	–	–	–	–	–	–	–	92	–	92	–	92
Fair value of derivative financial instruments in other liabilities	**13,087**	**87,629**	**29,353**	**67,794**	**58,173**	**18,559**	**5,000**	**3,935**	**31,761**	**7,133**	**–**	**–**	**137,374**	**185,050**	**322,424**
Fixed rate	1,587	79,662	3,353	17,430	28,412	18,559	5,000	3,935	31,761	7,133	–	–	70,113	126,719	196,832
Variable rate	11,500	7,967	26,000	50,364	29,761	–	–	–	–	–	–	–	67,261	58,331	125,592
Subordinated bonds and loans	**–**	**–**	**–**	**–**	**5,000**	**9,324**	**–**	**–**	**–**	**–**	**–**	**–**	**5,000**	**9,324**	**14,324**
Variable rate	–	–	–	–	5,000	9,324	–	–	–	–	–	–	5,000	9,324	14,324
Net position	**(716,658)**	**(326,698)**	**172,466**	**302,341**	**93,520**	**(10,197)**	**62,040**	**3,492**	**517,070**	**154**	**65,228**	**4,888**	**193,666**	**(26,020)**	**167,646**

As at December 31, 2003

ASSETS	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 year		Over 2 years		Non-interest-bearing		Total		Total
(in HUF million)	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Cash due from banks and balances with the National Bank of Hungary	**191,911**	**3,035**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**54,918**	**3,111**	**246,829**	**6,146**	**252,975**
Fixed interest	191,911	3,035	–	–	–	–	–	–	–	–	–	–	191,911	3,035	194,946
Variable interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	54,918	3,111	54,918	3,111	58,029
Placements with other banks	**79,358**	**65,084**	**2,500**	**5,815**	**2,500**	**4,913**	**–**	**–**	**–**	**–**	**3,901**	**1,138**	**88,259**	**76,950**	**165,209**
Fixed interest	76,058	60,994	2,500	1,010	2,500	–	–	–	–	–	–	–	81,058	62,004	143,062
Variable interest	3,300	4,090	–	4,805	–	4,913	–	–	–	–	–	–	3,300	13,808	17,108
non-interest-bearing	–	–	–	–	–	–	–	—	–	–	3,901	1,138	3,901	1,138	5,039
Securities held-for-trading and available-for-sale	**22,622**	**–**	**37,418**	**13,583**	**61,451**	**6,453**	**10,698**	**242**	**151,793**	**–**	**7,885**	**250**	**291,867**	**20,528**	**312,395**
Fixed interest	8	–	1,137	1,828	23,729	2,295	10,698	242	151,793	–	–	–	187,365	4,365	191,730
Variable interest	22,614	–	36,281	11,755	37,722	4,158	–	–	–	–	–	–	96,617	15,913	112,530
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,885	250	7,885	250	8,135
Loans	**567,096**	**99,490**	**147,573**	**188,929**	**18,758**	**21,103**	**–**	**–**	**27,476**	**–**	**–**	**–**	**760,903**	**309,522**	**1,070,425**
Fixed interest	10,980	8	–	125	1,751	–	–	–	27,476	–	–	–	40,207	133	40,340
Variable interest	556,116	99,482	147,573	188,804	17,007	21,103	–	–	–	–	–	–	720,696	309,389	1,030,085
Securities held-to-maturity	**22,697**	**–**	**192,665**	**–**	**76,875**	**–**	**36,672**	**–**	**294,325**	**2,075**	**–**	**–**	**623,234**	**2,075**	**625,309**
Fixed interest	–	–	91,255	–	66,753	–	36,672	–	294,325	2,075	–	–	489,005	2,075	491,080
Variable interest	22,697	–	101,410	–	10,122	–	–	–	–	–	–	–	134,229	–	134,229
Fair value of derivative financial instruments in other assets	**43,526**	**50,501**	**112,327**	**16,869**	**45,652**	**25,189**	**10,805**	**7,567**	**43,314**	**3,893**	**–**	**–**	**255,624**	**104,019**	**359,643**
Fixed interest	23,569	50,501	46,725	15,118	5,288	25,189	10,805	7,567	43,314	3,893	–	–	129,701	102,268	231,969
Variable interest	19,957	–	65,602	1,751	40,364	–	–	–	–	–	–	–	125,923	1,751	127,674

LIABILITIES	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 year		Over 2 years		Non-interest-bearing		Total		Total
(in HUF million)	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Due to banks and deposits with the National Bank of Hungary	**9,901**	**47,332**	**–**	**25,524**	**–**	**4,916**	**6**	**–**	**1,198**	**–**	**664**	**1,540**	**11,769**	**79,312**	**91,081**
Fixed interest	5,389	7,998	–	7,769	–	3,409	6	–	1,198	–	–	–	6,593	19,176	25,769
Variable interest	4,512	39,334	–	17,755	–	1,507	–	–	–	–	–	–	4,512	58,596	63,108
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	664	1,540	664	1,540	2,204
Deposits from customers	**1,761,203**	**51,075**	**216,332**	**197,519**	**7,661**	**29,451**	**–**	**1,287**	**–**	**–**	**–**	**–**	**1,985,196**	**279,332**	**2,264,528**
Fixed interest	358,313	51,075	216,332	197,519	7,661	29,451	–	1,287	–	–	–	–	582,306	279,332	861,638
Variable interest	1,402,890	–	–	–	–	–	–	–	–	–	–	–	1,402,890	–	1,402,890
Liabilities from issued securities	**143**	**–**	**–**	**–**	**–**	**–**	**1,801**	**–**	**–**	**–**	**95**	**–**	**2,039**	**–**	**2,039**
Fixed interest	–	–	–	–	–	–	1,801	–	–	–	–	–	1,801	–	1,801
Variable interest	143	–	–	–	–	–	–	–	–	–	–	–	143	–	143
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	95	–	95	–	95
Fair value of derivative financial instruments in other liabilities	**14,301**	**85,576**	**23,510**	**90,428**	**56,382**	**6,696**	**41,579**	**–**	**42,766**	**–**	**–**	**–**	**178,538**	**182,700**	**361,238**
Fixed interest	8,054	67,063	5,102	59,384	24,026	6,696	41,579	–	42,766	–	–	–	121,527	133,143	254,670
Variable interest	6,247	18,513	18,408	31,044	32,356	–	–	–	–	–	–	–	57,011	49,557	106,568
Subordinated bonds and loans	**–**	**–**	**–**	**–**	**5,000**	**10,413**	**–**	**–**	**–**	**–**	**–**	**–**	**5,000**	**10,413**	**15,413**
Variable interest	–	–	–	–	5,000	10,413	–	–	–	–	–	–	5,000	10,413	15,413
Net position	**(858,338)**	**34,127**	**252,641**	**(88,275)**	**136,193**	**6,182**	**14,789**	**6,522**	**472,944**	**5,968**	**65,945**	**2,959**	**84,174**	**(32,517)**	**51,657**

NOTE 30: **EARNINGS PER SHARE**

Earnings per share attributable to the Bank's common shares are determined based on dividing income after income taxes for the year attributable to common shareholders, after the deduction of declared preference dividends, by the weighted average number of common shares outstanding during the year.

	2004	2003
Income after income taxes (in HUF mn)	127,196	70,141
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	270,339,171	268,322,068
Basic Earnings per share (in HUF)	**471**	**261**
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	271,479,651	269,377,589
Diluted Earnings per share (in HUF)	**469**	**260**

The weighted average number of common 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 to Senior Management of OTP Bank.

NOTE 31: **RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS**

(in HUF mn)

	Retained Earning and Reserves Jan. 1, 2004	Net income for the year ended Dec. 31, 2004	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves Dec. 31, 2004
Hungarian financial statements	**233,776**	**104,818**	**(41,206)**	**(410)**	**296,978**
Adjustments to Hungarian financial statements:					
Reversal of statutory general provision	17,056	4,514	–	–	21,570
Premium and discount amortization on investment securities	(348)	(361)	–	–	(709)
Allowance for possible loan losses	(1,340)	–	–	–	(1,340)
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	(76)	76	–	–	–
Differences in carrying value of subsidiaries	717	82	–	–	799
Difference in accounting for finance leases	(465)	129	–	–	(336)
Fair value adjustment of held-for-trading and available-for-sale financial assets	(4,973)	14,609	–	–	9,636
Fair value adjustment of derivative financial instruments	2,189	(1,738)	–	–	451
Gain on sale of Treasury Shares	–	(1,960)	–	1,960	–
Reversal of statutory goodwill and negative goodwill	685	7,663	–	–	8,348
Revaluation of investments denominated in foreign currency to historical cost	(2,124)	2,163	–	–	39
Difference in accounting of repo transactions	48	(69)	–	–	(21)
Reclassification of direct charges	–	(410)	–	410	–
Deferred taxation	559	(2,320)	–	–	(1,761)
Dividend for the year 2003	16,800	–	(16,800)	–	–
Dividend payable for the year 2004 proposed at the Annual General Meeting	–	–	41,206	–	41,206
International financial statements	**262,504**	**127,196**	**(16,800)**	**1,960**	**374,860**

NOTE 32: **IMPLEMENTATION OF NEW ACCOUNTING STANDARDS**

During 2004 there have been many changes relating to future IFRS. The revised standards should be applied for annual periods beginning after January 1, 2005.

The effect of changes to IAS 39 and the introduction of IFRS 2 will effect the unconsolidated financial statements of the Bank from January 1, 2005.

32.1. IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

The revised IAS 39 standard, which is effective after January 1, 2005 will change the category held-for-trading instruments by introducing a new category „a financial asset at fair value through profit or loss". In this category could be classified the previous held-for-trading assets and other instruments upon initial recognition it is designated by the entity as at fair value through profit or loss.

Previously changes in the fair value of available-for-sale assets could be recognised in the profit/loss or directly in the equity. Effective from January 1, 2005 unrealised gains and losses on available-for-sale financial instruments shall be 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 in the profit and loss for the applicable period.

A summary of the effects of the introduction of IAS 39 Revised, as if it had been introduced on January 1, 2004 is as follows:

(in HUF mn)

	2004	**Restated 2004 due to IAS 39 Revised**
Fair value adjustment of available-for-sale securities recognized in profit and loss	14,632	1,170
Deferred tax effect	(2,341)	(187)
Contribution to net income	12,291	983
Net income after income taxes	**127,196**	**115,888**
Fair value adjustment of available-for-sale securities recognized directly through equity	–	13,462
Deferred tax effect	–	(2,154)
Effect to equity	–	11,308
Total Shareholders' equity	**389,052**	**389,052**

32.2. IFRS 2 SHARE BASED PAYMENTS

For equity settled share based compensation, under IFRS 2 the Bank is required to measure the fair value of services received, based on the fair value of the equity instrument granted, and to recognise such expense in the unconsolidated financial statements. IFRS 2 will be adopted from January 1, 2005 retrospectively, in respect of options which have a grant date later than November 7, 2002.

The Annual General Meeting of the year of 2000 approved a five year share option and bonus program for the years 2000 to 2004 which are granted on an annual basis. For the options after the year 2003 and 2004, which are under the scope of IFRS 2, the grant date is December 31, 2002.

If IFRS 2 had been applied in 2004, the net income for the year would have been lower by HUF 2,348 million. As an opening adjustment at January 1, 2005, HUF 4,433 million will be reclassified within retained earnings and reserves.

NOTE 33: **POST BALANCE SHEET EVENTS**

On November 24, 2004 the Bank made a binding bid for purchasing the shares of Nova Banka d. d. (Nova Banka), registered in Croatia. The purchase agreement was signed on December 7, 2004 with a price of EUR 236 million. After obtaining necessary approvals, the transaction was closed on March 10, 2005.

The Bank issued EUR 125 million floating subordinated notes due March 2015 on March 4, 2005.

The 2004 financial statements do not include any adjustments for these matters in accordance with IFRS.