Financial Report

OTP BANK

Deloitte.

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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, 2005 and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the year then ended, included on pages 65 to 109 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 audit.

We conducted our audits in accordance with the International Standards on Auditing issued by the International Federation of Accountants. 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 audit provides 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 of December 31, 2005 and the consolidated results of its operations, cash flows and changes in shareholders' equity for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union.

Budapest, March 24, 2006

Jack Bell	Nagy Zoltán
Deloitte Auditing and Consulting Ltd.	registered auditor
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Company Reg. No.: 01-09-071057

Balance Sheet

(consolidated, based on IFRS, as at December 31, 2005 and December 31, 2004, in HUF million)

	2005	Restated 2004
Cash, due from banks and balances with the National Bank of Hungary	483,191	465,887
Placements with other banks. net of allowance for placement losses	438,768	286,200
Financial assets at fair value through statements of operations	48,054	70,580
Securities available-for-sale	409,945	295,835
Loans net of allowance for loan losses	3,191,298	2,506,795
Accrued interest receivable	37,870	31,400
Equity investments	12,357	9,389
Securities held-to-maturity	289,803	247,259
Premises, equipment and intangible assets, net	233,245	174,775
Other assets	71,371	74,239
Total assets	**5,215,902**	**4,162,359**
Due to banks and deposits from the National Bank of Hungary and other banks	364,124	254,125
Deposits from customers	3,428,193	2,902,190
Liabilities from issued securities	543,460	317,222
Accrued interest payable	24,902	27,015
Other liabilities	260,728	213,798
Subordinated bonds and loans	47,023	14,324
Total liabilities	**4,668,430**	**3,728,674**
Share capital	28,000	28,000
Retained earnings and reserves	572,567	431,127
Treasury shares	(53,586)	(25,867)
Minority interest	491	425
Total shareholders' equity	**547,472**	**433,685**
Total liabilities and shareholders' equity	**5,215,902**	**4,162,359**

The accompanying notes to consolidated financial statements on pages 69 to 109 form an integral part of these consolidated financial statements.

Profit and Loss Account

(consolidated, based on IFRS, for the years ended December 31, 2005 and December 31, 2004, in HUF million)

	2005	Restated 2004
Interest income:		
Loans	340,793	241,233
Placements with other banks	43,734	42,431
Due from banks and balances with the National Bank of Hungary	29,174	33,818
Securities held for trading	2,708	6,648
Securities available-for-sale	25,235	82,553
Securities held-to-maturity	17,380	26,995
Total interest income	459,024	433,678
Interest expense:		
Due to banks and deposits from the National Bank of Hungary and other banks	34,501	20,640
Deposits from customers	99,703	131,824
Liabilities from issued securities	25,959	19,382
Subordinated bonds and loans	1,636	943
Total interest expense	161,799	172,789
Net interest income	**297,225**	**260,889**
Provision for loan and placement losses	28,042	16,048
Net interest income after provision for loan and placement losses	**269,183**	**244,841**
Non-interest income:		
Fee income	118,884	91,625
Foreign exchange gains, net	3,879	1,250
Gains and losses on securities, net	9,708	6,466
Gains on real estate transactions, net	96	1,818
Dividend income and gains and losses of associated companies	672	593
Insurance premiums	69,793	49,337
Other	13,465	10,680
Total non-interest income	216,497	161,769
Non-interest expenses:		
Fee expenses	19,930	20,588
Personnel expenses	95,235	79,538
Depreciation and amortization	21,897	29,150
Insurance expenses	58,468	40,264
Other	98,073	81,046
Total non-interest expense	293,603	250,586
Income before income taxes	**192,077**	**156,024**
Income taxes	33,803	24,506
Income after income taxes	**158,274**	**131,518**
Minority interest	(39)	(12)
Net income	**158,235**	**131,506**
Earnings per share (in HUF)		
Basic	603	501
Diluted	599	499

The accompanying notes to consolidated financial statements on pages 69 to 109 form an integral part of these consolidated financial statements.

Statement of Cash Flow

(consolidated, based on IFRS, for the years ended December 31, 2005 and December 31, 2004, in HUF million)

	2005	Restated 2004
Operating activities		
Income before income taxes	**192,077**	**156,024**
Adjustments to reconcile income before income taxes to net cash provided by operating activities		
Income tax paid	(29,208)	(26,871)
Depreciation and amortization	21,897	29,150
Provision for loan and placement losses	28,042	16,048
Provision for permanent diminution in value of equity investments	166	426
Provision/(Release of allowance) for losses on other assets	88	(569)
Release of allowance for losses on off-balance sheet commitments and contingent liabilities, net	(1,544)	(924)
Net increase in insurance reserves	31,763	14,390
Share-based compensation	7,497	2,348
Unrealised losses on fair value adjustment of securities held for trading	41	547
Unrealised losses/(gains) on fair value adjustment of derivative financial instruments	797	(631)
Changes in operating assets and liabilities		
Net (increase)/decrease in accrued interest receivables	(4,827)	1,257
Net decrease/(increase) in other assets, excluding advances for investments and before allowance for losses	5,843	(3,593)
Net (increase)/decrease in accrued interest payable	(3,679)	10,244
Net increase in other liabilities	1,207	24,082
Net cash provided by operating activities	**250,160**	**221,928**
Investing activities		
Net (increase) in placement with other bank before provision for placement losses	(79,136)	(19,638)
Net (increase)/decrease in securities available-for-sale	(42,774)	17,234
Net (increase) in equity investments, before provision for permanent diminution in value	(2,465)	(3,902)
Net cash outflow from acquisition of subsidiaries	(57,667)	(9,441)
Net decrease in debt securities held-to-maturity	(41,376)	52,888
Net (increase)/decrease in advances for investments. included in other assets	(14)	56
Net (increase) in loans, before provision for loan losses	(590,490)	(522,581)
Net additions to premises, equipment and intangible assets	(33,580)	(29,957)
Net cash used in investing activities	**(847,502)**	**(515,341)**
Financing activities		
Net increase in due to banks and deposits from the National Bank of Hungary and other banks	100,798	122,254
Net increase in deposits from customers	313,162	187,356
Net increase in liabilities from issued securities	226,238	192,335
Increase/(decrease) in subordinated bonds and loans	31,466	(1,089)
Increase/(decrease) of minority interest	66	(7)
Foreign currency translation gains/(losses)	4,449	(2,740)
Net change in treasury shares	(20,293)	1,513
Net (decrease)/increase in compulsory reserves at National Bank of Hungary	(10,981)	1,627
Dividends paid	**(41,240)**	**(16,823)**
Net cash provided by financing activities	**603,665**	**484,426**
Net increase in cash and cash equivalents	**6,323**	**191,013**
Cash and cash equivalents as at January 1	355,673	164,660
Cash and cash equivalents as at end of period	**361,996**	**355,673**
Analysis of cash and cash equivalents opening and closing balance		
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 January 1	**355,673**	**164,660**
Cash, due from banks and balances with the National Bank of Hungary	483,191	465,887
Compulsory reserve established by the National Bank of Hungary	(121,195)	(110,214)
Cash and cash equivalents as at end of period	**361,996**	**355,673**

The accompanying notes to consolidated financial statements on pages 69 to 109 form an integral part of these consolidated financial statements.

Statement of changes in Shareholders' Equity

(consolidated, based on IFRS, for the years ended December 31, 2005 and December 31, 2004. in HUF million)

	Share capital	Retained earnings and reserves	Treasury shares	Minority interest	Total
Balance as at January 1, 2004 (Restated)	**28,000**	**309,220**	**(25,420)**	**432**	**312,232**
Net income	–	131,506	–	–	131,506
Fair value adjustment of securities available-for-sale recognised directly through equity	–	4,881	–	–	4,881
Share-based compensation	–	4,433	–	–	4,433
Dividend for the year 2003	–	(16,800)	–	–	(16,800)
Repurchased treasury shares					
– profit on sale of treasury shares	–	1,960	–	–	1,960
– sale and purchase 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)
Minority interest	–	–	–	(7)	(7)
Balance as at December 31, 2004 (Restated)	**28,000**	**431,127**	**(25,867)**	**425**	**433,685**
Net income	–	158,235	–	–	158,235
Fair value adjustment of securities available-for-sale recognised directly through equity	–	2,051	–	–	2,051
Share-based compensation	–	7,497	–	–	7,497
Derecognition of opening balance of negative goodwill	–	3,034	–	–	3,034
Dividend for the year 2004	–	(41,206)	–	–	(41,206)
Repurchased treasury shares					
– profit on sale of treasury shares	–	7,426	–	–	7,426
– sale and purchase of treasury shares	–	–	(27,719)	(27,719)	–
Derivative financial instruments designated as cash-flow hedge	–	(46)	–	–	(46)
Foreign currency translation gain	–	4,449	–	–	4,449
Minority interest	–	–	–	66	66
Balance as at December 31, 2005	**28,000**	**572,567**	**(53,586)**	**491**	**547,472**

The accompanying notes to consolidated financial statements on pages 69 to 109 form an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED IFRS FINANCIAL STATEMENTS AS AT DECEMBER 31, 2005

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, 2005 approximately 90.4% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (3.1%) and the Bank (6.5%).

The Bank provides a full range of commercial banking services through a wide network of 927 branches. 377 branches are in Hungary, 357 branches are in Bulgaria, 78 branches are in Slovakia, 26 branches are in Romania and 89 branches are in Croatia.

As at December 31, 2005 the number of employees at the Bank and its subsidiary companies (together the "Group") was 17,977. The average number of employees for the year ended December 31, 2005 was 17,669.

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).

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

1.2.1. The effect of adopting revised International Financial Reporting Standards effective from January 1, 2005 on the 2004 financial statements

Effective from January 1, 2005 the Group adopted revised IAS 39 ("Financial Instruments: Recognition and Measurement"), IFRS 2 ("Share-based payment") and IFRS 3 ("Business combinations"). Revisions to a number of other IAS also took effect in the consolidated condensed financial statements of the Group, but those revisions concerned matters of detailed application which have no significant effect on amounts reported.

IAS 39 Financial Instruments: Recognition and Measurement (in HUF mn)

IAS 39 Revised, which is effective after January 1, 2005 changes the category held for trading instruments by introducing a new category "a financial asset at fair value through statements of operations". In this category is classified the previously held for trading assets and other instruments which upon initial recognition are designated by the entity as to be held at fair value through statements of operations. Due to the retrospective application of IAS 39 Revised, an opening adjustment of HUF 1,313 million loss has been presented in retained earnings and reserves as of January 1, 2004. Due to restatement of prior periods, income after income tax decreased by HUF 6,978 million for the year ended December 31, 2004 from what was previously reported.

IFRS 2 Share based payments (in HUF mn)

For equity settled share based compensation, under IFRS 2 the Group 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 has been adopted retrospectively from January 1, 2005 in respect of options which have a grant date later than November 7, 2002.

The Annual General Meeting for the year 2000 approved a five year share option and bonus program for the years 2000 to 2004 granting options and bonus shares on an annual basis. For the options for the years 2003 and 2004, the grant date is December 31, 2002.

Due to the retrospective application of IFRS 2, an opening adjustment of HUF 2,085 million is presented separately in retained earnings and reserves as of January 1, 2004. Due to restatement of prior periods, income after income tax was decreased by HUF 2,348 million for the year ended December 31, 2004.

IFRS 3 Business Combinations (in HUF mn)

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

- discontinued amortising goodwill and the amount of goodwill net of accumulated amortization became the carrying amount;
- tests the goodwill for impairment in accordance with IAS 36 Impairment of Assets;
- negative goodwill was derecognised with a corresponding adjustment to the opening balance of retained earnings.

Summary of the effects of introduction of IAS 39 revised and IFRS 2 for the year ended December 31, 2004 is as follows:

	As original reported for the year ended December 31, 2004	Restated for the year ended December 31, 2004
Fair value adjustment of available-for-sale securities recognized in profit and loss	8,303	–
Deferred tax effect	(1,325)	–
Contribution to net income	6,978	–
Share based compensation	–	(2,348)
Net income after income taxes	**140,832**	**131,506**
Fair value adjustment of available-for-sale securities recognized directly through equity	–	8,303
Deferred tax effect	–	(1,325)
Effect to equity	–	6,978
Share based compensation through directly equity	–	2,348
Shareholders' equity without minority interest	**433,260**	**433,260**
Minority interest	–	425
Total shareholders' equity	**433,260**	**433,685**

The most significant item is the goodwill acquired through the acquisition of DSK Bank EAD, the related balances as at 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 as at 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 HUF 3,034 million.

1.2.2. Changes in accounting policies arising from the adoption of new IFRSs and amendments to IASs effective January 1, 2006

At the date of authorisation of these financial statements, the following standards were in issue but not yet effective:

- IFRS 7 'Financial Instruments: Disclosures' (effective January 1, 2007);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of cash flow hedge accounting (effective January 1, 2006);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' for financial guarantee contracts (effective January 1, 2006);
- Amendments to IAS 1 'Presentation of Financial Statements' on capital disclosures (effective January 1, 2007).

The adoption of these standards in the future periods is not expected to have a material impact on the consolidated profit or equity.

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.

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

2.2. Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH"), or if there is no official rate, at exchange 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 30. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated in accordance with IFRS because the effect of consolidating such companies is not material to the consolidated financial statements as a whole (see Note 2.10.).

2.4. Accounting for acquisitions

Upon acquisition, subsidiaries are accounted for under the 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 date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity (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 has the ability and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government and mortgage bonds.

2.6. Financial assets at fair value through income statement

2.6.1. Securities held for trading

Investments in securities are accounted on a settlement date basis and are initially measured at fair value. Held for trading investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognised in profit/loss and included in the 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.

2.6.2. Derivative financial instruments

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

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

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated 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 policy, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Consolidated Statement of Operations.

2.7. Securities available-for-sale

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

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 unquoted equity instruments is measured at cost.

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

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

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for loan or 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 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.

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.

Provisions for losses on loans and placements with other banks represent managements assessment for potential losses in relation to these activities.

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

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

2.9. 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 liabilities Due to Banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Placement with other Banks. Interest is accrued evenly over the life of the repurchase agreement.

2.10. 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 not material 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.

2.11. Premises, equipment and intangible assets

Premises, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization. The depreciable amount (book value less residual value) of the non-current assets must be allocated over them useful life. 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	1–10%
Machinery and equipment	2.5–50%
Vehicles	10–50%
Leased assets	14.5–33.3%
Software	12.5–50%
Property rights	14.5–50%

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.

2.12. 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. Direct costs such as commissions are included in the initial measurement of the finance lease receivables.

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

The Group as lessee

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Consolidated 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.

2.13. 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.

2.14. 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.

2.15. 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.

2.16. Interest income and interest expense

Interest income and expense are recognised in the consolidated statement of operations on an accrual basis.

2.17. Fees and commissions

Fees and commissions are recognised in the consolidated statement of operations on an accrual basis.

2.18. Income taxes

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation.

Deferred taxation is accounted for, using the balance sheet liability method in respect of temporary differences 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.

2.19. Off-balance sheet commitments and contingent liabilities

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

2.20. Share-based compensation

The Bank has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after November 7, 2002 that were unvested as of January 1, 2005.

The Bank issues equity-settled share-based compensations to certain employees.

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

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

2.21. Consolidated statement of cash flows

For the purposes of reporting consolidated cash flows, cash and cash equivalents include cash, due from banks and balances with the 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.

2.22. 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 (finance) and insurance.

Segment results include revenue and expenses directly attributable to a segment and the relevant 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.

2.23. Comparative figures

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

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

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

3.1. Impairment of loans and advances

The Group regularly assesses its loan portfolio for possible impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Provisioning involves many uncertainties about the outcome of those risks and requires the management of the Group to make many subjective judgements in estimating the loss amounts.

3.2. Valuation of instruments without direct quotations

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

3.3. Provisions

The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

3.4. Insurance liabilities

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

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

	2005	2004
Cash on hand:		
In HUF	47,676	53,364
In foreign currency	25,609	19,298
	73,285	72,662
Due from banks and balances with the National Bank of Hungary:		
Within one year:		
In HUF	404,753	390,267
In foreign currency	5,153	2,958
	409,906	393,225
Total	**483,191**	**465,887**

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 121,195 million and HUF 110,214 million for the years ended December 31, 2005 and 2004, respectively.

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

	2005	2004
Within one year:		
In HUF	94,110	126,866
In foreign currency	317,654	149,206
	411,764	276,072
Over one year:		
In HUF	3,000	–
In foreign currency	24,004	10,129
	27,004	10,129
	438,768	286,201
Allowance for placement losses	–	(1)
Total	**438,768**	**286,200**

Placements of foreign subsidiaries with their respective National Banks amounted to HUF 77,879 million and HUF 71,420 million for the years ended December 31, 2005 and 2004, respectively.

Placements with other banks in foreign currency as at December 31, 2005 and 2004 bear interest rates in the range from 0.0% to 12.0% and from 0.4% to 7.0%, respectively.

Placements with other banks in HUF as at December 31, 2005 and 2004 bear interest rates in the range from 0.5% to 7.6% and from 8.5% to 12.5%, respectively.

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

	2005	2004
Balance as at January 1	1	182
Release of allowance for placement losses	(1)	(181)
Closing balance	–	1

NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENTS OF OPERATIONS (in HUF million)

	2005	Restated 2004
Securities held for trading:		
Discounted treasury bills	160	40,225
Hungarian Government interest bearing treasury bills	1,485	2,756
Government bonds	34,151	22,478
Mortgage bonds	895	680
Other securities	1,282	1,119
	37,973	67,258
Derivative financial instruments designated as held for trading	10,081	3,322
Total	**48,054**	**70,580**

Approximately 42.69% and 46% of the government bonds were denominated in foreign currency as at December 31, 2005 and 2004, respectively. Approximately 16.62%, 30.81%, 23.96%, and 28.61% of this portfolio was denominated in USD, EUR, SKK and BGN as at December 31, 2005, and 22.1%, 33.7%, and 44.2% of this portfolio was denominated in USD, EUR and BGN as at December 31, 2005 and 2004, respectively.

Interest rates on securities held for trading are ranged from 2.16% to 9.5% and from 1.4% to 13.4% as at December 31, 2005 and 2004, respectively.

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

	2005	Restated 2004
Within five years:		
Variable interest	1,492	1,358
Fixed interest	27,160	55,795
	28,652	57,153
Over five years:		
Variable interest	3,764	3,594
Fixed interest	5,100	6,356
	8,864	9,950
Non-interest bearing securities	457	155
Total	**37,973**	**67,258**

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

	2005	Restated 2004
Available-for-sale securities:		
Government bonds	283,342	204,436
Discounted Treasury bills	51,621	49,949
Mortgage bonds	541	1,493
Other securities	74,442	39,957
Total	**409,946**	**295,835**

Approximately 74.52% and 77.3% of the available-for-sale securities portfolio was denominated in HUF as at December 31, 2005 and 2004, respectively.

Approximately 22.51% and 22.9% of the government bonds were denominated in foreign currency as at December 31, 2005 and 2004, respectively. Approximately 3.82%, 54.25%, 21.36%, and 20.57% of this portfolio was denominated in USD, EUR, HRK and BGN as at December 31, 2005, and 5%, 28.7%, 37.8%, and 28.5% of this portfolio was denominated in USD, EUR, SKK and BGN as at December 31, 2004, respectively.

Interest rates on securities available-for-sale are ranged from 1.6% to 8.08% and from 1.6% to 12.5% as at December 31, 2005 and 2004, respectively.

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

	2005	Restated 2004
Within five years:		
Variable interest	116,784	60,677
Fixed interest	182,887	179,957
	299,671	240,634
Over five years:		
Variable interest	4,261	3,866
Fixed interest	81,364	32,175
	85,625	36,041
Non-interest bearing securities	24,650	19,160
Total	**409,946**	**295,835**

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

	2005	Restated 2004
Loans and trade bills within one year	925,331	689,286
Loans and trade bills over one year	2,371,887	1,896,824
	3,297,218	2,586,110
Allowance for loan losses	(105,920)	(79,315)
Total	3,191,298	2,506,795

Foreign currency loans represent approximately 45.76% and 33.8% of the total loan portfolio, before allowance for losses, as at December 31, 2005 and 2004, respectively.
Loans denominated in HUF, with maturity within one year as at December 31, 2005 and 2004, bear interest rates in the range from 6% to 30% and from 6% to 32%, respectively.
Loans denominated in HUF, with maturity over one year as at December 31, 2005 and 2004, bear interest rates in the range from 4% to 22.3% and from 4% to 22.8%, respectively.
Foreign currency loans as at December 31, 2005 and 2004, bear interest rates in the range from 0.04% to 24% and from 1% to 31%, respectively.
Approximately 4% and 3.9% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2005 and 2004, respectively.

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

	2005		2004	
Commercial loans	1,195,374	36%	920,606	36%
Municipality loans	136,039	4%	118,115	5%
Housing loans	1,222,397	37%	1,015,491	39%
Consumer loans	743,408	23%	531,898	20%
Total	**3,297,218**	**100%**	**2,586,110**	**100%**

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

	2005	2004
Balance as at January 1	79,315	64,156
Provision for loan losses	28,043	16,229
Write-offs	(1,808)	(835)
Foreign currency translation gain/(loss)	370	(235)
Closing balance	105,920	79,315

NOTE 9: EQUITY INVESTMENTS (in HUF million)

	2005	2004
Equity investments:		
Unconsolidated subsidiaries	11,356	8,389
Associated companies	679	141
Other	2,466	2,837
	14,501	11,367
Allowance for permanent diminution in value	(2,144)	(1,978)
Total	**12,357**	**9,389**

	2005	2004
Total assets of unconsolidated subsidiaries	**63,102**	**34,145**

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

	2005	2004
Balance as at January 1	1,978	1,552
Provision for permanent diminution in value	166	426
Closing balance	2,144	1,978

NOTE 10: HELD-TO-MATURITY INVESTMENTS (in HUF million)

	2005	2004
Government securities	242,094	226,355
Hungarian Government discounted Treasury bills	29,962	6,125
Mortgage bonds	11,264	9,526
Other debt securities	6,483	5,283
	289,803	247,289
Allowance for permanent diminution in value	–	(30)
Total	**289,803**	**247,259**

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

	2005	2004
Within five years:		
Variable interest	60,836	68,536
Fixed interest	155,524	106,492
	216,360	175,028
Over five years:		
Variable interest	43,051	42,870
Fixed interest	30,392	29,391
	73,443	72,261
Total	**289,803**	**247,289**

Approximately 80.33% and 88.4% of the debt securities portfolio was denominated in HUF as at December 31, 2005 and 2004, 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 3.25% to 10% and from 6.3% to 10% as at December 31, 2005 and 2004, 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 291,894 million and HUF 247,477 million as at December 31, 2005 and 2004, respectively.

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

	2005	2004
Balance as at January 1	30	30
Release of allowance	(30)	–
Closing balance	–	30

NOTE 11: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS, NET (in HUF million)

For the year ended December 31, 2005:

	Intangible assets	Land and buildings	Machinery, and equipment	Construction in progress	Total
Cost					
Balance as at January 1, 2005	82,328	94,626	83,970	12,227	273,151
Acquisition of subsidiary	141	6,783	891	258	8,073
Net additions	49,723	10,065	15,878		75,666
Foreign currency translation differences	1,562	1,554	672	70	3,858
Net disposals	(3,150)	(15,504)	(9,985)	(125)	(28,764)
Balance as at December 31, 2005	130,604	97,524	91,426	12,430	331,984
Depreciation and amortization					
Balance as at January 1, 2005	30,381	15,673	52,322	–	98,376
Net charge	7,766	2,801	11,347	–	21,914
Foreign currency translation differences	91	337	462	–	890
Net disposals	(9,501)	(5,444)	(7,496)	–	(22,441)
Balance as at December 31, 2005	28,737	13,367	56,635	–	98,739
Net book value					
Balance as at January 1, 2005	51,947	78,953	31,648	12,227	174,775
Balance as at December 31, 2005	101,867	84,157	34,791	12,430	233,245

An analysis of the changes in the goodwill and negative goodwill for the year ended December 31, 2005 is as follows:

	Goodwill	Negative goodwill
Cost		
Balance as at January 1, 2005	44,177	4,204
Additions	35,809	—
Foreign currency translation differences	1,411	—
Disposals from the effect of adopting revised IFRS	(10,632)	(4,204)
Balance as at December 31, 2005	70,765	—
Amortization		
Balance as at January 1, 2005	10,632	1,170
Charge	—	—
Disposals from the effect of adopting revised IFRS	(10,632)	(1,170)
Balance as at December 31, 2005	—	—
Net book value		
Balance as at January 1, 2005	33,545	3,034
Balance as at December 31, 2005	70,765	—

For the year ended December 31, 2004:

	Intangible assets	Land and buildings	Machinery, and equipment	Construction in progress	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
Net additions	17,421	5,508	22,637	5,724	51,290
Foreign currency translation differences	(93)	(882)	(198)	(46)	(1,219)
Net disposals	(3,804)	(900)	(29,503)	—	(34,207)
Balance as at December 31, 2004	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
Net charge	13,602	2,482	13,066	—	29,150
Foreign currency translation differences	(36)	(31)	(91)	—	(158)
Net disposals	(1,709)	(170)	(16,982)	—	(18,861)
Balance as at December 31, 2004	30,381	15,673	52,322	—	98,376
Net book value					
Balance as at January 1, 2004	49,850	76,605	34,366	6,516	167,337
Balance as at December 31, 2004	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	Negatív 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, 2004	44,177	4,204
Amortization		
Balance as at January 1, 2004	2,964	1,040
Charge	7,668	130
Balance as at December 31, 2004	10,632	1,170
Net book value		
Balance as at January 1, 2004	36,324	3,176
Balance as at December 31, 2004	33,545	3,034

NOTE 12: OTHER ASSETS (in HUF million)

	2005	Restated 2004
Property held for sale	13,408	13,289
Due from Hungarian Government for interest subsidies	3,895	19,964
Trade receivables	5,456	3,734
Advances for securities and investments	511	497
Taxes recoverable	1,654	1,438
Inventories	1,926	1,899
Other advances	7,758	3,250
Receivables from leasing activities	13,840	13,391
Receivables due from insurance bond holders	1,883	1,667
Receivables due from pension funds and fund management	2,243	1,283
Prepayments and accrued income	7,792	6,793
Receivables from investment services	1,231	203
	2005	**Restated 2004**
Fair value of derivative financial instruments	452	812
Other	12,749	9,391
	74,798	77,611
Allowance for losses on other assets	(3,427)	(3,372)
Total	**71,371**	**74,239**

Allowance for 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 losses on other assets is as follows:

	2005	2004
Balance as at January 1	3,372	3,939
Release of allowance for losses		
on other assets	(54)	(569)
Credit	128	–
Foreign currency translation loss	(19)	2
Closing balance	3,427	3,372

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

	2005	2004
Within one year:		
In HUF	8,018	18,366
In foreign currency	126,766	119,574
	134,784	137,940
Over one year:		
In HUF	20,510	8,609
In foreign currency	208,830	107,576
	229,340	116,185
Total	**364,124**	**254,125**

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2005 and 2004, bear interest rates in the range from 4.9% to 5.3% and from 8.9% to 12%, 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, 2005 and 2004, bear interest rates in the range from 3.1% to 4.5% and from 3% to 9.5%, 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, 2005 and 2004, bear interest rates in the range from 0.05% to 6.5% and from 0.5% to 17.4%, 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, 2005 and 2004, bear interest rates in the range from 0.7% to 6.5% and from 0.5% to 6%, respectively.

NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF million)

	2005	2004
Within one year:		
In HUF	2,214,998	2,071,188
In foreign currency	1,137,175	769,103
	3,352,173	2,840,291
Over one year:		
In HUF	72,480	60,654
In foreign currency	3,540	1,245
	76,020	61,899
Total	**3,428,193**	**2,902,190**

Deposits from customers payable in HUF within one year as at December 31, 2005 and 2004, bear interest rates in the range from 0.2% to 6.5% and from 0.5% to 9.9%, respectively.

Deposits from customers payable in HUF over one year as December 31, 2005 and 2004, bear interest rates in the range from 1% to 4.5% and from 3% to 6.5%, respectively.

Deposits from customers payable in foreign currency within one year as at December 31, 2005 and 2004, bear interest rates in the range from 0.1% to 18.5% and from 0.1% to 21%, respectively.

Deposits from customers payable in foreign currency over one year as at December 31, 2005 and 2004, bear interest rates in the range from 2% to 18% and from 2% to 19%, respectively.

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

	2005		2004	
Commercial deposits	662,215	19%	549,830	19%
Municipality deposits	203,110	6%	196,515	7%
Consumer deposits	2,562,868	75%	2,155,845	74%
Total	**3,428,193**	**100%**	**2,902,190**	**100%**

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

46.42% and 78.1% of issued securities are denominated in HUF as at December 31, 2005 and 2004, and bear interest rates in the range from 0.3% to 12.5% and from 1.2% to 12%, respectively.

The Bank issued EUR 500 million variable-rate bonds at three month EURIBOR + 0,16% quarterly, on July 1, 2005 due July 1, 2010 and EUR 300 million variable-rate bonds at three month EURIBOR + 0,15% quarterly, on December 20, 2005 due December 20, 2010, at a price of 99,81%.

An analysis of significant issued securities as at December 31, 2005 is as follows:

Variable-rate Euro Bonds	202,267
Mortgage bonds	267,432
Other securities	73,761
Total	**543,460**

NOTE 16: OTHER LIABILITIES (in HUF million)

	2005	Restated 2004
Deferred tax liabilities	2,761	2,175
Taxes payable	8,363	7,224
Giro clearing accounts	22,744	10,250
Accounts payable	12,253	14,199
Insurance liabilities	130,354	98,591
Salaries and social security payable	10,839	12,140
Liability from security trading	9,307	17,041
Provision for losses on off-balance sheet commitments and contingent liabilities	7,376	7,378
Dividends payable	617	566
Advances received from customers	689	2,400
Accrued expenses	10,214	14,565
Loan for collection	1,860	2,005
Suspense accounts	5,427	–
Advancement of Government grants for housing purposes	2,150	829
Fair value of derivative financial instruments designated as hedge accounting relationship	2,230	1,987
Fair value of derivative financial instruments designated as held for trading	8,199	1,200
Liabilities from trading activities (repurchase agreement)	5,785	12,523
Other	19,560	8,725
Total	**260,728**	**213,798**

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

	2005	2004
Provision for litigation	2,138	1,430
Provision for losses on off-balance sheet commitments and contingent liabilities	3,674	4,460
Other provision for expected liabilities	1,234	1,126
Provision for housing warranties	330	362
Total	**7,376**	**7,378**

The provision for losses on other off-balance sheet commitments and contingent liabilities primarily relates to commitments stemming from guarantees and credit lines issued by the Bank 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. A provision has been recorded to account for the estimated possible future losses due to housing warranties. The provision for housing warranties for pre 1991 construction was reversed by December 31, 2004 in line with the expenses related to housing warranties. The remaining provision for housing warranties relates to warranties from OTP Real Estate Ltd.

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

	2005	2004
Balance as at January 1	7,378	8,357
Release of allowance for possible off-balance sheet commitments and contingent liabilities	(1,544)	(924)
Release of allowance for housing warranties	–	(76)
Additions through business combinations	1,545	21
Foreign currency translation differences	(3)	–
Closing balance	7,376	7,378

Movements in insurance liabilities can be summarized as follows:

	2005	2004
Balance as at January 1	98,591	84,201
Net increase in insurance liabilities	31,763	14,390
Closing balance	130,354	98,591

NOTE 17: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and 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, 5.46% as at June 20, 2005, 3.08% as at December 20, 2005. 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.

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

NOTE 18: SHARE CAPITAL (in HUF millon)

	2005	2004
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 19: RETAINED EARNINGS AND RESERVES (in HUF millon)

	2005	Restated 2004
Balance as at January 1	431,127	309,220
Fair value adjustment of available-for-sale securities recognised through equity	2,051	4,881
Share-based compensation	7,497	4,433
Net income after income taxes	158,235	131,506
Gain on sale of treasury shares	7,426	1,960
Foreign currency translation gain/(loss)	4,449	(2,740)
Derivative financial instruments designated as cash-flow hedge	(46)	(1,333)
Derecognition of opening balance of negative goodwill	3,034	–
Dividends	(41,206)	(16,800)
Closing balance	**572,567**	**431,127**

The Bank's unconsolidated reserves under Hungarian Accounting Standards were HUF 310,215 million and HUF 243,848 million as at December 31, 2005 and 2004, respectively.

Of these amounts, legal reserves represent HUF 107,619 million and HUF 66,395 million as at December 31, 2005 and 2004, respectively. The legal reserves are not available for distribution.

The Annual General Meeting on April 29, 2005 decided that the Bank distributes HUF 41,206 million dividend for the year ended December 31, 2004.

Dividends for the year ended December 31, 2005 will be approved by the Annual General Meeting in April, 2006. The proposed dividend is HUF 55,160 million.

NOTE 20: TREASURY SHARES (in HUF million)

	2005	2004
Nominal value (Common Shares)	1,796	1,801
Carrying value at acquisition cost	53,586	25,867

NOTE 21: MINORITY INTEREST (in HUF million)

	2005	2004
Balance as at January 1	425	432
Minority interest purchased	398	(18)
Foreign currency translation gain/(loss)	23	(1)
Purchase of minority interest	(394)	–
Minority interest included in net income	39	12
Closing balance	491	425

NOTE 22: OTHER EXPENSES (in HUF million)

	2005	2004
Release of allowance for securities held-to-maturity	(30)	–
Provision for permanent diminution in value of equity investments	166	426
Provision/(release of allowance) for other assets	118	(569)
Release of allowance for off-balance sheet commitments and contingent liabilities	(1,544)	(924)
Administration expenses. including rent	29,831	25,996
Advertising	6,308	5,975
Taxes. other than income taxes	17,591	15,667
Special tax for banks	10,151	–
Services	22,993	22,029
Professional fees	5,169	4,003
Other	7,320	8,443
Total	**98,073**	**81,046**

NOTE 23: INCOME TAXES (in HUF million)

The Group is presently liable for income tax at rates of 15%, 16%, 19%, 20% and 30% of taxable income. The 15% rate relates to the Bank's subsidiaries incorporated in Bulgaria. The 16% rate relates to the Bank and its subsidiaries incorporated in Hungary and Romania. The 19% rate relates to the Bank's subsidiaries incorporated in Slovakia. The 20% rate relates to the Bank's subsidiaries incorporated in Croatia 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, as these are the income tax rates effective from January 1, 2005.

A reconciliation of the income tax charges is as follows:

	2005	Restated 2004
Current tax	32,803	25,774
Deferred tax	1,000	(1,268)
Total	**33,803**	**24,506**

A reconciliation of the deferred tax liability is as follows:

	2005	Restated 2004
Balance as at January 1	(2,175)	(2,579)
Acquisition of subsidiaries	1,795	97
Foreign currency translation (loss)/gain	(180)	122
Deferred tax (charge)/credit	(1,000)	1,268
Recognised in retained earnings and reserves	(1,201)	(1,083)
Closing balance	(2,761)	(2,175)

A reconciliation of the income tax charge is as follows:

	2005	Restated 2004
Net income before income taxes	192,077	156,024
Income tax with statutory tax rate	30,732	24,868

Income tax adjustments are as follows:

	2005	2004
Reversal of statutory general provision	(1,191)	(699)
Reversal of statutory goodwill and negative goodwill	(1,318)	288
Revaluation of investments denominated in foreign currency to historical cost	305	(346)
Profit on sale of Treasury Shares	1,188	314
Fair value of share-based compensations	1,200	376
Other	2,887	(295)
Income tax	33,803	24,506
Effective tax rate	17.6%	15.7%

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

	2005	Restated 2004
Premium and discount amortization on investment securities	–	115
Allowance for losses on off-balance sheet commitments and contingent liabilities on derivative financial instruments	–	5
Difference in accounting for finance leases	233	20
Fair value adjustment of derivative financial instruments	464	217
Repurchase agreements	–	4
Losses available for carry forward	1,023	–
Other	–	142
Deferred tax asset	1,720	503

	2005	Restated 2004
Fair value adjustment of held for trading and available-for-sale financial assets	(88)	–
Allowance for losses on off-balance sheet commitments and contingent liabilities on derivative financial instruments	(99)	–
Fair value adjustment of derivative financial instruments	(1,304)	(558)
Repurchase agreements	(4)	–
Fixed assets	(2,606)	(1,842)
Temporary differences arising on consolidation	(337)	(278)
Other	(43)	–
Deferred tax liabilities	(4,481)	(2,678)
Net deferred tax liabilities	**(2,761)**	**(2,175)**

NOTE 24: 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 33.

Liquidity risk

See Note 34.

Interest rate risk

See Note 35.

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

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

	2005	2004
Commitments to extend credit	620,231	464,843
Guarantees arising from banking activities	118,203	98,514
Confirmed letters of credit	12,850	3,094
Legal disputes	4,180	2,567
Others	164	113
Total	**755,628**	**569,131**

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. Provision due to legal disputes were HUF 2,138 million and HUF 1,430 million as at December 31, 2005 and 2004, respectively.

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

	2005	Restated 2004
Foreign currency contracts		
Assets	50,242	35,946
Liabilities	51,571	(38,672)
Net	(1,329)	(2,726)
Net fair value	(856)	(911)
Foreign exchange swaps and interest rate swaps designated as held for trading		
Assets	613,217	278,077
Liabilities	597,038	(288,168)
Net	16,179	(10,091)
Net fair value	1,228	3,035
Foreign exchange swaps and interest rate swaps designated as hedge accounting relationships		
Assets	12,031	27,873
Liabilities	14,023	(21,672)
Net	(1,992)	6,201
Net fair value	(687)	411
Option contracts		
Assets	–	2,205
Liabilities	–	–
Net	–	2,205
Net fair value	–	–
Other options		
Assets	–	6,834
Liabilities	341	(704)
Net	(341)	6,130
Net fair value	–	–

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 December 31, 2005, the Group has derivative instruments with positive fair values of HUF 10,533 million and negative fair values of HUF 10,429 million. Positive fair values of derivative instruments designated as hedge accounting relationships are included in other assets, while positive fair values of derivative instruments designated as held for trading are included in financial assets at fair value through statements of operations. Negative fair values of derivative instruments are included in other liabilities. Corresponding figures as at December 31, 2004 are HUF 4,134 million and HUF 3,187 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 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 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 losses on off balance sheet commitments and contingent liabilities, see Note 16.

NOTE 26: SHARE-BASED COMPENSATION

The 2000 Annual General Meeting approved a five year share option and bonus program for the years 2000 to 2004 granting options and bonus shares on an annual basis. Such options are for the years 2003 and 2004, the grant date is December 31, 2002.

The exercise price of the share options related to the years 2003 and 2004 is equal to half of the average market price of the month before the Annual General Meeting.

The 2005 Annual General Meeting approved a five year share option program for the years 2005 to 2009 under which options are granted annually. Such options have a grant date of April 29, 2005. The maximum number of shares available is 2.92 million annually.

The exercise prices of the options for each year for the years 2005 to 2009 is equal to the average market price of OTP shares in the two month period ending on the last day of the month of the Annual General Meeting.

The exercise period of the share options granted for the years of 2003 and 2004 is one year and for the five year share option program for the years 2005 to 2009 is two years. The exercise period of the option program for the years 2005 to 2009 must be opened after the calendar year but not later than August 31. If the options remain unexercised before the end of the exercise period, such options expire. Additionally, options are forfeited if the employee leaves the Bank before the options vest.

	For the year ended December 31, 2004		For the year ended December 31, 2005	
	Options (piece of shares)	**Weighted average exercise price (in HUF)**	**Options (piece of shares)**	**Weighted average exercise price (in HUF)**
Outstanding at beginning of period	3,599,930	2,548	3,575,930	2,552
Granted during the period	–	–	4,251,500	5,446
Forfeited during the period	–	–	30,000	3,107
Exercised during the period	24,000	1,980	4,451,230	2,661
Outstanding at the end of the period	3,575,930	2,552	3,346,200	6,079
Exercisable at the end of the period	1,761,930	1,980	446,200	3,107

The weighted average share price at the date of exercise for share options of 2003 and 2004 exercised during the year ended December 31, 2005 was HUF 6,116 and 7,333. The options outstanding at December 31, 2005 had a weighted average exercise price of HUF 6,079 with a weighted average remaining contractual life of 18 months.

The inputs into the Binominal model are as follows:

	2003	**2004**	**2005**
Weighted average share price (HUF)	2,210	2,210	6,060
Weighted average exercise price (HUF)	1,211	1,264	6,536
Expected volatility (%)	25	30	35
Expected life (average year)	2.42	3.42	3.34
Risk free rate (%)	7.30	7.17	7.46
Expected dividends (%)	1.24	1.24	2.41

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

In connection with the share-based payment programs approved by the Bank and applying IFRS 2, HUF 7,497 million and HUF 2,348 million has been recognised as an expense for the years ended December 31, 2005 and 2004, respectively.

NOTE 27: RELATED PARTY TRANSACTIONS (in HUF million)

The members of the Board of Directors and the Supervisory Board had credit lines of HUF 188 million and HUF 194 million as at December 31, 2005 and 2004. 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 283 million and HUF 294 million, with commitments to extend credit and guarantees of HUF 112 million and HUF 126 million as at December 31, 2005 and 2004, respectively.

The amount of loans extended to unconsolidated subsidiaries was HUF 45,603 million and HUF 16,991 million as at December 31, 2005 and 2004, respectively.

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

	2005	2004
Short-term employee benefits	9,964	9,156
Termination benefits	15	116
Share-based compensation	4,517	1,113
Total	**14,496**	**10,385**

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

	2005	2004
Cash, due from banks and balances with the National Bank of Hungary	483,191	465,887
Compulsory reserve established by the National Bank of Hungary	(121,195)	(110,214)
	361,996	**355,673**

NOTE 29: ACQUISITIONS (in HUF million)

(a) Purchase and consolidation of subsidiary undertakings

On March 10, 2005 the Group completed the acquisition of 95.59% of the shares of Nova banka d.d., a Croatian bank (renamed OTP banka Hrvatska d.d.), which has subsequently been increased to 100%. The total purchase price of Nova banka d.d. of EUR 248 million was provided in cash. The Bank acquired 100% of the shares of OTP banka Hrvatska d.d. through a series of transactions.

On July 30, 2004 the Group completed the acquisition of 100% of the shares of RoBank S.A., a Romanian bank (renamed OTP Bank Romania S.A.). The purchase price of RoBank S.A. of USD 47.5 million was provided in cash.

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

	At acquisition date OTP banka Hrvatska d.d.	At acquisition date OTP Bank Romania S.A.
Cash, due from banks, and balances with the National Bank	(2,274)	(326)
Placements with other banks. net of allowance for placement losses	(73,431)	(14,046)
Securities available-for-sale	(40,929)	(214)
Loans, net of allowance for loan losses	(122,056)	(17,856)
Accrued interest receivable	(1,643)	(225)
Equity investment	(669)	(35)
Debt securities held-to-maturity	(1,168)	(375)
Premises. equipment and intangible assets	(7,944)	(1,705)
Other assets	(3,439)	(1,011)
Due to banks and deposits from the National Bank and other banks	9,201	5,469
Deposits from customers	212,841	25,001
Accrued interest payable	1,566	376
Other liabilities	4,580	106
Subordinated loans	1,233	–
Net asset value	(24,132)	(4,841)
Goodwill	(35,809)	(4,926)
Cash consideration	**(59,941)**	**(9,767)**

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

	2005	2004
Cash consideration	(59,941)	(9,767)
Cash acquired	2,274	326
Net cash outflow	**(57,667)**	**(9,441)**

NOTE 30: MAJOR SUBSIDIARIES

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

Name	Ownership (Direct and Indirect) December 31, 2005	Ownership (Direct and Indirect) December 31, 2004	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%	real estate management
HIF Ltd. (United Kingdom)	100.00%	100.00%	forfaiting
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

Name	Ownership (Direct and Indirect)		Activity
continued	December 31, 2005	December 31, 2004	
Bank Center No. 1. Ltd.	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 Ltd.	100.00%	100.00%	mortgage lending
OTP Fund Services and Consulting Ltd.	100.00%	100.00%	fund services
OTP Banka Slovensko, a. s. (Slovakia)	97.23%	97.23%	commercial banking services
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	–	commercial banking services

NOTE 31: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying Consolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 46,825 million and HUF 47,301 million as at December 31, 2005 and 2004, respectively.

NOTE 32: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 18.5% and 22.5% 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, 2005 and 2004, respectively.

NOTE 33: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at December 31, 2005	USD	EUR	Others	Total
Assets	201,662	746,710	1,128,786	2,077,158
Liabilities	(174,739)	(858,881)	(838,748)	(1,872,368)
Off-balance sheet assets and liabilities, net	(35,644)	(71,103)	(259,463)	(366,210)
Net position	(8,721)	(183,274)	30,575	(161,420)
As at December 31, 2004	**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

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 34: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

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, 2005

	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	483,191	–	–	–	483,191
Placements with other banks. net of allowance for placement losses	391,722	17,502	26,933	2,611	438,768
Financial assets at fair value through statements of operations	2,029	6,524	29,119	10,382	48,054
Securities available-for-sale	49,966	86,875	170,402	102,702	409,945
Loans, net of allowance for loan losses	320,488	518,413	1,157,581	1,194,816	3,191,298
Accrued interest receivable	33,294	3,142	795	639	37,870
Equity investments	–	–	36	12,321	12,357
Debt securities held-to-maturity	42,339	81,780	92,235	73,449	289,803
Premises, equipment and intangible assets, net	331	1,120	84,030	147,764	233,245
Other assets	29,182	24,344	14,727	3,118	71,371
Total assets	**1,352,542**	**739,700**	**1,575,858**	**1,547,802**	**5,215,902**
Due to banks and deposits from the National Bank of Hungary and other banks	109,974	24,478	193,144	36,528	364,124
Deposits from customers	3,068,438	283,734	63,995	12,026	3,428,193
Liabilities from issued securities	21,318	44,345	273,509	204,288	543,460
Accrued interest payable	14,751	6,843	3,119	189	24,902
Other liabilities	109,301	8,391	52,950	90,086	260,728
Subordinated bonds and loans	–	–	9,831	37,192	47,023
Total liabilities	**3,323,782**	**367,791**	**596,548**	**380,309**	**4,668,430**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	572,567	572,567
Treasury shares	(200)	(15,431)	(37,955)	–	(53,586)
Minority interests	–	–	–	491	491
Total shareholders' equity	**(200)**	**(15,431)**	**(37,955)**	**601,058**	**547,472**
Total liabilities and shareholders' equity	**3,323,582**	**352,360**	**558,593**	**981,367**	**5,215,902**
Liquidity (deficiency)/excess	**(1,971,040)**	**387,340**	**1,017,265**	**566,435**	**–**

As at December 31, 2004 (Restated)

	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 placement losses	258,986	17,147	9,755	312	286,200
Financial assets at fair value through statements of operations	27,930	25,458	7,103	10,089	70,580
Securities available-for-sale	33,535	46,717	161,313	54,270	295,835
Loans, net of allowance for 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	41,503	17,706	14,311	719	74,239
Total assets	**1,076,367**	**580,957**	**1,374,658**	**1,130,377**	**4,162,359**
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)
Minority interests	–	–	–	425	425
Total shareholders' equity	**(327)**	**(14,659)**	**(1,300)**	**449,971**	**433,685**
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**	**–**

NOTE 35: 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, 2005

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, due from banks and balances with the National Bank of Hungary	**404,859**	**4,733**	**4**	**1,021**	**72**	**–**	**–**	**–**	**1**	**3,423**	**47,493**	**21,585**	**452,429**	**30,762**	**483,191**
fixed rate	404,400	3,526	2	–	–	–	–	–	–	–	–	–	404,402	3,526	407,928
variable rate	459	1,207	2	1,021	72	–	–	–	–	–	–	–	533	2,228	2,761
non-interest-bearing	–	–	–	–	–	–	–	–	1	3,423	47,493	21,585	47,494	25,008	72,502
Placements with other banks, net of allowance for possible placement losses	**76,910**	**265,237**	**20,000**	**16,954**	**200**	**8,832**	**–**	**89**	**–**	**1,321**	**–**	**49,225**	**97,110**	**341,658**	**438,768**
fixed rate	73,910	243,879	20,000	7,754	200	3,943	–	89	–	1,137	–	–	94,110	256,802	350,912
variable rate	3,000	21,358	–	9,200	–	4,889	–	–	–	184	–	–	3,000	35,631	38,631
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	49,225	–	49,225	49,225
Securities held for trading	**369**	**3,763**	**1,110**	**522**	**1,850**	**1,755**	**8,169**	**972**	**10,300**	**8,706**	**198**	**259**	**21,996**	**15,977**	**37,973**
fixed rate	369	–	211	–	1,778	1,755	8,169	972	10,300	8,706	–	-	20,827	11,433	32,260
variable rate	–	3,763	899	522	72	–	–	–	–	–	–	–	971	4,285	5,256
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	198	259	198	259	457
Securities available-for-sale	**30,305**	**7,136**	**39,580**	**16,241**	**57,919**	**17,499**	**30,678**	**28,100**	**124,714**	**33,148**	**22,296**	**2,329**	**305,492**	**104,453**	**409,945**
fixed rate	7,591	463	11,544	1,704	57,378	12,266	30,678	28,100	124,714	28,666	–	–	231,905	71,199	303,104
variable rate	22,714	6,673	28,036	14,537	541	5,233	–	–	–	4,482	–	–	51,291	30,925	82,216
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	22,296	2,329	22,296	2,329	24,625
Loans	**456,855**	**645,890**	**459,196**	**485,887**	**55,760**	**94,195**	**58,626**	**32,058**	**714,857**	**171,614**	**7,506**	**8,854**	**1,752,800**	**1,438,498**	**3,191,298**
fixed rate	4,760	6,863	7,127	8,347	5,644	24,209	3,552	9,862	7,881	47,569	–	–	28,964	96,850	125,814
variable rate	452,095	639,027	452,069	477,540	50,116	69,986	55,074	22,196	706,976	124,045	–	–	1,716,330	1,332,794	3,049,124
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,506	8,854	7,506	8,854	16,360
Debt securities held-to-maturity	**23,688**	**14,532**	**61,639**	**10,495**	**60,892**	**4,927**	**9,945**	**6,186**	**76,596**	**20,348**	**–**	**555**	**232,760**	**57,043**	**289,803**
fixed rate	–	2,973	5,933	9,852	50,102	3,760	9,945	6,186	76,596	20,348	–	–	142,576	43,119	185,695
variable rate	23,688	11,559	55,706	643	10,790	1,167	–	–	–	–	–	–	90,184	13,369	103,553
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	555	–	555	555
Fair value of derivative financial instruments	**90,496**	**80,844**	**108,836**	**92,128**	**69,538**	**2,261**	**16,752**	**–**	**45,549**	**101,459**	**–**	**–**	**331,171**	**276,692**	**607,863**
fixed rate	82,516	72,723	97,269	18,141	56,724	2,261	16,752	–	45,549	101,459	–	–	298,810	194,584	493,394
variable rate	7,980	8,121	11,567	73,987	12,814	–	–	–	–	–	–	–	32,361	82,108	114,469

As at December 31, 2005

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Due to banks and deposits from the National Bank of Hungary and other banks	**28,522**	**99,893**	**–**	**187,842**	**–**	**15,685**	**1**	**11,329**	**4**	**16,856**	**1**	**3,991**	**28,528**	**335,596**	**364,124**
fixed rate	701	38,616	–	7,500	–	5,454	1	5,455	3	9,872	–	–	705	66,897	67,602
variable rate	27,821	61,277	–	180,342	–	10,231	–	5,874	1	6,984	–	–	27,822	264,708	292,530
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1	3,991	1	3,991	3,992
Deposits from customers	**2,057,329**	**954,508**	**152,830**	**87,925**	**21,851**	**87,677**	**12,701**	**1,424**	**42,183**	**2,718**	**584**	**6,463**	**2,287,478**	**1,140,715**	**3,428,193**
fixed rate	744,560	277,454	152,830	79,369	21,851	74,031	12,701	1,149	42,183	1,881	–	–	974,125	433,884	1,408,009
variable rate	1,312,769	677,054	–	8,556	–	13,646	–	275	–	837	–	–	1,312,769	700,368	2,013,137
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	584	6,463	584	6,463	7,047
Liabilities from issued securities	**19,657**	**128,759**	**31,549**	**85,100**	**38,567**	**6,746**	**4,823**	**6,682**	**149,743**	**63,907**	**7,919**	**8**	**252,258**	**291,202**	**543,460**
fixed rate	6,602	2,700	9,491	9,248	38,567	6,746	4,823	6,682	149,743	63,907	–	–	209,226	89,283	298,509
variable rate	13,055	126,059	22,058	75,852	–	–	–	–	–	–	–	–	35,113	201,911	237,024
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,919	8	7,919	8	7,927
Fair value of derivative financial instruments in other liabilities	**44,023**	**118,047**	**52,582**	**148,297**	**18,614**	**41,790**	**18,591**	**202**	**158,557**	**7,066**	**–**	**–**	**292,367**	**315,402**	**607,769**
fixed rate	43,214	111,919	40,396	74,913	14,281	41,790	18,591	202	158,557	7,066	–	–	275,039	235,890	510,929
variable rate	809	6,128	12,186	73,384	4,333	–	–	–	–	–	–	–	17,328	79,512	96,840
Subordinated bonds and loans	**5,000**	**–**	**–**	**31,591**	**–**	**10,432**	**–**	**–**	**–**	**–**	**–**	**–**	**5,000**	**42,023**	**47,023**
variable rate	5,000	–	–	31,591	–	10,432	–	–	–	–	–	–	5,000	42,023	47,023

As at December 31, 2004

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, due from banks and balances with the National Bank of Hungary	**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	**5,710**	**2,677**	**19,572**	**4,027**	**17,114**	**2,311**	**73**	**313**	**5,490**	**9,815**	**155**	**1**	**48,114**	**19,144**	**67,258**
fixed rate	5,624	–	18,734	202	17,040	635	73	313	5,490	9,815	–	–	46,961	10,965	57,926
variable rate	86	2,677	838	3,825	74	1,676	–	–	–	–	–	–	998	8,178	9,176
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	155	1	155	1	156
Securities available-for-sale	**24,680**	**14,688**	**44,570**	**7,446**	**51,082**	**2,851**	**27,964**	**3,557**	**70,636**	**29,202**	**17,921**	**1,238**	**236,853**	**58,982**	**295,835**
fixed rate	1,847	–	29,008	1,570	50,752	1,823	27,964	3,557	70,636	29,202	–	–	180,207	36,152	216,359
variable rate	22,833	14,688	15,562	5,876	330	1,028	–	–	–	–	–	–	38,725	21,592	60,317
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	17,921	1,238	17,921	1,238	19,159
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	**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

As at December 31, 2004

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
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**	**86,682**	**(2,656)**	**94,750**	**11,360**	**561,156**	**2,446**	**75,998**	**51,938**	**418,867**	**(34,960)**	**383,907**

NOTE 36: EARNINGS PER SHARE

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

	2005	Restated 2004
Consolidated net income (in HUF mn)	158,235	131,506
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	262,195,663	262,425,151
Consolidated Basic Earnings per share (in HUF)	603	501
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	264,320,310	263,565,631
Consolidated Diluted Earnings per share (in HUF)	599	499

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.

NOTE 37: SEGMENT REPORTING (in HUF million)

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

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

37.1. Primary reporting format by geographical segments

	Hungary	United Kingdom	Slovakia	Bulgaria	Romania	Croatia	Elimination	Consolidated
Interest income								
External	387,773	854	11,714	43,442	3,706	11,535	–	459,024
Inter-segment	797	–	–	284	–	–	(1,081)	–
Total	**388,570**	**854**	**11,714**	**43,726**	**3,706**	**11,535**	**(1,081)**	**459,024**
Non-interest income								
External	192,097	65	7,400	11,167	1,851	3,917	–	216,497
Inter-segment	70	–	–	382	–	–	(452)	–
Total	**192,167**	**65**	**7,400**	**11,549**	**1,851**	**3,917**	**(452)**	**216,497**
Segment income before income taxes	172,430	194	809	19,601	(2,182)	3,117	(1,892)	192,077
Income taxes	–	–	–	–	–	–	–	(33,803)
Net income after income taxes	–	–	–	–	–	–	–	158,274
Segment assets	4,003,566	14,369	287,763	610,114	60,094	332,083	(92,087)	5,215,902
Segment liabilities	3,657,452	12,249	270,635	509,237	41,450	267,603	(90,196)	4,668,430
Capital expenditure	1,964	–	482	5,567	1,972	–	–	9,985
Depreciation	17,640	1	897	2,481	462	416	--	21,897
Allowance for loan and placement losses	20,196	8	1,647	5,151	777	253	10	28,042

37.2. Secondary segment information by business segments

	Banking segment	Insurance segment
Total segment income	588,998	82,860
Segment net income before income taxes	187,109	7,580
Segment assets	5,094,822	157,225
Capital expenditure	8,517	310

NOTE 38: POST BALANCE SHEET EVENTS

On October 24, 2005 the Bank made a binding bid for purchasing 89.39% of the shares of Niska banka a.d. registered in Serbia. The purchase agreement was signed on December 23, 2005 at price of EUR 14.21 million. The transaction was closed on March 7, 2006. The total assets of Niska banka were approximately 38 million EUR as at December 31, 2005.

Based on the authorization of the Annual General Meeting of the year 2005, the Bank repurchased 1,000,000 pieces of own shares between January 1 and 25, 2006 at an average price of HUF 7,405.

Deloitte.

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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, 2005 and the related unconsolidated statements of operations, cash flows and changes in shareholders' equity for the year then ended, included on pages 111 to 151 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 audit.

We conducted our audit in accordance with the International Standards on Auditing issued by the International Federation of Accountants. 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 audit provides 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 2.8 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 of December 31, 2005 and the unconsolidated results of its operations, cash flows and changes in shareholders' equity for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union.

Budapest, March 10, 2006

Deloitte

Deloitte Auditing and Consulting Ltd.

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A member of
Deloitte Touche Tohmatsu

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

Balance Sheet

(unconsolidated, based on IFRS, as at December 31, 2005 and December 31, 2004, in HUF million)

	2005	Restated 2004
Cash, due from banks and balances with the National Bank of Hungary	379,249	399,401
Placements with other banks. Net of allowance for placement losses	393,659	200,100
Financial assets at fair value through statement of operations	34,054	22,059
Securities available-for-sale	371,433	324,130
Loans, net of allowance for loan losses	1,475,508	1,276,241
Accrued interest receivable	41,276	41,180
Investments in subsidiaries	223,881	154,298
Securities held-to-maturity	521,797	507,503
Premises, equipment and intangible assets, net	105,569	96,538
Other assets	46,447	33,025
Total assets	**3,592,873**	**3,054,475**
Due to banks and deposits from the National Bank of Hungary and other banks	255,211	203,777
Deposits from customers	2,506,457	2,340,924
Liabilities from issued securities	202,267	1,997
Accrued interest payable	5,735	9,414
Other liabilities	102,881	94,987
Subordinated bonds and loans	47,023	14,324
Total liabilities	**3,119,574**	**2,665,423**
Share capital	28,000	28,000
Retained earnings and reserves	486,051	374,860
Treasury shares	(40,752)	(13,808)
Total shareholders' equity	**473,299**	**389,052**
Total liabilities and shareholders' equity	**3,592,873**	**3,054,475**

The accompanying notes to unconsolidated financial statements on pages 115 to 151 form an integral part of these unconsolidated financial statements.

Profit and Loss Account

(unconsolidated, based on IFRS, for the years ended December 31, 2005 and December 31, 2004, in HUF million)

	2005	Restated 2004
Interest income:		
Loans	147,368	136,968
Placements with other banks	36,961	40,634
Due from banks and balances with the National Bank of Hungary	27,957	30,872
Securities held for trading	2,108	2,581
Securities available-for sale	27,742	26,677
Securities held-to-maturity	39,266	53,203
Total interest income	281,402	290,935
Interest expense:		
Due to banks and deposits from the National Bank of Hungary and other banks	27,989	19,699
Deposits from customers	81,504	119,116
Liabilities from issued securities	1,677	167
Subordinated bonds and loans	1,593	870
Total interest expense	112,763	139,852
Net interest income	**168,639**	**151,083**
Provision for loan and placement losses	16,435	8,628
Net interest income after provision for loan and placement losses	**152,204**	**142,455**
Non-interest income:		
Fees and commissions	136,264	113,299
Foreign exchange gains, net	1,603	914
Gains on securities, net	3,103	1,081
Losses on real estate transactions, net	(28)	(103)
Dividend income	13,937	8,500
Other	3,541	2,654
Total non-interest income	158,420	126,345
Non-interest expenses:		
Fees and commissions	13,840	9,692
Personnel expenses	62,437	54,342
Depreciation and amortization	15,244	13,401
Other	63,301	59,006
Total non-interest expenses	154,822	136,441
Income before income taxes	**155,802**	**132,359**
Income taxes	22,954	18,882
Net income after income taxes	**132,848**	**113,477**
Earnings per share (in HUF)		
Basic	492	420
Diluted	488	418

The accompanying notes to unconsolidated financial statements on pages 115 to 151 form an integral part of these unconsolidated financial statements.

Statement of Cash Flow

(unconsolidated, based on IFRS, for the years ended December 31, 2005 and December 31, 2004, in HUF million)

	2005	Restated 2004
Operating activities		
Income before income taxes	**155,802**	**132,359**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Income tax paid	(21,071)	(19,508)
Depreciation and amortization	15,244	13,401
Provision for loan and placement losses	16,435	8,628
Release of provision for permanent diminution in value of investments in subsidiaries	(1,909)	(253)
Provision/(release of allowance) for losses of other assets	46	(1,314)
(Release of allowance)/provision for losses on off-balance sheet commitments and contingent liabilities, net	(1,984)	901
Share-based compensation	7,497	2,348
Unrealised losses on fair value adjustment of securities held for trading	7	23
Unrealised losses/(gains) on fair value adjustment of derivative financial instruments	1,868	(635)
Changes in operating assets and liabilities:		
Net changes in financial assets through statements of operations	(5,192)	34,070
Net increase in accrued interest receivable	(96)	(9,388)
Net (increase)/decrease in other assets, excluding advances for investments and before provisions for losses	(14,231)	12,495
Net (decrease)/increase in accrued interest payable	(3,679)	1,519
Net (decrease)/increase in other liabilities	(754)	16,585
Net cash provided by operating activities	147,983	191,231
Investing activities		
Net increase in placements with other banks before provision for placement losses	(193,558)	(4,710)
Net increase in securities available-for-sale	(41,795)	(48,151)
Net increase in investments in subsidiaries before provision for permanent diminution in value	(67,674)	(15,237)
Net (increase)/decrease in securities held-to-maturity	(14,294)	117,806
Net (decrease)/increase in advances for investments included in other assets	(14)	33
Net increase in loans before provision for possible loan losses	(215,703)	(214,625)
Net additions to premises, equipment and intangible assets	(24,275)	(23,539)
Net cash used in investing activities	(557,313)	(218,423)
Financing activities		
Net increase in due to banks and deposits from the National Bank of Hungary and other banks	51,434	112,696
Net increase in deposits from customers	165,533	76,396
Net increase/(decrease) in liabilities from issued securities	200,270	(42)
Increase/(decrease) in subordinated bonds and loans	32,699	(1,089)
Net change in treasury shares	(19,518)	2,480
Net (increase)/decrease in the compulsory reserve established by the National Bank of Hungary	(12,489)	3,816
Dividends paid	**(41,240)**	**(16,823)**
Net cash provided by financing activities	376,689	177,434
Net (decrease)/increase in cash and cash equivalents	(32,641)	150,242
Cash and cash equivalents at the beginning of the period	293,685	143,443
Cash and cash equivalents at the end of the period	261,044	293,685
Analysis of cash and cash equivalents opening and closing balance		
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 beginning of the period	293,685	143,443
Cash, due from fanks and balances with the National Bank of Hungary	379,249	399,401
Compulsory reserve established by the National Bank of Hungary	(118,205)	(105,716)
Cash and cash equivalents at the end of the period	**261,044**	**293,685**

The accompanying notes to unconsolidated financial statements on pages 115 to 151 form an integral part of these unconsolidated financial statements.

Statement of changes in Shareholders' Equity

(unconsolidated, based on IFRS, for the years ended December 31, 2005 and December 31, 2004, in HUF million)

	Share capital	Retained earnings and reserves	Treasury shares	Total
Balance as at January 1, 2004 (restated)	**28,000**	**262,504**	**(14,328)**	**276,176**
Net income after income taxes	–	113,477	–	113,477
Fair value adjustment of securities available-for-sale recognised directly through equity	–	11,371	–	11,371
Share-based compensation		2,348		2,348
Dividend for the year 2003	–	**(16,800)**	–	**(16,800)**
Profit on sale of treasury shares	–	1,960	–	1,960
Sale and purchase of treasury shares	–	–	520	520
Balance as at December 31, 2004 (Restated)	**28,000**	**374,860**	**(13,808)**	**389,052**
Net income after income taxes	–	132,848	–	132,848
Fair value adjustment of securities available-for-sale recognised directly through equity	–	4,626	–	4,626
Share-based compensation	–	7,497	–	7,497
Dividend for the year 2004	–	**(41,206)**	–	**(41,206)**
Profit on sale of treasury shares	–	7,426	–	7,426
Sale and purchase of treasury shares	–	–	(26,944)	(26,944)
Balance as at December 31, 2005	**28,000**	**486,051**	**(40,752)**	**473,299**

The accompanying notes to unconsolidated financial statements on pages 115 to 151 form an integral part of these unconsolidated financial statements.

NOTES TO UNCONSOLIDATED IFRS FINANCIAL STATEMENTS AS AT DECEMBER 31, 2005

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, 2005 approximately 90.4% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (3.1%) and the Bank (6.5%).

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

As at December 31, 2005 the number of employees at the Bank was 7,999. The average number of employees for the year ended December 31, 2005 was 7,842.

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 33), 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).
The unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. As the Bank does not apply portfolio hedge accounting under IAS 39, there is no impact on these unconsolidated financial statements, had it been approved by the EU at the balance sheet date.

1.2.1. The effect of adopting revised International Financial Reporting Standards effective from January 1, 2005 on the 2004 financial statements

Effective from January 1, 2005 the Bank adopted revised IAS 39 ("Financial Instruments: Recognition and Measurement"), and IFRS 2 ("Share-based payment"). Revisions to a number of other IAS also took effect in the unconsolidated condensed financial statements of the Bank, but those revisions concerned matters of detailed application which have no significant effect on amounts reported.

Financial Instruments: Recognition and Measurement

IAS 39 Revised, which is effective after January 1, 2005 changes the category held for trading instruments by introducing a new category „a financial asset at fair value through statements of operations". In this category is classified previously held for trading assets and other instruments which upon initial recognition are designated by the entity as to be held at fair value through statements of operations.
Due to the retrospective application of IAS 39 Revised, an opening adjustment of HUF 5,297 million has been presented in retained earnings and reserves as of January 1, 2004. Due to restatement of prior periods, income after income tax decreased by HUF 11,371 million for the year ended December 31, 2004, from what was previously reported.

IFRS 2 Share based payment

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 has been adopted retrospectively from January 1, 2005 in respect of options which have a grant date later than November 7, 2002.
The Annual General Meeting for the year 2000 approved a five year share option and bonus program for the years 2000 to 2004 granting options and bonus shares on an annual basis. For the options for the years 2003 and 2004, the grant date is December 31, 2002.

Due to the retrospective application of IFRS 2, an opening adjustment of HUF 2,085 million is presented separately in retained earnings and reserves as of January 1, 2004. Due to restatement of prior periods, income after income tax was decreased by HUF 2,348 million for the year ended December 31, 2004.

Summary of the effects of introduction of IAS 39 Revised and IFRS 2 for the year ended December 31, 2004 is as follows (in HUF million):

	As originally reported for the year ended December 31, 2004	Restated for the year ended December 31, 2004
Fair value adjustment of available-for-sale securities recognized in profit and loss	14,632	1,095
Deferred tax effect	(2,341)	(175)
Contribution to net income	12,291	920
Share based compensation	–	(2,348)
Net income after income taxes	**127,196**	**113,477**
Fair value adjustment of available-for-sale securities recognized directly through equity	–	13,537
Deferred tax effect	–	(2,166)
Effect to equity	–	11,371
Share based compensation directly through equity	–	2,348
Total shareholders' equity	**389,052**	**389,052**

1.2.2. Changes in accounting policies arising from the adoption of new IFRSs and amendments to IASs effective January 1, 2006

At the date of authorisation of these financial statements, the following standards were in issue but not yet effective:

- IFRS 7 'Financial Instruments: Disclosures' (effective January 1, 2007);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of cash flow hedge accounting (effective January 1, 2006);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' for financial guarantee contracts (effective January 1, 2006);
- Amendments to IAS 1 'Presentation of Financial Statements' on capital disclosures (effective January 1, 2007).

The adoption of these standards in the future periods is not expected to have a material impact on the unconsolidated profit or equity.

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.

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

2.2. Foreign currency translation

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 2.8 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. Financial assets at fair value through statement of operations

2.5.1. Securities held for trading

Investments in securities are accounted on a settlement date basis and are initially measured at fair value. Held for trading investments are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities is recognised in profit/loss and included in the Unconsolidated Statement of Operations for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in commercial companies, shares in investment funds.

2.5.2. Derivative financial instruments

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

Derivative financial instruments are initially measured at fair value and at subsequent reporting dates at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit/loss and included in the Unconsolidated Statement of Operation for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the 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.

2.6. Securities available-for-sale

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

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

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

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amounts outstanding. When a borrower is unable to meet payments as they 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.

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 loan and placement losses are maintained at levels adequate to absorb probable future losses.

2.8. 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.

2.9. 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 Due to Banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Placement with other Banks. Interest is accrued evenly over the life of the repurchase agreement.

2.10. Premises, equipment and intangible assets

Premises, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization. The depreciable amount (book value less residual value) of the non-current assets must be allocated over them useful life. 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.

2.11. 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.

2.12. 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.

2.13. Interest income and interest expense

Interest income and expense are recognised in the unconsolidated statement of operations on an accrual basis.

2.14. 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.

2.15. 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 credi and letters of credit and transactions with financial instruments. The allowance for 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.

2.16. Share-based payments

The Bank has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after November 7, 2002 that were unvested as of January 1, 2005.

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

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

2.17. 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.

2.18. Comparative figures

Certain amounts in the 2005 unconsolidated financial statements have been reclassified to conform with the current year presentation.

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

(a) Impairment of loans and advances

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

(b) Valuation of instruments without direct quotations

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

(c) Provisions

The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (see Note 15)

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

	2005	2004
Cash on hand:		
In HUF	47,122	53,122
In foreign currency	2,661	2,743
	49,783	55,865
Due from banks and balances with NBH:		
Within one year:		
In HUF	327,299	341,940
In foreign currency	2,167	1,596
	329,466	343,536
Total	**379,249**	**399,401**

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the balance of compulsory reserves amounted to approximately HUF 118,205 million and HUF 105,716 million as at December 31, 2005 and 2004, respectively.

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

	2005	2004
Within one year:		
In HUF	90,309	127,437
In foreign currency	192,258	61,339
	282,567	188,776
Over one year:		
In HUF	3,300	300
In foreign currency	107,792	11,025
	111,092	11,325
Total	**393,659**	**200,101**
Allowance for placement losses	–	(1)
Total	**393,659**	**200,100**

Placements with other banks in foreign currency as at December 31, 2005 and 2004 bear interest rates in the range from 0.05% to 12% and from 0.4% to 7%, respectively.

Placements with other banks in HUF as at December 31, 2005 and 2004 bear interest rates in the range from 5% to 7.6% and from 9% to 12.5%, respectively.

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

	2005	2004
Balance as at January 1	**1**	**182**
Release of provision for placement losses	(1)	(181)
Balance as at December 31	**–**	**1**

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

	2005	Restated 2004
Securities held for trading		
Hungarian Government discounted Treasury bills	160	5,055
Hungarian Government interest bearing Treasury bills	1,485	2,756
Government bonds	19,743	8,538
Mortgage bonds	2,356	2,238
Other securities	199	171
	23,943	18,758
Derivative financial instruments designated as held for trading	10,111	3,301
Total	**34,054**	**22,059**

Approximately 99.3% and 98.1% of the held for trading securities portfolio was denominated in HUF as at December 31, 2005 and 2004, respectively.

Approximately 0.9% and 4.2% of the government bonds were denominated in foreign currency as at December 31, 2005 and 2004, respectively. This portfolio was denominated in USD as at December 31, 2005. Approximately 90% and 10% of this portfolio was denominated in USD and EUR as at December 31, 2004.

Interest rates on securities held for trading ranged from 3% to 12% and from 3% to 13.4% as at December 31, 2005 and 2004, respectively.

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

	2005	Restated 2004
Within five years:		
Variable interest	953	768
Fixed interest	19,400	11,547
	20,353	12,315
Over five years:		
Variable interest	18	141
Fixed interest	3,373	6,147
	3,391	6,288
Non interest-bearing securities	199	155
Total	**23,943**	**18,758**

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

	2005	Restated 2004
Government bonds	67,567	60,252
Hungarian Government discounted Treasury bills	7,858	–
Mortgage bonds	253,365	235,405
Other securities	42,643	28,473
	371,433	324,130

Approximately 91% and 94.9% of the available-for-sale securities portfolio was denominated in HUF as at December 31, 2005 and 2004, respectively.

92.3% and 100% of the government bonds were denominated in HUF as at December 31, 2005 and 2004, respectively. The whole government bond portfolio denominated in foreign currency was denominated in EUR as at December 31, 2005.

Interest rates on available-for-sale securities ranged from 1.6% to 12% and from 2.9% to 12.3% as at December 31, 2005 and 2004, respectively.

	2005	Restated 2004
Within five years:		
Variable interest	94,121	88,770
Fixed interest	94,108	110,913
	188,229	199,683
Over five years:		
Variable interest	24,600	21,044
Fixed interest	148,649	94,339
	173,249	115,383
Non interest-bearing securities	9,955	9,064
Total	**371,433**	**324,130**

NOTE 7: LOANS AND ALLOWANCE FOR LOAN LOSSES (in HUF million)

	2005	2004
Short-term loans and trade bills (within one year)	605,390	491,209
Long-term loans and trade bills (over one year)	892,280	804,842
	1,497,670	1,296,051
Allowance for loan losses	(22,162)	(19,810)
	1,475,508	1,276,241

Loans denominated in foreign currency loans represent approximately 41% and 34% of the loan portfolio, before allowance for losses, as at December 31, 2005 and 2004, respectively.

Loans denominated in HUF, with a maturity within one year as at December 31, 2005 and 2004 bear interest rates in the range from 11.3% to 30% and from 13.8% to 32%, respectively.

Loans denominated in HUF, with a maturity over one year as at December 31, 2005 and 2004 bear interest rates in the range from 4% to 22.8%.

Foreign currency loans as at December 31, 2005 and 2004 bear interest rates in the range from 1.1% to 16.5% and from 1.9% to 8.4%, respectively.

Approximately 2.3% and 2.5% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2005 and 2004, respectively.

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

		2005		2004
Commercial loans	902,696	60%	805,804	62%
Municipality loans	131,107	9%	116,175	9%
Housing loans	210,150	14%	169,415	13%
Consumer loans	226,153	15%	180,421	14%
Mortgage backed loans	27,564	2%	24,236	2%
	1,497,670	100%	1,296,051	100%

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

	2005	2004
Balance as at January 1	19,810	18,636
Provision for loan losses	16,436	8,809
Write-offs	(14,084)	(7,635)
Balance as at December 31	22,162	19,810

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd, see Note 25.

NOTE 8: INVESTMENTS IN SUBSIDIARIES (in HUF million)

	2005	2004
Investments in subsidiaries:		
Controlling interest	226,453	158,521
Significant interest	75	75
Other	861	1,119
	227,389	159,715
Allowance for permanent diminution in value	(3,508)	(5,417)
	223,881	154,298

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.

	2005		2004	
	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
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%	375	100.00%	407
INGA Two Ltd.	100.00%	5,892	100.00%	5,892
OTP Fund Servicies and Consulting Ltd.	100.00%	1,372	100.00%	1,372
OTP Fund Management Ltd.	100.00%	1,653	100.00%	1,653
OTP Mortgage Bank Ltd.	100.00%	20,000	100.00%	20,000
AIR-Invest Ltd.	100.00%	3,674	100.00%	3,524
DSK Bank EAD (Bulgaria)	100.00%	79,162	100.00%	79,162
OTP Banka Slovensko, a.s. (Slovakia)	97.23%	10,037	97.23%	10,037
OTP Bank Romania S. A. (Romania)*	100.00%	19,746	100.00%	12,273
OTP banka Hrvatska (Croatia)**	100.00%	59,941	–	–
OTP Card Factory Ltd.	100.00%	450	100.00%	450
OTP Life Annuity Ltd.	100.00%	500	–	–
IOLO OWEN & Co. Limited	99.25%	400	–	–
OTP SCD Lease Ltd.	75.00%	210	–	–
Other	–	145	–	105
Total		**226,453**		**158,521**

*The name of RoBank S.A. changed to OTP Bank Romania S. A. in the third quarter of 2005.

**The name of Nova banka d.d. changed to OTP banka Hrvatska in the third quarter of 2005.

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

	2005	2004
Balance as at January 1	5,417	5,670
Release of provision for permanent diminution in value	(1,909)	(253)
Balance as at December 31	3,508	5,417

NOTE 9: HELD-TO-MATURITY INVESTMENTS (in HUF million)

	2005	2004
Government securities	201,380	210,891
Hungarian Government discounted Treasury bills	29,962	6,125
Mortgage bonds	289,755	289,787
Other debt securities	700	700
	521,797	507,503

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

	2005	2004
Within five years:		
Variable interest	50,037	66,778
Fixed interest	345,850	283,114
	395,887	349,892
Over five years:		
Variable interest	37,294	40,642
Fixed interest	88,616	116,969
	125,910	157,611
Total	**521,797**	**507,503**

Approximately 99.6% of the debt securities portfolio was denominated in HUF as at December 31, 2005 and 2004, 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 5.5% to 10% and from 6.3% to 10% as at December 31, 2005 and 2004, 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 533,791 million and HUF 508,581 million as at December 31, 2005 and 2004, respectively.

NOTE 10: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS (in HUF million)

For the year ended December 31, 2005:

	Intangible assets	Land and buildings	Machinery, and equipment	Construction in progress	Total
Cost					
Balance as at January 1, 2005	38,501	52,778	56,574	10,127	157,980
Net additions	17,887	5,412	7,608	–	30,907
Net disposals	(2,823)	(515)	(3,711)	(3,713)	(10,762)
Balance as at December 31, 2005	53,565	57,675	60,471	6,414	178,125
Depreciation and amortization					
Balance as at January 1, 2005	18,534	7,501	35,407	–	61,442
Net additions	6,974	1,227	7,053	–	15,254
Net disposals	(340)	(172)	(3,628)	–	(4,140)
Balance as at December 31, 2005	25,168	8,556	38,832	–	72,556
Net book value					
Balance as at January 1, 2005	19,967	45,277	21,167	10,127	96,538
Balance as at December 31, 2005	28,397	49,119	21,639	6,414	105,569

For the year ended December 31, 2004:

	Intangible assets	Land and buildings	Machinery, and equipment	Construction in progress	Total
Cost					
Balance as at January 1, 2004	30,666	49,366	62,452	4,386	146,870
Net additions	10,285	4,198	15,494	5,741	35,718
Net disposals	(2,450)	(786)	(21,372)	–	(24,608)
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
Net additions	4,888	1,263	7,352	–	13,503
Net 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

NOTE 11: OTHER ASSETS (in HUF million)

	2005	Restated 2004
Receivables due to collection of Hungarian Government securities	–	33
Property held for sale	4	205
Due from Government for interest subsidies	3,736	5,619
Trade receivables	4,194	2,621
Advances for securities and investments	509	495
Taxes recoverable	37	2
Inventories	481	784
Other advances	2,289	638
Credits sold under deferred payment scheme	280	176
Receivables from OTP Mortgage Bank Ltd.	25,778	13,216
Receivables from investing services	1,231	203
Prepayments and accrued income	5,342	5,749
Fair value of derivative financial instruments designated as hedge accounting relationships	35	812
Other	**3,433**	**3,371**
	47,349	33,924
Allowance for losses on other assets	**(902)**	**(899)**
	46,447	33,025

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

	2005	2004
Balance as at January 1	899	2,213
Provision/(credit) for possible losses	46	(1,314)
Provision reversal	(43)	–
Balance as at December 31	902	899

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

	2005	2004
Within one year:		
In HUF	11,138	22,334
In foreign currency	86,198	86,356
	97,336	108,690
Over one year:		
In HUF	20,350	8,491
In foreign currency	137,525	86,596
	157,875	95,087
Total	**255,211**	**203,777**

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2005 and 2004, bear interest rates in the range from 4.9% to 5.3% and from 8.9% to 12%, 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, 2005 and 2004, bear interest rates in the range from 3.1% to 4.5% and from 3% to 9.5%, 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, 2005 and 2004, bear interest rates in the range from 0.5% to 4.55% and from 0.5% to 4.9%, 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, 2005 and 2004, bear interest rates in the range form 0.7% to 6.1% and from 0.5% to 5%, respectively.

NOTE 13: DEPOSITS FROM CUSTOMERS (in HUF million)

	2005	2004
Within one year:		
In HUF	2,190,095	2,050,048
In foreign currency	298,767	269,900
	2,488,862	2,319,948
Over one year:		
In HUF	17,595	20,976
	17,595	20,976
Total	**2,506,457**	**2,340,924**

Deposits from customers payable in HUF within one year as at December 31, 2005 and 2004, bear interest rates in the range from 0.2% to 6% and from 0.5% to 9.9%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2005 and 2004, bear interest rates in the range from 1% to 4.5% and from 4.3% to 6.5%, respectively.

Deposits from customers payable in foreign currency as at December 31, 2005 and 2004, bear interest rates in the range from 0.1% to 4.8% and from 0.1% to 5%, respectively.

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

	2005		2004	
Commercial deposits	474,052	19%	431,921	19%
Municipality deposits	161,993	6%	170,431	7%
Consumer deposits	1,870,412	75%	1,738,572	74%
	2,506,457	100%	2,340,924	100%

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

	2005	2004
With original maturity:		
Within one year	355	1,997
Over one year	201,912	–
	202,267	1,997

Liabilities from issued securities denominated in HUF bear interest rates in the range from 0.3% to 1% and from 2% to 7.5% as at December 31, 2005 and 2004, respectively.

Liabilities from issued securities denominated in foreign currency bear interest rates in the range from 0.3% to 2.6% as at December 31, 2005 and 2004, respectively.

The Bank issued EUR 500 million variable-rate bonds at three month EURIBOR + 0.16% quarterly, on July 1, 2005 due 1, July 2010 and EUR 300 million variable-rate bonds at three month EURIBOR + 0.15% quarterly, on December 20, 2005 due December 20, 2010, at a price of 99.81%.

NOTE 15: OTHER LIABILITIES (in HUF million)

	2005	Restated 2004
Taxes payable	6,221	4,992
Deferred tax liabilities	2,793	1,761
Giro clearing accounts	18,361	7,603
Accounts payable	8,268	10,799
Salaries and social security payable	8,092	8,038
Liabilities from security trading	9,307	17,040
Allowances for losses on off-balance sheet commitments contingent liabilities	7,882	9,866
Margin account balance	–	87
Dividends payable	581	617
Accrued expenses	6,444	10,242
Suspense accounts	1,998	846
Loans for collection	1,860	2,005
Advancement of Government grants for housing purposes	5,427	–
Fair value of derivative financial instruments designated as hedge accounting relationships	722	400
Fair value of derivative financial instruments designated as held for trading	8,757	1,178
Liabilities from trading activities (repurchase agreement)	5,785	12,523
Other	10,383	6,990
	102,881	94,987

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

	2005	2004
Allowance for litigation	1,453	1,414
Allowance for other off-balance sheet commitments. contingent liabilities	6,429	7,588
Other allowances for expected liabilities	–	864
	7,882	9,866

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

	2005	2004
Balance as at January 1	9,866	9,041
(Credit)/allowance for off-balance sheet commitments and contingent liabilities, net	(1,984)	901
Release of allowance for housing warranties	—	(76)
Balance as at December 31	7,882	9,866

NOTE 16: 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, 6.05% as at December 20, 2004, 5.46% as at June 20, 2005, and 3.08% as at December 20, 2005. 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. On March 4, 2005, the Bank issued EUR 125 million in bonds, which are subordinated to the other liabilities of the Bank. Interest on subordinated bonds is variable and payable at three-month EURIBOR + 0.55% quarterly. The original maturity of the bonds is 10 years.

NOTE 17: SHARE CAPITAL (in HUF million)

	2005	2004
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 18: RETAINED EARNINGS AND RESERVES (in HUF million)

	2005	Restated 2004
Balance as at January 1	374,860	262,504
Net income after income taxes	132,848	113,477
Fair value adjustment of available-for-sale securities recognised through equity	4,626	11,371
Share-based compensation	7,497	2,348
Profit on sale of Treasury Shares	7,426	1,960
Dividend	(41,206)	(16,800)
Balance as at December 31	486,051	374,860

The Bank's reserves under Hungarian Accounting Standards were HUF 310,215 million and HUF 243,848 million as at December 31, 2005 and 2004, respectively. Of these amounts, legal reserves represent HUF 107,619 million and HUF 66,395 million as at December 31, 2005 and 2004, respectively. The legal reserves are not available for distribution.

Dividends of HUF 41,206 million for the year ended December 31, 2004 were proposed and approved by the Annual General Meeting on April 29, 2005.

Dividends for the year ended December 31, 2005 will be approved by the Annual General Meeting in April, 2006. The proposed dividend is HUF 55,160 million.

NOTE 19: TREASURY SHARES (in HUF million)

	2005	2004
Nominal value	1,005	1,010
Carrying value at acquisition cost	40,752	13,808

NOTE 20: OTHER EXPENSES (in HUF million)

	2005	Restated 2004
Release of provision for permanent diminution in value of investments in subsidiaries	(1,909)	(253)
Provision/(release of provision) for other assets	46	(1,314)
(Release of provision)/provision for possible losses on off-balance sheet commitments. contingent liabilities	(1,984)	901
Administration expenses. including rent	20,265	19,002
Advertising	4,028	3,810
Taxes. other than income tax	23,068	11,493
Services	15,811	16,099
Professional fees	2,686	2,278
Other	1,290	6,990
	63,301	59,006

NOTE 21: INCOME TAXES (in HUF million)

The Bank is presently liable for income tax at a rate of 16% of tax base.

	2005	Restated 2004
Current tax	22,804	18,728
Deferred tax	150	154
	22,954	18,882

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

	2005	Restated 2004
Balance as at January 1	(1,761)	559
Deferred tax charge	(150)	(154)
Tax effect of fair value adjustment of available-for-sale securities recognised through equity	(882)	(2,166)
Balance as at December 31	(2,793)	(1,761)

A reconciliation of the income tax charge is as follows:

	2005	Restated 2004
Net income before income taxes	155,802	132,359
Income tax with statutory tax rate (16%)	24,928	21,177
Income tax adjustments are as follows:		
Reversal of statutory general provision	(651)	(722)
Reversal of statutory goodwill and negative goodwill	(1,318)	(1,226)
Revaluation of investments denominated in foreign currency to historical cost	305	(346)
Profit on sale of Treasury Shares	1,188	314
Fair value of share-based compensations (IFRS 2)	1,200	376
Dividend income	(2,230)	(1,360)
Other	(468)	669
Income tax	22,954	18,882
Effective tax rate	14.7%	14.3%

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

	2005	Restated 2004
Premium and discount amortization on investment securities	68	115
Provision for possible losses on off-balance sheet commitments and contingent liabilities	5	5
Difference in accounting for finance leases	158	60
Fair value adjustment of derivative financial instruments	90	
Repurchase agreement	–	4
Deferred tax asset	321	184
Fair value adjustment of held for trading and available-for-sale financial assets/securities	(2,629)	(1,611)
Fair value adjustment of derivative financial instruments	–	(37)
Repurchase agreement	(4)	–
Difference in depreciation and amortization of fixed assets	(481)	(297)
Deferred tax liabilities	(3,114)	(1,945)
Net deferred tax liabilities	(2,793)	(1,761)

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 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 the whole amount 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 29.

Foreign currency risk
See Note 30.

Interest rate risk
See Note 31.

NOTE 23: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF million)

In the normal course of business, the Bank participates in 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

	2005	2004
Commitments to extend credit	566,647	446,702
Guarantees arising from banking activities	132,369	92,780
Confirmed letters of credit	10,540	2,480
Legal disputes	3,410	2,127
Contingent liabilities related to OTP Mortgage Bank Ltd,	49,452	38,783
Other	164	102
	762,582	**582,974**

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. Provision due to legal disputes were HUF 1,453 million and HUF 1,414 million as at December 31, 2005 and 2004, respectively.

Contingent liabilities related to OTP Mortgage Bank Ltd.

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

Provision due to recourse agreements were HUF 4,945 million and HUF 3,878 million as at December 31, 2005 and 2004, respectively.

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

	2005	2004
Foreign currency contracts designated as held for trading		
Assets	39,329	32,604
Liabilities	40,570	35,320
Net value	(1,241)	(2,716)
Net fair value	(856)	(911)
Foreign exchange swaps and interest rate swaps designated as held for trading		
Assets	612,543	207,207
Liabilities	601,539	196,856
Net value	11,004	10,351
Net fair value	2,210	3,035
Interest rate swaps designated in hedge accounting relationships		
Assets	12,031	27,873
Liabilities	14,023	21,672
Net value	(1,992)	6,201
Net fair value	(687)	411
Option contracts		
Assets	–	2,205
Liabilities	–	–
Net value	–	2,205
Net fair value	–	–
Other options		
Assets	–	6,834
Liabilities	–	–
Net value	–	6,834
Net fair value	–	–

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 referring to 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, 2005, the Bank has derivative instruments with positive fair values of HUF 10,146 million and negative fair values of HUF 9,479 million. Positive fair values of derivative instruments designated as hedge accounting relationships are included in other assets, while positive fair values of derivative instruments designated as held for trading are included in financial assets at fair value through statements of operations. Negative fair values of derivative instruments are included in other liabilities. Corresponding figures as at December 31, 2004 are HUF 4,113 million and HUF 1,578 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 provision for possible losses on off-balance sheet commitments and contingent liabilities, see Note 15.

NOTE 24: SHARE-BASED COMPENSATION

The 2000 Annual General Meeting approved a five year share option and bonus program for the years 2000 to 2004 granting options and bonus shares on an annual basis. For the options for the years 2003 and 2004, the grant date is December 31, 2002.

The exercise price of the share options related to the years 2003 and 2004 is equal to half of the average market price of OTP shares of the month before the Annual General Meeting.

The 2005 Annual General Meeting approved a five year share option program for the years 2005 to 2009 under which options are granted annually. Such options are subject to IFRS 2 and have a grant date of April 29, 2005. The maximum number of shares which are available is 2.92 million in a year.

The exercise prices of the options for each year or the years 2005 to 2009 is equal to the average market price of OTP shares in the two month period ending on the last day of the month of the Annual General Meeting.

The exercise period of the share options granted for the years of 2003 and 2004 is one year and for the five year share option program for the years 2005 to 2009 is two years. The exercise period of the option program for the years 2005 to 2009 must be opened after the actual year but not later than August 31. If the options remain unexercised before the end of the exercise period, such options expire. Additionally, options are forfeited if the employee leaves the Bank before the options vest.

	For the year ended December 31, 2004		For the year ended December 31, 2005	
	Options (piece of shares)	Weighted average exercise price (in HUF)	Options (piece of shares)	Weighted average exercise price (in HUF)
Outstanding at beginning of period	3,599,930	2,548	3,575,930	2,552
Granted during the period	–	–	4,251,500	5,446
Forfeited during the period	–	–	30,000	3,107
Exercised during the period	24,000	1,980	4,451,230	2,661
Outstanding at the end of the period	3,575,930	2,552	3,346,200	6,079
Exercisable at the end of the period	1,761,930	1,980	446,200	3,107

The weighted average share price at the date of exercise for share options of the year of 2003 and 2004 exercised during the year ended December 31, 2005 was HUF 6,116 and 7,333, respectively.

The options outstanding at December 31, 2005 had a weighted average exercise price of HUF 6,079 with a weighted average remaining contractual life of 18 months.

The inputs into the Binominal model are as follows:

	2003	2004	2005
Weighted average share price (HUF)	2,210	2,210	6,060
Weighted average exercise price (HUF)	1,211	1,264	6,536
Expected volatility (%)	25	30	35
Expected life (average year)	2.42	3.42	3.34
Risk free rate (%)	7.30	7.17	7.46
Expected dividends (%)	1.24	1.24	2.41

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

In connection with the share-based compensation programs approved by the Bank and applying IFRS 2, HUF 7,497 million and HUF 2,348 million has been recognised as an expense for the years ended December 31, 2005 and 2004, respectively.

NOTE 25: RELATED PARTY TRANSACTIONS

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

During the year ended December 31, 2005 and 2004 the Bank sold, without recourse, non-performing loans and the related accrued interest receivable to OTP Factoring for HUF 7,776 million and HUF 4,132 million, respectively. The gross book value of such credits was HUF 21,063 million and HUF 11,224 million, respectively, with a corresponding allowance for loan losses of HUF 5,196 million and HUF 2,345 million, respectively. The underlying mortgage rights were also transferred to OTP Factoring. Losses related to such transactions are recorded in the unconsolidated financial statements, among for loans and placement losses, which were HUF 8,091 million and HUF 4,747 million, respectively.

Commissions received by the Bank from OTP Building Society in relation to finalised customer contracts were HUF 1,349 million and HUF 1,085 million for the years ended December 31, 2005 and 2004, respectively.

Insurance premiums paid by the Bank to OTP Garancia Insurance were HUF 2,039 million and HUF 1,209 million for the years ended December 31, 2005 and 2004, respectively.

Commissions received by the Bank from OTP Fund Management in relation to custody activity were HUF 557 million and HUF 337 million, in relation to trading activity were HUF 4,996 million and HUF 2,505 million for the years ended December 31, 2005 and 2004, respectively.

Commissions paid by the Bank to OTP Real Estate in relation to its activity were HUF 2,968 million and HUF 2,913 million for the years ended December 31, 2005 and 2004, respectively.

The Bank under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Ltd. of HUF 146,323 million and 213,954 million during the years ended December 31, 2005 and 2004 (including interest). The book value of these receivables were HUF 146,118 million and HUF 213,517 million as of December 31, 2005 and 2004, respectively. During the year ended December 31, 2005 the Bank received HUF 51,697 million in fees and commissions from OTP Mortgage Bank Company Ltd. For the year ended December 31, 2004 such fees and commissions were HUF 37,386 million. Such fees and commissions are related to services provided to OTP Mortgage Bank 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 188 million and HUF 184 million as at December 31, 2005 and 2004, 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 283 million and HUF 294 million, with commitments to extend credit and guarantees of HUF 112 million and HUF 126 million as at December 31, 2005 and 2004, respectively.

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

	2005	2004
Short-term employee benefits	4,956	6,376
Share-based compensations	4,517	1,113
	9,473	7,489

NOTE 26: CASH AND CASH EQUIVALENTS (in HUF million)

	2005	2004
Cash, due from banks and balances with the NBH	379,249	399,401
Compulsory reserve established by the NBH	(118,205)	(105,716)
	261,044	293,685

NOTE 27: 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 46,825 million and HUF 47,301 million as at December 31, 2005 and 2004, respectively.

NOTE 28: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 18% and 21% 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, 2005 and 2004, respectively. Approximately 15% and 17% of the Bank's total assets consisted of securities issued by the OTP Mortgage Bank Ltd. as at December 31, 2005 and 2004, respectively. There were no other significant concentrations of the Bank's assets or liabilities as at December 31, 2005 and 2004, respectively.

NOTE 29: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

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

As at December 31, 2005

	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	379,249	–	–	–	379,249
Placements with other banks net of allowance for placement losses	261,575	20,992	111,092	–	393,659
Financial assets at fair value through statement of operations	2,354	4,861	21,932	4,907	34,054
Securities available-for-sale	28,883	37,380	121,966	183,204	371,433
Loans. net of allowance for loan losses	160,934	432,322	501,097	381,155	1,475,508
Accrued interest receivable	41,237	39	–	–	41,276
Investments in subsidiaries	–	–	–	223,881	223,881
Securities held-to-maturity	28,639	66,117	301,131	125,910	521,797
Premises, equipment and intangible assets, net	–	–	77,685	27,884	105,569
Other assets	40,321	6,086	22	18	46,447
Total assets	**943,192**	**567,797**	**1,134,925**	**946,959**	**3,592,873**
Due to banks and deposits from the National Bank of Hungary and other banks	95,058	2,278	128,963	28,912	255,211
Deposits from customers	2,373,083	115,779	17,595	–	2,506,457
Liabilities from issued securities	355	–	201,912,	–	202,267
Accrued interest payable	5,735	–	–	–	5,735
Other liabilities	84,339	8,515	7,419	2,608,	102,881
Subordinated bonds and loans	–	–	10,431	36,592	47,023
Total liabilities	**2,558,570**	**126,572**	**366,320**	**68,112**	**3,119,574**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	486,051	486,051
Treasury shares	(200)	(2,597)	(37,955)	–	(40,752)
Total shareholders' equity	**(200)**	**(2,597)**	**(37,955)**	**514,051**	**473,299**
Total liabilities and shareholders' equity	**2,558,370**	**123,975**	**328,365**	**582,163**	**3,592,873**
Liquidity (deficiency)/excess	**(1,615,178)**	**443,822**	**806,560**	**364,796**	–

As at December 31, 2004 (Restated)

	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	399,401	–	–	–	399,401
Placements with other banks, net of allowance for placement losses	171,652	17,123	11,013	312	200,100
Financial assets at fair value through statement of operations	5,828	8,518	1,278	6,435	22,059
Securities available-for-sale	–	5,866	193,817	124,447	324,130
Loans. net of allowance for 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	31,465	1,560	–	–	33,025
Total assets	**858,115**	**368,983**	**1,104,359**	**723,018**	**3,054,475**
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**	**–**

NOTE 30: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at December 31, 2005	USD	EUR	Others	Total
Assets	121,070	558,961	366,403	1,046,434
Liabilities	(94,248)	(543,337)	(133,913)	(771,498)
Off-balance sheet assets and liabilities, net	(30,026)	(86,132)	(131,702)	(247,860)
Net position	(3,204)	(70,508)	100,788	(27,076)
As at December 31, 2004	**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

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 31: 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 periods of the Bank. Variable interest bearing assets and liabilities have been reported according to their next repricing period. Fixed income assets and liabilities have been reported according to their maturity.

As at December 31, 2005

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash due from banks and balances with the National Bank of Hungary	**327,299**	**2,167**	–	–	–	–	–	–	–	–	**47,122**	**2,661**	**374,421**	**4,828**	**379,249**
fixed interest	327,299	2,167	–	–	–	–	–	–	–	–	–	–	327,299	2,167	329,466
variable interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	47,122	2,661	47,122	2,661	49,783
Placements with other banks	**73,409**	**240,976**	**20,000**	**56,119**	**200**	**2,955**	–	–	–	–	–	–	**93,609**	**300,050**	**393,659**
fixed interest	70,109	176,094	20,000	15,965	200	200	–	–	–	–	–	–	90,309	192,259	282,568
variable interest	3,300	64,882	–	40,154	–	2,755	–	–	–	–	–	–	3,300	107,791	111,091
Securities held for trading	**444**	–	**1,300**	–	**2,230**	–	**8,208**	**177**	**11,394**	–	**189**	**1**	**23,765**	**178**	**23,943**
fixed interest	444	–	401	–	2,149	–	8,208	177	11,394	–	–	–	22,596	177	22,773
variable interest	–	–	899	–	72	–	–	–	–	–	–	–	971	–	971
non-interest-bearing	–	–	–	–	9	–	–	–	–	–	189	1	198	1	199
Securities available-for-sale	**43,742**	**5,814**	**15,491**	**14,230**	**58,730**	**5,233**	**10,091**	–	**200,022**	**8,125**	**9,700**	**255**	**337,776**	**33,657**	**371,433**
fixed interest	–	–	2,966	–	21,553	–	10,091	–	200,022	8,125	–	–	234,632	8,125	242,757
variable interest	43,742	5,814	12,525	14,230	37,177	5,233	–	–	–	–	–	–	93,444	25,277	118,721
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	9,700	255	9,700	255	9,955
Loans	**430,778**	**101,724**	**395,921**	**464,197**	**13,844**	**42,721**	**1,806**	–	**24,517**	–	–	–	**866,866**	**608,642**	**1,475,508**
fixed interest	154	–	282	758	1,198	501	1,670	–	6,710	–	–	–	10,014	1,259	11,273
variable interest	430,624	101,724	395,639	463,439	12,646	42,220	136	–	17,807	–	–	–	856,852	607,383	1,464,235
Securities held-to-maturity	**22,697**	–	**60,445**	–	**60,224**	**2,135**	**9,945**	–	**366,351**	–	–	–	**519,662**	**2,135**	**521,797**
fixed interest	–	–	5,933	–	50,102	2,135	9,945	–	366,351	–	–	–	432,331	2,135	434,466
variable interest	22,697	–	54,512	–	10,122	–	–	–	–	–	–	–	87,331	–	87,331
Fair value of derivative financial instruments	**90,496**	**83,861**	**108,836**	**172,138**	**69,538**	**2,261**	**16,752**	–	**48,107**	**4,967**	–	–	**333,729**	**263,227**	**596,956**
fixed interest	82,516	75,740	97,269	22,690	56,724	2,261	16,752	–	48,107	4,967	–	–	301,368	105,658	407,026
variable interest	7,980	8,121	11,567	149,448	12,814	–	–	–	–	–	–	–	32,361	157,569	189,930

As at December 31, 2005

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Due to banks and deposits from the National Bank of Hungary	**31,488**	**82,126**	–	**140,214**	–	**1,383**	–	–	–	–	–	–	**31,488**	**223,723**	**255,211**
fixed interest	3,811	31,409	–	–	–	–	–	–	–	–	–	–	3,811	31,409	35,220
variable interest	27,677	50,717	–	140,214	–	1,383	–	–	–	–	–	–	27,677	192,314	219,991
Deposits from customers	**2,058,315**	**240,986**	**145,912**	**30,726**	**3,463**	**27,055**	–	–	–	–	–	–	**2,207,690**	**298,767**	**2,506,457**
fixed interest	745,486	178,942	145,912	30,726	3,463	27,055	–	–	–	–	–	–	894,861	236,723	1,131,584
variable interest	1,312,829	62,044	–	–	–	–	–	–	–	–	–	–	1,312,829	62,044	1,374,873
Liabilities from issued securities	**356**	**126,059**	–	**75,852**	–	–	–	–	–	–	–	–	**356**	**201,911**	**202,267**
fixed interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable interest	356	126,059	–	75,852	–	–	–	–	–	–	–	–	356	201,911	202,267
Fair value of derivative financial instruments in other liabilities	**46,581**	**118,558**	**52,582**	**228,793**	**18,614**	**41,790**	**18,591**	**202**	**63,512**	**7,066**	–	–	**199,880**	**396,409**	**596,289**
fixed interest	45,772	112,430	40,396	79,540	14,281	41,790	18,591	202	63,512	7,066	–	–	182,552	241,028	423,580
variable interest	809	6,128	12,186	149,253	4,333	–	–	–	–	–	–	–	17,328	155,381	172,709
Subordinated bonds and loans	**5,000**	–	–	**31,591**	–	**10,432**	–	–	–	–	–	–	**5,000**	**42,023**	**47,023**
variable interest	5,000	–	–	31,591	–	10,432	–	–	–	–	–	–	5,000	42,023	47,023
Net position	(1,152,875)	(133,187)	403,499	199,508	182,689	(25,355)	28,211	(25)	586,879	6,026	57,011	2,917	105,414	49,884	155,298

As at December 31, 2004

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash due from banks and balances with the National Bank of Hungary	**342,214**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**52,848**	**4,339**	**395,062**	**4,339**	**399,401**
fixed interest	342,214	–	–	–	–	–	–	–	–	–	–	–	342,214	–	342,214
variable interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
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 interest	119,704	39,635	500	5,066	200	4,802	–	–	–	–	–	–	120,404	49,503	169,907
variable interest	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	**937**	**1,747**	**2,159**	**3,864**	**447**	**1,676**	**73**	**–**	**6,512**	**1,188**	**155**	**–**	**10,283**	**8,475**	**18,758**
fixed interest	937	–	1,321	202	373	–	73	–	6,512	1,188	–	–	9,216	1,390	10,606
variable interest	–	1,747	838	3,662	74	1,676	–	–	–	–	–	–	912	7,085	7,997
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	155	–	155	–	155
Securities available-for-sale	**43,862**	**1,859**	**13,538**	**5,409**	**51,012**	**1,028**	**16,288**	**–**	**182,071**	**–**	**8,835**	**229**	**315,605**	**8,525**	**324,130**
fixed interest	–	–	–	–	13,981	–	16,288	–	182,071	–	–	–	212,340	–	212,340
variable interest	43,862	1,859	13,538	5,409	37,030	1,028	–	–	–	–	–	–	94,430	8,296	102,726
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8,835	229	8,835	229	9,064
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 interest	5,215	–	14,043	174	1,126	890	511	984	1,711	–	–	–	22,606	2,048	24,654
variable interest	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 interest	499	–	–	–	42,340	–	26,167	1,801	329,276	–	–	–	398,282	1,801	400,083
variable interest	22,697	–	74,601	–	10,122	–	–	–	–	–	–	–	107,420	–	107,420
Fair value of derivative financial instruments	**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 interest	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 interest	20,300	–	70,176	–	38,761	984	–	–	–	–	–	–	129,237	984	130,221

As at December 31, 2004

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Due to banks and deposits from the National Bank of Hungary	**20,399**	**126,534**	**3,339**	**42,741**	**6,607**	**3,501**	**–**	**–**	**–**	**–**	**480**	**176**	**30,825**	**172,952**	**203,777**
fixed interest	18,414	28,055	–	4,970	–	1,753	–	–	–	–	–	–	18,414	34,778	53,192
variable interest	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 interest	528,076	150,293	342,659	24,562	3,496	27,408	–	–	–	–	–	–	874,231	202,263	1,076,494
variable interest	1,196,793	67,637	–	–	–	–	–	–	–	–	–	–	1,196,793	67,637	1,264,430
Liabilities from issued securities	**105**	**–**	**–**	**–**	**1,800**	**–**	**–**	**–**	**–**	**–**	**92**	**–**	**1,997**	**–**	**1,997**
fixed interest	–	–	–	–	1,800	–	–	–	–	–	–	–	1,800	–	1,800
variable interest	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 interest	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 interest	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 interest	–	–	–	–	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

NOTE 32: 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.

	2005	Restated 2004
Income after income taxes (in HUF mn)	132,848	113,477
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	270,109,683	270,339,171
Basic Earnings per share (in HUF)	492	420
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	272,234,330	271,479,651
Diluted Earnings per share (in HUF)	488	418

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.

NOTE 33: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)

	Retained earnings and reserves January 1, 2005	Net income for the year ended December 31, 2005	Dividend	Direct movements on reserves	Retained earnings and reserves as at December 31, 2005
Hungarian financial statements	**296,978**	**138,346**	**(55,160)**	**(598)**	**379,566**
Adjustments to Hungarian financial statements:					
Reversal of statutory general provision	21,570	4,066	–	–	25,636
Premium and discount amortization on investment securities	(709)	291	–	–	(418)
Allowance for possible loan losses	(1,340)	–	–	–	(1,340)
Differences in carrying value of subsidiaries	799	–	–	–	799
Difference in accounting for finance leases	(336)	(613)	–	–	(949)
Fair value adjustment of held for trading and available-for-sale financial assets (IAS 39)	9,636	847	–	5,508	15,991
Fair value adjustment of derivative financial instruments	451	(796)	–	–	(345)
Loss on sale of Treasury Shares	–	(7,426)	–	7,426	–
Reversal of statutory goodwill and negative goodwill	8,348	8,237	–	–	16,585
Revaluation of investments denominated in foreign currency to historical cost	39	(1,907)	–	–	(1,868)
Difference in accounting of repo transactions	(21)	48	–	–	27
Reclassification of direct charges (self revision)	–	(598)	–	598	–
Share-based compensation (IFRS 2)	–	(7,497)	–	7,497	–
Deferred taxation	(1,761)	(150)	–	(882)	(2,793)
Dividend for the year 2004 (accepted by the Annual General Meeting)	41,206	–	(41,206)	–	–
Dividend payable for the year 2005	–	–	55,160	–	55,160
International financial statements	**374,860**	**132,848**	**(41,206)**	**19,549**	**486,051**

NOTE 34: POST BALANCE SHEET EVENTS

Based on the authorization of the Annual General Meeting of the year 2005, the Bank repurchased 1,000,000 pieces of own shares between January 1 and 25, 2006 at an average price of HUF 7,405.

On October 24, 2005 the Bank made a binding bid for purchasing the 89,39% of the shares of Niska banka a.d. registered in Serbia. The purchase agreement was signed on December 23, 2005 at the price of EUR 14,21 million. The transaction was closed March 7, 2006.