



■ ANNUAL REPORT

2005



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Message from the Chairman and Chief Executive Officer



DEAR SHAREHOLDERS,

The OTP Group can look back with satisfaction at what was an extremely successful year in 2005. Our after-tax profit, in terms of volume, exceeded both market expectations and the business targets set previously by management, while its structure was a testament to the success of our endeavours, with record net interest income, rising fee and commission revenues, and an improvement in the business results of insurance operations.

The pace of transformation and integration of foreign subsidiaries accelerated, with the work completed in several locations, while the contribution of these companies to the consolidated profit increased. As in previous years, the Bank was once again awarded the titles of Best Bank in Hungary and Best Corporation in the Emerging European Region by a host of leading international financial periodicals (Euromoney, Global Finance, The Banker). The Bank's

(B-), indicating its profitability and profit-generating potential, is the highest in the region.

In 2005 we celebrated the 10th anniversary of the Bank's flotation. Reporting on the Bank's successful stock-exchange career to date, Euromoney commented that over the past decade OTP Bank's was "probably the greatest business success story in Eastern Europe."

**Share price of OTP Bank
increased by 25% in 2005**

operations continue to be stable, with an A1 credit rating from Moody's, while its financial strength rating

However, despite the excellent results, we are not completely satisfied. The market price of OTP shares, the most important measure of shareholder value, only partially reflects the institution's stable business foundations, as the imbalances in the Hungarian economy prompted many investors to sell their stock, pushing prices down in the last quarter. Although the price of OTP Bank shares had risen to HUF 6,967

by the end of 2005, which represents an annual increase of 25%, not only did this fail to match the 41% growth in the BUX share index over the past year, it also remains considerably below the HUF 8,790 all-time high recorded on September 28, 2005. While our profitability and efficiency indicators were outstanding even by international standards, the majority of analysts consider OTP stock to be undervalued. We hope – and our medium-term strategy also serves this purpose – that our operations and business results will continue to assure OTP Bank’s standing among investors as a reliable, stable investment, and, as the macroeconomic environment recovers, that this will also be reflected in the market value of our shares.

OTP Group has excellent profitability and efficiency ratios by international standards as well

In 2005, the OTP Group achieved after-tax profit of HUF 158.3 billion, which is 20.3% higher than the previous year’s consolidated profit, while the balance sheet total rose by 25.3% at group level, to almost HUF 5,216 billion. The OTP Bankgroup’s equity totalled HUF 547.5 billion

(around EUR 2.2 billion), which places it at the forefront of the medium-sized banks in terms of capital strength. Although the OTP Bankgroup’s profitability ratios declined in comparison to the record levels of 2004, by global standards we continue to number among the most profitable banking groups. The consolidated rate of return on average assets (ROAE) was 3.38% (a fall of eight basis points), while the return on average equity (ROAE) was 32.3% at group level, which is 3 percentage points lower than in the previous year.

Within the Group, the results of OTP Bank were once again decisive, with further gains achieved in both profitability and efficiency. The Bank’s after-tax profit rose by 17.1%, to HUF 132.8 billion, while the cost-to-income ratio fell by 2.3 percentage points, to 45.0%. The 30.8% return on average equity and 4.00% return on assets are excellent by both Hungarian and international standards.

The dynamic profit growth of several domestic and foreign subsidiaries also contributed to the better-than-expected consolidated result. In this regard the performances of OTP Mortgage Bank, OTP Garancia Insurance, the Merkantil Group, OTP Fund Management and the DSK Group were particularly noteworthy last year.

All these results were achieved in the face of continuous challenges faced by the group, resulting from the prevailing macroeconomic and regulatory environment, and the fiercely competitive markets in which it operates.

In 2005 the Central Bank base rate fell by a total of 350 basis points, and this, coupled with escalating competition in the retail banking sector, exerted a constant downward pressure on the net interest margin. A new challenge resulted from the fact that

the purchase of Niška banka. The search for new acquisition opportunities, as well as the conversion and transformation of the existing subsidiaries, required a considerable investment of capital and resources.

In 2005 the contribution of foreign subsidiaries to consolidated profit rose by 1.9 percentage points, to 10.3%. Once again, the highest after-tax profit was generated by the Bulgarian DSK Bank.

At HUF 16.6 billion, after-tax profit was up 38.2% year on year, besides which the bank achieved a 6.9% interest margin, which is outstanding even at group level, and a cost-to-income ratio of 45.2%. All this should be viewed in the light of the fact that lending operations were dogged by a gamut of restrictive local regulations.

In 2005, OTP Bank continued its foreign acquisition activities

foreign-currency loans have come to dominate the lending sector, as it became necessary to apply stricter customer rating procedures and a prudent provisioning policy in order to ensure that quality remained consistent despite the dramatic growth in the loan portfolio. The introduction of a special banking tax, as well as application of the amended IFRS standards, resulted in approximately HUF 18 billion in extra outgoings, but this growth in non-interest expenses was offset by the marked growth in revenues.

The past year also saw a continuation of the Group's foreign acquisition activities. After Slovakia, Bulgaria and Romania, OTP Bank has now established a presence in Croatia with the completion of its takeover of Nova banka, and in Serbia through

The Slovakian and Croatian subsidiaries also closed a successful year, while in Romania the organic growth entailed by the ongoing branch network expansion means that this operation is loss-making for the time being.

We continued to focus on the rationalisation of operations, improvements in cost-effectiveness and the modernisation and expansion of sales channels in 2005. From April, a performance appraisal and measurement system was introduced for branch staff, with the aim of providing sales incentives, while the ratio of agent sales grew substantially in the case of retail products, primarily mortgage and consumer loans, and we have introduced further measures to boost the effectiveness of cross selling within the OTP Group. All of these measures are intended

not only to increase and consolidate market share, but also to strengthen customer satisfaction and loyalty towards the Bank, and ultimately to create a positive corporate image for OTP Bank.

The primary objective of the medium-term strategic plan is to continue creating shareholder value. With our stable profit-generating capacity and dynamic growth, we intend to become one of the key bank groups in the region by the end of this decade. Although our operations continue to be focused

***The primary objective of
the medium-term strategy is to continue
creating shareholder value***

on the provision of high-quality retail services, we are doing all we can to provide our expanding customer base with a fully comprehensive range of banking and financial services. To this end, we are continuously engaged in the development of new products and services, adapted to local requirements, both in Hungary and at our foreign subsidiary banks.

It is one of our prime strategic objectives to maintain, and wherever possible to improve, our market position,

while maintaining high profitability. The solid foundations upon which this strategy is built are provided not just by our existing Hungarian and foreign banks and subsidiaries, since we are constantly seeking new acquisition opportunities that are suitable for integration with the Bankgroup's core business activities, and which, when combined with our reorganisation and integration experience, will represent new sources of growth for the OTP Bankgroup.

I am confident that the group's performance to date, the soundness of our strategic plans, the dedication of our employees, and the satisfaction and loyalty of our customers are all values which, notwithstanding the temporary difficulties arising from circumstances beyond our control, are vital factors that determine how we are judged by the market. To us, the trust of our shareholders represents a set of expectations, obligations and responsibilities, as well as the motivation to achieve new successes and even better results.

It is my firm conviction that the OTP Group possesses the corporate culture, innovative capabilities and management experience it needs to successfully prepare for joining the banking system and competitive environment of the euro zone.



Dr. Sándor Csányi
Chairman and Chief Executive Officer

Financial Highlights (consolidated, based on IFRS)

Profit and Loss Account (in HUF mn)	2004	2005	Change %
Net interest income	260,889	297,225	13.9
Net interest income after provision	244,841	269,183	9.9
Non-interest income	161,769	216,497	33.8
Total income (with net fees)	402,070	493,792	22.8
Operating cost	229,998	273,673	19.0
Profit before tax	156,024	192,077	23.1
Profit after tax	131,518	158,274	20.3
Balance Sheet * (in HUF bn)	2004	2005	Change %
Total assets	4,162.4	5,215.9	25.3
Loans and advances to customers	2,586.1	3,297.2	27.5
Retail loans	1,547.4	1,965.8	27.0
Corporate loans	920.6	1,195.4	29.8
Municipal loans	118.1	136.0	15.2
Interbank loans and advances	286.2	438.8	53.3
Deposits from customers	2,902.2	3,428.2	18.1
Retail deposits	2,155.8	2,562.9	18.9
Corporate deposits	549.8	662.2	20.4
Municipal deposits	196.5	203.1	3.4
Issued securities	317.2	543.5	71.3
Total receivables	2,586.1	3,297.2	27.5
Performing loans	2,284.7	2,876.5	25.9
Qualified loans	301.4	420.7	39.6
Non-performing loans (NPLs)	90.7	119.1	31.3
Provisions for possible loan losses	79.3	105.9	33.5
Shareholders' equity	433.7	547.5	26.2
Performance Ratios	2004	2005	Change %
Cost/income ratio %	57.2	55.4	(1.8)
Return on average equity (ROAE) %	35.3	32.3	(3.0)
Return on average assets (ROAA) %	3.45	3.38	(0.07)
Capital adequacy ratio* (unconsolidated, HAR) %	11.19	10.56	(0.63)
Undiluted EPS	HUF 501	HUF 603	HUF 102
Diluted EPS	HUF 499	HUF 599	HUF 100
Market Share **	2004	2005	
Households' deposits %	35.4	34.7	
Households' loans %	40.1	37.7	
Corporate deposits %	13.3	11.4	
Corporate loans %	12.3	11.7	
Municipal deposits %	66.2	63.4	
Municipal loans %	52.0	52.7	

*as at December 31

**as at December 31, market share of the Hungarian members of OTP Group

Macroeconomic and Monetary Environment in 2005

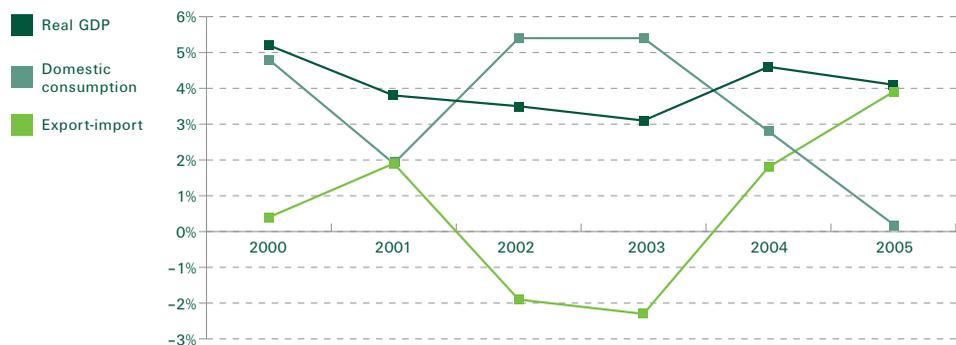
In 2005, the Hungarian economy grew dynamically, with the main driver being an expansion in exports and investments. Despite the rapid growth, inflation fell, enabling the central bank to gradually reduce the base rate. The internal imbalance in the economy worsened last year, while there was a slight improvement in the external equilibrium. The volume of loans and deposits in the banking sector grew at a rate similar to that of 2004.

In the past year economic growth remained strong, at more than 4%. While growth slowed in the European Union compared to 2004, the domestic economy – with the exception of the first quarter – grew steadily. The weaker performance of the economy in the first quarter

can be explained by the slowdown in growth in the Western European economic region. While in the first quarter exports grew by 6.4%, in the following three quarters a more than 11% increase was achieved. Besides exports, the strong economic growth was also due to a 7% rise in investments, while the rate of increase in household and community consumption remained well below this, since the final consumption figure indicated a rise of just 1.7%.

On the production side, the construction industry and the added value of transportation services increased at the highest rate, and clearly reflected in the performance of both sectors was the impact of investments implemented in connection with the numerous road construction projects last year.

The structure of GDP growth



Investment growth was affected in contrary directions by residential building projects and state road-construction projects during the year.

The number of building permits issued for new homes fell to 51,500 and the number of new homes handed over was just 41,000. The main drivers behind

investments last year were state road-construction and road-reconstruction projects.

Nominal wages rose by nearly 9% and real wages by 4.5% over the past year. Since household consumer spending rose barely 2.4%, the volume

of savings grew in the household sector compared to the previous year.

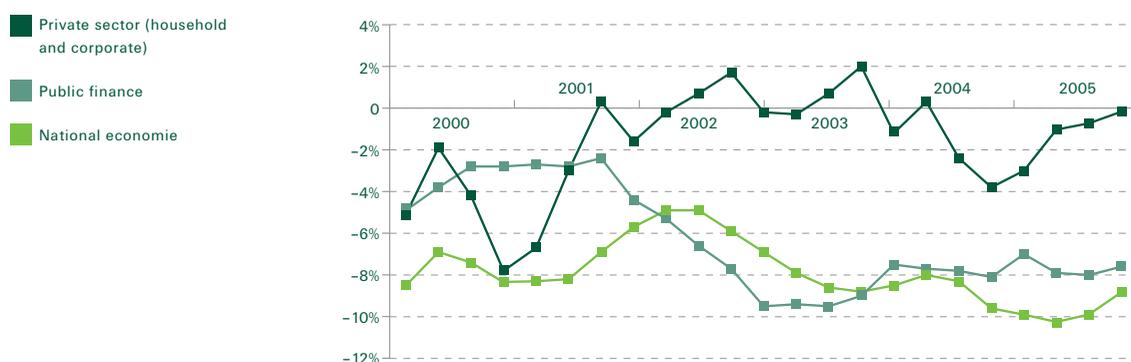
Inflation declined steadily over the course of the year. Thus, while average inflation was 3.6% for the year as a whole, in the last quarter it was just 3.3%. The prices of household energy, fuel, and services rose at an above average rate, while the price of food, clothing, and industrial products increased at a below-average rate.

The favourable inflationary trends meant that interest rates could continue to fall during the year. The central-bank base rate dropped from 9.5% at the beginning

of the year to 6% by September. After this, the base rate did not fall further, and due to the uncertainties surrounding the future of budgetary policy, the yields on government securities with a maturity of over one year rose by more than 1 percentage point during the remaining part of the year.

The budget deficit, less private pension payments, grew to 6.4% of GDP in 2005. The main reasons for the rise in the deficit were the considerable expansion in state investments and the growth in cash grants on the cost side, while on the revenue side the fall in VAT revenues is particularly notable as a contributory factor in the rise of the deficit.

Net savings by economic sector, as a percentage of GDP (four-quarter cumulated data)



By contrast to this, the external imbalance improved, since the 2004 current account deficit of EUR 6.9 billion fell by EUR 0.5 billion. The main reason for this improvement was the EUR 1 billion fall in the foreign trade deficit.

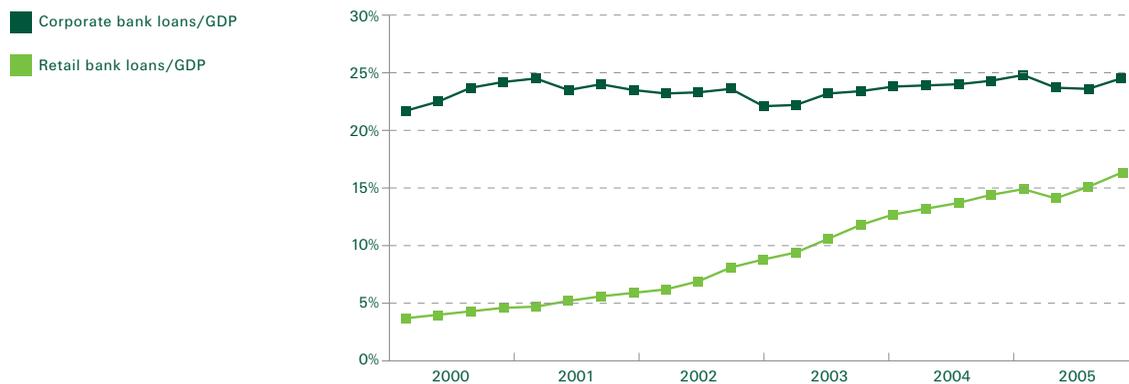
Behind the economy's lower external net financing requirement lay the rise in net savings in the household sector and the increase in received EU subsidies.

Once again in 2005, the primary source of growth in the banking sector was the expansion in lending. While total domestic loans of the credit institutions sector expanded by 18% last year, the banks'

domestic deposits grew slightly more modestly, by 15%, compared to the previous year's volume. The balance sheet total of the banking sector rose by 18% last year.

The corporate loan portfolio increased by 14%, a figure similar to that of the previous year. A look at the composition of new loans reveals that companies favoured relatively short-term loans. Among new loans, compared to the previous year there were 12.5% fewer long-term loans and 10% more short-term loans. Due to the falling need for funds in the corporate sector, the deposits of businesses other than those in the financial sector grew by 8.5% in 2005.

Main portfolios of the banking sector, as a percentage of GDP



The 25% increase in the aggregate portfolio of retail loans far exceeded the rate of nominal GDP growth. The rate of growth of the volume of housing loans slowed to 20% in 2005 compared to a 27% increase in 2004, while the volume of consumer and other loans rose by 36%. In the case of both consumer and housing loans, the continued growth in demand for foreign currency-based loans was considerable, which may partly be explained by the persistently wide gap between forint and foreign-currency interest rates.

Total retail bank deposits grew by 10% – well below the increase in loans, but still exceeding the nominal rate of growth of GDP. Within the deposit total, the 32% rate of growth in current account deposits was outstanding, while fixed-term deposits grew by just 4%. The more moderate increase in the volume of fixed-term deposits was due to the preference for non-bank savings vehicles. Thus, for example, the assets held in investment funds nearly doubled over the year, while insurance companies' portfolios rose by 18% and those of pension funds by 40%.

MACROECONOMIC AND FINANCIAL TRENDS IN THE COUNTRIES OF THE FOREIGN SUBSIDIARIES

In 2005, the emerging economies in which the foreign subsidiaries operate – except for Croatia – grew at a rate that outstripped that of the Hungarian economy. The growth rate of the economies of Bulgaria and Slovakia was particularly strong, at 5.2% and 5.5% respectively.

While the growth in these countries remained largely investment and export-driven, as a result of accelerating household consumption the increase in internal demand was also an important factor in the growth. Bulgaria and Slovakia are worthy of mention as the most dynamically expanding economies, with a rate of growth in investments of more than 10%, although in Romania too,

the investment rate increased thanks to a 13% rise in investments.

Consumption in the region typically grew faster than the economy as a whole in 2005, with the average growth being 6.5%. In Bulgaria and Romania particularly, consumption increased relative to income, by 8% and 9%, but also in Slovakia, consumption expenditure increased at a rate higher than that of previous years – more than 5%.

The dynamic growth in consumption was essentially a result of a rise, greater than in previous years, in real wages and of an expansion in retail loans, factors that enabled households to indulge in consumption that had been deferred in the previous years.

Thanks to the commitment of the national banks, the curbing of inflation in the above-mentioned countries continued successfully, and this made it possible, on an annual average, to lower benchmark interest rates. Parallel with this, differing trends could be observed, in particular in the second half of the year, in each country as regards inflation and interest rates. In Bulgaria, the price index increased markedly, primarily as a result of the administrative price measures related to preparations for EU membership, and the annual average inflation rate was 5%. Although at a smaller rate, inflation increased in Croatia too, and in comparison to the previous year, the annual average price index grew by more than 1 percentage point, to 3.3%.

In Slovakia and Romania, the consumer price index was lower on an annual average basis, but inflationary pressure grew in both economies in the second half of the year, since forcing the national banks to raise interest rates.

In terms of equilibrium, the respective economies in which the four subsidiaries operate continue to be in a more favourable position than is the Hungarian economy. The budgetary position in each country improved by a few tenths of a percentage point in 2005.

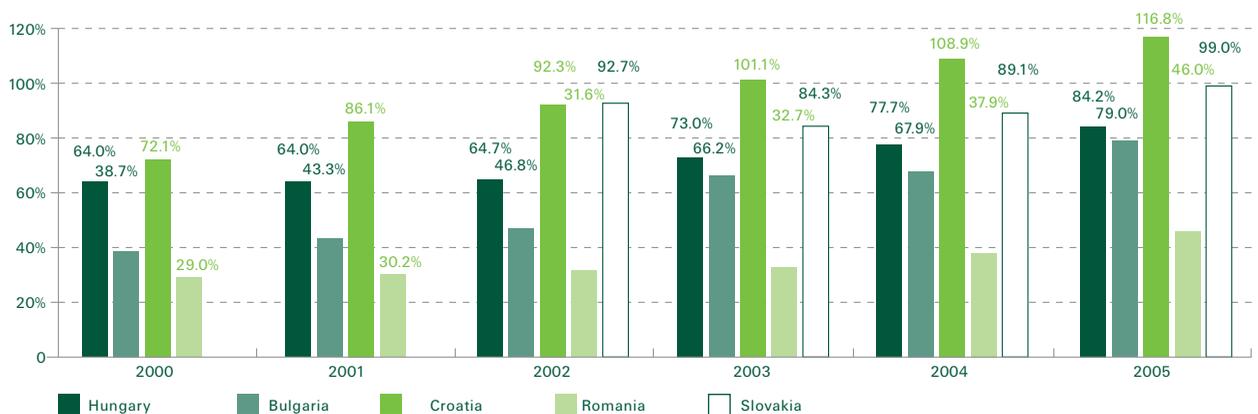
Despite what can be regarded as relatively favourable budgetary positions – mainly due to the rapid growth in internal demand mentioned above – in the countries where the subsidiaries operate large balance of

payments deficits developed, reflecting their weak external balance position. Balance of payments deficits of the four countries was significant, with Romania and Bulgaria posting extremely high deficits of 12% and 9% of GDP respectively. In relation to this, it is important to emphasise that due, among other factors, to considerable FDI inflows, the balance of invisibles in each country amply covered the deficit on the current account, and debt rates did not increase. In 2005, thanks to the strong inflows of capital – except for Bulgaria, which applies a fixed exchange rate – the national currency grew stronger against the euro in each of the countries concerned.

Despite a marked increase over the past years, the level of banking penetration in the relevant countries remains below the EU average, although the depth of penetration of the financial intermediation system, calculated based on balance sheet total, in the banking sector in Croatia and Slovakia exceeds the figure for Hungary.

Primarily thanks to the expansion on the loans side, in each country the balance sheet total of the banking sector increased dynamically in 2005, at rates that exceeded the nominal growth of GDP by between 8% and 11%. The growth was most notable in Bulgaria and Slovakia, at more than 10%, although the penetration of the banking sector in Croatia and Romania, at about 8% of GDP, was also in excess of the 6% seen in Hungary.

Balance sheet total of the banking sector as a percentage of GDP





Within lending, the growth in retail lending was outstanding: the increase in the aggregate volume of retail loans in the four countries concerned exceeded the growth of GDP by nearly 3 percentage points, and the expansion of corporate loans outstripped the growth of the economy by a similar margin. Throughout the region, foreign currency-based retail loans have proved extremely popular.

During the past year, with the exception of Slovakia, measures restricting lending were enforced in all of the countries. Due to the rapid growth in lending, the central bank of Bulgaria ruled that if the rate of growth of the total loan portfolio of a commercial bank exceeds a certain rate (5% in 3 months, 12.5% over 6 months, 17.5% over 9 months, or 23% over a 12-month period), and provided all other conditions are met, the bank concerned must place an interest-free deposit at the central bank in an amount equal to 2-4 times the excess loan placement. The National Bank of Romania took two measures to slow the expansion in lending: first it raised the provisioning requirement to 40%

in respect of banks' foreign exchange sources, and later it stipulated that the volume of corporate and retail loans in foreign exchange with no collateral in kind may not exceed 300% of the lending bank's equity. The central bank of Croatia, in several steps, tightened the conditions pertaining to the raising of foreign funding sources in 2005. The rate of non-interest bearing compulsory reserves to be deposited in respect of newly raised foreign sources was increased from 30% to 40% in May of 2005 and then to 50% in December.

Although lending was the major source of growth in each country, with the exception of Slovakia a growth in the volume of savings was also strongly apparent in the banking sector: retail bank deposits grew at a rate 2-4% faster than the growth of national income last year. An increasing amount of savings were placed in non-banking products, most notably in Croatia and Slovakia, with investment funds and insurance schemes proving particularly popular.



BUSINESS REPORT



Brief Description of the OTP Group's Activities and Results

The OTP Group closed an extremely successful year in 2005: the volume of customer loans and customer deposits grew considerably, the Group's income increased dynamically, its operating efficiency improved, and its after-tax profit – despite an unfavourable change in taxation – increased at an outstanding rate.

The Group's financial performance in 2005

In 2005, the Group's consolidated after-tax profit based on IFRS was HUF 158.3 billion, up by 20.3% compared to the previous year and 19.2% more than the parent company's pre-tax profit for the same period. In 2005 the Bank's consolidated return on average assets (ROAA) and its consolidated return on average equity (ROAE) were 3.38% and 32.3% respectively (in 2004: 3.45% and 35.3%).

As of December 31, 2005, OTP Bank's consolidated balance sheet total was HUF 5,215.9 billion, based on IFRS, up by 25.3% or HUF 1,053.5 billion from a year earlier, and exceeding the parent company's balance sheet total of the same period by 45.2%.

As of December 31, 2005, the aggregate balance sheet total of those members of the OTP Group that conduct banking activities (OTP Bank, Merkantil Bank, OTP Building Society and OTP Mortgage Bank) represented 24.1% of the balance sheet total of the entire Hungarian credit institution sector.

The parent company, the largest contributor to the consolidated balance sheet total and profits, can also look back with satisfaction on what was a highly successful year. Its income grew dynamically,



and the Bank retained its leading position in terms of absolute profits. Its after-tax earnings account for 43% of the banking sector's aggregate total after-tax profit, and in terms of ROA and ROE, it is the clear front-runner in the region as a whole.

From among the Hungarian subsidiaries, OTP Garancia Insurance achieved outstanding results in 2005: its gross premium income grew by 36% and its after-tax profit by 97%. The Merkantil Group increased its loan portfolio by more than 33% in a stagnating vehicle sales market, and the aggregate total after-tax profit of its members grew by more than 67% in 2005. The net asset value of the investment funds managed by OTP Fund Management grew by close to 50% compared to year-end 2004, and its after-tax profit was 39% more than in the base period. The assets and membership of the OTP Funds increased considerably, and their share of household deposits exceeded 20% at the end of 2005.

The foreign subsidiaries also achieved considerable growth. In 2005 DSK Bank's loan portfolio grew by 41%, its deposit portfolio by 31%, and its after-tax profit by more than 38%. The number of debit cards issued exceeded 900,000, and the bank's sales network and electronic services were greatly strengthened. The loan portfolio of the Slovakian OBS grew by 41%, its deposit portfolio by 8.5%, and its after-tax profit was almost three times as high as in 2004. The Bank's Romanian subsidiary, OTP Bank Romania, launched its retail services and expanded its branch network. By year-end 2005 the number of OBR branches had grown from 14 at the end of 2004 to 27.

In 2005 the Bank purchased the Croatian Nova banka, which now operates under the name OTP banka Hrvatska (OBH). As of December 31, 2005 the consolidated balance sheet total of OBH stood at HUF 298.2 billion, and the Bank's share of the Croatian market was 3.4%. In 2005 we launched an acquisition bid for the Serbian Niška banka and completed the transaction in March 2006.

Share price in 2005

The increase in the price of OTP shares in the past years has been considerably greater than that of the typical share prices of eastern and western European banks. In 2005 the price of OTP Bank's shares increased by 25.1% to HUF 6,967 at year-end, while the BUX, the share index of the Budapest Stock Exchange, increased by 41% in a year. The market value of the Bank's shares had risen to HUF 1,950 billion or EUR 7.7 billion by the end of December 2005. Up until the fall of 2005 the Bank's share price outperformed the benchmark indices; however, in the fall – primarily due to investors' assessment of the emerging economics and of Hungarian macroeconomic performance in particular – it was lower than the benchmarks. The price of the Bank's shares grew by a factor of almost 61 (in forint terms) from August of 1995 (from the listing) to the end of December 2005.

The price of OTP shares in 2005



Number of customers, sales network and headcount at the Bank Group

As of December 2005 OTP Bank and its foreign subsidiaries were offering high-quality solutions to the financial needs of some 9.7 million customers in 5 countries of the region. As of December 31, 2005 the number of the parent bank's customers stood at close to 4.8 million, consisting of close to 4.6 million

retail customers, 196,000 micro and small businesses, more than 19,000 medium-sized companies and large corporations, and close to 2,400 municipal customers. The total number of customers of the Bank Group's foreign subsidiaries was more than 4.9 million, more than 4.6 million of whom were retail customers. Among the foreign subsidiaries, DSK Bank has an extensive customer base: the bank had more than 4.2 million customers in December 2005, which is comparable to the figures in Hungary.

At the regional level, the Bank Group's customers receive high-quality services and have 960 branches, 2,221 ATMs, 27,976 POS terminals, as well as call centres, mobile banking and internet banking services, business terminals and an agency sales network at their disposal. In Hungary, in addition to OTP Bank's branch network consisting of 408 branches – where the Bank also sells the products of the Bank Group's Hungarian members – OTP Garancia Insurance has a considerable network consisting of 192 units. The foreign subsidiaries offer services to their customers through a total of 552 branches, 721 ATMs, and 2,443 POS terminals.

Reaching the OTP Group's objectives requires a highly-qualified work force, and therefore one of the Bank Group's priorities is to establish, maintain and train appropriately prepared, sales-oriented and loyal customer service representatives and to retain talented experts. As of December 31, 2005, the closing headcount of the OTP Group's employees was 17,977, which is 1,004 more than in the same period last year. The reason for this growth in headcount was the acquisition of the Croatian subsidiary. The acquired banks are undergoing rationalisation and consolidation projects which will result in a reduced headcount; at the same time, launching new divisions in Romania and establishing financial groups at the other foreign subsidiaries will result in headcount growth. One third of the Bank Group's employees work abroad, while close to two-thirds work for the Hungarian members of the Bank Group, of whom 7,899 are employed by OTP Bank.

Main developments in OTP Bank in 2005

In 2005 the Bank continued to implement large-scale capital projects aimed at strengthening its competitiveness, rationalising and streamlining operations, cutting costs and improving the quality of services. In the course of the year we also performed follow-up work in connection with numerous developments that were implemented in 2004.



Work in the framework of the START Project, intended for promoting sales and improving branch processes, continued, and its effects are already being felt in the everyday work of the branches. The customer satisfaction surveys conducted by GFK Hungária Market Research Institute confirm that the quality of customer service has improved considerably, waiting times have been shortened, and that the rationalisation of branch processes has produced tangible results. The Bank's experts continue to improve the system on the basis of continuous feedback.

The Basel II and the IFRS projects, which are intended to help the Bank prepare for international accounting and settlement requirements, were respectively continued and commenced. Since October 2004 the Basel II Implementation Project has completed the majority of tasks required for its launch in 2007 and for approval by the supervisory authority. The objective of the IFRS project is to establish and introduce consolidated IFRS accounting and controlling procedures as well as a settlement system.

In addition, mandatory data provision by the Bank has become considerably simpler. The Mandatory Report Preparation System (MRPS) enables the Bank to produce reports for the supervisory authority automatically and to maintain uniform procedures. As a result, activities that have been performed manually have become automated, manual data input is supported by a controlled interface, general ledger reconciliation has been expanded, and uniform procedures are used

in preparing reports to the supervisory authority, all of which has lifted a burden from our employees' shoulders. In 2005 the Interest system that had been used for handling securities was replaced, and the CLAVIS system was introduced and launched. In the course of the year problems were solved, and the system, with its continuously expanding functions, is now at our customers' disposal.

In 2005 we continued to improve the electronic banking systems. Several convenient functions were added to the system (e.g. credit card bank statements can be downloaded retroactively, and applications were enhanced). In connection with this, the MiddleWare and Base24 systems, providing support for the sales channels and card systems, were also improved.

Bank card systems were also enhanced: the operational system supporting ATMs was changed in order to improve the ATM system, and the ATM cash optimisation application was introduced. The new developments ensure undisturbed use of the increasingly higher quality

services offered by ATMs 24 hours a day. OTP Bank's goal is to develop and improve the efficiency of its agency sales network. In order to achieve this, the Partner Project was launched. In its first phase the areas to be improved were identified (capacity utilisation, product offering, customer relations, improving the system of incentives, training and support). In the fall of 2005 the implementation phase was commenced, and the first campaigns were launched with an expanded selection of products under the new support and control system.

In addition, smaller improvements were made to several of the Bank's IT systems. These systems and the connections they provide enable the Bank to be prepared to respond to market challenges both in terms of information and infrastructure. In the last year a new process was launched to unite the various IT systems and to bring them up to the same level within the group. Its ultimate goal is to ensure that each member of the OTP Group is able to serve its customers at the same high level, with the help of a similar infrastructure.

Activities of the Hungarian Group Members¹

BASIC RETAIL SERVICES

OTP Bank's customers continue to regard the institution as Hungary's best-known and safest bank. During the process of consolidation that has taken place in the banking market in the past few years, OTP Bank has maintained its market-leading position in the retail segment owing to its development of up-to-date products that meet the latest needs of its customers, elevating the level of customer service generally, and improving accessibility. The Bank expends considerable efforts on increasing customer satisfaction. In order to achieve this goal, the Transaction Database and the CRM system have been available for more than a year as effective tools for preventing customer churn. Several projects were launched and successfully completed in 2005 to improve customer service. The "Main Developments" section contains more information about these projects.

Account management, channels, banking transactions

At the end of 2005 OTP Bank had 4.6 million retail customers, 2.9 million of whom had forint current

accounts. In connection with account management, OTP Bank wishes to make everyday banking simpler for its customers through an increasing number of channels.

Accordingly, the Bank has considerable market share in relation to all the electronic banking channels. The number of customers with a contract for the use of the Bank's electronic channels increased substantially in 2005. Some 727,000 customers made calls to the telephone help desk (33.8% market share), over 533,000 customers used the mobile phone-based services (47.6% market share), while 370,000 customers used internet (51.4% market share). This represents a 24% and 33% increase in the number of telephone banking and internet banking customers respectively, while the number of mobile banking service users grew by an outstanding 112%. The number of text messages sent (e.g. mobile signature, control, interactive text message) grew by 53%, the number of internet transactions by 62%, the number of mobile phone contracts by 108%, and the number of Electronic Account packages by 47%.

Number of OTPdirekt retail customers



¹ According to Hungarian Accounting Standards

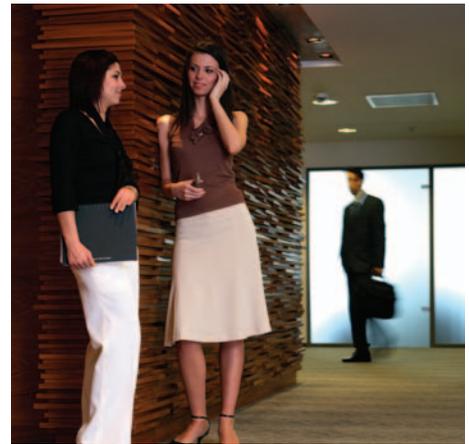
In 2005 the functions available through the electronic channels continued to grow. The improvements increased practicality and convenience; for example, customers received help in storing certain frequently occurring data and in issuing multiple direct debit orders. Within internet-based services, application and download options were enhanced, and securities management functions are becoming more widely available.

OTP Bank's goal is to develop and improve the efficiency of its agency sales network. In order to achieve this, the Partner Project was launched, as a result of which a new sales support and incentive system was introduced, the IT support system was further improved, and the number of agents that have a relationship with the Bank had increased considerably by the end of the year to 725. In the course of the year the key products sold by the agents were housing and mortgage-backed loans. In December 2005 more than 40% of the contracted housing loan volume was sold by agents. In the last months of the year, personal loans and credit cards were added to the selection of products offered within the Partner system. The project includes a sales competition to help achieve the targeted volumes.

In 2005 the renovation and modernisation of the branch network continued. Owing to the key projects, the quality of customer service improved considerably and waiting time was shortened due to the rationalisation of task distribution within the branches and the expansion of electronic channels on the one hand, and the restructuring of the customer service representatives' incentive system on the other hand. Within the Infrastructure and Network Optimisation Project, 21 branches had been opened by December 31, 2005. In the remodelled branches, 434 improved workstations are now at the disposal of the Bank's customers and partners.

Bank cards

At year-end 2005, the number of cards issued by the Bank stood at 3,820,000, a 4.9% increase over the previous year's figure (3,641,000).



At year-end 2005, the number of forint-based deposit and credit cards issued in the retail division was close to 3,700,000, representing a rise of 4.7% compared to the 3,500,000 cards at year-end 2004. Within this, the number of classical debit cards issued to current-account holders was 2,784,000, and the number of Multipont charge cards was 500,000, while the number of cards linked to "B-Hitel" and "C-Hitel" overdraft facilities, currently in the process of being phased out, was already down to just 105,000 at year-end 2005. The number of classical credit cards, launched in the final months of 2003, was close to 134,000 at year-end 2005. In 2005 the Bank further expanded its credit-card portfolio, and within this, 52,000 AMEX credit cards had been sold by the end of the year. The number of foreign-currency-based cards issued by the Bank increased by 16.3% over the year, to more than 10,000.

By year-end 2005, the number of OTP-operated ATMs had increased to 1,500, from 1,400 in the previous year. In 2005 the number of transactions carried out using ATMs owned by OTP was 76.1 million, and the total volume of these transactions was HUF 2,188 billion. The number of ATM transactions carried out using cards issued by the Bank was 70.5 million, with a total volume of HUF 1,978 billion. Compared to the previous year, the average value of transactions on the acceptor side increased from HUF 27,000 to 28,700 and income grew by 30.6%.

As at December 31, 2005, the number of POS terminals was 25,478, representing an increase of 3,801 compared to the previous year. The Bank operated 3,439 of these terminals at its own branches, 17,104 at commercial outlets and 4,935 at post offices.

The number of POS terminals at commercial outlets grew by 24.4%. In 2005, the number of transactions made using OTP Bank's own POS network was 63 million, with a volume of HUF 527 billion, which represents a 21% rise in the number of transactions and in turnover. On the issuer side, the number of transactions and turnover increased by 17.2% and 18.3% respectively compared to 2004. Thus, the 50 million transactions carried out by OTP Bank's customers resulted in a turnover of HUF 375 billion.

Deposits, investments

At year-end 2005 the OTP Group managed more than one third of household deposits (34.7%). Based on the combined balance sheet total of financial institutions, at year-end 2005 the Bank had a market share of 34.5% in household forint deposits and 36.0% in foreign-currency deposits. Within the group, household deposit products are offered by OTP Bank, Merkantil Bank and OTP Building Society. In addition to OTP Bank, OTP Fund Management and the OTP Pension and Health Funds also retained their market leading positions in their own market segments, and OTP Garancia Insurance, which is one of the frontrunners among the domestic insurance companies, improved its position further.

Retail deposits

By year-end 2005, the volume of retail deposits managed by the Bank had reached HUF 1,870.2 billion, representing a 7.6% increase over the previous year's figure.

Within retail deposits, forint deposits increased by 7.0%, or HUF 106.1 billion, to HUF 1,612.1 billion in 2005.

The proportion of retail current account deposits – a key product line – within forint deposits was 77.5% (in 2004: 75.1%). Following a 3.8% fall over the year, the total balance of passbook deposits amounted to HUF 326.9 billion as at December 31, 2005, representing a 20.3% share within forint deposits. The volume of foreign currency deposits grew by 11.4%, or HUF 26.3 billion, to HUF 258.0 billion, accounting for 13.8% of retail deposits as at year-end 2005 (in 2004: 13.3%). In 2005 the previous decline

in the volume of foreign currency deposits came to an end, and the volume of such deposits began to grow markedly, partly due to exchange rate changes.

As the result of new contracts, contractual deposit taking and disbursements, OTP Building Society's deposit portfolio increased by 32.5%, to HUF 78.8 billion, close to 95% of which came from retail deposits. During the course of the year, the Building Society concluded over 106,000 contracts, with a total contract value of HUF 115.6 billion. By year-end 2005 OTP Building Society had attained a 54.7% market share based on the number of valid contracts, a 48.7% market share based on contract value, and an estimated 49.3% market share based on deposit volume in the two-player building society market.

Investment funds, securities

Through OTP Fund Management, the Bank Group is one of the leading service providers in the fund management market. At the end of the year, the Bank Group's market share of the securities fund market was 38.3%.

In 2005 the domestic investment market was characterised by a decline in bond yields, a soaring stock market, and a massive increase in mutual fund investments, especially in bond and real estate funds. The trend of declining yields at the beginning of the year was reversed in the last quarter of the year, which resulted in the flow of significant investment towards non-securities savings. OTP Bank, in line with the overall trend in the market – and despite the negative factors that came into play at year-end – closed a record year in securities trading.

The net asset value of the managed funds amounted to HUF 580.4 billion at the end of 2005, which is a considerable, 48.4% increase compared to the year-end 2004 figure. Within this total, the net asset value of the Optima Fund stood at HUF 411.9 billion at year-end, which represents a growth of 29.5%. The assets of the Maxima, Paletta, UBS Fund of Funds, Quality Equity Fund and Fantázia Derivative Share Fund also grew, while the assets of the Euró and Dollár Funds decreased over the course of 2005.

Net asset value of OTP investment funds



In 2005 the Bank further expanded its uniquely wide selection of products in the market. In addition to mortgage bonds with maturities of 1 and 3 years, the Bank launched a bullet payment bond with a 10-year maturity, and launched 3 new domestic (OTP) and 5 new foreign (UBS) investment funds for Private Banking customers.

The market value of the investment portfolio managed by the Bank exceeded HUF 1,846 billion as at year-end 2005, which represents an increase of more than 21%. Despite the negative tendencies at the end of the year, the retail securities portfolio managed by the Bank grew by 19%. As a result of this outstanding performance, the Bank managed to hold on to its market leading position in this segment of the market, with a market share of over 30%.

Pension and health insurance fund services

Within the Bank Group, funds are managed by OTP Fund Management, while the administrative tasks and member recruitment in connection with the funds are performed by OTP Funds Servicing and Consulting.

OTP Funds play a leading role in the funds market both in terms of their assets and their membership count. By year-end 2005 the OTP Funds' assets stood at HUF 397.8 billion and their membership increased by 12.1% to 1,017,800. The group's market share of household deposits was over 20%.

In the course of 2005, the assets of OTP Voluntary Pension Fund grew by 19.6% from HUF 64.8 billion, to HUF 77.5 billion, and the number of its members stood at 226,000, a 21.7% increase over last year's figure. The assets of OTP Private Pension Fund grew extremely dynamically, by 41.8% to HUF 317.3 billion, and its membership numbers increased from 712,000 to 723,000. The assets of OTP Health Insurance Fund stood at HUF 3 billion, and its membership count was more than 68,000.

Life and non-life insurance

The OTP Group offers a wide selection of life and bank insurance as well as non-life insurance services to its customers via OTP Garancia Insurance Ltd., and through the branch and agency network of the insurance company and the Bank. OTP Garancia Insurance is the largest Hungarian bank insurance provider and the second largest market player in terms of its life insurance premium revenues.

OTP Garancia Insurance Ltd. achieved premium revenue of HUF 75.8 billion in 2005, which was 36.3%, or HUF 20 billion, more than in the previous year. Its market share of total insurance-premium revenue increased from 9.3% in the previous year to 11%. More than 40% of the premium revenue was generated by sales within the OTP Bank network.

Premium revenues from the life and bank insurance business were HUF 44.6 billion, which gave the Company a 14.8% share of the life-insurance market

(compared to 11% in 2004). Of life-insurance revenues, premium revenue from one-off premium-payment life-insurance policies grew dynamically, by 124.3% or HUF 15.8 billion, while revenues from regular-premium life-insurance policies grew by 14.9%. By the end of the year the volume of household deposits in life insurance premium reserves was close to HUF 115 billion. Revenues of the non-life division were HUF 31.2 billion in 2005, which represents an increase of 7.8%.

Retail loans

At the end of December 2005, the volume of retail loans was HUF 460.1 billion, 23.9% higher than at year-end 2004, which can be attributed to a five-fold increase in the volume of foreign currency loans with preferable interest rates. In addition to the majority of disbursed forint-based housing loans, starting from March 2005, foreign currency-based housing and mortgage loans were also transferred to OTP Mortgage Bank. Close to half of the approximately 34,000 loans that were transferred to OTP Mortgage Bank were foreign currency-based. The OTP Group² had a market share of 37.7% in household loans at the end of 2005.

Housing loans

The decrease in demand for forint-based housing loans and a predominant demand for foreign currency-based housing loans that started in 2004 continued in 2005 both nationwide and in respect of the Bank.

By year-end 2005, the volume of housing loans in OTP Bank's balance sheet had increased by 23.3%, to HUF 210.1 billion. Close to half of all disbursed housing loans were foreign currency-based. In 2005 the portfolio of housing loans transferred to OTP Mortgage Bank exceeded HUF 146 billion as a result of which OTP Mortgage Bank's housing loan portfolio grew by 9.3% to HUF 842.2 billion by year-end 2005. The loan portfolio of OTP Building Society – due to the increasing popularity of foreign currency-based loans offered under favourable conditions – decreased by HUF 1.7 billion to HUF 6.2

billion. As of December 31, 2005, the total market share held by the OTP Group – including the loans provided by OTP Mortgage Bank and OTP Building Society – stood at 46.4%. The group's market share in foreign currency-based housing loans grew by close to 16%-point (from 6.9% to 22.6%) in one year.

In order to retain its competitive edge, the Bank further enhanced its product portfolio and sales system. In the course of the year the Bank eliminated low volume products and introduced several new products that meet market demands and utilise the opportunities created by changes in the system of subsidies (e.g. Fészekrakó, or First Home loan, low instalment facilities, debt repayment loan, preferential home loan package in connection with home sales by municipalities and ministries, foreign currency-based loan combined with life insurance or building society deposit). In 2005 the Bank increased the number of its branches offering housing loans from 186 to 273, and at the end of the year no fewer than 725 agents were selling the Bank's housing loans. The activities of agents and employees offering loan products are supported by the CRM sales support system and through training. At the end of 2005 the Bank, together with the SCD Group, established OTP-SCD Leasing Co. Ltd., which launched a no-downpayment home leasing facility, and Annuity Ltd., which introduced a real estate-based annuity product in the market in 2006.

Consumer loans

The OTP Group offers consumer loans via OTP Bank, Merkantil Bank and Merkantil Car.

OTP Bank offers primarily current account-type, credit card, durable-goods loans, and personal and mortgage-backed loans, while the above-mentioned two companies in the Merkantil Group offer vehicle financing loans.

In 2005 the volume of consumer loans extended by the Bank increased by 24.4%, to HUF 249.9 billion. Together with the foreign currency-based mortgage loans that were transferred to OTP Mortgage Bank, the volume stood at HUF 257.0 billion as of December 31, 2005. The Bank Group's market share of household consumer and other loans grew from 23.2% to 24.4%.

²OTP Bank+Merkantil Bank+OTP Mortgage Bank+OTP Building Society

The portfolio of personal loans continued to grow dynamically in 2005, by 67.2%, to reach HUF 123.3 billion by the end of 2005, gradually replacing the "B-" and "C-Hitel" overdraft facilities, the volume of which fell by 51.8% to HUF 24.5 billion.

The volume of the re-launched "A-Hitel" overdraft facilities on retail current accounts continued to grow, and by December 31, 2005 had increased by 44.4%, to HUF 45.6 billion. Owing to high forint interest rates, the volume of forint-based mortgage-backed loans decreased by 45.2% against the previous year, to HUF 11.5 billion at year-end 2005. However, the volume of foreign currency-based mortgage loans increased five-fold in the course of the year, to reach HUF 16.1 billion by year-end.

AMEX Blue, which was launched by the Bank in 2005 and which has proved very popular among customers, was a major reason that the volume of loan placements in connection with credit cards grew more than two and a half times compared to the previous year, to reach HUF 12.3 billion by December 31, 2005. The volume of durable-goods loans (consumer credit) increased by 23.3%, to HUF 8.8 billion.

In 2005 the Merkantil Group strengthened its position in the vehicle-financing market despite fierce competition and decreasing vehicle sales. Its estimated market share on the basis of financed new cars is 20%. At the end of 2005 Merkantil Bank's retail consumer loan portfolio stood at HUF 95.4 billion, and Merkantil Car's retail loan placement portfolio was HUF 94.0 billion.

PRIVATE BANKING SERVICES

The OTP Group's private banking value proposition to affluent customers was supplemented further in terms of its content in 2005. The Bank offers advisory services – investment advice, tax advice, travel arrangements, art and real estate advice – as well as 'prestige' benefits, such as a gold bank card and VIP lounge at Ferihegy airport, to its private banking customers.

In addition to the wide variety of domestic investment products available, the number of investment opportunities abroad also increased considerably in 2005, partly through the launch in Hungary of 5 foreign investment funds offered by UBS Asset Management, and through the offering of foreign equities and index-tracking funds (ETF) available via the Xetra stock exchange system. Since the middle of last year, OTP Private Banking customers – as an opportunity available to them alone – have also been able to apply for an American Express exclusive Gold debit card.

Advisors assess customers' investment behaviour on the basis of individually compiled model portfolios, which they update with monthly tactical and quarterly portfolio reviews in order to be able to make their investment decisions on the basis of customised, up-to-date and detailed investment advice.



Our customers can find information on the products and services available to them on our private banking website (www.otpprivatebanking.hu), from the comfort of their own homes, and can also access the latest capital market information, which is prepared by the Bank's Analysis Centre.

The number of private banking contracts was close to 11,000 by year-end 2005, and the managed assets grew even more dynamically, by HUF 84.5 billion, to reach HUF 326.3 billion on December 31, 2005, which represents a 35% gain in a year. Within the Private Banking portfolio, the portfolio managed in the context of the 'VIP' private banking service increased by 63%, to reach HUF 46.4 billion in 2005.

COMMERCIAL BANKING SERVICES

Corporate services

Corporate account management, banking transactions

The OTP Group was again one of the key players in the market in 2005 in terms of corporate products and services. Besides OTP Bank, Merkantil Bank also offers corporate account management, and OTP Building Society and OTP Fund Management also offer deposit taking and investment fund sales to corporate customers. The total share of the Bank Group – that is, OTP Bank, Merkantil Bank and OTP Building Society – of the deposit portfolio of the credit institution sector was 11.4% at year-end 2005.

As of December 31, 2005, the corporate deposit portfolio stood at HUF 459.5 billion, a 9.1% increase over the previous year. Of the deposit total, 60% was made up of the deposits of incorporated business entities, which represented an increase of 10.4% over the course of one year. The forint deposits of incorporated business entities grew by 9.8% to reach HUF 246.9 billion, while their foreign-currency deposits in 2005 grew by 15.6% to HUF 29.5 billion. The volume of deposits held by small enterprises and individual entrepreneurs grew by 5.3% to HUF 64.7

billion, of which the share of forint deposits was 97%. In 2005 the handling of the corporate segment was transformed. As a result, the corporate-customer segment, which used to be treated in a uniform manner, is now divided into two large groups, micro and small businesses on the one hand, and medium-sized and large businesses on the other hand. Dividing the segment in this manner will enable us to provide an even more precise and tailored response to customer needs. As a part of this, the Bank created an MSE (micro and small enterprises) department within the retail division of the Bank. Starting from September 2005, OTP Bank renewed the services extended to micro and small businesses and increased their availability. The deposit portfolio of MSE customers stood at HUF 215.3 billion as of December 31, 2005, and the total number of MSE customers was close to 200,000.

Bank cards, electronic services

At year-end 2005, the number of business cards issued by OTP Bank was close to 115,000, representing an increase of 11.9%. The great majority of these (nearly 87,000) were domestic corporate and business cards. The number of Széchenyi Cards exceeded 8,000 by year-end 2005.

Number of business cards



Of the various electronic services available to customers that have bank cards, the OTPdirekt telephone and mobile phone service continues to be the most popular, with 31,000 and 28,000 corporate

users respectively at the end of 2005. The number of corporate customers that use internet banking services also grew considerably and was close to 48,000 by the end of 2005.

Corporate loans

OTP Bank and its subsidiaries – the Merkantil Group and OTP Building Society in the case of domestic financing – offer a wide selection of loan products to their corporate customers. The Bank Group is one of the market leaders in this segment and had a share of 11.7% of the credit institution sector's corporate loan portfolio at the end of 2005.

The corporate loan portfolio grew by HUF 69.7 billion, to HUF 876.0 billion, by December 31, 2005.

The loan portfolio of incorporated business entities grew by 12.4%, to HUF 678.0 billion, while the foreign-currency loans of this customer group rose by 22.5%, to HUF 328.0 billion. The portfolio of small-enterprise loans increased by 11.2%, to HUF 27.2 billion. Loans taken up by individual entrepreneurs grew by 6.0%, to HUF 14.8 billion.

At the end of 2005 the largest single portion of the loan portfolio, 26.0%, consisted of loans extended to the real estate and business services sector. A further 15% went to electricity, gas, heat and water supply companies, 15% to enterprises engaged in trade, 13% to manufacturing entities, and 11% to transport, warehousing, postal and telecommunications companies. The agricultural sector accounted for 4% of the total loan portfolio.

Over the year, there were loans to enterprises in the real estate and business services sector that grew by the greatest extent, by HUF 68.9 billion, although there was also a substantial, HUF 14.1 billion, growth in the volume of loans to the trading sector, and a HUF 13.4 billion increase in loans to the transport, warehousing, postal and telecommunications sector. However, the loan portfolio of sectors offering other services decreased by 33.1%.

In 2005 the Bank continued to steadily develop and enhance its commercial banking services: the Bank made the pre-financing conditions for EU tenders more flexible, and made cross-border cash-pool services available to multinational companies. In the course of the year the Bank introduced several loan products to aid in business development and to assist agricultural businesses.

The loan portfolio of the MSE segment, which was created as a result of the division in corporate customer management, was close to HUF 33 billion as of December 31, 2005.

Leasing

The Bank Group provides its leasing services through the Merkantil Group. The aggregate portfolio of capital-goods leasing stood at HUF 7.7 billion, while the ratio of the long-term capital-goods leasing portfolio was HUF 350 million at the end of 2005.

The closing portfolio of dealer financing at the end of 2005 stood at HUF 18.0 billion, and 4.6% of the loan portfolio was foreign currency-based.

The Bank Group is represented on the property leasing market by Merkantil Property Leasing Co. Ltd. As of December 31, 2005, the balance sheet total of Merkantil Property Leasing was HUF 9.5 billion, and its property leasing portfolio grew by HUF 3.4 billion compared to 2004. Over half of the property leasing contract portfolio is listed in the books of project companies, and if this is taken into account, a further HUF 10.6 billion is added to the portfolio.

Project finance

The division's total portfolio stood at HUF 193.8 billion on December 31, 2005, which represents a 10% increase compared to 2004. A major portion of the loans went to finance real estate projects (22.5%), the power generation sector (22.5%), and company acquisitions (19.4%).

The Bank concluded several transactions of outstanding significance in the course of 2005, such as the Palace of Arts (a PPP project), Kerepesi Plaza, and the Graboplast (company acquisition) project. In addition to domestic transactions, the Bank also participated in financing foreign projects, especially in Bulgaria (e.g. Sunny Beach – a hotel) and in Slovakia (e.g. Enviral – a bio-ethanol plant).

MUNICIPALITY SERVICES

The Bank again succeeded in retaining its leading role in municipality banking in 2005. By the end of 2005 more than 74% of the client base, 2,359 municipalities and their institutions, had OTP Bank managing their cash-flow accounts, which represents a 4% decrease compared to year-end 2004. This is due to the fact that, as a result of recent changes in statutory regulations, municipalities can change their account managing bank in any month of the year, and, if they wish to do so, they must – once a specified value threshold is reached – issue a competitive tender among the financial institutions as part of a public procurement process.

At the end of 2005, the volume of deposits held by municipalities was HUF 151 billion, which was 5.4% lower than at the end of 2004. With regard to the

deposit total, as a result of strenuous efforts on the part of competitors to acquire market share, the Bank's share of the market dropped slightly, from 66.2% to 63.4%. At the same time, the Bank's portfolio of municipality loans grew in the course of the year, by 34.3% to HUF 127 billion, bringing its share of this segment of the loans market to 52.7%.

The division introduced a quality assurance system in 2005 and acquired ISO 9001: 2000 certification.

The number of those among the municipalities and their institutions using the Bank's customer terminals rose continuously over the year (from 4,581 in 2004 to 5,700 at the end of 2005), while the number of municipality customers using the Mini Treasury system also grew.

TREASURY AND STRUCTURED FINANCING

The role of the Treasury within the Bank is twofold: firstly, to ensure operative and long-term liquidity and manage exchange rate and interest risks, and secondly, to operate as an independent profit centre in its own right.

With regard to liquidity management, in 2005 the tendency of previous years continued. Similarly to previous years, the Bank had surplus forint liquidity and a lack of foreign currency sources. The Treasury supplied approximately 51% of foreign currency sources available to the Bank by raising foreign funds (syndicated and bilateral loans, foreign currency bond issues, forint/foreign currency swap transactions).

In February 2005 a subordinated bond of EUR 125 million was issued and in June an EMTN bond program with a total of EUR 1 billion was set up, which provides flexible conditions for the Bank with respect to the rapid international issuance of a wide variety of bond structures. In 2005 two bond structures were issued in the framework of the program. In July 2005, OTP Bank issued bonds with a variable interest rate at a face value of EUR 500 million, and in the fourth quarter bonds at a face value of EUR 300 million.

In order to ensure an optimal supply of short and long-term foreign currency sources, in 2005 a set of unified regulations on group-level foreign currency funding management and group-member financing was introduced. The new regulations are of key importance in terms of the liquidity management of the Bank and the Bank Group. The Bank, as a central body that acquires funds, serves and finances the group members under uniform conditions, which means savings for the group as a whole.

Treasury trading activities were outstandingly successful in 2005. Among primary traders, OTP Bank, according to the State Debt Management Agency's assessment based on trading figures, came in second after ING Bank in the overall evaluation.

The Bank came first in the most important category (government bond sales), which is more impressive if we consider that the Bank came out on top even without the turnover of OTP Fund Management being included. In 2005 the Bank's foreign currency trading was sufficient for it to take over the no. 1 spot on the turnover list among Hungarian banks according to statistics provided by the National Bank



of Hungary (MNB), an achievement that is without precedent in the Bank's history.

In 2005 the average value of the Bank's portfolio of securities held for investment was HUF 267 billion. The portfolio of securities held for trading amounted to an average of HUF 30 billion. The average portfolio of two-week forint deposits placed with the MNB was HUF 265 billion.

In 2005 the Bank maintained its market leading position in the area of structured financing

in Hungary, and strengthened its position as financier in the central and eastern European region. As a result, cooperation with the group's international members has expanded. The 25 new transactions executed in the course of the year represented a total volume of HUF 175 billion.

In 2005 the Treasury installed a new internet-based price quoting and transaction system. Through the system customers have direct access to prices quoted by foreign currency traders, and can also conclude transactions.

Activities of Foreign Subsidiaries³

DSK Group

The DSK Group achieved major successes in the 2005 business year. The group's after-tax profit in 2005 was HUF 16.6 billion, which represents an increase of 38.2% compared to its result of 2004. Its ROAA as of the end of the year was 3.33% and its ROAE was 26.3%.

The DSK Group's balance sheet total on December 31, 2005 stood at more than HUF 583.4 billion, or 42.1% higher than the year-end 2004 figure, and its equity at the end of 2005 was HUF 71.2 billion (a growth of 30.6%). The bank's loans and deposits grew by 40.6% and 30.5% respectively in 2005, with the loan portfolio totalling HUF 384.4 billion by the end of the year, and deposits HUF 432.4 billion.

In 2005 DSK Bank further increased its share of the loans market (16.2%), and retained its market-leading position in the deposit market (14.8%). Based on its balance sheet total, DSK Bank's market share was 13.6%, making it the largest bank in the Bulgarian banking market ahead of UniCredit-owned Bulbank.

One of the key ingredients of DSK Bank's success is its rapid response to the demands of the competitive marketplace. Responding to increasing customer expectations and launching innovative products are the keys to the bank's further development and growth in the Bulgarian market. The bank has significantly broadened its range of retail banking products. In 2005 these included housing loans for non-residents, housing loans on semi-completed homes, and freely usable mortgage loans. "DSK-Direkt," which was developed for retail customers, was further improved, and, as a result,

services based on the call centre, the internet, and text messages improved. A service package was developed for MSE customers, and, in addition, the electronic banking services offered to corporate customers and call-centre services were expanded.

In addition to classic banking services, in 2005 DSK Bank began offering additional financial services through its subsidiaries. Besides its already existing subsidiaries (POK DSK-Rodina, which manages two mandatory and one voluntary supplementary pension fund, DSK Tours, which offers recreational and tourism services, DSK Trans Security, which offers security services and valuables transportation, and DSK Garancia Life Insurance, which provides life insurance), additional subsidiaries such as DSK Asset Management, DSK Garancia General, a general insurance services company, and DSK Leasing (offering vehicle financing) began their operations.

DSK Asset Management received authorisation in August 2005 to establish investment funds, and in December it began offering the first two of its funds (DSK Standard Bond Fund and DSK Balance Investment Fund) through its branch network.

In the course of 2005, the number of DSK Bank branches increased from 327 to 357. The number of retail bank cards issued by the bank exceeded 915,000 at the end of the year, which equates to an increase of close to 32.4% compared to the end of 2004. The number of ATMs grew by 49%, to 523, and the number of POS terminals by more than two and a half times, to 1,208. The headcount at the DSK Group at the end of 2005 was 4,048, 480 fewer than at year-end 2004.

³ According to IFRS

OTP banka Hrvatska d.d.

On March 10, 2005, the OTP Group acquired the Croatian Nova banka, which was renamed OTP banka Hrvatska (OBH) in September 2005.

On December 31, 2005 the consolidated balance sheet total of OBH was HUF 298.2 billion, representing a share of 3.4% of the Croatian market. By year-end 2005 the gross loan portfolio had increased to HUF 150.5 billion, representing a market share of 3.1%. The volume of customer deposits at year-end was HUF 232.5 billion, corresponding to a market share of 4.1%.

By the end of 2005 OTP banka Hrvatska had more than 503,000 customers, and was managing 331,000 retail accounts and close to 22,000 corporate accounts on their behalf. The number of bank cards issued in 2005 grew by 10.7% to 339,000. Within this, the number of credit cards grew by close to 60% during the year to some 22,000.

In 2005 the bank launched several new products in the Croatian market, such as internet banking services for retail customers and the VISA classic credit card.

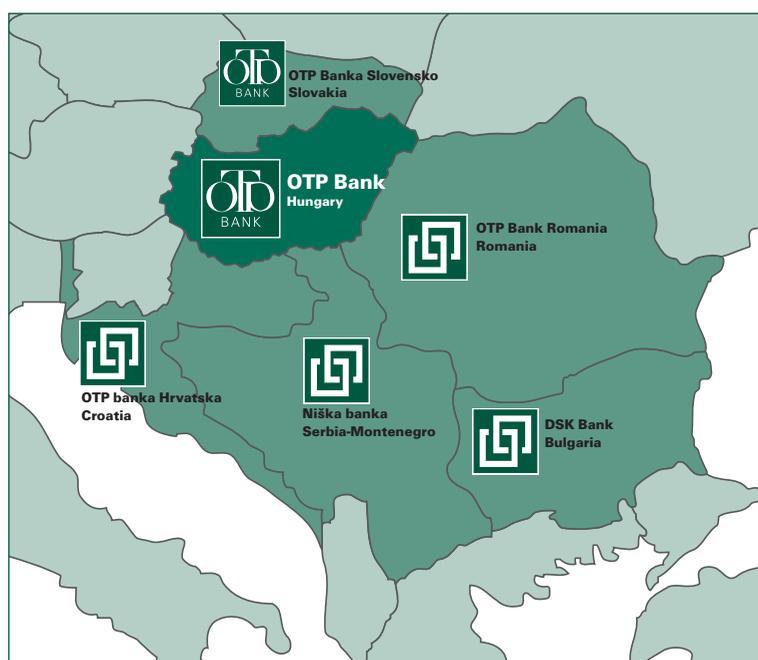
In 2005 the bank also expanded its sales network. By year-end the bank had 89 branches, 88 ATMs and 748 POS terminals. The headcount of the group as of year-end 2005 was 1,005.

OTP Banka Slovensko, a. s.

The Slovak bank's balance sheet total stood at HUF 262.9 billion at the end of 2005, which represents an increase of 22.3% compared to the end of 2004, and this growth gave the bank a share of 2.8% of the Slovak banking market. The bank's equity rose over the same period by 14.5%, to HUF 17.1 billion. OBS's after-tax result for 2005, based on IFRS, was HUF 1,373 million, compared to the previous year's profit of HUF 512 million. The bank's ROAA at the end of 2005 was 0.57%, and its ROAE was 8.6%, and its cost-to-income ratio, having dropped by more than 19%, improved to 78.7%.

In 2005 OBS's loan portfolio experienced dynamic growth both in terms of mortgage loans and consumer loans. By the end of the year retail loans, owing to an annual growth of 74.1%, increased to HUF 43.9 billion. As a result of considerable growth in corporate and municipal loans, in the course of 2005 the volume of banking loans grew by 41.1% to HUF 189.9 billion, which equated to a market share of 5.3% at the end of the year. The bank's deposit portfolio increased by 8.5% to HUF 151.9 billion in 2005, and accounted for 3.2% of the deposit market as at December 31, 2004.

During the course of 2005 the number of the bank's customers increased by over 2,500, to close to 159,000, with retail customers accounting for more than 140,000 of this total.



The number of bank cards issued by OBS was close to 105,000 at the end of 2005, which represents a growth of 4.2% compared to the end of 2004. This total was made up of more than 93,000 retail and 11,500 corporate bank cards. The bank's ATMs numbered 110 at the end of the year, with the number of transactions effected via these ATMs totalling some 1.8 million – 15% more than in 2004. The number of proprietary POS terminals at the end of 2005 was 487, and the volume of POS transactions increased by 23% over the course of the year.

The Slovak bank opened 5 new branches during the year, bringing the total number of branches in its network to 78 at the end of 2005. As of December 31, 2005 the Bank's headcount was 764, one person fewer than on December 31, 2004.

OTP Bank Romania S.A.

OTP Bank Romania's balance sheet total was more than HUF 55.2 billion at the end of 2005, 23.9% more than the figure at year-end 2004. At the end of 2005 the bank's market share based on its balance sheet total was 0.64%, while its equity – owing mainly to a capital increase of EUR 30 million in September – was HUF 13.7 billion as at December 31, 2005 (a growth of 78.5%).

In 2005 the bank's loan portfolio grew by 50.3% and its deposit total decreased by 11.8%, amounting to HUF 24.6 billion and HUF 25.3 billion respectively by year-end.

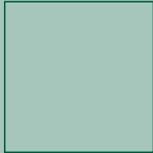
OTP Bank Romania closed the 2005 business year with a loss of HUF 2.1 billion.

In the fourth quarter of 2005 the bank launched its retail division. The bank's branches now offer personal loans, current account overdraft facilities, mortgage-backed consumer loans and housing loans.

The number of retail current accounts managed by the bank in 2005 grew from 36,500 to some 44,000; the number of corporate accounts grew from 7,000 to close to 8,000. In the fourth quarter of 2005 the bank opened 13 new branches and was operating a total of 27 branches by year-end. The headcount at the end of 2005 was 475, which is 175 more than a year earlier.

OTP Group

Parent company	Banks		Other financial services					Non-financial services	
OTP Bank	OTP Mortgage Bank	OTP Garancia Insurance						OTP Real Estate	Other subsidiaries
	Merkantil Bank	Merkantil Car	Merkantil Real Estate Leasing	Merkantil Lease				OTP Card Manufacturing	
	OTP Building Society	OTP Fund Management	OTP Real Estate Fund Management	OTP Life Annuity and Real Estate Investment				OTP Travel	
		OTP Factoring	OTP Factoring Asset Management					OTP Fund Services	
	DSK Bank (BG)	DSK Asset Management (BG)	POK-DSK Rodina (BG)	DSK Garancia Insurance (BG)	DSK Garancia Life Insurance (BG)	DSK Leasing (BG)		DSK Tours (BG)	DSK Trans Security (BG)
	OTP Banka Slovensko (SK)	OTP Faktoring Slovensko (SK)	OTP Real Slovensko (SK)	OTP Garancia poisťovna (SK)	OTP Garancia životná poisťovna (SK)	OTP Leasing (SK)	OTP Asset Management (SK)		
	OTP Bank Romania (RO)	Asigurarea Ceccar-Romas (RO)							
	OTP banka Hrvatska (HR)	OTP invest (HR)						OTP nekretnine (HR)	
	Niška banka (SE)	HIF (GB)							



MANAGEMENT'S ANALYSIS



Management's Analysis of Developments in the Bank's Asset and Financial Position^{4, 5}

CONSOLIDATED FINANCIAL RESULTS OF OTP BANK ACCORDING TO IFRS

Consolidated balance sheet

The balance sheet total of the group as at December 31, 2005 amounted to HUF 5,215.9 billion, which

was 25.3%, or HUF 1,053.5 billion, higher than in the previous year, and which exceeded the Bank's non-consolidated year-end 2005 balance sheet total by 45.2%.

OTP Bank Ltd.'s consolidated balance sheet

	Restated		Change	
	31/12/2004	31/12/2005	HUF mn	%
	HUF mn	HUF mn	HUF mn	%
Cash, due from banks and balances with the NBH	465,887	483,191	17,304	3.7
Placements with other banks, net of allowance				
for placement losses	286,200	438,768	152,568	53.3
Financial assets at fair value through statements				
of operations	70,580	48,054	(22,526)	(31.9)
Securities available-for-sale	295,835	409,945	114,110	38.6
Gross loans	2,586,110	3,297,218	711,108	27.5
Allowance for loan losses	(79,315)	(105,920)	(26,605)	33.5
Loans, net of allowance for loan losses	2,506,795	3,191,298	684,503	27.3
Accrued interest receivable	31,400	37,870	6,470	20.6
Equity investments	9,389	12,357	2,968	31.6
Securities held-to-maturity	247,259	289,803	42,544	17.2
Premises, equipment and intangible assets, net	174,775	233,245	58,470	33.5
Other assets	74,239	71,371	(2,868)	(3.9)
Total assets	4,162,359	5,215,902	1,053,543	25.3
Due to banks and deposits from the NBH				
and other banks	254,125	364,124	109,999	43.3
Deposits from customers	2,902,190	3,428,193	526,003	18.1
Liabilities from issued securities	317,222	543,460	226,238	71.3
Accrued interest payable	27,015	24,902	(2,113)	(7.8)
Other liabilities	213,798	260,728	46,930	22.0
Subordinated bonds and loans	14,324	47,023	32,699	228.3
Total liabilities	3,728,674	4,668,430	939,756	25.2
Total shareholders' equity	433,685	547,472	113,787	26.2
Total liabilities and shareholders' equity	4,162,359	5,215,902	1,053,543	25.3

⁴ Based on IFRS audited data

⁵ Due to rounding, in some cases the figures in the tables contained in the Management's analysis section may not precisely match the total of the component figures, and for the same reason, the figures referring to the same subject in different tables may not be exactly the same

The Bank's consolidated shareholders' equity was HUF 547.5 billion. This represented an increase of HUF 113.8 billion, or 26.2%, over the previous year and was 15.7% higher than the Bank's equity. Equity per share (BVPS) was HUF 1,955 as at December 31, 2005.

On the assets side, cash, due from banks and balances with the National Bank of Hungary were 3.7% higher than a year earlier. Placements with other banks, due in part to the Bank's modified placement structure, grew by 53.3% from the end of December 2004, amounting to HUF 438.8 billion as at December 31, 2005.

Financial assets at fair value through profit or loss fell by 31.9% to HUF 48.1 billion over the year. Within this, the size of the portfolio of securities held for trading was 43.5%, or HUF 29.3 billion lower than at year-end 2004.

The size of the portfolio of securities available-for-sale increased by 38.6%, or HUF 114.1 billion, during the year.

Loans, net of allowance for loan losses, rose by 27.3%, i.e. from HUF 2,506.8 billion as at December 31, 2004 to HUF 3,191.3 billion.

As at December 31, 2005, of the consolidated

gross customer loan portfolio (HUF 3,297.2 billion, annual change: +27.5%), the share of corporate loans was 36.3% (HUF 1,195.4 billion, annual change: +29.8%), that of retail loans 59.6% (HUF 1,965.8 billion, +27.0%), and loans to municipalities 4.1% (HUF 136.0 billion, +15.2%). Within the retail loan portfolio, housing and mortgage loans represented HUF 1,222.4 billion (+20.4%), and consumer loans HUF 743.4 billion (+39.8%). The Bank's foreign subsidiaries contributed 23.2% (HUF 786.0 billion) to the aggregated loan portfolio as at December 31, 2005. Besides the consolidation of OTP banka Hrvatska, a major role in the growth of the loan portfolio during the 12 months to December 31, 2005 was played by OTP Bank (corporate loans before consolidation +96.9 billion HUF, retail loans +89.8 billion HUF; total: HUF 201.6 billion); DSK (corporate loans +19.8 billion HUF, consumer loans +62.3 billion HUF, mortgage loans +28.9 billion HUF; total +111.0 billion HUF); the Mortgage Bank's loan portfolio (+79.0 billion HUF); Merkantil Bank's car financing loans (+75.6 billion HUF) and OBS (corporate loans +34.2 billion HUF, mortgage loans +15.1 billion HUF; total +55.4 billion HUF).

Consolidated gross loan portfolio as at December 31, 2005 (HUF million)

	Corporate	Municipal	Retail	Consumer	Housing	Total
OTP Bank Ltd.	902,696	131,107	463,867	253,717	210,150	1,497,670
OTP Factoring Ltd.	3,218		10,454	1,676	8,779	13,673
OTP Building Society Ltd.			6,189		6,189	6,189
Merkantil Bank Ltd.	30,629	33	95,363	95,363		126,025
Merkantil Car Ltd.	9,609	48	93,973	93,973		103,630
OTP Mortgage Bank Ltd.			849,252	7,023	842,229	849,252
OTP Banka Slovensko, a.s.	142,566	3,547	43,827	7,587	36,240	189,940
DSK Group	82,668	216	301,552	225,110	76,442	384,436
OTP Leasing, a.s.	10,366	395	8,917	8,917		19,678
OTP Bank Romania S.A.	22,169		2,396	2,068	328	24,565
OTP banka Hrvatska group	59,792	693	90,014	47,974	42,040	150,499
Other subsidiaries*	17,606					17,606
Total	1,281,319	136,039	1,965,805	743,408	1,222,397	3,383,163
Consolidated	1,195,374	136,039	1,965,805	743,408	1,222,397	3,297,218

*OTP Garancia Insurance Ltd., Bank Center No. 1. Ltd., HIF Ltd. and OTP Faktoring Slovensko, a.s. taken together

The quality of the IFRS loan portfolio was good at the end of 2005: performing receivables represented 87.2% of the total volume, the share of the "to-be-monitored" category was 9.1%, and non-performing loans accounted for 3.6%, with

this latter figure having risen 0.1 of a percentage point compared to the previous year. 18.2% of the consolidated qualified portfolio and 23.5% of the non-performing loans were recorded on the balance sheets of the Bank's foreign subsidiaries.

Consolidated gross loan volume by qualifying categories

	Restated						Change	
	31/12/2004		31/12/2005					
	HUF mn	share %	HUF mn	share %	HUF mn	%	share %	
Performing	2,284,688	88.3	2,876,541	87.2	591,853	25.9	(1.1)	
Qualified	301,423	11.7	420,677	12.8	119,254	39.6	1.1	
To-be-monitored	210,752	8.1	301,581	9.1	90,829	43.1	1.0	
NPLs	90,671	3.5	119,096	3.6	28,425	31.3	0.1	
Below average	25,381	1.0	27,627	0.8	2,246	8.8	(0.1)	
Doubtful	19,493	0.8	27,802	0.8	8,309	42.6	0.1	
Bad	45,797	1.8	63,668	1.9	17,871	39.0	0.2	
Total	2,586,111	100.0	3,297,218	100.0	711,107	27.5		

IFRS consolidated provisions for loan and placement losses were HUF 105.9 billion, of which HUF 101.4 billion related to the qualified portfolio, and which resulted in a provisioning

coverage ratio of 24.1%. Within this, HUF 89.6 billion was available to cover the HUF 119.1 billion in non-performing loans, which meant a coverage ratio of 75.2%.

Coverage of qualified customer loans

	Restated		Change
	31/12/2004	31/12/2005	%
Qualified volume (HUF mn)	301,423	420,677	39.6
Provision (HUF mn)	79,315	101,354	33.5
Coverage %	26.3	24.1	(2.2)
NPLs (HUF mn)	90,671	119,096	31.3
Provision (HUF mn)		89,613	
Coverage %		75.2	

The portfolio of securities held-to-maturity grew by 17.2% in 2005, amounting to HUF 289.8 billion as at December 31, 2005.

On the liabilities side, deposits from customers amounted to HUF 3,428.2 billion as of December 31, 2005, which was 18.1% more than a year earlier and 36.8% larger than the Bank's portfolio. 74.8% of customer deposits came from retail customers, 19.3% from corporate, and 5.9% from municipal customers.

The growth in the deposit portfolio was primarily due to the increase in the corporate and retail deposits of the parent bank and DSK, the deposits of OTP Building Society and the consolidation of OTP banka Hrvatska. The contribution of the foreign subsidiaries to the aggregated deposit total increased from 17.2% to 24.6% in 2005.

Consolidated deposit volume - as at December 31, 2005 (HUF million)

	Corporate	Municipal	Retail	Total
OTP Bank Ltd.	474,052	161,993	1,870,412	2,506,457
OTP Building Society Ltd.	4,100	6	74,718	78,825
Merkantil Bank Ltd.	1,848		2,743	4,591
Merkantil Car Ltd.	12	0	85	97
OTP Banka Slovensko, a. s.	71,063	21,152	59,636	151,851
DSK Group	66,560	13,853	352,002	432,415
OTP Bank Romania S.A.	15,279	756	9,294	25,329
OTP Faktoring Slovensko, a.s.	709			709
OTP banka Hrvatska group	33,168	5,350	193,978	232,496
Total	666,791	203,111	2,562,869	3,432,771
Consolidated	662,214	203,111	2,562,869	3,428,194

Compared to the end of December 2004, the deposit portfolio of the parent bank and of DSK grew considerably. OTP Bank's corporate deposit portfolio increased by HUF 42.1 billion and its retail deposit total by HUF 131.8, while municipality deposits decreased by HUF 8.4 billion.

At DSK, the increase in the deposit portfolio was HUF 101.1 billion, of which the growth in the retail portfolio accounted for HUF 69.1 billion. The portfolio of issued securities grew by 71.3% over the year, amounting to HUF 543.5 billion by year-end. Growth was attributable to OTP Bank's

issuance of foreign currency-based bonds in a total nominal value of EUR 800 million in the third and fourth quarters of 2005.

Consolidated results

OTP Bank's consolidated after-tax profit for 2005 according to IFRS was HUF 158.3 billion, which exceeded that of 2004 by HUF 26.8 billion, or by 20.3%, and was HUF 25.4 billion, or 19.1%, more than the Bank's non-consolidated profit.

Consolidated income statement of OTP Bank

	2004	2005	Change	
	HUF mn	HUF mn	HUF mn	%
Interest income	433,678	459,024	25,346	5.8
Interest expense	172,789	161,799	(10,990)	(6.4)
Net interest income	260,889	297,225	36,336	13.9
Provision for loan and placement losses	16,048	28,042	11,994	74.7
Net interest income after provision for loan and placement losses	244,841	269,183	24,342	9.9
Fee income	91,625	118,884	27,259	29.8
Foreign exchange gains, net	1,250	3,879	2,629	210.3
Gains and losses on securities, net	6,466	9,708	3,242	50.1
Gains on real estate transactions, net	1,818	96	(1,722)	(94.7)
Dividend income and gains and losses of associated companies	593	672	79	13.4

<i>continued</i>	2004	2005	Change	
	HUF mn	HUF mn	HUF mn	%
Insurance premiums	49,337	69,793	20,456	41.5
Other income	10,680	13,465	2,785	26.1
Total non-interest income	161,769	216,497	54,728	33.8
Fee expenses	20,588	19,930	(658)	(3.2)
Personnel expenses	79,538	95,235	15,697	19.7
Depreciation and amortization	29,150	21,897	(7,253)	(24.9)
Insurance expenses	40,264	58,468	18,204	45.2
Other expenses	81,046	98,073	17,027	21.0
Total non-interest expense	250,586	293,603	43,017	17.2
Income before income taxes	156,024	192,077	36,053	23.1
Income taxes	24,506	33,803	9,297	37.9
Income after income taxes	131,518	158,274	26,756	20.3
Minority interest	(12)	(39)	(27)	223.4
Net income	131,506	158,235	26,729	20.3

Consolidated net interest income in 2005 was HUF 297.2 billion, which represents an increase for the year of 13.9%, and exceeded the Bank's non-consolidated net interest income by 76.2%. Provisions were 74.7% higher in 2005 than in the same period of the previous year, and amounted to HUF 28.0 billion. The increase was significant at the parent bank, at Merkantil Bank, and OTP Banka Slovensko and at OTP Bank Romania, and was also due to the inclusion of OTP Leasing, a.s. within the consolidation circle. The rise in risk-related expenses is explained in part by the expansion in lending, and partly by the group's prudent provisioning policy. The ratio of provisioning to average gross loans was 0.95%, compared to 0.69% in 2004.

The interest margin on the average balance sheet total (HUF 4,689.1 billion) as per end-of-period data was 6.34% in 2005, or 51 basis points lower than in 2004. The net interest margin (after provisioning) was 5.74%, compared to 6.42% a year earlier. The gross interest margin for 2005 – excluding the impact of swap deals on interest income – was 6.20%, and the net interest margin was 5.60%, which, if we take into account the net interest income from swap transactions (HUF 6,584 million), were respectively 23 and 40 basis points lower than in 2004.

Non-interest income was in total 33.8% higher than in the previous year, and amounted to HUF 216.5 billion. Fees and commissions received grew by 29.8%, to HUF 118.9 billion. This is 12.8% below the non-consolidated fee and commission income figure, primarily due to the exclusion from the consolidation total of commissions from the Mortgage Bank (HUF 52.7 billion). Consolidated fee and commission expenses decreased by 3.2% over the year. Net fees and commissions amounted to HUF 99.0 billion, which is an increase of 39.3% compared to 2004. Net price gains on securities trading amounted to HUF 9.7 billion, compared to HUF 6.5 billion in 2004, due to price gains realised on the securities portfolio and to the gains from the securities transactions of OTP Garancia Insurance. Net foreign exchange gains amounted to HUF 3.9 billion, compared to HUF 1.3 billion in 2004, due mainly to changes in the result of swap positions. Gains on real estate transactions were HUF 96 million on a consolidated level. Insurance premium revenues amounted to HUF 69.8 billion, which was 41.5% higher than in 2004. Compared to 2004, insurance expenses grew by 45.2%. The net insurance result grew by 24.8%, to HUF 11.3 billion, relative to 2004. Other non-interest income, amounting to HUF 13.5 billion, was 26.1% higher than a year earlier. Non-interest expenses, amounting to HUF 293.6 billion,

⁹ Calculation method: (non-interest expenses – fee expenses) / (net interest income before provisions + non-interest income – fee expenses)

exceeded those of 2004 by 17.2%, and the Bank's non-consolidated figure by 89.6%. Consolidated personnel expenses were 19.7% higher than a year earlier. The increase in personnel expenses already contains the impact of the IFRS 2 standard (HUF 7.5 billion). Depreciation fell considerably relative to 2004, by HUF 7.3 billion. Other non-interest expenses grew by 21.0%, to HUF 98.1 billion. In 2005, non-corporate taxes represented an expense of HUF 27.7 billion, 77.1% more than in 2004. Within this, the separate tax imposed on credit institutions and financial enterprises (net interest income tax) was also recognised among other expenses, in an amount of HUF 10.2 billion. Without the separate credit

institutions tax, the increase in consolidated non-interest expenses was 13.1%.

The Bank's consolidated cost-to-income ratio in 2005 (according to a calculation method similar to that used in Hungary) was 55.4%, 178 basis points lower than a year earlier.

Consolidated return on average assets (ROAA) reached 3.38% (in 2004: 3.45%), while consolidated return on average equity (ROAE) was 32.3%, or 3.0 percentage points lower than in the previous year. Real return on equity (real ROAE) was 28.7% in 2005. Basic earnings per ordinary share (basic EPS) was HUF 603, which is HUF 102 higher than the 2004 figure, while diluted EPS was HUF 599 in 2005 (in 2004: HUF 499).

NON-CONSOLIDATED FINANCIAL RESULTS OF OTP BANK ACCORDING TO IFRS

Non-consolidated balance sheet

The Bank's balance sheet total as at December 31, 2005 was HUF 3,592.9 billion; 17.6%, or HUF 538.4 billion, higher than a year earlier.

On the assets side, cash, due from banks and balances with the National Bank of Hungary were 5.0% lower, while placements with other banks were 96.7%, or HUF 193.6 billion, higher than a year earlier. Financial assets at fair value through profit or loss grew by 54.4%, or HUF 12.0 billion, of which the growth in securities held for trading accounted for HUF 5.2 billion.

Within securities available-for-sale, which amounted to HUF 371.4 billion (annual increase of 14.6%), the government bond portfolio accounted for HUF 67.6 billion, that of mortgage bonds for HUF 253.4 billion, and that of other bonds for HUF 42.6 billion, while the portfolio of Hungarian discount treasury bills was HUF 7.9 billion. Gross loans were HUF 1,497.7 billion as at December 31, 2005, representing a growth of 15.6% over the year. Provisions for loan losses rose by 11.9%, to HUF 22.2 billion. The net portfolio of loans and bills of exchange amounted to HUF 1,475.5 billion as at December 31, 2005, representing a 15.6% rise for the year as a whole.

Non-consolidated balance sheet of OTP Bank

	Restated		Change	
	31/12/2004	31/12/2005	HUF mn	%
Cash, due from banks and balances with the NBH	399,401	379,249	(20,152)	(5.0)
Placements with other banks, net of allowance for placement losses	200,100	393,659	193,559	96.7
Financial assets at fair value through statement of operations	22,059	34,054	11,995	54.4
Securities available-for-sale	324,130	371,433	47,303	14.6
Gross loans	1,296,051	1,497,670	201,619	15.6
Allowance for loan losses	(19,810)	(22,162)	(2,352)	11.9
Accrued interest receivable	1,276,241	1,475,508	199,267	15.6
Investments in subsidiaries	41,180	41,276	96	0.2
Investments in subsidiaries	154,298	223,881	69,583	45.1
Securities held-to-maturity	507,503	521,797	14,294	2.8
Premises, equipment and intangible assets, net	96,538	105,569	9,031	9.4
Other assets	33,025	46,447	13,422	40.6
Total assets	3,054,475	3,592,873	538,398	17.6
Due to banks and deposits from the NBH and other banks	203,777	255,211	51,434	25.2
Deposits from customers	2,340,924	2,506,457	165,533	7.1
Liabilities from issued securities	1,997	202,267	200,270	—
Accrued interest payable	9,414	5,735	(3,679)	(39.1)
Other liabilities	94,987	102,881	7,894	8.3
Subordinated bonds and loans	14,324	47,023	32,699	228.3
Total liabilities	2,665,423	3,119,574	454,151	17.0
Total shareholders' equity	389,052	473,299	84,247	21.7
Total liabilities and shareholders' equity	3,054,475	3,592,873	538,398	17.6

Non-consolidated gross loan volume by business lines of OTP Bank

	31/12/2004		31/12/2005		Change	
	HUF mn		HUF mn		HUF mn	%
Corporate	805,804		902,696		96,892	12.0
Municipal	116,175		131,107		14,932	12.9
Retail	374,072		463,867		89,795	24.0
Consumer	204,657		253,718		49,061	24.0
Housing	169,415		210,149		40,734	24.0
Total	1,296,051		1,497,670		201,619	15.6

Within the gross loan portfolio, loans to businesses amounted to HUF 902.7 billion (representing an annual increase of 12.0%), municipal placements to HUF 131.1 billion (annual increase of 12.9%), consumer loans to HUF 253.7 billion (24.0% increase), housing and mortgage loans to HUF 210.2 billion (also a 24.0% increase). Loans to businesses represented 60.3% of the loan portfolio, retail loans 30.9%, and loans to municipalities 8.8%.

Non-consolidated gross loan volume by qualifying categories

	31/12/2004		31/12/2005		Change		
	HUF mn	share %	HUF mn	share %	HUF mn	%	share %
Performing	1,227,903	94.7	1,418,879	94.7	190,976	15.6	0.0
Qualified	68,148	5.3	78,791	5.3	10,643	15.6	0.0
To-be-monitored	35,822	2.8	44,250	3.0	8,428	23.5	0.2
NPLs	32,326	2.5	34,541	2.3	2,215	6.9	(0.2)
Below average	14,401	1.1	13,160	0.9	(1,241)	(8.6)	(0.2)
Doubtful	12,107	0.9	14,119	0.9	2,012	16.6	0.0
Bad	5,818	0.4	7,262	0.5	1,444	24.8	0.0
Total	1,296,051	100.0	1,497,670	100.0	201,619	15.6	

The quality of the loan portfolio was good at the end of December 2005: performing receivables represented 94.7% of the total volume, the same as in 2004. The "to-be-monitored" category

accounted for 3.0% of the total, and non-performing loans for 2.3%. The coverage ratio in respect of the qualified portfolio was 28.1%, and for non-performing loans, 53.4%.

Coverage of qualified customer loans

	31/12/2004	31/12/2005	Change %
Qualified volume (HUF mn)	68,148	78,791	15.6
Provision (HUF mn)	19,810	22,162	11.9
Coverage %	29.1	28.1	(0.9)
NPLs (HUF mn)	32,326	34,541	6.9
Provision (HUF mn)		18,449	
Coverage %		53.4	

The portfolio of securities held-to-maturity rose by 2.8% in 2005, to HUF 521.8 billion, of which the portfolio of government bonds accounted

for HUF 201.4 billion and the portfolio of mortgage bonds for HUF 289.8 billion.

On the liabilities side, deposits from customers grew by 7.1% from December 31, 2004. The share of deposits from customers in the Bank's liabilities fell from 76.6% in 2004 to 69.8%. Of the deposits from customers, amounting to a total of HUF 2,506.5 billion,

88.1% were forint deposits. 74.6% of the deposit total (HUF 1,870.4 billion; an annual increase of 7.6%) consisted of retail deposits, while corporate deposits represented 18.9% (a 9.8% increase) and municipal deposits, 6.5% (a 5.0% fall).

Non-consolidated deposit volume of OTP Bank

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
Corporate	431,921	474,052	42,131	9.8
Municipal	170,431	161,993	(8,439)	(5.0)
Retail	1,738,572	1,870,412	131,841	7.6
Total	2,340,924	2,506,457	165,533	7.1

In the framework of the Bank's foreign currency-based bond program, due to the bonds of nominal value EUR 500 issued in the third quarter and of EUR 300 million issued in the fourth quarter, the portfolio of own-issued securities within the Bank's liabilities grew significantly, by over HUF 200 billion, and by the end of the year, accounted for 5.6% of all liabilities.

The Bank's ratio of gross loans to deposits was 59.8% by year-end, compared to 55.4% on December 31, 2004.

The Bank's shareholders' equity was 21.7% higher than a year earlier, amounting to HUF 473.3 billion, or 13.2% of the balance sheet total.

The HUF 84.2 billion rise in the Bank's equity was chiefly due to a HUF 91.8 billion, or 35.1%, increase in retained earnings and reserves, without profit, a HUF 19.4 billion, or 17.1%, increase in balance sheet profit and – as a reducing item – a HUF 26.9 billion, or 195.1%, increase in the book value of repurchased treasury shares.

Equity per share increased by 21.7% to reach HUF 1,690.4 at the end of 2005.

Non-consolidated results

OTP Bank's pre-tax profit according to IFRS was HUF 155.8 billion in 2005, which exceeded the previous year's result by HUF 23.4 billion, or 17.7%.

The increase in profits was attributable to a dynamic,

17.0% growth in income (including net commissions and net interest income before provisioning), an 11.2% increase in non-interest expenses net of commissions paid, which was significantly less than the increase in non-interest income, and to a HUF 7.8 billion rise in provisions. Dividends received accounted for HUF 5.4 billion of the growth in income. The increase in pre-tax profits, calculated using tax conditions comparable to those as of the base period (i.e. excluding the HUF 10.2 billion expense-increasing impact of the introduction in 2005 of the special tax imposed on credit institutions and financial enterprises), was HUF 25.4%.

In the context of an increase (from 14.3% to 14.7%) compared to 2004 in the actual rate of tax (calculated together with the special credit institution tax), the Bank's after-tax profit amounted to HUF 132.8 billion, which was 17.1%, or HUF 19.4 billion, higher than in the previous year. (Without the special credit institution tax, the Bank's after-tax profit would have increased by 26.0%, to HUF 143.0 billion.) The Bank will – in line with its proclaimed dividend policy – pay out 40% of its after-tax profit according to HAS (Hungarian accounting standards) as dividends to its shareholders, which means that in 2006 it will pay dividends of HUF 197 per ordinary share of nominal value HUF 100, to its owners. Basic and diluted earnings per ordinary share (EPS) were HUF 492 and HUF 488 respectively in 2005 (in 2004: HUF 420 and HUF 418).

The Bank's return on average assets (ROAA) and return on average equity (ROAE) were 4.00% and 30.8% in 2005 (in 2004: 3.92% and 34.1%).

Non-consolidated income statement of OTP Bank

	Restated			
	2004	2005	Change	
	HUF mn	HUF mn	HUF mn	%
Interest income	290,935	281,402	(9,533)	(3.3)
Interest expense	139,852	112,763	(27,089)	(19.4)
Net interest income	151,083	168,639	17,556	11.6
Provision for loan and placement losses	8,628	16,435	7,807	90.5
Net interest income after provision for loan and placement losses	142,455	152,204	9,749	6.8
Fee income	113,299	136,264	22,965	20.3
Foreign exchange gains, net	914	1,603	689	75.4
Gains on securities, net	1,081	3,103	2,022	187.0
Losses on real estate transactions, net	(103)	(28)	75	(72.8)
Dividend income	8,500	13,937	5,437	64.0
Other income	2,654	3,541	887	33.4
Non-interest income	126,345	158,420	32,075	25.4
Fee expenses	9,692	13,840	4,148	42.8
Personnel expenses	54,342	62,437	8,095	14.9
Depreciation and amortization	13,401	15,244	1,843	13.8
Other expenses	59,006	63,301	4,295	7.3
Total non-interest expenses	136,441	154,822	18,381	13.5
Income before income taxes	132,359	155,802	23,443	17.7
Income taxes	18,882	22,954	4,072	21.6
Net income after income taxes	113,477	132,848	19,371	17.1

The Bank's net interest income grew by 11.6%, from HUF 151.1 billion to HUF 168.6 billion, in 2005, as a result of a 3.3% increase in interest income and a 19.4% fall in interest expenses. Interest income from loans accounted for 52.4% of interest income in 2005, which represents an expansion of 7.6% over the year (6.9% without the gains on swap deals). Gains on swap deals accounted for HUF 0.9 billion of the HUF 147.4 billion in income. Within interest income, income from placements with other banks (gains/losses on swap deals excluded) dropped by 14.4%, due primarily to market rates of interest. Income from interest on securities held-to-maturity fell by 26.2% compared to 2004, and amounted to HUF 39.3 billion in 2005, which represented 14.0% of total interest income. Recorded among interest revenue from interbank placements and loans, as well as under interest

expense related to liabilities towards banks and interest expense towards customers, was the net HUF 7.3 billion interest result from swap transactions, which was HUF 8.5 billion less than in 2004. By far the bulk of interest expenses, 72.3%, was accounted for by interest paid on customer deposits in 2005 (in 2004: 85.2%), which fell by 31.6%, to HUF 81.5 billion. The interest paid on issued securities amounted to HUF 1.7 billion, with the HUF 1.5 billion increase being attributable to the significant expansion of the volume of securities issued. At HUF 16.4 billion, provisions for expected loan and placement losses were 90.5% higher than in 2004. The ratio of provisioning to the average gross loan portfolio was 1.18%, compared to 0.72% in 2004. In 2005, the Bank's gross interest margin was 5.07%, while the net interest margin (after provisioning) was 4.58%, respectively a 15 and 34 basis point decrease compared

to 2004. Without recognition of the interest result from swap deals, in 2005 the gross interest margin was 4.86%, while the net interest margin was 4.36%, with the former representing an 18 basis point increase, and the latter a 2 basis point decrease compared to 2004. Non-interest income grew by HUF 32.1 billion, or 25.4%, to HUF 158.4 billion. 86.0% of non-interest income, which amounted to HUF 136.3 billion (representing a growth of 20.3%) in 2005, came from fees and commissions received. Fees and commissions paid rose by 42.8%, to HUF 13.8 billion, and thus net fees and commissions were 18.2% higher than in 2004, amounting to HUF 122.4 billion. Net price gains on securities were HUF 3.1 billion, compared to HUF 1.1 billion in 2004, while the net result of foreign exchange transactions was a profit of HUF 1.6 billion, compared to HUF 0.9 billion in 2004. In 2005, the Bank received HUF 13.9 billion in dividends from its subsidiaries, compared to HUF 8.5 billion 2004. Other income grew by 33.4%, to HUF 3.5 billion, compared to 2004. Non-interest expenses, amounting to HUF 154.8 billion, were 13.5% higher in total than a year earlier. Within this, personnel expenses grew by 14.9% to HUF 62.4 billion (of which HUF 7.5 billion was attributable to the adoption of the IFRS 2 standard), while depreciation rose by 13.8% to HUF 15.2 billion. Other non-interest expenses, amounting to HUF 63.3 billion, were 7.3% higher than in 2004. Within this, the special tax imposed on credit institutions and financial enterprises was also recognised among other expenses,

in an amount of HUF 10.2 billion. Without the separate credit institutions and financial enterprises tax, the growth in non-interest expenses was 6.0%. The Bank's cost-to-income ratio (according to a calculation method similar to the one used in Hungary) was 45.0% in 2005, which was 233 basis points lower than in 2004 (47.3%). The cost-to-income ratio calculated without the credit institutions tax was 41.8%, or 557 basis points lower than in the previous year.

Capitalisation, capital adequacy (according to HAR)

OTP Bank's shareholders' equity grew from HUF 325.0 billion on December 31, 2004 to HUF 407.6 billion, or by 25.4% – significantly exceeding the rate of the growth of the balance sheet total. Due to this, the ratio of shareholders' equity to the balance sheet total increased from 10.7% at the end of 2004 to 11.3%. Although the Bank's solvency ratio declined somewhat, from 11.19% at the end of 2004 to 10.56% on December 31, 2005, it was well in excess of the 8% stipulated by the Act on Credit Institutions and Financial Enterprises. The fall in this ratio was caused by a growth in the Bank's guarantee capital that lagged behind the expansion in lending activity: compared with the previous year, risk-weighted assets grew by 18.8%, while the guarantee capital was 12.2% higher than at the end of the previous year.

Calculation of the capital adequacy ratio

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
I. Primary capital elements	328,510	387,123	58,613	17.8
A) subscribed capital	28,000	28,000	0	0.0
B) capital reserve	52	52	0	0.0
C) general reserve	51,807	65,642	13,835	26.7
D) general risk reserve	18,120	21,534	3,414	18.8
E) profit reserve	177,401	202,544	25,143	14.2
F) balance sheet profit	53,130	69,351	16,221	30.5
II. Deductible components of primary capital	51,950	79,192	27,242	52.4
A) capital subscribed not yet paid	—	—	—	—
B) intangible assets	51,950	79,192	27,242	52.4
III. Primary capital (I–II.)	276,560	307,931	31,371	11.3
IV. Secondary capital	12,459	42,850	30,391	243.9
V. Guarantee capital before deductions (III+IV.)	289,019	350,781	61,762	21.4
VI. Book value of financial institutions, insurance companies and investment services companies and subordinated loans issued to them	90,099	128,810	38,711	43.0
VII. Guarantee capital according to the rules of prudence (V–VI.)	198,920	221,971	23,051	11.6
VIII. Capital requirement of limit breaches and sovereign risk	5,902	5,362	(540)	(9.1)
IX. Guarantee capital for calculating the capital adequacy ratio	193,018	216,609	23,591	12.2
X. Risk-weighted total assets	1,725,655	2,050,855	325,200	18.8
XI. Capital adequacy ratio %	11.19	10.56		

Of the various factors taken into account when calculating the numerator of the solvency ratio, the total of the positive components of the primary capital increased by 17.8% over the course of 2005, while the total of the negative components of the primary capital increased by 52.4%. As a result, the Bank's primary capital increased by 11.3%, or by HUF 31.4 billion, in 2005. The secondary capital that can be taken into account in calculating the guarantee capital rose markedly, by nearly three-and-a-half times its value a year earlier. On December 31, 2005 the guarantee capital before deductions was HUF 350.8 billion, which exceeded the previous year's figure by 24.1%. Of the various deductible factors, the total of investments in financial institutions, insurance companies and investment companies grew by HUF 38.7 billion, or 43.0%, while the amount of capital that needed to be set aside for covering possible limit breaches, as per the Act on Credit Institutions and Financial Enterprises, declined by HUF 0.5 billion, or 9.1%, during 2004. The guarantee capital that may be taken into account for the purpose of calculating the

solvency ratio stood at HUF 216.6 billion on December 31, 2005 (a 12.2% growth). Of the increase in the volume of risk-weighted assets (the adjusted balance sheet total), 74.4% is attributable to the change in the risk-weighted value of balance sheet items and 25.6% to the change in risk-weighted off-balance sheet items. The risk-weighted value of balance-sheet items grew by 17.3% (HUF 241.9 billion) to reach HUF 1,638.9 billion, while total assets grew by 18.1% – as a result of the fact that, due to the increase in the share of customer placements, there has been a slight shift in the structure of the asset portfolio towards placements with a higher risk-weighting. The risk-weighted value of off-balance-sheet items and contingent and future liabilities, which is used for calculating the risk-weighted balance sheet total, increased by HUF 83.3 billion, representing a 25.4% increase over the previous year. This change is explained by the increase in contingent liabilities (primarily the existing liabilities arising from the unused portion of credit lines and from assumed guarantees).

RESULTS OF THE MAIN SUBSIDIARIES

In 2005 the activities of OTP Bank's subsidiaries were in line with the Bank's targets and with the expectations of the owners. The combined balance sheet totals of the fully consolidated subsidiaries rose by 37.8%, from HUF 2,006 billion to HUF 2,764 billion (of which the balance sheet

total of OTP banka Hrvatska, purchased in 2005, was HUF 298.2 billion).

The aggregate after-tax profit of the fully consolidated subsidiaries amounted to HUF 44.0 billion in 2005, which was HUF 5.7 billion, or 14.8%, higher than in 2004.

Total assets and profit after tax of the fully consolidated subsidiaries

Subsidiary	Total assets				Profit after tax			
	31/12/2004	31/12/2005	Change		2004	2005	Change	
	HUF mn	HUF mn	HUF mn	%	HUF mn	HUF mn	HUF mn	%
Merkantil Bank Ltd.	58,939	136,688	77,749	131.9	2,605	2,620	15	0.6
Merkantil Car Ltd.	135,399	113,121	(22,278)	(16.5)	916	3,638	2,722	297.2
Merkantil Lease Ltd.	1,594	1,684	90	5.6	275	87	(187)	(68.4)
NIMO 2002. Ltd.	1,300	1,734	434	33.4	6	7	2	16.7
Merkantil Group	197,232	253,227	55,995	28.4	3,802	6,352	2,550	67.1
OTP Building Society Ltd.	66,274	86,653	20,379	30.7	664	1,390	726	109.3
OTP Mortgage Bank Ltd.	879,117	956,072	76,955	8.8	13,181	5,248	(7,933)	(60.2)
OTP Banka Slovensko, a. s.	214,887	262,858	47,971	22.3	512	1,373	861	168.2
DSK Group	410,499	583,423	172,924	42.1	11,993	16,572	4,579	38.2
OTP Bank Romania S.A.	44,565	55,225	10,660	23.9	50	(2,122)	(2,172)	—
OTP banka Hrvatska d.d.	—	298,175	—	—	—	2,135	—	—
OTP Garancia Insurance Ltd.	11 8,496	157,225	38,729	32.7	3,400	6,704	3,304	97.2
OTP Fund Management Ltd.	8,601	11,519	2,918	33.9	2,775	3,853	1,078	38.2
HIF Ltd.	12,340	14,369	2,029	16.4	127	133	6	4.7
OTP Real Estate Ltd.	18,239	20,454	2,215	12.1	845	940	95	11.2
OTP Factoring Ltd.	7,826	11,700	3,874	49.5	589	564	(25)	(4.2)
OTP Factoring Asset Management Ltd.	1,565	1,459	(106)	(6.8)	17	66	49	288.2
Bank Center No. 1. Ltd.	7,885	8,255	370	4.7	115	343	228	199.3
OTP Fund Servicing and Consulting Ltd.	1,967	2,245	278	14.1	95	167	72	75.8
OTP Mérleg Ltd.	1,353	—	—	—	(43)	—	—	—
Inga Companies	11,122	10,736	(386)	(3.5)	120	147	27	22.5
Concordia Info Ltd.	3,196	3,610	414	13.0	37	50	13	35.1
OTP Card Manufacturing Ltd.	823	803	(20)	(2.4)	39	41	2	5.1
OTP Faktoring Slovensko, a.s.	—	3,692	—	—	—	27	—	—
OTP Leasing, a.s.	—	22,680	—	—	—	23	—	—
Subsidiaries total	2,005,987	2,764,380	758,393	37.8	38,318	44,006	5,688	14.8



Main indicators of Merkantil Group

	2004	2005	Change %
ROAA %	2.12	2.82	0.70
ROAE %	25.5	32.7	7.2
Cost/income ratio %	44.0	36.4	(7.6)

Main financial data of Merkantil Group

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	172,525	229,655	57,130	33.1
Provisions	(10,738)	(15,268)	(4,530)	42.2
Net loans	161,787	214,387	52,600	32.5
Receivables due to leasing	16,072	16,262	190	1.2
Deposits	5,495	4,688	(807)	(14.7)
Issued securities	35,072	35,016	(56)	(0.2)
Liabilities to credit institutions	129,079	181,516	52,437	40.6
Shareholders' equity	16,018	22,833	6,815	42.5
Total assets	197,232	253,227	55,995	28.4
Profit before tax	4,782	8,633	3,851	80.5
Profit after tax	3,801	6,352	2,551	67.1

Merkantil Group's aggregate balance sheet total as at December 31, 2005 was HUF 253.2 billion, up by 28.4%, or HUF 56.0 billion, on a year earlier. The group's aggregated after-tax profit for 2005 amounted to HUF 6.4 billion, representing a 67.1% rise from a year earlier. Merkantil Group concluded close to 63,000 new vehicle financing contracts in 2005, which was 3.9%, or over 2,000 contracts, more than the number of new contracts concluded in 2004. Based on the total number of contracts, the proportion of foreign currency loan facilities was 91%, that of forint-denominated loans was 6.2%, that of cars sold under financial lease contracts was 2.5%

and that of permanent lease facilities was 0.3%.

The aggregate (gross) loan portfolio was HUF 229.7 billion as at December 31, 2005, which was HUF 57.1 billion, or 33.1%, higher than in the previous year.

In 2005, Merkantil Group achieved HUF 19.0 billion in net interest income, representing a 12.9% rise compared to the previous year.

Non-interest income grew by 9.3%, while non-interest expenses were more than 20.9% lower than in 2004. Gross interest margin was 8.43% in 2005, i.e. 96 basis points lower than in 2004.

The group's aggregated cost-to-income ratio was 36.4% in 2005 (in 2004: 44.0%).



Main indicators of Merkantil Bank Ltd.

	2004	2005	Change %
ROAA %	4.15	2.68	(1.47)
ROAE %	22.7	19.4	(3.3)
Cost/income ratio %	46.9	43.9	(3.0)

Main financial data of Merkantil Bank Ltd.

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	50,442	126,025	75,583	149.8
Retail	34,231	95,363	61,132	178.6
Corporate	16,190	30,629	14,439	89.2
Municipal	21	33	12	57.1
Provisions	(5,378)	(7,222)	(1,844)	34.3
Net loans	45,064	118,803	73,739	163.6
Deposits	4,664	4,591	(73)	(1.6)
Issued securities	35,072	35,016	(56)	(0.2)
Liabilities to credit institutions	521	75,983	75,462	—
Shareholders' equity	12,179	14,801	2,622	21.5
Subscribed capital	2,000	2,000	0	0.0
Total assets	58,939	136,688	77,749	131.9
Profit before tax	2,950	2,834	(116)	(3.9)
Profit after tax	2,605	2,620	15	0.6

In 2005 Merkantil Bank's gross loan portfolio was close to two-and-a-half times, or HUF 75.6 billion, higher than that of the previous year, and its balance sheet total also grew substantially, by 131.9%, reaching HUF 136.7 billion as at December 31. The dynamic expansion of the portfolio was attributable in part to the fact that the bank took over the provision of foreign-currency vehicle-financing loans from Merkantil Car during the year.

78.1% of the HUF 126.0 billion loan portfolio was qualified as of the end of 2005, the bulk of which (92%) had been placed in the "to-be-monitored" category, as the bank automatically includes foreign currency loans in this category. 6.5% of the gross portfolio consisted of non-performing loans. In addition to the interbank credit line provided by the parent bank, the volume of issued securities – which amounted to HUF 35.0 billion at year-end 2005 and the bulk of which (HUF 33.3 billion) were sold through OTP Bank's

branch network – was also significant in the bank's liabilities structure. In addition, the bank had deposit liabilities of HUF 4.6 billion, which was 1.6% lower than at the end of the previous year.

No material change occurred in the distribution of income from business activities in 2005. Interest income and administration fees from vehicle financing continued to provide a decisive contribution to the bank's total interest and interest-type income. The bank earned HUF 7.2 billion in interest revenues in 2005, which was 11.4% higher than in the previous year. The gross interest rate margin calculated on the average asset portfolio was 7.40%. The bank's provisions for loan and placement losses were HUF 1.9 billion in 2005, which was HUF 1.5 billion higher than in 2004. The net interest margin after provisioning was 5.42%. The bank's after-tax profit amounted to HUF 2.6 billion, which was HUF 15 million, or 0.6%, higher than in the previous year.



Main indicators of Merkantil Car Ltd.

	2004	2005	Change %
ROAA %	0.81	2.93	2.12
ROAE %	54.2	96.5	42.3
Cost/income ratio %	25.4	26.1	0.7

Main financial data of Merkantil Car Ltd.

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	122,083	103,630	(18,453)	(15.1)
Retail	103,709	93,973	(9,736)	(9.4)
Corporate	18,119	9,609	(8,510)	(47.0)
Municipal	255	48	(207)	(81.1)
Provisions	(5,360)	(8,046)	(2,686)	50.1
Net loans	116,723	95,584	(21,138)	(18.1)
Receivables due to leasing	15,250	15,132	(118)	(0.8)
Deposits	831	97	(734)	(88.3)
Liabilities to credit institutions	128,083	104,832	(23,251)	(18.2)
Shareholders' equity	1,950	5,588	3,638	186.6
Subscribed capital	50	50	0	0.0
Total assets	135,399	113,121	(22,278)	(16.5)
Profit before tax	1,471	5,638	4,167	283.3
Profit after tax	916	3,638	2,722	297.3

Merkantil Car's balance sheet total was HUF 113.1 billion at the end of 2005, which was 16.5% lower than that of the previous year. The decrease was attributable to the fact that Merkantil Bank assumed the granting of foreign-currency vehicle-financing loans.

The (gross) loan portfolio was HUF 103.6 billion as at December 31, 2005, which was HUF 18.5 billion, or 15.1%, lower than in the previous year.

99.6% of the loan portfolio was qualified at year-end 2005, and this was comprised almost exclusively (92%) of the "to-be-monitored" category, due to the fact that foreign-currency loans are automatically included in this category. Merkantil Car earned HUF 11.6 billion in

interest income in 2005, which was 9.8% higher than in the previous year. The gross interest rate margin calculated on the average asset portfolio was 9.35%.

The Company's provisions for loan and placement losses were HUF 2.7 billion in 2005, which was 2.1% lower than in 2004.

Net interest margin after provisioning was 7.15%. The ratio of provisions to the average gross loan and leasing portfolio was 2.13%.

Merkantil Car's after-tax profit rose from HUF 916 million to HUF 3,638 million, or close to four times that of the previous year, in 2005.

Its return on average assets (ROAA) was 2.93%, and its return on average equity (ROAE) was 96.5%.



Main indicators of OTP Building Society Ltd.

	2004	2005	Change %
ROAA %	1.12	1.82	0.70
ROAE %	15.1	26.5	11.4
Cost/income ratio %	65.2	44.7	(20.5)

Main financial data of OTP Building Society Ltd.

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
Loans	7,929	6,189	(1,740)	(21.9)
Deposits	59,492	78,825	19,333	32.5
Shareholders' equity	4,671	5,822	1,151	24.6
Subscribed capital	2,000	2,000	0	0.0
Total assets	66,274	86,653	20,379	30.7
Profit before tax	783	1,819	1,036	132.3
Profit after tax	664	1,390	726	109.3

The balance sheet total of OTP Building Society, thanks to a dynamic increase in its deposit portfolio, rose by 30.7% in 2005.

The 32.5% growth in the deposit portfolio was due to 106,000 new contracts concluded in 2005 produced, as well as to an increase in contractual volumes.

The loan portfolio fell 2005, as it had done in the previous year. Compared to the 2004 figure, the portfolio decreased by nearly 22%, which was attributable to a fall in the take-up of loans resulting from changes to the favourable terms and conditions of subsidised loans.

OTP Building Society achieved a 54.7% market share of the building-society savings market in terms of the number of valid (active) contracts and a 48.7% market share in terms of contractual volumes.

The after-tax profit of OTP Building Society more than doubled compared to the previous year, rising from HUF 664 million to HUF 1,390 million, the bulk of which was attributable to a 32.5% rise in the deposit portfolio and to a reduction in costs.

The company will pay HUF 1,348 million in dividend on its after-tax profits in 2005 to its owner, OTP Bank.



Main indicators of OTP Mortgage Bank Ltd.

	2004	2005	Change %
ROAA %	1.71	0.57	(1.14)
ROAE %	41.3	14.0	(27.3)
Cost/income ratio %	22.2	29.1	6.9

Main financial data of OTP Mortgage Bank Ltd.

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	770,265	849,252	78,987	10.3
Issued mortgage bonds	790,914	812,700	21,786	2.8
Shareholders' equity	37,859	36,939	(920)	(2.4)
Subscribed capital	20,000	20,000	0	0.0
Total assets	879,117	956,072	76,955	8.8
Profit before tax	15,652	6,799	(8,853)	(56.6)
Profit after tax	13,181	5,248	(7,933)	(60.2)

The loan portfolio of OTP Mortgage Bank grew from HUF 770.3 billion in 2004 to HUF 849.3 billion in 2005. This growth, which was less strong than in the year before, as well as developments in the composition of the portfolio, reflect market trends. From March 2005, in addition to forint-denominated housing loans, OTP Mortgage Bank also purchased foreign-currency housing and mortgage-type loans. The loan portfolio assumed by OTP Mortgage Bank in 2005 was HUF 146.3 billion, within which the share of foreign-currency loans was approximately 40%.

Fully performing loans accounted for 97.95%, "to-be-monitored" loans 1.97%, and doubtful loans 0.08% of the loan portfolio at year-end 2005. Under a cooperation agreement, OTP Bank repurchased some HUF 4 billion in non-performing loan receivables from the Mortgage Bank in 2005.

Along with the expansion of its loan portfolio, the volume of mortgage bonds issued by the Mortgage Bank also grew. As at December 31,

2005, the closing portfolio was HUF 812.7 billion.

In accordance with amendments to the law, a new domestic bond issuance program, one that is in line with European regulations, has been developed, which enables the Mortgage Bank to distribute its mortgage bonds not only in forint but also in euro and Swiss francs, in a quick and flexible manner in line with its funding requirements related to receivables purchases.

Among the three mortgage banks in Hungary (OTP, FHB and HVB), OTP Mortgage Bank has a market share of over 60% in terms of both the volume of mortgage bonds it has issued and the housing loan portfolio.

OTP Mortgage Bank's pre-tax profit fell by 56.6%, to HUF 6.8 billion, which was due primarily to an increase (from HUF 26.1 billion in 2004 to HUF 52.8 billion in 2005) in fees and commissions paid to OTP Bank.

Taking into account the fees paid to OTP Bank, the value contribution of OTP Mortgage Bank exceeded HUF 59 billion.



Main indicators of OTP Garancia Insurance Ltd.

	2004	2005	Change %
ROAA %	3.12	4.86	1.74
ROAE %	27.2	37.7	10.5
Cost/income ratio %	93.1	90.5	(2.6)

Main financial data of OTP Garancia Insurance Ltd.

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
Insurance technical reserves	98,680	131,116	32,436	32.9
Shareholders' equity	14,272	21,336	7,064	49.5
Subscribed capital	7,351	7,351	0	0.0
Total assets	118,496	157,225	38,729	32.7
Gross insurance premiums	55,603	75,763	20,160	36.3
Life insurances	26,672	44,569	17,897	67.1
Non-life insurances	28,930	31,193	2,263	7.8
Insurance expenses	40,370	59,699	19,329	47.9
Damages and insurance services	25,917	27,263	1,346	5.2
Change in reserves	14,453	32,436	17,983	124.4
Profit before tax	4,049	7,936	3,887	96.0
Profit after tax	3,400	6,704	3,304	97.2

OTP Garancia Insurance Ltd. achieved premium revenue of HUF 75.8 billion in 2005, which was 36.3%, or HUF 20.2 billion, higher than in the previous year. Of total premium revenues, the revenues of the life and bank assurance divisions amounted to HUF 44.6 billion, representing an outstanding 67.1% rise, while those of the non-life division were HUF 31.2 billion. Within life insurance premium revenue, the revenue from one-off premium-payment life insurance policies grew dynamically, by 124.3%, or HUF 15.8 billion, while revenue from regular payment insurance policies grew by 14.9%. The company's insurance expenses rose from HUF 40.4 billion to HUF 59.7 billion in 2005. Of the insurance expense total, gross damage payments were HUF 27.3 billion. The change in net reserves amounted to HUF 32.4 billion, which

represents an over two-fold rise compared to the previous year-end figure.

Thus total insurance technical reserves stood, after a close to 33% growth, at HUF 131.1 billion as at December 31, 2005.

The company's balance sheet total grew by 32.7% compared to the previous year, to HUF 157.2 billion, and its shareholders' equity increased from the previous year's HUF 14.3 billion to HUF 21.3 billion.

The company's after-tax profit was close to twice that of the previous year, rising to HUF 6.7 million, while return on average assets (ROAA) increased from 3.12% to 4.86%, and return on average equity (ROAE) rose from 27.2% to 37.7%. The company will pay HUF 4.5 billion in dividend on its after-tax profits in 2005 to OTP Bank.



Main indicators of OTP Fund Management Ltd.

	2004	2005	Change %
ROAA %	27.28	38.30	11.02
ROAE %	47.3	46.4	(0.9)
Cost/income ratio %	20.2	21.2	1.0

Main financial data of OTP Fund Management Ltd.

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
Managed assets	760,800	1,096,900	336,100	44.2
Managed assets in investment funds	391,000	580,400	189,400	48.4
Managed assets in pension funds	294,900	405,800	110,900	37.6
from this OTP Pension Funds	288,600	396,200	107,600	37.3
Other managed assets	75,000	110,700	35,700	47.6
Shareholders' equity	6,352	10,256	3,904	61.5
Subscribed capital	900	900	0	0.0
Total assets	8,601	11,519	2,918	33.9
Profit before tax	3,300	4,631	1,331	40.3
Profit after tax	2,775	3,853	1,078	38.8

Within the net asset value of the funds managed by OTP Fund Management, the net asset value of the Optima Fund stood at HUF 411.9 billion at year-end 2005, which represents a rise of 29.5%. The assets of the Maxima, Paletta, UBS Fund of Funds, Quality Equity Fund and Fantázia Structured Equity Fund also rose, while the assets held in the Euró and Dollár Funds fell over the course of 2005.

At the end of 2005, the Fund Manager's share of the securities funds market was 38.3% (compared to 40.5% at the end of 2004).

With respect to the pension fund market, the Fund Manager maintained its share of approximately 18–19% of total assets under management in 2005.

The company achieved an after-tax profit of HUF 3,853 million in 2005, which resulted in a return on average assets (ROAA) of 38.3% and a 46.4% return on average equity (ROAE). The company's cost-to-income ratio was 21.2% in 2005. The Fund Manager will pay HUF 3.8 billion in dividends on its after-tax profits in 2005 to OTP Bank.



Main indicators of DSK Group

	2004	2005	Change %
ROAA %	3.27	3.33	0.06
ROAE %	24.0	26.3	2.3
Cost/income ratio %	50.0	45.2	(4.8)

Main financial data of DSK Group

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	273,413	384,436	111,023	40.6
Retail	210,380	301,552	91,173	43.3
Corporate	62,850	82,668	19,818	31.5
Municipal	183	216	33	18.0
Provisions	(5,505)	(10,902)	(5,397)	98.0
Net loans	267,908	373,534	105,626	39.4
Deposits	331,347	432,415	101,068	30.5
Retail	282,900	352,002	69,102	24.4
Corporate	41,805	66,560	24,755	59.2
Municipal	6,642	13,853	7,211	108.6
Liabilities to credit institutions	16,933	67,627	50,694	299.4
Shareholders' equity	54,563	71,243	16,680	30.6
Subscribed capital	14,430	14,430	0	0.0
Total assets	410,499	583,423	172,924	42.1
Profit before tax	13,359	19,601	6,242	46.7
Profit after tax	11,993	16,572	4,579	38.2

The group's after-tax profit was HUF 16.6 billion in 2005, representing a 38.2% increase over the 2004 figure, and thus ROAA and ROAE stood at 3.33% and 26.3% respectively at year-end 2005. DSK Bank's balance sheet total on December 31, 2005 stood at more than HUF 583.4 billion, or 42.1% higher than at year-end 2004, giving DKS Bank a market share of 13.6% and making it Bulgaria's largest bank. The bank's loans grew by 40.6%, further increasing the bank's market share (to 16.2%), and its deposits grew by 30.5%, as a result of which DKS maintained its market-leading position in this respect too (with a share of 14.8%). The group's shareholders' equity was HUF 71.2 billion

as at 2005, representing a 30.6% rise.

In compliance with the stipulations of the National Bank of Bulgaria, the Bank's solvency ratio was 12.21%, compared to 13.41% a year earlier.

DKS Group's net interest income before provisioning rose by HUF 9.7 billion, amounting to close to HUF 34.3 billion (+39.4% annual increase), and thus net interest margin was 6.9% in 2005.

Non-interest income, with revenues from net fees and commissions considered, fell by 9.9%, despite the fact that income from net fees and commissions grew by 38.8% in 2005.

The group's cost-to-income ratio declined by close to 5 percentage points, to 45.2%, in 2005.



Main indicators of OTP banka Hrvatska d.d.*

	2004	2005
ROAA %	—	1.00
ROAE %	—	10.6
Cost/income ratio %	—	67.2

Main financial data of OTP banka Hrvatska d.d.

	31/12/2004	31/12/2005
	HUF mn	HUF mn
Gross loans	—	150,499
Retail	—	90,014
Corporate	—	59,792
Municipal	—	693
Deposits	—	232,496
Retail	—	193,978
Corporate	—	33,168
Municipal	—	5,350
Shareholders' equity	—	30,571
Subscribed capital	—	17,304
Total assets	—	298,175
Profit before tax	—	3,117
Profit after tax	—	2,135

On March 10, 2005 OTP Bank acquired the Croatian Nova banka as it was then known, which has been operating as OTP banka Hrvatska (OBH) since September 2005.

As at December 31, 2005 OBH's consolidated balance sheet total was HUF 298.2 billion, which gave the Bank a share of the Croatian market of 3.4%.

The Bank's gross loans amounted to HUF 150.5 billion at year-end 2005, which meant its market share was 3.1% at the end of the year. Deposits from customers were HUF 232.5 billion at year-end, corresponding to a market share of 4.1%.

OBH's net interest income was HUF 7.4 billion in 2005. The group's non-interest income reached

HUF 3.9 billion, while its non-interest expenses rose to HUF 7.9 billion. Its cost-to-income ratio was 67.2% in 2005.

In 2005 OBH contributed HUF 2.1 billion to the OTP Group's consolidated profits with its after-tax profits that it achieved in Q2-Q4 of 2005 following the conclusion of the acquisition.

The Bank's annualised ROAA was 1.00%, and its ROAE 10.6%.

From its after-tax profits of 2005, OBH will pay OTP Bank HUF 3,563 million in dividends on its stand-alone performance, which in 2005 differed substantially from OBH's group-level performance due to the one-off result of intra-group real estate sales.

*Figures for the period after acquisition of OTP banka Hrvatska (2-4Q 2005) and annualized financial indicators



Main indicators of OTP Banka Slovensko, a. s.

	2004	2005	Change %
ROAA %	0.27	0.57	0.30
ROAE %	3.5	8.6	5.1
Cost/income ratio %	97.5	78.7	(18.8)

Main financial data of OTP Banka Slovensko, a. s.

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	134,581	189,940	55,359	41.1
Retail	25,214	43,827	18,613	73.8
Corporate	108,333	142,566	34,233	31.6
Municipal	1,033	3,547	2,514	243.4
Deposits	139,929	151,851	11,922	8.5
Retail	61,316	59,636	(1,680)	(2.7)
Corporate	59,178	71,063	11,885	20.1
Municipal	19,434	21,152	1,718	8.8
Shareholders' equity	14,954	17,128	2,174	14.5
Subscribed capital	11,831	11,831	0	0.0
Total assets	214,887	262,858	47,971	22.3
Profit before tax	512	1,373	861	168.1
Profit after tax	512	1,373	861	168.1

The Slovak bank's balance sheet total was HUF 262.9 billion as at the end of 2005, which represents a 22.3% rise compared to year-end 2004, and giving it a 2.8% share of the Slovak banking market.

In 2005, OBS's credit portfolio rose by 41.1%, to HUF 189.9 billion, representing a 5.3% market share at year-end. Its deposit portfolio rose by 8.5%, to HUF 151.9 billion, in 2005 and its market share was 3.2% as at December 31, 2005.

The Bank's shareholders' equity rose by 14.5%, to HUF 17.1 billion, in the reporting period.

The Bank's net interest income increased from HUF 4,954 million in 2004 to HUF 5,401 million

in 2005. The Bank's non-interest income, compared with the previous year's figure, grew by over 130%, to HUF 6.3 billion, by the end of 2005. Non-interest expenses increased by 24.1% and amounted to HUF 9.3 billion in 2005. OBS's cost-to-income ratio, having dropped by 19 basis points, improved to 78.7% in 2005. OBS's after-tax profit for 2005 according to IFRS amounted to HUF 1.4 billion, compared to HUF 512 million in the previous year. OBS's ROAA was 0.57% at the end of 2005, and its ROAE 8.6%. OBS will pay HUF 1,116 million in dividend on its after-tax profits in 2005 to OTP Bank.



Main indicators of OTP Bank Romania S.A.

	2004	2005	Change %
ROAA	–	(4.25)	–
ROAE	–	(19.8)	–
Cost/income ratio	80.6	142.2	61.6

Main financial data of OTP Bank Romania S.A.

	31/12/2004	31/12/2005	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	16,345	24,565	8,220	50.3
Retail	258	2,396	2,138	828.7
Corporate	16,087	22,169	6,082	37.8
Municipal	0	0	0	–
Provisions	(276)	(463)	(187)	67.8
Net loans	16,069	24,102	8,033	50.0
Deposits	28,703	25,329	(3,374)	(11.8)
Retail	12,764	9,294	(3,470)	(27.2)
Corporate	15,939	15,279	(660)	(4.1)
Municipal	0	756	756	–
Liabilities to credit institutions	7,572	15,482	7,910	104.5
Shareholders' equity	7,692	13,731	6,039	78.5
Subscribed capital	5,104	12,577	7,473	146.4
Total assets	44,565	55,225	10,660	23.9
Profit before tax	84	(2,182)	(2,266)	–
Profit after tax	50	(2,122)	(2,172)	–

OTP Bank Romania's balance sheet total exceeded HUF 55.2 billion as at December 31, 2005, which exceeded the year-end 2004 figure by 23.9%. The Bank's market share based on balance sheet total was 0.64% at year-end 2005. The Bank's shareholders' equity – due mainly to a capital increase of EUR 30 million in September 2005 – amounted to HUF 13.7 billion

(representing a 78.5% rise) as at December 31, 2005. The Bank's net interest income (before provisioning) grew by 39.7%, to HUF 1.6 billion, while non-interest income (net fees and commissions included) rose by 164.9% to HUF 1.7 billion. OTP Bank Romania closed the 2005 business year with a loss of HUF 2.1 billion.

ASSET-LIABILITY MANAGEMENT

Liquidity and market risk management

In 2005, the OTP Group continued to create a centralised market risk-management system (including human resources, hardware and software), as is generally used internationally. The group-level regulation on market risk management, approved by the Board of Directors of OTP Bank, specifies the minimum methodological, limit-setting and reporting requirements that each group member must meet. It also stipulates the maximum acceptable level of market risk exposure applicable to the group as a whole.

With the help of a computer system, OTP Bank Ltd. monitors, in real time, the position of foreign and domestic group members with the largest risk exposure, and thus dealing room liquidity and the utilisation of limits related to market positions can be checked at any time during the day, and the managers concerned receive an automatically generated report regarding any potential limit overruns. In 2005, the automated measurement of OTP Group's banking-book interest and medium-term liquidity risk exposure was commenced.

At OTP Bank Ltd., the supreme forum for asset-liability and market risk management is the Asset-Liability Committee. Every year the Committee reviews, at group and bank level, the measurement methods and the established limits, the basis of which is the maximum acceptable level of loss. The Committee receives a report on the liquidity, interest rate and market risk exposure of the Bank and the Bank Group each quarter, and the top management of the Bank receives one each month.

OTP Group's liquidity and market risk exposure

Pursuant to Government Decree no. 244/2000., the capital requirement for trading book positions, counterparty risks and exchange rate risks must be consolidated in the case of OTP Mortgage Bank Ltd.,

OTP Buiding Society Ltd., Merkantil Bank Ltd., OBS, DSK, OBR and OBH. As at end-2005, the consolidated capital requirement was HUF 12.2 billion, which was attributable mainly to foreign exchange positions.

The exposure of the group members' foreign exchange positions is restricted by the imposing of individual and global open position (overnight and intraday) as well as loss limits. In 2005, group-level average net exposure was HUF 35.7 billion.

In 2005, the OTP Group's plentiful liquidity declined as a result of the dynamic growth in lending activity. Due to the substantial demand for foreign currency loans, the bulk of the group's foreign currency placements are financed by loans taken up by OTP Bank and the securities issued by it. The Mortgage Bank raises funds through the issue of securities, which are purchased by institutional and retail investors.

In 2005, the interest rate exposure of the Bank Group was essentially determined by the positions of OTP Bank Ltd., OTP Mortgage Bank Ltd. and DKS Bank. Since the mortgage bonds issued by the Mortgage Bank to fund its loans were purchased by OTP Bank Ltd., the funding source for the loans on the Mortgage Bank's books were in effect OTP Bank's customer deposits. On group level, the volume of liabilities that can be repriced within one year or less exceeds that of assets that can be repriced within one year or less. Such a position is beneficial to the Bank Group in the event that market rates continue to decrease.

Developments in OTP Bank Ltd.'s liquidity

OTP Bank Ltd.'s liquidity policy: bearing profitability in mind, the Bank should be able to honour its payment obligations when they fall due and execute the necessary transactions. In order to measure liquidity risk exposure, the Bank checks the balance of the mandatory reserve

account and the treasury portfolio on a daily basis, and cash flow eight days in advance. It prepares a gap analysis in the form of a maturity balance sheet and determines, based on the plans, the treasury's placement possibilities and/or its fund raising requirement. The business areas and executive officers concerned receive reports on risk exposure and limit utilisation.

At the end of 2005, the value of the cumulative net base position in the 5-year-or-less categories of the Bank's maturity balance sheet – compiled through a structuring performed on the basis of the scheduled maturity date of deposits – showed a considerable positive balance. The long-term liquidity position was affected greatly by the fact that in 2005 the Bank, in order to finance foreign currency loans and the subsidiaries of the OTP Group, issued foreign currency bonds of a nominal value of EUR 800 million and a maturity of 5 years and subordinated debenture bonds of a nominal value of EUR 125 million and a maturity of 10 years. The value of loans taken up by OTP Bank on the capital market for purposes other than re-financing rose to EUR 1,396, 96.3% (EUR 1,344 million) of which had been drawn down in euro or Swiss francs as of year-end 2005. The excess forint liquidity meant the Bank could also raise EUR- and CHF-denominated funds in the form of FX swaps.

By the end of 2005, the volume of foreign currency loans had grown by over one-and-a-half times (57%) the year-end 2004 figure. The growth in foreign currency loans was attributable to the business activity of both the Bank and its subsidiaries. A major part of the loans were extended by the Bank to its affiliates, mainly for vehicle financing. The coverage of foreign currency loans by foreign currency deposits from customers fell from 58% to 41% over the year, and in the case of the euro, from 55% to 40%. In the wake of the foreign bank acquisitions, an increasingly large portion –two thirds – of assets are denominated in foreign currency. In 2005, the value of foreign currency deposits from customers expressed in euro rose by close to 10%, while their forint value, due to the 2.8%

weakening of the forint exchange rate, was 11% higher. In 2005, the growth in the share of euro-denominated deposits within foreign currency deposits ceased, and then declined, from 63.6% previously to 61.6%.

Applying stricter rules than the law, which stipulates that a large deposit is one that exceeds 15% of the guarantee capital, the Bank deems any deposit in excess of HUF 2 billion as large. The portfolio of the Bank's cash, negotiable securities and short-term central bank and placements with other banks is over 7.45 times higher than the aggregate portfolio of the individual large deposits. Similarly to the end-2004 proportion, the Bank's cash, securities held for trading and deposits held with the central bank and other commercial banks accounted for 19% of the balance sheet total as at year-end 2005.

OTP Bank Ltd.'s interest rate exposure

The Bank aims to contain all potential loss arising from an adverse shift in market rates and manifesting itself in a fall in net interest income or the market value of the portfolio, within certain specified limits. To this end, the Bank measures its interest rate exposure on a continuous basis and notifies the management in the event of any limit overrun.

In 2005 the intra-year gap of the combined forint repricing balance of the banking and trading book portfolio (i.e. the value of the receivables belonging to the given time category less the liabilities belonging to the same time category) was, similarly to the previous years, short, that is, it revealed a substantial excess of liabilities. The Bank's interest rate exposure is largely determined by the fact that almost its entire deposit portfolio is repriced within 3 months, partly since deposits are placed only for short periods and partly because their interest rates are not fixed and are also not tied to money-market instruments, but may, depending on market conditions, be repriced by the Bank entirely at its

own discretion, and at the same time, the portfolio of fixed-rated securities held for investment purposes exceeded HUF 600 billion. The share of OTP long-maturity fixed-rated mortgage bonds within OTP Bank's portfolio did not change substantially, and therefore the average remaining period to maturity (duration) of the aggregate portfolio of mortgage bonds fell by half a year, to 3.25 years, over the course of the year under review. The short-term discount securities issued by the Mortgage Bank expired, and were effectively renewed through the subscription of newly issued short-term fixed-rate mortgage bonds.

The interest rate exposure of the foreign currency-denominated portfolio is not material.

OTP Bank Ltd.'s exchange rate exposure

The Asset-Liability Committee contains foreign exchange rate exposure through individual and global net open position (overnight and intraday) as well as loss limits.

The Bank is present in both the domestic and foreign FX spot and derivatives markets. In 2005, the average size of OTP Bank Ltd.'s net open position was HUF 35.7 billion, which was due, almost in its entirety, to its foreign interests (in the reporting year OTP banka Hrvatska, formerly Nova banka, joined the bank group). The average net open position held by the dealing room was HUF 3.7 billion.

In 2005, the forint weakened by 2% against the euro. The US dollar strengthened significantly

against the euro, which – due to the relative stability of the HUF/EUR cross-rate – strengthened the dollar by 18% against the forint. OTP Bank Ltd. made the most of the opportunities offered by the movements in the market. The profit of the Arbitrage Division was HUF 1.2 billion in 2005.

Capital requirement for OTP Bank Ltd.'s market risk exposure

Since the second quarter of 2001, in conformity with Government Decree no. 244/2000, the Bank has been preparing daily reports for the Supervisory Authority on the capital requirement for the interest rate, counterparty and foreign exchange rate risk, determined in accordance with the 'standard method', of the Bank's trading book positions. The average capital requirement was HUF 3.3 billion higher in 2005 than in 2004, and reached HUF 8.3, of which HUF 1.1 billion was allocated to position risk, HUF 0.3 billion to counterparty risk and HUF 7 billion to exchange rate risk. It was exchange rate risk that rose the most, due mainly to the increase in open foreign exchange positions caused by the acquisitions.

The Bank determines the capital requirement each day, also using the internal model (VaR). Average (overall) capital requirement calculated with the VaR model was HUF 5.5 billion in 2005. As from April 1, 2006, based on the approval of the Board of Directors and the Hungarian Supervisory Authority, the Bank uses the internal model to calculate the capital requirement for its exchange rate risk.

Financial Summary (consolidated IFRS data)

Balance Sheet (in HUF bn)

As at December 31	2001	2002	2003	2004*	2005*
Cash, due from banks and balances with the National Bank of Hungary	381.8	355.4	276.5	465.9	483.2
Placements with other banks, net of allowance for placement losses	332.1	295.9	252.3	286.2	438.8
Financial assets at fair value through statements of operations	—	—	—	70.6	48.1
Securities available-for-sale	228.6	220.1	377.0	295.8	409.9
Gross loans	821.7	1,336.9	2,046.7	2,586.1	3,297.2
Retail	305.6	579.4	1,189.1	1,547.4	1,965.8
Corporate	460.3	629.3	764.9	920.6	1,195.4
Municipal	55.8	128.3	92.8	118.1	136.0
Allowance for loan losses	50.4	56.2	64.2	79.3	105.9
Net loans	771.3	1,280.7	1,982.6	2,506.8	3,191.3
Equity investments	2.8	5.5	5.9	9.4	12.4
Securities held-to-maturity	401.6	352.9	299.8	247.3	289.8
Premises, equipment and intangible assets, net	73.3	93.6	167.3	174.8	233.2
Other assets	98.1	112.5	99.4	105.6	109.2
Total assets	2,289.6	2,716.6	3,460.8	4,162.4	5,215.9
Due to banks and deposits from the National Bank of Hungary and other banks	37.0	79.1	126.4	254.1	364.1
Deposits from customers	1,891.5	2,151.2	2,689.8	2,902.2	3,428.2
Retail	1,470.5	1,613.6	2,000.0	2,155.8	2,562.9
Corporate	265.9	381.2	501.4	549.8	662.2
Municipal	155.0	156.4	188.5	196.5	203.1
Liabilities from issued securities	40.1	84.9	124.9	317.2	543.5
Other liabilities	136.5	162.0	192.1	240.8	285.6
Subordinated bonds and loans	17.3	15.5	15.4	14.3	47.0
Total liabilities	2,122.4	2,492.6	3,148.6	3,728.7	4,668.4
Total shareholders' equity	167.3	223.6	311.8	433.7	547.5
Total liabilities and shareholders equity	2,289.6	2,716.6	3,460.8	4,162.4	5,215.9
Net assets per share (NAV) ** (HUF, diluted)	817.7	970.2	1,236.0	1,486.6	1,862.8

Profit and Loss Account (in HUF bn)

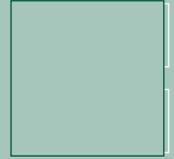
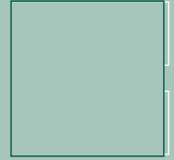
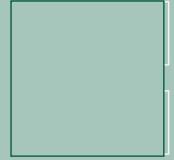
For the years ended December 31	2001	2002	2003	2004*	2005*
Net interest income	113.5	134.3	176.1	260.9	297.2
Provision for loan and placement losses	6.2	8.8	10.8	16.0	28.0
Net interest income after provision for loan and placement losses	107.3	125.5	165.3	244.8	269.2
Fee income	49.2	63.6	81.6	91.6	118.9
Foreign exchange gains, net	3.1	(2.8)	5.2	1.3	3.9
Gains and losses on securities, net	(0.3)	1.1	(7.6)	6.5	9.7
Gains on real estate transactions, net	2.2	0.8	1.5	1.8	0.1
Dividend income and gains and losses of associated companies	0.7	0.6	0.4	0.6	0.7
Insurance premiums	39.0	49.7	56.3	49.3	69.8
Other	5.0	11.5	12.2	10.7	13.5
Total non-interest income	99.0	124.6	149.6	161.8	216.5
Fee expense	9.1	13.0	19.9	20.6	19.9
Personnel expenses	41.4	50.2	61.3	79.5	95.2
Depreciation and amortization	15.0	17.0	19.8	29.2	21.9
Insurance expenses		39.8	41.8	40.3	58.5
Other	80.3	56.9	69.4	81.0	98.1
Total non-interest expense	145.8	176.9	212.2	250.6	293.6
Profit before tax	60.5	73.1	102.7	156.0	192.1
Profit after tax	49.0	59.2	83.3	131.5	158.2
Earnings per share (EPS) **					
Base HUF	191	229	320	501	603
Diluted HUF	191	228	319	499	599

Key Ratios	2001	2002	2003	2004*	2005*
Loan to deposit ratio %	38.7	53.6	65.0	69.4	70.6
Cost/income ratio %	67.2	66.7	62.9	57.2	55.4
Capital adequacy ratio %***	14.11	13.43	10.54	11.19	10.55
ROAA %	2.25	2.36	2.70	3.45	3.38
ROAE %	32.6	30.3	31.1	35.3	32.3

*Due to the changes of the accounting standards figures are not comparable with previous years' data

**From March 11, 2002 each ordinary share with a face value of HUF 1,000 was splitted into 10 ordinary shares with a face value of HUF 100 each, for this NAV and EPS ratios of previous years were corrected

***OTP Bank non-consolidated, according to HAR



FINANCIAL REPORT



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



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Jack Bell
Deloitte Auditing and Consulting Ltd.
000083



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Nagy Zoltán
registered auditor
005027

Audit. Tax. Consulting. Financial Advisory.

A member of
Deloitte Touche Tohmatsu

Registered by the Budapest Court of Registration
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.

- 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.

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:

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 their 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 classified 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 is 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.

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.

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

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
		Restated
	2005	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.

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 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 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.

Deposits from customers payable in foreign currency within one year as at December 31,

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.

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%.

The Bank issued EUR 500 million variable-rate bonds at three month EURIBOR + 0,16% quarterly,

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 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 outstanding with a nominal value of HUF 1 thousand preferential voting share (the "Special Share") (see Note 1.1.).

NOTE 19:**RETAINED EARNINGS AND RESERVES (in HUF million)**

	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
		Restated
	2005	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	At acquisition date
	OTP banka Hrvatska d.d.	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)		Activity
	December 31, December 31,		
	2005	2004	
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
	December 31, December 31,		
	2005	2004	
<i>continued</i>			
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	3,991
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.

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 Auditing and Consulting Ltd.

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Company Reg. No.: 01-09-071057

A member of
Deloitte Touche Tohmatsu

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 banks 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 their 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.

at December 31, 2005. Approximately 90% and 10% of this portfolio was denominated in USD and EUR as at December 31, 2004.

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

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 Services 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 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 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 over one year as at December 31, 2005 and 2004, bear interest rates in the range from 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.

bear interest rates in the range from 1% to 4.5% and from 4.3% to 6.5%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2005 and 2004,

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:

		Restated
	2005	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:

		Restated
	2005	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:

		Restated
	2005	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.

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 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.

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	-	21,563	-	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 shareholders, after the deduction of declared preference dividends, by the weighted average number of common shares outstanding during the year. shares are determined based on dividing income after income taxes for the year attributable to common

	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.

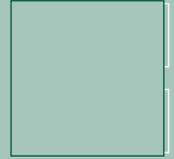
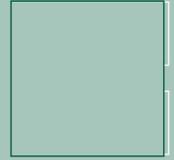
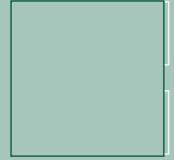
NOTE 33:**RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)**

	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.



FINANCIAL REPORT



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



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Jack Bell
Deloitte Auditing and Consulting Ltd.
000083



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Nagy Zoltán
registered auditor
005027

Audit. Tax. Consulting. Financial Advisory.

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

A member of
Deloitte Touche Tohmatsu

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.

- 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.

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:

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 their 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 classified 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 is 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.

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.

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

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.

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 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 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.

Deposits from customers payable in foreign currency within one year as at December 31,

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.

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%.

The Bank issued EUR 500 million variable-rate bonds at three month EURIBOR + 0,16% quarterly,

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 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 outstanding with a nominal value of HUF 1 thousand preferential voting share (the "Special Share") (see Note 1.1.).

NOTE 19:**RETAINED EARNINGS AND RESERVES (in HUF million)**

	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
		Restated
	2005	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	At acquisition date
	OTP banka Hrvatska d.d.	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)		Activity
	December 31, December 31,		
	2005	2004	
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
	December 31, December 31,		
	2005	2004	
<i>continued</i>			
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	3,991
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.

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 Auditing and Consulting Ltd.

Audit. Tax. Consulting. Financial Advisory.

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

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Deloitte Touche Tohmatsu

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 banks 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 their 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.

at December 31, 2005. Approximately 90% and 10% of this portfolio was denominated in USD and EUR as at December 31, 2004.

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

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 Services 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 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 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 over one year as at December 31, 2005 and 2004, bear interest rates in the range from 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.

bear interest rates in the range from 1% to 4.5% and from 4.3% to 6.5%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2005 and 2004,

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:

		Restated
	2005	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:

		Restated
	2005	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:

		Restated
	2005	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.

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 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.

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	-	21,563	-	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 shareholders, after the deduction of declared preference dividends, by the weighted average number of common shares outstanding during the year. shares are determined based on dividing income after income taxes for the year attributable to common

	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.

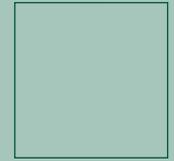
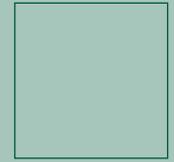
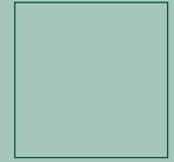
NOTE 33:**RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF million)**

	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.

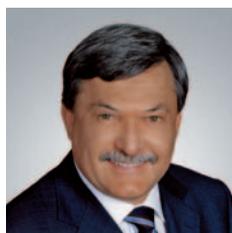
On October 24, 2005 the Bank made a binding bid for purchasing the 89.39% of the shares of Niska banka a.d. registered in Serbia. The purchase agreement was signed on December 23, 2005 at the price of EUR 14,21 million. The transaction was closed March 7, 2006.



CORPORATE GOVERNANCE



Senior Management of OTP Bank and Executive Members of the Board of Directors

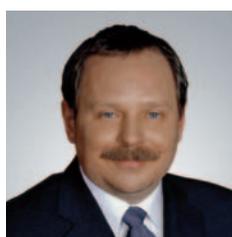


Dr. Sándor Csányi

Chairman & CEO

Dr. Sándor Csányi (53) has served as Chairman and Chief Executive Officer of OTP Bank since 1992 and is responsible for the strategy and overall operations of the Bank. Dr. Csányi has held several other senior positions in the banking sector, including Head of Department at Hungarian Credit Bank Ltd. from 1986 to 1989 and Deputy Chief Executive Officer at K&H Bank from 1989 to 1992. Before that, he worked at the Hungarian

Ministry of Finance. Dr. Csányi is a financial economist, a certified price analyst and a chartered accountant. He is a member of the board of Europay and of MOL, and holds a seat on the management committee of the Hungarian Banking Association. He owned 904,945 OTP ordinary shares as of December 31, 2005 (while the total number of OTP shares owned by him directly or indirectly was 2,774,945).

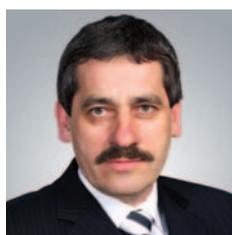


Dr. Zoltán Spéder

*Vice Chairman of the Board
of Directors, Deputy CEO
STRATEGIC AND FINANCIAL
DIVISION*

Dr. Zoltán Spéder (42) has been a member of the Board since 1991, has served as the Vice Chairman of the Board since 1995, and as the Chief Financial Officer and Deputy Chief Executive Officer of the Bank since 1996. From 1987 to 1996 he was employed at the Financial Research Institute as a research fellow

in banking and corporate finance. Between 1991 and 1992 Dr. Spéder was adviser to the Minister of Finance. Dr. Spéder has a PhD and MSc from the Budapest University of Economics. He owned 1,768,400 OTP ordinary shares as at December 31, 2005.



Dr. István Gresa

*Deputy CEO
CREDIT APPROVAL AND
RISK MANAGEMENT
DIVISION*

Dr. István Gresa (53) has served as Deputy Chief Executive Officer of the Credit Approval and Risk Management Division of OTP Bank since March 1, 2006. Dr. Gresa graduated from the College of Finance and Accounting in 1974 and from the Budapest University of Economics in 1980, where he went on to gain a PhD in 1983.

He worked at Budapest Bank from 1989 to 1993. He has been employed by OTP Bank from 1993, initially as director for Zala County and then, from 1998, as managing director of the West Transdanubian Region. He held 63,600 OTP ordinary shares as of March 1, 2006.

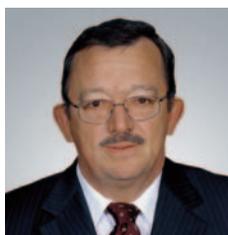


Csaba Lantos

*Member of the Board
of Directors,
Deputy CEO
RETAIL BANKING DIVISION*

Mr. Csaba Lantos (44) has been a member of the Board since 2001. He has served as Deputy CEO of OTP Bank since 2000. He was employed at Budapest Bank as a bond dealer from 1986. After that he was Head of Securities Trading at CREDITANSTALT Securities Ltd. until 1994 and Deputy CEO there until 1997. At the same time he served as managing director of CREDITANSTALT Securities Investment Fund Management Ltd.

Between 1997 and 2000 he was the CEO and Chairman of the Board of CA IB Securities. He has been a member of the Council of the Budapest Stock Exchange since 1990 and Chairman of the Board of the Central Clearing House and Depository Ltd. (KELER) since 1993. He held a total of 269,116 OTP ordinary shares as of December 31, 2005.

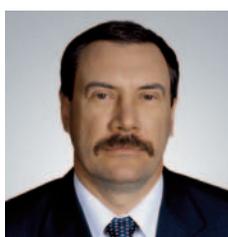


Géza Lenk

*Member of the Board
of Directors,
Deputy CEO*

Mr. Géza Lenk (59) has been a member of the Board from 2001 until April 28, 2006. He has served as Deputy CEO of OTP Bank since 2001, from March 2006 as advisor to the chairman, earlier with responsibility for managing the Bank's Credit Approval and Risk Management Division. Previously he worked at the National Bank of Hungary, and was CEO of the General Enterprise Bank until 1988. After that he served

as Chairman & CEO of K&H Bank, until 1995. From 1996 Mr. Lenk was the Vice Chairman and Deputy CEO of Trigon Bank in Vienna. From 1998 to 2000 he was the head of the MKB Leasing and Finance group, and Chairman & CEO of the company Reorg Ltd. Mr. Lenk is a graduate of the Budapest University of Economics and the International Banker's School in London. He held 159,000 ordinary shares as of December 31, 2005.

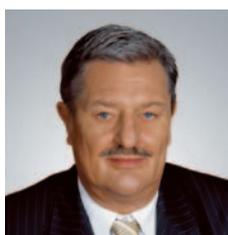


Gyula Pap

*Deputy CEO
IT AND LOGISTICS DIVISION*

Mr. Gyula Pap (48) has been a Deputy CEO at the OTP Bank since 2001, with responsibility for managing the IT and Logistics Division. Mr. Pap earned a degree in electrical engineering from Kálmán Kandó Electrical Engineering College in 1980 and a post-graduate degree in IT engineering from the College of Foreign Trade

in 1989. He has been employed at OTP Bank since 1982, where he has held a variety of positions in various areas of information technology. From 1994 to 2001 he was the Managing Director of the IT Operations Directorate. He held 361,820 OTP ordinary shares as of December 31, 2005.



Dr. Antal Pongrácz

*Member of the Board
of Directors,
Deputy CEO
STAFF DIVISION*

Dr. Antal Pongrácz (60) has been a member of the Board since 2002. He has served as Managing Director of OTP Bank, and has been Deputy CEO since 2001. From 1969 he worked as an analyst at 'Petrolkémiai Vállalat', and then as a group manager at the Revenue Directorate. From 1976 he served at various departments of the Ministry of Finance, as a manager. After that, he was deputy Chairman of the State Office for Youth and Sports. From 1988

to 1990 he served as the first Deputy CEO of OTP Bank. He was CEO and later Chairman & CEO of the European Commercial Bank Ltd. until 1994. In that year he was appointed Chairman & CEO of Szerencsejáték Rt. and then went on to serve as CEO of Hungary's flagship airline, Malév. Dr. Pongrácz has a PhD and MSc from the Budapest University of Economics. He held 222,000 OTP ordinary shares as of December 31, 2005.



László Wolf

*Deputy CEO
COMMERCIAL BANKING
DIVISION*

Mr. László Wolf (46) has served as Deputy CEO of OTP Bank, with responsibility for managing the Commercial Banking Division, since 1994. Mr. Wolf gained a degree from the Budapest University of Economics in 1983. From 1983 he was employed for 8 years at the National Bank of Hungary, in the Division

of International Banking Relations. From 1991 to 1993 he was Head of Treasury at BNP-KH-Dresdner Bank in Budapest, and from April 1993 to 1994 he served as Director of Treasury at OTP Bank. He held 811,640 OTP ordinary shares as of December 31, 2005.

Non-executive Members of the Board of Directors of OTP Bank Ltd.



Mihály Baumstark

*Member of the Board
of Directors,
Chairman & CEO
CSÁNYI VINERY LTD.*

Mr. Mihály Baumstark (57) has been a member of OTP Bank's Board since 1999 and is currently the Chairman & CEO of Csányi Vinery Ltd., a post he has held since 1999. Mr. Baumstark holds degrees in agricultural engineering and agricultural economics.

Mr. Baumstark was employed between 1978 and 1989 at the Ministry of Food and Agriculture, with his last position being Deputy Head of Accounting. He held 90,000 OTP ordinary shares as of December 31, 2005.



Dr. Tibor Bíró

*Member of the Board
of Directors,
Head of Department
BUDAPEST BUSINESS SCHOOL*

Dr. Tibor Bíró (54) has been a member of OTP Bank's Board since 1992, and is currently head of department at the Budapest Business School (College of Finance and Accountancy), where he has taught since 1982. Mr. Bíró has a degree in economics from the Budapest University of Economics and was head

of the Financial Department at Tatabánya City Council from 1978 to 1982. Mr. Bíró is a registered auditor and a member of the Budapest Council of the Hungarian Chamber of Auditors. He was the owner of 57,000 OTP ordinary shares as of December 31, 2005.



Péter Braun

*Member of the Board of
Directors, Electrical Engineer,
Former Deputy CEO of
OTP BANK LTD.*

Mr. Péter Braun (70) was a Deputy Chief Executive Officer and head of the IT and Logistics Division at OTP Bank from 1993 until 2001 when he was retired. He has been a member of the Board since 1997. Mr. Braun earned a degree in electrical engineering at the Budapest Technical University. Between 1954 and 1989 Mr. Braun was employed at the Research Institute for

Electrical Energy, with his last position being Head of Department. After that, Mr. Braun was the Managing Director of K&H Bank, working in its Computer and Information Centre. Mr. Braun is also a member of the Board of Directors of GIRO Ltd. He held 631,905 OTP ordinary shares as of December 31, 2005.

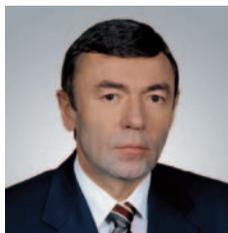


Dr. István Kocsis

*Member of the Board
of Directors, CEO of
HUNGARIAN POWER
COMPANIES LTD.*

Dr. István Kocsis (54) has been a member of OTP Bank's Board since 1997. Dr. Kocsis is a graduate of the Budapest Technical University and between 1991 and 1993, worked at the Ministry of Trade and Industry as Head of Department and later as Deputy Undersecretary of the Hungarian State. He served as Deputy CEO and subsequently as acting CEO at ÁPV Ltd.

from 1993 to 1996. Between 1996 and 1997 he was Deputy CEO of ÁPV Ltd. Later, Dr. Kocsis was Head of Division at RWE Energie AG., General Director at ÉMÁSZ Ltd., and the CEO of Paks Nuclear Power Plant. From 2005 he has been CEO of Hungarian Power Companies Ltd. (MVM Ltd.). He held 83,500 OTP ordinary shares as of December 31, 2005.



Dr. László Utassy

*Member of the Board
of Directors,
Chairman-CEO
OTP GARANCIA INSURANCE LTD.*

Dr. László Utassy (54) has been a member of OTP Bank's Board since 2001. He has served as Chairman & CEO of OTP Garancia Insurance Ltd. since 1996. From 1978 to 1995 he was employed at the State Insurance Company and at ÁB-AEGON Ltd. Dr. Utassy has a law degree

from ELTE University in Budapest and has a degree in economics from the Budapest University of Economics. He is the chairman of the Association of Hungarian Insurance Companies. He held 70,000 OTP ordinary shares as of December 31, 2005.



Dr. József Vörös

*Member of the Board
of Directors,
General Deputy Rector
PÉCS UNIVERSITY, FACULTY
OF ECONOMICS*

Dr. József Vörös (55) has been a member of OTP Bank's Board since 1992. Currently Dr. Vörös is the General Deputy Rector at the University of Pécs, where he has taught since 1994. Dr. Vörös gained a degree in economics from the Budapest University of Economics in 1974 and holds a PhD and DSc from the Hungarian Academy of Sciences, which he

obtained in 1984 and 1993 respectively. Dr. Vörös was Dean of the Faculty of Business and Economics at the Janus Pannonius University from 1990 to 1993. He attended a course in management for senior executives at Harvard Business School in 1993. He held a total of 130,000 OTP ordinary shares as of December 31, 2005.

Members of the Supervisory Board of OTP Bank Ltd.

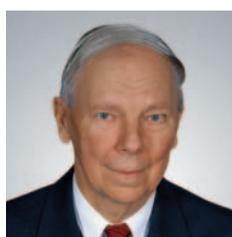


Tibor Tolnay

*Chairman of the
Supervisory Board,
Chairman & CEO
MAGYAR ÉPÍTŐK LTD.*

Mr. Tibor Tolnay (55) has been Chairman of the Supervisory Board since 1992. Mr. Tolnay is currently Chief Executive Officer of Magyar Építők Ltd., a position he has held since 1972. Mr. Tolnay earned a degree in architecture from the Technical University

of Budapest and a degree in economics from the Budapest University of Economics. He owned 120,580 OTP ordinary shares as of December 31, 2005.



Dr. Gábor Nagy

*Vice Chairman of the Supervisory
Board, Head of Codification
GROUP MINISTRY OF FINANCE,
ACCOUNTING DIVISION*

Dr. Gábor Nagy (69) has been a member of the Supervisory Board since 1991 and Vice Chairman since 1992. Dr. Nagy is a registered auditor with a degree from the Budapest University of Economics. From 1974 to 1977, he worked at the Institute for Further Education at the Ministry of Finance.

Since 1977 Dr. Nagy has worked in a variety of positions in the accounting division of the Hungarian Ministry of Finance and is currently the Head of the Accounting Division. He owned 130,000 OTP ordinary shares as of December 31, 2005.



Dr. Gábor Horváth

*Member of the
Supervisory Board,
lawyer*

Dr. Gábor Horváth (50) has been a member of the Supervisory Board since 1995. He has a law degree from ELTE University in Budapest. From 1983 to 1986 Dr. Horváth worked for the Hungarian State Development Bank. From 1986 to 1990 he worked for a legal co-operative office. Since 1990 he has

worked as a private, independent lawyer, and his clients include the Hungarian Ministry of Finance, the Hungarian State Institute for Research and the Municipality of Budapest. He held 20,000 OTP ordinary shares as of December 31, 2005.

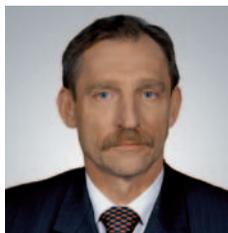


Antal Kovács

*Member of the Supervisory
Board, Managing Director
OTP BANK LTD., SOUTH
TRANS-DANUBIAN REGION*

Mr. Antal Kovács (53) has been a member of the Supervisory Board since 2004. Mr. Kovács has a degree from the Budapest University of Economics. He began his career at K&H Bank, and was a branch manager there from 1993

to 1995. From 1995 he was employed by OTP Bank as county director, and in 1998 he was appointed regional director of the South Transdanubian Region. He held 60,000 OTP ordinary shares as of December 31, 2005.



Dr. Sándor Pintér

Member of the Supervisory Board, Chairman & CEO CIVIL BIZTONSÁGI SZOLGÁLAT LTD.

Dr. Sándor Pintér (58) has been a member of the Supervisory Board from 2003 until 2006. From April 28, 2006 he is a member of the Board of Directors. Dr. Pintér has a degree from the Police Officer Training College and gained a law degree from ELTE University in Budapest in 1986. From 1970 he worked for the Home Office.

In December 1996 he retired from his position as police superintendent. From 1998 to 2002 he served as Home Secretary of the Hungarian Republic. Between 1997 and 1998 he was a member of the Board of Directors at OTP Bank. He was the owner of 12,550 OTP ordinary shares as at December 31, 2005.



Klára Vécsei

Member of the Supervisory Board, Deputy Managing Director OTP BANK LTD., NORTHERN HUNGARY REGION

Ms. Klára Vécsei (54) is a member of the Supervisory Board since 1991 and is the Deputy Managing Director of the OTP Bank's Northern Hungary Region. Ms. Vécsei joined the bank in 1970 and has held a variety of senior positions, including

Deputy Head of the Accounting and Controlling Department, and Chief Accountant. She received a degree in economics from the Budapest University of Economics. She held 11,000 OTP ordinary shares as of December 31, 2005.

Information for Shareholders

General company data

Date of establishment of OTP Bank Ltd.:

December 31, 1990, entered in the registry of the Capital Court as Court of Registration on October 28, 1991 under company registration number 01-10-041585.

The latest Bylaws of the company may be requested from the company or may be downloaded from the Bank's website.

Legal Predecessor:

Országos Takarékpénztár, established March 1, 1949

Head office of OTP Bank Ltd.:

H-1051 Budapest, Nádor utca 16.

Telephone: (+36-1) 473-5000 • Fax: (+36-1) 473-5955

Share capital

The Bank's share capital as at December 31, 2005 was HUF 28,000,001,000, consisting of 280,000,000 ordinary shares of a nominal value of HUF 100 each, and 1 voting-preference share of nominal value HUF 1,000.

Ownership structure as at December 31, 2005

	Shareholder	Ownership share
Domestic shareholders	State	1 voting-preference share
	State budgetary organisations	0.3%
	Managers and employees	3.1%
	OTP Bank Ltd.	6.5%
	Other domestic investors	4.2%
	Total domestic ownership	14.1%
Foreign shareholders	Foreign investors	85.9%
Total		100.0%

Stock exchange listing

The ordinary shares of OTP Bank Ltd. are listed on the Budapest Stock Exchange in category "A", and the global depository receipts (GDRs) representing the ordinary shares that are traded abroad are listed on the Luxembourg Stock Exchange. (1 GDR represents 2 ordinary shares.) The Regulation S GDRs are traded on the London SEAQ International. The Rule 144A GDRs are traded in the PORTAL system. The custodian bank for the OTP GDRs is the Bank of New York, and the custodian is OTP Bank Ltd. (Stock exchange symbol for OTP Bank shares: OTP, Reuters: OTP.BU).

Participation and voting rights at the General Meeting

Shareholders may exercise their right of participation and their voting rights at the General Meeting in person or by proxy.

The letters of proxy must be set forth in a notarised deed or a private document bearing full probative force. In the event that a shareholder is represented at the General Meeting by its legal representative (e.g. director, managing director, mayor etc.), the deed issued by the court or court of registration concerning the representation, or a certificate testifying to the election of the mayor, must be presented at the venue of the General Meeting. The letters of proxy must be handed over during the period and at the location specified in the invitation to the General Meeting. If the letter of proxy was issued outside Hungary, it must satisfy, in terms of its form, the statutory provisions pertaining to the authentication or counter-authentication of documents issued outside Hungary. Information on the subject can be obtained from the Hungarian representation offices abroad.

Participation in the General Meeting and exercising of voting rights is subject to the following preconditions:

- the holder of the registered shares has been effectively entered into the company's Share Register;
- the voting right associated with ownership of the shares does not violate the provisions

of the company's Articles of Association, which the Company ascertains through a check following receipt of an owner's data reconciliation notice from KELER Ltd.;

- with respect to participation in the General Meeting and the exercising of voting rights on the part of the organisation exercising shareholders' rights on the basis of the voting-preference share (golden share) issued in favour of the Hungarian State, the general rules apply, with the proviso that, in the case of certain matters specified in the Articles of Association of OTP Bank Ltd., the consent of the holder of the golden share is required in order for the resolution to be passed;
- the rules on participation in the General Meeting and the exercising of voting rights on the part of GDR holders are contained in the Custody Agreement concluded between the Bank of New York and OTP Bank Ltd.

Dividend

OTP Bank Ltd.'s General Meeting of April 28, 2006 passed a resolution to the effect that the extent of the dividend to be paid in respect of the 2005 financial year should be 197% of the nominal value of the shares. The actual amount of dividend payable to shareholders will be calculated and paid in accordance with the Bank's Bylaws. The preconditions for payment of dividends on the shares are as follows:

- the share ownership of the shareholder must not violate the stipulations of Act CXII of 1996 on Credit Institutions and Financial Enterprises ("Hpt.");
- the owner of the shares must have been effectively entered in the Share Register of OTP Bank Ltd.
- OTP Bank Ltd. must have details available to it that are suitable for identifying the shareholder, based on the owner's data reconciliation notice required by KELER Ltd. by the initial date of dividend payment and/or, subsequent to that, based on the owner's data reconciliation notice sent to the company by the shareholder's account managing institution(s).

After registration in the Share Register and an examination of the Share Register, OTP Bank Ltd.

will transfer the dividend to the account manager, or if the shareholder has, through the account manager, so requested, to the shareholder's bank account.

The payment of dividends on shares traded in Hungary is performed by the designated branch offices of OTP Bank Ltd. Dividend payment for GDR holders is performed through the Bank of New York.

Dividend payment date: from June 12, 2006.

Private investors who have questions regarding shares or dividends, or about resolutions passed at the General Meeting, should contact the Secretariat of OTP Bank Ltd. Telephone: (+36-1) 473-5162.

Announcements

OTP Bank Ltd. fulfils its disclosure obligations related to corporate events and prescribed in

Act No. CXX of 2001 in the publication Magyar Tőkepiac [Hungarian Capital Market] and on the website of the Budapest Stock Exchange (www.bet.hu).

Investor Relations

Institutional shareholders of OTP Bank Ltd. should contact the following address

if they require further information:

OTP Bank Ltd. Investor Relations,
1051 Budapest, Nádor utca 16.

Telephone: (+36-1) 473-5460

Fax: (+36-1) 473-5951,

e-mail: investor.relations@otpbank.hu

The address of the Bank's website

is www.otpbank.hu.

Declaration on Corporate Governance Practice⁷

OTP Bank Ltd.'s operation is in full compliance with the applicable laws, supervisory provisions and Budapest Stock Exchange (BSE) regulations. The structure and conditions of operation of the Company are contained in the Company's Bylaws.

Executive bodies

The executive body of the Company is the Board of Directors. The scope of the Board of Directors is defined in the effective laws, the Company's Bylaws, General Meeting resolutions, and the Procedural Rules of the Board of Directors.

The Procedural Rules set out the structure of the Board of Directors, the tasks relating to the preparation, implementation and drafting of resolutions of its meetings, as well as all other issues relating to the operation of the Board of Directors. The members of the Board of Directors are elected by the General Meeting for a term of five years. At present, the ratio of independent Board members (three persons) within the total number of the Directors (11 directors) is 27%.

(From April 28, 2006 the share of independent members of the Board (4 persons) within the total members of the Directors (11 persons) is 36%)

All the obligations and prohibitions specified for executive officers under Act CXII of 1996 on Credit Institutions and Financial Enterprises (Credit Institutions Act) apply to the members of the Board of Directors.

The Supervisory Board oversees the management and business operation of the Company. The Supervisory Board establishes its own procedural rules, which are approved by the General Meeting. The members of the Supervisory Board are elected

by the General Meeting with a mandate of three years. The ratio of independent Supervisory Board members (4 persons) within the entire Supervisory Board (6 persons) is 67%. (From April 28, 2006 the share of independent Supervisory Board members (3 person) within the entire Supervisory Board (5 persons) is 60%.)

In order to avoid any conflict of interest, the General Meeting may not elect members of the Board of Directors or their close relatives to the Supervisory Board. The rules applicable to the appointment and recall of the employee member of the Supervisory Board are defined by the Works Council operating at the Company, and the Company does not consider such a member independent.

The Supervisory Board is responsible for the management of the internal audit organisation of the Company within the framework defined in the Credit Institutions Act. The Supervisory Board exercises a preliminary right of consent in respect of decisions relating to the establishment and termination of the employment, as well as definition of remuneration of the managers and employees of the internal audit organisation.

The Board of Directors holds meetings as frequently as necessary, or at least on eight occasions a year, while the Supervisory Board must hold at least six meetings a year. In 2005, eight Board meetings and nine Supervisory Board meetings were held.

A meeting must also be called if a member of the Supervisory Board or at least two members of the Board of Directors, or the auditor, request it in writing, indicating the objectives and reasons for the meeting.

⁷ Based on the Corporate Governance Recommendations (December 8, 2003) published by Budapest Stock Exchange

The meetings of the Board of Directors and Supervisory Board are recorded in minutes, and all resolutions are documented.

The employer's rights towards the executive officers of the Company are exercised by the Board of Directors through the chairman and chief executive officer, with the proviso that the Board of Directors must be notified in advance for the appointment or withdrawal of appointment of deputy CEOs.

The Board of Directors has prepared guidelines for the evaluation of the work and the remuneration of the management. The Bank has launched a share option scheme for the evaluation and encouragement of management performance, based on the performance of annual and medium-term targets. The detailed conditions of the share purchase program and the expectations in terms of performance are approved by the General Meeting of the Company. The Board of Directors provides information on the annual and medium-term targets and their performance, representing the basis of evaluation, at the annual General Meeting. The Company has no separate committees.

Certain functions and tasks of the Audit Committee are performed by the Supervisory Board and the independent internal audit staff reporting to it based on the Credit Institutions Act, in line with the statutory provisions applicable to financial institutions. The tasks of the other committees are performed by committees which may be and have been established pursuant to the Company's Code of Organisation and Operation.

Audit

There is an independent internal audit organisation at the Company, controlled by the Supervisory Board within the framework stipulated by the Credit Institutions Act. The independent internal

audit group has an annual audit plan, approved by the Board of Directors or the Supervisory Board.

The independent internal audit group prepares regular objective and independent reports on the operation of risk management, internal control mechanisms and corporate governance functions for the Supervisory Board and the management. The Supervisory Board exercises a preliminary right of consent with regard to decisions relating to the establishment and termination of employment and to the determination of the remuneration of the managers and employees of the internal audit organisation.

The General Meeting has the right to elect the business entity auditing the Company and to approve the member of the audit company who will be personally responsible for the audit.

The Board of Directors must notify the General Meeting and Supervisory Board of the Company about any other major assignment given to the auditor. Apart from that, in justified cases, the Board of Directors, the Supervisory Board and other committees of the Company may also use the services of external consultants.

Disclosure

The Company discloses its information in strict compliance with the provisions of Act CXX of 2001 on the Capital Market (Capital Market Act) and the applicable BSE regulations. The Company also has an effective internal disclosure policy. The regulations indicated above assure full, accurate and timely disclosure of all important information that may affect the Company or the price of the Company's securities.

The Company discloses its business and strategic targets for the current year and its medium-term strategic plan at each annual General Meeting.

The Company discloses the proposals prepared

for the General Meeting in compliance with the rules applicable to disclosure as posted on the BSE website and with the provisions of the relevant Regulations of the BSE. The Company discloses information about the professional career of the members of the Board of Directors, Supervisory Board (monthly remuneration and option scheme) and the management on its website and in its annual report in compliance with the effective legislation. The proposal for the remuneration of the chairman and members of the Board of Directors and chairman and members of the Supervisory Board is also part of the proposals prepared for the General Meeting. The Company has detailed risk management regulations applicable to all types of risks (liquidity, market and credit risks), which are in compliance with the legal regulations on prudent banking

operations. The annual report contains information on the risk management practices of the Company, the applied limits and compliance with them. The Company has a detailed internal policy for persons that qualify as insiders and potential insiders, which is in full compliance with the limits and prohibitions regulated in detail under the effective provisions of the Capital Market Act. The Company discloses the transactions of the members of Board of Directors, Supervisory Board and management involving the Company's shares, in compliance with the disclosure regulations, and indicates the holding of these individuals in the Company (number of shares) in its annual report. The Company discloses the loans extended to its executive officers, as well as the enterprises in which it has an equity participation, in its annual report.

Provisions against Money Laundering

Money laundering means that services of financial institutions is used in order to conceal the true source of funds deriving from criminal activity by the perpetrator, or other individuals.

In order to avoid that OTP Bank Ltd. be used for Money Laundering activities, we do everything to establish the true identity of any person/client demanding/applying for any services from the bank, and OTP Bank Ltd. shall not perform any transaction order given by a client who does not identify him/herself pursuant to the legal regulations.

In accordance with Act No. XXIV of 1994 on the prevention and impeding of Money Laundering:

– OTP Bank Ltd. operates an internal control and information system for the purpose of preventing of banking and financial transactions enabling or realising Money Laundering.

- OTP Bank Ltd. has developed internal rules in pursuance of the recommendation of the Supervisory Authority of Financial Institutions, and all of its employees are under a legal obligation to act in accordance with the provision of these Rules.
- The employees of the Bank are to be performing their identifying and reporting obligations.
- The performance of the reporting obligations shall not be regarded as a violation of bank, securities, insurance and business secrets.
- Omission of the reporting obligation constitutes a crime punishable under the Penal Code.
- OTP Bank Ltd. cooperates with the authorities to disclose any circumstances relating to Money Laundering.

OTP Bank Ltd.'s Announcement on its client-identification procedure as set out here is available in every premises of OTP Bank Ltd. open to clients.

Commitment to Social Causes

OTP Bank is Hungary's largest and best known credit institution. Our business successes are what has earned us the enduring trust of millions of customers, shareholders, employees and society in general, which the Bank repays by undertaking a commitment to social causes, commensurate with the importance of the corporate group within the economy.

OTP Bank and society

The Bank's mission is to reach people from all age groups and social strata with its high-quality products and services, and by providing value and a high standard of service, to increase customer satisfaction, and, as modern electronic technology becomes increasingly widespread, to retain its personal relationship with customers.

The Bank's charitable and sponsorship activities also serve this purpose, by enabling us to find as many points of contact as possible, even outside the framework of financial service provision, and to strengthen our relationships with partners by supporting deserving causes, programs and events that serve the interests, endeavours and needs of society as a whole.



The Bank's charitable and sponsorship activities are founded upon the twin pillars of equal opportunities and community-building, both of which represent fundamental social values that accord with the principles of the Bank's operation.

Creating equal opportunities

OTP Bank participates in the everyday lives of Hungarian people and society, as an active helper and nurturer, by creating the opportunities that are indispensable in order to succeed in the face of the ever-higher expectations placed upon people. For this reason, in addition to its regular business operations, OTP Bank assists and empowers those in need. Within its means, the Bank supports charitable initiatives aimed at improving the chances of an individual or community, and showing the way forward. OTP Bank's sponsorship and patronage is focused on assisting disadvantaged and sick children, promoting youth education and improving the quality of life and the chances of the physically and mentally challenged, primarily through the forging of long-term cooperative partnerships, and the organisation of events and programs.

For more than a decade, OTP Bank has worked together with the International Children's Safety Service, which ensures the provision of healthcare and assistance for over 10,000 children from Hungary and abroad, and which is dedicated to supporting and improving the quality of life of children with physical and mental disabilities, and laying the foundations for their future. In the frame of the co-operation OTP Bank supports primarily the healthcare programmes of the organisation it subsidizes medical treatment of children through covering the expenses of operations and mobile dental surgery, financing the maintenance

of fosterers' network and supporting of charity events. Besides the direct financial assistance it provides to the organisation, the Bank has also succeeded in drawing the attention of its customers to the work that it performs, with the result that the amount of donations accumulated in collection boxes placed in the Bank's branches increases from year to year.

In the interests of promoting equal opportunities, OTP Bank prioritises support for the Special Olympics Hungary, the local branch of the international organisation dedicated to providing sporting opportunities for people with intellectual disabilities, because it is our firm belief that through the work of these dedicated people, with the right financial backing, it is possible to make a huge difference to the quality of life, the present and future of people with intellectual disabilities.

OTP Bank also places great emphasis on promoting the development of education in economics and finance, and forging closer relationships with institutes of higher education, in order to help ensure the next generation of finance specialists.

Through the OTP Fáy András Foundation, which has operated continuously since being established by OTP Bank in 1992, the Bank aims to expand the economic and business skills of young people, and instil in them a sense of economic culture, as well as a project-based and community approach. In 2005, groups of secondary-school students were invited to submit plans for profit-generating schemes aimed at



benefiting the community. In order to put the winning projects into practice, the foundation has embarked on an experiment unique in central Europe, at one location in Hungary and another in Transylvania, to answer the question of whether models created under hypothetical circumstances can be transplanted into real life situations, and whether the students' ideas are workable in this region.

Among the cooperative partnerships formed with institutes of higher education, one of the most prominent and exemplary is the initiative under which the Bank issued a bank card jointly with the University of Pécs, one of Hungary's largest and most academically diverse centres of learning. Cardholders are entitled to certain discounts.

The Bank donates a part of the revenue generated by the cards to the University, which means that by using the cards, students and professors can also support the University.

The Bank also considers it important to help in specific events that affect the community, which is why it also gives priority to the provision of assistance in crisis situations. Accordingly, on several occasions the Bank helped to repair damage caused by natural disasters in Hungary, Slovakia and Romania.

Community building

As the market-leading provider of retail financial services, and a financial partner of the municipalities, OTP Bank considers community building to be a vital element of its sponsorship philosophy.

The Bank treats community initiatives as an important means of preserving community values, nurturing and passing on traditions, protecting and gaining national treasures, and sharing all of these with as many people as possible.

With regard to culture, this primarily takes the form of support for events that represent quality and

values to society as a whole, and especially to the Bank's clientele. Besides national events, the Bank also patronises regional and local initiatives (such as traditional town and village fetes), thereby helping to strengthen rural culture. A range of cultural sponsorship also includes financial support for cultural festivals, concerts of classical music, as well as pop concerts and folk music events. The Bank maintains close cooperation with the most important provincial theatres, occasionally with few theatres in the capital, too. Apart from regional and national events, the Bank more often supports cross-border initiatives in neighbouring countries. Our efforts to preserve cultural values are also symbolised by the OTP Financial History Collection, work on which began in the mid-1960s, and which today contains some 30,000 items of banking documentation. The Bank treats the gathering, documenting and curatorship of the items on display – documents and other memorabilia related to the foundation and operation of the first Hungarian financial institutions, items used in banks, office equipment and decorations, engravings, photographs and posters – as a key task.

At the end of 2005, the OTP Gallery ceremoniously reopened its doors in the lobby of one of the Bank's Budapest head offices. By running the gallery the Bank maintains an exhibition space dedicated to displaying the works of outstanding contemporary Hungarian painters. OTP Bank also supports contemporary art by purchasing fine paintings. Currently, some 600 works of art hang from the walls of buildings and offices used by the Bank.

Our environment

Internal environment

OTP Bank is continuously seeking environmental means of improving energy-efficiency and waste management through its own internal operations as well.

As a result of efforts aimed at optimizing the use of energy, in 2005 the Bank realized 10% savings of energy. More than a decade ago the Bank set up its central archives that helps to properly handle, pulp and recycle the sorted out files. Besides, in 2005 the Bank launched the programme of

selective waste collection, being in place at more than half of the workplaces.

Environmental and energy-efficiency investments

In the course of both its everyday operation and its business activities, OTP Bank pays special attention to environmental considerations, since it



considers resolving environmental problems to be one of the most serious challenges of our age. As a member of the European Union, major investment is necessary in order to comply with the strict new environmental directives, and the Bank wishes to lead the way in this respect. Besides the fact that shareholder interests and common business sense demand that OTP Bank only participate in financially sound loan transactions, an important element of the Bank's lending policy is that it mainly finances investments that are environmentally friendly, or at least not damaging to the environment, and the internal regulations governing risk analysis ensure that this criterion is considered during the rating process. OTP Bank is an active participant in energy-efficiency and environmental-protection programs. Projects that serve the environment include investments aimed at rationalising energy consumption. The Bank has assumed a dominant role in the financing of energy-saving capital projects by municipalities and housing associations, and, through the provision of loans, also assists a number of ESCOs (Energy Services Companies) both in Hungary (EETEK, COHEC, CAMINUS, etc.) and abroad. Within the framework of the Infrastructure Development Credit Program, the Bank finances other local authority environmental initiatives.

Besides all this, OTP Bank also participates in the financing of renewable energy projects. In 2003 the Bank was among the first in Hungary to finance a project aimed at producing energy from renewable sources. As a result of this investment, the than largest renewable energy generating project in central-eastern Europe commenced operation in the city of Pécs. The Bank continues to seek opportunities to finance other projects contributing to environmental protection, typically the development of wind farms and biomass generating facilities.

Human resources

OTP Bank considers the trust and satisfaction of its many millions of customers to be its greatest assets, which is why its interactions with clients and business partners are characterised by trustworthy business conduct. From year to year the Bank places an increasing emphasis on the motivation and training of its employees, and strengthening their loyalty, since the quality of service and the way in which the Bank is perceived are chiefly determined by, and founded upon, the relationship between the Bank's staff and its customers and business partners.

Benefits

In 2005 the Bank began to overhaul its remuneration system, with the aim of encouraging employees to perform to the best of their abilities and acquire the requisite specialist skills, and rewarding loyalty to the Bank and the responsibilities associated with a given position. As the first stage in creation of the new incentives



system, the system for the remuneration of branch staff underwent a transformation in April of 2005. Consequently it is now possible to measure the performance of employees, and reward individual performance based on a uniform set of criteria. The new system makes it possible for outstanding employees achieve a higher income, commensurate with their performance.

OTP Bank also provides its employees with additional fringe benefits, such as substantial contributions to voluntary and private pension funds and health insurance plans, the provision of meal vouchers, housing loans and discounted current-account borrowing facilities, schooling benefits for the children of entitled employees, and a fund for compassionate assistance and the financial relief of employees in emergency situations. The provision of benefits to employees is regulated by the Collective Agreement. Some 58.6% of employees are trade union members.

Training and education

OTP Bank places particular emphasis on training its staff, both in and outside of working hours, with the aim of promoting the professional advancement and personal development of its employees. In 2005, such training accounted for 1–1.5% of overall personnel-related spending. The Bank employs a structured training system, which is based on the requirements and skills sets defined in standard job descriptions. Internal training courses focus on imparting the requisite specialist knowledge related to bank processes, IT systems and products. The training department supports the learning process through the holding of internal courses and consultations, and the provision of educational materials. In 2006 the Bank will introduce the SAP

LSO e-learning system, giving employees access to flexible and interactive learning opportunities. We also support the career and personal development of employees through participation in conferences, vocational training and post-graduate courses.

Another important element is skills-development, which promotes better performance in sales and management. The Bank regularly organises sales and management training programs, team-building sessions and in-house language courses.

Health and sport

In order to promote effective working and a healthy lifestyle, maintenance of good physical condition and the productive utilisation of free time, OTP Bank provides its employees with continuous sporting opportunities in no less than 15 different branches of sport. In the course of 2005 the Bank organised a number of popular sporting events, and twice a year the OTP Group holds national family and sports



days, as well as cultural events, for all employees and their families. In the resort and education facilities, the Bank provides holiday opportunities for its employees and their family members at preferential price levels.

Awards and accolades

In order to express its recognition and respect for its own employees, more than a decade ago the Bank founded the András Fáy Prize and the award "In Recognition of Service to OTP Bank", with which it rewards employees who display outstanding performance, on the occasion of World Savings Day.