Strategic and Financial Division

Investor Relations

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# 2006 AUDITED STOCK EXCHANGE REPORT OF OTP BANK PLC.

*OTP Bank Plc. has prepared its Audited Stock Exchange Report for 2006. The report contains International Financial Reporting Standards (IFRS) audited non-consolidated and consolidated balance sheet and profit and loss account for the 12 months ending December 31, 2006.*

## OTP BANK CONSOLIDATED

### IFRS CONSOLIDATED BALANCE SHEET

On December 31, 2006 the consolidated IFRS total assets of the Bank were HUF 7,097.4 billion, representing a HUF 1,881.5 billion or 36.1% growth over the same period a year earlier. Such a significant growth already included the consolidation of the Ukrainian, Russian subsidiaries, as well as that of Zepter banka, Serbia.

The Bank's consolidated shareholders' equity on December 31, 2006 was HUF 788.2 billion, by 44.0% higher than the consolidated shareholders' equity as of December 31, 2005. The shareholders' equity represented 11.1% of total assets. Book value per share (BVPS) amounted to HUF 2,815 on December 31, 2006.

**Main consolidated balance sheet data of OTP Bank according to IFRS:**

| HUF mn | 31/12/2005 | 31/12/2006 | Y-o-Y |
|---|---|---|---|
| Cash and bank | 483,191 | 532,625 | 10.2% |
| Placements with other banks | 438,768 | 602,616 | 37.3% |
| Financial assets at fair value through statements of operations | 48,054 | 110,576 | 130.1% |
| Trading securities | 409,945 | 489,250 | 19.3% |
| **Gross loans** | **3,297,218** | **4,474,702** | **35.7%** |
| Provisions on loans | 105,920 | 127,611 | 20.5% |
| Net loans | 3,191,298 | 4,347,091 | 36.2% |
| Equity investments | 12,357 | 70,938 | 474.1% |
| Securities held-to-maturity | 289,803 | 268,281 | -7.4% |
| Intangible assets | 233,245 | 464,716 | 99.2% |
| Other assets | 109,241 | 211,333 | 93.5% |
| **ASSETS** | **5,215,902** | **7,097,426** | **36.1%** |
| Liabilities to credit institutions | 364,124 | 660,416 | 81.4% |
| **Liabilities to customers** | **3,428,193** | **4,232,153** | **23.5%** |
| Issued securities | 543,460 | 781,316 | 43.8% |
| Other liabilities | 285,630 | 384,602 | 34.7% |
| Subordinated loans | 47,023 | 250,726 | 433.2% |
| LIABILITIES | 4,668,430 | 6,309,213 | 35.1% |
| **TOTAL SHAREHOLDERS' EQUITY** | **547,472** | **788,213** | **44.0%** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **5,215,902** | **7,097,426** | **36.1%** |
| | | | %-point |
| Gross loans/deposits | 96.2% | 105.7% | 9.6% |

**On the asset side**, cash, deposits and balances with the NBH increased by 10.2% compared to December 31, 2005. On December 31, 2006 the volume of interbank placements was 37.3% higher y-o-y. Financial assets at fair value through profit and loss increased by 130.1% to HUF 110.6 billion. Available-for-sale securities (489.3 billion) were HUF 79.3 billion higher than a year earlier. This volume was by HUF 140.4 billion higher than the non-consolidated figure of the Bank, due to securities held by OTP Garancia Insurance, OTP Building Society and OTP banka Hrvatska and adjustment for mortgage bonds held by the parent bank.

Volume of consolidated loans, net of allowance for possible loan losses grew by 36.2% from HUF 3,191.3 billion on December 31, 2005 to HUF 4,347.1 billion as of December 31, 2006. The share of net loans in total assets reached 61.2%, and equalled to that of at the end of December 31, 2005. Within consolidated gross business loan volume of HUF 4,474.7 billion, corporate loans represented 36.0% (HUF 1,610.0 billion); retail loans 59,1% (HUF 2,649,4 billion) and municipality loans 4,9% (HUF 218.3 billion, respectively. Within retail loans housing loans stood at HUF 1,520.1 billion (+24.4%); consumer loans at 1,126.4 billion (+51.5%). 35.7% of aggregated total loans were granted by the foreign subsidiaries.

**IFRS consolidated gross loan volume by business lines:**

| HUF mn | 31/12/2005 | 31/12/2006 | Y-o-Y |
|---|---|---|---|
| Corporate loans | 1,195,374 | 1,609,989 | 34.7% |
| Municipality loans | 136,039 | 218,299 | 60.5% |
| Retail loans | 1,965,805 | 2,646,414 | 34.6% |
| Housing loans | 1,222,397 | 1,520,053 | 24.4% |
| Consumer loans | 743,408 | 1,126,361 | 51.5% |
| Total | 3,297,218 | 4,474,702 | 35.7% |

The quality of the loan book under IFRS deteriorated significantly, mainly due to the consolidation of the Ukrainian and Russian subsidiaries, but also due to the weaker corporate loan quality of OTP Bank. At the end of December 2006 performing portion represented 79.6% of total, 14.8% was to-be-monitored. Non-performing loans (NPLs) were 5.6% of total, by 200 bps higher than a year before. 59.2% of qualified loans and 55.0% of NPLs were in the books of foreign subsidiaries.

**IFRS consolidated gross loan volume by qualified categories:**

| HUF mn | 31/12/2005 | 31/12/2006 | Y-o-Y |
|---|---|---|---|
| Performing loans | 2,876,541 | 3,561,977 | 23.8% |
| To-be-monitored loans | 301,581 | 661,594 | 119.4% |
| Below average | 27,627 | 109,417 | 296.1% |
| Doubtful | 27,802 | 64,948 | 133.6% |
| Bad | 63,668 | 76,765 | 20.6% |
| Total receivables | 3,297,218 | 4,474,702 | 35.7% |
| QUALITY | | | |
| Total qualified | 420,677 | 912,724 | 117.0% |
| NPL | 119,096 | 251,130 | 110.9% |
| Qualified ratio | 12.8% | 20.4% | 7.6% |
| NPL ratio | 3.6% | 5.6% | 2.0% |
| COVERAGE | | | |
| Provision on NPL | 89,613 | 110,436 | 23.2% |
| Coverage on NPL | 75.2% | 44.0% | -31.2% |
| Provision on qualified | 101,354 | 121,323 | 19.7% |
| Coverage on qualified | 24.1% | 13.3% | -10.8% |
| Net loans | 3,191,298 | 4,347,091 | 36.2% |

**On the liability side**, customer liabilities were HUF 4,232.2 billion, 23.5% higher than a year earlier and 57.3% higher than at the Bank. Customer deposits represented 59.6% of total liabilities (65.7% as at December 31, 2005). Out of total, 26% of deposits came from corporate; 69% from retail and 5% from municipality sector customers.

**Consolidated deposits by business lines:**

| HUF mn | 31/12/2005 | 31/12/2006 | Y-o-Y |
|---|---|---|---|
| Corporate deposits | 662,214 | 1,098,083 | 65.8% |
| Municipality deposits | 203,111 | 221,315 | 9.0% |
| Retail deposits | 2,562,869 | 2,912,755 | 13.7% |
| Total | 3,428,194 | 4,232,153 | 23.5% |

Volume of issued securities was 43.8% higher than a year earlier and reached HUF 781.3 billion. The yearly growth was mainly due to the issuances of EUR 750 million denominated bonds by OTP Mortgage Bank.

## CONSOLIDATED IFRS STATEMENT OF OPERATIONS (PROFIT AND LOSS ACCOUNT)

| HUF mn | 2005 | 2006 | Y-o-Y |
|---|---|---|---|
| Interest income | 459,024 | 542,817 | 18.3% |
| Interest expense | 161,799 | 186,873 | 15.5% |
| **Net interest income** | **297,225** | **355,944** | **19.8%** |
| Net interest income without swap | 290,641 | 322,406 | 10.9% |
| Provision for possible loan losses | 28,042 | 28,559 | 1.8% |
| **Net interest income after provision** | **269,183** | **327,385** | **21.6%** |
| Fees and commissions income | 118,884 | 145,015 | 22.0% |
| Foreign exchange gains, net | 3,879 | -11,884 | |
| Gain on securities, net | 9,708 | 6,901 | -28.9% |
| Gain on real estate transactions | 96 | 1,292 | |
| Dividend income | 672 | 901 | 34.1% |
| Insurance premiums | 69,793 | 75,554 | 8.3% |
| Other non-interest income | 13,465 | 24,940 | 85.2% |
| **Total non-interest income** | **216,497** | **242,719** | **12.1%** |
| Fees and commissions expense | 19,930 | 32,115 | 61.1% |
| Personnel expenses | 95,235 | 106,804 | 12.1% |
| Depreciation | 21,897 | 26,465 | 20.9% |
| Insurance expenses | 58,468 | 60,866 | 4.1% |
| Other non-interest expenses | 98,073 | 125,252 | 27.7% |
| **Total non-interest expense** | **293,603** | **351,502** | **19.7%** |
| **Income before income taxes** | **192,077** | **218,603** | **13.8%** |
| Income taxes | 33,803 | 31,506 | -6.8% |
| **After tax profit** | **158,274** | **187,097** | **18.2%** |
| | | | %-point |
| Total income (with net fees) | 493,792 | 566,548 | 14.7% |
| Operating cost | 273,673 | 319,387 | 16.7% |
| Cost/income ratio | 55.4% | 56.4% | 1.0% |
| Net interest margin before provision | 6.34% | 5.78% | -0.6% |
| Net interest margin without swap | 6.20% | 5.24% | -1.0% |
| ROA | 3.38% | 3.04% | -0.3% |
| ROE | 32.3% | 28.0% | -4.3% |

Cumulated IFRS consolidated pre-tax profit was HUF 218.6 billion, which represented a 13.8% increase over 2005. After-tax profit grew by HUF 28.8 billion or by 18.2% to HUF 187.1 billion.

The 2006 consolidated IFRS net interest income of OTP Bank was HUF 355.9 billion, 19.8% higher than one year before. This was a result of 18.3% yearly growth in interest income and 15.5% y-o-y decrease in interest expenses.

Consolidated interest income amounted to HUF 542.8 billion (+18.3%). Within this, interest income from loans without swaps exceeded HUF 386 billion (+13.8%), whereas interest income from swaps was also significant: HUF 62.7 billion (+91.9%). Total interest expense was HUF 186.9 billion, 15.5% higher than in 2005. Within this, interest expenses paid for customers' deposit rose from HUF 99.4 billion by 5.2% to HUF 104.6 billion. Interest expenses from swaps amounted to HUF 29.2 billion, and thus net swap profit reached HUF 33.5 billion, which exceeds more than five-times its volume of HUF 6.6 billion in 2005. Without swaps net interest income would be HUF 322.4 billion, 10.9% higher than one year before.

Provisions for possible loan and placement losses amounted to HUF 28.6 billion, 1.8% higher than in 2005. Provisioning cost as a percentage of average gross loans reached 0.74% compared to 0.95% a year earlier.

Non-interest income was 12.1% lower than a year earlier and reached HUF 242.7 billion. Within non-interest revenues, the fee and commission income increased by 22.0% to HUF 145.0 billion. The insurance premium reached HUF 75.5 billion, an increase of 8.3% y-o-y. Net losses on foreign exchange transactions grew significantly to HUF 11.9 billion compared to the gains of HUF 3.9 billion in 2005, net profit on securities trading decreased to HUF 6.9 billion.

Consolidated non-interest expenses grew by 19.7% year-on-year to HUF 351.5 billion. Consolidated personnel expenses were 12.1% higher than a year before and reached HUF 106.8 billion. Consolidated fee and commission expenses increased significantly by 61.1% to HUF 32.1 billion. Insurance expenses rose slightly by 4.1% to HUF 60.9 billion, whereas other non-interest expenses increased substantially by 27.7% to HUF 125.3 billion.

Hence, net fees and commissions grew by 14.1% to HUF 112.9 billion and net insurance income grew to HUF 14.7 billion, an increase of 29.7% y-o-y. Consolidated cost-income ratio was 56.4%, 1.0%-points higher than a year before.

Net consolidated interest margin over average total assets was 5.78%, 56 bps below 2005. Disregarding the effects of swaps net margin in 2006 was lower: 5.24%, a decrease of 96 bps. Consolidated ROAA was 3.04% (3.38% in 2005), while consolidated ROAE reached 28.0% (32.3% in 2005). Basic earnings per share (EPS) reached HUF 722, HUF 118 above 2005. Diluted EPS reached HUF 714.

# OTP BANK NON-CONSOLIDATED

## IFRS NON-CONSOLIDATED BALANCE SHEET

OTP Bank maintained its market position as the largest retail bank in Hungary and the largest bank by total assets. Total assets of the Bank were HUF 4,506.7 billion on December 31, 2006, which was 25.4% higher than a year earlier.

**Main non-consolidated balance sheet data of OTP Bank according to IFRS:**

| HUF mn | 31/12/2005 | 31/12/2006 | Y-o-Y |
|---|---|---|---|
| Cash and bank | 379,249 | 429,325 | 13.2% |
| Placements with other banks | 393,659 | 657,939 | 67.1% |
| Financial assets at fair value | 34,054 | 61,085 | 79.4% |
| Securities for sale and trading | 371,433 | 348,859 | -6.1% |
| **Gross loans** | **1,497,670** | **1,782,699** | **19.0%** |
| Provisions | -22,162 | -31,021 | 40.0% |
| Net loans | 1,475,508 | 1,751,678 | 18.7% |
| Investments | 223,881 | 583,298 | 160.5% |
| Securities held-to-maturity | 521,797 | 504,111 | -3.4% |
| Intangible assets | 105,569 | 100,721 | -4.6% |
| Other assets | 87,723 | 69,395 | -20.9% |
| **ASSETS** | **3,592,872** | **4,506,410** | **25.4%** |
| Liabilities to credit institutions | 255,211 | 557,857 | 118.6% |
| **Deposits from customers** | **2,506,457** | **2,690,098** | **7.3%** |
| Issued securities | 202,267 | 202,050 | -0.1% |
| Other liabilities | 108,615 | 137,934 | 27.0% |
| Subordinated loans | 47,023 | 247,865 | 427.1% |
| LIABILITIES | 3,119,573 | 3,835,804 | 23.0% |
| **TOTAL SHAREHOLDERS' EQUITY** | **473,299** | **670,606** | **41.7%** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **3,592,872** | **4,506,410** | **25.4%** |
| | | | %-point |
| Gross loans to deposits | 59.8% | 66.3% | 6.5% |

**On the asset side**, gross loan volume represented 39.6% (2005: 41.7%), while liabilities to customers amounted to 59.8% (2005: 69.8%). Total gross loan volume increased by 19.0% in 2006. Retail loans reached HUF 567.9 billion, representing 31.9% of total loans (2005: 31.0%). The volume of the corporate loans was HUF 1,004.6 billion, exceeded 56.4% of total loans (2005: 60.3%). Share of municipality loans was 11.8%, an increase of 60.3% y-o-y. The quality of loan portfolio slightly deteriorated in 2006. Qualified loans represented 5.4% of the total loans (2005: 5.3%), while NPL ratio was 3.2% (2005: 2.3%). NPL coverage was 48.7% compared to 53.4% at the end of December 2006.

**IFRS non-consolidated gross loan volume by business lines:**

| HUF mn | 31/12/2005 | 31/12/2006 | Y-o-Y |
|---|---|---|---|
| Corporate loans | 902,696 | 1,004,605 | 11.3% |
| Municipality loans | 131,107 | 210,159 | 60.3% |
| Retail loans | 463,867 | 567,936 | 22.4% |
| Housing loans | 210,150 | 259,583 | 23.5% |
| Consumer loans | 253,717 | 308,353 | 21.5% |
| Total | 1,497,670 | 1,782,699 | 19.0% |

**IFRS non-consolidated gross loan volume by qualifying categories:**

| HUF mn | 31/12/2005 | 31/12/2006 | Y-o-Y |
|---|---|---|---|
| Performing loans | 1,418,879 | 1,686,246 | 18.8% |
| To-be-monitored loans | 44,250 | 38,954 | -12.0% |
| Below average | 13,160 | 22,681 | 72.3% |
| Doubtful | 14,119 | 25,577 | 81.2% |
| Bad | 7,262 | 9,242 | 27.3% |
| Total receivables | 1,497,670 | 1,782,699 | 19.0% |
| QUALITY | | | |
| Total qualified | 78,791 | 96,454 | 22.4% |
| NPL | 34,541 | 57,500 | 66.5% |
| Qualified ratio | 5.3% | 5.4% | 2.8% |
| NPL ratio | 2.3% | 3.2% | 0.9% |
| COVERAGE | | | |
| Provision on NPL | 18,449 | 27,986 | 51.7% |

| HUF mn | 31/12/2005 | 31/12/2006 | Y-o-Y |
|---|---|---|---|
| Coverage on NPL | 53.4% | 48.7% | -4.7% |
| Provision on qualified | 22,162 | 31,021 | 40.0% |
| Coverage on qualified | 28.1% | 32.2% | 4.0% |
| Net loans | 1,475,508 | 1,751,678 | 18.7% |

**On the liability side**, customer deposits amounted to HUF 2,690.1 billion, 7.3% higher than a year earlier. Deposits represented 59,7% of total liabilities (2005: 69,8%). Within, 67.4% (2005: 74.6%) came from retail, 26.4% (2005: 18.9%) from corporate, and 6.3% from municipal sector customers.

**IFRS non-consolidated deposits by business lines:**

| HUF mn | 31/12/2005 | 31/12/2006 | Y-o-Y |
|---|---|---|---|
| Corporate deposits | 474,052 | 708,981 | 49.6% |
| Municipality deposits | 161,993 | 168,379 | 3.9% |
| Retail deposits | 1,870,412 | 1,812,738 | -3.1% |
| Total | 2,506,457 | 2,690,098 | 7.3% |

Liabilities from issued securities remained stable at the level of HUF 202 billion. Within the liabilities of the Bank the volume of subordinated loans grew significantly: in September OTP Bank issued fixed rated subordinated bonds in a total value of EUR 300 million and it was followed by an Upper Tier 2 (perpetual NC10) transaction in November with a total value of EUR 500 million. In the first 10 years it pays a fix 5.875% coupon p.a. and 3 months Euribor + 300 bps thereafter. Gross loans to deposits ratio of the Bank was 66.3%, compared to 59.8% at the end of December 2006.

## NON-CONSOLIDATED IFRS STATEMENT OF OPERATIONS (PROFIT AND LOSS ACCOUNT)

| HUF mn | 2005 | 2006 | Y-o-Y |
|---|---|---|---|
| Interest income | 281,403 | 331,917 | 18.0% |
| Interest inc. swap on loans | 945 | 897 | -5.1% |
| Interest inc. swap on interbank loans | 28,786 | 52,666 | 83.0% |
| Interest expense | 112,763 | 128,753 | 14.2% |
| Interest exp. swap on interbank deposits | 22,348 | 24,924 | 11.5% |
| Interest exp. swap on deposits | 123 | 2,312 | |
| **Net interest income** | **168,640** | **203,164** | **20.5%** |
| **Net interest income (without swaps)** | **161,380** | **176,888** | **9.6%** |
| Provision for possible loan losses | 16,435 | 25,443 | 54.8% |
| Net interest income after provision | 152,205 | 177,721 | 16.8% |
| Fees and commissions income | 136,264 | 147,668 | 8.4% |
| Foreign exchange gains, net | 1,603 | -14,465 | |
| Gain on securities, net | 3,103 | 870 | -71.9% |
| Other non-interest income | 17,450 | 61,178 | 250.6% |
| **Total non-interest income** | **158,420** | **195,252** | **23.2%** |
| Fees and commissions expense | 13,840 | 21,162 | 52.9% |
| Personnel expenses | 62,437 | 65,406 | 4.8% |
| Depreciation | 15,244 | 17,391 | 14.1% |
| Other non-interest expenses | 63,302 | 81,526 | 28.8% |
| **Total non-interest expense** | **154,823** | **185,486** | **19.8%** |
| **Income before income taxes** | **155,801** | **187,487** | **20.3%** |
| Income taxes | 22,804 | 17,298 | -24.6% |
| **After tax profit** | **132,848** | **170,188** | **28.1%** |
| | | | %-point |
| Total income (with net fees) | 313,220 | 377,254 | 20.4% |
| Operating cost | 140,983 | 164,323 | 16.6% |
| Cost/income ratio | 45.0% | 43.6% | -1.5% |
| Net interest margin (before provisioning) | 5.07% | 5.02% | -0.06% |
| Net interest margin (before provisioning and swaps) | 6.47% | 4.37% | -0.49% |
| ROA | 4.00% | 4.20% | 0.20% |
| ROE | 30.8% | 29.8% | -1.0% |

In 2006 OTP Bank realised HUF 187 billion profit before tax (+20.3%). Net interest income was by 20.5% higher than the figure of the base period, driven by 18,0% increase of interest income, while interest expenses increased slightly by 14.2%. Non-interest income of OTP Bank showed an increase of 23.2% during the year of 2006, mainly due to the above mentioned transactions. Due to the fair value adjustment the net securities result was by 71.9% lower than in 2005. FX gain and loss result also showed a significant change compared to last year: its loss of HUF 14.5 billion was by HUF 16 billion worse than a year ago due to adjustments of derivative transactions. Non-interest expenses exceeded 2005 figures by 19.8%, within that personal expenses represented 35.3% in total, while fee and commission income comprised 11.4%, respectively.

Cost to income ratio was 43.6%, which was significantly lower than the consolidated OTP Group level of 56.4%. In 2006 annualized ROA was 4.20% (consolidated ROA was 3.04%), and ROE was 29.8% (consolidated ROE was 28.0%).

## *DIVIDEND*

According to the Bank's already announced dividend policy, the dividend pay-out ratio is 30%, based on the non-consolidated HAR-based earnings. The extraordinary result of earlier mentioned ICES (Income Certificates Exchangeable for Shares) transaction is not included in the dividend-payment basis. Thus, dividends per share is HUF 144, dividends payment rate is 21.7% of the total non-consolidated HAR-based after tax profit.

## *CAPITAL ADEQUACY (BASED ON HAR)*

The HAR **shareholders' equity** of OTP Bank was HUF 553.2 billion on December 31, 2006, by HUF 145.6 billion higher than a year earlier. The growth was a result of a growth of HUF 18.6 billion in general reserves, as well as HUF 107.6 billion retained earnings, a HUF 57.9 billion growth in balance sheet profit, compensating the decrease (HUF 38.6 billion) of tied-up reserves. Non-consolidated book value of one share with face value of HUF 100 was HUF 1.978 on December 31, 2006.

The guarantee capital of the Bank stood at HUF 264,617 million or HUF 270,220 million including profit for the period, of which tier 2 capital amounted to HUF 242,283 million. With risk weighted assets of HUF 2,734.0 billion (an increase of 33.3% y-o-y) the **capital adequacy ratio** – calculated according to the Hungarian regulations – reached 9.69%, higher than 8% required by the Banking Act. The ratio calculated with 4Q 2006 profit was 9.88%.

## *AGGREGATED MARKET SHARES OF THE DOMESTIC GROUP MEMBERS IN THE CREDIT INSTITUTIONS SYSTEM IN HUNGARY BASED ON HAR DATA*

| | 2005 | 2006 | Y-o-Y |
|---|---|---|---|
| Total assets | 24.1% | 24.7% | 0.6% |
| Loans | 21.4% | 20.6% | -0.9% |
| Retail | 37.7% | 34.5% | -3.2% |
| Housing | 46.4% | 41.7% | -4.7% |
| HUF | 52.6% | 51.2% | -1.4% |
| FX | 22.5% | 22.9% | 0.3% |
| Consumer | 24.4% | 24.8% | 0.4% |
| Corporate | 11.7% | 11.0% | -0.7% |
| Municipal | 52.7% | 55.1% | 2.4% |
| Deposits | 26.9% | 23.7% | -3.2% |
| Retail | 34.7% | 32.4% | -2.3% |
| HUF | 34.5% | 32.0% | -2.5% |
| FX | 36.0% | 35.0% | -1.1% |
| Corporate | 11.4% | 9.9% | -1.5% |
| Municipal | 63.4% | 64.2% | 0.8% |

## *STAFF LEVEL AT OTP GROUP*

The closing staff number of the whole group was 26,869 persons as of December 31, 2006, during the fourth quarter the staff increased by 8,004 persons. Year-on-year growth was 8,793 persons due to the consolidation of CJSC OTP Bank (+2,021 persons), Investsberbank (+5,438 persons) and Zepter banka (+252 persons).

The closing number of OTP Bank staff was 8.169 on December 31, 2006, 270 more than at the end of December, 2005 and 95 persons more than at the end of September 2006. In the fourth quarter of 2006 the staff in the branch network increased by 153 people, in the headquarters the number of staff decreased by 58 persons.

| | 31/12/2005 | 31/12/2006 | Y-o-Y |
|---|---|---|---|
| OTP Bank | | | |
| Closing staff (persons) | 7,899 | 8,169 | 3.4% |
| Average staff (persons) | 7,842 | 8,017 | 2.2% |
| Per capita total assets (HUF mn) | 454.9 | 562.1 | 23.6% |
| Per capita profit after tax quarterly (HUF mn) | 3.6 | 6.4 | 77.1% |
| GROUP | | | |
| Closing staff (persons) | 18,076 | 26,869 | 49.5% |
| Average staff (persons) | 18,045 | 24,551 | 38.9% |
| Per capita total assets (HUF mn) | 288.6 | 264.1 | -0.3% |
| Per capita profit after tax quarterly (HUF mn) | 2.3 | 1.7 | -27.5% |

## *PERSONAL AND ORGANIZATIONAL CHANGES DURING THE FOURTH QUARTER OF 2006 AT OTP BANK PLC.*

In the management, Board of Directors and Supervisory Board the following changes occurred in 2006:

Dr. István Gresa was appointed as deputy CEO of Credit Approval and Risk Management Division as of March 1, 2006. At the same time Géza Lenk was relieved from this position, however, he kept his position as deputy CEO.

The Annual General Meeting of OTP held on April 28, 2006 elected Dr. Sándor Csányi, Dr. Zoltán Spéder, Dr. Antal Pongrácz, Dr. Sándor Pintér (who resigned as Member of the Supervisory Board), Csaba Lantos, Dr. István Kocsis, Dr. Tibor Bíró, Mihály Baumstark, Péter Braun, Dr. László Utassy and József Vörös to the Board of Directors until AGM following the business year of 2010, but maximal until May 30, 2011.

Pap Gyula Deputy Director, the Head of IT and Logistics Division was relieved from his position – with honourable mention of his work – by the Chariman and CEO of OTP Bank as from October 1, 2006, and Ákos Takáts was appointed to run the IT and Logistics Division, after having the recquired permissions.

OTP Bank Plc.

# OTP BANK PLC.

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

*FOR THE YEAR ENDED*
*DECEMBER 31, 2006*

# OTP BANK PLC.

## *CONTENTS*

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# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of OTP Bank Plc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2006, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of OTP Bank Plc. and its subsidiaries as of December 31, 2006, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest, March 21, 2007

| | |
|---|---|
| Jack Bell | Nagy Zoltán |
| Deloitte Auditing and Consulting Ltd. | Registered Auditor |
| 1068 Budapest, Dózsa György út 84/C | 005027 |
| 000083 | |

**OTP BANK PLC.**
**CONSOLIDATED BALANCE SHEET**
**AS AT DECEMBER 31, 2006**
**(in HUF mn)**

| | *Note* | *2006* | *2005* |
|---|---|---|---|
| Cash, due from banks and balances with the National Bank of Hungary | 4 | 532,625 | 483,191 |
| Placements with other banks, net of allowance for placement losses | 5 | 602,615 | 438,768 |
| Financial assets at fair value through statements of operations | 6 | 110,576 | 48,054 |
| Securities available-for-sale | 7 | 489,250 | 409,945 |
| Loans, net of allowance for loan losses | 8 | 4,347,091 | 3,191,298 |
| Accrued interest receivable | | 54,223 | 37,870 |
| Associates and other investments | 9 | 70,939 | 12,357 |
| Securities held-to-maturity | 10 | 268,280 | 289,803 |
| Premises, equipment and intangible assets, net | 11 | 464,716 | 233,245 |
| Other assets | 12 | 157,111 | 71,371 |
| **TOTAL ASSETS** | | 7,097,426 | 5,215,902 |
| Due to banks and deposits from the National Bank of Hungary and other banks | 13 | 660,417 | 364,124 |
| Deposits from customers | 14 | 4,232,153 | 3,428,193 |
| Liabilities from issued securities | 15 | 781,315 | 543,460 |
| Accrued interest payable | | 46,011 | 24,902 |
| Other liabilities | 16 | 338,591 | 260,728 |
| Subordinated bonds and loans | 17 | 250,726 | 47,023 |
| **TOTAL LIABILITIES** | | 6,309,213 | 4,668,430 |
| Share capital | 18 | 28,000 | 28,000 |
| Retained earnings and reserves | 19 | 820,819 | 572,567 |
| Treasury shares | 20 | (63,716) | (53,586) |
| Minority interest | 21 | 3,110 | 491 |
| **TOTAL SHAREHOLDERS' EQUITY** | | 788,213 | 547,472 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 7,097,426 | 5,215,902 |

Budapest, March 21, 2007

dr. Sándor Csányi
Chairman and Chief Executive Officer

The accompanying notes to consolidated financial statements on pages 7 to 57 form an integral part of these consolidated financial statements.

# OTP BANK PLC.
## CONSOLIDATED STATEMENTS OF OPERATIONS
## FOR THE YEAR ENDED DECEMBER 31, 2006
## (in HUF mn)

| | *Note* | *2006* | *2005* |
|---|---|---|---|
| Interest Income: | | | |
| Loans | | 387,653 | 340,793 |
| Placements with other banks | | 79,409 | 43,734 |
| Due from banks and balances with the National bank of Hungary | | 25,937 | 29,174 |
| Securities held for trading | | 2,593 | 2,708 |
| Securities available-for-sale | | 28,746 | 25,235 |
| Securities held-to-maturity | | 18,479 | 17,380 |
| *Total Interest Income* | | *542,817* | *459,024* |
| Interest Expense: | | | |
| Due to banks and deposits from the National Bank of Hungary and other banks | | 41,028 | 34,501 |
| Deposits from customers | | 107,060 | 99,703 |
| Liabilities from issued securities | | 34,321 | 25,959 |
| Subordinated bonds and loans | | 4,464 | 1,636 |
| *Total Interest Expense* | | *186,873* | *161,799* |
| **NET INTEREST INCOME** | | **355,944** | **297,225** |
| Provision for loan and placement losses | 5, 8 | 28,559 | 28,042 |
| **NET INTEREST INCOME AFTER PROVISION FOR LOAN AND PLACEMENT LOSSES** | | **327,385** | **269,183** |
| Non-Interest Income: | | | |
| Fees and commissions | | 145,015 | 118,884 |
| Foreign exchange gains, net | | (11,884) | 3,879 |
| Gains and losses on securities, net | | 6,900 | 9,708 |
| Gains on real estate transactions, net | | 1,292 | 96 |
| Dividend income and gains and losses of associated companies | | 901 | 672 |
| Insurance premiums | | 75,554 | 69,793 |
| Other | | 24,940 | 13,465 |
| *Total Non-Interest Income* | | 242,718 | *216,497* |
| Non-Interest Expenses: | | | |
| Fees and commissions | | 32,116 | 19,930 |
| Personnel expenses | | 106,804 | 95,235 |
| Depreciation and amortization | 11 | 26,464 | 21,897 |
| Insurance expenses | | 60,866 | 58,468 |
| Other | 22 | 125,251 | 98,073 |
| *Total Non-Interest Expense* | | 351,501 | *293,603* |
| **INCOME BEFORE INCOME TAXES** | | **218,602** | **192,077** |
| Income taxes | 23 | (31,506) | (33,803) |
| **INCOME AFTER INCOME TAXES** | | **187,096** | **158,274** |
| Minority interest | | (45) | (39) |
| **NET INCOME** | | **187,051** | **158,235** |
| **Consolidated earnings per share (in HUF)** | | | |
| **Basic** | 36 | **722** | **603** |
| **Diluted** | 36 | **714** | **599** |

# OTP BANK PLC.
# CONSOLIDATED STATEMENTS OF CASH FLOWS
# FOR THE YEAR DECEMBER 31, 2006
# (in HUF mn)

| | *Note* | *2006* | *2005* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Income before income taxes** | | **218,602** | **192,077** |
| *Adjustments to reconcile income before income taxes to net cash provided by operating activities* | | | |
| Income tax paid | | (47,072) | (29,208) |
| Depreciation and amortization | 11 | 26,464 | 21,897 |
| Provision for loan and placement losses | 5,8 | 28,559 | 28,042 |
| Provision for permanent diminution in value of equity investments | 9 | (1,892) | 166 |
| Provision/(Release of allowance) for losses on other assets | 12 | 814 | 88 |
| Release of allowance for losses on off-balance sheet commitments and contingent liabilities, net | 16 | 6,982 | (1,544) |
| Net increase in insurance reserves | | 32,253 | 31,763 |
| Share-based compensation | | 5,927 | 7,497 |
| Unrealised losses on fair value adjustment of securities held for trading | | 1,465 | 41 |
| Unrealised losses/(gains) on fair value adjustment of derivative financial instruments | | (17,137) | 797 |
| *Changes in operating assets and liabilities* | | | |
| Net changes in financial assets through Statements of Operations | | (6,297) | 29,244 |
| Net (increase) in accrued interest receivables | | (10,059) | (4,827) |
| Net (increase)/decrease in other assets, excluding advances for investments and before allowance for losses | | (80,271) | 5,843 |
| Net decrease/(increase) in accrued interest payable | | 16,801 | (3,679) |
| Net increase in other liabilities | | 43,969 | 1,207 |
| **Net Cash Provided by Operating Activities** | | **219,108** | **279,404** |
| **INVESTING ACTIVITIES** | | | |
| Net (increase) in placement with other bank before provision for placement losses | | (80,699) | (79,136) |
| Net (increase) in securities available-for-sale | | (78,636) | (72,018) |
| Net (increase) in equity investments, before provision for permanent diminution in value | | (56,678) | (2,465) |
| Net cash outflow from acquisition of subsidiaries | | (243,703) | (57,667) |
| Net decrease in debt securities held-to-maturity | | 21,526 | (41,376) |
| Net (increase)/decrease in advances for investments, included in other assets | | (255) | (14) |
| Net (increase) in loans, before provision for loan losses | | (601,625) | (590,490) |
| Net additions to premises, equipment and intangible assets | | (38,050) | (33,580) |
| **Net Cash Used in Investing Activities** | | **(1,078,120)** | **(876,746)** |

**OTP BANK PLC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE DECEMBER 31, 2006**
**(in HUF mn)**
**[continued]**

| | *Note* | *2006* | *2005* |
|---|---|---|---|
| **FINANCING ACTIVITIES** | | | |
| Net increase in due to banks and deposits from the National Bank of Hungary and other banks | | 86,294 | 100,798 |
| Net increase in deposits from customers | | 359,754 | 313,162 |
| Net increase in liabilities from issued securities | | 220,626 | 226,238 |
| Increase/(decrease) in subordinated bonds and loans | | 192,476 | 31,466 |
| Increase/(decrease)of minority interest | | (414) | 66 |
| Foreign currency translation gains/(losses) | | (8,478) | 4,449 |
| Issue of equity instrument (ICES) | | 120,305 | -- |
| Net change in treasury shares | | (6,998) | (20,293) |
| Net (decrease)/increase in compulsory reserves at National Bank of Hungary | 4 | (14,772) | (10,981) |
| Dividends paid | | (55,119) | (41,240) |
| **Net Cash Provided by Financing Activities** | | **893,674** | **603,665** |
| **Net Increase in Cash and Cash Equivalents** | | **34,662** | **6,323** |
| Cash and cash equivalents as at January 1 | | 361,996 | 355,673 |
| **Cash and Cash Equivalents as at end of period** | | **396,658** | **361,996** |

**Analysis of cash and cash equivalents opening and closing balance**

| | | | |
|---|---|---|---|
| Cash, due from banks and balances with the National Bank of Hungary | 4 | 483,191 | 465,887 |
| Compulsory reserve established by the National Bank of Hungary | 4 | (121,195) | (110,214) |
| **Cash and cash equivalents as at January 1** | | **361,996** | **355,673** |
| Cash, due from banks and balances with the National Bank of Hungary | 4 | 532,625 | 483,191 |
| Compulsory reserve established by the National Bank of Hungary | 4 | (135,967) | (121,195) |
| **Cash and cash equivalents as at end of period** | | **396,658** | **361,996** |

# OTP BANK PLC.
# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
# FOR THE YEAR DECEMBER 31, 2006
# (in HUF mn)

| | Note | Share Capital | Retained Earnings and Reserves | Treasury Shares | Minority interest | Total |
|---|---|---|---|---|---|---|
| **Balance as at January 1, 2005** | | 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 payment | | -- | 7,497 | -- | -- | 7,497 |
| Derecognition of opening balance of negative goodwill | | -- | 3,034 | -- | -- | 3,034 |
| Dividend for the year 2004 | | -- | (41,206) | -- | -- | (41,206) |
| Gain on sale of treasury shares | | -- | 7,426 | -- | -- | 7,426 |
| Change in carrying value 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 |
| Net income | | -- | 187,051 | -- | -- | 187,051 |
| Fair value adjustment of securities available-for-sale recognised directly through equity, net | | -- | (3,430) | -- | -- | (3,430) |
| Share-based compensation | 26 | -- | 5,927 | -- | -- | 5,927 |
| Dividend for the year 2005 | | -- | (55,160) | -- | -- | (55,160) |
| Gain on sale of treasury shares | | -- | 3,132 | -- | -- | 3,132 |
| Change in carrying value of treasury shares | | -- | -- | (10,130) | -- | (10,130) |
| Derivative financial instruments designated as cash-flow hedge | | -- | (1,131) | -- | -- | (1,131) |
| Issue of equity instrument (ICES) | 38 | -- | 120,305 | -- | -- | 120,305 |
| Foreign currency translation gain | | -- | (8,478) | -- | -- | (8,478) |
| Deferred tax | | -- | 36 | -- | -- | 36 |
| Minority interest | | -- | -- | -- | 2,619 | 2,619 |
| **Balance as at December 31, 2006** | | 28,000 | 820,819 | (63,716) | 3,110 | 788,213 |

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

### 1.1. General information

OTP Bank Plc. (the "Bank" or "OTP") was established on December 31, 1990, when the predecessor State-owned company was transformed into a public liability company.

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

In 1995, the Bank's shares were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London and PORTAL (USA).

As at December 31, 2006 approximately 96.2% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (3%) and the Bank (0.8%).

The Bank and its subsidiaries (together the "Group") provide a full range of commercial banking services through a wide network of 1,085 branches. The group has operations in Hungary, Bulgaria, Slovakia, Romania, Croatia, Serbia, Ukraine and Russia.

As at December 31, 2006 the number of employees at the Group was 26,866. The average number of employees for the one year period ended December 31, 2006 was 24,535.

### 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").

Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position according to the International Financial Reporting Standards in order to present the consolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).

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

### 1.2. Accounting [continued]

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, 2006 on the 2006 financial statements

Effective from January 1, 2005 the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2006, especially:

- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of cash flow hedge accounting and fair value option (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 the above amendments had no significant impact on the 2006 consolidated financial statements.

Revisions to a number of other IAS also took effect in the consolidated financial statements of the Bank, but those revisions concerned matters of detailed application which have no significant effect on amounts reported.

#### 1.2.2. Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective January 1, 2007

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);
- the introduction of new disclosures regarding capital in IAS 1 (effective January 1, 2007);
- new interpretations (IFRIC 7, 8, 9, and 10)

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

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1. Basis of Presentation

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

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

### 2.2. Foreign currency translation

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

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

### 2.4. Accounting for acquisitions

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

The Group has applied IFRS 3 Business Combinations since 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 other income.

### 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 statements of operations

#### 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, government bonds and other securities. Other securities include shares in commercial companies and shares in investment funds.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

### 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 Consolidated Statement of Operations 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, 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.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

### 2.7. Securities available-for-sale [continued]

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 and accruals are stopped.

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

Allowance for losses on loans and placements with other banks represent management assesment for potential losses in relation to these activities.

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

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

### 2.9. Sale and repurchase agreements

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.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

### 2.10. Associates and other investments

Companies where the Bank has the ability to exercise significance influence are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is not material to the consolidated financial statements as a whole. Shares which are intended to be disposed of are included among securities available-for-sale and measured at fair value.

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

| | |
|---|---|
| Buildings | 0.6 – 19.7% |
| Machinery and equipment | 2.5 – 50% |
| Vehicles | 3 – 50% |
| Leased assets | 14 – 100% |
| Software | 8 – 100% |
| 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.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

### 2.12. Leases

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

**The Group as lessor**

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the lease. Finance lease income 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.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

### 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 acquisiton cost as a deduction from consolidated shareholders' equity.

Gains and losses on the sale of treasury shares are credited or charged directly to consolidated retained earnings and reserves.

### 2.16. Interest Income and Interest Expense

Interest income and expense are recognised in the Consolidated Statement of Operations on an accrual basis. Revenue is recognised as the interest accrues using the effective interest method that is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

### 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 between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realised or the liability is settled.

### 2.19. Off-balance sheet commitments and contingent liabilities

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

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

### 2.19. Off-balance sheet commitments and contingent liabilities [continued]

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

### 2.20. Share-based 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 7 November 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 revelant portion of revenue and expenses that can be allocated to a segment, whether from external transactions or from transactions with other segments of the Group.

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

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

### 2.23. Comparative figures

Certain amounts in the 2005 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 affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

### 3.1. Impairment 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 Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for (see Note 16.).

### 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 affect the level of such liabilities.

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

| | *2006* | *2005* |
|---|---|---|
| Cash on hand: | | |
| In HUF | 46,286 | 47,676 |
| In foreign currency | 52,471 | 25,609 |
| | 98,757 | 73,285 |

Due from banks and balances with the National Bank of Hungary:

| | *2006* | *2005* |
|---|---|---|
| Within one year: | | |
| In HUF | 389,684 | 404,753 |
| In foreign currency | 44,184 | 5,153 |
| | 433,868 | 409,906 |
| Total | 532,625 | 483,191 |

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 135,967 million and HUF 121,195 million for the years ended December 31, 2006 and 2005, respectively.

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

| | *2006* | *2005* |
|---|---|---|
| Within one year: | | |
| In HUF | 37,808 | 94,110 |
| In foreign currency | 526,024 | 317,654 |
| | 563,832 | 411,764 |
| Over one year: | | |
| In HUF | 3,000 | 3,000 |
| In foreign currency | 35,783 | 24,004 |
| | 38,783 | 27,004 |
| Total | 602,615 | 438,768 |

Placements of foreign subsidiaries with their respective National Banks amounted to HUF 184,799 million and HUF 77,879 million for the years ended December 31, 2006 and 2005, respectively.

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

Placements with other banks in foreign currency as at December 31, 2006 and 2005 bear interest rates in the range from 0.43% to 16.5% and from 0% to 12%, respectively.

Placements with other banks in HUF as at December 31, 2006 and 2005 bear interest rates in the range from 4.24% to 9.55% and from 0.5% to 7.6%, respectively.

There was no allowance for placement losses as at December 31, 2006 and 2005.

## NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF OPERATIONS (in HUF mn)

| | *2006* | *2005* |
|---|---|---|
| Securities held for trading: | | |
| Treasury bills | 1,562 | 160 |
| Hungarian Government interest bearing Treasury bills | 5,709 | 1,485 |
| Government bonds | 41,421 | 34,151 |
| Mortgage bonds | 574 | 895 |
| Other securities | 35,601 | 1,282 |
| | 84,867 | 37,973 |
| Derivative financial instruments designated as held for trading | 25,709 | 10,081 |
| Total | 110,576 | 48,054 |

Approximately 38% and 43% of the government bonds were denominated in foreign currency as at December 31, 2006 and 2005, respectively. Approximately 12%, 21%, 19% and 48% of this portfolio was denominated in USD, EUR, BGN and RUB as at December 31, 2006, and 17%, 31%, 24%, and 28% of this portfolio was denominated in USD, EUR, SKK and BGN as at December 31, 2005.
Interest rates on securities held for trading are ranged from 2% to 12.5% and from 2.16% to 9.5% as at December 31, 2006 and 2005, respectively.

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

| | *2006* | *2005* |
|---|---|---|
| Within five years | | |
| with variable interest | 1,136 | 1,492 |
| with fixed interest | 68,683 | 27,160 |
| | 69,819 | 28,652 |

## NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF OPERATIONS (in HUF mn) [continued]

| | *2006* | *2005* |
|---|---|---|
| Over five years | | |
| with variable interest | 3,249 | 3,764 |
| with fixed interest | 10,802 | 5,100 |
| | 14,051 | 8,864 |
| Non-interest bearing securities | 997 | 457 |
| Total | 84,867 | 37,973 |

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

| | *2006* | *2005* |
|---|---|---|
| Available-for-sale securities: | | |
| Government bonds | 267,455 | 283,342 |
| Treasury bills | 112,143 | 51,621 |
| Mortgage bonds | 392 | 540 |
| Other securities | 109,289 | 74,442 |
| | 489,279 | 409,945 |
| Provisions for securities available for sale | 29 | -- |
| Total | 489,250 | 409,945 |

Approximately 79% and 75% of the available-for-sale securities portfolio was denominated in HUF as at December 31, 2006 and 2005, respectively.

Approximately 20% and 23% of the government bonds were denominated in foreign currency as at December 31, 2006 and 2005, respectively. Approximately 4%, 50%, 26%, 19%, 1% of this portfolio was denominated in USD, EUR, HRK, BGN and SKK as at December 31, 2006, and 4%, 54%, 21%, and 21% of this portfolio was denominated in USD, EUR, HRK and BGN as at December 31, 2005, respectively.

Interest rates on securities available-for-sale ranged from 2% to 28.8% and from 1.6% to 8.08% as at December 31, 2006 and 2005, respectively.

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

| | *2006* | *2005* |
|---|---|---|
| Within five years | | |
| with variable interest | 41,934 | 116,784 |
| with fixed interest | 315,660 | 182,886 |
| | 357,594 | 299,670 |

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

| | *2006* | *2005* |
|---|---|---|
| Over five years | | |
| with variable interest | 7,262 | 4,261 |
| with fixed interest | 91,384 | 81,364 |
| | 98,646 | 85,625 |
| Non-interest bearing securities | 33,039 | 24,650 |
| Total | 489,279 | 409,945 |

An analysis of the change in the allowance for securities available for sale is as follows:

| | *2006* | *2005* |
|---|---|---|
| Balance as at January 1 | -- | -- |
| Provisions for securities available for sale | 29 | -- |
| Balance as at December 31 | 29 | -- |

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

| | *2006* | *2005* |
|---|---|---|
| Loans and trade bills within one year | 1,338,653 | 925,331 |
| Loans and trade bills over one year | 3,136,049 | 2,371,887 |
| | 4,474,702 | 3,297,218 |
| Allowance for loan losses | (127,611) | (105,920) |
| Total | 4,347,091 | 3,191,298 |

Foreign currency loans represent approximately 59% and 46% of the total loan portfolio, before allowance for losses, as at December 31, 2006 and 2005, respectively.

Loans denominated in HUF, with maturity within one year as at December 31, 2006 and 2005, bear interest rates in the range from 6% to 30% and from 6% to 30%, respectively.

Loans denominated in HUF, with maturity over one year as at December 31, 2006 and 2005, bear interest rates in the range from 4% to 22.8% and from 4% to 22.3%, respectively.

Foreign currency loans as at December 31, 2006 and 2005, bear interest rates in the range from 1.5% to 42% and from 0.04% to 24%, respectively.

Approximately 4% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2006 and 2005, respectively.

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

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

| | *2006* | | *2005* | |
|---|---|---|---|---|
| Commercial loans | 1,609,989 | 36% | 1,195,374 | 36% |
| Municipality loans | 218,299 | 5% | 136,039 | 4% |
| Housing loans | 1,520,053 | 34% | 1,222,397 | 37% |
| Consumer loans | 1,126,361 | 25% | 743,408 | 23% |
| Total | 4,474,702 | 100% | 3,297,218 | 100% |

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

| | *2006* | *2005* |
|---|---|---|
| Balance as at January 1 | 105,920 | 79,315 |
| Provision for loan losses | 28,559 | 28,043 |
| Write-offs | (6,718) | (1,808) |
| Foreign currency translation loss/(gain) | (150) | 370 |
| Balance as at December 31 | 127,611 | 105,920 |

## NOTE 9: EQUITY INVESTMENTS (in HUF mn)

| | *2006* | *2005* |
|---|---|---|
| Equity investments: | | |
| Unconsolidated subsidiaries | 2,975 | 11,356 |
| Associated companies | 632 | 679 |
| Other investments | 67,539 | 2,466 |
| | 71,146 | 14,501 |
| Allowance for permanent diminution in value | (207) | (2,144) |
| Total | 70,939 | 12,357 |

The other assets contain Kulska banka a.d. Novi Sad, Crnogorska komercijalna banka a.d. purchease price. The control over these companies is exercised from Januray 1, 2007.

| | | |
|---|---|---|
| Total assets of unconsolidated subsidiaries | 31,876 | 63,102 |

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

| | *2006* | *2005* |
|---|---|---|
| Balance as at January 1 | 2,144 | 1,978 |
| (Release)/Provision for permanent diminution in value | (1,892) | 166 |
| Write-offs | (70) | -- |
| Foreign currency translation gain | 25 | -- |
| Balance as at December 31 | 207 | 2,144 |

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

| | *2006* | *2005* |
|---|---|---|
| Government securities | 218,688 | 242,094 |
| Hungarian Government discounted Treasury Bills | 28,452 | 29,962 |
| Mortgage bonds | 12,631 | 11,264 |
| Other debt securities | 8,509 | 6,483 |
| Total | 268,280 | 289,803 |

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

| | *2006* | *2005* |
|---|---|---|
| Within five years | | |
| with variable interest | 30,773 | 60,836 |
| with fixed interest | 176,092 | 155,524 |
| | 206,865 | 216,360 |
| Over five years | | |
| with variable interest | 37,246 | 43,051 |
| with fixed interest | 24,169 | 30,392 |
| | 61,415 | 73,443 |
| Total | 268,280 | 289,803 |

Approximately 81% and 80% of the debt securities portfolio was denominated in HUF as at December 31, 2006 and 2005, 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 2.2% to 10% and from 3.25% to 10% as at December 31, 2006 and 2005, 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 267,589 million and HUF 291,894 million as at December 31, 2006 and 2005, respectively.

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

| | *2006* | *2005* |
|---|---|---|
| Balance as at January 1 | -- | 30 |
| Release of allowance | -- | (30) |
| Balance as at December 31 | -- | -- |

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

For the year ended December 31, 2006:

| Cost | Intangible assets | Land and buildings | Machinery and equipment | Construction in progress | Total |
|---|---|---|---|---|---|
| Balance as at January 1, 2006 | 130,604 | 97,524 | 91,426 | 12,430 | 331,984 |
| Acquisition of subsidiary | 12,382 | 10,395 | 5,471 | 763 | 29,011 |
| Net additions | 211,853 | 17,464 | 26,635 | 19,020 | 274,972 |
| Foreign currency translation differences | (5,725) | 512 | 845 | 265 | (4,103) |
| Net disposals | (2,744) | (15,709) | (12,979) | (18,941) | (50,373) |
| Balance as at December 31, 2006 | 346,370 | 110,186 | 111,398 | 13,537 | 581,491 |
| | | | | | |
| Depreciation and Amortization | | | | | |
| Balance as at January 1, 2006 | 28,737 | 13,367 | 56,635 | -- | 98,739 |
| Net charge | 13,534 | 4,078 | 10,191 | -- | 27,803 |
| Foreign currency translation differences | 97 | 134 | 551 | -- | 782 |
| Net disposals | (2,258) | (2,175) | (6,116) | -- | (10,549) |
| Balance as at December 31, 2006 | 40,110 | 15,404 | 61,261 | -- | 116,775 |
| | | | | | |
| Net book value | | | | | |
| Balance as at January 1, 2006 | 101,867 | 84,157 | 34,791 | 12,430 | 233,245 |
| Balance as at December 31, 2006 | 306,260 | 94,782 | 50,137 | 13,537 | 464,716 |

An analysis of the changes in the goodwill for the year ended December 31, 2006 is as follows:

| Cost | Goodwill |
|---|---|
| Balance as at January 1, 2006 | 70,765 |
| Additions | 191,827 |
| Foreign currency translation differences | (5,907) |
| Balance as at December 31, 2006 | 256,685 |
| | |
| Net book value | |
| Balance as at January 1, 2006 | 70,765 |
| Balance as at December 31, 2006 | 256,685 |

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

For the year ended December 31, 2005:

| Cost | Intangible assets | Land and buildings | Machinery and equipment | Construction in progress | Total |
|---|---|---|---|---|---|
| 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:

| Cost | Goodwill | Negative goodwill |
|---|---|---|
| Balance as at January 1, 2005 | 44,177 | 4,204 |
| Additions | 35,809 | -- |
| Foreign currency translation differences | 1,411 | -- |
| Adjustment 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 | -- | -- |
| Adjustment 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 | -- |

## NOTE 12: OTHER ASSETS (in HUF mn)

| | 2006 | 2005 |
|---|---|---|
| Property held for resale | 12,097 | 13,408 |
| Due from Hungarian Government for interest subsidies | 4,188 | 3,895 |
| Trade receivables | 10,752 | 5,456 |
| Advances for securities and investments | 766 | 511 |
| Taxes recoverable | 6,721 | 1,654 |
| Inventories | 4,724 | 1,926 |
| Receivables from inventory financing | 44,420 | -- |
| Other advances | 8,835 | 7,758 |
| Receivables from leasing activities | 34,145 | 13,840 |
| Receivables due from insurance bond holders | 2,529 | 1,883 |
| Receivables due from pension funds and fund management | 1,614 | 2,243 |
| Prepayments and accrued income | 6,684 | 7,792 |
| Receivables from investment services | 889 | 1,231 |
| Suspense Accounts Recievables | 32 | 1,235 |
| Fair value of derivative financial instruments not for trading | 2,107 | 452 |
| Other | 20,684 | 11,514 |
| | 161,187 | 74,798 |
| Allowance for losses on other assets | (4,076) | (3,427) |
| Total | 157,111 | 71,371 |

Allowance for losses on other assets mainly consists of allowances for other advances and receivables from leasing activities.

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

| | 2006 | 2005 |
|---|---|---|
| Balance as at January 1 | 3,427 | 3,372 |
| Charge/(Release) of allowance for losses on other assets | 777 | (54) |
| (Write-offs)/Credit | (59) | 128 |
| Foreign currency translation gain | (69) | (19) |
| Balance as at December 31 | 4,076 | 3,427 |

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

| | *2006* | *2005* |
|---|---|---|
| Within one year: | | |
| In HUF | 25,369 | 8,018 |
| In foreign currency | 318,880 | 126,766 |
| | 344,249 | 134,784 |
| Over one year: | | |
| In HUF | 50,572 | 20,510 |
| In foreign currency | 265,596 | 208,830 |
| | 316,168 | 229,340 |
| Total | 660,417 | 364,124 |

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2006 and 2005, bear interest rates in the range from 4.38% to 12.27% and from 4.9% to 5.3%, 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, 2006 and 2005, bear interest rates in the range from 3% to 12.27% and from 3.1% to 4.5%, 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, 2006 and 2005, bear interest rates in the range from 0.43% to 12.68% and from 0.05% to 6.5%, 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, 2006 and 2005, bear interest rates in the range from 0.5% to 10.5% and from 0.7% to 6.5%, respectively.

## NOTE 14: DEPOSITS FROM CUSTOMERS (in HUF mn)

| | *2006* | *2005* |
|---|---|---|
| Within one year: | | |
| In HUF | 2,273,960 | 2,214,998 |
| In foreign currency | 1,825,429 | 1,137,175 |
| | 4,099,389 | 3,352,173 |
| Over one year: | | |
| In HUF | 113,708 | 72,480 |
| In foreign currency | 19,056 | 3,540 |
| | 132,764 | 76,020 |
| Total | 4,232,153 | 3,428,193 |

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

Deposits from customers payable in HUF within one year as at December 31, 2006 and 2005, bear interest rates in the range from 0.2% to 9.0% and from 0.2% to 6.5%, respectively.

Deposits from customers payable in HUF over one year as December 31, 2006 and 2005, bear interest rates in the range from 0.2% to 8.3% and from 1% to 4.5%, respectively.

Deposits from customers payable in foreign currency within one year as at December 31, 2006 and 2005, bear interest rates in the range from 0.05% to 18.0% and from 0.1% to 18.5%, respectively.

Deposits from customers payable in foreign currency over one year as at December 31, 2006 and 2005, bear interest rates in the range from 0.1% to 14.8% and from 2% to 18%, respectively.

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

| | *2006* | | *2005* | |
|---|---|---|---|---|
| Commercial deposits | 1,098,083 | 26% | 662,215 | 19% |
| Municipality deposits | 221,315 | 5% | 203,110 | 6% |
| Consumer deposits | 2,912,755 | 69% | 2,562,868 | 75% |
| Total | 4,232,153 | 100% | 3,428,193 | 100% |

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

| | *2006* | *2005* |
|---|---|---|
| With original maturity: | | |
| Within one year | 56,377 | 65,520 |
| Over one year | 724,938 | 477,940 |
| Total | 781,315 | 543,460 |

58.35% and 46.42% of issued securities are denominated in HUF as at December 31, 2006 and 2005, and bear interest rates in the range from 0.3% to 9.5% and from 0.3% to 12.5%, respectively.

The Bank issued variable-rate bonds with the face value of EUR 500 million at July 1, 2005 due at July 1, 2010. Interest on these bonds is three months EURIBOR+0.16% quarterly.

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

An analysis of significant issued securities as at December 31, 2006 and 2005, respecively:

| | *2006* | *2005* |
|---|---|---|
| Variable-rate Euro Bonds | 201,713 | 202,267 |
| Mortgage bonds | 520,498 | 267,432 |
| Other securities | 59,103 | 73,761 |
| Total | 781,315 | 543,460 |

## NOTE 16: OTHER LIABILITIES (in HUF mn)

| | *2006* | *2005* |
|---|---|---|
| Deferred tax liabilities | 8,337 | 2,761 |
| Taxes payable | 9,003 | 8,363 |
| Giro clearing accounts | 29,873 | 22,744 |
| Accounts payable | 14,940 | 12,253 |
| Insurance liabilities | 162,607 | 130,354 |
| Salaries and social security payable | 14,060 | 10,839 |
| Liabilities from security trading | 9,467 | 9,307 |
| Allowances for losses on off-balance sheet commitments and contingent liabilities | 15,156 | 7,376 |
| Dividends payable | 712 | 617 |
| Advances received from customers | 5,772 | 689 |
| Accrued expenses | 14,708 | 10,214 |
| Loan for collection | 1,674 | 1,860 |
| Advance of Government grants for housing purposes | 5,355 | 5,427 |
| Fair value of derivative financial instruments designated as hedge accounting relationship | 3,715 | 2,230 |
| Fair value of derivative financial instruments designated as held for trading | 7,991 | 8,199 |
| Liabilities from trading activities (repurchase agreements) | 1,267 | 5,785 |
| Other | 33,954 | 21,710 |
| Total | 338,591 | 260,728 |

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

| | *2006* | *2005* |
|---|---|---|
| Allowance for litigation | 4,413 | 2,138 |
| Allowance for losses on off-balance sheet commitments and contingent liabilities | 6,663 | 3,674 |
| Other allowance for expected liabilities | 3,929 | 1,234 |
| Allowance for housing warranties | 151 | 330 |
| Total | 15,156 | 7,376 |

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 and other Group companies.

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

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

| | *2006* | *2005* |
|---|---|---|
| Balance as at January 1 | 7,376 | 7,378 |
| Changes of allowance for possible off-balance sheet commitments and contingent liabilities | 6,982 | (1,544) |
| Release of allowance | (509) | -- |
| Increase due to the acquisition | 1,357 | 1,545 |
| Foreign currency translation differences | (50) | (3) |
| Balance as at December 31 | 15,156 | 7,376 |

Movements in insurance liabilities can be summarized as follows:

| | *2006* | *2005* |
|---|---|---|
| Balance as at January 1 | 130,354 | 98,591 |
| Net increase in insurance liabilities | 31,379 | 31,763 |
| Increase due to the acquisition | 830 | -- |
| Foreign currency translation differences | 44 | -- |
| Balance as at December 31 | 162,607 | 130,354 |

## 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, 3.10% as at June 20, 2006, 3.79% as at December 20, 2006. 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: SUBORDINATED BONDS AND LOANS [continued]

On October 31, 2006 the Bank issued perpetual subordinated (UT2) bonds to finance acquisitions. The 500 EUR million nominal value bonds were issued at 99.375% of the face value with November 7, 2006 as payment date. The re-offer spread is 200 basis points over 10 year mid-swap. The bonds are perpetual and callable after year 10. The bonds bear a fixed coupon of 5.875%, with annual interest payments in the first 10 years, and a floating (variable) coupon of 3 months EURIBOR + 300 basis points per annum, quaterly thereafter. The bonds will be introduced to the Luxembourg Stock Exchange.

On August 30, 2006 the Bank updated EMTN Program (European Medium Term Note Program) and increased the Program amount from EUR 1 billion to EUR 3 billion.
Under the EMTN Program on September 12, 2006 the Bank issued fixed rate subordinated bonds in a total nominal value of EUR 300 million to finance acquisitions. The EUR 300 million nominal value bonds were issued at 100% of the face value with September 19, 2006 as payment date, and September 19, 2016 as maturity date. The bonds bear a coupon of 5.27%.

In December 1999, the CJSC OTP Bank obtained a USD 10 million subordinated loan from the European Bank for Reconstruction and Development with the maturity date of December 23, 2009. The interest on subordinated loan is 8.08%. The repayment of the loan will be completed semi-annually, in five equal instalments, the first repayment date is December 23, 2007.

In July 3, 2003, the CJSC OTP Bank obtained an USD 5 million subordinated loan from the European Bank for Reconstruction and Development with the maturity date of June 23, 2010. The interest on subordinated loan is 8.13%. The repayment of the loan will be completed semi-annually in four equal instalments, the first repayment date is January 3, 2009.

## NOTE 18: SHARE CAPITAL (in HUF mn)

| | 2006 | 2005 |
|---|---|---|
| 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.

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

| | 2006 | 2005 |
|---|---|---|
| Balance as at January1 | 572,567 | 431,127 |
| Fair value adjustment of available-for-sale securities recognised through equity | (3,430) | 2,051 |
| Share-based compensation | 5,927 | 7,497 |
| Net income after income taxes | 187,051 | 158,235 |
| Gain on sale of treasury shares | 3,132 | 7,426 |
| Foreign currency translation (loss)/gain | (8,478) | 4,449 |
| Derivative financial instruments designated as cash-flow hedge | (1,131) | (46) |
| Derecognition of opening balance of negative goodwill | -- | 3,034 |
| Issue of equity intstrument (ICES) | 120,305 | -- |
| Deferred tax | 36 | -- |
| Dividends | (55,160) | (41,206) |
| Balance as at December 31 | 820,819 | 572,567 |

The Bank's unconsolidated reserves under Hungarian Accounting Standards were HUF 397,904 million and HUF 310,215 million as at December 31, 2006 and 2005, respectively.

Of these amounts, legal reserves represent HUF 87,675 million and HUF 107,619 million as at December 31, 2006 and 2005, respectively. The legal reserves are not available for distribution.

Dividends of HUF 55,160 million for the year 2005 were approved by the Annual General Meeting on April 29, 2006.

Dividends for the year ended December 31, 2006 will be approved by the Annual General Meeting in April, 2007. The proposed dividend for the Bank is HUF 40,320 million.

For conditions of the issue of equity instrument (ICES), see Note 38.

## NOTE 20: TREASURY SHARES (in HUF mn)

| | 2006 | 2005 |
|---|---|---|
| Nominal value (Common Shares) | 1,751 | 1,796 |
| Carrying value at acquisition cost | 63,716 | 53,586 |

## NOTE 21: MINORITY INTEREST (in HUF mn)

| | *2006* | *2005* |
|---|---|---|
| Balance as at January 1 | 491 | 425 |
| Minority interest purchased | 2,660 | 398 |
| Foreign currency translation difference | (54) | 23 |
| Changes due to ownership stucture | (45) | (394) |
| Minority interest included in net income | 58 | 39 |
| Balance as at December 31 | 3,110 | 491 |

## NOTE 22: OTHER EXPENSES (in HUF mn)

| | *2006* | *2005* |
|---|---|---|
| Provision/(Release of allowance) for securities held-to-maturity | 37 | (30) |
| (Release of Provision)/Provision for permanent diminution in value of equity investments | (1,892) | 166 |
| Provision for other assets | 777 | 118 |
| Provision/(Release of Provision) for off-balance sheet commitments and contingent liabilities | 6,982 | (1,544) |
| Administration expenses, including rental | 32,783 | 29,831 |
| Advertising | 9,066 | 6,308 |
| Taxes, other than income taxes | 21,617 | 17,591 |
| Additional tax for banks | 11,153 | 10,151 |
| Services | 28,373 | 22,993 |
| Professional fees | 6,726 | 5,169 |
| Other | 9,629 | 7,320 |
| Total | 125,251 | 98,073 |

## NOTE 23: INCOME TAXES (in HUF mn)

The Group is presently liable for income tax at rates between 10% and 30% of taxable income.

Deferred tax is calculated at the income tax rate of 10% in Serbia, 15% in Bulgaria, 16% in Romania, 19% in Slovakia, 20% in Hungary and Croatia and 25% in Ukraine as these are the income tax rates effective from January 1, 2006.

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

A reconciliation of the income tax charges is as follows:

| | *2006* | *2005* |
|---|---|---|
| Current tax | 29,283 | 32,803 |
| Additional tax | 1,369 | -- |
| Deferred tax | 854 | 1,000 |
| Total | 31,506 | 33,803 |

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

| | *2006* | *2005* |
|---|---|---|
| Balance as at January 1 | (2,761) | (2,175) |
| Acquisition of subsidiaries | (1,850) | 1,795 |
| Foreign currency translation gain/(loss) | 139 | (180) |
| Deferred tax (charge)/credit | (665) | (1,000) |
| Recognised in retained earnings and reserves | (3,200) | (1,201) |
| Balance as at December 31 | (8,337) | (2,761) |

A reconciliation of the income tax charges is as follows:

| | *2006* | *2005* |
|---|---|---|
| Net income before income taxes | 218,602 | 192,077 |
| Income tax with statutory tax rate | 35,322 | 30,732 |
| Additional tax | 2,678 | -- |
| Income tax adjustments are as follows: | | |
| Reversal of statutory general provision | (1,441) | (1,191) |
| Tax effect of amortization of statutory goodwill and negative goodwill | (1,318) | (1,318) |
| Revaluation of investments denominated in foreign currency to historical cost | (846) | 305 |
| Profit on sale of Treasury Shares | -- | 1,188 |
| Fair value of share-based compensations (IFRS 2) | 948 | 1,200 |
| Deferred tax effect of introduction of additional tax (+4%) | 615 | -- |
| Other | (4,452) | 2,887 |
| Income tax | 31,506 | 33,803 |
| | | |
| Effective tax rate | 14.41% | 17.6% |

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

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

| | *2006* | *2005* |
|---|---|---|
| Difference in accounting for finance leases | 135 | 233 |
| Fair value adjustment of securities held-for-trading, securities available-for-sale and equity investments | 160 | 464 |
| Fair value adjustment of derivative financial instruments | 241 | -- |
| Repurchase agreements | 94 | -- |
| Accrued losses | -- | 1,023 |
| Temporary differences arising on consolidation | 658 | -- |
| Other | 1,391 | -- |
| Deferred tax asset | 2,679 | 1,720 |
| Fair value adjustment of held for trading and available-for-sale financial assets | (608) | (88) |
| Allowance for losses on off-balance sheet commitments and contingent liabilities on derivative financial instruments | (4) | (99) |
| Fair value adjustment of securities held-for-trading, securities available-for-sale and equity investments. | (1,310) | (1,304) |
| Repurchase agreements | -- | (4) |
| Issue of equity instrument (ICES) | (2,952) | -- |
| Fixed assets | (3,045) | (2,606) |
| Temporary differences arising on consolidation | -- | (337) |
| Other | (3,097) | (43) |
| Deferred tax liabilities | (11,016) | (4,481) |
| Net deferred tax liabilities | (8,337) | (2,761) |

## 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 sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

***Liquidity risk***

See Note 33.

***Foreign currency risk***

See Note 34.

***Interest rate risk***

See Note 35.

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

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

### *(a) Contingent liabilities*

| | *2006* | *2005* |
|---|---|---|
| Commitments to extend credit | 854,193 | 620,231 |
| Guarantees arising from banking activities | 183,256 | 118,203 |
| Confirmed letters of credit | 23,800 | 12,850 |
| Legal disputes | 6,311 | 4,180 |
| Others | 41,084 | 164 |
| Total | 1,108,644 | 755,628 |

**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.

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

*(a) Contingent liabilities [continued]*

**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. Provisions due to legal disputes were HUF 4,413 million and HUF 2,138 million as at December 31, 2006 and 2005, respectively. (See Note 16.)

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

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

| | *2006* | *2005* |
|---|---|---|
| Foreign currency contracts | | |
| Assets | 70,818 | 50,242 |
| Liabilities | 72,503 | 51,571 |
| Net | (1,685) | (1,329) |
| Net fair value | (1,509) | (856) |
| Foreign currency contracts designated as hedge accounting relationships | | |
| Assets | 474 | -- |
| Liabilities | 474 | -- |
| Net | -- | -- |
| Net fair value | -- | -- |
| Foreign exchange swaps and interest rate swaps designated as held for trading | | |
| Assets | 831,045 | 613,217 |
| Liabilities | 789,209 | 597,038 |
| Net | 41,836 | 16,179 |
| Net fair value | 14,531 | 1,228 |
| Foreign exchange swaps and interest rate swaps designated as hedge accounting relationships | | |
| Assets | 263,391 | 12,031 |
| Liabilities | 251,894 | 14,023 |
| Net | 11,497 | (1,992) |
| Net fair value | (2,171) | (687) |
| Option contracts | | |
| Assets | 9,436 | -- |
| Liabilities | 10,477 | -- |
| Net | (1,041) | -- |
| Net fair value | 423 | -- |
| Other options | | |
| Assets | -- | -- |
| Liabilities | -- | 341 |
| Net | -- | (341) |
| Net fair value | -- | -- |

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

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

| | *2006* | *2005* |
|---|---|---|
| Dated stock transactions | | |
| Assets | 149 | -- |
| Liabilities | 149 | -- |
| Net | -- | -- |
| Net fair value | 3 | -- |

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, 2006, the Group has derivative instruments with positive fair values of HUF 27,816 million and negative fair values of HUF 11,706 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, 2005 are HUF 10,533 million and HUF 10,429 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.

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

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

**Foreign exchange swaps and interest rate swaps [continued]**

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

The 2006 Annual General Meeting approved a five year share option program for the years of 2006 to 2010 under which options are granted annually.

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

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

## NOTE 26: SHARE-BASED COMPENSATION [continued]

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

| | For the year ended December 31, 2006 | | 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 | 3,346,200 | 6,079 | 3,575,930 | 2,552 |
| Granted during the period | 3,832,000 | 7,038 | 4,251,500 | 5,446 |
| Forfeited during the period | 218,430 | 6,536 | 30,000 | 3,107 |
| Exercised during the period | 2,159,945 | 5,174 | 4,451,230 | 2,661 |
| Outstanding at the end of the period | 4,799,825 | 7,231 | 3,346,200 | 6,079 |
| Exercisable at the end of the period | 1,799,825 | 6,536 | 446,200 | 3,107 |

The weighted average share price for share options of 2004 exercised during the one year period ended December 31, 2006 was HUF 7,190 at the date of exercise. The options outstanding at December 31, 2006 and at December 31, 2005 had a weighted average exercise price of HUF 7,231 and HUF 6,079 with a weighted average remaining contractual life of 22 and 18 months, respectively.

The inputs into the Binominal model are as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Weighted average share price (HUF) | 5,969 | 6,060 | 2,210 |
| Weighted average exercise price (HUF) | 4,882 | 6,536 | 1,264 |
| Expected volatility (%) | 36 | 35 | 30 |
| Expected life (average year) | 0.52 | 3.34 | 3.42 |
| Risk free rate (%) | 6.71 | 7.46 | 7.17 |
| Expected dividends (%) | 3.35 | 2.41 | 1.24 |

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 5,927 million and HUF 7,497 million has been recognised as an expense for year ended December 31, 2006 and 2005, respectively.

## NOTE 27: RELATED PARTY TRANSACTIONS

The members of the Board of Directors and the Supervisory Board had credit lines of HUF 190 million and HUF 188 million as at December 31, 2006 and 2005. 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 438 million and HUF 283 million, with commitments to extend credit and guarantees of HUF 108 million and HUF 112 million as at December 31, 2006 and 2005, respectively.

The amount of loans extended to unconsolidated subsidiaries was HUF 39,440 million and HUF 45,603 million as at December 31, 2006 and 2005, 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:

| | *2006* | *2005* |
|---|---|---|
| Short-term employee benefits | 6,530 | 9,964 |
| Other long-term employee benefits | 3,063 | -- |
| Termination benefits | 127 | 15 |
| Share-based compensation | 2,744 | 4,517 |
| Total | 12,464 | 14,496 |

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

| | *2006* | *2005* |
|---|---|---|
| Cash, due from banks and balances with the National Bank of Hungary | 532,625 | 483,191 |
| Compulsory reserve established by the National Bank of Hungary | (135,967) | (121,195) |
| | 396,658 | 361,996 |

## NOTE 29: ACQUISITIONS (in HUF mn)

### a. Purchase and consolidation of subsidiary undertakings

On March 7, 2006 the Group completed the acquisition of 89.39% of the shares of Niška banka a.d. The total purchase price of Niška banka was EUR 14,21 million. OTP Bank holds 99.95% of Niška banka a.d. as at December 31, 2006.

On October 13, 2006 the Group completed the acquisition of 75.10% of shares of Serbian Zepter banka a.d. The total purchase price was USD 41,3 million.

On October 30, 2006 the Bank signed the purchase agreement on acquiring the majority interest in Russian Investsberbank OAO. Since then, they signed the sales and purchase agreement. The total purchase price was EUR 477 million.

On June 1, 2006 the Bank signed the sale and purchase agreement for the acquisition of a 100% stake in Raiffeisenbank Ukraine (RBUA) - renamed as CJSC OTP Bank (Ukraine).

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

**a. Purchase and consolidation of subsidiary undertakings [continued]**

OTP transferred the purchase price of EUR 650 million on November 20, 2006, upon receipt of the necessary approvals.

On July 7, 2006 the Group completed the acqusition of 67% of these shares of Kulska banka a.d. Novi Sad (Kulska banka). The total price was EUR 118,6 million. On August 29, 2006 the Group completed the acqusition of 67% of these shares of Crnogorska komercijalna banka. The total price was EUR 104 million. The control over these companies is exercised from Januray 1, 2007.

On March 10, 2005 the Group completed the acquisition of 95.59% of the shares of OTP banka Hrvatska d.d. (renamed Nova banka 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.

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

| | *At acquisition date Niška banka a.d, Zepter banka a.d, Investsberbank OAO, CJSC OTP Bank* | *At acquisition date OTP banka Hrvatska d.d.* |
|---|---|---|
| Cash, due from banks, and balances with the National Bank | (36,881) | (2,274) |
| Placements with other banks, net of allowance for placement losses | (83,148) | (73,431) |
| Securities held-for-trading | (44,324) | -- |
| Securities available-for-sale | (5,463) | (40,929) |
| Loans, net of allowance for loan losses | (582,727) | (122,056) |
| Accrued interest receivable | (6,294) | (1,643) |
| Equity investment | (12) | (669) |
| Debt securities held-to-maturity | (3) | (1,168) |
| Premises, equipment and intangible assets | (28,611) | (7,944) |
| Other assets | (4,336) | (3,439) |
| Due to banks and deposits from the National Bank and other banks | 209,999 | 9,201 |
| Deposits from customers | 444,206 | 212,841 |
| Issued securities | 17,229 | -- |
| Accrued interest payable | 4,308 | 1,566 |
| Other liabilities | 12,487 | 4,580 |
| Subordinated loans | 11,227 | 1,233 |
| Minority Interest | 3,033 | -- |
| Net assets | (89,310) | (24,132) |
| Goodwill | (191,274) | (35,809) |
| Cash consideration | (280,584) | (59,941) |

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

**b. Analysis of net outflow of cash in respect of purchase of subsidiaries**

| | *At acquisition date Niška banka a.d, Zepter banka a.d, Investsberbank OAO, CJSC OTP Bank* | *At acquisition date OTP banka Hrvatska d.d.* |
|---|---|---|
| Cash consideration | (280,584) | (59,941) |
| Cash acquired | 36,881 | 2,274 |
| Net cash outflow | (243,703) | (57,667) |

## 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, 2006* | *December 31, 2005* | |
| OTP Garancia Insurance Ltd. | 100.00% | 100.00% | insurance |
| OTP Real Estate Ltd. | 100.00% | 100.00% | real estate management and Development |
| HIF Ltd. (United Kingdom) | 100.00% | 100.00% | forfaiting |
| Merkantil Bank Ltd. | 100.00% | 100.00% | finance lease |
| Merkantil Car Ltd. | 100.00% | 100.00% | finance lease |
| OTP Building Society Ltd. | 100.00% | 100.00% | flat finanace and reconstruction |
| Bank Center No. 1. Ltd. | 100.00% | 100.00% | real estate lease |
| OTP Factoring Ltd. | 100.00% | 100.00% | work-out |
| Inga Two Commercial Llc. | 100.00% | 100.00% | property management |
| OTP Fund Management Ltd. | 100.00% | 100.00% | fund management |
| OTP Mortgage Bank Ltd. | 100.00% | 100.00% | mortgage lending |
| OTP Funds Servicing and Consulting Ltd. | 100.00% | 100.00% | fund services |
| OTP Trade Commercial Llc. | 100.00% | -- | trade finance |
| OTP Real Estate Leasing Ltd. | 100.00% | -- | real estate leasing |
| OTP Life Annuity Real Estate Investment Ltd. | 100.00% | -- | life annuity services |

## NOTE 30: MAJOR SUBSIDIARIES [continued]

| Name | Ownership (Direct and Indirect) December 31, 2006 | December 31, 2005 | Activity |
|---|---|---|---|
| OTP Banka Slovensko, a. s. (Slovakia) | 97.23% | 97.23% | commercial banking services |
| DSK Bank EAD (Bulgaria) | 100.00% | 100.00% | commercial banking services |
| OTP Bank Romania S.A. (Romania) | 100.00% | 100.00% | commercial banking services |
| OTP banka Hrvatska d.d. (Croatia) | 100.00% | 100.00% | commercial banking services |
| Niška banka a.d. (Serbia) | 99.95% | -- | commercial banking services |
| Zepter banka a.d. (Serbia) | 75.10% | -- | commercial banking services |
| CJSC OTP Bank.(Ukraine) | 100.00% | -- | commercial banking services |
| Investsberbank OAO (Russia) | 96.41% | -- | 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 46,212 million and HUF 46,825 million as at December 31, 2006 and 2005, respectively.

## NOTE 32: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 13% and 19% 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, 2006 and 2005, respectively.

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

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations 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.

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

| As at December 31, 2006 | 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 | 527,708 | 4,917 | -- | -- | 532,625 |
| Placements with other banks, net of Allowance for placement losses | 449,506 | 114,327 | 38,741 | 41 | 602,615 |
| Financial assets at fair value through statements of operations | 15,360 | 29,475 | 49,648 | 16,093 | 110,576 |
| Securities available-for-sale | 103,294 | 115,178 | 154,208 | 116,570 | 489,250 |
| Loans, net of allowance for loan losses | 469,733 | 817,115 | 1,372,814 | 1,687,429 | 4,347,091 |
| Accrued interest receivable | 48,943 | 3,757 | 802 | 721 | 54,223 |
| Equity investments | -- | -- | -- | 70,939 | 70,939 |
| Securities held-to-maturity | 29,297 | 22,181 | 155,339 | 61,463 | 268,280 |
| Premises, equipment and intangible assets, net | 2,312 | 2,470 | 362,623 | 97,311 | 464,716 |
| Other assets | 83,118 | 33,467 | 19,968 | 20,558 | 157,111 |
| **TOTAL ASSETS** | **1,729,271** | **1,142,887** | **2,154,143** | **2,071,125** | **7,097,426** |
| Due to banks and deposits from the National Bank of Hungary and other banks | 224,041 | 112,581 | 237,269 | 86,526 | 660,417 |
| Deposits from customers | 3,531,007 | 598,147 | 91,735 | 11,264 | 4,232,153 |
| Liabilities from issued securities | 23,069 | 23,395 | 547,810 | 187,041 | 781,315 |
| Accrued interest payable | 34,150 | 8,650 | 2,991 | 220 | 46,011 |
| Other liabilities | 132,654 | 20,798 | 78,107 | 107,032 | 338,591 |
| Subordinated bonds and loans | 107 | 382 | 11,229 | 239,008 | 250,726 |
| **TOTAL LIABILITIES** | **3,945,028** | **763,953** | **969,141** | **631,091** | **6,309,213** |
| Share capital | -- | -- | -- | 28,000 | 28,000 |
| Retained earnings and reserves | -- | -- | -- | 820,819 | 820,819 |
| Treasury shares | (1,746) | -- | -- | (61,970) | (63,716) |
| Minority interest | -- | -- | -- | 3,110 | 3,110 |
| **TOTAL SHAREHOLDERS' EQUITY** | **(1,746)** | **--** | **- -** | **789,959** | **788,213** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **3,943,282** | **763,953** | **969,141** | **1,421,050** | **7,097,426** |
| **LIQUIDITY (DEFICIENCY)/EXCESS** | **(2,214,011)** | **378,934** | **1,185,002** | **650,075** | **--** |

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

| 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 |
| 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 interest | -- | -- | -- | 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** | **--** |

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

As at December 31, 2006

| | USD | EUR | Others | Total |
|---|---|---|---|---|
| Assets | 627,445 | 1,030,482 | 1,953,843 | 3,611,770 |
| Liabilities | (435,419) | (1,608,449) | (1,218,645) | (3,262,513) |
| Off-balance sheet assets and liabilities, net | (199,146) | 297,188 | (383,499) | (285,457) |
| **Net position** | **(7,120)** | **(280,779)** | **351,699** | **63,800** |

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)** |

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 measurment of the Group's open foreign currency position involves monitoring the 'value at risk' limit on the foreign exchange exposure of the Group.

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

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

The majority of the 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.

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

### As at December 31, 2006

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

| | Within 1 month | | Over 1 month and Within 3 months | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| **ASSETS** | | | | | | | | | | | | | | | |
| **Cash, due from banks and balances with the National Bank of Hungary** | **385,782** | **23,280** | **3,872** | **1,210** | **5** | **4,917** | -- | -- | -- | -- | **46,312** | **67,247** | **435,971** | **96,654** | **532,625** |
| *fixed rate* | *385,683* | *11,117* | *3,842* | *3* | -- | -- | -- | -- | -- | -- | -- | -- | *389,525* | *11,120* | *400,645* |
| *variable rate* | *99* | *12,163* | *30* | *1,207* | *5* | *4,917* | -- | -- | -- | -- | -- | -- | *134* | *18,287* | *18,421* |
| *non-interest-bearing* | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | *46,312* | *67,247* | *46,312* | *67,247* | *113,559* |
| **Placements with other banks, net of allowance for possible placement losses** | **31,221** | **388,297** | **9,587** | **10,943** | -- | **73,317** | -- | **113** | -- | **291** | -- | **88,846** | **40,808** | **561,807** | **602,615** |
| *fixed rate* | *27,882* | *326,559* | *68* | *9,608* | -- | *50,360* | -- | *111* | -- | *260* | -- | -- | *27,950* | *386,898* | *414,848* |
| *variable rate* | *3,339* | *61,738* | *9,519* | *1,335* | -- | *22,957* | -- | *2* | -- | *31* | -- | -- | *12,858* | *86,063* | *98,921* |
| *non-interest-bearing* | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | *88,846* | -- | *88,846* | *88,846* |
| **Securities held for trading** | **1,226** | **3,287** | **2,681** | **1,083** | **14,059** | **13,108** | **2,274** | **5,253** | **13,356** | **27,543** | **316** | **681** | **33,912** | **50,955** | **84,867** |
| *fixed rate* | *1,226* | -- | *2,343* | *567* | *13,989* | *13,108* | *2,274* | *5,135* | *13,356* | *27,487* | -- | -- | *33,188* | *46,297* | *79,485* |
| *variable rate* | -- | *3,287* | *338* | *516* | *70* | -- | -- | *118* | -- | *56* | -- | -- | *408* | *3,977* | *4,385* |
| *non-interest-bearing* | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | *316* | *681* | *316* | *681* | *997* |
| **Securities available-for-sale** | **45,372** | **74** | **76,937** | **23,645** | **37,311** | **10,719** | **95,533** | **9,206** | **103,695** | **53,748** | **29,735** | **3,275** | **388,583** | **100,667** | **489,250** |
| *fixed rate* | *44,352* | *74* | *54,962* | *1,955* | *37,071* | *9,879* | *95,533* | *8,619* | *103,684* | *50,915* | -- | -- | *335,602* | *71,442* | *407,044* |
| *variable rate* | *1,020* | -- | *21,975* | *21,690* | *240* | *840* | -- | *587* | *11* | *2,833* | -- | -- | *23,246* | *25,950* | *49,196* |
| *non-interest-bearing* | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | *29,735* | *3,275* | *29,735* | *3,275* | *33,010* |
| **Loans** | **1,063,590** | **1,401,583** | **196,139** | **347,837** | **103,215** | **232,017** | **133,969** | **231,663** | **233,275** | **357,252** | **29,427** | **17,124** | **1,759,615** | **2,587,476** | **4,347,091** |
| *fixed rate* | *9,392* | *93,472* | *7,135* | *74,324* | *8,468* | *170,078* | *2,382* | *70,534* | *28,364* | *138,046* | -- | -- | *55,741* | *546,454* | *602,195* |
| *variable rate* | *1,054,198* | *1,308,111* | *189,004* | *273,513* | *94,747* | *61,939* | *131,587* | *161,129* | *204,911* | *219,206* | -- | -- | *1,674,447* | *2,023,898* | *3,698,345* |
| *non-interest-bearing* | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | *29,427* | *17,124* | *29,427* | *17,124* | *46,551* |
| **Debt securities held-to-maturity** | **7,332** | **14,217** | **56,102** | **5,740** | **28,179** | **3,456** | **19,881** | **2,862** | **105,046** | **25,465** | -- | -- | **216,540** | **51,740** | **268,280** |
| *fixed rate* | *7,332* | *1,422* | *14,713* | *5,182* | *16,476* | *2,442* | *19,881* | *2,862* | *105,046* | *24,905* | -- | -- | *163,448* | *36,813* | *200,261* |
| *variable rate* | -- | *12,795* | *41,389* | *558* | *11,703* | *1,014* | -- | -- | -- | *560* | -- | -- | *53,092* | *14,927* | *68,019* |
| **Fair value of derivative financial instruments** | **103,737** | **184,270** | **172,407** | **280,194** | **37,099** | **23,355** | **27,339** | **119** | **91,273** | **248,441** | -- | **843** | **431,855** | **737,222** | **1,169,077** |
| *fixed rate* | *97,665* | *82,557* | *144,143* | *108,473* | *16,748* | *19,490* | *27,339* | *119* | *91,273* | *248,441* | -- | -- | *377,168* | *459,080* | *836,248* |
| *variable rate* | *6,072* | *101,713* | *28,264* | *171,721* | *20,351* | *3,865* | -- | -- | -- | -- | -- | -- | *54,687* | *277,299* | *331,986* |
| *non-interest-bearing* | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | *843* | -- | *843* | *843* |

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

### As at December 31, 2006

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

| | Within 1 month | | Over 1 month and Within 3 months | | Over 3 months and Within 12 months | | Over 1 year and Within 2 years | | Over 2 years | | Non-interest-bearing | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | HUF | Currency | |
| LIABILITIES | | | | | | | | | | | | | | | |
| **Due to banks and deposits from the National Bank of Hungary and other banks** | **12,744** | **172,261** | **1** | **285,681** | **59,600** | **33,360** | **1,213** | **11,518** | **1,154** | **53,985** | **1,229** | **27,671** | **75,941** | **584,476** | **660,417** |
| *fixed rate* | *12,546* | *51,134* | *1* | *92,251* | *116* | *10,624* | *278* | *648* | *1,092* | *23,582* | *--* | *--* | *14,033* | *178,239* | *192,272* |
| *variable rate* | *198* | *121,127* | *--* | *193,430* | *59,484* | *22,736* | *935* | *10,870* | *62* | *30,403* | *--* | *--* | *60,679* | *378,566* | *439,245* |
| *non-interest-bearing* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *1,229* | *27,671* | *1,229* | *27,671* | *28,900* |
| **Deposits from customers** | **1,932,959** | **1,353,337** | **222,056** | **158,190** | **158,382** | **243,902** | **19,887** | **12,508** | **52,576** | **2,938** | **1,808** | **73,610** | **2,387,668** | **1,844,485** | **4,232,153** |
| *fixed rate* | *1,264,729* | *433,500* | *20,615* | *67,080* | *15,658* | *108,352* | *19,879* | *11,502* | *52,576* | *2,278* | *--* | *--* | *1,373,457* | *622,712* | *1,996,169* |
| *variable rate* | *668,230* | *919,837* | *201,441* | *91,110* | *142,724* | *135,550* | *8* | *1,006* | *--* | *660* | *--* | *--* | *1,012,403* | *1,148,163* | *2,160,566* |
| *non-interest-bearing* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *1,808* | *73,610* | *1,808* | *73,610* | *75,418* |
| **Liabilities from issued securities** | **8,842** | **138,280** | **27,622** | **99,803** | **7,405** | **19,576** | **33,394** | **1,614** | **189,334** | **253,429** | **624** | **1,392** | **267,221** | **514,094** | **781,315** |
| *fixed rate* | *16* | *8,681* | *5,900* | *4,121* | *7,405* | *12,266* | *33,394* | *1,614* | *189,334* | *253,429* | *--* | *--* | *236,049* | *280,111* | *516,160* |
| *variable rate* | *8,826* | *129,599* | *21,722* | *95,682* | *--* | *7,310* | *--* | *--* | *--* | *--* | *--* | *--* | *30,548* | *232,591* | *263,139* |
| *non-interest-bearing* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *624* | *1,392* | *624* | *1,392* | *2,016* |
| **Fair value of derivative financial instruments in other liabilities** | **14,495** | **451,947** | **24,974** | **409,861** | **23,425** | **26,819** | **847** | **24,142** | **101,703** | **69,142** | **--** | **134** | **165,444** | **982,045** | **1,147,489** |
| *fixed rate* | *12,385* | *165,734* | *3,982* | *241,936* | *9,007* | *26,819* | *847* | *24,142* | *101,703* | *69,142* | *--* | *--* | *127,924* | *527,773* | *655,697* |
| *variable rate* | *2,110* | *286,213* | *20,992* | *167,925* | *14,418* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *37,520* | *454,138* | *491,658* |
| *non-interest-bearing* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *--* | *134* | *--* | *134* | *134* |
| **Subordinated bonds and loans** | **--** | **--** | **--** | **31,677** | **5,000** | **211,677** | **--** | **1,003** | **--** | **1,369** | **--** | **--** | **5,000** | **245,726** | **250,726** |
| *variable rate* | *--* | *--* | *--* | *31,677* | *5,000* | *211,677* | *--* | *1,003* | *--* | *1,369* | *--* | *--* | *5,000* | *245,726* | *250,726* |
| **Net position** | (330,780) | (100,817) | 243,072 | (314,560) | (33,944) | (174,445) | 223,655 | 198,431 | 201,878 | 331,877 | 102,129 | 75,209 | 406,010 | 15,695 | 421,705 |

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

### As at December 31, 2005

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

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* |

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

## As at December 31, 2005

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

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 and other banks** | 28,522 | 99,893 | -- | 187,842 | -- | 15,685 | 1 | 11,329 | 4 | 16,856 | 1 | 3,991 | 28,528 | 335,596 | 364,124 |
| *fixed rate* | 701 | 38,616 | -- | 7,500 | -- | 5,454 | 1 | 5,455 | 3 | 9,872 | -- | -- | 705 | 66,897 | 67,602 |
| *variable rate* | 27,821 | 61,277 | -- | 180,342 | -- | 10,231 | -- | 5,874 | 1 | 6,984 | -- | -- | 27,822 | 264,708 | 292,530 |
| *non-interest-bearing* | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1 | 3,991 | 1 | 3,991 | 3,992 |
| **Deposits from customers** | 2,057,329 | 954,508 | 152,830 | 87,925 | 21,851 | 87,677 | 12,701 | 1,424 | 42,183 | 2,718 | 584 | 6,463 | 2,287,478 | 1,140,715 | 3,428,193 |
| *fixed rate* | 744,560 | 277,454 | 152,830 | 79,369 | 21,851 | 74,031 | 12,701 | 1,149 | 42,183 | 1,881 | -- | -- | 974,125 | 433,884 | 1,408,009 |
| *variable rate* | 1,312,769 | 677,054 | -- | 8,556 | -- | 13,646 | -- | 275 | -- | 837 | -- | -- | 1,312,769 | 700,368 | 2,013,137 |
| *non-interest-bearing* | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 584 | 6,463 | 584 | 6,463 | 7,047 |
| **Liabilities from issued securities** | 19,657 | 128,759 | 31,549 | 85,100 | 38,567 | 6,746 | 4,823 | 6,682 | 149,743 | 63,907 | 7,919 | 8 | 252,258 | 291,202 | 543,460 |
| *fixed rate* | 6,602 | 2,700 | 9,491 | 9,248 | 38,567 | 6,746 | 4,823 | 6,682 | 149,743 | 63,907 | -- | -- | 209,226 | 89,283 | 298,509 |
| *variable rate* | 13,055 | 126,059 | 22,058 | 75,852 | -- | -- | -- | -- | -- | -- | -- | -- | 35,113 | 201,911 | 237,024 |
| *non-interest-bearing* | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 7,919 | 8 | 7,919 | 8 | 7,927 |
| **Fair value of derivative financial instruments in other liabilities** | 44,023 | 118,047 | 52,582 | 148,297 | 18,614 | 41,790 | 18,591 | 202 | 158,557 | 7,066 | -- | -- | 292,367 | 315,402 | 607,769 |
| *fixed rate* | 43,214 | 111,919 | 40,396 | 74,913 | 14,281 | 41,790 | 18,591 | 202 | 158,557 | 7,066 | -- | -- | 275,039 | 235,890 | 510,929 |
| *variable rate* | 809 | 6,128 | 12,186 | 73,384 | 4,333 | -- | -- | -- | -- | -- | -- | -- | 17,328 | 79,512 | 96,840 |
| **Subordinated bonds and loans** | 5,000 | -- | -- | 31,591 | -- | 10,432 | -- | -- | -- | -- | -- | -- | 5,000 | 42,023 | 47,023 |
| *variable rate* | 5,000 | -- | -- | 31,591 | -- | 10,432 | -- | -- | -- | -- | -- | -- | 5,000 | 42,023 | 47,023 |
| **Net position** | (1,071,049) | (279,072) | 453,404 | 82,493 | 167,199 | (32,861) | 88,054 | 47,768 | 621,530 | 249,472 | 68,989 | 72,345 | 328,127 | 140,145 | 468,272 |

## 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.

| | *2006* | *2005* |
|---|---|---|
| Consolidated net income (in HUF mn) | 187,051 | 158,235 |
| Weighted average number of common shares outstanding during the year for calculating basic EPS (piece) | 259,171,517 | 262,195,663 |
| Consolidated Basic Earnings per share (in HUF) | 722 | 603 |
| Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece) | 261,948,322 | 264,320,310 |
| Consolidated Diluted Earnings per share (in HUF) | 714 | 599 |

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 mn)

Geographical segments provide products or services within a particular economic environment that is subject to different risks and rewards that are different to those of components operating in other economic environments. 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 reward 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 | Serbia | Russia | Ukraine | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Interest income | | | | | | | | | | | |
| External | 437,648 | 635 | 17,647 | 53,501 | 6,236 | 18,594 | 958 | -- | 7,598 | -- | 542,817 |
| Inter-segment | 6,869 | -- | 48 | 2,056 | -- | -- | -- | -- | -- | (8,973) | -- |
| Total | 444,517 | 635 | 17,695 | 55,557 | 6,236 | 18,594 | 958 | -- | 7,598 | (8,973) | 542,817 |
| Non-interest income | | | | | | | | | | | |
| External | 205,164 | 52 | 6,072 | 15,439 | 4,683 | 7,490 | 763 | -- | 3,055 | -- | 242,718 |
| Inter-segment | 4,774 | -- | -- | 988 | -- | 67 | -- | -- | -- | (5,829) | -- |
| Total | 209,938 | 52 | 6,072 | 16,427 | 4,683 | 7,557 | 763 | -- | 3,055 | (5,829) | 242,718 |
| Segment income before income taxes | 190,960 | 139 | 890 | 25,073 | (2,827) | 4,370 | (164) | -- | 3,769 | (3,608) | 218,602 |
| Income taxes | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | (31,506) |
| Net income after income taxes | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 187,097 |
| Segment assets | 4,873,897 | 1,517 | 359,972 | 874,307 | 200,495 | 398,551 | 39,822 | 387,267 | 554,941 | (593,343) | 7,097,426 |
| Segment liabilities | 4,603,196 | 57 | 337,365 | 756,534 | 168,629 | 333,509 | 25,847 | 290,988 | 389,258 | (596,170) | 6,309,213 |
| Capital expenditure | 4,695 | -- | 2,246 | 5,585 | 6,116 | 378 | -- | -- | -- | -- | 19,020 |
| Depreciation | 20,778 | 1 | 950 | 2,625 | 1,033 | 793 | 121 | -- | 163 | -- | 26,464 |
| Allowance for loan and placement losses | 14,873 | (105) | 1,948 | 8,525 | 383 | 2,075 | 210 | -- | 650 | -- | 28,559 |

## NOTE 37: SEGMENT REPORTING (in HUF mn) [continued]

### 37.2.Secondary segment information by business segments

| | Finance segment | Insurance segment |
|---|---|---|
| Total segment income | 675,314 | 91,353 |
| Segment net income before income taxes | 205,951 | 6,168 |
| Segment assets | 6,884,739 | 188,596 |
| Capital expenditure | 14,602 | 679 |

## NOTE 38: SIGNIFICANT EVENTS DURING THE YEAR ENDED DECEMBER 31, 2006

Based on the decision of the Annual General Meeting of 2005, the Bank repurchased 1,000,000 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 Niška Banka a.d. registered in Serbia. The sale and purchase agreement was signed on December 23, 2005 at the price of EUR 14,21 million. The transaction was closed on March 7, 2006.

On March 31, 2006 the Bank made a sale and purchase agreement on buying the 75.1% of the shares of the privately owned Zepter banka a.d. Beograd registered in Serbia. The Bank transferred the purchase price of USD 41,305 million on October 13, 2006, upon receipt of the necessary regulatory approvals.

On June 1, 2006 the Bank signed the sale and purchase agreement for the acquisition of a 100% stake in Raiffeisenbank Ukraine (RBUA) - renamed as CJSC OTP Bank (Ukraine). OTP transferred the purchase price of EUR 650 million on November 20, 2006, upon receipt of the necessary approvals.

On July 3, 2006 the Bank signed the sale and purchase agreement for the acquisition of a 96.4 % share package of the Investerbank Group in Moscow, the capital of the Russian Federation. OTP Bank transferred the 90% of the USD 477 million (EUR 373 million) purchase price upon receipt of the required Russian and Hungarian regulatory approvals on October 30, 2006, while 10% was deposited on an escrow account for a term of one year to cover any guarantee claims.

On July 7, 2006 the Bank signed the sale and purchase agreement on acquiring a majority interest in Kulska banka a.d. Novi Sad registered in Serbia. The Bank transferred a purchase price of EUR 118,6 million for the 67% share package, on December 28, 2006, upon receipt of the necessary regulatory approvals.

On August 29, 2006 the Bank signed the sale and purchase agreement on acquiring the 100% stake in Crnogorska komercijalna banka a.d. (CKB) registered in Montenegro. The purchase price of EUR 104 million was transferred on December 18, 2006 in possession of the necessary approvals.

## NOTE 38: SIGNIFICANT EVENTS DURING THE YEAR ENDED DECEMBER 31, 2006 [continued]

On October 19, 2006 the Bank sold 14,5 million treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares („ICES"). Within the transaction 10 million shares owned by OTP Bank, and 4,5 million shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of tbe Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A., which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are without final maturity and the investors can exercise the converson right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to buy back the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month Euribor +3%.

If the Bank pays dividend on its ordinary shares, than under the subordinated swap agreement, the Bank has to pay the interest on ICES while receives an amount equals to the dividend on the shares owned by Opus.

## NOTE 39: POST BALANCE SHEET EVENTS

On February 26, 2007 the Bank issued EUR 750 million floating rate note due 2009 under the EUR 3 billion EUR Medium Term Program.

On February 26, 2007 the Bank also issued EUR 200 million 5.27% subordinated notes due September 19, 2016 under the same program.