Financial Reports

otpbank

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of OTP Bank Plc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 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, included on pages 67 to 110 of this Annual report.

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.

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

Without qualifying our opinion, we draw attention to Note 2.3 to the unconsolidated financial statements which states that the consolidated financial statements of OTP Group prepared in accordance with International Financial Reporting Standards have been issued separately. The consolidated financial statements of OTP Group as of and for the year ended December 31, 2006 were audited by us and our report dated March 21, 2007 expressed an unqualified opinion.

Budapest, March 21, 2007

Deloitte Auditing and Consulting Ltd.

Balance Sheet
(consolidated, based on IFRS, as at December 31, 2006, in HUF million)

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

The accompanying notes to consolidated financial statements on pages 71 to 111 form an integral part of these consolidated financial statements.

Profit and Loss Account

(consolidated, based on IFRS, for the year ended December 31, 2006, in HUF million)

	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	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	26,464	21,897
Insurance expenses	60,866	58,468
Other	125,251	98,073
Total Non-Interest Expense	351,501	293,603
Income before income taxes	**218,602**	**192,077**
Income taxes	(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	722	603
Diluted	714	599

The accompanying notes to consolidated financial statements on pages 71 to 111 form an integral part of these consolidated financial statements.

Statements of Cash Flow

(consolidated, based on IFRS, for the year ended December 31, 2006, in HUF million)

OPERATING ACTIVITIES	2006	2005
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	26,464	21,897
Provision for loan and placement losses	28,559	28,042
Provision for permanent diminution in value of equity investments	(1,892)	166
Provision/(Release of allowance) for losses on other assets	814	88
Release of allowance for losses on off-balance sheet commitments and contingent liabilities, net	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)**
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	(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	483,191	465,887
Compulsory reserve established by the National Bank of Hungary	(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	532,625	483,191
Compulsory reserve established by the National Bank of Hungary	(135,967)	(121,195)
Cash and cash equivalents as at end of period	**396,658**	**361,996**

The accompanying notes to consolidated financial statements on pages 71 to 111 form an integral part of these consolidated financial statements.

Statements of Changes in Shareholders' Equity

(consolidated, based on IFRS, for the year ended December 31, 2006, in HUF million)

	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	–	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)	–	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**

The accompanying notes to consolidated financial statements on pages 71 to 111 form an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED IFRS FINANCIAL STATEMENTS AS AT DECEMBER 31, 2006

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).

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.).

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.

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.

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.

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.

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.

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.

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 November 7, 2002 that were unvested as of January 1, 2005.

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

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

2.21. Consolidated statement of cash flow

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

2.22. 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:		
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.

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**
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**
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.

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 January 1, 2007.

	2006	2005
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:

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

	Goodwill
Cost	
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**

For the year ended December 31, 2005:

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

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

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

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%.

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.

Movements in the allowances 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.

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
Total	**28,000**	**28,000**

From September 3, 1997, the Bank has one preferential voting share (the ‘Golden Share’) outstanding with a nominal value of HUF 1,000.

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 to pay 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.

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 (4%)	**2,678**	**–**

Income tax adjustments are as follows:

	2006	2005
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%**

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**

	2006	2005
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.

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.)

(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	–	–
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.

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.

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 (in HUF mn)

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)
Total	**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).

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 January 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)**

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

	2006	**2005**
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
	2006	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 finance and reconstruction
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
OTP Factoring Ltd.	100.00%	100.00%	work-out
Inga Two Commercial 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
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.

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**	**–**

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.

As at December 31, 2006

	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

As at December 31, 2006

	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
fixed 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

As at December 31, 2005

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

As at December 31, 2005

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
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
fixed 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	–	–	–	–	–	–	–	–	–	–	187,096
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

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.

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.

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying unconsolidated financial statements of OTP Bank Plc., which comprise the unconsolidated balance sheet as at December 31, 2006, and the related unconsolidated 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, included on pages 113 to 151 of this Annual Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated 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 unconsolidated 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 unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated 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 unconsolidated financial statements.

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

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	

Balance Sheet

(unconsolidated, based on IFRS, as at December 31, 2006, in HUF million)

	2006	2005
Cash, due from banks and balances with the National Bank of Hungary	429,325	379,249
Placements with other banks, net of allowance for placement losses	657,939	393,659
Financial assets at fair value through statement of operations	61,085	34,054
Securities available-for-sale	348,859	371,433
Loans, net of allowance for loan losses	1,751,678	1,475,508
Accrued interest receivable	44,398	41,276
Investments in subsidiaries	583,298	223,881
Securities held-to-maturity	504,111	521,797
Premises, equipment and intangible assets, net	100,721	105,569
Other assets	25,283	46,447
Total assets	**4,506,697**	**3,592,873**
Due to banks and deposits from the National Bank of Hungary and other banks	557,857	255,211
Deposits from customers	2,690,098	2,506,457
Liabilities from issued securities	202,050	202,267
Accrued interest payable	16,175	5,735
Other liabilities	122,398	102,881
Subordinated bonds and loans	247,865	47,023
Total liabilities	**3,836,443**	**3,119,574**
Share capital	28,000	28,000
Retained earnings and reserves	644,000	486,051
Treasury shares	(1,746)	(40,752)
Total shareholders' equity	**670,254**	**473,299**
Total liabilities and shareholders' equity	**4,506,697**	**3,592,873**

The accompanying notes to unconsolidated financial statements on pages 117 to 151 form an integral part of these unconsolidated financial statements.

Profit and Loss Account

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

	2006	2005
Interest Income:		
Loans	167,058	147,368
Placements with other banks	73,004	36,961
Due from banks and balances with the National Bank of Hungary	24,053	27,957
Securities held for trading	2,189	2,108
Securities available-for sale	25,485	27,742
Securities held-to-maturity	40,128	39,266
Total Interest Income	331,917	281,402
Interest Expense:		
Due to banks and deposits from the National Bank of Hungary and other banks	36,492	27,989
Deposits from customers	81,167	81,504
Liabilities from issued securities	6,722	1,677
Subordinated bonds and loans	4,372	1,593
Total Interest Expense	128,753	112,763
Net Interest Income	**203,164**	**168,639**
Provision for loan and placement losses	25,443	16,435
Net interest income after provision for loan and placement losses	**177,721**	**152,204**
Non-Interest Income:		
Fees and commissions	147,668	136,264
Foreign exchange (losses) gains, net	(14,465)	1,603
Gains on securities, net	870	3,103
Gains (losses) on real estate transactions, net	77	(28)
Dividend income	16,252	13,937
Other	44,849	3,541
Total Non-Interest Income	195,251	158,420
Non-Interest Expenses:		
Fees and commissions	21,163	13,840
Personnel expenses	65,405	62,437
Depreciation and amortization	17,391	15,244
Other	81,527	63,301
Total Non-Interest Expenses	185,486	154,822
Income before income taxes	**187,486**	**155,802**
Income taxes	17,298	22,954
Net income after income taxes	**170,188**	**132,848**
Earnings per share (in HUF)		
Basic	635	492
Diluted	629	488

The accompanying notes to unconsolidated financial statements on pages 117 to 151 form an integral part of these unconsolidated financial statements.

Statement of Cash Flow

(unconsolidated, based on IFRS, for the year ended December 31, 2006, in HUF million)

Operating activities	2006	2005
Income before income taxes	**187,486**	**155,802**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Income tax paid	(25,913)	(21,071)
Depreciation and amortization	17,391	15,244
Provision for loan and placement losses	25,443	16,435
Provision/(release of provision) for permanent diminution in value of investments in subsidiaries	10	(1,909)
Allowance for losses of other assets	151	46
Allowance/(release of allowance) for losses on off-balance sheet commitments and contingent liabilities, net	5,827	(1,984)
Share-based compensation	5,927	7,497
Unrealised losses on fair value adjustment of securities held for trading	1,435	7
Unrealised (gains)/losses on fair value adjustment of derivative financial instruments	(13,676)	1,868
Changes in operating assets and liabilities:		
Net changes in financial assets through statements of operations	(11,700)	(5,192)
Net increase in accrued interest receivable	(3,122)	(96)
Net decrease/(increase) in other assets, excluding advances for investments and before provisions for losses	22,400	(14,231)
Net increase/(decrease) in accrued interest payable	10,440	(3,679)
Net increase/(decrease) in other liabilities	20,392	(754)
Net cash provided by operating activities	**242,491**	**147,983**
Investing activities		
Net increase in placements with other banks, before provision for placement losses	(264,280)	(193,558)
Net decrease/(increase) in securities available-for-sale	14,466	(41,795)
Net increase in investments in subsidiaries, before provision for permanent diminution in value	(359,427)	(67,674)
Net decrease/(increase) in securities held-to-maturity	17,686	(14,294)
Net decrease/(increase) in advances for investments included in other assets	1	(14)
Net increase in loans, before provision for possible loan losses	(301,613)	(215,703)
Net additions to premises, equipment and intangible assets	(12,543)	(24,275)
Net cash used in investing activities	**(905,710)**	**(557,313)**
Financing activities		
Net increase in due to banks and deposits from the National Bank of Hungary and other banks	302,646	51,434
Net increase in deposits from customers	183,641	165,533
Net (decrease)/increase in liabilities from issued securities	(217)	200,270
Increase in subordinated bonds and loans	200,842	32,699
Issue of equity instrument (ICES)	39,364	–
Net change in treasury shares	42,138	(19,518)
Net increase in the compulsory reserve established by the National Bank of Hungary	(16,539)	(12,489)
Dividends paid	(55,119)	(41,240)
Net cash provided by financing activities	**696,756**	**376,689**
Net increase/(decrease) in cash and cash equivalents	**33,537**	**(32,641)**
Cash and cash equivalents at the beginning of the period	261,044	293,685
Cash and cash equivalents at the end of the period	**294,581**	**261,044**
Analysis of cash and cash equivalents		
Cash, due from banks and balances with the National Bank of Hungary	379,249	399,401
Compulsory reserve established by the National Bank of Hungary	(118,205)	(105,716)
Cash and cash equivalents at the beginning of the period	261,044	293,685
Cash, due from banks and balances with the National Bank of Hungary	429,325	379,249
Compulsory reserve established by the National Bank of Hungary	(134,744)	(118,205)
Cash and cash equivalents at the end of the period	**294,581**	**261,044**

The accompanying notes to unconsolidated financial statements on pages 117 to 151 form an integral part of these unconsolidated financial statements.

Statement of Changes in Shareholders' Equity

(unconsolidated, based on IFRS, for the year ended December 31, 2006, in HUF million)

	Share Capital	Retained Earnings and Reserves	Treasury Shares	Total
Balance as at January 1, 2005	**28,000**	**374,860**	**(13,808)**	**389,052**
Net income after income taxes	–	132,848	–	132,848
Fair value adjustment of securities available-for-sale recognised directly through equity, net	–	4,626	–	4,626
Share-based compensation	–	7,497	–	7,497
Dividend for the year 2004	–	(41,206)	–	(41,206)
Profit on sale of treasury shares	–	7,426	–	7,426
Change in carrying value of treasury shares	–	–	(26,944)	(26,944)
Balance as at December 31, 2005	**28,000**	**486,051**	**(40,752)**	**473,299**
Net income after income taxes	–	170,188	–	170,188
Fair value adjustment of securities available-for-sale recognised directly through equity, net	–	(5,502)	–	(5,502)
Share-based compensation	–	5,927	–	5,927
Issue of equity instrument (ICES)	–	39,364	–	39,364
Dividend for the year 2005	–	(55,160)	–	(55,160)
Profit on sale of treasury shares	–	3,132	–	3,132
Sale and purchase of treasury shares	–	–	39,006	39,006
Balance as at December 31, 2006	**28,000**	**644,000**	**(1,746)**	**670,254**

The accompanying notes to unconsolidated financial statements on pages 117 to 151 form an integral part of these unconsolidated financial statements.

NOTES TO UNCONSOLIDATED IFRS FINANCIAL STATEMENTS AS AT DECEMBER 31,2006

NOTE 1: ORGANIZATION AND BASIS OF 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 limited 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 provides a full range of commercial banking services through a nationwide network of 388 branches in Hungary.

As at December 31, 2006 the number of employees at the Bank was 8,257. The average number of employees as at December 31, 2006 was 8,017.

1.2. Accounting

The Bank maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.
The Bank's functional currency is the Hungarian Forint ('HUF').
Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. 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. Certain adjustments have been made to the Bank's Hungarian unconsolidated statutory accounts (see Note 33), in order to present the unconsolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).
The unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the 'EU') except for the matters discussed in 2.3. IFRS as adopted

by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. As the Bank does not apply portfolio hedge accounting under IAS 39, there is no impact on these unconsolidated financial statements, had it been approved by the EU at the balance sheet date.

1.2.1. The effect of adopting revised International Financial Reporting Standards effective from January 1, 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 unconsolidated financial statements.

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

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 unconsolidated profit or equity.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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

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

2.2. Foreign currency translation

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

2.3. Consolidated financial statements

These financial statements present the Bank's unconsolidated financial position and results of operations. Consolidated financial statements are currently being prepared by the Bank and consolidated net income and shareholders' equity differs significantly from that presented in these unconsolidated financial statements. See Note 2.8 for the description of the method of accounting for investments in subsidiaries and associated companies in these unconsolidated financial statements. The consolidated finanacial statements and the unconsolitated financial statements will be publised on the same date.

2.4. 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 Bank has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognised in each period represents a constant yield on the investment.

Held-to-maturity investments include securities, which the Bank has the ability and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government and mortgage bonds.

2.5. Financial assets at fair value through statement of operations

2.5.1. Securities held for trading

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

2.5.2. Derivative financial instruments

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

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

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Unconsolidated Statement of Operations along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Unconsolidated Statement of Operations.

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

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

2.6. Securities available-for-sale

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

Available-for-sale securities are remeasured at fair value based on quoted prices or values derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value future cash flows and the fair value of unquoted equity instruments is measured at cost.

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

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

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

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

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

2.8. Investments in subsidiaries

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

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

2.9. Sale and repurchase agreements

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in Due to Banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Placement with other Banks. Interest is accrued evenly over the life of the repurchase agreement.

2.10. Premises, equipment and intangible assets

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

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

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

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

2.11. Leases

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

Payments made under operating leases are charged to the Unconsolidated Statement of Operations on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.12. Treasury shares

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

2.13. Interest income and interest expense

Interest income and expense are recognised in the Unconsolidated Statement of Operations on an accrual basis.

2.14. Income taxes

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

2.15. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend 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.

The Bank 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.

2.16. Share-based payments

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

The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2.17. Unconsolidated statement of cash flow

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

2.18. Comparative figures

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

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

The presentation of financial statements in conformity with IFRS requires the management of the Bank 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:

(a) Impairment of loans and advances

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

(b) Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data.

While the models are built only on available data, their use is subject to certain assumptions and estimates (eg, for correlations, volatilities, etc). Changes in the model assumptions may affect the reported market value of the relevant financial instruments.

(c) Provisions

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

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

	2006	2005
Cash on hand:		
In HUF	45,909	47,122
In foreign currency	3,066	2,661
	48,975	**49,783**
Due from banks and balances with NBH:		
Within one year:		
In HUF	369,617	327,299
In foreign currency	10,733	2,167
	380,350	**329,466**
Total	**429,325**	**379,249**

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the balance of compulsory reserves amounted to approximately HUF 134,744 million and HUF 118,205 million as at December 31, 2006 and 2005, respectively.

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

	2006	2005
Within one year:		
In HUF	37,741	90,309
In foreign currency	242,892	192,258
	280,633	**282,567**
Over one year:		
In HUF	3,300	3,300
In foreign currency	374,006	107,792
	377,306	**111,092**
Total	**657,939**	**393,659**

Placements with other banks in foreign currency as at December 31, 2006 and 2005 bear interest rates in the range from 0.43% to 11.76% and from 0.05% to 12%, respectively. Placements with other banks in HUF as at December 31, 2006 and 2005 bear interest rates in the range from 7% to 9.55% and from 5% to 7.6%, respectively.

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

	2006	2005
Balance as at January 1	–	1
Release of allowance for placement losses	–	(1)
Balance as at December 31	–	–

NOTE 5: FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF OPERATIONS (in HUF mn)

	2006	2005
Securities held for trading		
Hungarian Government discounted Treasury bills	1,562	160
Hungarian Government interest bearing Treasury bills	5,710	1,485
Government bonds	25,744	19,743
Mortgage bonds	2,741	2,356
Other securities	318	199
	36,075	23,943
Derivative financial instruments designated as held for trading	25,010	10,111
Total	**61,085**	**34,054**

Approximately 100% and 99% of the held for trading securities portfolio was denominated in HUF as at December 31, 2006 and 2005, respectively.

The entire government portfolio was denominated in HUF as at December 31, 2006. As at December 31, 2005 approximately 1% of the government bonds were denominated in foreign currency. The government bonds denominated in foreign currency was denominated in USD as at December 31, 2005.

Interest rates on securities held for trading ranged from 5.5% to 12% and from 3% to 12% as at December 31, 2006 and 2005, respectively.

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

	2006	2005
Within five years:		
Variable interest	391	953
Fixed interest	27,648	19,400
	28,039	**20,353**
Over five years:		
Variable interest	18	18
Fixed interest	7,700	3,373
	7,718	**3,391**
Non interest-bearing securities	**318**	**199**
Total	**36,075**	**23,943**

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

	2006	2005
Securities available-for-sale		
Government bonds	17,317	67,567
Hungarian Government discounted Treasury bills	–	7,858
Mortgage bonds	212,419	253,365
Other securities	119,123	42,643
Total	**348,859**	**371,433**

Approximately 68% and 91% of the available-for-sale securities portfolio was denominated in HUF as at December 31, 2006 and 2005, respectively.
71.2% and 92.3% of the government bonds were denominated in HUF as at December 31, 2006 and 2005, respectively. The whole government bond portfolio denominated in foreign currency was denominated in EUR as at December 31, 2006 and 2005, respectively.

Interest rates on avaible-for-sale securities ranged from 2.5% to 12% and from 1.6% to 12% as at December 31, 2006 and 2005, respectively.

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

	2006	2005
Within five years:		
Variable interest	96,378	94,121
Fixed interest	109,520	94,108
	205,898	**188,229**
Over five years:		
Variable interest	27,573	24,600
Fixed interest	104,740	148,649
	130,313	**173,249**
Non interest-bearing securities	**10,648**	**9,955**
Total	**348,859**	**371,433**

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

	2006	2005
Short-term loans and trade bills (within one year)	585,537	605,390
Long-term loans and trade bills (over one year)	1 197,162	892,280
	1,782,699	1,497,670
Allowance for loan losses	(31,021)	(22,162)
Total	**1,751,678**	**1,475,508**

Loans denominated in foreign currency loans represent approximately 45% and 41% of the loan portfolio, before allowance for losses as at December 31, 2006 and 2005, respectively.

Loans denominated in HUF, with a maturity within one year as at December 31, 2006 and 2005 bear interest rates in the range from 10% to 30% and from 11.3% to 30%, respectively.

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

Foreign currency loans as at December 31, 2006 and 2005 bear interest rates in the range from 1.6% to 17% and from 1.1% to 16.5%, respectively.

Approximately 3% and 2% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2006 and 2005, respectively.

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

	2006		2005	
Commercial loans	1,004,605	56%	902,696	60%
Municipality loans	210,159	12%	131,107	9%
Housing loans	259,583	14%	210,150	14%
Consumer loans	241,479	14%	226,153	15%
Mortgage backed loans	66,873	4%	27,564	2%
Total	**1,782,699**	**100%**	**1,497,670**	**100%**

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

	2006	2005
Balance as at January 1	22,162	19,810
Provision for loan losses	25,443	16,436
Write-offs	(16,584)	(14,084)
Balance as at December 31	**31,021**	**22,162**

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

NOTE 8: INVESTMENTS IN SUBSIDIARIES (in HUF mn)

	2006	2005
Investments in subsidiaries:		
Controlling interest	583,496	226,453
Significant interest	75	75
Other	786	861
	584,357	**227,389**
Allowance for permanent diminution in value	**(1,059)**	**(3,508)**
Total	**583,298**	**223,881**

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

	2006	2005
Balance as at January 1	3,508	5,417
Release of provision for permanent diminution in value	10	(1,909)
Write-offs	(2,459)	–
Balance as at December 31	**1,059**	**3,508**

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

	2006		2005	
	Held (direct and indirect)	Cost	Held (direct and indirect)	Cost
CJSC OTP Bank (Ukraine)	100,00%	168,654	–	–
DSK Bank EAD (Bulgaria)	100,00%	79,163	100,00%	79,162
OTP banka Hrvatska d.d. (Croatia)	100,00%	59,941	100,00%	59,941
Investsberbank OAO (Russia)	96,41%	49,337	–	–
Kulska banka a.d. Novi Sad (Serbia)	83,19%	38,637	–	–
OTP Bank Romania S.A. (Romania)	100,00%	33,034	100,00%	19,746
Crnogorska komercijalna banka a.d. (Montenegro)	100,00%	26,580	–	–
Invest Oil OOO (Russia)	100,00%	21,220	–	–
OTP Mortgage Bank Company Ltd.	100,00%	20,000	100,00%	20,000
Megaform Inter OOO (Russia)	100,00%	17,700	–	–
AlyansReserv OOO (Russia)	100,00%	11,143	–	–
OTP Banka Slovensko, a.s. (Slovakia)	97,23%	10,038	97,23%	10,037
Zepter banka a.d. Beograd (Serbia)	75,10%	8,911	–	–
OTP Garancia Insurance Ltd.	100,00%	7,472	100,00%	7,472
Bank Center No. 1. Ltd.	100,00%	7,330	100,00%	9,364
INGA Two Ltd.	100,00%	5,892	100,00%	5,892
Niška Banka a.d. Niš (Serbia)	99,95%	4,107	–	–
Air-Invest Ltd.	100,00%	3,674	100,00%	3,674
OTP Building Society Ltd.	100,00%	1,950	100,00%	1,950
OTP Fund Management Ltd.	100,00%	1,653	100,00%	1,653
Merkantil Bank Ltd.	100,00%	1,600	100,00%	1,600
OTP Fund Servicing and Consulting Ltd.	100,00%	1,372	100,00%	1,372
OTP Real Estate Ltd.	100,00%	1,228	100,00%	1,228
HIF Ltd. (United Kingdom)	100,00%	1,132	100,00%	1,132
OTP Life Annuity Ltd.	100,00%	500	100,00%	500
OTP Card Factory Ltd.	100,00%	450	100,00%	450
OTP Flat Lease Ltd.	100,00%	410	75,00%	210
IOLO OWEN & Co. Limited	–	–	99,25%	400
INGA One Ltd.	–	–	100,00%	375
OTP Factoring Ltd.	100,00%	150	100,00%	150
Other	–	218	–	145
Total		**583,496**		**226,453**

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

	2006	2005
Government securities	185,088	201,380
Hungarian Government discounted Treasury bills	28,095	29,962
Mortgage bonds	289,328	289,755
Other debt securities	1,600	700
Total	**504,111**	**521,797**

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

	2006	2005
Within five years:		
Variable interest	16,792	50,037
Fixed interest	369,875	345,850
	386,667	**395,887**
Over five years:		
Variable interest	34,898	37,294
Fixed interest	82,546	88,616
	117,444	**125,910**
Total	**504,111**	**521,797**

100% of the securities portfolio was denominated in HUF as at December 31, 2006 and 2005, respectively. In most cases, interest on variable rate securities is based on the interest rates of 90 day Hungarian Government Treasury bills and is adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF ranged from 6% to 10% and from 5.5% 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 508,147 million and HUF 533,791 million as at December 31, 2006 and 2005, respectively.

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

For the year ended December 31, 2006:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
Cost					
Balance as at January 1, 2006	53,565	57,675	60,471	6,414	178,125
Net additions	10,664	4,368	9,013	–	24,045
Net disposals	(43)	(12,419)	(1,831)	(416)	(14,709)
Balance as at December 31, 2006	**64,186**	**49,624**	**67,653**	**5,998**	**187,461**
Depreciation and Amortization					
Balance as at January 1, 2006	25,168	8,556	38,832	–	72,556
Net additions	8,182	1,301	7,908	–	17,391
Net disposals	(8)	(1,414)	(1,785)	–	(3,207)
Balance as at December 31, 2006	**33,342**	**8,443**	**44,955**	**–**	**86,740**
Net book value					
Balance as at January 1, 2006	28,397	49,119	21,639	6,414	105,569
Balance as at December 31, 2006	**30,844**	**41,181**	**22,698**	**5,998**	**100,721**

For the year ended December 31, 2005:

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

NOTE 11: OTHER ASSETS (in HUF mn)

	2006	2005
Property held for sale	4	4
Due from Government for interest subsidies	4,009	3,736
Trade receivables	6,505	4,194
Advances for securities and investments	508	509
Taxes recoverable	114	37
Inventories	406	481
Other advances	1,313	2,289
Credits sold under deferred payment scheme	76	280
Receivables from OTP Mortgage Bank Company Ltd.	1,618	25,778
Receivables from investing services	889	1,231
Prepayments and accrued income	5,062	5,342
Fair value of derivative financial instruments designated as hedge accounting relationships	1,967	35
Other	3,858	3,433
	26,329	**47,349**
Allowance for losses on other assets	**(1,046)**	**(902)**
Total:	**25,283**	**46,447**

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

	2006	2005
Balance as at January 1	902	899
Provision for possible losses	151	46
Write-offs	(7)	(43)
Balance as at December 31	**1,046**	**902**

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

	2006	2005
Within one year:		
In HUF	26,905	11,138
In foreign currency	247,234	86,198
	274,139	**97,336**
Over one year:		
In HUF	50,447	20,350
In foreign currency	233,271	137,525
	283,718	**157,875**
Total	**557,857**	**255,211**

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 7% to 8% 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 6% 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 0.48% to 5.4% and from 0.5% to 4.55%, 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 form 1.78% to 6.72% and from 0.7% to 6.1%, respectively.

NOTE 13: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2006	2005
Within one year:		
In HUF	2,280,834	2,190,095
In foreign currency	397,523	298,767
	2,678,357	**2,488,862**
Over one year:		
In HUF	11,741	17,595
	11,741	**17,595**
Total	**2,690,098**	**2,506,457**

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% and from 0.2% to 6%, respectively.

Deposits from customers payable in HUF over one year as at 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 as at December 31, 2006 and 2005, bear interest rates in the range from 0.1% to 5.6% and from 0.1% to 4.8%, respectively.

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

	2006		2005	
Commercial deposits	708,981	26%	474,052	19%
Municipality deposits	168,379	6%	161,993	6%
Consumer deposits	1,812,738	68%	1,870,412	75%
Total	**2,690,098**	**100%**	**2,506,457**	**100%**

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

	2006	2005
With original maturity:		
Within one year	337	355
Over one year	201,713	201,912
Total	**202,050**	**202,267**

Liabilities from issued securities denominated in HUF bear interest rates in the range from 0.3% to 1% as at December 31, 2006 and 2005, respectively.

Liabilities from issued securities denominated in foreign currency bear interest rates in the range from 3.5% to 3.8% and from 0.3% to 2.6% as at December 31, 2006 and 2005, 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 month EURIBOR +0.16% that is payable quarterly.

The Bank issued variable-rate bonds with the face value of EUR 300 million at December 20, 2005, due at December 20, 2010 at 99,81%. Interest on these bonds is three month EURIBOR +0.15% that is payable quarterly.

NOTE 15: OTHER LIABILITIES (in HUF mn)

	2006	2005
Taxes payable	4,696	6,221
Deferred tax liabilities	5,831	2,793
Giro clearing accounts	26,142	18,361
Accounts payable	7,197	8,268
Salaries and social security payable	9,343	8,092
Liabilities from security trading	9,459	9,307
Allowances for losses on off-balance sheet commitments, contingent liabilities	13,709	7,882
Dividends payable	623	581
Accrued expenses	8,904	6,444
Suspense accounts	2,028	1,998
Advancement of Government grants for housing purposes	5,245	5,427
Loans for collection	1,674	1,860
Fair value of derivative financial instruments designated as hedge accounting relationships	472	722
Fair value of derivative financial instruments designated as held for trading	11,618	8,757
Liabilities from trading activities (repurchase agreement)	1,267	5,785
Other	14,190	10,383
Total	**122,398**	**102,881**

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

	2006	2005
Allowance for litigation	2,481	1,453
Allowance for other off-balance sheet commitments, contingent liabilities	8,210	6,429
Other allowance (for expected liabilities)	3,018	–
Total	**13,709**	**7,882**

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.

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

	2006	2005
Balance as at January 1	7,882	9,866
Allowance/(credit) for off-balance sheet commitments and contingent liabilities, net	5,827	(1,984)
Balance as at December 31	**13,709**	**7,882**

NOTE 16: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 4.36% as at December 20, 2002, 3.25% as at June 20, 2003, 4.8% as at December 20, 2003, 4.88% as at June 20, 2004, 6.05% as at December 20, 2004, 5.46% as at June 20, 2005, and 3.08% as at December 20, 2005, 3.1% as at June 30, 2006 and 3.79% as at December 31, 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 mautuity 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.

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 per cent 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 floater (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 its EMTN Program (European Medium Term Note Program) and increased the Program amount from EUR 1 billion to EUR 3 billion.
Under the EMNT 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%, with annual interest payments.

NOTE 17: SHARE CAPITAL (in HUF mn)

	2006	2005
Authorized, issued and fully paid:		
Common shares	28,000	28,000
Total	**28,000**	**28,000**

From September 3, 1997, the Bank has one preferential voting share (the 'Golden Share') outstanding with a nominal value of HUF 1,000 (see Note 1.1).

NOTE 18: RETAINED EARNINGS AND RESERVES (in HUF mn)

	2006	2005
Balance as at January 1	486,051	374,860
Net income after income taxes	170,188	132,848
Fair value adjustment of available-for-sale securities recognised through equity	(5,502)	4,626
Issue of equity instrument (ICES)	39,364	–
Share-based compensation	5,927	7,497
Profit on sale of Treasury Shares	3,132	7,426
Dividend	(55,160)	(41,206)
Balance as at December 31	**644,000**	**486,051**

The Bank's 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 is HUF 40,320 million.

For conditions of the issue of equity instrument (ICES), see Note 34.

NOTE 19: TREASURY SHARES (in HUF mn)

	2006	2005
Nominal Value	21	1,005
Carrying Value at aquisition cost	**1,746**	**40,752**

NOTE 20: OTHER EXPENSES (in HUF mn)

	2006	2005
Provision/(release of provision) for permanent diminution in value of investments in subsidiaries	10	(1,909)
Provision for other assets	151	46
Provision/(release of provision) for possible losses on off-balance sheet commitments, contingent liabilities	5,827	(1,984)
Administration expenses, including rent	21,749	20,265
Advertising	5,053	4,028
Taxes, other than income tax	26,844	23,068
Services	16,952	15,811
Professional fees	2,497	2,686
Other	2,444	1,290
	81,527	**63,301**

NOTE 21: INCOME TAXES (in HUF mn)

The Bank is presently liable for income tax at a rate of 16% of taxable income. From September 1, 2006 an additional 4% special tax was introduced.

In the calculation of deferred tax the 20% tax rate was taken into account.

A breakdown of the income tax expense is:

	2006	2005
Current tax	16,474	22,804
Deferred tax	824	150
	17,298	**22,954**

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

	2006	2005
Balance as at January 1	(2,793)	(1,761)
Deferred tax charge	(824)	(150)
Tax effect of fair value adjustment of available-for-sale securities recognised through equity	(2,214)	(882)
Balance as at December 31	**(5,831)**	**(2,793)**

A breakdown of the deferred tax liability is as follows:

	2006	2005
Premium and discount amortization on investment securities	–	68
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	–	5
Difference in accounting for finance leases	287	158
Fair value adjustment of derivative financial instruments	–	90
Repurchase agreement	**94**	**–**
Deferred tax asset	**381**	**321**
Fair value adjustment of held for trading and available-for-sale financial assets	(1,663)	(2,629)
Premium and discount amortization on investment securities	(24)	–
Fair value adjustment of derivative financial instruments	(244)	–
Repurchase agreement	–	(4)
Issue of equity instrument (ICES)	(2,952)	–
Difference in depreciation and amortization	**(1,329)**	**(481)**
Deferred tax liabilities	**(6,212)**	**(3,114)**
Net deferred tax liabilities	**(5,831)**	**(2,793)**

A reconciliation of the income tax charge is as follows:

	2006	2005
Income before income taxes	187,486	155,802
Income tax with statutory tax rate (16%)	29,998	24,928
Special tax (4%)	2,139	–
Income tax adjustments are as follows:		
Reversal of statutory general provision	(1,366)	(651)
Reversal of statutory goodwill and negative goodwill	(1,318)	(1,318)
Revaluation of investments denominated in foreign currency to historical cost	(842)	305
Fair value of share-based compensations	948	1,200
Dividend income	(2,600)	(2,230)
Permanent differences related to issued equity instruments	(2,832)	–
Assets granted without obligation of repayment from subsidiaries	(6,022)	–
Other	(972)	720
Deferred tax effect of expected changes of income tax rate (+4%)	**165**	**–**
Income tax	**17,298**	**22,954**
Effective tax rate	**9.2%**	**14.7%**

NOTE 22: FINANCIAL INSTRUMENTS

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

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

Credit risk

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

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

Market risk

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

Liquidity risk

See Note 29.

Foreign currency risk

See Note 30.

Interest rate risk

See Note 31.

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

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

(a) Contingent liabilities and commitments

	2006	2005
Commitments to extend credit	689,963	566,647
Guarantees arising from banking activities	194,189	132,369
Confirmed letters of credit	16,560	10,540
Legal disputes	5,698	3,410
Contingent liabilities related to OTP Mortgage Bank Ltd.	30,363	49,452
Other	3,242	164
Total	**940,015**	**762,582**

Commitments to extend credit, from guarantees and letters of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

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

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

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

Legal disputes

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

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.
Provision due to legal disputes were HUF 2,481 million and HUF 1,453 million as at December 31, 2006 and 2005, respectively.

Contingent liabilities related to OTP Mortgage Bank Ltd.

Under a syndication agreement with its fully owned subsidiary, OTP Mortgage Bank Ltd., the Bank guarantees, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. OTP Mortgage Bank Ltd. utilises credit risk monitoring and credit policies for the granting of loans similar to those used by the Bank. Provision due to recourse agreements were HUF 3,036 million and HUF 4,945 million as at December 31, 2006 and 2005, respectively.

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

	2006	2005
Foreign currency contracts designated as held for trading		
Assets	37,825	39,329
Liabilities	38,653	40,570
Net value	(828)	(1,241)
Net fair value	(482)	(856)
Foreign exchange swaps and interest rate swaps designated as held for trading		
Assets	951,605	612,543
Liabilities	921,045	601,539
Net value	30,560	11,004
Net fair value	13,871	2,210
Interest rate swaps designated in hedge accounting relationships		
Assets	19,611	12,031
Liabilities	18,286	14,023
Net value	1,325	(1,992)
Net fair value	1,072	(687)
Option contracts		
Assets	9,436	–
Liabilities	10,477	–
Net value	(1,041)	–
Net fair value	423	–
Forward security agreements designated as held for trading		
Assets	149	–
Liabilities	149	–
Net value	–	–
Net fair value	3	–

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

As at December 31, 2006, the Bank has derivative instruments with positive fair values of HUF 26,977 million and negative fair values of HUF 12,090 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 10,146 million and HUF 9,479 million.

Foreign currency contracts

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

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

Foreign exchange swaps and interest rate swaps

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

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counter-parties. The Bank's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Forward rate agreements

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

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

For an analysis of the allowance for possible losses on off balance sheet commitments and contingent liabilities, see Note 15.

NOTE 24: 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 grant date of these options is April 28, 2006.

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.

The exercise period of the options granted for the years of 2003 and 2004 is one year, 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 year ended December 31, 2006 was HUF 7,190 at the date of exercise. The options outstanding at December 31, 2006 and 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 the year ended December 31, 2006 and 2005, respectively.

NOTE 25: RELATED PARTY TRANSACTIONS

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

During the years ended December 31, 2006 and 2005 the Bank sold, without recourse, non-performing loans and the related accrued interest receivable to OTP Factoring Ltd. for HUF 8,190 million and HUF 7,776 million, respectively. The gross book value of such credits were HUF 20,309 million and HUF 21,063 million, respectively, with a corresponding allowance for loan losses of HUF 7,762 million and HUF 5,196 million, respectively. The underlying mortgage rights were also transferred to OTP Factoring Ltd. Losses related to such transactions are recorded in the unconsolidated financial statements, among for loans and placement losses, which were HUF 4,357 million and HUF 8,091 million, respectively.

Commissions received by the Bank from OTP Building Society in relation to finalised customer contracts were HUF 1,743 million and HUF 1,349 million for the years ended December 31, 2006 and 2005, respectively.

Insurance premiums paid by the Bank to OTP Garancia Insurance were HUF 1,732 million and HUF 2,039 million for the years ended December 31, 2006 and 2005, respectively.

Commissions received by the Bank from OTP Fund Management in relation to custody activity were HUF 578 million and HUF 557 million, in relation to trading activity were HUF 4,842 million and HUF 4,996 million for years ended December 31, 2006 and 2005, respectively.

Commissions paid by the Bank to OTP Real Estate in relation to its activity were HUF 1,696 million and HUF 2,968 million for the years ended December 31, 2006 and 2005, respectively.

The Bank under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Ltd. of HUF 157,617 million and 146,323 million during the years ended December 31, 2006 and 2005 (including interest). The book value of these receivables were HUF 157,504 million and HUF 146,118 million, respectively.

During the year ended December 31, 2006, the Bank received HUF 50,493 million in fees and commissions from OTP Mortgage Bank Ltd. For the year ended December 31, 2005 such fees and commissions were HUF 51,697 million. Such fees and commissions are related to services provided to OTP Mortgage Bank Ltd. under the syndication agreement.

In normal cours of business the Bank provide loans to subsidiaries, and collect deposits.

Loans provided to Merkantil Car Ltd. were HUF 65,389 million and HUF 101,751 million for the years ended December 31, 2006 and 2005, respectively.

Loans provided to OTP Trade Ltd. were HUF 34,372 million and HUF 23,019 million for the years ended December 31, 2006 and 2005, respectively.

Deposits collected from OTP Real Estate Ltd. were HUF 3,391 million and HUF 3,952 million for the years ended December 31, 2006 and 2005, respectively.

Deposits collected from Bank Center No. 1. Ltd. were HUF 3,061 million and HUF 925 million for the years ended December 31, 2006 and 2005, respectively.

Deposits collected from INGA Two Ltd. were HUF 2,545 million and HUF 444 million for the years ended December 31, 2006 and 2005, respectively.

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

Compensations	**2006**	**2005**
Short-term employee benefits	3,189	4,956
Share-based compensations	2,744	4,517
	5,933	**9,473**

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

	2006	2005
Cash, due from banks and balances with the NBH	429,325	379,249
Compulsory reserve established by the NBH	(134,744)	(118,205)
	294,581	**261,044**

NOTE 27: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying Unconsolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 46,212 million and HUF 46,825 million as at December 31, 2006 and 2005, respectively.

NOTE 28: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 14% and 18% of the Bank's total assets consisted of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary as at December 31, 2006 and 2005, respectively. Approximately 11.2% and 15% of the Bank's total assets consisted of securities issued by the OTP Mortgage Bank Ltd. as at December 31, 2006 and 2005, respectively. There were no other significant concentrations of the Bank's assets or liabilities as at December 31, 2006 and 2005, respectively.

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

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

As at December 31, 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	429,325	–	–	–	429,325
Placements with other banks, net of allowance for placement losses	184,107	96,526	297,510	79,796	657,939
Financial assets at fair value through statement of operations	14,464	15,848	21,031	9,742	61,085
Securities available-for-sale	–	60,507	145,392	142,960	348,859
Loans, net of allowance for loan losses	132,812	436,207	588,502	594,157	1,751,678
Accrued interest receivable	44,362	36	–	–	44,398
Investments in subsidiaries	–	–	–	583,298	583,298
Securities held-to-maturity	22,523	19,009	345,135	117,444	504,111
Premises, equipment and intangible assets, net	–	–	83,143	17,578	100,721
Other assets	17,720	5,823	245	1,495	25,283
Total assets	**845,313**	**633,956**	**1,480,958**	**1,546,470**	**4,506,697**
Due to banks and deposits from the National Bank of Hungary and other banks	269,291	4,848	220,567	63,151	557,857
Deposits from customers	2,380,141	298,216	11,499	242	2,690,098
Liabilities from issued securities	337	–	201,713	–	202,050
Accrued interest payable	16,175	–	–	–	16,175
Other liabilities	92,258	15,128	13,025	1,987	122,398
Subordinated bonds and loans	–	–	9,766	238,099	247,865
Total liabilities	**2,758,202**	**318,192**	**456,570**	**303,479**	**3,836,443**
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	644,000	644,000
Treasury shares	(1,746)	–	–	–	(1,746)
Total shareholders' equity	**(1,746)**	**–**	**–**	**672,000**	**670,254**
Total liabilities and shareholders' equity	**2,756,456**	**318,192**	**456,570**	**975,479**	**4,506,697**
Liquidity (deficiency)/excess	**(1,911,143)**	**315,764**	**1,024,388**	**570,991**	**–**

As at December 31, 2005

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

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

As at December 31, 2006

	USD	EUR	Other	Total
Assets	322,329	746,143	721,400	1,789,872
Liabilities	(139,415)	(937,742)	(259,411)	(1,336,568)
Off-balance sheet assets and liabilities, net	(174,865)	(5,664)	(198,690)	(379,219)
Net position	**8,049**	**(197,263)**	**263,299**	**74,085**

As at December 31, 2005

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

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

NOTE 31: INTEREST RATE RISK MANAGEMENT

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

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

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

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

As at December 31, 2006

	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	369,617	10,733	–	–	–	–	–	–	–	–	45,909	3,066	415,526	13,799	429,325
fixed rate	369,617	10,733	–	–	–	–	–	–	–	–	–	–	269,617	10,733	380,350
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	45,909	3,066	45,909	3,066	48,975
Placements with other banks, net of allowance for possible placement losses	31,522	212,551	9,519	254,308	–	150,039	–	–	–	–	–	–	41,041	616,898	657,939
fixed rate	27,968	62,674	–	71,148	–	84,878	–	–	–	–	–	–	27,968	218,700	246,668
variable rate	3,554	149,877	9,519	183,160	–	65,161	–	–	–	–	–	–	13,073	398,198	411,271
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities held for trading	1,226	–	2,931	–	14,159	–	2,485	–	14,956	–	316	2	36,073	2	36,075
fixed rate	1,226	–	2,593	–	14,088	–	2,485	–	14,956	–	–	–	35,348	–	35,348
variable rate	–	–	338	–	71	–	–	–	–	–	–	–	409	–	409
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	316	2	316	2	318
Securities available-for-sale	20,998	21,728	–	44,317	46,519	–	12,334	–	147,383	44,932	10,400	248	237,634	111,225	348,859
fixed rate	–	–	–	–	9,611	–	12,334	–	147,383	44,932	–	–	169,328	44,932	214,260
variable rate	20,998	21,728	–	44,317	36,908	–	–	–	–	–	–	–	57,906	66,045	123,951
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	10,400	248	10,400	248	10,648
Loans	731,689	517,029	186,664	262,447	4,717	8,390	490	–	27,021	–	13,231	–	963,812	787,866	1,751,678
fixed rate	2,878	–	126	–	815	–	490	–	27,021	–	–	–	31,330	–	31,330
variable rate	728,811	517,029	186,538	262,447	3,902	8,390	–	–	–	–	–	–	919,251	787,866	1,707,117
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	13,231	–	13,231	–	13,231
Securities held-to-maturity	6,977	–	55,367	–	27,511	–	139,531	–	274,725	–	–	–	504,111	–	504,111
fixed rate	6,977	–	14,712	–	16,476	–	139,531	–	274,725	–	–	–	452,421	–	452,421
variable rate	–	–	40,655	–	11,035	–	–	–	–	–	–	–	51,690	–	51,690
Fair value of derivative financial instruments	115,879	185,814	172,407	280,194	37,099	23,355	27,339	119	91,273	8,756	–	–	443,997	498,238	942,235
fixed rate	109,838	84,101	144,143	108,473	16,748	19,490	27,339	119	91,273	8,756	–	–	389,341	220,939	610,280
variable rate	6,041	101,713	28,264	171,721	20,351	3,865	–	–	–	–	–	–	54,656	277,299	331,955

As at December 31, 2006

	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	13,736	228,510	–	219,018	60,531	2,768	271	–	1,093	21,360	1,721	8,849	77,352	480,505	557,857
fixed rate	13,676	118,362	–	60,832	111	2,649	271	–	1093	21,360	–	–	15,151	203,203	218,354
variable rate	60	110,148	–	158,186	60,420	119	–	–	–	–	–	–	60,480	268,453	328,933
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,721	8,849	1,721	8,849	10,570
Deposits from customers	1,941,489	266,216	207,523	62,907	143,289	67,769	8	188	–	–	266	443	2,292,575	397,523	2,690,098
fixed rate	1,267,104	96,231	6,082	15,441	–	–	–	–	–	–	–	–	1,273,186	111,672	1,384,858
variable rate	674,385	169,985	201,441	47,466	143,289	67,769	8	188	–	–	–	–	1,019,123	285,408	1,304,531
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	266	443	266	443	709
Liabilities from issued securities	337	125,944	–	75,769	–	–	–	–	–	–	–	–	337	201,713	202,050
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	337	125,944	–	75,769	–	–	–	–	–	–	–	–	337	201,713	202,050
Fair value of derivative financial instruments in other liabilities	6,815	289,026	24,974	409,861	23,425	26,819	847	24,076	52,363	69,142	–	–	108,424	818,924	927,348
fixed rate	4,705	187,080	3,982	241,936	9,007	26,819	847	24,076	52,363	69,142	–	–	70,904	549,053	619,957
variable rate	2,110	101,946	20,992	167,925	14,418	–	–	–	–	–	–	–	37,520	269,871	307,391
Subordinated bonds and loans	–	–	–	31,570	5,000	211,295	–	–	–	–	–	–	5,000	242,865	247,865
fixed rate	–	–	–	31,570	5,000	211,295	–	–	–	–	–	–	5,000	242,865	247,865
Net position	(684,469)	38,159	194,391	42,141	(102,240)	(126,867)	181,053	(24,145)	501,902	(36,814)	67,869	(5,976)	158,506	(113,502)	45,004

As at December 31, 2005

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, due from banks and balances with the National Bank of Hungary	327.299	2.167	–	–	–	–	–	–	–	–	47.122	2.661	374.421	4.828	379.249
fixed rate	327.299	2.167	–	–	–	–	–	–	–	–	–	–	327.299	2.167	329.466
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	47.122	2.661	47.122	2.661	49.783
Placements with other banks, net of allowance for possible placement losses	73.409	240.976	20.000	56.119	200	2.955	–	–	–	–	–	–	93.609	300.050	393.659
fixed rate	70.109	176.094	20.000	15.965	200	200	–	–	–	–	–	–	90.309	192.259	282.568
variable rate	3.300	64.882	–	40.154	–	2.755	–	–	–	–	–	–	3.300	107.791	111.091
Securities held for trading	444	–	1.300	–	2.230	–	8.208	177	11.394	–	189	1	23.765	178	23.943
fixed rate	444	–	401	–	2.149	–	8.208	177	11.394	–	–	–	22.596	177	22.773
variable rate	–	–	899	–	72	–	–	–	–	–	–	–	971	–	971
non-interest-bearing	–	–	–	–	9	–	–	–	–	–	189	1	198	1	199
Securities available-for-sale	43.742	5.814	15.491	14.230	58.730	5.233	10.091	–	200.022	8.125	9.700	255	337.766	33.657	371.433
fixed rate	–	–	2.966	–	21.553	–	10.091	–	200.022	8.125	–	–	234.632	8.125	242.757
variable rate	43.742	5.814	12.525	14.230	37.177	5.233	–	–	–	–	–	–	93.444	25.277	118.721
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	9.700	255	9.700	255	9.955
Loans	430.778	101.724	395.921	464.197	13.844	42.721	1.806	–	24.517	–	–	–	866.866	608.642	1.475.508
fixed rate	154	–	282	758	1.198	501	1.670	–	6.710	–	–	–	10.014	1.259	11.273
variable rate	430.624	101.724	395.639	463.439	12.646	42.220	136	–	17.807	–	–	–	856.852	607.383	1.464.235
Debt securities held-to-maturity	22.697	–	60.445	–	60.224	2.135	9.945	–	366.351	–	–	–	519.662	2.135	521.797
fixed rate	–	–	5.933	–	50.102	2.135	9.945	–	366.351	–	–	–	432.331	2.135	434.466
variable rate	22.697	–	54.512	–	10.122	–	–	–	–	–	–	–	87.331	–	87.331
Fair value of derivative financial instruments	90.496	83.861	108.836	172.138	69.538	2.261	16.752	–	48.107	4.967	–	–	333.729	263.227	596.956
fixed rate	82.516	75.740	97.269	22.690	56.724	2.261	16.752	–	48.107	4.967	–	–	301.368	105.658	407.026
variable rate	7.980	8.121	11.567	149.448	12.814	–	–	–	–	–	–	–	32.361	157.569	189.930

As at December 31, 2005

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

NOTE 32: EARNINGS PER SHARE

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

	2006	2005
Income after income taxes (in HUF mn)	170,188	132,848
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	267,934,682	270,109,683
Basic Earnings per share (in HUF)	635	492
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	270,711,487	272,234,330
Diluted Earnings per share (in HUF)	**629**	**488**

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

Diluted Earnings per share are determined after additionally taking into consideration the option rights granted.

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

	Retained Earnings and Reserves January 1, 2006	Net income for the year ended December 31, 2006	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves as at December 31, 2006
Hungarian financial statements	**379,566**	**186,187**	**(40,320)**	**(281)**	**525,152**
Adjustments to Hungarian financial statements:					
Reversal of statutory general provision	25,636	8,539	–	–	34,175
Premium and discount amortization of financial instruments measured at amortised cost	(418)	538	–	–	120
Allowance for possible loan losses	(1,340)	–	–	–	(1,340)
Differences in carrying value of subsidiaries	799	–	–	–	799
Difference in accounting for finance leases	(949)	(488)	–	–	(1,437)
Fair value adjustment of held for trading and available-for-sale financial assets	15,991	(1,435)	–	(6,241)	8,315
Fair value adjustment of derivative financial instruments	(345)	1,563	–	–	1,218
Gain on sale of Treasury Shares	–	(3,132)	–	3,132	–
Reversal of statutory goodwill and negative goodwill	16,585	8,237	–	–	24,822
Revaluation of investments denominated in foreign currency to historical cost	(1,868)	5,264	–	–	3,396
Difference in accounting of repo transactions	27	(498)	–	–	(471)
Reclassification of direct charges	–	(281)	–	281	–
Share-based compensation	–	(5,927)	–	5,927	–
Profit on ICES - exchangeabled bond transaction recognised through equity	–	(27,555)	–	42,317	14,762
Deferred taxation	(2,793)	(824)	–	(2,214)	(5,831)
Dividend payable for the year 2005	55,160	–	(55,160)	–	–
Dividend payable for the year 2006 proposed at the Annual General Meeting	–	–	40,320	–	40,320
International financial statements	**486,051**	**170,188**	**(55,160)**	**42,921**	**644,000**

NOTE 34: 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 AD (CKB) registered in Montenegro.
The purchase price of EUR 104 million was transferred on December 18, in possession of the necessary approvals.

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 35: 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.