

OTP MORTGAGE BANK LTD.

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

FOR THE YEAR ENDED DECEMBER 31, 2005

OTP MORTGAGE BANK LTD.

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INDEPENDENT AUDITORS' OPINION

To the Shareholder of OTP Mortgage Bank Ltd.

We have audited the accompanying balance sheet of OTP Mortgage Bank Ltd. ("the Bank") as of December 31, 2005 and the related statements of operations, cash flows and changes in shareholder's equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2005 and the results of its operations, cash flows and changes in shareholder's equity for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union.

Budapest, March 31, 2006



Deloitte

OTP MORTGAGE BANK LTD.
BALANCE SHEET
AS AT DECEMBER 31, 2005
(in HUF thousands)

	Notes	2005	Restated 2004
Cash, due from banks and balances with the National Bank of Hungary	3	64,553,849	29,331,393
Placements with other banks	4	2,611,206	1,500,000
Securities available-for-sale	5	26,495,141	59,468,878
Loans, net of allowance for possible loan losses	6	849,049,698	770,245,427
Accrued interest receivable		3,812,900	3,722,286
Premises, equipment and intangible assets, net	7	322,113	263,885
Other assets	8	9,227,088	14,585,201
TOTAL ASSETS		956,071,995	879,117,070
Related party financing	9	42,395,632	8,602
Issued securities	10	812,699,920	790,913,550
Accrued interest payable		34,193,743	33,314,667
Other liabilities	11	29,838,458	17,021,459
TOTAL LIABILITIES		919,127,753	841,258,278
Share capital	12	20,000,000	20,000,000
Retained earnings and reserves	13	16,944,242	17,858,792
TOTAL SHAREHOLDER'S EQUITY		36,944,242	37,858,792
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		956,071,995	879,117,070

**OTP MORTGAGE BANK LTD,
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005
(in HUF thousands)**

	Notes	2005	Restated 2004
Interest Income:			
Loans		36,515,803	39,091,056
Placements with other banks		1,725,596	558,152
Due from banks and balances with the National Bank of Hungary		200,311	923,793
Interest subsidy on housing loans financed by mortgage bonds	14	76,768,064	71,385,566
Securities available-for-sale		3,445,412	2,483,288
<i>Total Interest Income</i>		<u>118,655,186</u>	<u>114,441,855</u>
Interest Expense:			
Related party and other bank financing		406,721	11,803,915
Issued securities		70,753,765	64,602,934
<i>Total Interest Expense</i>		<u>71,160,486</u>	<u>76,406,849</u>
NET INTEREST INCOME		47,494,700	38,035,006
Provision for possible loan and placement losses		(182,064)	(20,072)
NET INTEREST INCOME AFTER PROVISION		47,312,636	38,014,934
Non-Interest Income:			
Government subsidy		1,178,438	1,100,824
Gains on securities trading, net		-	91,138
Other		73,587	40,162
<i>Total Non-Interest Income</i>		<u>1,252,025</u>	<u>1,232,124</u>
Non-Interest Expenses:			
Fees and commissions	15	38,390,625	22,965,001
Personnel expenses		682,964	717,526
Depreciation and amortization		125,339	74,126
Losses on securities trading, net		137,111	-
Other	16	2,429,147	1,920,975
<i>Total Non-Interest Expenses</i>		<u>41,765,186</u>	<u>25,677,628</u>
INCOME BEFORE INCOME TAXES		6,799,475	13,569,430
Income taxes	18	1,569,156	2,137,917
NET INCOME AFTER INCOME TAXES		<u>5,230,319</u>	<u>11,431,513</u>
Earnings per share (in HUF)			
Basic and diluted	19	<u>26,152</u>	<u>57,158</u>

**OTP MORTGAGE BANK LTD,
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005
(in HUF thousands)**

	2005	Restated 2004
OPERATING ACTIVITIES		
Income before income taxes	6,799,475	13,569,430
<i>Adjustments to reconcile income before income taxes to net cash provided by operating activities:</i>		
Income tax paid	(1,604,776)	(1,988,020)
Depreciation and amortization	125,339	74,126
Provision for possible loan and placement losses	182,064	20,073
<i>Changes in operating assets and liabilities:</i>		
Net increase in accrued interest receivable	(90,614)	(688,553)
Net decrease (increase) in other assets before provisions for possible losses	5,997,902	(8,772,295)
Net increase in accrued interest payable	879,076	16,703,523
Net increase in other liabilities	13,067,961	5,288,895
Net cash provided by operating activities	25,356,427	24,207,179
INVESTING ACTIVITIES		
Net increase in placements with other banks, before provision for possible placement losses	(1,111,206)	(1,500,000)
Net decrease (increase) in securities available-for- sale	32,973,737	(12,241,476)
Net increase in loans, before provision for possible loan losses	(78,986,335)	(165,593,765)
Net additions to premises, equipment and intangible assets	(183,567)	(130,908)
Net cash used in investing activities	(47,307,371)	(179,466,149)

**OTP MORTGAGE BANK LTD,
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005
(in HUF thousands)
(continued)**

	2005	Restated 2004
FINANCING ACTIVITIES		
Net increase (decrease) in related party financing	42,387,030	(18,492,245)
Cash received from issuance of securities	129,383,454	448,706,635
Cash used for repurchase and redemption of issued securities	(107,597,084)	(248,195,229)
Net (decrease) increase in the compulsory reserve established by the National Bank of Hungary	(224,951)	2,449,621
Dividend paid	(7,000,000)	-
Net cash provided by financing activities	56,948,449	184,468,782
Net increase in cash and cash equivalents	34,997,505	29,209,812
Cash and cash equivalents at the beginning of the year	26,811,014	(2,398,798)
Cash and cash equivalents at the end of the year	61,808,519	26,811,014
<i>Analysis of cash and cash equivalents opening and closing balance</i>		
Cash, due from banks and balances with the National Bank of Hungary	29,331,393	2,571,202
Compulsory reserve established by the National Bank of Hungary	(2,520,379)	(4,970,000)
Cash and cash equivalents at the beginning of the year	26,811,014	(2,398,798)
Cash, due from banks and balances with the National Bank of Hungary	64,553,849	29,331,393
Compulsory reserve established by the National Bank of Hungary	(2,745,330)	(2,520,379)
Cash and cash equivalents at the end of the year	61,808,519	26,811,014

OTP MORTGAGE BANK LTD.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2005
(in HUF thousands)

	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Fair value reserve</u>	<u>Total</u>
Balance as at December 31, 2003, (restated)	20,000,000	8,933,322	(2,922,214)	26,011,108
Net income after income taxes (restated)	-	11,431,513	-	11,431,513
Fair value adjustment of securities available-for-sale (restated)	-	-	1,749,381	1,749,381
Fair value adjustment of financial instrument designated as cash-flow hedge	-	-	(1,333,210)	(1,333,210)
Balance as at December 31, 2004 (restated)	<u>20,000,000</u>	<u>20,364,835</u>	<u>(2,506,043)</u>	<u>37,858,792</u>
Dividend paid	-	(7,000,000)	-	(7,000,000)
Net income after income taxes	-	5,230,319	-	5,230,319
Fair value adjustment of securities available-for-sale	-	-	767,058	767,058
Fair value adjustment of financial instrument designated as cash-flow hedge	-	-	88,073	88,073
Balance as at December 31, 2005	<u>20,000,000</u>	<u>18,595,154</u>	<u>(1,650,912)</u>	<u>36,944,242</u>

**OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General

National Savings and Commercial Bank Ltd. ("OTP Bank") established OTP Mortgage Bank Ltd. ("OTP Mortgage Bank" or the "Bank") as a fully owned subsidiary on May 15, 2001.

The State Financial Supervisory Authority issued an operating license on January 10, 2002, and the Bank commenced operations on February 1, 2002.

The Bank's registered office address is Nádor u. 21. Budapest 1051.

The Bank is a specialized financial institution with its main business being governed by Act XXX. of 1997 on Mortgage Lending Institutions and Mortgage Bonds.

The Bank started operations in foreign currency in 2004 by the issuance of EUR denominated medium term mortgage bonds. In 2005 the Bank started to extend its mortgage loan portfolio by CHF denominated assets. According to the above mentioned law the foreign currency position, which is not naturally hedged by foreign currency assets and liabilities, is required to be fully hedged by derivative instruments.

The Bank employs limited staff at its head office and relies on approximately 370 branches of OTP Bank engaged in the housing loan business. Under a syndication agreement between OTP Bank and OTP Mortgage Bank, OTP Bank through its branch network, provides services for OTP Mortgage Bank concerning the administration of the mortgage loans, for which fees are paid by OTP Mortgage Bank. Credit scoring and lending are performed at the branches of OTP Bank according to the regulations of OTP Mortgage Bank. Loans are approved by OTP Mortgage Bank and OTP Bank acts for and on behalf of OTP Mortgage Bank during the conclusion of a loan agreement. The mortgage right, along with the restraint of transfer and encumbrance on property pledged to secure loans is entered in the property register for the benefit of OTP Mortgage Bank. On the basis of the total amount of collateral entered into the Bank's coverage register, mortgage bonds are issued.

As the sole shareholder, OTP Bank provides financial and administrative support to the Bank. Details of related party balances and transactions are summarised in Note 21 to these financial statements.

A significant proportion of mortgage loans are extended for periods for more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity (one to ten years). One reason for this mismatch was that the interest subsidy mortgage loans financed by mortgage bonds was only for a period of up to five years. A change in 2003 in the interest subsidy regime allows subsidies for up to twenty years. As a result the Bank is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

1.2. Accounting

The accounting policies followed by the Bank in these financial statements conform with International Financial Reporting Standards (IFRS). Some of the accounting principles prescribed for statutory purposes is different from those generally recognized in international financial markets. Certain adjustments have been made to the Bank's Hungarian statutory accounts (see Note 23), in order to present the 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. These standards and interpretations were previously called International Accounting Standards (IAS).

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

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

The presentation of 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.

**OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

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

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

IAS 39 Financial Instruments: Recognition and Measurement

IAS 39 Revised, which is effective after January 1, 2005 changes the category held for trading instruments by introducing a new category „a financial asset at fair value through statements of operations“. In this category is classified previously held for trading assets and other instruments which upon initial recognition are designated by the entity as to be held at fair value through statements of operations. Unrealized gains and losses on securities available for sale are recorded among shareholder's equity, previously such changes of fair value were recorded in the statement of operations.

Due to the retrospective application of IAS 39 Revised, an opening adjustment of HUF 2,922 million loss has been presented in retained earnings and reserves as of January 1, 2004. Due to restatement of prior periods, income after income tax decreased by HUF 1,749 million for the year ended December 31, 2004, from what was previously reported.

A summary of the effects of introduction of IAS 39 Revised for the year ended December 31, 2004 is as follows:

	As originally reported for the year ended December 31, 2004	Restated for the year ended December 31, 2004
Fair value adjustment and gains on securities available-for-sale, net	2,173,734	91,138
Deferred tax effect	<u>(347,797)</u>	<u>(14,582)</u>
Contribution to net income	<u>1,825,937</u>	<u>76,556</u>
Net income after income taxes	<u>13,180,894</u>	<u>11,431,513</u>
Fair value adjustment of available-for-sale securities recognized directly through equity	-	2,082,597
Deferred tax effect	<u>-</u>	<u>(333,216)</u>
Effect to equity	<u>-</u>	<u>1,749,381</u>
Total shareholders' equity	<u>37,858,792</u>	<u>37,858,792</u>

**OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

1.2.3. Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2006

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

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

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

1.2.4. Comparative figures

Certain amounts in the 2004 financial statements have been reclassified to conform with the current year presentation. The Bank has changed the presentation of certain fee and commission income and expense, which is passed to OTP Bank under the syndication agreement, as management believes that this presentation is more appropriate. As a result HUF 2,101 million of fee and commission income and expense has been netted in the 2004 comparative figures.

	As originally reported for the year ended December 31, 2004	Restated for the year ended December 31, 2004
Fees and commission income	2,101,375	-
Fees and commission expense	<u>(25,066,376)</u>	<u>(22,965,001)</u>
Net fee and commission expense	<u>(22,965,001)</u>	<u>(22,965,001)</u>

**OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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

2.2. Consolidated financial statements

These financial statements present OTP Mortgage Bank's financial position and results of operations. Consolidated financial statements are prepared by the parent company, OTP Bank Ltd. and are available at the registered office, Nádor u.16. Budapest 1051.

2.3. Foreign Currency

Transactions denominated in foreign currencies are converted at the valid rate of exchange as determined by the National Bank of Hungary (NBH) on the value date of the transaction.

All foreign currency denominated assets and liabilities are translated into Hungarian Forint (HUF) daily at the valid rate of exchange determined by the NBH. Resulting exchange differences are recognised in the annual income statement. Foreign currency denominated income and expenditure is also recorded in foreign currency translated by the exchange rate valid on the date of the transaction.

2.4. Securities and other financial assets

The Bank classifies its securities into the following categories: held for trading, held-to-maturity and available-for-sale. Securities that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as held for trading investments and included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale.

The Bank had no securities classified as held for trading or held to maturity as at December 31, 2005 and 2004.

2.4.1. 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 the profit and loss for the applicable period. Such securities consist of discounted Treasury bills and Hungarian Government bonds.

**OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.4.2. 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 Statement of Operation for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.4.3. 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 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 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 shareholder's equity. Amounts deferred in equity are transferred to the Statement of Operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the result for the period. The ineffective element of the hedge is charged directly to the 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 Statement of Operations.

**OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Loans and allowance for possible loan losses

Loans are stated at the principal amounts outstanding, net of allowance for possible loan losses. 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. After approval by OTP Mortgage Bank the loans are disbursed by the parent company, OTP Bank, under a syndication agreement and are subsequently acquired at principle plus interest and charges by OTP Mortgage Bank.

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

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

The Bank records minimal allowance for possible loan losses as under the syndication agreement between the Bank and OTP Bank, guarantee fees are paid and non-performing loans are transferred back to OTP Bank at face value within a 90-day period. The guarantee fees are calculated monthly based on the amount of the loan portfolio and are recognised as an expense when due.

2.6. Issued securities

Issued mortgage bonds are measured at amortized cost. The costs related to their issuance is included in the amortized cost of the issued securities and amortized over the term of the securities. Mortgage bonds are issued based on the total amount of property pledged as collateral to the Bank and recorded in the Bank's collateral register.

2.7. Premises, equipment and intangible assets

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

Buildings	6%
Machinery and equipment	14.5-33%
Vehicles	20%
Software	33%
Property rights	33%

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

At each balance sheet date, the 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.

**OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.8. Income taxes

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

2.9. Government subsidies

The Bank receives subsidies from the Hungarian government designed to compensate for the difference between the amount of interest charged to the customer, such interest being capped by legislation, and the interest charge on the issued mortgage bonds. Such subsidies are calculated on a monthly basis, are applicable over the life of the loan and are recognised among interest income in the statement of operations in the period in which they are due.

2.10. Statement of cash flows

For the purposes of reporting cash flows, cash and cash equivalents include cash, due from banks and balances with the National Bank of Hungary, excluding compulsory reserve established by the National Bank of Hungary.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

	December 31, 2005	December 31, 2004
Cash on hand:	-	-
Due from banks		
Within one year in HUF:	<u>64,553,849</u>	<u>29,331,393</u>
Total	<u><u>64,553,849</u></u>	<u><u>29,331,393</u></u>

The above balance of cash due from banks includes of HUF 2.2 million and 3.6 million from OTP Bank as at December 31, 2005 and 2004, respectively.

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the balance of compulsory reserves amounted to approximately HUF 2.5 million and 2.7 million as at December 31, 2005 and 2004, respectively. The Bank fulfilled the compulsory reserve requirement on the average monthly basis.

The balance also includes term deposits with maturities within 2-weeks placed with the National Bank of Hungary in amount of HUF 64,400 million and 29,000 million as at December 31, 2005 and 2004. Interest rates on balances as at December 31, 2005 and 2004 ranged from 5.0% to 6.0% and from 8.5% to 9.5%.

NOTE 4: PLACEMENTS WITH OTHER BANKS (in HUF thousands)

	December 31, 2005	December 31, 2004
Within one year	<u><u>2,611,206</u></u>	<u><u>1,500,000</u></u>

The balance as at December 31, 2005 represents a floating rate margin account, connected to the long term cross currency interest rate swap, denominated in EUR.

Interest rate on the floating rate margin account of EUR as at December 31, 2005 was 2.45%.

The balance as at December 31, 2004 represents an overnight placement to OTP Bank.

Interest rate on the overnight placement to OTP Bank as at December 31, 2004 was 9.7%.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 5: SECURITIES AVAILABLE-FOR-SALE (in HUF thousands)

	December 31, 2005	December 31, 2004
Securities available-for-sale		
Hungarian Government discounted treasury bills	-	27,876,569
Hungarian Government bonds	26,495,141	31,592,309
Total	<u>26,495,141</u>	<u>59,468,878</u>

The securities portfolio was denominated in HUF as at December 31, 2005 and 2004. Interest rates on securities ranged from 6.25% to 9.5% as at December 31, 2005 and 2004.

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

	December 31, 2005	December 31, 2004
Within five years:		
Fixed interest	24,543,937	57,551,480
	<u>24,543,937</u>	<u>57,551,480</u>
Over five years:		
Fixed interest	1,951,204	1,917,398
	<u>1,951,204</u>	<u>1,917,398</u>
Total	<u>26,495,141</u>	<u>59,468,878</u>

The valuation of the securities available-for-sale were as follows as at December 31, 2005:

	December 31, 2005	
	Cost	Fair value
Securities available-for-sale		
	26,978,205	26,495,141
Total	<u>26,978,205</u>	<u>26,495,141</u>

The valuation of the securities available-for-sale were as follows as at December 31, 2004:

	Cost	Fair value
Securities available-for-sale		
Hungarian Government discounted Treasury Bills	27,645,611	27,876,569
Hungarian Government bonds	32,988,538	31,592,309
Total	<u>60,634,149</u>	<u>59,468,878</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 6: LOANS AND PROVISION FOR POSSIBLE LOAN LOSSES
(in HUF thousands)

	December 31, 2005	December 31, 2004
Short-term loans (within one year in HUF)	54,297,342	50,114,172
Short-term loans (within one year in CHF)	<u>1,363,120</u>	<u>-</u>
Subtotal	<u>55,660,462</u>	<u>50,114,172</u>
Long-term loans (over one year in HUF)	737,868,628	720,151,328
Long-term loans (over one year in CHF)	<u>55,722,745</u>	<u>-</u>
Subtotal	<u>793,591,373</u>	<u>720,151,328</u>
Provision for possible HUF loan losses	(189,674)	(20,073)
Provision for possible CHF loan losses	<u>(12,463)</u>	<u>-</u>
Total	<u><u>849,049,698</u></u>	<u><u>770,245,427</u></u>

All of the above HUF loans are mortgage loans for housing. Such mortgage loans have collateral notified in the public property register in favor of OTP Mortgage Bank. Such loans and their collateral are included in the Bank's register and mortgage bonds can be issued up to this registered amount.

Loans with maturity over one year as at December 31, 2005 and 2004 bear interest rates in the range from 9.68 % to 18.00% and from 6.7% to 18.47% respectively, including the impact of interest subsidy by the state.

For CHF loans, interest is not subsidized by the state. From the total loans denominated in foreign currency, CHF 43,261 thousand (equivalent of HUF 7,023 million) are free purpose loans, while remaining portion are housing loans.

Average interest rate on foreign currency housing loans as at December 31, 2005 was 5.49 %, while on foreign currency free purpose loans 6.50 %.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 7: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS
(in HUF thousands)

As at December 31, 2005:

<u>Cost</u>	Intangible assets	Land and buildings	Machinery and equipment	Capital work progress	Total
Balance as at					
January 1, 2005	180,829	17,087	171,900	3,414	373,230
Additions	136,513	-	52,076	88,097	276,686
Disposals	-	-	(2,440)	(91,406)	(93,846)
Balance as at					
December 31, 2005	<u>317,342</u>	<u>17,087</u>	<u>221,536</u>	<u>105</u>	<u>556,070</u>
<u>Depreciation and amortization</u>					
Balance as at					
January 1, 2005	56,472	2,747	50,126	-	109,345
Additions	78,976	3,027	43,340	-	125,343
Disposals	-	-	(731)	-	(731)
Balance as at					
December 31, 2005	<u>135,448</u>	<u>5,774</u>	<u>92,735</u>	<u>=</u>	<u>233,957</u>
<u>Net book value</u>					
Balance as at					
January 1, 2005	<u>124,357</u>	<u>14,340</u>	<u>121,774</u>	<u>3,414</u>	<u>263,885</u>
Balance as at					
December 31, 2005	<u>181,894</u>	<u>11,313</u>	<u>128,801</u>	<u>105</u>	<u>322,113</u>

As at December 31, 2004:

<u>Cost</u>	Intangible assets	Land and buildings	Machinery and equipment	Capital work Progress	Total
Balance as at					
January 1, 2004	73,255	17,087	127,607	25,025	242,974
Additions	107,574	-	44,958	72,147	224,679
Disposals	-	-	(665)	(93,758)	(94,423)
Balance as at					
December 31, 2004	<u>180,829</u>	<u>17,087</u>	<u>171,900</u>	<u>3,414</u>	<u>373,230</u>
<u>Depreciation and amortization</u>					
Balance as at					
January 1, 2004	16,295	1,722	17,854	-	35,871
Additions	40,177	1,025	32,924	-	74,126
Disposals	-	-	(652)	-	(652)
Balance as at					
December 31, 2004	<u>56,472</u>	<u>2,747</u>	<u>50,126</u>	<u>-</u>	<u>109,345</u>
<u>Net book value</u>					
Balance as at					
January 1, 2004	<u>56,960</u>	<u>15,365</u>	<u>109,753</u>	<u>25,025</u>	<u>207,103</u>
Balance as at					
December 31, 2004	<u>124,357</u>	<u>14,340</u>	<u>121,774</u>	<u>3,414</u>	<u>263,885</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 8: OTHER ASSETS (in HUF thousands)

	December 31, 2005	December 31, 2004
Customer receivables, given loans	4,671	8,831
Taxes recoverable	830,401	32,031
Deferred tax assets	-	95,735
Receivables from the state	6,438,692	14,344,369
Prepayments	1,767,462	32,394
Housing loans repayment account	185,862	71,841
	<u>9,227,088</u>	<u>14,585,201</u>
Total	<u>9,227,088</u>	<u>14,585,201</u>

Receivables from the state represent receivables from government subsidies on housing mortgage loans.

NOTE 9: RELATED PARTY FINANCING (in HUF thousands)

	December 31, 2005	December 31, 2004
Within one year	<u>42,395,632</u>	<u>8,602</u>

The balance as at December 31, 2005 mainly reflects interbank deposits, denominated in EUR due to OTP Bank, in an amount of HUF 42,386,106.

The balance as at December 31, 2005 and 2004 also consists of HUF 9,525 and HUF 8,602 payables due to OTP Bank.

The interest rate on EUR interbank deposits as at December 31, 2005 was between 2.48% to 2.54%.

NOTE 10: ISSUED SECURITIES (in HUF thousands)

During the year ended December 31, 2005 the Bank issued mortgage bonds with a face value of HUF 123,200 million, and re-purchased and redeemed mortgage bonds for HUF 107,597 million. During the year ended December 31, 2004 the Bank issued mortgage bonds with a face value of HUF 436,457 million, and re-purchased and redeemed mortgage bonds for HUF 248,195 million.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 10: ISSUED SECURITIES (in HUF thousands) [continued]

	December 31, 2005	December 31, 2004
With original maturity:		
Within one year in HUF	54,906,600	57,977,930
Subtotal	<u>54,906,600</u>	<u>57,977,930</u>
Over one year in HUF	707,247,320	683,749,620
Over one year in EUR	50,546,000	49,186,000
Subtotal	<u>757,793,320</u>	<u>732,935,620</u>
Total	<u><u>812,699,920</u></u>	<u><u>790,913,550</u></u>

Liabilities from issued securities denominated in HUF as at December 31, 2005 and 2004 bear interest rates in the range from 8% to 12.5% and from 8% to 12.34% respectively.

The Bank issued a fixed rate interest bearing mortgage bond denominated in EUR on December 15, 2004, with EUR 200 million face value. The foreign exchange risk of cash-flows to interest payment of the mortgage bond was hedged by a fixed interest rate cross-currency swap transaction, whereby the Bank swapped EUR interest payments to fixed HUF interest payments. Interest subsidies can only be claimed on the basis of foreign exchange mortgage bonds swapped to domestic currency.

A reconciliation of the face value and the amortized cost is as follows:

	December 31, 2005	December 31, 2004
Face value of the issued securities	806,408,433	789,455,805
Unamortized premiums, net	<u>6,291,487</u>	<u>1,457,745</u>
Amortized cost	<u><u>812,699,920</u></u>	<u><u>790,913,550</u></u>

OTP Mortgage Bank can issue mortgage bonds up to the total amount of collateral in the form of property notified in the public property register in favour of OTP Mortgage Bank. A coverage register of the mortgage property constituting the ultimate coverage for the mortgage bonds and the value of the security is maintained. An independent coverage supervisor is appointed for monitoring and certifying the existence and valuation of eligible collateral and the registration of such collateral in the coverage register.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 11: OTHER LIABILITIES (in HUF thousands)

	December 31, 2005	December 31, 2004
Taxes payable	161,932	61,960
Deferred tax liability	14,586	-
Accounts payable due to OTP Bank	25,775,482	13,280,678
Suppliers	18,139	17,964
Salaries and social security payable	136,893	153,360
Accrued fees payable to OTP Bank	1,605,389	1,064,188
Accrued fees	617,517	785,970
Derivative financial instruments	1,508,520	1,587,154
Other	-	70,185
	<hr/>	<hr/>
Total	<u>29,838,458</u>	<u>17,021,459</u>

The Bank had HUF 27,380,871 and HUF 14,344,866 of other liabilities to OTP Bank as at December 31, 2005 and 2004, respectively, in connection with guarantee fees for repurchase of non-performing loans, collection fees and loan administration charges.

NOTE 12: SHARE CAPITAL (in HUF thousands)

All shares are ordinary shares with a nominal value of HUF 100 thousand and are fully paid.

	December 31, 2005	December 31, 2004
Share capital (in HUF thousand)	<u>20,000,000</u>	<u>20,000,000</u>

NOTE 13: RETAINED EARNINGS AND RESERVES (in HUF thousands)

	December 31, 2005	Restated December 31, 2004
Opening balance	17,858,792	6,011,108
Dividend paid	(7,000,000)	-
Net income after income taxes	5,230,319	11,431,513
Fair value adjustment of securities available-for-sale	767,058	1,749,381
Fair value adjustment of financial instrument designated as cash-flow hedge	88,073	(1,333,210)
	<hr/>	<hr/>
Closing balance	<u>16,944,242</u>	<u>17,858,792</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 13: RETAINED EARNINGS AND RESERVES (in HUF thousands)
continued

The Bank's reserves under Hungarian Accounting Standards were HUF 16,992,857 and HUF 11,382,074 as at December 31, 2005 and 2004, respectively. These amounts include legal reserves amounting to HUF 2,399,286 and HUF 1,838,207, respectively. The legal reserve is not available for distribution.

Dividend of HUF 7,000,000 was paid to OTP Bank in 2005.

NOTE 14: SUBSIDIES RELATED TO HOUSING LOANS (in HUF thousands)

There are three government subsidy regimes currently in operation, which are effective over the life of the loan; (i) for loans granted before June 16, 2003; (ii) for loans granted between June 16, 2003 and December 22, 2003; and (iii) for loans granted after December 22, 2003.

All subsidy systems have the following basic structure:

1. A maximum interest rate on loans for (i) the purchase of new property or (ii) the purchase, renovation and /or enlargement of existing properties
2. A basic interest subsidy calculated based on a percentage of the Hungarian Government Securities Yield or a percentage of the covered mortgage bond coupon rate.
3. A supplementary interest subsidy for mortgage loans that have certain specific criteria

In addition a one-off payment (regarding registration of collateral) of 0.5% on each loan acquired by OTP Mortgage Bank is received from the Hungarian State and payable to OTP Bank, once the collateral of the loan is registered at its coverage register. As this one off payment is fully transferred to OTP Bank, it is presented net in these financial statements. The one off payment was HUF 442,518 and HUF 1,067,586 for the years ended December 31, 2005 and 2004, respectively.

NOTE 15: FEES AND COMMISSIONS (in HUF thousands)

	2005	Restated 2004
Fees and commissions paid		
Guarantee and administrative fees paid to		
OTP Bank	27,592,950	22,776,149
Collection fees paid to OTP Bank	10,315,481	-
Other	482,194	188,852
Total expense	<u>38,390,625</u>	<u>22,965,001</u>

**OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 15: FEES AND COMMISSIONS (in HUF thousands) continued

Guarantee fees are calculated on the basis of the loan portfolio held at the beginning of each month and are payable to OTP Bank in exchange for a commitment from OTP Bank related to the qualified or recalled debt repurchasing and costs-compensation in relation to the collection of the qualified loans which have been disbursed with governmental guarantee.

Collection fees are payable for the collection activities done by OTP Bank before the buy back procedure.

Other fees mainly consist of the cost of services in connection with issuance of mortgage bond.

Account handling fees are charged to the costumers in relation to front and back office services related to their loan accounts. These activities are carried out by the OTP Bank and are billed as intermediated service to the costumers in the same amount as charged by OTP Bank, therefore revenues and expenditures related to account handling fees are presented net in these financial statements. Such account handling fees were HUF 13,792,400 and HUF 13,658,508 for the years ended December 31, 2005 and 2004, respectively.

NOTE 16: OTHER EXPENSES (in HUF thousands)

	2005	2004
Material type expenses	21,923	42,247
Administration expenses	34,802	25,236
Rental fees	60,635	54,996
Advertising	34,878	78,388
Taxes, other than income	1,156,002	915,085
Services	492,014	483,677
Professional fees	256,288	280,691
Other	372,605	40,655
Total	<u>2,429,147</u>	<u>1,920,975</u>

NOTE 17: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF thousands)

	2005	2004
Key executives	122,268	117,312
Members of Board and Supervisory Board	21,838	20,733
Total	<u>144,106</u>	<u>138,045</u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 18: INCOME TAXES (in HUF thousands)

The Bank's liability for income taxes was 16% in 2005 and 2004. In 2005 (and 2006) an additional special banking tax is also payable by financial institutions according to a Hungarian Government decree. This special banking tax represents 8% of the taxable net income and recorded as current income tax charge.

A reconciliation of the total income tax charge for the years ended December 31, 2005 and 2004 is as follows:

	2005	Restated 2004
Current tax charge	1,069,851	1,988,020
Special banking tax	534,925	-
Deferred tax charge/(income)	<u>(35,620)</u>	<u>149,897</u>
Total income tax charge	<u><u>1,569,156</u></u>	<u><u>2,137,917</u></u>

A reconciliation of the deferred tax assets/(liabilities) as at December 31, 2005 and 2004 are as follows:

	2005	Restated 2004
Balance as at January 1	95,735	324,902
Recognised in retained earnings and reserves	(145,941)	(79,270)
Deferred tax (charge)/income	<u>35,620</u>	<u>(149,897)</u>
Closing balance	<u><u>(14,586)</u></u>	<u><u>95,735</u></u>

Deferred tax as at December 31, 2005 and 2004 comprise the following:

	2005	Restated 2004
Fair value adjustment of available-for-sale financial assets	37,026	158,891
Fair value adjustment of derivative financial instrument designated as cash-flow hedge	225,648	253,945
Fair value adjustment of other derivative financial instruments	<u>3,432</u>	<u>-</u>
Deferred tax assets	266,106	412,836
Amortized cost of issued securities	(274,894)	(299,562)
Fixed assets	(5,798)	(3,308)
Fair value adjustment of other derivative financial instruments	<u>-</u>	<u>(14,231)</u>
Deferred tax liabilities	(280,692)	(317,101)
Net deferred tax (liabilities)/assets	<u><u>(14,586)</u></u>	<u><u>95,735</u></u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 18: INCOME TAXES (in HUF thousands) continued

Reconciliation of effective tax rate as at December 31, 2005 and 2004 are as follows:

	2005	Restated 2004
Net income before income taxes	6,799,475	13,569,430
Tax calculated with statutory income tax rate (16%)	1,087,916	2,171,109
Special banking tax	534,925	-
Permanent difference due to local tax	(82,197)	(33,327)
Other permanent differences	<u>28,512</u>	<u>135</u>
Income tax	<u>1,569,156</u>	<u>2,137,917</u>
Effective tax-rate	<u>23,08 %</u>	<u>15,76 %</u>

NOTE 19: EARNINGS PER SHARE (in HUF thousands)

Earnings per share attributable to ordinary shares are determined based on dividing income after income taxes for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The Bank has no preference shares and no options or other rights related to shares.

	2005	Restated 2004
Net income after taxes	5,230,319	11,431,513
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (piece)	<u>200,000</u>	<u>200,000</u>
Earnings per share (in HUF)	<u>26,152</u>	<u>57,158</u>

**OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 20: 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 the counter-party will be unable to pay amounts in full when due. The risk of the mortgage lending activity is controlled and the safety is enhanced by the legal environment, which provides that loans can only be extended against a specific collateral of real property and with certain legal assurances. OTP Bank has a commitment to repurchase substandard loans at book value. In treasury activity the Bank structures the levels of credit risk it undertakes by placing limits to each counter-party. Actual exposures against limits are monitored daily.

Market risk

Market risks arise from positions taken in securities and other instruments. The Bank takes no significant exposure to market risks. Market risk generally monitored and controlled by the Asset and Liability Management function.

Liquidity risk

A significant proportion of mortgage loans are extended for periods of more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity. One reason for this mismatch was that the interest subsidy on mortgage bonds was only for a period of up to five years. A change in the interest subsidy regime now allows mortgage bond subsidies for up to twenty years. As a result the Bank is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

The Bank purchases disbursed loans under purchase agreements from OTP Bank on a weekly basis, which is followed by the issuance of covered mortgage bonds after the approval procedure. As a result, the source of funds used to finance the purchase of mortgage loans held in the Bank's portfolio includes the income from selling covered mortgage bonds. The funds raised through the sale of mortgage bonds is complemented by borrowings from banks (currently OTP Bank) in addition to the use of the cash which represents share capital.

See Note 23. Maturity analysis of assets and liabilities and liquidity risk

**OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
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NOTE 20: FINANCIAL INSTRUMENTS [continued]

Interest rate risk

Interest rate risk is regularly monitored so as to limit any possible impact on the Issuer's results. Fixed rate mortgage loans are predominantly financed through fixed rate mortgage bonds and floating rate mortgage loans are predominantly financed through floating rate or short maturity mortgage bonds. As a result, in the overall portfolio, the structure of interest rates on liabilities almost completely matches the structure of interest rates on assets. Thus, the Bank tries to balance the diverse structure of asset and liability re-pricing periods. The use of floating rate short term funding is kept to a minimum. The Bank can be exposed to interest rate risk as a result of a mismatch in the interest rate basis that may exist between assets (deposits, securities, and loans) and liabilities (primarily mortgage bonds). In these instances, the Bank applies derivatives as hedging instruments.

See Note 22. Interest rate risk management.

Foreign currency risk

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. Foreign exchange risk arises by the difference of the mortgage lending denominated in foreign currency and the issuance of mortgage bonds denominated in foreign exchange. The foreign currency risk taken by the Bank is decreased by using foreign exchange swap transactions.

Derivative financial instruments

The Bank has certain SWAP contracts as at December 31, 2005.

The Bank issued a fixed rate interest bearing mortgage bond denominated in EUR on December 15, 2004, with EUR 200 million face value. The foreign exchange risk of cash-flows from interest payment of the mortgage bond was hedged by a fixed interest rate cross-currency swap transaction, whereby the Bank swapped EUR interest payments to fixed HUF interest payments. The swap agreement has a nominal value equal to the issued mortgage bond, with ten years maturity. To cover the open foreign exchange position existing at the end of the year, the Bank also concluded short term foreign exchange swaps of CHF/EUR with total nominal value of CHF 351,574,000 and EUR/HUF with total nominal value of EUR 10,154,000 as of December 31, 2005.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 20: FINANCIAL INSTRUMENTS [continued]

Hedging activities

The Bank issued a fixed rate interest bearing mortgage bond denominated in EUR on December 15, 2004, with EUR 200 million face value. The foreign exchange risk of cash-flows from interest payment of the mortgage bond was hedged by a fixed interest rate cross-currency swap transaction, whereby the Bank swapped EUR interest payments to fixed HUF interest payments. Accordingly the interest payment part of the hedging instrument was designated as a cash-flow hedge.

The liability arose from the mortgage bond issuance denominated in EUR was revalued to the current foreign exchange rate in accordance with IAS 21 (Revised): The Effects of Changes in Foreign Exchange Rates. The part of the hedging instrument which is related to the mortgage bond was designated as a fair value hedge in respect of foreign exchange risk.

The fair value adjustment of the hedging instrument was HUF 1,499,248 thousand and HUF 1,587,153 thousand as at December 31, 2005 and 2004, respectively.

Off balance sheet items

The Bank's off-balance sheet assets and liabilities as at December 31, 2005 and 2004, with respect to financial instruments are as follows (in HUF thousands):

	2005	2004
Future liabilities from FX future purchases	78,279	-
Future portion of swap transaction	108,977,228	49,340,000
Contingent and future liabilities	<u>109,055,507</u>	<u>49,340,000</u>
Future receivables from FX future purchases	78,346	-
Future portion of swap transaction	110,987,580	49,186,000
Contingent and future receivables	<u>111,065,926</u>	<u>49,186,000</u>
Total off-balance sheet asset (liability), net	<u><u>2,010,419</u></u>	<u><u>(154,000)</u></u>

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 20: FINANCIAL INSTRUMENTS [continued]

Foreign currency exposures

On balance sheet foreign currency assets and liabilities as at December 31, 2005.

	%	In HUF thousands	In EUR	In CHF
Total assets	100.00 %	956,071,995		
Foreign currency assets	6.44%	61,618,671	12,590,376	352,350,490
Total liabilities	100.00 %	956,071,995		
Foreign currency liabilities	9.95 %	95,149,941	(370,507,716)	(552,154)
Net on balance sheet exposure			<u>(357,917,340)</u>	<u>351,798,336</u>

Off balance sheet foreign currency assets and liabilities as at December 31, 2005.

	In HUF thousands	In EUR	In CHF
Foreign currency assets	93,146,874	368,500,098	(97,606)
Foreign currency liabilities	(59,621,383)	(10,816,439)	(351,476,394)
Net off balance sheet exposure		<u>357,683,659</u>	<u>(351,574,000)</u>
Net exposure		<u>(233,681)</u>	<u>224,336</u>

**OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 21: RELATED PARTY TRANSACTIONS (in HUF thousands)

The Bank under a syndication agreement with OTP Bank disbursed housing loans of HUF 146,272 million and HUF 213,954 million during the years ended December 31, 2005, and 2004, respectively.

Assets/Liabilities

The Bank had the following assets and liabilities due from, or due to OTP Group:

Assets	2005	2004
Cash due from banks	2,152	3,565
Interbank deposit	-	1,500,000
Liabilities	2005	2004
Foreign and domestic currency deposits	42,386,106	8,602
Liabilities due to OTP Bank	27,380,871	14,344,866

As at December 31, 2005 and 2004, OTP Group companies owned HUF 546,891 million and HUF 531,693 million, respectively, from the mortgage bonds issued by the Bank (see Note 10).

Accrued interest payable related OTP group as at December 31, 2005 and 2004 was HUF 22,574 million and HUF 26,873 million, respectively.

Income/expense

During the years ended December 31, 2005 and 2004 the Bank paid HUF 46,689 million and HUF 37,569 million of interest expense to OTP Bank, respectively. Such interest relates to intercompany financing and also issued securities.

During the year ended December 31, 2005 and 2004 the Bank paid HUF 38,391 million and HUF 22,965 million net fees and commissions to OTP Bank, respectively (see Note 15). Such fees and commissions are based on the syndication agreement between the Bank and OTP Bank.

The amount of one-off payments (regarding registration of collateral) of 0.5% on each loan acquired by OTP Mortgage Bank, received from the Hungarian State and transferred to OTP Bank was HUF 442,518 and HUF 1,067,586 as at December 31, 2005 and 2004, respectively (see Note 14).

The account handling fees charged to customers and transferred to OTP were HUF 13,792,400 and HUF 13,658,508 for the years ended December 31, 2005 and 2004, respectively (see Note 15).

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 22: INTEREST RATE RISK MANAGEMENT (in HUF million)

As at December 31, 2005	Within 1 month	Within 3 months and over 1 month	Within 12 months and over 3 months	Within 2 years and over 1 year	Over 2 years	Non-interest-bearing	Total
Assets							
Cash, due from banks and balances with the National Bank of Hungary	64,552	-	-	-	-	2	64,554
<i>fixed interest</i>	64,400	-	-	-	-	-	64,400
<i>variable interest</i>	152	-	-	-	-	-	152
<i>non-interest-bearing</i>	-	-	-	-	-	2	2
Placement with other banks	2,611	-	-	-	-	-	2,611
<i>fixed interest</i>	-	-	-	-	-	-	-
<i>variable interest</i>	2,611	-	-	-	-	-	2,611
Securities available-for-sale	-	-	5,623	863	20,010	-	26,496
<i>fixed interest</i>	-	-	5,623	863	20,010	-	26,496
<i>variable interest</i>	-	-	-	-	-	-	-
Loans, net of allowance for possible loan losses	4,238	9,261	41,769	57,229	736,362	191	849,050
<i>fixed interest</i>	-	-	-	-	-	-	-
<i>variable interest</i>	4,238	9,261	41,769	57,229	736,362	-	848,859
<i>non-interest-bearing</i>	-	-	-	-	-	191	191
Liabilities							
Related party financing	29,383	13,013	-	-	-	-	42,396
<i>fixed interest</i>	29,383	13,013	-	-	-	-	42,396
<i>variable interest</i>	-	-	-	-	-	-	-
Liabilities from issued securities	6,597	30,607	75,547	14,950	678,708	6,292	812,701
<i>fixed interest</i>	6,597	9,607	38,847	14,950	678,708	6,292	755,001
<i>variable interest</i>	-	21,000	36,700	-	-	-	57,700
Net position	35,421	(34,359)	(28,155)	43,142	77,664	(6,099)	87,614

See Note 20.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 22: INTEREST RATE RISK MANAGEMENT (in HUF million) (continued)

As at December 31, 2004	Within 1 month	Within 3 months and over 1 month	Within 12 months and over 3 months	Within 2 years and over 1 year	Over 2 years	Non-interest-bearing	Total
Assets							
Cash, due from banks and balances with the National Bank of Hungary	29,330	-	-	-	-	1	29,331
<i>fixed interest</i>	29,000	-	-	-	-	-	29,000
<i>variable interest</i>	330	-	-	-	-	-	330
<i>non-interest-bearing</i>	-	-	-	-	-	1	1
Placement with other banks	1,500	-	-	-	-	-	1,500
<i>fixed interest</i>	1,500	-	-	-	-	-	1,500
<i>variable interest</i>	-	-	-	-	-	-	-
Securities available-for-sale	-	20,691	13,015	5,543	20,220	-	59,469
<i>fixed interest</i>	-	20,691	13,015	5,543	20,220	-	59,469
<i>variable interest</i>	-	-	-	-	-	-	-
Loans, net of allowance for possible loan losses	98,922	4,159	19,281	28,147	619,703	34	770,246
<i>fixed interest</i>	-	-	-	-	-	-	-
<i>variable interest</i>	98,922	4,159	19,281	28,147	619,703	-	770,212
<i>non-interest-bearing</i>	-	-	-	-	-	34	34
Liabilities							
Related party financing	9	-	-	-	-	-	9
<i>fixed interest</i>	-	-	-	-	-	-	-
<i>variable interest</i>	9	-	-	-	-	-	9
Liabilities from issued securities	21,135	20,500	73,968	-	675,310	-	790,913
<i>fixed interest</i>	-	20,500	37,275	-	675,310	-	733,085
<i>variable interest</i>	21,135	-	36,693	-	-	-	57,828
Net position	108,608	4,350	(41,672)	33,690	(35,387)	35	69,624

See Note 20.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 23: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND
LIQUIDITY RISK (in HUF million)**

(in HUF million)

As at December 31, 2005	Within 3 months	Within one year and over 3 months	Within 5 years and over 1 year	Over 5 years	Total
Assets					
Cash, due from banks and balances with the National Bank of Hungary	64,554	-	-	-	64,554
Placement with other banks	-	-	-	2,611	2,611
Securities available-for-sale	-	5,623	18,921	1,951	26,495
Loans, net of allowance for possible loan losses	13,691	41,768	228,622	564,969	849,050
Accrued interest receivable	3,000	813	-	-	3,813
Premises, equipment and intangible assets, net	-	12	280	30	322
Other assets	7,355	666	-	1,206	9,227
TOTAL ASSETS	88,600	48,882	247,823	570,767	956,072
Liabilities					
Related party financing	42,396	-	-	-	42,396
Liabilities from issued securities	16,186	38,649	330,528	427,337	812,700
Accrued interest payable	15,444	18,750	-	-	34,194
Other liabilities	28,016	76	324	1,422	29,838
TOTAL LIABILITIES	102,042	57,475	330,852	428,759	919,128
Share capital	-	-	-	20,000	20,000
Retained earnings and reserves	-	-	-	16,944	16,944
TOTAL SHAREHOLDER'S EQUITY	-	-	-	36,944	36,944
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	102,042	57,475	330,852	465,703	956,072
LIQUIDITY EXCESS/ (DEFICIENCY)	(13,442)	(8,593)	(83,029)	105,064	-

See Note 20.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 23: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) (continued)

As at December 31, 2004	Within 3 months	Within one year and over 3 months	Within 5 years and over 1 year	Over 5 years	Total
Assets					
Cash, due from banks and balances with the National Bank of Hungary	29,331	-	-	-	29,331
Placement with other banks	1,500	-	-	-	1,500
Securities available-for-sale	20,691	13,015	23,845	1,918	59,469
Loans, net of allowance for possible loan losses	12,492	37,622	199,898	520,234	770,246
Accrued interest receivable	9,385	945	-	-	10,330
Premises, equipment and intangible assets, net	-	4	230	30	264
Other assets	7,954	5	-	18	7,977
TOTAL ASSETS	81,353	51,591	223,973	522,200	879,117
Liabilities					
Related party financing	9	-	-	-	9
Liabilities from issued securities	20,500	37,275	314,101	419,037	790,913
Accrued interest payable	14,180	19,135	-	-	33,315
Other liabilities	17,021	-	-	-	17,021
TOTAL LIABILITIES	51,710	56,410	314,101	419,037	841,258
Share capital	-	-	-	20,000	20,000
Retained earnings and reserves	-	-	-	17,859	17,859
TOTAL SHAREHOLDER'S EQUITY	-	-	-	37,859	37,859
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	51,710	56,410	314,101	456,896	879,117
LIQUIDITY EXCESS/ (DEFICIENCY)	29,643	(4,819)	(90,128)	65,304	-

See Note 20.

OTP MORTGAGE BANK LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 24: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF thousands)

	Retained Earnings and Reserves January 1, 2005	Net income for the year ended December 31, 2005	Dividend	Retained Earnings and Reserves December 31, 2005
Hungarian financial statements	18,382,074	5,610,782	-	16,992,856
<i>Adjustments to Hungarian financial statements:</i>				
Dividend	-	-	(7,000,000)	-
Fair value adjustment of securities available-for-sale	(1,396,230)	-	-	(483,064)
Deferred fees on issuance of securities	1,872,262	(154,172)	-	1,718,090
Fair value adjustment of financial instruments designated as cash-flow hedge	(1,498,206)	(88,947)	-	(1,499,247)
Fair value adjustment of financial instruments designated as fair value hedge	-	(21,454)	-	(21,454)
Provision for securities under Hungarian Accounting Standards	403,157	(151,510)	-	251,647
Deferred taxation	95,735	35,620	-	(14,586)
IFRS financial statements	<u>17,858,792</u>	<u>5,230,319</u>	<u>(7,000,000)</u>	<u>16,944,242</u>

NOTE 25: POST BALANCE SHEET EVENTS

Security issuance

From December 31, 2005 to March 31, 2005 the Bank issued securities with face value of HUF 11,909 thousand.