

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.**

**NATIONAL SAVINGS AND  
COMMERCIAL BANK LTD.**

**UNCONSOLIDATED NON-AUDITED FINANCIAL STATEMENTS  
AND FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2000**



**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.**

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**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
UNCONSOLIDATED BALANCE SHEET, AUDITED AS AT  
DECEMBER 31, 1999 AND NON-AUDITED AS AT JUNE 30, 2000  
(in HUF mn)**

	<b>2000</b>	<b>1999</b>
Cash, Due from Banks and Balances with the National Bank of Hungary	550,122	565,239
Placements with Other Banks, Net of Allowance for Possible Placement Losses	213,570	270,272
Trading Securities	168,081	164,376
Loans, Net of Allowance for Possible Loan Losses	527,481	488,760
Accrued Interest Receivable	23,605	22,422
Investments	24,184	23,982
Investments in Debt Securities	193,196	152,426
Premises, Equipment and Intangible Assets, Net	56,079	55,496
Other Assets	48,614	19,178
<b>TOTAL ASSETS</b>	<b><u>1,804,932</u></b>	<b><u>1,762,151</u></b>
Due to Banks and Deposits from the National Bank of Hungary and Other Banks	37,128	42,208
Deposits from Customers	1,523,520	1,524,688
Liabilities from Issued Securities	2,856	6,848
Accrued Interest Payable	28,219	15,104
Other Liabilities	71,419	48,473
Subordinated Bonds and Loans	17,281	16,634
<b>TOTAL LIABILITIES</b>	<b><u>1,680,423</u></b>	<b><u>1,653,955</u></b>
Share Capital	28,000	28,000
Retained Earnings and Reserves	96,509	80,196
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>124,509</u></b>	<b><u>108,196</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>1,804,932</u></b>	<b><u>1,762,151</u></b>

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.**  
**UNCONSOLIDATED STATEMENT OF OPERATIONS, AUDITED FOR THE YEAR**  
**ENDED DECEMBER 31, 1999 AND NON-AUDITED FOR THE SIX MONTH ENDED**  
**JUNE 30, 2000**  
**( in HUF mn )**

	<b>2000</b>	<b>1999</b>
Interest Income:		
Loans	37,803	81,511
Placements with Other Banks	8,011	23,672
Due from Banks and Balances with the National Bank of Hungary	27,594	46,036
Trading Securities	4,027	14,714
Investments in Debt Securities	15,130	40,304
Total Interest Income	<u>92,565</u>	<u>206 237</u>
Interest Expense:		
Due to Banks and Deposits from the National Bank of Hungary and Other Banks	1,714	4,880
Deposits from Customers	48,588	114,634
Liabilities from Issued Securities	1,280	2,929
Subordinated Bonds and Loans	782	1,456
Total Interest Expense	<u>52,364</u>	<u>123 899</u>
<b>NET INTEREST INCOME</b>	<b>40,201</b>	<b>82,338</b>
Provision for Possible Loan Losses	2,286	7,622
Provision for Possible Placement Losses	8	263
	<u>2,294</u>	<u>7,885</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES</b>	<b>37,907</b>	<b>74,453</b>
Non-Interest Income:		
Fees and Commissions	17,635	30,107
Foreign Exchange Gains and Losses, Net	1,343	2,365
Gains and Losses on Securities, Net	2,282	1,908
Gains and Losses on Real Estate Transactions	(92)	437
Dividend Income	25	7,045
Other	912	2,368
Total Non-Interest Income	<u>22,105</u>	<u>44,230</u>
Non-Interest Expenses:		
Fees and Commissions	2,899	6,242
Personnel Expenses	11,555	24,285
Depreciation and Amortization	5,749	9,362
Other	19,989	46,720
Total Non-Interest Expenses	<u>40,192</u>	<u>86,609</u>
<b>INCOME BEFORE INCOME TAXES</b>	<b>19,820</b>	<b>32,074</b>
Income Taxes	3,500	5,039
<b>INCOME AFTER INCOME TAXES</b>	<b><u>16,320</u></b>	<b><u>27,035</u></b>
Earnings Per Share (in HUF)	618	1,022

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.**  
**UNCONSOLIDATED STATEMENT OF CASH FLOWS, AUDITED FOR THE**  
**YEAR ENDED DECEMBER 31, 1999 AND NON-AUDITED FOR JUNE 30, 2000**  
**(in HUF mn)**

	<b>2000</b>	<b>1999</b>
<b>OPERATING ACTIVITIES</b>		
Income After Income Taxes	16,320	27,035
<i>Adjustments to reconcile income after income taxes to net cash provided by operating activities:</i>		
Depreciation and Amortization	5,749	9,362
Provision for Possible Loan Losses	2,286	7,622
Provision for Possible Placement Losses	8	263
Lower of Cost and Market Adjustment on Trading Securities	-	(105)
Provision for Permanent Diminution in Value of Investments	(514)	5,795
Provision for Possible Losses on Other Assets	2,218	426
Provision/(Credit) for Possible Losses on Off-Balance Sheet Commitments, Contingent Liabilities and Financial Instruments, Net	-	688
Effect of Deferred Taxes	(50)	105
<i>Changes in operating assets and liabilities:</i>		
Net (Increase)/Decrease in Accrued Interest Receivable	(1,183)	12,698
Net (Increase) in Other Assets, Excluding Advances for Investments and Before Provisions for Possible Losses	(31,594)	(6,461)
Net Increase/(Decrease) in Accrued Interest Payable	13,115	(3,365)
Net Increase in Other Liabilities	26,104	6,578
<b>Net Cash Provided by Operating Activities</b>	<b>32,459</b>	<b>60,641</b>
<b>INVESTING ACTIVITIES</b>		
Net Decrease/(Increase) in Placements with Other Banks, Before Provision for Possible Placement Losses	56,694	(30,082)
Net (Increase)/Decrease in Trading Securities, Before Lower of Cost and Market Adjustment	(3,705)	62,181
Net Decrease/(Increase) in Investments, Before Provision for Permanent Diminution in Value	312	(3,994)
Net (Increase)/Decrease in Investments in Debt Securities	(40,770)	103,353
Net (Increase) in Advances for Investments Included in Other Assets	(10)	(1,259)
Net (Increase) in Loans, Before Provision for Possible Loan Losses	(41,007)	(59,085)
Net Additions to Premises, Equipment and Intangible Assets	(6,360)	(17,003)
<b>Net Cash Used in Investing Activities</b>	<b>(34,846)</b>	<b>54,111</b>
<b>FINANCING ACTIVITIES</b>		
Net (Decrease) in Due to Banks and Deposits from the National Bank of Hungary and Other Banks	(5,080)	(562)
Net (Increase)/Increase in Deposits from Customers	(1,168)	112,069
Increase in Subordinated Bonds and Loans	647	995
Profit/Loss on Sale of Own Shares	62	(187)
Net (Decrease) in Liabilities from Issued Securities	(3,992)	(12,054)
Net (Increase) in the Compulsory Reserve established by the National Bank of Hungary	(10,927)	(14,446)
Dividends Paid	(3,199)	(4,456)
<b>Net Cash Provided by Financing Activities</b>	<b>(23,657)</b>	<b>81,359</b>
<b>Net (Increase)/Decrease in Cash and Cash Equivalents</b>	<b>(26,044)</b>	<b>196,111</b>
Cash and Cash Equivalents at the Beginning of the Year	383,338	187,227
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>357,294</b>	<b>383,338</b>

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY,  
AUDITED FOR THE YEAR ENDED DECEMBER 31, 1999 AND  
NON-AUDITED FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2000  
(in HUF mn)**

	<b>Share Capital</b>	<b>Retained Earnings and Reserves</b>	<b>Total</b>
Balance as at January 1, 1999	28,000	58,306	86,306
Income After Income Taxes	-	27,035	27,035
Loss on Sale of Own Shares	-	(187)	(187)
Dividends Proposed on Common Shares	-	(4,751)	(4,751)
Dividends Proposed on Preference Shares	-	(207)	(207)
<b>Balance as at December 31, 1999</b>	<b>28,000</b>	<b>80,196</b>	<b>108,196</b>
Income After Income Taxes	-	16,320	16,320
Profit on Sale of Own Shares	-	62	62
Dividends on Preference Shares	-	(69)	(69)
<b>Balance as at June 30, 2000</b>	<b><u>28,000</u></b>	<b><u>96,509</u></b>	<b><u>124,509</u></b>

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS, AUDITED  
FOR THE YEAR ENDED DECEMBER 31, 1999 AND NON-AUDITED FOR THE SIX  
MONTH PERIOD ENDED JUNE 30, 2000**

**NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS**

**1.1. General**

National Savings and Commercial Bank Ltd. (the "Bank" or "OTP") was established on December 31, 1990, when the predecessor State-owned company was transformed into a limited liability company.

As at December 31, 1994, 79% of the Bank's shares were held directly or indirectly by the Hungarian Government and the remaining 21% were held by domestic investors or represented as own shares (less than 3%). In Spring 1995, 20% of the Bank's shares were transferred by the Hungarian Government to the Hungarian Social Security Funds. Subsequent to the successful privatization of the Bank by a public offering in Summer 1995, the Bank's shares were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London.

At its extraordinary General Assembly, on September 3, 1997, the Bank issued a preferential voting share with a nominal value of HUF 1 thousand (the "Special Share") to the State Privatization and Holding Company. The Special Share gives the power to the State Privatization and Holding Company to control the outcome of certain shareholder votes in accordance with the Bank's Articles of Association and the right to delegate one member to the Bank's Board of Directors and one member to the Supervisory Board of the Bank. After the second public offering in November 1997, as at December 31, 1998 approximately 77% of the Bank's shares were owned by domestic and foreign private and institutional investors and approximately 14% were held by the Hungarian State. The remaining shares were owned by employees (7%) or represented as own shares (2%), respectively.

In fall 1999, the State Privatization and Holding Company sold the remaining common shares. After the third public offering in October 1999, as at December 31, 1999 approximately 93% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares were owned by employees (5%) or represented as own shares (2%), respectively.

On the 30(th) of June, 2000 approximately 92% of the Bank's shares were held by domestic and foreign private and institutional inventors. The remaining shares are owned by employees (5%) and the Bank (3%), respectively.

The Bank provides a full range of commercial banking services through a nationwide network of 441 branches.

**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").

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS, AUDITED  
FOR THE YEAR ENDED DECEMBER 31, 1999 AND NON-AUDITED FOR THE SIX  
MONTH PERIOD ENDED JUNE 30, 2000**

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

**1.2 Accounting (continued)**

Certain of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. In order to present the unconsolidated financial position and results of operations of the Bank in accordance with International Accounting Standards ("IAS"), certain adjustments have been made to the Bank's Hungarian unconsolidated statutory accounts, (see Note 31).

**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.

Revenues and expenses are recorded in the period in which they are earned or incurred.

**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") 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. However, the Bank prepares consolidated financial statements in accordance with International Accounting Standards, the preparation of which is in progress. See Note 2.6 for the description of the method of accounting for investments in subsidiaries and associated companies in these unconsolidated financial statements.



**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS, AUDITED  
FOR THE YEAR ENDED DECEMBER 31, 1999 AND NON-AUDITED FOR THE SIX  
MONTH PERIOD ENDED JUNE 30, 2000**

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

**2.4. Trading securities**

Trading securities consist of discounted and interest bearing Treasury bills, Hungarian Government and Social Security bonds, bonds issued by National Bank of Hungary and commercial companies, own shares and other securities. Other securities include shares in commercial companies, shares in investment funds and bonds issued by Hungarian municipalities. Own shares included in trading securities are purchased on the stock exchange and the over-the-counter market by the Bank.

Interest bearing and other trading securities are included in the unconsolidated financial statements at the lower of acquisition cost and market value as determined on an aggregate portfolio basis. Discounted Treasury bills are included in the unconsolidated financial statements at cost, as adjusted for the amortization of discounts on such securities, which is recognized as income on a straight-line basis during the period from acquisition to maturity and included in accrued interest receivable. Own shares are recorded at acquisition cost.

Gains and losses on the sale of trading securities are determined on the basis of the specific identification of the cost of each security. Gains and losses on the sale of own shares are credited or charged directly to retained earnings and reserves.

**2.5. Loans, placements with other banks and allowance for possible loan and placement losses**

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for possible 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. Loan origination fees and costs are recognized in the Unconsolidated Statement of Operations in full at the time of the loan origination.

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

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS, AUDITED  
FOR THE YEAR ENDED DECEMBER 31, 1999 AND NON-AUDITED FOR THE SIX  
MONTH PERIOD ENDED JUNE 30, 2000**

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

**2.6. Investments**

Investments comprise equity investments and equity securities. Equity investments with a controlling or significant interest include investments in companies in which the Bank holds an equity share of 10% or more and investments made for strategic, regulatory or operational purposes. Equity investments classified as controlling interest comprise those investments where the Bank, through direct and indirect ownership interest, has the power to govern the financial and operating policies of the investee. Equity investments classified as significant interest comprise those investments where the Bank, through direct and indirect ownership interest, has the power to participate in the financial and operating policies of the investee but not to control those activities. Other equity securities comprise shareholdings which do not meet the preceding criteria.

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

**2.7. Investments in debt securities**

Debt securities held for investment purposes are those securities which the Bank has the ability and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government. Debt securities are stated at cost, adjusted for the amortization of premiums or discounts over the period from acquisition to maturity on a straight-line basis. Gains and losses on the sale of debt securities are determined based on the specific identification of the adjusted cost of each security.

**2.8. 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	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%

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS, AUDITED  
FOR THE YEAR ENDED DECEMBER 31, 1999 AND NON-AUDITED FOR THE SIX  
MONTH PERIOD ENDED JUNE 30, 2000**

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

**2.8. Premises, equipment and intangible assets [continued]**

The carrying value of each intangible asset is reviewed annually and adjusted for permanent impairment where it is considered necessary. 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.

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

**2.9. Income Taxes**

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation. Deferred taxation is provided on 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 realized or the liability is settled, based on tax rates that have been enacted at the date of the Unconsolidated Balance Sheet.

**2.10. Off-balance sheet commitments, contingent liabilities and financial instruments**

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit, warranties and transactions with financial instruments. These commitments are recorded in the unconsolidated financial statements if and when they become payable.

The allowance for possible 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.

Changes in the value of off-balance sheet financial instruments used to manage foreign currency exposure are recognized using the same principle as that applied to the recognition of income or expense on the underlying hedged assets or liabilities. Forward differences on foreign exchange financial instruments designated as hedging are accrued on a straight-line basis over the terms of the underlying contracts.

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS, AUDITED  
FOR THE YEAR ENDED DECEMBER 31, 1999 AND NON-AUDITED FOR THE SIX  
MONTH PERIOD ENDED JUNE 30, 2000**

**2.11. Unconsolidated statement of cash flows**

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

**2.12. Comparative figures**

Certain amounts in the 1999 unconsolidated financial statements have been reclassified to conform with presentation of period under review.

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

	<b>2000</b>	<b>1999</b>
Cash on hand:		
In HUF	25,691	49,523
In foreign currency	3,864	3,988
	<u>29,555</u>	<u>53,511</u>
Due from banks and balances with NBH:		
Short-term:		
In HUF	473,932	474,141
In foreign currency	37,039	29,713
	<u>510,971</u>	<u>503,854</u>
Long-term:		
In foreign currency	9,596	7,874
	<u>550,122</u>	<u>565,239</u>

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the balance of compulsory reserves amounted to approximately HUF 192,828 million and HUF 181,901 million as at June 30, 2000 and December 31, 1999 respectively.

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS, AUDITED  
FOR THE YEAR ENDED DECEMBER 31, 1999 AND NON-AUDITED FOR THE SIX  
MONTH PERIOD ENDED JUNE 30, 2000**

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

	<b>2000</b>	<b>1999</b>
Short-term:		
In HUF	51,546	88,925
In foreign currency	153,383	173,947
	<u>204,929</u>	<u>262,872</u>
Long-term:		
In HUF	300	300
In foreign currency	8,588	7,339
	<u>8,888</u>	<u>7,639</u>
 Total	 <u>213,817</u>	 <u>270,511</u>
 Allowance for possible placement losses	 (247)	 (239)
	<u>213,570</u>	<u>270,272</u>

Placements with other banks in foreign currency as at June 30, 2000 and December 31, 1999 bear interest rates in the range from 0.2% to 9.2% and from 1.5% to 8.2%, respectively.

Placements with other banks in HUF as at June 30, 2000 and December 31, 1999 bear interest rates in the range from 9.1% to 14.4% and from 12.3% to 16.2%, respectively.

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

	<b>2000</b>	<b>1999</b>
Balance as at January 1	239	1,738
Provision for possible placement losses	8	263
Write-offs	-	(1,762)
Closing balance	<u>247</u>	<u>239</u>

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS, AUDITED  
FOR THE YEAR ENDED DECEMBER 31, 1999 AND NON-AUDITED FOR THE SIX  
MONTH PERIOD ENDED JUNE 30, 2000**

**NOTE 5:      TRADING SECURITIES (in HUF mn)**

	<b>2000</b>	<b>1999</b>
Hungarian Government discounted Treasury bills	58,386	63,783
Hungarian Government interest bearing Treasury bills	1,339	1,578
Hungarian Government bonds and Social Security bonds	94,747	96,130
Bonds issued by National Bank of Hungary	2,422	-
Own shares	9,449	2,049
Other securities	1,738	836
	<u>168,081</u>	<u>164,376</u>
Lower of cost and market adjustment	-	-
	<u>168,081</u>	<u>164,376</u>

Trading securities are primarily denominated in HUF. Interest rates on trading securities ranged from 4.3% to 16% and from 4% to 18.5% as at June 30, 2000 and December 31, 1999, respectively.

Own shares represent HUF 958 million and HUF 458 million face value as at June 30, 2000 and December 31, 1999, respectively.

An analysis of the lower of cost and market adjustment is as follows:

	<b>2000</b>	<b>1999</b>
Balance as at January 1	0	105
Lower of cost and market adjustment	-	(105)
Closing balance	<u>0</u>	<u>0</u>

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS, AUDITED  
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MONTH PERIOD ENDED JUNE 30, 2000**

**NOTE 6:      LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES  
(in HUF mn)**

	<b>2000</b>	<b>1999</b>
Short-term loans and trade bills (within one year)	248,035	231,785
Long-term loans and trade bills (over one year)	303,056	279,419
	<u>551,091</u>	<u>511,204</u>
Allowance for possible loan losses	(23,610)	(22,444)
	<u>527,481</u>	<u>488,760</u>

Foreign currency loans represent approximately 24% and 22% of the loan portfolio, before allowance for possible losses, as at June 30, 2000 and December 31, 1999, respectively.

Loans denominated in HUF, with a maturity within one year as at June 30, 2000 and December 31, 1999, bear interest rates in the range from 17% to 29% and from 21% to 29%, respectively.

Loans denominated in HUF, with a maturity over one year as at June 30, 2000 and December 31, 1999, bear interest rates in the range from 11.5% to 24.3% and from 15% to 25.5%, respectively.

Approximately 9% and 11% of the gross loan portfolio represented loans on which interest is not being accrued as at June 30, 2000 and December 31, 1999, respectively.

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

	<b>2000</b>		<b>1999</b>	
Commercial loans	335,035	61%	302,697	59%
Municipality loans	49,500	9%	45,652	9%
Housing loans	92,118	17%	95,001	19%
Consumer loans	74,438	13%	67,854	13%
	<u>551,091</u>	<u>100%</u>	<u>511,204</u>	<u>100%</u>

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

	<b>2000</b>	<b>1999</b>
Balance as at January 1	22,444	18,629
Provision for possible loan losses	2,286	7,622
Write-offs	(1,120)	(3,807)
Closing balance	<u>23,610</u>	<u>22,444</u>

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS, AUDITED  
FOR THE YEAR ENDED DECEMBER 31, 1999 AND NON-AUDITED FOR THE SIX  
MONTH PERIOD ENDED JUNE 30, 2000**

**NOTE 7: INVESTMENTS (in HUF mn)**

	<b>2000</b>	<b>1999</b>
Equity investments:		
Controlling interest	27,539	27,352
Significant interest	3,510	3,561
Other	932	1,380
	<u>31,981</u>	<u>32,293</u>
Allowance for permanent diminution in value	(7,797)	(8,311)
	<u>24,184</u>	<u>23,982</u>

As at June 30, 2000 and December 31, 1999, except as follows, all investments were in companies incorporated in Hungary. As at June 30, 2000 and December 31, 1999, the Bank held an investment in a company incorporated in the United Kingdom, the carrying value of which is HUF 1,150 million and HUF 1,143 million, respectively.

Investments in companies in which the Bank has a controlling interest are detailed as follows:

	<b>June 30, 2000</b>		<b>December 31, 1999</b>	
	<b>% Held</b>	<b>Cost</b>	<b>% Held</b>	<b>Cost</b>
	<b>(direct and indirect)</b>		<b>(direct and indirect)</b>	
OTP Garancia Insurance Ltd.	100%	4,874	100%	4,874
OTP Real Estate Ltd.	100%	1,175	100%	1,175
OTP Securities Ltd.	100%	750	100%	750
Merkantil Bank Ltd.	100%	1,600	100%	1,600
OTP Building Society Ltd.	100%	1,950	100%	1,950
HIF Ltd.	100%	1,150	100%	1,143
Bank Center No. 1. Ltd.	100%	9,364	100%	9,364
OTP Factoring Ltd.	100%	150	100%	150
INGA One Ltd.	100%	407	100%	407
INGA Two Ltd.	100%	5,892	100%	5,892
OTP Funds Servicing and Consulting Ltd.	100%	180	-	-
Other	100%	47	100%	47
		<u>27,539</u>		<u>27,352</u>

During 1999 Bank Center No. 1. Ltd. sold the office building which represented its primary asset. As a result of this transaction, Bank Center No. 1. Ltd. paid a dividend of HUF 6,820 million to the Bank and the Bank recorded a provision for permanent diminution in value of HUF 3,006 million against the equity investment in Bank Center No. 1. Ltd.



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**NOTE 7: INVESTMENTS (in HUF mn) [continued]**

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

	<b>2000</b>	<b>1999</b>
Balance as at January 1	8,311	2,516
Provision for permanent diminution in value	(514)	5,795
Closing balance	<u>7,797</u>	<u>8,311</u>

**NOTE 8: INVESTMENTS IN DEBT SECURITIES (in HUF mn)**

	<b>2000</b>	<b>1999</b>
Government securities	182,199	139,718
Other debt securities	10,997	12,708
	<u>193,196</u>	<u>152,426</u>

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

	<b>2000</b>	<b>1999</b>
Within five years, variable interest	51,999	32,187
Within five years, fixed interest	72,083	55,915
	<u>124,082</u>	<u>88,102</u>
Over five years, variable interest	62,855	61,616
Over five years, fixed interest	6,259	2,708
	<u>69,114</u>	<u>64,324</u>
Total	<u>193,196</u>	<u>152,426</u>

Approximately 87% and 84% of the debt securities portfolio was denominated in HUF as at June 30, 2000 and December 31, 1999, 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 9.3% to 16% and from 9.5% to 16% as at June 30, 2000 and December 31, 1999, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

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**NOTE 9:     **PREMISES, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)****

	<b>2000</b>	<b>1999</b>
Land and buildings	29,681	28,011
Machinery and equipment	43,817	39,447
Construction in progress	3,308	5,194
Intangible assets	19,318	17,473
	<u>96,124</u>	<u>90,125</u>
Accumulated depreciation and amortization	(40,045)	(34,629)
	<u>56,079</u>	<u>55,496</u>

**NOTE 10:     **OTHER ASSETS (in HUF mn)****

	<b>2000</b>	<b>1999</b>
Receivables due to collection of Hungarian Government securities	324	316
Property held for sale	1,597	1,680
Due from Government for interest subsidies	2,849	770
Trade receivables	1,327	1,862
Advances for securities and investments	524	514
Deferred tax asset	285	235
Taxes recoverable	771	350
Inventories	1,298	1,222
Other advances	507	1,259
Credits sold under deferred payment scheme	4,420	1,177
Subsidies paid on behalf of the Government	663	749
Dividends receivable from Bank Center No. 1. Ltd.	-	6,820
Margin account balance	286	-
Accounts with Investment Funds and Pension Funds	10,025	14
Mixed asset account	8,228	2,378
Other	19,138	1,242
	<u>52,242</u>	<u>20,588</u>
Allowance for possible losses on other assets	(3,628)	(1,410)
	<u>48,614</u>	<u>19,178</u>

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**NOTE 10: OTHER ASSETS (in HUF mn) [continued]**

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

	<b>2000</b>	<b>1999</b>
Balance as at January 1	1,410	984
Provision for possible losses	2,218	426
Closing balance	<u>3,628</u>	<u>1,410</u>

**NOTE 11: DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)**

	<b>2000</b>	<b>1999</b>
Within one year:		
In HUF	3,750	10,622
In foreign currency	13,559	9,790
	<u>17,309</u>	<u>20,412</u>
Over one year:		
In HUF	11,538	12,908
In foreign currency	8,281	8,888
	<u>19,819</u>	<u>21,796</u>
Total	<u>37,128</u>	<u>42,208</u>

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at June 30, 2000 and December 31, 1999, bear interest rates in the range from 10.8% to 11% and from 12.3% to 14%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at June 30, 2000 and December 31, 1999, bear interest rates in the range from 3% to 11% and from 3% to 15.5%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at June 30, 2000 and December 31, 1999, bear interest rates in the range from 0.1% and 7.8% and from 1.9% and 7.1%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at June 30, 2000 and December 31, 1999, bear interest rates in the range from 3.1% and 9.2% and from 1.2% to 9.2%, respectively.

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**NOTE 12: DEPOSITS FROM CUSTOMERS (in HUF mn)**

	<b>2000</b>	<b>1999</b>
Within one year:		
In HUF	1,132,047	1,159,722
In foreign currency	330,558	325,402
	<u>1,462,605</u>	<u>1,485,124</u>
Over one year:		
In HUF	60,915	39,564
	<u>60,915</u>	<u>39,564</u>
 Total	 <u>1,523,520</u>	 <u>1,524,688</u>

Deposits from customers payable in HUF within one year as at June 30, 2000 and December 31, 1999, bear interest rates in the range from 2% and 9.3% and from 3% to 11.8%, respectively.

Deposits from customers payable in HUF over one year as at June 30, 2000 and December 31, 1999, bear interest rates in the range from 7.3% and 9.5% and from 9.8% to 11.8%, respectively.

Deposits from customers payable in foreign currency as at June 30, 2000 and December 31, 1999, bear interest rates in the range from 0.1% to 4.8% and from 0.1% to 4.2%, respectively.

**NOTE 13: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)**

	<b>2000</b>	<b>1999</b>
With original maturity:		
Within one year	1,172	2,080
Over one year	1,684	4,768
	<u>2,856</u>	<u>6,848</u>

Liabilities from issued securities are denominated in HUF at interest rates in the range from 4.8% to 8.8% and from 7% to 10.8% as at June 30, 2000 and December 31, 1999, respectively.

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**NOTE 14: OTHER LIABILITIES (in HUF mn)**

	<b>2000</b>	<b>1999</b>
Taxes payable	1,863	1,173
Giro clearing accounts	23,465	12,031
Accounts payable	311	3,922
Liabilities from finance leases	36	64
Salaries and social security payable	3,196	3,732
Liability from security trading	6,943	4,557
Allowances for possible losses on off-balance sheet commitments, contingent liabilities and financial instruments	2,985	3,039
Margin account balance	-	84
Dividends payable	2,194	5,324
Accrued expenses	5,240	5,078
Suspense accounts	19,623	4,506
Other	5,563	4,963
	<u>71,419</u>	<u>48,473</u>

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

	<b>2000</b>	<b>1999</b>
Allowance for litigation	931	1,042
Allowance for other off-balance sheet commitments, contingent liabilities and financial instruments	1,308	1,197
Allowance for housing warranties	746	800
Closing balance	<u>2,985</u>	<u>3,039</u>

The allowance for possible losses on other off-balance sheet commitments, contingent liabilities and financial instruments, primarily relates to commitments stemming from guarantees issued by the Bank.

As part of its operations, until 1991, the Bank financed and constructed residential accommodations for resale on which it was required to provide a ten year guarantee against defective workmanship. The Bank has recourse against the constructors for any claims. The recovery of such claims is, however, dependent upon the financial status of the constructors, which is impaired in certain cases. An allowance has been recorded to account for the estimated possible future losses due to housing warranties.

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**NOTE 14: OTHER LIABILITIES (in HUF mn) [continued]**

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

	<b>2000</b>	<b>1999</b>
Balance as at January 1	3,039	3,051
Provision/(credit) for off-balance sheet commitments, contingent liabilities and financial instruments, net	-	688
Write-off of allowance for future redundancies and housing warranties	(54)	(700)
Closing balance	<u>2,985</u>	<u>3,039</u>

**NOTE 15: SUBORDINATED BONDS AND LOANS**

In 1993, the Bank issued HUF 5 billion 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 annual interest payable was 14.06% as at June 20, 2000 and will be 11.34% as at December 20, 2000, respectively. 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 subordinated loan from the European Bank for Reconstruction and Development. The loan has a ten-year maturity, with interest payable at six-month LIBOR + 1.0% from December 29, 2000 until June 28, 1999, at six-month LIBOR + 1.7% from June 28, 1999 until December 27, 2004 and at six-month LIBOR + 2.5% from December 27, 2004 until December 27, 2006.

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**NOTE 16: SHARE CAPITAL (in HUF mn)**

	<b>2000</b>	<b>1999</b>
Authorized, issued and fully paid:		
Common shares of HUF one thousand each	26,850	26,850
Preference shares of HUF one thousand each	1,150	1,150
	<u>28,000</u>	<u>28,000</u>

Preference shares are non-voting, entitle bearers to a minimum 12% dividend and rights for such dividends are cumulative. In the event insufficient dividends are paid to the preferred shareholders for two consecutive years, the preference shares will automatically receive voting rights until the accumulated dividends are paid.

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

The Bank reacquires its own shares for various purposes (see Note 5).

**NOTE 17: RETAINED EARNINGS AND RESERVES (in HUF mn)**

	<b>2000</b>	<b>1999</b>
Balance as at January 1	80,196	58,306
Income after income taxes	16,320	27,035
Loss on sale of own shares	62	(187)
Dividends	(69)	(4,958)
Closing balance	<u>96,509</u>	<u>80,196</u>

The Bank's reserves under Hungarian Accounting Standards were HUF 85,658 million and HUF 72,653 million as at June 30, 2000 and December 31, 1999, respectively. Of these amounts, legal reserves represent HUF 23,932 million and HUF 22,362 million, respectively. The legal reserve is not available for distribution.

Dividends for the year ended December 31, 1999 represent the dividends declared by the Bank's shareholders for both preference and common shares at the Annual General Meeting in 2000.

Dividends for the six month period ended June 30, 2000 represent the pro-rata portion of the 12% dividend for preference shares.

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**NOTE 18: OTHER EXPENSES (in HUF mn)**

	<b>2000</b>	<b>1999</b>
Provision for permanent diminution in value of investments	(514)	5,795
Provision for other assets	2,218	426
Provision/(credit) for possible losses on off-balance sheet commitments, contingent liabilities and financial instruments	-	688
Administration expenses, including rent	7,526	16,391
Advertising	680	2,181
Taxes, other than income	3,214	8,044
Services	4,920	10,574
Professional fees	1,052	2,213
Other	893	408
	<u>19,989</u>	<u>46,720</u>

**NOTE 19: INCOME TAXES (in HUF mn)**

The Bank is presently liable for income tax at a rate of 18% of taxable income.

A reconciliation of the income tax charge is as follows:

	<b>2000</b>	<b>1999</b>
Current tax	3,550	4,934
Deferred tax	(50)	105
	<u>3,500</u>	<u>5,039</u>

A reconciliation of the deferred tax asset is as follows:

	<b>2000</b>	<b>1999</b>
Opening balance	235	340
Deferred tax credit	50	(105)
	<u>285</u>	<u>235</u>



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**NOTE 19: INCOME TAXES (in HUF mn) [continued]**

A reconciliation of the income tax charge is as follows:

	<b>2000</b>	<b>1999</b>
Income before income taxes	19,820	32,074
Permanent differences due to movements		
in statutory provisions	900	1,301
Dividend income	(25)	(7,045)
Other permanent differences	(1,250)	1,662
Adjusted tax base	<u>19,445</u>	<u>27,992</u>
 Income tax at 18%	 <u>3,500</u>	 <u>5,039</u>

**NOTE 20: OFF-BALANCE SHEET COMMITMENTS, CONTINGENT  
LIABILITIES AND FINANCIAL INSTRUMENTS (in HUF mn)**

	<b>2000</b>	<b>1999</b>
Commitments:		
Forward purchase commitments, foreign exchange	107,739	27,912
Forward purchase commitments, securities	0	26,751
Repurchase agreements	132	144
	<u>107,871</u>	<u>54,807</u>
 Contingent liabilities:		
Commitments to extend credit	174,511	145,917
Guarantees arising from banking activities	18,794	14,917
Confirmed letters of credit	806	3,163
Options	15,549	12,155
Not real sale and repurchase agreement is securities	10,040	-
Local tax contingency	542	542
	<u>220,242</u>	<u>176,694</u>
	<u>328,113</u>	<u>231,501</u>

The Bank employs derivative financial instruments primarily to hedge the foreign exchange exposure generated by the sale of foreign currency against HUF which are designed to benefit from the relatively high interest rates on HUF placements. These financial instruments are designed as hedges of underlying exposures identified as portions of the Bank's foreign currency assets and liabilities. Because of the correlation between these financial instruments and the underlying exposures being hedged, fluctuations in the value of the financial instruments are offset by the changes in the value of the underlying exposure.

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**NOTE 20: OFF-BALANCE SHEET COMMITMENTS, CONTINGENT  
LIABILITIES AND FINANCIAL INSTRUMENTS (in HUF mn)  
[continued]**

The Bank has a legal case against the Municipality of Budapest in connection with local tax paid in previous years. The Bank paid the total amount of local tax due, but the Municipality of Budapest has challenged the allocation of the tax between the various Hungarian municipalities. The total amount of local tax being claimed by the Municipality of Budapest is HUF 542 million. Management believes this claim by the Municipality of Budapest to be groundless and is vigorously defending the Bank against this claim.

For an analysis of the allowance for possible losses on off-balance sheet commitments, contingent liabilities and financial instruments, see Note 14.

**NOTE 21: RELATED PARTY TRANSACTIONS**

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

During the half-year ended June 30, 2000 and the year ended December 31, 1999 the Bank sold, without recourse, non-performing loans and the related accrued interest receivable to OTP Factoring for HUF 255 million and HUF 808 million, respectively. The gross book value of such credits was HUF 1,353 million and HUF 4,657 million, respectively, with a corresponding allowance for possible loan losses of HUF 825 million and HUF 4,098 million, respectively. The underlying mortgage rights were also transferred to OTP Factoring. Gains related to such transaction are included in the unconsolidated financial statement.

Commissions received by the Bank from OTP Securities in relation to securities transactions were HUF 599 million and HUF 1,500 million for the six month period ended June 30, 2000 and for the year ended December 31, 1999, respectively. Gains recorded by the Bank from the sale of securities to OTP Securities were HUF 1,100 million and HUF 500 million for the half-year ended June 30, 2000 and year ended December 31, 1999, respectively.

Commissions received by the Bank from OTP Building Society in relation to finalised customer contracts were HUF 130 million and HUF 214 million for the six month period ended June 30, 2000 and for the year ended December 31, 1999, respectively.

Insurance premiums paid by the Bank to OTP Garancia Insurance were HUF 225 million and HUF 613 million for the six month period ended June 30, 2000 and for the year ended December 31, 1999, 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.

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**NOTE 22: CASH AND CASH EQUIVALENTS (in HUF mn)**

	<b>2000</b>	<b>1999</b>
Cash, due from banks and balances with the NBH	550,122	565,239
Compulsory reserve established by the NBH	(192,828)	(181,901)
	<u>357,294</u>	<u>383,338</u>

**NOTE 23: 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 41,924 million and HUF 42,361 million as at June 30, 2000 and December 31, 1999, respectively.

**NOTE 24: CONCENTRATION OF ASSETS AND LIABILITIES**

Approximately 48% and 46% of the Bank's total assets consisted of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary June 30, 2000 and December 31, 1999, respectively.

There were no other significant concentrations of the Bank's assets or liabilities as at June 30, 2000 and December 31, 1999, respectively.

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**NOTE 25: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND  
LIQUIDITY RISK AS AT JUNE 30, 2000 (in HUF mn)**

	<b>Short-term (within one year)</b>	<b>Long-term</b>	<b>Total</b>
Cash, Due from Banks and Balances with the National Bank of Hungary	540,526	9,596	550,122
Placements with Other Banks, Net of Allowance for Possible Placement Losses	204,682	8,888	213,570
Trading Securities	168,081	-	168,081
Loans, Net of Allowance for Possible Loan Losses	241,184	286,297	527,481
Accrued Interest Receivable	23,605	-	23,605
Investments	-	24,184	24,184
Investments in Debt Securities	10,407	182,789	193,196
Premises, Equipment and Intangible Assets, Net	-	56,079	56,079
Other Assets	48,614	-	48,614
<b>TOTAL ASSETS</b>	<u>1,237,099</u>	<u>567,833</u>	<u>1,804,932</u>
Due to Banks and Deposits from the National Bank of Hungary and Other Banks	17,309	19,819	37,128
Deposits from Customers	1,462,605	60,915	1,523,520
Liabilities from Issued Securities	1,172	1,684	2,856
Accrued Interest Payable	28,219	-	28,219
Other Liabilities	71,419	-	71,419
Subordinated Bonds and Loans	-	17,281	17,281
<b>TOTAL LIABILITIES</b>	1,580,724	99,699	1,680,423
Share Capital	-	28,000	28,000
Retained Earnings and Reserves	-	96,509	96,509
<b>TOTAL SHAREHOLDERS' EQUITY</b>	-	124,509	124,509
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>1,580,724</u>	<u>224,208</u>	<u>1,804,932</u>
<b>LIQUIDITY (DEFICIENCY)/EXCESS</b>	<u>(343,625)</u>	<u>343,625</u>	<u>0</u>

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**NOTE 26: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)**

**As at June 30, 2000**

	USD	EUR	Others	Total
Assets	151,377	180,423	48,832	380,632
Liabilities	(156,168)	(163,241)	(45,940)	(365,349)
Off-balance sheet assets and liabilities, net	3,916	(14,774)	(2,823)	(13,681)
Net position	<u>(875)</u>	<u>2,408</u>	<u>69</u>	<u>1,602</u>

**As at December 31, 1999**

	USD	EUR	Others	Total
Assets	139,327	174,398	47,660	361,385
Liabilities	(136,794)	(171,278)	(47,497)	(355,569)
Off-balance sheet assets and liabilities, net	(28)	2,099	36	2,107
Net position	<u>2,505</u>	<u>5,219</u>	<u>199</u>	<u>7,923</u>

EUR includes items denominated in EURO, DEM and ATS

**NOTE 27: FAIR VALUE ANALYSIS OF MONETARY ASSETS AND LIABILITIES**

	2000	1999
Trading Securities and Investments in Debt Securities:		
Carrying Value	<u>361,277</u>	<u>316,802</u>
Fair Value	<u>380,504</u>	<u>338,122</u>

The fair value of both trading and investment securities has been determined based on the market rates for publicly quoted securities. For those securities which are not publicly quoted, the management of the Bank has employed other methods to determine fair value, including discounted cash flow analysis.

With the exception of those items listed above and described in the following paragraph, the fair value of other financial instruments approximates their carrying value at June 30, 2000 and December 31, 1999.

It is not practicable within the constraints of timeliness or cost to determine the fair value of investments in equity securities with sufficient reliability; information about the principal characteristics of those items are separately disclosed.

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**NOTE 28: INTEREST RATE RISK MANAGEMENT**

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. Interest rate risk mismatch is limited to a very short-term portion of the Bank's unconsolidated assets and liabilities.

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.

**NOTE 29: 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

	<b>2000</b>	<b>1999</b>
Income after income taxes (in HUF mn)	16,320	27,035
Declared preference dividends (in HUF mn)	(69)	(207)
<hr/>		
Income after income taxes for the year attributable to common shareholders (in HUF mn)	<u>16,251</u>	<u>26,828</u>
Weighted average number of common shares outstanding during the year (piece)	26,281,198	26,244,367
Earnings per share (in HUF)	<u>618</u>	<u>1,022</u>

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

**NATIONAL SAVINGS AND COMMERCIAL BANK LTD.  
NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS, AUDITED  
FOR THE YEAR ENDED DECEMBER 31, 1999 AND NON-AUDITED FOR THE SIX  
MONTH PERIOD ENDED JUNE 30, 2000**

**NOTE 30: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED  
UNDER HUNGARIAN ACCOUNTING STANDARDS AND  
FINANCIAL STATEMENTS PREPARED UNDER IAS (in HUF mn)**

	Retained Earnings and Reserves January 1, 2000	Income for the six month period ended June 30, 2000	Dividends	Direct Movements on Reserves	Retained Earnings and Reserves June 30, 2000
Hungarian financial statements	72,653	15,707	(69)	2	88,293
Adjustments to Hungarian financial statements:					
Reversal of statutory general provision	7,444	399	-	-	7,843
Reversal of statutory provision for net foreign currency position	452	-	-	-	452
Reversal of statutory country risk provision	566	501	-	-	1,067
Premium and discount amortization on investment securities	280	(280)	-	-	-
Allowance for possible loan losses	(1,340)	-	-	-	(1,340)
Allowance for possible losses on off-balance sheet commitments, contingent liabilities and financial instruments	(800)	54	-	-	(746)
Increase of investment in subsidiary	950	-	-	-	950
Difference in accounting for finance leases	(252)	165	-	-	(87)
Deferred taxation	235	50	-	-	285
Difference in accounting for off balance sheet financial instruments	(534)	(216)	-	-	(750)
Profit/loss on sale of own shares	-	(62)	-	62	-
Reclassification of direct charges	-	2	-	(2)	-
Reclassification of direct charge related to local tax	542	-	-	-	542
International financial statements	<u>80,196</u>	<u>16,320</u>	<u>(69)</u>	<u>62</u>	<u>96,509</u>