# Management's Analysis

OTP BANK

# Management's Analysis of Developments in the Bank's Asset and Financial Position[4, 5]

## CONSOLIDATED FINANCIAL RESULTS OF OTP BANK ACCORDING TO IFRS

### Consolidated balance sheet

The balance sheet total of the group as at December 31, 2005 amounted to HUF 5,215.9 billion, which was 25.3%, or HUF 1,053.5 billion, higher than in the previous year, and which exceeded the Bank's non-consolidated year-end 2005 balance sheet total by 45.2%.

### OTP Bank Ltd.'s consolidated balance sheet

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

[4] Based on IFRS audited data

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

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

On the assets side, cash, due from banks and balances with the National Bank of Hungary were 3.7% higher than a year earlier. Placements with other banks, due in part to the Bank's modified placement structure, grew by 53.3% from the end of December 2004, amounting to HUF 438.8 billion as at December 31, 2005. Financial assets at fair value through profit or loss fell by 31.9% to HUF 48.1 billion over the year. Within this, the size of the portfolio of securities held for trading was 43.5%, or HUF 29.3 billion lower than at year-end 2004.
The size of the portfolio of securities available-for-sale increased by 38.6%, or HUF 114.1 billion, during the year.
Loans, net of allowance for loan losses, rose by 27.3%, i.e. from HUF 2,506.8 billion as at December 31, 2004 to HUF 3,191.3 billion. As at December 31, 2005, of the consolidated gross customer loan portfolio (HUF 3,297.2 billion, annual change: +27.5%), the share of corporate loans was 36.3% (HUF 1,195.4 billion, annual change: +29.8%), that of retail loans 59.6% (HUF 1,965.8 billion, +27.0%), and loans to municipalities 4.1% (HUF 136.0 billion, +15.2%). Within the retail loan portfolio, housing and mortgage loans represented HUF 1,222.4 billion (+20.4%), and consumer loans HUF 743.4 billion (+39.8%). The Bank's foreign subsidiaries contributed 23.2% (HUF 786.0 billion) to the aggregated loan portfolio as at December 31, 2005. Besides the consolidation of OTP banka Hrvatska, a major role in the growth of the loan portfolio during the 12 months to December 31, 2005 was played by OTP Bank (corporate loans before consolidation +96.9 billion HUF, retail loans +89.8 billion HUF; total: HUF 201.6 billion); DSK (corporate loans +19.8 billion HUF, consumer loans +62.3 billion HUF, mortgage loans +28.9 billion HUF; total +111.0 billion HUF); the Mortgage Bank's loan portfolio (+79.0 billion HUF); Merkantil Bank's car financing loans (+75.6 billion HUF) and OBS (corporate loans +34.2 billion HUF, mortgage loans +15.1 billion HUF; total +55.4 billion HUF).

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

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

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

The quality of the IFRS loan portfolio was good at the end of 2005: performing receivables represented 87.2% of the total volume, the share of the "to-be-monitored" category was 9.1%, and non-performing loans accounted for 3.6%, with this latter figure having risen 0.1 of a percentage point compared to the previous year. 18.2% of the consolidated qualified portfolio and 23.5% of the non-performing loans were recorded on the balance sheets of the Bank's foreign subsidiaries.

## Consolidated gross loan volume by qualifying categories

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

IFRS consolidated provisions for loan and placement losses were HUF 105.9 billion, of which HUF 101.4 billion related to the qualified portfolio, and which resulted in a provisioning coverage ratio of 24.1%. Within this, HUF 89.6 billion was available to cover the HUF 119.1 billion in non-performing loans, which meant a coverage ratio of 75.2%.

## Coverage of qualified customer loans

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

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

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

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

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

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

Compared to the end of December 2004, the deposit portfolio of the parent bank and of DSK grew considerably. OTP Bank's corporate deposit portfolio increased by HUF 42.1 billion and its retail deposit total by HUF 131.8, while municipality deposits decreased by HUF 8.4 billion.
At DSK, the increase in the deposit portfolio was HUF 101.1 billion, of which the growth in the retail portfolio accounted for HUF 69.1 billion.
The portfolio of issued securities grew by 71.3% over the year, amounting to HUF 543.5 billion by year-end. Growth was attributable to OTP Bank's issuance of foreign currency-based bonds in a total nominal value of EUR 800 million in the third and fourth quarters of 2005.

## Consolidated results

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

## Consolidated income statement of OTP Bank

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

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

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

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

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

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

exceeded those of 2004 by 17.2%, and the Bank's non-consolidated figure by 89.6%. Consolidated personnel expenses were 19.7% higher than a year earlier. The increase in personnel expenses already contains the impact of the IFRS 2 standard (HUF 7.5 billion). Depreciation fell considerably relative to 2004, by HUF 7.3 billion. Other non-interest expenses grew by 21.0%, to HUF 98.1 billion. In 2005, non-corporate taxes represented an expense of HUF 27.7 billion, 77.1% more than in 2004. Within this, the separate tax imposed on credit institutions and financial enterprises (net interest income tax) was also recognised among other expenses, in an amount of HUF 10.2 billion. Without the separate credit institutions tax, the increase in consolidated non-interest expenses was 13.1%.

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

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

# NON-CONSOLIDATED FINANCIAL RESULTS OF OTP BANK ACCORDING TO IFRS

## Non-consolidated balance sheet

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

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

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

## Non-consolidated balance sheet of OTP Bank

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

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

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

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

## Non-consolidated gross loan volume by qualifying categories

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

The quality of the loan portfolio was good at the end of December 2005: performing receivables represented 94.7% of the total volume, the same as in 2004. The "to-be-monitored" category accounted for 3.0% of the total, and non-performing loans for 2.3%. The coverage ratio in respect of the qualified portfolio was 28.1%, and for non-performing loans, 53.4%.

## Coverage of qualified customer loans

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

The portfolio of securities held-to-maturity rose by 2.8% in 2005, to HUF 521.8 billion, of which the portfolio of government bonds accounted for HUF 201.4 billion and the portfolio of mortgage bonds for HUF 289.8 billion.

On the liabilities side, deposits from customers grew by 7.1% from December 31, 2004. The share of deposits from customers in the Bank's liabilities fell from 76.6% in 2004 to 69.8%. Of the deposits from customers, amounting to a total of HUF 2,506.5 billion, 88.1% were forint deposits. 74.6% of the deposit total (HUF 1,870.4 billion; an annual increase of 7.6%) consisted of retail deposits, while corporate deposits represented 18.9% (a 9.8% increase) and municipal deposits, 6.5% (a 5.0% fall).

## Non-consolidated deposit volume of OTP Bank

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

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

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

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

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

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

## Non-consolidated results

OTP Bank's pre-tax profit according to IFRS was HUF 155.8 billion in 2005, which exceeded the previous year's result by HUF 23.4 billion, or 17.7%. The increase in profits was attributable to a dynamic, 17.0% growth in income (including net commissions and net interest income before provisioning), an 11.2% increase in non-interest expenses net of commissions paid, which was significantly less than the increase in non-interest income, and to a HUF 7.8 billion rise in provisions. Dividends received accounted for HUF 5.4 billion of the growth in income. The increase in pre-tax profits, calculated using tax conditions comparable to those as of the base period (i.e. excluding the HUF 10.2 billion expense-increasing impact of he introduction in 2005 of the special tax imposed on credit institutions and financial enterprises), was HUF 25.4%.

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

Basic and diluted earnings per ordinary share (EPS) were HUF 492 and HUF 488 respectively in 2005 (in 2004: HUF 420 and HUF 418).

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

## Non-consolidated income statement of OTP Bank

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

The Bank's net interest income grew by 11.6%, from HUF 151.1 billion to HUF 168.6 billion, in 2005, as a result of a 3.3% increase in interest income and a 19.4% fall in interest expenses. Interest income from loans accounted for 52.4% of interest income in 2005, which represents an expansion of 7.6% over the year (6.9% without the gains on swap deals). Gains on swap deals accounted for HUF 0.9 billion of the HUF 147.4 billion in income.
Within interest income, income from placements with other banks (gains/losses on swap deals excluded) dropped by 14.4%, due primarily to market rates of interest. Income from interest on securities held-to-maturity fell by 26.2% compared to 2004, and amounted to HUF 39.3 billion in 2005, which represented 14.0% of total interest income.
Recorded among interest revenue from interbank placements and loans, as well as under interest expense related to liabilities towards banks and interest expense towards customers, was the net HUF 7.3 billion interest result from swap transactions, which was HUF 8.5 billion less than in 2004.
By far the bulk of interest expenses, 72.3%, was accounted for by interest paid on customer deposits in 2005 (in 2004: 85.2%), which fell by 31.6%, to HUF 81.5 billion. The interest paid on issued securities amounted to HUF 1.7 billion, with the HUF 1.5 billion increase being attributable to the significant expansion of the volume of securities issued.
At HUF 16.4 billion, provisions for expected loan and placement losses were 90.5% higher than in 2004. The ratio of provisioning to the average gross loan portfolio was 1.18%, compared to 0.72% in 2004.
In 2005, the Bank's gross interest margin was 5.07%, while the net interest margin (after provisioning) was 4.58%, respectively a 15 and 34 basis point decrease compared

to 2004. Without recognition of the interest result from swap deals, in 2005 the gross interest margin was 4.86%, while the net interest margin was 4.36%, with the former representing an 18 basis point increase, and the latter a 2 basis point decrease compared to 2004. Non-interest income grew by HUF 32.1 billion, or 25.4%, to HUF 158.4 billion. 86.0% of non-interest income, which amounted to HUF 136.3 billion (representing a growth of 20.3%) in 2005, came from fees and commissions received. Fees and commissions paid rose by 42.8%, to HUF 13.8 billion, and thus net fees and commissions were 18.2% higher than in 2004, amounting to HUF 122.4 billion. Net price gains on securities were HUF 3.1 billion, compared to HUF 1.1 billion in 2004, while the net result of foreign exchange transactions was a profit of HUF 1.6 billion, compared to HUF 0.9 billion in 2004. In 2005, the Bank received HUF 13.9 billion in dividends from its subsidiaries, compared to HUF 8.5 billion 2004. Other income grew by 33.4%, to HUF 3.5 billion, compared to 2004.
Non-interest expenses, amounting to HUF 154.8 billion, were 13.5% higher in total than a year earlier. Within this, personnel expenses grew by 14.9% to HUF 62.4 billion (of which HUF 7.5 billion was attributable to the adoption of the IFRS 2 standard), while depreciation rose by 13.8% to HUF 15.2 billion. Other non-interest expenses, amounting to HUF 63.3 billion, were 7.3% higher than in 2004. Within this, the special tax imposed on credit institutions and financial enterprises was also recognised among other expenses, in an amount of HUF 10.2 billion. Without the separate credit institutions and financial enterprises tax, the growth in non-interest expenses was 6.0%. The Bank's cost-to-income ratio (according to a calculation method similar to the one used in Hungary) was 45.0% in 2005, which was 233 basis points lower than in 2004 (47.3%). The cost-to-income ratio calculated without the credit institutions tax was 41.8%, or 557 basis points lower than in the previous year.

## Capitalisation, capital adequacy (according to HAR)

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

## Calculation of the capital adequacy ratio

| | 31/12/2004 | 31/12/2005 | Change | |
|---|---|---|---|---|
| | HUF mn | HUF mn | HUF mn | % |
| I. Primary capital elements | 328,510 | 387,123 | 58,613 | 17.8 |
| A) subscribed capital | 28,000 | 28,000 | 0 | 0.0 |
| B) capital reserve | 52 | 52 | 0 | 0.0 |
| C) general reserve | 51,807 | 65,642 | 13,835 | 26.7 |
| D) general risk reserve | 18,120 | 21,534 | 3,41t4 | 18.8 |
| E) profit reserve | 177,401 | 202,544 | 25,143 | 14.2 |
| F) balance sheet profit | 53,130 | 69,351 | 16,221 | 30.5 |
| II. Deductible components of primary capital | 51,950 | 79,192 | 27,242 | 52.4 |
| A) capital subscribed not yet paid | – | – | – | – |
| B) intangible assets | 51,950 | 79,192 | 27,242 | 52.4 |
| III. Primary capital (I–II.) | 276,560 | 307,931 | 31,371 | 11.3 |
| IV. Secondary capital | 12,459 | 42,850 | 30,391 | 243.9 |
| V. Guarantee capital before deductions (III+IV.) | 289,019 | 350,781 | 61,762 | 21.4 |
| VI. Book value of financial institutions. insurance companies and investment services companies and subordinated loans issued to them | 90,099 | 128,810 | 38,711 | 43.0 |
| VII. Guarantee capital according to the rules of prudence (V–VI.) | 198,920 | 221,971 | 23,051 | 11.6 |
| VIII. Capital requirement of limit breaches and sovereign risk | 5,902 | 5,362 | (540) | (9.1) |
| IX. Guarantee capital for calculating the capital adequacy ratio | 193,018 | 216,609 | 23,591 | 12.2 |
| X. Risk-weighted total assets | 1,725,655 | 2,050,855 | 325,200 | 18.8 |
| **XI. Capital adequacy ratio %** | **11.19** | **10.56** | | |

Of the various factors taken into account when calculating the numerator of the solvency ratio, the total of the positive components of the primary capital increased by 17.8% over the course of 2005, while the total of the negative components of the primary capital increased by 52.4%. As a result, the Bank's primary capital increased by 11.3%, or by HUF 31.4 billion, in 2005. The secondary capital that can be taken into account in calculating the guarantee capital rose markedly, by nearly three-and-a-half times its value a year earlier. On December 31, 2005 the guarantee capital before deductions was HUF 350.8 billion, which exceeded the previous year's figure by 24.1%. Of the various deductible factors, the total of investments in financial institutions, insurance companies and investment companies grew by HUF 38.7 billion, or 43.0%, while the amount of capital that needed to be set aside for covering possible limit breaches, as per the Act on Credit Institutions and Financial Enterprises, declined by HUF 0.5 billion, or 9.1%, during 2004. The guarantee capital that may be taken into account for the purpose of calculating the solvency ratio stood at HUF 216.6 billion on December 31, 2005 (a 12.2% growth).

Of the increase in the volume of risk-weighted assets (the adjusted balance sheet total), 74.4% is attributable to the change in the risk-weighted value of balance sheet items and 25.6% to the change in risk-weighted off-balance sheet items.

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

# RESULTS OF THE MAIN SUBSIDIARIES

In 2005 the activities of OTP Bank's subsidiaries were in line with the Bank's targets and with the expectations of the owners. The combined balance sheet totals of the fully consolidated subsidiaries rose by 37.8%, from HUF 2,006 billion to HUF 2,764 billion (of which the balance sheet total of OTP banka Hrvatska, purchased in 2005, was HUF 298.2 billion).
The aggregate after-tax profit of the fully consolidated subsidiaries amounted to HUF 44.0 billion in 2005, which was HUF 5.7 billion, or 14.8%, higher than in 2004.

## Total assets and profit after tax of the fully consolidated subsidiaries

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

## Main indicators of Merkantil Group

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

## Main financial data of Merkantil Group

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

Merkantil Group's aggregate balance sheet total as at December 31, 2005 was HUF 253.2 billion, up by 28.4%, or HUF 56.0 billion, on a year earlier. The group's aggregated after-tax profit for 2005 amounted to HUF 6.4 billion, representing a 67.1% rise from a year earlier.
Merkantil Group concluded close to 63,000 new vehicle financing contracts in 2005, which was 3.9%, or over 2,000 contracts, more than the number of new contracts concluded in 2004. Based on the total number of contracts, the proportion of foreign currency loan facilities was 91%, that of forint-denominated loans was 6.2%, that of cars sold under financial lease contracts was 2.5% and that of permanent lease facilities was 0.3%. The aggregate (gross) loan portfolio was HUF 229.7 billion as at December 31, 2005, which was HUF 57.1 billion, or 33.1%, higher than in the previous year.
In 2005, Merkantil Group achieved HUF 19.0 billion in net interest income, representing a 12.9% rise compared to the previous year.
Non-interest income grew by 9.3%, while non-interest expenses were more than 20.9% lower than in 2004. Gross interest margin was 8.43% in 2005, i.e. 96 basis points lower than in 2004. The group's aggregated cost-to-income ratio was 36.4% in 2005 (in 2004: 44.0%).

## Main indicators of Merkantil Bank Ltd.

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

## Main financial data of Merkantil Bank Ltd.

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

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

78.1% of the HUF 126.0 billion loan portfolio was qualified as of the end of 2005, the bulk of which (92%) had been placed in the "to-be-monitored" category, as the bank automatically includes foreign currency loans in this category. 6.5% of the gross portfolio consisted of non-performing loans.

In addition to the interbank credit line provided by the parent bank, the volume of issued securities – which amounted to HUF 35.0 billion at year-end 2005 and the bulk of which (HUF 33.3 billion) were sold through OTP Bank's branch network – was also significant in the bank's liabilities structure. In addition, the bank had deposit liabilities of HUF 4.6 billion, which was 1.6% lower than at the end of the previous year.

No material change occurred in the distribution of income from business activities in 2005. Interest income and administration fees from vehicle financing continued to provide a decisive contribution to the bank's total interest and interest-type income. The bank earned HUF 7.2 billion in interest revenues in 2005, which was 11.4% higher than in the previous year. The gross interest rate margin calculated on the average asset portfolio was 7.40%.

The bank's provisions for loan and placement losses were HUF 1.9 billion in 2005, which was HUF 1.5 billion higher than in 2004. The net interest margin after provisioning was 5.42%.

The bank's after-tax profit amounted to HUF 2.6 billion, which was HUF 15 million, or 0.6%, higher than in the previous year.

## Main indicators of Merkantil Car Ltd.

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

## Main financial data of Merkantil Car Ltd.

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

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

The (gross) loan portfolio was HUF 103.6 billion as at December 31, 2005, which was HUF 18.5 billion, or 15.1%, lower than in the previous year. 99.6% of the loan portfolio was qualified at year-end 2005, and this was comprised almost exclusively (92%) of the "to-be-monitored" category, due to the fact that foreign-currency loans are automatically included in this category.

Merkantil Car earned HUF 11.6 billion in interest income in 2005, which was 9.8% higher than in the pervious year. The gross interest rate margin calculated on the average asset portfolio was 9.35%.

The Company's provisions for loan and placement losses were HUF 2.7 billion in 2005, which was 2.1% lower than in 2004. Net interest margin after provisioning was 7.15%. The ratio of provisions to the average gross loan and leasing portfolio was 2.13%.

Merkantil Car's after-tax profit rose from HUF 916 million to HUF 3,638 million, or close to four times that of the previous year, in 2005. Its return on average assets (ROAA) was 2.93%, and its return on average equity (ROAE) was 96.5%.

## Main indicators of OTP Building Society Ltd.

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

## Main financial data of OTP Building Society Ltd.

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

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

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

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

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

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

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

## Main indicators of OTP Mortgage Bank Ltd.

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

## Main financial data of OTP Mortgage Bank Ltd.

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

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

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

Along with the expansion of its loan portfolio, the volume of mortgage bonds issued by the Mortgage Bank also grew. As at December 31, 2005, the closing portfolio was HUF 812.7 billion. In accordance with amendments to the law, a new domestic bond issuance program, one that is in line with European regulations, has been developed, which enables the Mortgage Bank to distribute its mortgage bonds not only in forint but also in euro and Swiss francs, in a quick and flexible manner in line with its funding requirements related to receivables purchases.

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

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

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

## Main indicators of OTP Garancia Insurance Ltd.

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

## Main financial data of OTP Garancia Insurance Ltd.

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

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

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

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

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

## Main indicators of OTP Fund Management Ltd.

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

## Main financial data of OTP Fund Management Ltd.

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

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

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

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

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

## Main indicators of DSK Group

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

## Main financial data of DSK Group

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

The group's after-tax profit was HUF 16.6 billion in 2005, representing a 38.2% increase over the 2004 figure, and thus ROAA and ROAE stood at 3.33% and 26.3% respectively at year-end 2005.

DSK Bank's balance sheet total on December 31, 2005 stood at more than HUF 583.4 billion, or 42.1% higher than at year-end 2004, giving DKS Bank a market share of 13.6% and making it Bulgaria's largest bank. The bank's loans grew by 40.6%, further increasing the bank's market share (to 16.2%), and its deposits grew by 30.5%, as a result of which DKS maintained its market-leading position in this respect too (with a share of 14.8%).

The group's shareholders' equity was HUF 71.2 billion as at 2005, representing a 30.6% rise.

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

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

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

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

## Main indicators of OTP banka Hrvatska d.d.*

| | 2004 | 2005 |
|---|---|---|
| ROAA % | – | 1.00 |
| ROAE % | – | 10.6 |
| Cost/income ratio % | – | 67.2 |

## Main financial data of OTP banka Hrvatska d.d.

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

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

As at December 31, 2005 OBH's consolidated balance sheet total was HUF 298.2 billion, which gave the Bank a share of the Croatian market of 3.4%. The Bank's gross loans amounted to HUF 150.5 billion at year-end 2005, which meant its market share was 3.1% at the end of the year. Deposits from customers were HUF 232.5 billion at year-end, corresponding to a market share of 4.1%.

OBH's net interest income was HUF 7.4 billion in 2005. The group's non-interest income reached HUF 3.9 billion, while its non-interest expenses rose to HUF 7.9 billion. Its cost-to-income ratio was 67.2% in 2005.

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

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

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

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

## Main indicators of OTP Banka Slovensko, a. s.

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

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

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

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

In 2005, OBS's credit portfolio rose by 41.1%, to HUF 189.9 billion, representing a 5.3% market share at year-end. Its deposit portfolio rose by 8.5%, to HUF 151.9 billion, in 2005 and its market share was 3.2% as at December 31, 2005. The Bank's shareholders' equity rose by 14.5%, to HUF 17.1 billion, in the reporting period. The Bank's net interest income increased from HUF 4,954 million in 2004 to HUF 5,401 million in 2005. The Bank's non-interest income, compared with the previous year's figure, grew by over 130%, to HUF 6.3 billion, by the end of 2005. Non-interest expenses increased by 24.1% and amounted to HUF 9.3 billion in 2005. OBS's cost-to-income ratio, having dropped by 19 basis points, improved to 78.7% in 2005. OBS's after-tax profit for 2005 according to IFRS amounted to HUF 1.4 billion, compared to HUF 512 million in the previous year. OBS's ROAA was 0.57% at the end of 2005, and its ROAE 8.6%.

OBS will pay HUF 1,116 million in dividend on its after-tax profits in 2005 to OTP Bank.

## Main indicators of OTP Bank Romania S.A.

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

## Main financial data of OTP Bank Romania S.A.

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

OTP Bank Romania's balance sheet total exceeded HUF 55.2 billion as at December 31, 2005, which exceeded the year-end 2004 figure by 23.9%. The Bank's market share based on balance sheet total was 0.64% at year-end 2005. The Bank's shareholders' equity – due mainly to a capital increase of EUR 30 million in September 2005 – amounted to HUF 13.7 billion (representing a 78.5% rise) as at December 31, 2005. The Bank's net interest income (before provisioning) grew by 39.7%, to HUF 1.6 billion, while non-interest income (net fees and commissions included) rose by 164.9% to HUF 1.7 billion.

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

# ASSET-LIABILITY MANAGEMENT

## Liquidity and market risk management

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

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

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

## OTP Group's liquidity and market risk exposure

Pursuant to Government Decree no. 244/2000., the capital requirement for trading book positions, counterparty risks and exchange rate risks must be consolidated in the case of OTP Mortgage Bank Ltd., OTP Buiding Society Ltd., Merkantil Bank Ltd., OBS, DSK, OBR and OBH. As at end-2005, the consolidated capital requirement was HUF 12.2 billion, which was attributable mainly to foreign exchange positions.

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

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

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

## Developments in OTP Bank Ltd.'s liquidity

OTP Bank Ltd.'s liquidity policy: bearing profitability in mind, the Bank should be able to honour its payment obligations when they fall due and execute the necessary transactions. In order to measure liquidity risk exposure, the Bank checks the balance of the mandatory reserve account and the treasury portfolio on a daily basis, and cash flow eight days in advance. It prepares a gap analysis in the form of a maturity balance sheet and determines, based on the plans, the treasury's placement possibilities and/ or its fund raising requirement. The business areas and executive officers concerned receive reports on risk exposure and limit utilisation.

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

By the end of 2005, the volume of foreign currency loans had grown by over one-and-a-half times (57%) the year-end 2004 figure. The growth in foreign currency loans was attributable to the business activity of both the Bank and its subsidiaries. A major part of the loans were extended by the Bank to its affiliates, mainly for vehicle financing. The coverage of foreign currency loans by foreign currency deposits from customers fell from 58% to 41% over the year, and in the case of the euro, from 55% to 40%. In the wake of the foreign bank acquisitions, an increasingly large portion –two thirds – of assets are denominated in foreign currency. In 2005, the value of foreign currency deposits from customers expressed in euro rose by close to 10%, while their forint value, due to the 2.8% weakening of the forint exchange rate, was 11% higher. In 2005, the growth in the share of euro-denominated deposits within foreign currency deposits ceased, and then declined, from 63.6% previously to 61.6%.

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

## OTP Bank Ltd.'s interest rate exposure

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

In 2005 the intra-year gap of the combined forint repricing balance of the banking and trading book portfolio (i.e. the value of the receivables belonging to the given time category less the liabilities belonging to the same time category) was, similarly to the previous years, short, that is, it revealed a substantial excess of liabilities. The Bank's interest rate exposure is largely determined by the fact that almost its entire deposit portfolio is repriced within 3 months, partly since deposits are placed only for short periods and partly because their interest rates are not fixed and are also not tied to money-market instruments, but may, depending on market conditions, be repriced by the Bank entirely at its own discretion, and at the same time, the portfolio of fixed-rated securities held for investment purposes exceeded HUF 600 billion. The share of OTP long-maturity fixed-rated mortgage bonds within OTP Bank's portfolio did not changed substantially, and therefore the average remaining period to maturity (duration) of the aggregate portfolio of mortgage bonds fell by half a year, to 3.25 years, over the course of the year under review. The short-term discount securities issued by the Mortgage Bank expired, and were effectively renewed through the subscription of newly issued short-term fixed-rate mortgage bonds.

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

## OTP Bank Ltd.'s exchange rate exposure

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

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

In 2005, the forint weakened by 2% against the euro. The US dollar strengthened significantly against the euro, which – due to the relative stability of the HUF/EUR cross-rate – strengthened the dollar by 18% against the forint. OTP Bank Ltd. made the most of the opportunities offered by the movements in the market. The profit of the Arbitrage Division was HUF 1.2 billion in 2005.

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

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

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

## Financial Summary (consolidated IFRS data)

**Balance Sheet (in HUF bn)**

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

**Profit and Loss Account (in HUF bn)**

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

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

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

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

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