Management's Analysis

otpbank

Management's Analysis of Developments in the Bank's Asset and Financial Position[1]

CONSOLIDATED FINANCIAL RESULTS OF OTP BANK

Consolidated balance sheet

The balance sheet total of the Group as at December 31, 2006 was HUF 7,097.4 billion, which was 36.1%, or HUF 1,881.5 billion, higher than the year-end figure of the previous year.

The Bank's consolidated shareholders' equity was HUF 788.2 billion, representing an increase of HUF 240.7 billion, or 44.0%, over the previous year. Equity per share (BVPS) was HUF 2,815 as at December 31, 2006.

Consolidated balance sheet of OTP Bank

	31/12/2005	31/12/2006	Change	
	HUF mn	HUF mn	HUF mn	%
Cash, due from banks and balances with the NBH	483,191	532,625	49,434	10.2
Placements with other banks, net of allowance for placement losses	438,768	602,615	163,847	37.3
Financial assets at fair value through statements of operation	48,054	110,576	62,522	130.1
Securities available-for-sale	409,945	489,250	79,305	19.3
Gross loans	**3,297,218**	**4,474,702**	**1,177,484**	**35.7**
Allowance for loan losses	(105,920)	(127,611)	(21,691)	20.5
Loans, net of allowance for loan losses	3,191,298	4,347,091	1,155,793	36.2
Accrued interest receivable	37,870	54,223	16,353	43.2
Equity investments	12,357	70,939	58,582	474.1
Securities held-to-maturity	289,803	268,280	(21,523)	(7.4)
Premises, equipment and intangible assets, net	233,245	464,716	231,471	99.2
Other assets	71,371	157,111	85,740	120.1
Total assets	**5,215,902**	**7,097,426**	**1,881,524**	**36.1**
Due to banks and deposits from the NBH and other banks	364,124	660,417	296,293	81.4
Deposits from customers	**3,428,193**	**4,232,153**	**803,960**	**23.5**
Liabilities from issued securities	543,460	781,315	237,855	43.8
Accrued interest payable	24,902	46,011	21,109	84.8
Other liabilities	260,728	338,591	77,863	29.9
Subordinated bonds and loans	47,023	250,726	203,703	433.2
Total liabilities	**4,668,430**	**6,309,213**	**1,640,783**	**35.1**
Total shareholders' equity	**547,472**	**788,213**	**240,741**	**44.0**
Total liabilities and shareholders' equity	**5,215,902**	**7,097,426**	**1,881,524**	**36.1**

[1] Based on the audited IFRS report

Note: the data in the tables of the analysis do not always reconcile with the sub-totals, and therefore, the data in the various tables containing the same information do not always fully reconcile either.

On the ***assets*** side, cash, due from banks and balances with the National Bank of Hungary were 10.2% higher than a year earlier. Placements with other banks – due in part to the Bank's modified placement structure – grew by 37.3% from the end of December 2005, amounting to HUF 602.6 billion on December 31, 2006.

Financial assets at fair value through profit and loss rose by HUF 62.5 billion, to reach HUF 110.6 billion by the end of the year. Within this, the volume of securities held for trading rose by 123.5%, to HUF 84.9 billion.

The value of securities available for sale increased by 19.3%, or by HUF 79.3 billion, over the course of the year.

Loans, net of allowance for loan losses, rose by 36.2%; from HUF 3,191.3 billion on December 31, 2005 to HUF 4,347.1 billion.

As at December 31, 2006, of the consolidated gross customer loan portfolio (HUF 4,474.7 billion, annual change: +35.7%), the share of corporate loans was 36.0% (HUF 1,610.0 billion, annual change: +34.7%), that of retail customers 59.1% (HUF 2,646.4 billion, annual change: +34.6%), and loans to municipalities 4.9% (HUF 218.3 billion, annual change: +60.5%). Within retail loans, housing and mortgage loans represented HUF 1,520.1 billion (annual change: +24.4%), and consumer loans represented HUF 1,126.4 billion (annual change: +51.5%). The share of the foreign subsidiary banks within the consolidated loan portfolio as at December 31, 2006 was 35.7% (HUF 1,648.7 billion).

Besides the consolidation of the Ukrainian and Russian banks (which contributed HUF 366 billion and HUF 215 billion espectively), a major role in the increase in the loan portfolio during the 12 months to 31 December 2006 was played by OTP Bank (corporate loans before consolidation +HUF 101.9 billion, retail loans +HUF 104.1 billion, municipality loans +HUF 79.1 billion; total +HUF 285.0 billion); DSK (corporate loans +HUF 49.5 billion, housing loans +HUF 53.3 billion; total +HUF 70.0 billion); the loan portfolio of the Mortgage Bank (+HUF 58.6 billion); the loans of Merkantil Bank (+HUF 59.7 billion), OBH (corporate loans +HUF 10.1 billion, retail loans +HUF 36.9 billion) and OBR (corporate loans +HUF 28.1 billion, retail loans +HUF 48.6 billion).

Consolidated gross loan portfolio – as at December 31, 2006 (HUF mn)

	Corporate	Municipal	Retail	Consumer	Housing	Total
OTP Bank Plc.	1,004,605	210,159	567,936	259,583	308,353	1,782,699
OTP Factoring Ltd.	3,669		12,708	9,324	3,384	16,377
OTP Building Society Ltd.	169		3,975	3,975		4,144
Merkantil Bank Ltd.	38,660		147,054		147,054	185,714
Merkantil Car Ltd.	6,769	31	60,461		60,461	67,260
OTP Mortgage Bank Ltd.			907,845	870,701	37,144	907,845
OTP Banka Slovensko, a.s.	126,175	5,501	58,225	47,198	11,027	189,901
DSK Group	132,197	192	399,703	129,779	269,924	532,092
OTP Leasing, a.s.	12,422	25	13,684		13,684	26,131
OTP Bank Romania S.A.	50,256		51,039	16,463	34,576	101,295
OTP banka Hrvatska d.d.	69,864	524	126,940	59,416	67,524	197,329
Investsberbank	116,601	1,553	97,078	920	96,158	215,232
CJSC OTP Bank	201,923		163,869	114,771	49,098	365,793
Niška banka a.d.	1,277		1,540		1,540	2,817
Zepter banka a.d.	6,841	313	5,623	471	5,152	12,777
Other subsidiaries[2]	5,329					5,329
Total	1,776,757	218,299	2,617,679	1,512,601	1,105,079	4,612,735
Consolidated	**1,609,989**	**218,299**	**2,646,414**	**1,520,053**	**1,126,361**	**4,474,702**

[2]HIF Ltd., Merkantil Real Estate Leasing Ltd. and OTP Faktoring Slovensko, a.s. taken together

79.6% of the IFRS loan portfolio was 'problem-free' (performing) at the end of December 2006. The share of the 'special watch' portfolio was 14.8%, and the share of the 'problematic' (non-performing) category was 5.6%, having grown by 2.0 percentage points from the previous year. The rise in the share of qualified loans was due primarily to the consolidation of the Ukrainian and Russian subsidiaries and to the differing rating regulations, which are stricter than their Hungarian equivalents. If the domestic rules were applied to these banks as well, the share of consolidated non-performing loans would have been 4.5%. 59.2% of the consolidated qualified portfolio and 55.0% of the non-performing loans were recorded on the balance sheets of the Bank's foreign subsidiaries.

Consolidated gross loan volume by qualified categories

	31/12/2005		31/12/2006		Change		
	HUF mn	**share %**	**HUF mn**	**share %**	**HUF mn**	**%**	**share %**
Performing	2,876,541	87.2	3,561,977	79.6	685,436	23.8	(7.6)
Qualified	420,677	12.8	912,724	20.4	492,048	117.0	7.6
To-be-Monitored	301,581	9.1	661,594	14.8	360,013	119.4	5.7
NPLs	119,096	3.6	251,130	5.6	132,034	110.9	2.0
Below average	27,627	0.8	109,417	2.4	81,790	296.1	1.6
Doubtful	27,802	0.8	64,948	1.5	37,147	133.6	0.7
Bad	63,668	1.9	76,765	1.7	13,097	20.6	(0.2)
Total	**3,297,218**	**100.0**	**4,474,702**	**100.0**	**1,177,484**	**35.7**	

IFRS consolidated provisions for impairment and loan losses were HUF 127.6 billion, and of this, HUF 121.3 billion was related to the qualified portfolio, which resulted in a provisioning coverage ratio of 13.3%. Within this, the HUF 110.4 billion in provisions available to cover the HUF 251 billion in non-performing loans represented a coverage ratio of 44.0%.

Coverage of qualified customer loans

	31/12/2005	31/12/2006	Change %
Qualified volume (HUF mn)	420,677	912,725	117.0
Provision (HUF mn)	101,354	121,323	19.7
Coverage %	**24.1**	**13.3**	**10.8**
NPLs (HUF mn)	119,096	251,130	110.9
Provision (HUF mn)	89,613	110,436	23.2
Coverage %	**75.2**	**44.0**	**(31.2)**

The portfolio of securities held-to-maturity fell by 7.4% in 2006, with the total value of such securities amounting to HUF 268.3 billion as at December 31.

On the ***liabilities*** side, liabilities to customers amounted to HUF 4,232.2 billion as of December 31, 2006, up by 23.5% on a year earlier. 68.8% of ***customer deposits*** came from retail customers, while 25.9% came from corporate customers and 5.2% from municipality customers.

The major contributors to the HUF 804.0 billion growth in deposits were the parent bank (+HUF 184 billion), DSK (+HUF 91 billion), OBH (+HUF 43 billion) and the consolidation of the Russian and the Ukrainian subsidiaries (HUF 254 billion and HUF 149 billion respectively). The share of the foreign subsidiaries in the aggregate deposit portfolio grew from 24.6% to 34.2% in 2006.

Consolidated deposit volume – as at December 31, 2006 (HUF mn)

	Corporate	Municipal	Retail	Total
OTP Bank Plc.	708,981	168,379	1,812,738	2,690,098
OTP Building Society Ltd.	6,487	6	93,731	100,224
Merkantil Bank Ltd.	3,090		2,396	5,486
Merkantil Car Ltd.	415		350	765
OTP Banka Slovensko, a.s.	85,965	23,729	80,610	190,304
DSK Group	71,744	21,062	430,964	523,770
OTP Bank Romania S.A.	22,600		18,396	40,996
OTP Faktoring Slovensko, a.s.				
OTP banka Hrvatska Group	47,644	5,055	222,996	275,695
Niška banka a.d.	2,001	45	2,854	4,900
CJSC OTP Bank	77,648	51	71,054	148,753
Investsberbank	85,385		168,260	253,645
Zepter banka a.d.	6,449	2,989	8,406	17,844
Total	1,118,409	221,315	2,912,755	4,252,479
Consolidated	**1,098,083**	**221,315**	**2,912,755**	**4,232,153**

The portfolio of issued securities grew by 43.8% over the year, to HUF 781.3 billion. The growth was attributable mainly to the issuance of EUR 750 million in mortgage bonds by OTP Mortgage Bank.

Consolidated P & L

OTP Bank's consolidated after-tax profit for 2006 according to IFRS was HUF 187.1 billion, which was HUF 28.8 billion, or 18.2%, more than the 2005 figure.

Consolidated income statement of OTP Bank

	2005	2006	Change	
	HUF mn	HUF mn	HUF mn	%
Interest income	459,024	542,817	83,793	18.3
Interest expenses	161,799	186,873	25,074	15.5
Net interest income	**297,225**	**355,944**	**58,719**	**19.8**
Provision for loan and placement losses	28,042	28,559	517	1.8
Net interest income after provision for loan and placement losses	**269,183**	**327,385**	**58,202**	**21.6**
Fee income	118,884	145,015	26,131	22.0
Foreign exchange gains, net	3,879	(11,884)	(15,763)	(406.3)
Gains and losses on securities, net	9,708	6,900	(2,808)	(28.9)
Gains on real estate transactions, net	96	1,292	1,196	1245.8
Dividend income and gains and losses of associated companies	672	901	229	34.0
Insurance premiums	69,793	75,554	5,761	8.3
Other income	13,465	24,940	11,475	85.2
Total non-interest income	**216,497**	**242,718**	**26,221**	**12.1**
Fee expenses	19,930	32,116	12,186	61.1
Personnel expenses	95,235	106,804	11,569	12.1
Depreciation and amortization	21,897	26,464	4,567	20.9
Insurance expenses	58,468	60,866	2,398	4.1
Other expenses	98,073	125,251	27,178	27.7
Total non-interest expenses	**293,603**	**351,501**	**57,898**	**19.7**
Income before income taxes	**192,077**	**218,602**	**26,525**	**13.8**
Income taxes	33,803	31,506	(2,297)	(6.8)
Income after income taxes	**158,274**	**187,096**	**28,822**	**18.2**
Minority interest	(39)	(45)	(6)	15.4
Net income	**158,235**	**187,051**	**28,816**	**18.2**

Consolidated ***net interest income*** in 2006 was HUF 355.9 billion, which represents an increase for the year of 19.8%.

Provisions were 1.8% higher in 2005 than in the same period of the previous year, and amounted to HUF 28.6 billion. The ratio of provisions to the average gross loan portfolio was 0.73% (compared to 0.95% in 2005). The reason for the decrease was the ongoing revision and one-off release of provisions generated – on the basis of projected recovery rates – on loans that were sold off as part of the Basel II project.

The interest margin on the average balance sheet total (HUF 6,156.7 billion) calculated on the basis of the end-of-period data was 5.78% in 2006, down by 56 basis points from 2005. Based on calculations that discount the impact of swap transactions on interest income, the gross interest margin was 5.24% in 2006, or 96 basis points lower than in 2005.

Non-interest income was 12.1% higher than in 2005, and amounted to HUF 242.7 billion. Fees and commissions received rose by 22.0%, to HUF 145.0 billion. Consolidated fee and commission expenses increased by 61.1% in 2006. Net fees and commissions amounted to HUF 112.9 billion, representing a 14.1% increase over 2005.

The net result of securities trading was a gain of HUF 6.9 billion, compared to a gain of HUF 9.7 billion in 2005. The net exchange rate loss amounted to HUF 11.9 billion, compared to a gain of HUF 3.9 billion in 2005. Real estate transactions resulted in a profit of HUF 1.3 billion at consolidated level. Insurance premium revenues amounted to HUF 75.6 billion in 2006, which was 8.3% higher than in 2005. Compared to 2005, insurance expenses grew by 4.1%. The net profit on insurance transactions increased by 29.7% compared to 2005, to HUF 14.7 billion. Other revenues were HUF 24.9 billion, or 85.2% higher than in the previous year.

Non-interest expenses, amounting to HUF 351.5 billion, were 19.7% higher than in 2005. Within this, consolidated personnel expenses were 12.1% higher than in the previous year. Depreciation rose by HUF 4.6 billion relative to 2005, to HUF 26.5 billion. Other expenses grew by 27.7%, to HUF 125.3 billion. In 2006, non-corporate taxes represented an expense of HUF 32.8 billion, which was HUF 5 billion, or 18.1%, more than in 2005. Of this total, the HUF 11.2 billion in 'special tax' imposed on credit institutions and financial enterprises (tax on net interest income) was recognised among other expenses (in 2005: HUF 10.2 billion).

The Bank's consolidated cost-to-income ratio in 2006 was 56.4%, 95 basis points higher than in the previous year.

Consolidated return on average assets ***(ROAA)*** was 3.04% (in 2005: 3.38%) and consolidated return on average equity ***(ROAE)*** was 28.0%, which was 4.3 percentage points lower than that of the previous year. Basic net earnings per ordinary share (basic EPS) were HUF 722, up by HUF 119 on the 2005 figure, while diluted EPS was HUF 714 (in 2005: HUF 599).

NON-CONSOLIDATED FINANCIAL RESULTS OF OTP BANK

Non-consolidated balance sheet

The Bank's balance sheet total as at December 31, 2006 was HUF 4,506.7 billion, which was 25.4%, or HUF 913.8 billion, higher than in 2005.

Non-consolidated balance sheet of OTP Bank

	31/12/2005	31/12/2006	Change	
	HUF mn	HUF mn	HUF mn	%
Cash, due from banks and balances with the NBH	379,249	429,325	50,076	13.2
Placements with other banks, net of allowance for placement losses	393,659	657,939	264,280	67.1
Financial assets at fair value through statements of operation	34,054	61,085	27,031	79.4
Securities available-for-sale	371,433	348,859	(22,574)	(6.1)
Gross loans	**1,497,670**	**1,782,699**	**285,029**	**19.0**
Allowance for loan losses	(22,162)	(31,021)	(8,859)	40.0
Loans, net of allowance for loan losses	1,475,508	1,751,678	276,170	18.7
Accrued interest receivable	41,276	44,398	3,122	7.6
Investments in subsidiaries	223,881	583,298	359,417	160.5
Securities held-to-maturity	521,797	504,111	(17,686)	(3.4)
Premises, equipment and intangible assets, net	105,569	100,721	(4,848)	(4.6)
Other assets	46,447	25,283	(21,164)	(45.6)
Total assets	**3,592,873**	**4,506,697**	**913,824**	**25.4**
Due to banks and deposits from the NBH and other banks	255,211	557,857	302,646	118.6
Deposits from customers	**2,506,457**	**2,690,098**	**183,641**	**7.3**
Liabilities from issued securities	202,267	202,050	(217)	(0.1)
Accrued interest payable	5,735	16,175	10,440	182.0
Other liabilities	102,881	122,398	19,517	19.0
Subordinated bonds and loans	47,023	247,865	200,842	427.1
Total liabilities	**3,119,574**	**3,836,443**	**716,869**	**23.0**
Total shareholders' equity	**473,299**	**670,254**	**196,955**	**41.6**
Total liabilities and shareholders' equity	**3,592,873**	**4,506,697**	**913,824**	**25.4**

On the assets side, cash, due from banks and balances with the National Bank of Hungary were 13.2% higher than one year earlier. Placements with other banks were 67.1% or HUF 264.3 billion higher than one year earlier. Financial assets at fair value through profit or loss grew by 79.4%, or HUF 27.0 billion, of which the growth in securities held-for-trading amounted to HUF 12.1 billion.

Of the securities available-for-sale, which amounted to HUF 348.9 billion (representing a fall for the year of 6.1%), the government bond portfolio accounted for HUF 17.3 billion, mortgage bonds accounted for HUF 212.4 billion, corporate bonds HUF 108.5 billion and other securities totalled HUF 10.6 billion.

The gross customer loan portfolio totalled HUF 1,782.7 billion as at December 31, 2006, representing an annual increase of 19.0%. The allowance for loan losses rose 40.0% to HUF 31.0 billion. Loans, net of allowance for loan losses, totalled HUF 1,751.7 billion as at December 31, 2006, an annual increase of 18.7%.

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

	31/12/2005 HUF mn	31/12/2006 HUF mn	Change HUF mn	Change %
Corporate	902,696	1,004,605	101,909	11.3
Municipal	131,107	210,159	79,052	60.3
Retail	463,867	567,936	104,069	22.4
Consumer	253,717	308,353	54,636	21.5
Housing	210,150	259,583	49,433	23.5
Total	**1,497,670**	**1,782,699**	**285,029**	**19.0**

Within the non-consolidated gross customer loan portfolio, corporate loans totalled HUF 1,004.6 billion (annual change +11.3%) and loans to municipalities HUF 210.2 billion (annual change +60.3%). Within retail loans, consumer loans represented HUF 308.4 billion (annual change +21.5%), and housing and mortgage loans HUF 259.6 billion (annual change +23.5%). Of the total loan portfolio, the share of corporate loans was 56.4%, retail loans 31.9% and loans to municipalities 11.8%.

Non-consolidated gross loan volume by qualified categories

	31/12/2005 HUF mn	31/12/2005 share %	31/12/2006 HUF mn	31/12/2006 share %	Change HUF mn	Change %	Change share %
Performing	1,418,879	94.7	1,686,246	94.6	267,367	18.8	(0.1)
Qualified	78,791	5.3	96,454	5.4	17,663	22.4	0.1
To-be-Monitored	44,250	3.0	38,954	2.2	(5,296)	(12.0)	(0.8)
NPLs	34,541	2.3	57,500	3.2	22,959	66.5	0.9
Below average	13,160	0.9	22,681	1.3	9,521	72.3	0.4
Doubtful	14,119	0.9	25,577	1.4	11,458	81.2	0.5
Bad	7,262	0.5	9,242	0.5	1,980	27.3	0.0
Total	**1,497,670**	**100.0**	**1,782,699**	**100.0**	**285,029**	**19.0**	

94.6% of the loan portfolio was 'problem-free' (performing) as at the end of December 2006, almost unchanged from 2005. The share of the 'special watch' category was 2.2%, and the share of the 'problematic' (non-performing) category was 3.2%. The coverage rate of the qualified portfolio was 32.2%, and that of the 'problematic' portfolio 48.7%.

Coverage of qualified customer loans

	31/12/2005	31/12/2006	Change
Qualified volume (HUF mn)	78,791	96,454	22,4
Provision (HUF mn)	22,162	31,021	40,0
Coverage %	**28.1**	**32.2**	**4.1**
NPLs (HUF mn)	34,541	57,500	66,5
Provision (HUF mn)	18,449	27,986	51,7
Coverage %	**53.4**	**48.7**	**(4.7)**

The portfolio of securities held-to-maturity fell 3.4% in 2006, to HUF 504.1 billion, of which government bonds made up HUF 185.1 billion, mortgage bonds HUF 289.3 billion, discount Treasury bills HUF 28.1 billion, and other securities HUF 1.6 billion.

On the ***liabilities*** side, liabilities to customers increased 7.3% from December 31, 2006. The share of customer deposits within the Bank's liabilities fell from 69.8% in 2006 to 59.7%. Retail deposits accounted for 67.4% (HUF 1,812.7 billion; an annual fall of 3.1%) of the deposit portfolio, while corporate deposits made up 26.4% (HUF 709.0 billion, an increase of 49.6%), and loans to municipalities 6.3% (a 3.9% increase).

Non-consolidated deposit volume of OTP Bank

	31/12/2005	31/12/2006	Change	
	HUF mn	HUF mn	HUF mn	%
Corporate	474,052	708,981	234,929	49.6
Municipal	161,993	168,379	6,386	3.9
Retail	1,870,412	1,812,738	(57,675)	(3.1)
Total	**2,506,457**	**2,690,098**	**183,641**	**7.3**

The portfolio of ***issued securities*** remained almost unchanged in 2006, totalling HUF 202.1 billion at the end of the year and accounting for 4.5% of all liabilities.

The Bank's ratio of gross loans to deposits rose from 59.7% at the end of the previous year to 66.3% on December 31, 2006.

The Bank's shareholders' equity was 41.6% higher than a year earlier, amounting to HUF 670.3 billion, or 14.9% of the balance sheet total. The HUF 197.0 billion rise in the Bank's equity was chiefly due a HUF 120.6 billion, or 34.1%, increase in retained earnings and other reserves excluding profits, the HUF 37.3 bn or 28.1% increase in balance sheet profit and – as an increasing item – the HUF 39.0 billion or 95.7% growth in the book value of repurchased treasury shares.

Equity per share had reached HUF 2,394 by the end of 2006.

Non-consolidated P & L

OTP Bank's pre-tax profit according to IFRS was HUF 187.5 billion in 2006, which exceeded the previous year's result by HUF 31.7 billion, or 20.3%. The increase in profits was attributable to a dynamic, 20.4% growth in income (including net commissions and net interest income before provisioning), a 16.6% increase in non-interest expenses net of commissions paid, which was significantly less than the increase in non-interest income, and to a HUF 9.0 billion rise in provisions. Of the revenue increase, HUF 21.9 billion came from one-off revenue related to the ICES programme (transfer of capital gains from OTP shares sold by OTP Fund Management to OTP Bank in the form of permanent financial asset transfer).

In the context of a decrease (from 14.7% to 9.2%) compared to 2005 in the actual rate of tax, the Bank's after-tax profit amounted to HUF 170.2 billion, which was 28.1% or HUF 37.3 billion higher than in the previous year. (Excluding the one-off revenue relating to ICES, the Bank's after-tax revenue rose 11.6%, to HUF 148.3 billion.) The Bank will – in line with its announced dividend policy – pay out 30% (HUF 40.3 billion) of its after-tax profits according to HAS (Hungarian Accounting Standards) – not including the direct and indirect one-off effect of the ICES – as dividends to its shareholders, which means that in 2006 it will pay dividends of HUF 144 per ordinary share, of nominal value HUF 100, to its owners.

Basic and diluted earnings per ordinary share (EPS) were HUF 635 and HUF 629 respectively in 2006 (in 2005: HUF 492 and HUF 488).

The Bank's return on average assets (ROAA) was 4.20%, and its return on average equity (ROAE) 29.8% in 2006 (in 2005: 4.00% and 30.8%).

Non-consolidated income statement of OTP Bank

	2005	2006	Change	
	HUF mn	HUF mn	HUF mn	%
Interest income	281,402	331,917	50,515	18.0
Interest expenses	112,763	128,753	15,990	14.2
Net interest income	**168,639**	**203,164**	**34,525**	**20.5**
Provision for loan and placement losses	16,435	25,443	9,008	54.8
Net interest income after provision for loan and placement losses	**152,204**	**177,721**	**25,517**	**16.8**
Fee income	136,264	147,668	11,404	8.4
Foreign exchange gains, net	1,603	(14,465)	(16,068)	–
Gains and losses on securities, net	3,103	870	(2,233)	(72.0)
Gains on real estate transactions, net	(28)	77	105	–
Dividend income and gains and losses of associated companies	13,937	16,252	2,315	16.6
Other income	3,541	44,849	41,308	1166.6
Total non-interest income	**158,420**	**195,251**	**36,831**	**23.2**
Fee expenses	13,840	21,163	7,323	52.9
Personnel expenses	62,437	65,405	2,968	4.8
Depreciation and amortization	15,244	17,391	2,147	14.1
Other expenses	63,301	81,527	18,226	28.8
Total non-interest expenses	**154,822**	**185,486**	**30,664**	**19.8**
Income before income taxes	**155,802**	**187,486**	**31,684**	**20.3**
Income taxes	22,954	17,298	(5,656)	(24.6)
Income after income taxes	**132,848**	**170,188**	**37,340**	**28.1**
Net income after income taxes	**132,848**	**170,188**	**37,340**	**28.1**

The Bank's net interest income grew by 20.5%, from HUF 168.6 billion to HUF 203.2 billion, in 2006, as a result of an 18.0% increase in interest income and a 14.2% increase in interest expense.

Interest income for loans accounted for 50.3% of interest income in 2006, which represents an expansion of 13.4% over the year (13.5% without the gains on swap deals). Gains on swap deals accounted for HUF 0.9 billion of the HUF 167.1 billion in income.

Within interest income, income from placements with other banks (gains/losses on swap deals excluded) rose by 148.8%, due to a significant volume increase and an increase in market rates of interest. Income from interest on securities held-to-maturity rose by 2.2% from 2005, and amounted to HUF 40.1 billion in 2006, which represented 12.1% 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 26.3 billion interest result from swap transactions, which was HUF 19.1 billion more than in 2005.

The bulk of interest expenses, 63.0%, was accounted for by interest paid on customer deposits in 2006 (in 2005: 72.3%), which fell by 0.4% to HUF 81.2 billion. The interest paid on interbank liabilities amounted to 28.3% of interest expenses in 2006, increasing 30.4% to HUF 36.5 billion. The interest paid on issued securities amounted to HUF 6.7 billion, with the HUF 5.0 billion increase attributable to the significant expansion in the volume of securities issued.

At HUF 25.4 billion, provisions for expected loan and placement losses were 54.8% higher than in 2005. The ratio of provisioning to the average gross loan portfolio was 1.55%, compared to 1.18% in 2005.

In 2006, the Bank's gross interest margin was 5.02%, while the net interest margin (after provisioning) was 4.39%, respectively a 5 and 19-basis point decrease compared to 2005. Without recognition of the interest result from swap deals, in 2006 the gross interest margin was 4.37%; the net interest margin was

3.74%, with the former representing a 49-basis point increase and the latter a 62-basis point decrease compared to 2005.

Non-interest revenues grew by HUF 36.8 billion or 23.2% to HUF 195.3 billion. 75.6% of non-interest income came from fees and commissions received, which amounted to HUF 147.7 billion (representing an increase of HUF 11.4 billion) in 2006. Fees and commissions paid rose by 52.9% to HUF 21.2 billion; thus, net fees and commissions were 3.3% higher than in 2005, amounting to HUF 126.5 billion. Net price gains on securities were HUF 0.9 billion, compared to HUF 3.1 billion in 2005, while the net result of foreign exchange transactions was a loss of HUF 14.5 billion, compared to a profit of HUF 1.6 billion in 2005. In 2006, the Bank received HUF 16.3 billion in dividends from its subsidiaries, compared to HUF 13.9 billion in 2005. Other income grew by HUF 41.3 billion over the year, to HUF 44.8 billion, a significant portion of which came from financial assets taken over permanently from the Bank's subsidiaries, and of these assets, HUF 21.9 billion came from the Fund Management company, which it paid from its profits generated from the treasury shares transaction.

Non-interest expenses, amounting to HUF 195.3 billion, were 23.2% higher than a year earlier. Within this, personnel expenses grew by 4.8% to HUF 65.4 billion, while depreciation rose by 14.1% to HUF 17.4 billion.

Other non-interest expenses, amounting to HUF 81.5 billion, were 28.8% higher than in 2005. This included tax on profits of HUF 26.8 billion, of which HUF 11.2 billion was the separate tax imposed on credit institutions and financial entreprises.

The Bank's cost-to-income ratio (according to a calculation method similar to the one used in Hungary) was 43.6% in 2006, 145 basis points lower than in 2005 (45.0%).

Capitalisation, capital adequacy (according to HAS)

OTP Bank's shareholders' equity grew from HUF 407.6 billion on December 31, 2005 to HUF 553.2 billion, or by 35.7%, thus significantly exceeding the rate of growth of the balance sheet total. Due to this, the ratio of shareholders' equity to the balance sheet total increased from 11.3% at the end of 2005 to 12.4%.

Although the Bank's solvency ratio fell from 10.56% at the end of 2005 to 9.88% by December 31, 2006, it was well in excess of the 8% stipulated by the Credit Institutions Act.

The fall in this ratio was caused by the Bank's acquisitions in 2006, as a result of which the increase in guarantee capital lagged behind the growth in the volume of risk-weighted assets.

Calculation of the captal adequacy ratio

	31/12/2005 HUF mn	31/12/2006 HUF mn	Change HUF mn	%
I. Primary capital elements	387,123	578,445	191,322	49.4
A) subscribed capital	28,000	28,000	0	0.0
B) capital reserve	52	52	0	0.0
C) general reserve	65,642	84,261	18,619	28.4
D) general risk reserve	21,534	28,707	7,173	33.3
E) profit reserve	202,544	310,177	107,633	53.1
F) balance sheet profit	69,351	127,248	57,897	83.5
II. Deductible components of primary capital	79,192	260,832	181,640	229.4
A) capital subscribed not yet paid	0	0	0	–
B) intangible assets	79,192	260,832	181,640	229.4
III. Primary capital (I-II.)	307,931	317,613	9,682	3.1
IV. Secondary capital	42,850	242,283	199,433	465.4
V. Guarantee capital before deductions (III+IV.)	350,781	559,896	209,115	59.6
VI. Book value of financial institutions, insurance companies and investment services companies and subordinated loans issued to them	128,810	239,227	110,417	85.7
VII. Guarantee capital according to the rules of prudence (V-VI.)	221,971	320,669	98,698	44.5
VIII. Capital requirement of limit breaches and sovereign risk	5,362	50,449	45,087	840.9
IX. Guarantee capital for calculating the capital adequacy ratio	216,609	270,220	53,611	24.8
X. Risk-weighted total assets	2,050,855	2,733,972	683,117	33.3
XI. Capital adequacy ratio %	**10,56**	**9,88**		

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 almost doubled in 2006, while the total of the negative components of the primary capital increased 3.3-fold. As a result, the Bank's primary capital increased by 3.1%, or by HUF 9.7 billion, in 2006. The secondary capital that can be taken into account in calculating the guarantee capital rose markedly, by close to HUF 200 billion, due to the fact that, in order to finance new acquisitions, the Bank issued EUR 300 million worth of subordinated loan capital bonds (10-year maturity, fixed 5.27% interest) and EUR 500 million in undated upper-tier 2 (UT2) bonds paying a fixed 5.875% interest in the first ten years followed by floating interest from the 10th year on. At the end of 2006, the guarantee capital before deductions was HUF 559.9 billion, which exceeded the previous year's figure by 59.6%. Of the various deductible factors, the total of investments in financial institutions, insurance companies and investment companies grew by HUF 110.4 billion or 85.7%, while the amount of capital that needed to be set aside to cover possible limit breaches as per the Credit Institutions Act and the capital requirement of sovereign risk amounted to HUF 50.4 billion.

The guarantee capital that may be taken into account for the purpose of calculating the solvency ratio stood at HUF 270.2 billion at the end of the year (a 24.8% growth).

Of the increase in the volume of risk-weighted assets (the adjusted balance sheet total), 85.0% is attributable to the change in the risk-weighted value of balance sheet items and 15.0% to the change in risk-weighted off-balance sheet items.

The risk-weighted value of balance-sheet items grew by 35.4%, or HUF 580.9 billion, to HUF 2,219.7 billion, while total assets grew by 24.3%. 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 102.3 billion, representing a 22.8% increase over the previous year.

RESULTS OF THE MAIN SUBSIDIARIES

In 2006, 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 60.5%, from HUF 2,764 billion to HUF 4,436 billion. Of the HUF 1,672 billion increase, the balance sheet total of CJSC OTP Bank, purchased in 2006, made up HUF 432.6 billion, the balance sheet total of Investsberbank amounted to HUF 329.3 billion, and the combined balance sheet totals of the two Serbian banks included in the consolidation (Niška Banka, Zepter banka) came to HUF 34.6 billion.

The aggregate after-tax profit of the fully consolidated subsidiaries amounted to HUF 52.6 billion in 2006, which was HUF 8.6 billion or 19.6% higher than in 2005.

Total assets and profit after tax of the fully consolidated subsidiaries

	Total assets				Profit after tax			
	2005	2006	Change		2005	2006	Change	
Subsidiary	**HUF mn**	**HUF mn**	**HUF mn**	**%**	**HUF mn**	**HUF mn**	**HUF mn**	**%**
Merkantil Bank Ltd.	136,688	198,923	62,235	45.5	2,620	5,237	2,617	99.9
Merkantil Car Ltd.	113,121	78,929	(34,193)	(30.2)	3,638	988	(2,650)	(72.8)
Merkantil Lease Ltd.	1,684	37,174	35,490	2107.4	87	273	186	212.8
Other Merkantil subsidiaries	1,734	19,148	17,414	1004.3	7	(46)	(54)	–
Merkantil Group	253,227	334,173	80,946	32.0	6,352	6,425	73	1.1
OTP Building Society Ltd.	86,653	107,085	20,432	23.6	1,390	487	(903)	(65.0)
OTP Mortgage Bank Ltd.	956,072	1,074,846	118,774	12.4	5,248	3,009	(2,239)	(42.7)
OTP Bank Slovensko, a. s.	262,858	325,310	62,368	23.7	1,373	2,030	657	47.9
DSK Group and Asset Management AD	583,423	855,799	272,376	46.7	16,572	21,880	5,308	32.0
OTP Bank Romania S.A.	55,225	193,412	138,187	250.2	(2,122)	(2,784)	(662)	31.2
OTP banka Hrvatska d.d.	298,175	364,118	65,943	22.1	2,135	3,468	1,333	62.4
CJSC OTP Bank	–	432,623	–	–	–	2,611	–	–
Investsberbank	–	329,326	–	–	–	0	–	–
Niška banka a.d.	–	11,258	–	–	–	(171)	–	–
Zepter banka a.d.	–	23,385	–	–	–	0	–	–
OTP Garancia Insurance Ltd.	157,225	189,323	32,098	20.4	6,704	7,360	656	9.8
OTP Fund Management Ltd.	11,519	14,792	3,273	28.4	3,853	5,238	1,385	35.9
HIF Ltd.	14,369	1,517	(12,852)	(89.4)	133	121	(12)	(9.2)
OTP Real Estate Ltd.	20,454	19,979	(475)	(2.3)	940	(179)	(1,119)	–
OTP Factoring Ltd.	11,700	17,329	5,629	48.1	564	1,194	630	111.6
OTP Factoring Asset Management Ltd.	1,459	1,052	(407)	(27.9)	66	41	(25)	(37.6)
Bank Center No. 1. Ltd.	8,255	9,258	1,003	12.2	343	994	651	189.8
OTP Fund Servicing Ltd.	2,245	2,360	115	5.1	167	355	188	112.0
Inga Kettő Ltd.	10,736	6,324	(4,412)	(41.1)	147	41	(106)	(72.0)
Concordia Info Ltd.	3,610	3,771	161	4.5	50	116	66	132.3
OTP Card Manufacturing Ltd.	803	647	(156)	(19.4)	41	15	(27)	(64.5)
Air-Invest Ltd.	–	6,466	–	–	–	(228)	–	–
OTP Trade Ltd.	–	58,083	–	–	–	1,938	–	–
OTP Flat Lease Ltd.	–	7,237	–	–	–	71	–	–
OTP Life Annuity Ltd.	–	2,336	–	–	–	(60)	–	–
OTP Faktoring Slovensko, a.s.	3,692	6,202	2,510	68.0	27	(42)	(69)	–
OTP Leasing, a.s.	22,680	29,380	6,700	29.5	23	(395	(418)	–
OTP Garancia poistovna, a.s.	–	2,133	–	–	–	(179)	–	–
OTP Garancia zivotna poistovna, a.s.	–	1,262	–	–	–	(190)	–	–
DSK Garancia Life Insurance AD	–	1,534	–	–	–	(216)	–	–
DSK Garancia Insurance AD	–	1,093	–	–	–	(139)	–	–
OTP Garancia Asigurari S.A.	–	2,485	–	–	–	(170)	–	–
Subsidiaries total	**2,764,380**	**4,435,896**	**1,671,516**	**60.5**	**44,007**	**52,642**	**8,635**	**19.6**

Main indicators of Merkantil Group:

	2005	2006	Change
ROAA %	2.82	2.19	(0.63)
ROAE %	32.7	24.4	(8.28)
Cost/income ratio %	36.4	48.0	11.66

Main financial data of Merkantil Group:

	31/12/2005 HUF mn	31/12/2006 HUF mn	Change HUF mn	Change %
Gross loans	229,655	252,984	23,329	10.2
Provisions	(15,268)	(16,801)	(1,533)	10.0
Net loans	214,387	236,183	21,796	10.2
Receivables due to leasing	16,262	62,652	46,390	285.3
Deposits	4,688	6,250	1,562	33.3
Issued securities	35,016	30,892	(4,124)	(11.8)
Liabilities to credit institutions	181,516	254,939	73,423	40.4
Shareholders' equity	22,833	29,783	6,950	30.4
Total assets	**253,227**	**334,173**	**80,946**	**32.0**
Profit before tax	**8,633**	**9,167**	**534**	**6.2**
Profit after tax	**6,352**	**6,425**	**73**	**1.1**

The Merkantil Group's combined balance sheet total as at December 31, 2006 was HUF 334.2 billion, up by 32.0%, or HUF 80.9 billion, on a year earlier. The Group's consolidated after-tax profit for 2006 amounted to HUF 6.4 billion, representing a 1.1% rise from a year earlier.
The companies of the Merkantil Group concluded nearly 49,000 new vehicle financing contracts in 2006, which was over 22%, or approximately 13,500, less than the number of contracts concluded in 2005. Based on the total number of contracts, the proportion of foreign currency loan facilities was 95%, that of forint-denominated loans was 1.3%, that of cars sold under financial lease contracts 3.3%, and that of permanent lease facilities 0.4%.
The Group saw the volume of its leasing receivables rise from HUF 16.3 billion in 2005 to HUF 62.7 billion. A significant part of the increase came from transactions within the Bank Group.
The aggregate (gross) loan portfolio was HUF 253.0 billion as at December 31, 2006, which was HUF 23.3 billion or 10.2% higher than at the end of the previous year.
The pace of the expansion of the loan portfolio remained significantly behind the level of the previous year due to declining vehicle sales.
In 2006, Merkantil Group achieved HUF 24.0 billion in net interest income, representing a 26.5% rise compared to the previous year.
Gross interest margin was 8.16% in 2006, 27 basis points lower than in 2005 (8.43%).
The Group's consolidated cost-to-income ratio was 48.0% in 2006 (2005: 36.4%).

Main indicators of OTP Building Society Ltd.:

	2005	2006	Change
ROAA %	1.82	0.50	(1.32)
ROAE %	26.5	9.7	(16.8)
Cost/income ratio[3] %	44.7	53.1	8.4

Main financial data of OTP Building Society Ltd.:

	31/12/2005	31/12/2006	Change	
	HUF mn	HUF mn	HUF mn	%
Loans	6,189	4,144	(2,045)	(33.0)
Deposits	78,825	100,224	21,399	27.1
Shareholders' equity	5,822	4,199	(1,623)	(27.9)
Subscribed capital	2,000	2,000	0	0.0
Total assets	**86,653**	**107,085**	**20,432**	**23.6**
Profit before tax	**1,819**	**785**	**(1,034)**	**(56.8)**
Profit after tax	**1,390**	**487**	**(903)**	**(65.0)**

The balance sheet total of OTP Building Society, thanks to a dynamic increase in its deposit portfolio, rose by 23.6% to HUF 107.1 billion in 2006.
The 27.1% growth in the deposit portfolio was due to the more than 121,000 contracts concluded in 2006 as well as to an increase in contractual volumes.
The loan portfolio fell in 2006, as it had done in the previous year. Compared to the 2005 figure, the portfolio decreased by 33%.
OTP Building Society closed the year 2006 with after-tax profit of HUF 487 million. Return on average assets (ROAA) was 0.5%, and return on average equity (ROAE) was 9.7%.
The Company transferred with permanent effect HUF 645 million worth of financial assets from its 2006 profits to OTP Bank.

[3]Ratio adjusted by cash given free of charge to OTP Bank in respect of 2006

Main indicators of OTP Mortgage Bank Ltd.:

	2005	2006	Change
ROAA %	0.57	0.30	(0.27)
ROAE %	14.0	7.9	(6.1)
Cost/income ratio[4] %	29.1	24.5	(4.6)

Main financial data of OTP Mortgage Bank Ltd.:

	31/12/2005	31/12/2006	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	849,252	907,845	58,593	6.9
Issued mortgage bonds	812,700	987,871	175,171	21.6
Shareholders' equity	36,939	39,274	2,335	6.3
Suscribed capital	20,000	20,000	0	0.0
Total assets	**956,072**	**1,074,846**	**118,774**	**12.4**
Profit before tax	**6,799**	**5,031**	**(1,768)**	**(26.0)**
Profit after tax	**5,248**	**3,009**	**(2,239)**	**(42.7)**

The loan portfolio of OTP Mortgage Bank grew 6.9% from 2005, to HUF 907.8 billion on December 30, 2006. In line with market trends, foreign-currency loan disbursements grew dynamically within OTP Bank's network, while the volume of government-subsidised housing loan placements remained below their levels in previous years. In 2006, loans worth HUF 157.5 billion were transferred, which exceeded the previous year's total by 8%, but remained below the target, partly due to lower forint lending, and partly due to the introduction of loan products that could not be transferred to the Mortgage Bank's portfolio due to their particular terms and conditions. Fully performing loans accounted for 98.7%, and 'special-watch' loans made up 1.3% of the total at year-end 2006. Under a cooperation agreement, OTP Bank repurchases non-performing loan receivables from the Mortgage Bank.

The volume of mortgage bonds issued by the Mortgage Bank grew HUF 175.2 billion, to HUF 987.9 billion, by the end of 2006. In summer 2006, the Mortgage Bank entered the international market for mortgage bonds, while at the same time, the domestic mortgage bond issuance program was renewed in line with European regulations, enabling the Mortgage Bank to distribute its retail mortgage bonds not only in Hungarian forint, but also in euro and Swiss francs, and to do so in a quick and flexible manner in line with its funding requirements related to receivables purchases.

The Company increased its market share for mortgage bonds by approximately 3 percentage points, to 66%, and held a market share for mortgage loans of 62% at the end of 2006, retaining its leading position among the three mortgage banks in Hungary (OTP, FHB and HVB).

On December 31, 2006, OTP Mortgage Bank had a balance sheet total of HUF 1,074.8 billion, 12.4% higher than one year earlier. At the end of 2006, the Company had registered capital of HUF 20 billion and shareholders' equity of HUF 39.3 billion.

In order to reduce costs and improve efficiency, OTP Mortgage Bank restructured its organisation in 2006, outsourcing certain non-core activities.

OTP Mortgage Bank's pre-tax profit fell by 26.0%, to HUF 5.0 billion, which was due primarily to a definitive transfer of funds worth HUF 5.0 billion to the owner. After-tax profit was HUF 3.0 billion in 2006.

The Mortgage Bank paid HUF 51.4 billion in commissions to OTP Bank in 2006, which means the increase in value it created was HUF 2 billion higher than in 2005, exceeding HUF 61 billion.

[4] Ratio adjusted by cash given free of charge to OTP Bank in respect of 2006

Main indicators of OTP Garancia Insurance Ltd.:

	2005	2006	Change
ROAA %	4.86	4.25	(0.61)
ROAE %	37.7	33.3	(4.4)
Cost/income ratio %	90.5	89.9	(0.6)

Main financial data of OTP Garancia Insurance Ltd.:

	31/12/2005	31/12/2006	Change	
	HUF mn	HUF mn	HUF mn	%
Insurance technical reserves	131,116	161,671	30,555	23.3
Shareholders' equity	21,336	22,834	1,498	7.0
Subscribed capital	**7,351**	**7,351**	**0**	**0.0**
Total assets	157,225	189,323	32,098	20.4
Gross insurance premiums	75,763	80,676	4,913	6.5
Life insurance	44,569	45,930	1,361	3.1
Non-life insurance	31,194	34,746	3,552	11.4
Insurance expenses	59,699	61,106	1,407	2.4
Damages and insurance services	27,263	30,551	3,288	12.1
Change in reserves	32,436	30,555	(1,881)	(5.8)
Profit before tax	**7,936**	**8,737**	**801**	**10.1**
Profit after tax	**6,704**	**7,360**	**656**	**9.8**

OTP Garancia Insurance achieved premium revenue of HUF 80.7 billion in 2006, which was 6.5% or HUF 4.9 billion higher than in the previous year. Of total premium revenues, the revenues of the life and bank assurance division amounted to HUF 45.9 billion, while those of the non-life division were HUF 34.7 billion. Within life insurance premium revenue, the revenue from one-off premium-payment life insurance policies stagnated, at HUF 29.0 billion, while premium revenue from regular payment life insurance policies grew 4.3%.
The Company's insurance expenses rose from HUF 59.7 billion to HUF 61.1 billion in 2006. Of the insurance expense total, gross damage payments were HUF 30.6 billion. The change in net reserves also amounted to HUF 30.6 billion. Thus total insurance technical reserves stood, after close to 23.3% growth, at HUF 161.7 billion as at December 31, 2006.
The Company's balance sheet total grew by 20.4% compared to the previous year, to HUF 189.3 billion, and its shareholders' equity increased from the previous year's HUF 21.3 billion to HUF 22.8 billion.
The Company's after-tax profit increased almost 10%, to HUF 7.4 billion, while return on average assets (ROAA) fell from 4.86% to 4.25%, and return on average equity (ROAE) dropped from 37.7% to 33.3%. OTP Garancia Insurance will pay HUF 5.3 billion in dividends on its after-tax profits in 2006 to OTP Bank.

Main indicators of OTP Fund Management Ltd.:

	2005	2006	Change
ROAA %	38.30	39.82	1.51
ROAE %	46.4	47.5	1.1
Cost/income ratio[5] %	21.22	12.1	(4.0)

Main financial data of OTP Fund Management Ltd.:

	31/12/2005	31/12/2006	Change	
	HUF mn	HUF mn	HUF mn	%
Managed assets	1,096,900	1,196,290	99,390	9.0
Managed assets in investment funds	580,400	543,319	(37.081)	(6.4)
Managed assets in pension funds	405,800	518,643	112,843	27.8
from this OTP Pension Funds	396,200	507,566	111,366	28.1
Other managed assets	110,700	134,328	23,628	21.3
Shareholders' equity	10,256	11,813	1,557	15.2
Subscribed capital	900	900	0	0.0
Total assets	**11,519**	**14,792**	**3,273**	**28.4**
Profit before tax	**4,631**	**9,989**	**5,358**	**115.7**
Profit after tax	**3,853**	**5,238**	**1,385**	**35.9**

OTP Fund Management controlled 29.9% of the securities funds market at the end of 2006 (compared to 38.3% at the end of 2005). With respect to the pension fund market, the Fund Manager had a share of 30.9% of total assets under management at the end of 2006, and held a 11.6% share of other assets under management.

The Company achieved an after-tax profit of HUF 5.2 billion in 2006, which resulted in a return on average assets (ROAA) of 39.8% and return on average equity (ROAE) of 47.5%. The Company's cost-to-income ratio was 17.2% in 2006. The Fund Manager will pay HUF 8.2 billion in dividends to OTP Bank.

[5]Ratio adjusted by one-off revenue and expense related to the sale of OTP shares (cash given free of charge) in 2006.

Main indicators of DSK Group:

	2005	2006	Change
ROAA %	3.33	3.55	0.22
ROAE %	26.3	29.6	3.3
Cost/income ratio %	45.2	38.7	(6.5)

Main financial data of DSK Group:

	31/12/2005	31/12/2006	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	384,436	454,394	69,958	18.2
Retail	301,552	322,005	20,453	6.8
Corporate	82,668	132,197	49,529	59.9
Municipal	216	192	(24)	(11.1)
Provisions	(10,902)	(16,765)	(5,863)	53.8
Net loans	373,534	437,629	64,095	17.2
Deposits	432,415	523,770	91,355	21.1
Retail	352,002	430,964	78,962	22.4
Corporate	66,560	71,744	5,184	7.8
Municipal	13,853	21,062	7,209	52.0
Liabilities to credit institutions	67,627	150,265	82,638	122.2
Shareholders' equity	71,243	92,474	21,231	29.8
Subscribed capital	14,430	14,432	2	0.0
Total assets	**583,423**	**779,370**	**195,947**	**33.6**
Profit before tax	**19,601**	**27,763**	**8,162**	**41.6**
Profit after tax	**16,572**	**24,223**	**7,651**	**46.2**

As of December 31, 2006 the DSK Group's balance sheet total based on IFRS was HUF 779.4 billion, of which deposits from customers contributed 67.2%, or HUF 523.8 billion.

The gross value of the customer loan portfolio was HUF 454.4 billion, accounting for 58.3% of total assets.

Both in the retail market and in terms of balance sheet total, DSK Bank (DSK) retained its market-leading position in Bulgaria. At the end of December 2006, the Bank's market share based on total assets was 14.4%, up by 0.8% from a year earlier. Its share of retail deposits was 21.8%, within which its share of BGN deposits was 35.2% and that of FX deposits 11.3%. The Bank's share of the home loans market fell to 28.6% and its share of retails consumer loans decreased to 35.7%.

During 2006 DSK Group earned HUF 27.8 billion in consolidated pre-tax profits, up 41.6% on a year earlier. During the reporting period the DSK Group recognised HUF 52.4 billion and HUF 13.9 billion in interest income and interest expense respectively, thereby earning HUF 38.6 billion in net interest income.

The Bank's net interest income exceeded that of the previous year by 12.4%, while its non-interest income grew by 53.9%. The Group's fee and commission income grew robustly relative to the previous year (+58.9%, excluding commissions on sold loans: +24.9%) due to the increase in commission income from loans and bank cards.

In 2006 DSK's net interest margin to average balance sheet total was 5.66%, which represented a fall of 124 basis points compared to the previous year.

The Group's non-interest expenses amounted to HUF 22.4 billion during the period, up by 6.1% over 2005. Within this, fee and commission expenses grew by 47.3%, while personnel expenses decreased by 3.0%, to HUF 8.6 billion.

After-tax profits amounted to HUF 24.2 billion in 2006. The Group's cost-to-income ratio was 38.7% in 2006 (–6.5 percentage points).

The DSK Group achieved a return on average assets (ROAA) of 3.55% in 2006, and a return on average equity (ROAE) of 29.6%.

Main indicators of OTP Bank Romania S.A.:

	2005	2006	Change
ROAA %	(4.25)	(2.24)	2.01
ROAE %	(19.8)	(14.4)	5.4
Cost/income ratio %	142.2	135.1	(7.1)

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

	31/12/2005	31/12/2006	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	24,565	101,295	76,730	312.3
Retail	2,396	51,039	48,643	2030.0
Corporate	22,169	50,256	28,087	126.7
Municipal	0	0	0	0.0
Provisions	(463)	(928)	(465)	100.4
Net loans	24,102	100,366	76,264	316.4
Deposits	25,329	40,996	15,667	61.9
Retail	9,294	18,396	9,102	97.9
Corporate	15,279	22,600	7,321	47.9
Municipal	756	0	(756)	(100.0)
Liabilities to credit institutions	15,482	125,555	110,073	711.0
Shareholders' equity	13,731	25,041	11,310	82.4
Subscribed capital	12,577	25,865	13,288	105.7
Total assets	**55,225**	**193,412**	**138,187**	**250.2**
Profit before tax	**(2,182)**	**(2,658)**	**(476)**	**21.8**
Profit after tax	**(2,122)**	**(2,784)**	**(662)**	**31.2**

The balance sheet total of OTP Bank Romania (OBR) exceeded HUF 193.4 billion as of December 31, 2006, representing an increase of 250.2% over the year-end figure for 2005, and as a result, the Bank's market share at the end of 2006 was 1.5%. Its equity was HUF 25.0 billion on December 31, 2006 (a rise of 82.4%).

The Bank's gross loans grew by 312.3% in 2006, while customer deposits rose by 61.9%, with the two portfolios thus amounting to HUF 101.3 billion and HUF 41.0 billion at year-end. The Bank increased its market share in retail loans from 0.59% at the end of 2005 to 1.57%, while in the area of corporate loans its market share grew from 0.82% to 1.24% over the course of the year. Perhaps the most notable success of the year was the fact that the Bank improved its share of the Romanian mortgage loans market to 3.75%, owing to its launch of Swiss franc-based loans. With regard to retail deposits, market share was a more modest 0.57% at the end of 2006.

The Bank had a staff of 795 employees at the end of 2006, or 320 more than a year earlier.

OTP Bank Romania closed the 2006 business year with a loss of HUF 2.8 billion.

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

	2005	2006	Change
ROAA %	0.57	0.69	0.12
ROAE %	8.6	10.8	2.3
Cost/income ratio %	78.7	68.1	(10.6)

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

	31/12/2005	31/12/2006	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	189,940	189,901	(39)	0.0
Retail	43,827	58,225	14,398	32.8
Corporate	142,566	126,175	(16,391)	(11.5)
Municipal	3,547	5,501	1,954	55.1
Deposits	151,851	190,304	38,453	25.3
Retail	59,636	80,610	20,974	35.2
Corporate	71,063	85,965	14,902	21.0
Municipal	21,152	23,729	2,577	12.2
Shareholders' equity	17,128	20,309	3,181	18.6
Subscribed capital	11,831	11,831	0	0.0
Total assets	**262,858**	**325,226**	**62,368**	**23.7**
Profit before tax	**1,373**	**2,030**	**657**	**47.9**
Profit after tax	**1,373**	**2,030**	**657**	**47.9**

The balance sheet total of OTP Banka Slovensko, a.s. (OBS) was HUF 325.2 billion at year-end 2006, which represented a 23.7% rise over year-end 2005, and gave the Bank a 3.0% share of the Slovakian banking market. The Bank's equity rose by 18.6%, to HUF 20.3 billion, in the same period. At the end of 2006 OBS's loan portfolio was essentially unchanged from a year earlier, due to the repayment of a sizeable corporate loan during the year. Its loan portfolio of HUF 189.9 billion represented a market share of 4.0% at the end of the year. Its deposit portfolio rose by 25.3%, to HUF 190.3 billion, in 2006, giving it a market share in deposits of 2.8% as of December 31, 2006. OBS's after-tax profit for 2006 according to IFRS was HUF 2.0 billion, which compares with a profit for the previous year of HUF 1.4 billion. OBS's ROAA as of the end of 2006 was 0.69%, its ROAE was 10.8%, and its cost-to-income ratio had fallen by 10.6 percentage points, improving to 68.1%.

Main indicators of OTP banka Hrvatska d.d.:

	2005	2006	Change
ROAA %	1.00	1.05	0.05
ROAE %	10.6	11.3	0.7
Cost/income ratio %	67.2	62.6	(4.6)

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

	31/12/2005	31/12/2006	Change	
	HUF mn	HUF mn	HUF mn	%
Gross loans	150,499	195,930	45,431	30,2
Retail	90,014	126,940	36,926	41,0
Corporate	59,792	69,864	10,072	16,8
Municipal	693	524	(169)	(24,3)
Deposits	232,496	275,695	43,199	18,6
Retail	193,978	222,996	29,018	15,0
Corporate	33,168	47,644	14,476	43,6
Municipal	5,350	5,055	(295)	(5,5)
Shareholders' equity	30,571	30,609	38	0,1
Subscribed capital	17,304	17,365	61	0,4
Total assets	**298,175**	**364,118**	**65,943**	**22,1**
Profit before tax	**3,117**	**4,370**	**1,253**	**40,2**
Profit after tax	**2,135**	**3,468**	**1,333**	**62,4**

As at December 31, 2006 OTP banka Hrvatska's (OBH) balance sheet total was HUF 364.1 billion, giving the Bank a share of the Croatian market of 3.5%.
Gross loans had risen by 31.1%, to HUF 195.9 billion, by year-end 2006, and thus the Bank's market share was 3.2% at the end of the year. Deposits from customers at year-end were HUF 275.7 billion, representing a market share of 4.5%.
Retail loans, which represent 64.8% of the loan portfolio, rose by more than 40% in the course of the year, while the corporate loan portfolio, which represents 35.7% of the total, grew by 16.8% in 2006.
Corporate deposits grew most dynamically, by close to 44%, while the retail portfolio, which accounts for 81% of deposits, grew by 15% in the course of the year.
The group's headcount was 992 at the end of 2006.
The expense-to-income ratio improved by 4.6 percentage points compared to the previous year, and was 62.6% in 2006.
In 2006 OBH's after-tax profit was HUF 3.5 billion. Its ROAA was 1.05% and its ROAE was 11.4%.

ASSET-LIABILITY MANAGEMENT

Liquidity and market risk management

In 2006, 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 Plc. 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 the managers concerned receive an automatically generated report regarding any potential limit overruns. In 2006, the automated measurement of OTP Group's banking-book interest and medium-term liquidity risk exposure was commenced, which collects, on a biweekly basis, the Bank's interest and liquidity risk exposure positions.

At OTP Bank Plc., 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 summary report on the liquidity, interest rate and market risk exposure of the Bank and the Bank Group each month, and a detailed report each quarter.

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 Building Society Ltd., Merkantil Bank Ltd., OBS, DSK, OBR, OBH, CJSC OTP Bank, Investsberbank, Niška banka, Zepter banka and Kulska banka. By year-end 2006, the consolidated capital requirement was HUF 28.3 billion, which was attributable mainly to foreign exchange positions (HUF 22.4 billion).

The exposure of the group members' foreign exchange positions is restricted by the imposing of individual and global net open position (overnight and intraday) as well as loss limits. In 2006, group-level average net exposure was HUF 95.2 billion, which was essentially attributable to the foreign interests (this year the Ukrainian, Serbian and Russian subsidiaries were added to the bank group). The average net open position of the OTP Bank dealing room was HUF 2.4 billion.

In 2006, the OTP Group's plentiful liquidity declined as a result of the dynamic growth in lending activity and of the new acquisitions, especially the acquisition of the Ukrainian subsidiary whose credit expansion is being financed by OTP Bank. 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 were previously purchased by the parent bank and that in 2006 were purchased by institutional and retail investors.
Since the mortgage bonds issued by the Mortgage Bank to fund its loans were purchased by OTP Bank Plc., the funding source for the loans on the Mortgage Bank's books were in effect OTP Bank's customer deposits.

In 2006, the interest rate exposure of the Bank Group was essentially determined by the positions of OTP Bank, OTP Mortgage Bank and DSK Bank. 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 will be beneficial to the Bank Group in the event that market rates continue to decrease.

Developments in OTP Bank Plc's liquidity position

OTP Bank's liquidity policy: while keeping a strict eye on profitability, the Bank should be able to meet 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 opportunities and/or its funding requirement. The business areas and executive officers concerned receive regular reports on risk exposure and limit utilisation.
At the end of 2006, 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 based on the scheduled maturity date of deposits – showed a considerable positive balance. The long-term liquidity position was affected greatly by the fact that in 2006 the Bank, in order to finance foreign currency loans and the existing and new subsidiaries of the OTP Group, issued convertible bonds of a nominal value of EUR 514 million with an indefinite maturity, recallable bonds of a nominal value of EUR 500 million with an indefinite maturity, and subordinated debenture bonds of a nominal value of EUR 300 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 3,461 million, of which 97.8% (EUR 3,386 million) had been drawn down in euro and Swiss francs as of year-end 2006. 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 2006, the volume of foreign currency loans had grown by 32% compared to the year-end 2005 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 was extended by the Bank to its affiliates and, in addition, the retail segment's Swiss franc-based products also experienced considerable growth, in an amount of HUF 100 billion. The coverage of foreign currency loans by foreign currency deposits from customers fell from 41% to 33% over the year, and with regard to euro, it grew from 40% to 43%. In the wake of the foreign bank acquisitions, an increasingly large portion – over 80% – of assets are denominated in foreign currency. In 2006, the value of foreign currency deposits from customers expressed in euro rose by close to 33%.

Applying stricter rules than the law, which stipulates that a large deposit is one that exceeds 15% of the guarantee capital, the Bank treats 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 interbank placements was over 2.14 times higher than the combined portfolio of individual large deposits in 2006. Similarly to the end-2005 proportion, the Bank's cash, securities held for trading and deposits held with the central bank and other commercial banks fell from 19% of the balance sheet total as at year-end 2005 to 16.7% due to an annual growth of the balance sheet total in excess of 24%.

OTP Bank Plc'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 2006 the Bank compensated for the projected negative impact of market rate changes that were contrary to expectations by the deferred repricing of its retail deposit portfolio, and attempted to keep its customers by offering discounts on time deposit conditions instead. In 2006 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-rate securities held for investment exceeded HUF 588 billion. The duration of the portfolio of securities held for investment is 2.6 years. The interest risk exposure of the foreign currency-denominated portfolio is not material.

OTP Bank Plc's exchange rate exposure

The Asset-Liability Committee contains foreign exchange-rate exposure through individual and global net open position (overnight and intraday) limits as well as loss limits. The Bank is present in both the domestic and foreign FX spot and derivatives markets. In 2006, the average size of OTP Bank's net open position was HUF 95.2 billion, which was due, almost in its entirety, to its foreign interests (this year the Ukrainian, Serbian and Russian acquisitions were added to the Bank Group). The average net open position held by the dealing room was HUF 2.4 billion.

Capital requirement for OTP Bank Plc'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 16.1 billion higher in 2006 than in 2005, and reached HUF 24.4 billion, of which HUF 1.2 billion

was allocated to position risk, HUF 0.6 billion to counterparty risk and HUF 22.6 billion to exchange rate risk. It was exchange rate risk that rose most notably, due mainly to the increase in open foreign exchange positions caused by the acquisitions.
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. Average (overall) capital requirement calculated on the basis of the VaR model was HUF 8.6 billion in 2006; however, by the end of the year, due to the completed acquisitions, the consolidated capital requirement was HUF 28.3 billion.

Financial Summary (consolidated IFRS data)

Balance sheet As at December 31 (in HUF bn)	2002	2003	2004*	2005*	2006*
Cash. due from banks and balances with the National Bank of Hungary	355.4	276.5	465.9	483.2	532.6
Placements with other banks, net of allowance for placement losses	295.9	252.3	286.2	438.8	602.6
Financial assets at fair value through statements of operations	–	–	70.6	48.1	110.6
Securities available-for-sale	220.1	377.0	295.8	409.9	489.3
Gross loans	1,336.9	2,046.7	2,586.1	3,297.2	4,474.7
Retail	579.4	1,189.1	1,547.4	1,965.8	2,646.4
Corporate	629.3	764.9	920.6	1,195.4	1,610.0
Municipal	128.3	92.8	118.1	136.0	218.3
Allowances for loan losses	(56.2)	(64.2)	(79.3)	(105.9)	(127.6)
Net loans	1,280.7	1,982.6	2,506.8	3,191.3	4,347.1
Equity investments	5.5	5.9	9.4	12.4	70.9
Securities held-to-maturity	352.9	299.8	247.3	289.8	268.3
Premises, equipment and intangible assets, net	93.6	167.3	174.8	233.2	464.7
Other assets	112.5	99.4	105.6	109.2	211.3
Total assets	**2,716.6**	**3,460.8**	**4,162.4**	**5,215.9**	**7,097.4**
Due to banks and deposits from the National Bank of Hungary and other banks	79.1	126.4	254.1	364.1	660.4
Deposits from customers	2,151.2	2,689.8	2,902.2	3,428.2	4,232.2
Retail	1,613.6	2,000.0	2,155.8	2,562.9	2,912.8
Corporate	381.2	501.4	549.8	662.2	1,098.1
Municipal	156.4	188.5	196.5	203.1	221.3
Liabilities from issued securities	84.9	124.9	317.2	543.5	781.3
Other liabilities	162.0	192.1	240.8	285.6	384.6
Subordinated bonds and loans	15.5	15.4	14.3	47.0	250.7
Total liabilities	**2,492.6**	**3,148.6**	**3,728.7**	**4,668.4**	**6,309.2**
Total shareholders' equity	**223.6**	**311.8**	**433.7**	**547.5**	**788.2**
Total liabilities and shareholders' equity	**2,716.6**	**3,460.8**	**4,162.4**	**5,215.9**	**7,097.4**
Net assets per share (NAV) (HUF, diluted)	970.2	1,236.0	1,486.6	1,862.8	2,815.0

Profit and loss account for the years ended December 31 (in HUF bn)	2002	2003	2004*	2005*	2006*
Net interest income	134.3	176.1	260.9	297.2	355.9
Provision for loan and placement losses	8.8	10.8	16.0	28.0	28.6
Net interest income after provision for loan and placement losses	125.5	165.3	244.8	269.2	327.4
Fee income	63.6	81.6	91.6	118.9	145.0
Foreign exchange gains, net	(2.8)	5.2	1.3	3.9	(11.9)
Gains and losses on securities, net	1.1	(7.6)	6.5	9.7	6.9
Gains on real estate transactions, net	0.8	1.5	1.8	0.1	1.3
Dividend income and gains and losses of associated companies	0.6	0.4	0.6	0.7	0.9
Insurance premiums	49.7	56.3	49.3	69.8	75.6
Other	11.5	12.2	10.7	13.5	24.9
Total non-interest income	124.6	149.6	161.8	216.5	242.7
Fee expense	13.0	19.9	20.6	19.9	32.1
Personnel expense	50.2	61.3	79.5	95.2	106.8
Depreciation and amortization	17.0	19.8	29.2	21.9	26.5
Insurance expenses	39.8	41.8	40.3	58.5	60.9
Other	56.9	69.4	81.0	98.1	125.3
Total non-interest expense	176.9	212.2	250.6	293.6	351.5
Profit before tax	**73.1**	**102.7**	**156.0**	**192.1**	**218.6**
Profit after tax	**59.2**	**83.3**	**131.5**	**158.3**	**187.1**
Earnings per share (EPS)					
Base HUF	229	320	501	603	722
Diluted HUF	228	319	499	599	714

Key ratios	2002	2003	2004*	2005*	2006*
Loan to deposit ratio %	53.6	65.0	69.4	70.6	105.7
Cost/income ratio %	66.7	62.9	57.2	55.4	56.4
Capital adequacy ratio %**	13.43	10.54	11.19	10.55	9.88
ROAA %	2.36	2.70	3.45	3.38	3.04
ROAE %	30.3	31.1	35.3	32.3	28.0
Dividend per share HUF	–	60	146	197	144
Per capita profit after tax (HUF mn)	4.8	4.8	7.7	9.0	7.6

* Due to the changes of the accounting standards figures are not comparable with previous years' data
** OTP Bank non-consolidated, according to HAR