2007
annual report

otpbank

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Message from the Chairman and Chief Executive Officer

DEAR SHAREHOLDERS,

While 2007 was one of the most challenging years so far for financial institutions worldwide, yielding for many the poorest results of the past decade, the OTP Bank Group once again closed a successful business year.

Double-digit profit growth, stable P&L structure

Although in spite of the more than 11% profit growth, after-tax profit fell slightly short of the management's original target, it nonetheless exceeded both the market and analysts' expectations, and the profit structure was exceptionally healthy, as it was undistorted by one-off results and unburdened by impairment write-offs.

We should be particularly proud of our achievements in light of the fact that the Hungarian macroeconomic environment, despite the considerable improvements in terms of equilibrium, was fundamentally working against us, as the income positions of households and businesses worsened, and savings continued to dwindle. It was against this backdrop that we succeeded in boosting our lending activities, to all intents and purposes without any deterioration in the quality of the loan portfolio.

The greatest challenge of the past year was to halt the loss in market share suffered by our retail banking products in Hungary, as well as to reorganise and integrate the foreign subsidiaries acquired in 2006. Meanwhile several important personnel changes were also made, including the replacement of three deputy CEOs, and the Bank Group's management structure was also significantly altered, leading to a marked strengthening of the strategic management and control functions. The newly formed Subsidiary

Integration and Management Committee, together with the Management Committee, ensured the effective application of checks and balances at group level.

The markets followed the performance and integration of our new subsidiaries with interest, especially with regard to the Russian and Ukrainian banks. Exercising a degree of self-criticism, we should note that in Russia it took longer than planned to set up an effective local management team, though this was in place by the second half of the year; while in Serbia the merging of the three, formerly separate, banks needed more time than was originally budgeted for, resulting in a slowing of lending growth and a loss of market share. It was basically the poorer-than-expected performance of these two subsidiary banks that led to the slight shortfall in consolidated after-tax profit relative to the original target.

Personal and structural changes faciliating effective operating

In 2007 the Bank Group achieved an after-tax profit of HUF 208.5 billion, its balance sheet total grew by 19.2% to almost HUF 8.462 billion, while its equity approached HUF 900 billion. Although, as a result of the large-scale acquisitions carried out in 2006, profitability and efficiency ratios deteriorated somewhat, by international standards they remain exceptionally good, with a consolidated return on assets of 2.67% (a 37 basis-point decline), and a return on equity of 24.7% (a 3.3 percentage-point fall). The cost to income ratio, at 59.1%, was 2.7 % higher than in 2006.

The contribution of the foreign subsidiary banks to the Group's overall financial results rose strikingly, with subsidiaries abroad accounting for 43.9% (+7%) of the consolidated loan portfolio, 39.1% (+4.7%) of deposits, and 25.3% (+11.6%) of the Group's after-tax profit.

While the program of corporate rebranding and branch modernisation continued to be implemented at group level, we also placed considerable emphasis on expanding the branch network: in Ukraine, Romania and Russia the number of units was increased substantially, and agency sales channels were further broadened.

Steadily growing contribution from foreign subsidiaries

Another major challenge in 2007 was ensuring the funds necessary to support our rapid portfolio growth.

A significant achievement last year was the Bank's success in targeting consumer savings in a way that ensured its deposit positions remained stable, while the Fund Management secured a notable improvement in its market share. The 114.4% consolidated loans-to-deposits ratio represents a growth of 8.7% at annual level, while the Bank Group's liquidity position is stable, as in 2007 it only needed to raise EUR 950 million in funding from the capital market. This also meant that the significant rise in global financing costs had but a limited impact on the Bank Group's financing costs.

Our stable capital position, liquidity situation and profit-generating capacity were also recognised by Moody's: the credit rating agency, with a stable outlook, confirmed OTP Bank's A2 rating, the Aa2 rating of its foreign-currency bonds, and its 'C+' financial strength rating.

Within the Bank Group, the after-tax profit from core banking operations in Hungary (OTP Bank, Mortgage Bank and the Building Society) exceeded HUF 136* billion (+11.7%), and a number of exceptionally beneficial personnel and organisational changes resulted in the stabilisation and even the improvement of market positions in several key product segments. Despite the adverse market environment, the remaining Hungarian subsidiaries (Merkantil Group, Garancia Insurance, Fund Management) also achieved good results; OTP Fund Management grew its market share by 3.5%.

Among the foreign subsidiaries it was once again DSK Bank that performed the most impressively in absolute terms, with the HUF 26.9 billion in profit being accompanied by outstanding profitability (ROE: 24.7%) and efficiency ratios (cost-to-income: 39.0%) – and it achieved all this in an increasingly restrictive regulatory environment that had a restraining effect on its performance.

Of the newly acquired banks, particularly worthy of note was the spectacular profit and volume growth of Montenegro's CKB, which achieved the highest return on equity within the group (ROE: 21.3%), as well as the impressive retail lending performance and double-digit interest margin of Russia's ISB, and the exceptional network expansion and lending growth of the Ukrainian CJSC. In 2007 the Romanian subsidiary continued to display one of the highest rates of lending growth, while the results of the Croatian and Slovakian subsidiaries were essentially on-target.

* Figures presented in the statements are not consistent with the audited data because they were originated according to controlling methodoly.

Unfortunately, the markets' perception of value was determined less by fundamental performance than by the dramatic global fall in risk assumption and the negative attitude towards financial institutions in general, and although the price of OTP shares peaked at an all-time high of HUF 10,970 during the year, its year-end closing price was only HUF 40 above the HUF 8,750 of year-end 2006.

Despite of worsening operating environment mid-term targets are still remain in place

I believe that the coming period will be even tougher than the past year, particularly in light of the challenges presented by the steep increase in financing costs. Nonetheless, we continue to maintain our EUR 2 billion pre-tax profit target for the year 2010. Good grounds for this are provided by the fact that, contrary to the pessimistic preliminary expectations, operations in Hungary were successful and profitable, while our foreign subsidiaries are active in the regions of Eastern Europe that continue to be characterised by dynamic economic growth and the rapid expansion of banking services.

Over the past year, the personnel and organisational changes, the restructuring of our internal resources to improve efficiency, the purposeful leveraging of the opportunities inherent in group-level financing, and above all the enthusiasm and hard work of the Bank Group's employees, have contributed to ensuring that OTP Bank continues to head one of the leading and fastest-growing banking groups in the region.

By making the best possible use of our professional expertise, and doing all in our power to promote the interests of our customers and shareholders, we aim to maintain our Bank Group on a sustainable path of value creation, thereby further improving our reputation and boosting shareholder value.

Dr. Sándor Csányi
Chairman & CEO

Financial Highlights

Profit and Loss Account (in HUF million)***	2006	2007	Change
Net interest income	340,186	423,698	24.5%
Net interest income after provisioning	316,189	381,614	20.7%
Non-interest Income	221,798	284,285	28.2%
Total income (with net fees)	561,984	707,983	26.0%
Operating cost	319,385	416,947	30.5%
Profit before tax	218,602	248,952	13.9%
Profit after tax	187,096	208,548	11.5%

Balance Sheet* (in HUF billion)	2006	2007	Change
Total assets	7,097.4	8,461.9	19.2%
Loans and advances to customers	4,474.7	5,761.1	28.7%
Retail loans	2,646.4	3,302.6	24.8%
Corporate loans	1,610.0	2,227.7	38.4%
Municipal loans	218.3	230.8	5.7%
Interbank loans and advances	602.6	654.8	8.7%
Deposits from customers	4,232.2	5,038.4	19.0%
Retail deposits	2,912.8	3,246.6	11.5%
Corporate deposits	1,098.1	1,495.6	36.2%
Municipal deposits	221.3	296.1	33.8%
Issued securities	781.3	985.3	26.1%
Total receivables	4,474.7	5,761.1	28.7%
Performing loans	3,562.0	4,984.0	39.9%
Qualified loans	912.7	777.1	(14.9%)
Non-Performing loans (NPLs)	251.1	243.7	(3.0%)
Provisions for possible loan losses	127.6	178.7	40.0%
Shareholders' equity	788.2	895.6	13.6%

Performance Ratios	2006	2007	Change
Cost/income ratio %	56.8%	58.9%	2.1%
Return on average equity (ROAE) %	28.0%	24.8%	(3.2%)
Return on average assets (ROAA) %	3.04%	2.68%	(0.4%)
Capital adequacy ratio (unconsolidated, HAR)* %	9.88%	10.97%	1.1%
Undiluted EPS (HUF)	722	796	74
Diluted EPS (HUF)	714	794	80

Market share**	2006	2007
Households' deposits,%	32.4%	31.3%
Households' loans, %	34.4%	31.1%
Corporate deposits, %	9.9%	11.9%
Corporate loans, %	11.0%	9.9%
Municipal deposits, %	64.2%	53.1%
Municipal loans, %	55.1%	55.0%

* as at 31 December
** as at 31 December, market share of the Hungarian members of OTP Group
*** Figures presented in the statements are not consistent with the audited date because they were originated according to controlling methodoly

Macroeconomic and Financial Environment in 2007

MACROECONOMIC AND FINANCIAL TRENDS IN HUNGARY

Hungary's economic performance in 2007 was characterised by dramatic budgetary stabilisation, rising inflation and, in the second half of the year, a rapid deterioration in the external economic environment. Amid growing expectations of a slowdown in the economies of the developed countries, risk premiums began to rise rapidly from their low level of the past years.

The public finance deficit shrank from 9.2% to 5.7% of GDP, which was primarily due to a sharp increase in tax revenues, although the approximately 5% headcount reduction in the civil service also had a significant impact. Budgetary targets were exceeded on both the income and expenditure side, but tax and contribution revenues (direct and indirect taxes, social insurance contributions) exceeded the planned figures by a greater margin than expenses. A contributing factor in this was the December 2006 closure of debt assumptions, which meant that in 2007 no more expenses of this nature were incurred. (In 2006 debts amounting to approximately 2% of GDP were taken over by the central budget.) The budget savings would have been even greater were it not for the one-off expenses resulting from the purchase of Grippen fighter aircraft and a capital injection granted to the state railway operator MÁV. Without these, the deficit would have been reduced by a further 0.5% of GDP.

Hungary's rate of GDP growth fell in 2007, essentially in terms of all its components, to an annual rate of 1.3%, according to preliminary data published by the Central Statistics Office (KSH). Household consumption declined by 2%. As a result of the austerity measures, household incomes dropped by around 5%, and employment also fell by almost 1%, in which, besides the

Changes in real GDP

headcount reductions in the state sector, the start of efforts by the private sector to adapt to the prevailing economic circumstances was also an increasingly important factor. Although households tried hard to maintain their consumption levels, the sharp decline in incomes still led to a 0.6% reduction in their consumption purchases. In addition, as a result of the healthcare reforms and budget tightening, the value of benefits in kind fell by almost 10%, further exacerbating the drop in consumption. Since investment activity also continued to be restrained, the driver for growth – owing to the upswing in foreign markets – was net exports, which grew by 16% against the backdrop of an 11% rise in imports. However, the second half of the year also witnessed a marked slowdown in export growth.

On the production side, the agricultural sector went into a steep decline. Construction-industry output also fell by 14%, primarily owing to the reigning in of state-funded investment. The number of home construction permits dropped by 1.2%, to 44,200, but the number of homes taken into occupancy rose by 7%, to 36,200. Average inflation was 8% in 2007, which is more than double the previous year's rate of 3.9%. This exceptionally high figure resulted from a combination of several different factors, the main reason being the austerity program launched by the government in September 2006, and the additional price increases carried out in its second phase, which commenced on 1 January. In the autumn, the Hungarian economy was subjected to further inflationary pressure as a rise in global demand for foodstuffs, accompanied by a fall in supply owing to unfavourable weather conditions, led to a substantial increase in global food prices, while rising energy prices also pushed up the rate of inflation.

The growing inflationary pressure and the steep rise in gross wages (which together substantially reduced the likelihood of the central bank's achieving its inflation target for 2009), as well as the rapid increase in risk premiums, meant that the 125-150-basis-point interest rate reduction that had previously been priced in by the markets failed to materialise, as the benchmark rate fell by only 50 basis points. Long-term yields rose over the year as a whole, with the 10-year yield level standing at 7% at the end of December, which represents a 40-basis-point increase compared to the end of 2006.

However, the credit-driven deepening of the banking system continued in 2007, as the bank sector's total assets grew by 16%, customer loans rose by 16.8%, and customer deposits increased by 9%.

Despite the austerity measures, household demand for credit did not decline, with net new bank loans rising from 4.4% of GDP in 2006 to 4.8%, while total new loans were up from 5.2% to 5.6%, although the initial upward trend was followed by stagnation from the middle of the year on. Thus, the sector's overall portfolio of bank loans grew by 24.5%, compared to 25.5% growth in 2006, despite the high base and the fall in the forint value of foreign currency-based loans, owing to a strengthening of the forint, at the end of the year. The growth in borrowing continued to be driven by demand for foreign currency loan products, which entail the lowest monthly instalments for customers. Products of this type accounted for 88% of net new borrowing, of which 47% consisted of foreign currency home purchase loans, and 41% of multi-purpose foreign currency mortgage loans. The total volume of forint-based mortgage loans fell by around HUF 115 billion.

Although the bank sector's financial asset accumulation fell in terms of its ratio to GDP, new deposits rose to 1.7% of GDP, from 1.4% in the previous year, as households reinvested, in bank deposits, a portion of the funds that they had withdrawn from bonds. In 2007, once again, a substantial volume of assets was invested in mutual funds – largely due to the success of capital-guaranteed funds – with an overall net influx of HUF 434 billion (1.8% of GDP) in 2006 followed by more than HUF 500 billion (2% of GDP) in 2007, with the result that the total investment fund portfolio of households, following growth of 31% in 2006, expanded by a further 28%.

The overall level of demand for borrowing in the corporate sector remained static, with net new borrowing amounting to 4.5% of GDP. However, the structure of corporate borrowing underwent a change, as a slowing in domestic demand and the worsening external economic environment led to a decline in borrowing by non-financial enterprises, and an increase in the take-up of loans by financial enterprises. As a result, the sector's combined loan portfolio grew by a further 13% in 2007. New corporate deposits fell back to 1.6% of GDP, from the exceptionally high 4.1% figure of 2006, with the result that the rate of growth in deposits also dropped substantially, from almost 30% in 2006 to 10% in 2007.

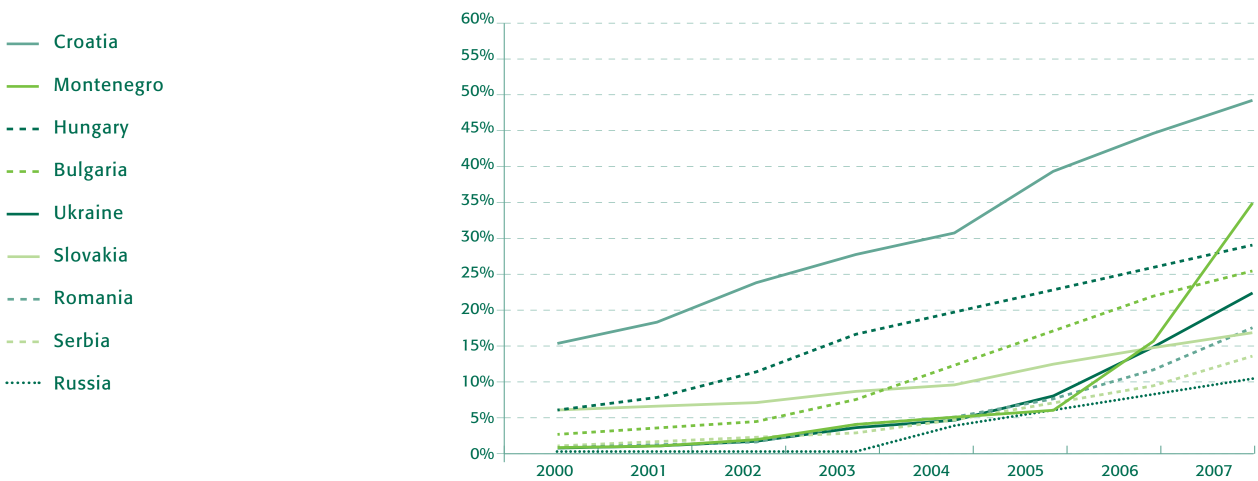
Macroeconomic and financial trends in the countries of OTP Bank's foreign subsidiaries

After a strong 2006, the year 2007 also witnessed rapid growth in the countries of OTP Bank's foreign subsidiaries, with real economic expansion of 6% or more in all of the countries.

Average annual inflation fell in all the countries where OTP Bank has subsidiaries – with the exception of Bulgaria, Ukraine and Montenegro – but by the end of the year the annual indexes had begun to rise in all of the countries, primarily as a result of the global food price increases and rising energy prices.

Although in terms of their internal financing positions none of the countries with OTP subsidiaries experienced any significant difficulties (all have smaller budget deficits than Hungary), the balance of payments position deteriorated everywhere except Slovakia, with extremely high deficits reported in Romania (15% of GDP), Bulgaria (21%) and Montenegro (36%). In Bulgaria and Montenegro this was primarily due to the rapid growth in investments, but in Romania another major contributing factor was household consumption, which makes the latter economy more vulnerable than the others.
The rapid, credit-driven deepening of the banking system also continued in the countries of OTP Bank's subsidiaries in 2007. The bank sector's total assets, owing to the prevailing administrative restrictions, grew at the slowest rate in Croatia (13%), while in Slovakia the rate of asset growth was 20%, and the Russian, Bulgarian and Romanian bank sectors each expanded by 40–50%, but the frontrunners in this respect were Ukraine (80%) and Montenegro (100%).

Bank sector retail loans as a percentage of GDP



In all these economies the growth was driven by loans. The rate of expansion in household lending, with the exception of Croatia (18%), Slovakia (27%) and Bulgaria (33%), exceeded 50% in all the countries, with the result that besides Croatia, Montenegro also witnessed higher loan penetration than Hungary, but even Bulgaria and Ukraine approached the Hungarian level. The year 2007 saw similarly robust performance in the corporate lending market, where the rate of growth was typically between 40% and 50%. Although in all the countries, without exception, loans grew more rapidly than deposits (partly as a result of the higher base figures in the case of the latter), savings also displayed impressive growth. Retail deposits were up by 10% in Croatia and Slovakia, 100% in Montenegro, and 35–50% in the remaining countries, while investment funds and insurance premium reserves increased at an even faster pace.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Business Reports

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Activities and Business Results of the Bank Group in 2007

OTP Bank Plc – despite what was in many respects an unfavourable macroeconomic environment in Hungary and notwithstanding the US sub-prime mortgage crisis in the second half of the year – closed a successful business year in 2007: it succeeded in increasing its income by close to the planned figure, exceeding analysts' expectations, and significantly increased its business activity and volumes. The fundamental conditions and equity position of the Bank are stable and balanced, and in December 2007 Moody's confirmed all credit ratings of OTP Bank with a stable outlook.

While 2006 was the year of corporate acquisitions for the OTP Group, 2007 was devoted to the integration of the newly purchased subsidiaries, and the continued development of the Bank Group's management system. As a result its recent acquisitions, OTP Bank has grown to become a multinational financial institution serving 11 million customers in nine countries, which has brought with it the need to make further improvements to its corporate structure and governance system. From 1 January 2007, a new organisational and governance model was introduced, which incorporates the factors arising from the Bank's international status into its operating and management procedures, and ensures that the Bank Group pursues a consistent business policy, while also taking into consideration the special characteristics of the individual countries, and local economic conditions. There is a two-tier approach with regard to the governance of the foreign subsidiary banks: besides the local management, in each country a single manager from OTP Bank is charged with exercising the controlling rights of the owner, while responsibility for the professional supervision of the various divisions is held by the heads of the corresponding divisions of OTP Bank. The purpose of the new corporate governance model is to ensure that best practises are applied throughout the OTP Group with respect to the products, services and procedures on which our success depends. An important element of the newly introduced management model is that it specifies, in detail, which activities are centralised, and which are carried out at local level. For example, risk management, network development, liquidity management, the authorisation of large loans and approval of major investment projects are all performed centrally. The modifications to the organisational and decision-making mechanisms serve to improve the Bank's ability to react, as well as promoting innovation and ensuring the effective coordination of operations.

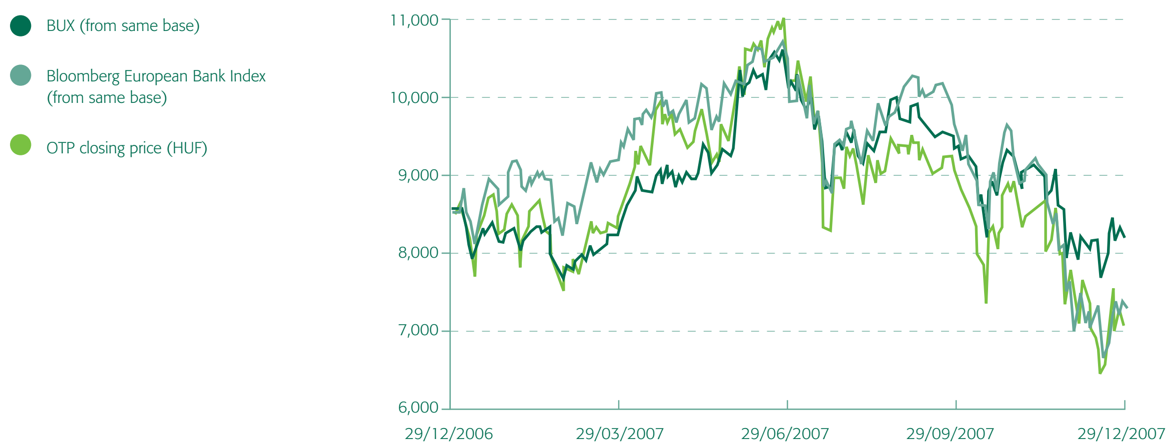
The year 2007 also brought changes to intra-group financing, as OTP Bank established two new companies for the optimisation of financing transactions conducted within the group. The new business entities are Cyprus-based OTP Financing Cyprus Company Limited, and OTP Financing Netherlands B.V., which is registered in Rotterdam.

The price of OTP shares in 2007

The price of OTP Bank shares was extremely volatile in 2007, owing to the unfavourable macroeconomic conditions and capital market situation. Over the course of the year – against a backdrop of exceptionally high trading volumes – the price of OTP shares rose by 25% up to the end of July, from HUF 8,750 to HUF 10,939, and then in the rest of the year it gradually fell back to the start-of-year level, eventually closing at HUF 8,790. The exit of investors from the stock market following the start of the sub-prime mortgage crisis in America in August had a marked impact on the price of OTP shares, although OTP Bank's operating results were not affected by the crisis and OTP Bank does not have a structured

securities portfolio that would have generated any major losses for the Bank.
Over the past years, the price of OTP Bank's shares has risen at a significantly higher rate than that of other shares on the Budapest Stock Exchange. The price of OTP shares grew by a factor of almost 93 (in forint terms) from the end of 1995 to the end of December 2007 (representing an average annual growth of 45.9%). By comparison, the BUX index rose over 17-fold (representing an average annual growth of 26.7%) during the same period – due in no small part, it must be said, to the performance of OTP Bank. However, in 2007 the OTP share price stagnated (+0.46%), despite the 5.6% increase in the BUX.
At the end of December 2007, the combined market value of the Bank's shares was HUF 2,462 billion, or EUR 9.7 billion, which was 2.75 times the Bank's book value (P/BV).

The price of OTP shares in 2007



Customer numbers, sales network and headcount at the OTP Bank Group

As a result of the acquisitions carried out over the past years, the OTP Group now maintains a presence in nine countries of the region. Internationally, the number of customers served by the Bank Group as at 31 December 2007 exceeded 10.6 million. At the end of the year, the parent bank had a clientele numbering almost 4.8 million, of whom 4.6 million were retail banking customers. The total number of customers of the Bank Group's foreign subsidiaries continued to rise, approaching 5.9 million by the end of the 2007.
Among the foreign subsidiaries DSK Bank has the largest clientele, which it succeeded in further expanding in 2007, giving it a total of 3.6 million customers at year-end. OTP Bank Romania achieved a substantial – more than 80% – growth in the number of its customers.

The Bank Group expanded its sales network considerably in 2007: by the end of the year nearly 1,500 branches (compared to 1,300 in 2006), almost 3,600 ATMs and nearly 43,000 POS terminals were in operation to ensure that customers were served as efficiently as possible. Besides these, the range of channels is also complemented by a call centre, mobile and internet banking services, business customer terminals and a network of sales agents.
In the regional network OTP Bank continues to operate the highest number of branches – 409 units – followed by DSK Bank with its network of 375 branches. The greatest expansion of the branch network was achieved by the Ukrainian subsidiary, which increased the number of its outlets from 65 to 158 units in the course of 2007. The Romanian (+38 branches) and Russian (+32 branches) networks also grew considerably.

A highly qualified team of dedicated and sales-oriented customer service operatives is the key to ensuring a high standard of service, which is why OTP Bank treats as a priority the ongoing training of its staff, and the retention of talented professionals. On 31 December 2007, the OTP Group's employee headcount exceeded 33,000, of whom 13,000 were employed by OTP Bank and its subsidiaries in Hungary, while approximately 20,000 worked at foreign group members. The headcount at OTP Bank was almost 8,500 at the end of 2007.

Major development projects of 2007

In 2007, as a part of the cross-selling project, a system for generating and sending binding, pre-assessed direct marketing offers to customers, in accordance with the requirements of the particular business lines, was created. This project has contributed significantly to an increase in the number of offers, because the division concerned is free to choose the terms and conditions related to its particular target customers, and it is now possible to send out various types of offer.

Within the context of the loan protection program, consumer loans were replaced with personal loans and debt-settlement loans.
This means that customers who have several loans can convert them into a single loan, and can repay their overdraft and credit card debts through equal instalments.

Thanks to an addition to OTP Bank's account-management system, the account management and early collection of receivables sold to OTP Factoring Ltd. can now be handled effectively.

The developments implemented in the 'Statement Factory' have led to a fall in costs for the Bank, as it has enabled retail deposit statements prepared for the same group of deposit holders and at the same postal address to be sent out at the same time.

The IT processes related to the collecting of debts, payment reminders, write-offs and terminations in respect of distressed accounts were improved, the existing IT solutions were fine-tuned and consistent principles were introduced for debt management. Consequently, the Bank can now monitor bank-account debts and unauthorised overdrafts, produce letters terminating the account or containing payment demands, select the terminated accounts, support measures related to written-off or sold receivables, implement internal transfers required for debt collection, and provide IT support for the termination of accounts.

In retail lending, several new products were introduced, including a repayment insurance scheme with a monthly premium and the 'Világ' (World) currency-conversion loan, which is a multicurrency housing and mortgage loan (HUF, EUR, CHF, JPY), in which currencies are converted automatically based on the customer's request.

Applications for housing and mortgage loans sold by agents are now also available on the internet, and partner-status monitoring on the internet has also been extended.

A simplified process for MSE lending was introduced in the corporate risk management system, as a result of which the program leads the user through the individual steps of the lending process supported by the system, starting from one single screen, and thus the user no longer needs to select the functions to be executed from menus, which reduces the throughput time.

The connection established between the corporate loan account management systems and the risk management system supports the reporting of data required for calculating impairment and provisioning values in compliance with the accounting regulations.

By expanding the data in the Transaction Data Warehouse, and the functions based on it, sales support improved, and there was a major increase in the functions supporting the introduction of conditional offers and account packages, cross selling, and the management of overdue receivables. The results of the START and PARTNER projects were used more extensively, in which context the publication results of the START portal development activities should be highlighted. New modules were added to the REFTAM system, which supports the sales efforts of the relationship managers managing key – large-corporate, municipality, private banking, EU and Partner – accounts.

The major change in 2007 related to investment services was the introduction of the MiFID (Markets in Financial Instruments Directive) requirements, defined by the European Union for investment-related activities. The purpose of this directive is to promote the development of a competitive and liquid European market. Despite the fact that in the end certain member states applied for and were granted derogation, as a result of which the original deadline was changed to 31 January 2008, it was still the most significant task of the past year, especially since the majority of the work was performed in 2007.

The Bank made available some of its investment service products for sale by agents. With the help of the related development, the products issued by OTP Fund Management are now sold through the agent network.

Following lengthy preparations, securities lending became available in investment services.
As a result of this development, the Bank's treasury can provide loans in the form of securities to its customers and partners, and if necessary can borrow securities from them.

Under Interest and Currency Risk Limit Supervision, the Equity Risk modules were developed for OTP Treasury and the Balance Sheet Management Department, which made the risks of the business units concerned transparent and manageable on a daily basis.

The OTPdirekt services available on the internet were extended to include the trading of securities listed on the stock exchange. In co-operation with Első Mobilfizetés Elszámoló Zrt. (First Mobile-Payment Settlement Services Ltd.) and its partners, a system was developed supporting the payment of parking fees and other services over the internet or through mobile phones. This project also increased the number of services available through electronic channels.

In 2007, the Bank expanded the range of its services available through ATMs to include invoice payment and gaming opportunities, and introduced foreign-currency settlement with merchants who accept AMEX cards.

Work continued at the Bank on the Basel II project, enabling the calculating of the capital requirements of the Bank and of its subsidiaries in compliance with the international regulations.

The changeover from a CASIR to a UNIX platform also took place, which has led to significant savings in terms of processing times.

As a part of the Serbian project, and by adopting the solution applied at OTP, dinar and foreign-currency current account and card-deposit account, savings account, personal loan and durable-goods loan products were developed. The two banks use the same source code for the account management system, and thus a product introduced at one bank can also be used at the other bank. At the end of 2007 the eChannels service also went live.

The development of the IT system (LASER) used at OTP Életjáradék (Life Annuity) Zrt. continued, focusing on sales support (commission settlement of regional representatives, introduction of sales by OTP Partner) and the registration of payments related to the life annuity product.

The companies of the Merkantil group continued to implement the integrated information system (OLGA). In 2007, the real-estate financing module was developed and implemented, supporting the activities of Merkantil Real Estate Leasing. In order to expand the product range, the information system was extended to include loan products with fixed repayments. The developments serving to enhance the operational safety of the system and the accelerating and replacement of the work of administrators were of major importance, as they enabled considerable cost savings to be made.

The Bank extended the market-risk monitoring system (RISK_LIMIT) for a further two subsidiaries (OBSr, CJSC). In addition to Interest and Currency Risk Limit supervision, Equity Risk modules were also developed for DSK.

The Business Operations of OTP Group Members in Hungary

BASIC RETAIL SERVICES

In 2007, OTP Bank was once again inundated with awards from both the international and the Hungarian professional community, while the recognition and value of the OTP Brand has remained consistently high for many years now. However, the Bank has always made it a priority to continuously raise the standards of its customer service, enhancing and expanding the range of products, services and channels that it offers. The new logo, which symbolises the outstanding advancements of recent years and serves to further strengthen brand loyalty, was successfully launched and has won the affection of customers.

Account management, sales channels, banking transactions

On 31 December 2007, OTP Bank had close to 4.6 million retail banking customers, almost 2.9 million of whom held a forint current account. In order to provide a modern, quick and convenient banking service, OTP Bank is accessible to its customers through several, mutually reinforcing channels.

The Bank has succeeded in maintaining its dominant market position with respect to electronic channels. With regard to customers who use telephone-based customer services, the Bank commands approximately one-third of the market; in the case of those who bank over the internet, its market share was an average of around 38% for the year, while it serves more than half of all customers that use mobile phone-based services.

The number of customers with contracts for the use of the Bank's electronic channels continued to increase in 2007 – as it had in previous years. The number of OTPdirekt customers rose by 17% from the year-end 2006 figure, to exceed 1.5 million in December 2007.

The number of customers using the telephone helpdesk service increased only moderately in 2007; as of 31 December 2007 slightly more than 939,000 customers had a contract for the telephone helpdesk service. The number of customers using the mobile telephone services on a contract basis continued to increase dynamically, by nearly 24%, and more than 1.1 million customers had contracts at the end of 2007. Similarly to the retail segment, there was also dynamic development in the MSE segment. The same was true for customers with contracts for internet services, where the total increase was approximately 22%, with nearly 673,000 contracts active in December 2007. The total number of SMS text messages had grown by 23% by the end of 2007, to 157 million, while the number of internet transactions increased by one-fifth in 2007, exceeding a total for the year of 23 million by December.

OTPdirekt continues to provide the largest selection of services on the Hungarian e-banking market. As a result of its development projects, OTP Bank has introduced unique convenience e-services in Hungary, increasing the importance of customisation and online sales on e-channels and on its website. The industry recognised these sustained developments by awarding the Bank the title of 'Direct Bank of the Year' in 2007.

Elements in the extension of OTPdirekt services: Motorway toll stickers can now be purchased through all electronic channels, while the range of securities-related functions available through the internet bank has been extended, with customers now being able to buy and sell shares listed on the Budapest Stock Exchange over the internet, and new bankcard, replacement card and credit-facility applications have also been developed for the internet bank. OTP Bank is making efforts to ensure that customers who require it have access to a micro-payments facility. As the first step in this process, customers can now use their mobile phones to pay their parking fees, newspaper subscriptions or motorway tolls directly from their current accounts.

At the same time the Bank is trying to meet the individual needs of its customers by enhancing its website. Using the SajátOTP (My OwnOTP) function, customers can prepare their own webpage from the selection on the website, and the online ordering of OTP Sajátkártya personalised bankcards is supported through a specially developed image-editor interface. In addition, in 2007 the information Call Centre project, which has served to centralise the management of branch telephone calls, continued, supporting more effective operations by easing the workload of the branches and increasing the quality of telephone services. The issue of providing technical support to the foreign subsidiary banks is increasing in importance, especially as an objective of the OTP Group is to make OTPdirekt an internationally recognised brand, which will guarantee uniform functionality and quality in all countries where OTP is present in the market. The rapid expansion of the agent network continued in 2007, with the result that by the end of the year the number of enterprises contracted as agents by the Bank had risen to 1,743. As in previous years, the main focus in terms of volume was home purchase and mortgage loans, with the share of partner sales within the overall contracted portfolio remaining at over 48%. The share of agent sales within condominium financing and home leasing was also exceptionally high, with some two thirds of the portfolios generated through this channel.

OTP Bank aims to continuously expand the range of products available through its network of agents. Accordingly, in 2007 the Start account (Baby Bond) was added to the range of retail products available through accredited partners. While the MSE segment continued to receive a range of special services, a new target group emerged in the form of mid-sized and large enterprises, for whom we provide a range of commercial bank loans and services through our specialist partners.

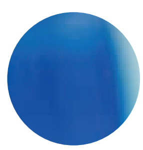
As a part of the branch refurbishment process commenced in 2005 under the Infrastructure and Network Optimisation Project, a total of 70 branches were renovated and modernised in 2007. In addition, 2007 also witnessed the opening of two new branches in Budapest, one in a new shopping centre near Ferihegy International Airport, and another in the Arena Plaza mall. A number of cashless branches, a new class of outlet, were also established in Budapest. To boost the efficiency of the existing branch network, a business-line expansion project was launched with the aim of making an ever-broader range of products available in as many branches as possible.

Over the past years – owing to the success of OTP Bank's key projects – waiting times at OTP branches have been reduced considerably, while the sales focus and quality of branch services has also improved. In 2007, the quality of customer service was further improved by the introduction of additional convenience services: in certain branches children's corners were created, and plasma TVs were installed. The former are intended to make life easier for customers with small children, while the plasma screens entertain customers as they wait to be served, by displaying exchange rates and OTP advertisements, as well as news, information about special offers, and other items of interest, in the form of scrolling text at the bottom of the screen.

Bankcard services

As at 31 December 2007, the number of cards issued by the OTP Bank was nearly 3,991,200, a slight – 1.4% – fall in comparison to the previous year's figure.
At year-end 2007, the number of debit and credit cards issued in the retail division had exceeded 3,845,000.

Of this, the number of retail debit cards in circulation as at 31 December 2007 was 3,570,000. The number of the highly popular Multipoint debit cards was 441,000 at the end of 2007. The number of retail FX cards issued by the Bank increased dynamically – by nearly 82% – and was nudging 17,500 by December 2007.



OTP Bank's credit cards continue to be extremely popular: on 31 December 2007, their number exceeded 275,000, representing a 13.5% increase over the previous year. Nearly two-thirds of the retail credit cards are the very popular Amex Blue cards. However, in 2007, the credit card portfolio of OTP Bank increased further when the Amex product line was extended to include the Amex Gold credit card, designed for affluent customers, and the 'TV2+én' (TV2+Me) credit card was also launched.

At the end of December 2007, the number of business cards in circulation was 147,000. The number of Széchenyi Cards in December exceeded 7,600. The reason for the decline was that in 2006 OTP Bank had launched a business credit card on the market to extend its micro and small-enterprise product selection, of which nearly 1,800 had been issued by the end of December 2007.

As of December 2007, OTP Bank was operating a network of 1,990 ATM machines for the convenience of its customers. In 2007, the Bank executed 79.5 million transactions through its own ATM network, in a value of HUF 2,486 billion. The Bank's customers performed nearly 70.2 million ATM transactions using cards issued by OTP Bank in 2007, in a total value of HUF 2,131 billion. On the acceptance side, the Bank's revenues increased by 8.5% compared to the previous year, to HUF 15.1 billion, while the average value of transactions rose from HUF 30,700 to HUF 31,300.

By 31 December 2007, the number of POS terminals of OTP Bank had increased by 24%, reaching a total of 33,700. Of these, the Bank operated 3,700 POS terminals in its own branches, 25,100 in commercial outlets and 4,900 in post offices. The number of transactions performed on the Bank's own commercial POS terminals increased by 25% to 104 million in 2007, while the value of the performed transactions also increased, by approximately 20%, to HUF 850 billion. The number of POS transactions performed with cards issued by OTP Bank was close to

74 million, while turnover exceeded HUF 545 billion in 2007.

Savings and investments

OTP Bank continues to be the largest player in Hungary's retail banking market. At the end of 2007 the OTP Bank Group had a market share – in terms of the combined balance sheet total of financial institutions – of 31.3% in household forint deposits (OTP Bank: 28.9%). Within the group, besides OTP Bank, both Merkantil Bank and OTP Building Society offer deposit products to households. The product offering in this segment is complemented by the savings and investment products of OTP Fund Management, the OTP Funds and various other savings products offered by OTP Bank itself.

Bank savings

By year-end 2007, the volume of retail deposits placed with the Bank had grown by almost 1.7% year-on-year, to reach HUF 1,844.2 billion. Within retail deposits, the Bank managed to hold nearly the same volume of retail forint deposits as in the previous year, amounting to HUF 1,492.6 billion in December 2007. This gave OTP Bank a share of 27.9% in household forint deposits (OTP Group: 30.7%). Within retail deposits, the share of current account deposits was 81%, which represents a 1.8 percentage-point increase since December 2006. This portfolio amounted to HUF 1,209.7 billion in December 2007. The Bank's share of demand deposits in the banking sector remained outstandingly high, at 41.0% in December 2007. The total share of passbook deposits continued to decrease – by a further 1.3 percentage points – within forint deposits, with the total value of HUF 254.8 billion representing slightly more than 17% of the total portfolio in December 2007.

Foreign-currency deposits rose by HUF 32.3 billion, or by 10.1%, in 2007 compared to December 2006; thus the portfolio reached HUF 351.6 billion by the end of 2007. As a result, the share of FX deposits within the total portfolio of retail deposits was 19.1% in December 2007, representing a 1.4% increase over the previous year's figure. The share of OTP Bank in household FX deposits was 34.8% as of 31 December 2007. OTP Building Society has the most extensive product range in its segment of the market. Elements of this offering that are particularly in demand are the building-society products provided in combination with OTP Bank's housing loans, which offer customers competitive repayment instalments. As the net result of the new contract signings, contractual deposit-taking and disbursements, the Building Society's deposit portfolio increased by 30.8% to HUF 131.1 billion, some 93% of which consisted of deposits by household customers. Over the course of the year OTP Building Society concluded almost 96,000 contracts in a combined value of HUF 152.2 billion, and held an estimated market share, based on deposit portfolio, of around 50%.

Investment funds, securities

A modest reversal of the recent changes in portfolio structure could be observed in the Hungarian securities market in 2007: the aggregate portfolio of investment funds increased at the expense of government securities and mortgage bonds, which had come to the fore prior to the introduction of the interest and capital-gains tax in September 2006 – by 26.4%, to HUF 3,234 billion. Primarily with the Hozamduó (Yield Duo) Savings Program launched in June 2007, the OTP Group led the change, as a result of which our market share of household savings held in investment funds increased by 3 percentage points, which was also due in part to the balanced growth of the OTP Real Estate Fund. In recognition of the Bank's highly professional work in the area of product development, the Budapest Stock Exchange awarded the OTP BUX ETF fund an Innovation Prize. In line with the market trend, the turnover of OTP mortgage bonds was negligible, but with the favourable maturity structure, the portfolio decreased only very slightly in 2007. Support for the self-help of retail customers continues to be an important objective of the Bank Group, as is clearly shown by the fact that the number of Pension Saving Scheme (NYESZ) accounts was more than twice the target number, increasing to 19,300 in 2007, with the result that the OTP Group managed to once again retain its market-leading position.

The securities portfolio in the custody of OTP Bank at the end of 2007 was HUF 2,093 billion, 5.9% higher than at year-end 2006. Taking into account the clearly negative stock-exchange and capital-market trends in the second half of 2007 (with the BUX index falling 9.3% in nominal terms), this was a considerable achievement. The structure of the portfolio (taking into account long-term interests) was favourable, because the focus shifted from the single-fee products (interest-bearing treasury bills, OTP Mortgage Bank bonds) to investment funds generating regular income and higher profitability over the longer term. The portfolio of investment funds increased substantially in 2007; by 42.6%, to HUF 731 billion. At the same time, as a result of a short-term negative impact involving some restructuring, total commission revenues were HUF 9.5 billion, which was HUF 0.7 billion lower than in 2006, but still in excess of the target figure.

Preparations related to the Hungarian legal harmonization process stemming from the European capital market standards (MiFID regulations) took up significant professional and IT resources in the investment services area in 2007. The Bank Group participated on a continuous basis in the implementation, based on the specifics of the Hungarian capital market, of the new regulations, which affect the entire investment sector and will result in fundamental changes in the industry.

At the end of November 2007, OTP Bank launched its new Premium asset-planning service in 63 branches across the country. The investment advice, which is tailored to the individual circumstances of the customer, and already complies with the MiFID regulations, is a free service offered to the Premium retail customer segment, which is one level below the Private Banking segment. As one of the major tasks of 2008, the Premium asset-planning service will gradually be extended to all branches of the Bank that conduct securities administration, thus also helping to increase sales of investment products and the intensity of product use.

Pension and health fund services

Within the Bank Group, management of the fund's assets is performed by OTP Fund Management, while the fund-related administrative tasks and recruitment of members are carried out by OTP Fund Services.

The OTP Funds are major participants in the pension and healthcare fund markets, in terms of both their asset volumes and the size of their membership. At the end of 2007 the combined assets of the OTP Funds had grown by 23.1% to HUF 628.0 billion.

The assets managed by OTP Private Pension Fund grew at the extremely dynamic rate of 24.5%, reaching HUF 516.0 billion, while its membership increased from 771,000 to 805,000. In 2007 the assets of the OTP Voluntary Private Pension Fund grew by16.2%, from HUF 91.4 billion to HUF 106.2 billion, with the number of its members reaching 280,000, which represents a 7.7% increase relative to the previous year. The assets of the OTP Health Fund totalled HUF 5.8 billion, and its membership exceeded 113,000. In 2007 market share growth was achieved in all segments.

Life and non-life insurance services

The OTP Group offers its customers an extensive range of life and bank assurance plans, as well as non-life insurance policies, through the branch networks of OTP Bank and OTP Garancia Insurance Ltd., as well as its network of agents. OTP Garancia is the largest Hungarian provider of bank assurance services, and the third-largest player in the life insurance market, in terms of its premium revenues.

OTP Garancia Insurance Ltd., achieved insurance premium revenue of HUF 90.0 billion in 2007. Its market share of total insurance premium revenue was 9.7%. More than 43% of its insurance premium revenues resulted from sales made at OTP Bank branches.

Premium revenues from the life and bank assurance businesses were HUF 52.6 billion, which gave the company a 10.4% share of the life insurance market. Within the life insurance premiums the revenues from one-off premium payment life insurance policies increased by 22% to HUF 35.4 billion, while those from continuous premium payment insurance policies grew moderately. By the end of the year, the volume of household savings accumulated in life insurance premium reserves exceeded HUF 162 billion. The premium revenues of the non-life division increased by 7.7%, to HUF 37.4 billion.

Retail lending

The retail lending portfolio of the Bank Group in Hungary totalled HUF 1,684 billion at the end of December 2007, which represents a 13.8% increase relative to the end of 2006, and thus its share of loans to households amounted to 31.1% at year-end.

Housing loans and home leasing

The trends in home construction turned out to be more favourable than expected in 2007, as the decline in the number of issued construction permits reversed, and the number of homes taken into occupancy began to rise again as a result of various commercial construction projects, while sales of used homes did not decline either.

The demand for housing loans and mortgage loans did not fall in 2007 despite the economic austerity measures, and the dominance of foreign currency-based loans, with their more favourable interest rates, continued to grow on both the demand and the supply side. At the same time, the demand for subsidised forint loans available for new home construction and home purchase continued to decrease.
Of the total estimated disbursements, the share of foreign currency-based loans reached 92%.

In 2007, OTP Bank launched a complex project for restructuring mortgage lending, as a result of which numerous products and processes were developed and further steps were taken towards ensuring more customer-friendly branch sales and more effective agent sales. The multi-currency OTP Világhitel (World Loan), launched in the autumn, was the major product innovation of the year, as it provides a unique opportunity to customers to achieve the most favourable monthly repayment at the given time, currently with a Japanese yen-based loan, and through the fact that the currency of the loan can be converted each month during the term.
The OTP Világhitel is not only popular among customers; it has also earned recognition in the industry and won the 'Retail Loan Product of the Year' award at the MasterCard competition of 2007. Besides this, in response to customer requirements, the Bank continued to develop its range of low-instalment products, introducing

special schemes for the bridging of temporary financing problems arising from home exchanges, as well as launching products combined with capital-guaranteed investment and life insurance plans. In the interests of boosting sales effectiveness, a number of developments have been implemented with regard to the level of training and sales support received by customer service representatives, as well as to the procedures for liaising and communicating with customers.

The housing loan portfolio of the Hungarian Bank Group grew by 5.8% to HUF 1,200 billion by the end of the year, due to the increase in the foreign currency-based loan portfolio, which now accounts for more than 25% of the total portfolio. As a result of the restrictions on subsidised housing loans and the relative expansion of foreign currency-based loans, the number of competitors offering property loans grew significantly, and the tendency on the part of customers to make early repayments and retire their loans grew further, which also affected the Bank Group's market share. Group-level market share in terms of portfolio volume fell to 36.7% by the end of 2007.

Since 2006, the OTP Group has offered its customers not only mortgage loans, but also a range of home leasing products. OTP Flat Lease has become a leading player in both of the key market segments. By leveraging the benefits inherent in leasing with respect to the market for new homes built for sale, it offers favourable home-leasing products to its customers, while in the market for used residential properties, the company has secured a competitive edge with its multi-purpose 'lease-back' product. In keeping with the current direction of bank product development, in autumn 2007 the company also launched its Világlízing (World Leasing) product, which can be requested in any of four currencies which can then be converted during the term of the financing agreement. Through an outstandingly successful sales effort, OTP Flat Lease secured 59%[2] of new contracts in 2007 in the retail home (financial) leasing market, where 11 participants compete for business, thus tripling the volume of its placements. From the beginning of this year the home leasing products are also being sold in 300 branches of the Bank in addition to agent sales, and relations with property developers have also been extended.In the course of 2007 OTP Life Annuity accepted residential properties in 604 towns and villages as security for the real estate-backed annuity products it offers. The company's business operations in 2007 primarily focused on the continued development and reformulation of the sales concept, and on boosting the efficiency of the sales process. The first half of the year was devoted to establishing a full network of regional representatives, and introducing a simplified value-assessment process.

Consumer loans

OTP Bank and OTP Mortgage Bank had a consumer loan portfolio of HUF 484.3 billion at the end of 2007, which was 40.2% higher than at the end of 2006. The consumer loan portfolio of OTP Bank increased by nearly 12%, to HUF 345.2 billion, while the OTP Mortgage Bank almost trebled its portfolio of 2006, primarily because it began to disburse foreign-currency loans.

The market share of the Bank Group in household consumer and other loans was 24.8%, similar to the market share in 2006.

[2] Based on 2007 year-end data published by the Leasing Association in respect of the given segment.

PRIVATE BANKING SERVICES

In the course of 2007 OTP Private Banking dynamically increased the number of its customers and expanded the range of its services. The product offering for high-net-worth customers was enhanced through an expansion of the range of international investment products (BlackRock Merril Lynch IM foreign investment funds), and the introduction of premium tax, legal, offshore banking and artwork-related advisory services provided through external partners.

The joint private banking/corporate value proposition (the SME Gold account product) and the related service model were further enhanced, offering a unique opportunity on the market for a high-standard, one-stop solution for private and corporate banking transactions. The differentiated private banking service model, launched during the year, was also aimed at increasing the efficiency of the service.

In 2007, the number of private banking contracts grew from 12,405 to 13,748, which represents a 10.8% growth and, together with co-account holders, represents close to 21,000 customers. The value of liquid assets under management grew from HUF 391 billion to HUF 451 billion by the end of the year, which represents an increase of 15.3%. Average assets per customer rose from HUF 31.5 million to HUF 32.8 million.

The number of customers with Preferred Private Banking contracts reached 388 in 2007, and assets under management exceeded HUF 85 billion.

COMMERCIAL BANKING SERVICES

Corporate banking

The Bank's corporate division was again among the market leaders in 2007. The volume of its deposits from corporate clients accounted for 11.5% of the national total as of 31 December 2007, and its corporate loan portfolio for 9.5%.

At HUF 906.2 billion, the corporate deposit portfolio exceeded the December 2006 level by 27.8%, while the corporate loan portfolio grew by 13.4%, to reach HUF 1,138.9 billion. The mid-sized and large-corporate and municipality division continued to focus in 2007 on the development and implementation of a complex sales management-based sales model. In this context, the Bank established Commercial Banking Centres for managing customer relations and performing sales tasks in the regions, and developed an organisational and operational model for central product management, market and business development, and campaign and sales management, to support the Commercial Banking Centres.

The Bank introduced a career planning model for its mid-sized and large-corporate, municipality and public-service customer relationship managers, and a performance, training and incentives system based on it.

The product range was further extended and modernised: among other things, the Electra terminal was introduced, and the various loan products enhanced and relaunched.

2007 also saw the development and enhancement of services and products for the Bank's micro and small-enterprise customers. The account-keeping packages were extended to include six new products developed for start-up companies and pharmacies. Renewing the mortgage loans offered to MSE customers, the Bank began to sell Sprint loans under more

favourable conditions. The bank guarantees and Lendület and Lendület Plusz overdraft facilities, suitable for replacing the Széchenyi Card, were introduced for this customer segment in 2007. The division developed a Standard MSE Investment Loan in 2007, which will be available for customers from mid-2008. The lending process was also renewed, simplified and accelerated, and the loan facility became available at even more places in 2007.
The new services and products launched through a concerted marketing campaign were also reflected in the increase in the number of loans and bank accounts and in their respective volumes and balances.

Budget-subsidised energy efficiency loans were introduced for condominiums. In 2007, the Bank developed new value propositions for condominiums, involving the review of loan products, more favourable terms and conditions, and a revamped sales process. In this context, not only has the number of the Bank's sales staff been increased, but the role of sales agents is receiving an ever greater emphasis.

At the end of 2007, the number of mid and large-corporate customers of OTP Bank was 16,000, while the number of micro and small-enterprise customers exceeded 186,000.

Leasing

The OTP Bank Group provides its corporate leasing services through the Merkantil Group. The combined vehicle and manufacturing-tools leasing portfolio of Merkantil Car amounted to HUF 20.2 billion at the end of 2007, which was 17.6% higher than at the end of the previous year.

The OTP Group maintains its presence in the real estate leasing market through Merkantil Real Estate Leasing Ltd., which had total assets of HUF 9.4 billion and a portfolio of receivables from real estate leasing that had reached HUF 8.1 billion by the end of 2007. Almost half of the real estate leasing portfolio is recorded in the books of project companies, and if this is included, we can count on an additional HUF 7.9 billion in receivables. The combined portfolio of receivables from leasing at Merkantil Real Estate Leasing and the project companies totalled HUF 16.0 billion, or 25.9% higher than in the previous year.

Project financing

On December 31, 2007 the combined value of project financing loans stood at HUF 317.3 billion. The combined amount of net interest and commission income reached HUF 4.5 billion, which represents an increase of 20.3% compared to the previous year.

The Bank concluded several significant transactions in 2007, with the project loans to Rossi Biofuel Ltd. and the construction of the hydroelectric power station in Nick, as well as the refinancing of the loan of SCD Holding being among the most notable.

The Bank took an active role in the financing of various projects implemented in the countries of the subsidiaries, primarily in Bulgaria (e.g. the Sigma Group – refinancing of the real property portfolio, Black Sea Obzor – holiday homes), in Russia (e.g. City Park – shopping and entertainment centre, Principal Plus – office centre, Kadashevskaja – multifunctional building), in Slovakia (e.g. complexes consisting of retail outlets, offices, outlets and a hotel – Ballymore, River Park), in Romania (real estate projects in Brasov and Bucharest), and in Montenegro (e.g. Hotel Queen) as well as in Serbia (e.g. Pevec – shopping centre).

Municipality banking

The Bank again succeeded in retaining its leading role in municipality banking in 2007. By the end of 2007 some 70% of the overall potential clientele, a total of 2,221 municipalities and the institutions that they finance, held their current account with OTP Bank. Against the backdrop of extremely fierce competition, the Bank's market share fell by 3 percentage points relative to the end of the previous year.

At the end of 2007, the total volume of municipality deposits was HUF 204.5 billion, which was 32% more than at the end of 2006. In terms of deposit volumes, due to the intensive market acquisition efforts of the competitors, the Bank's market share decreased from 64.2% to 53.1%.

At the same time, the Bank's portfolio of municipality loans grew in the course of 2007, by 11%, to reach HUF 214.4 billion, giving the Bank a market share of 54.9% (compared to 54.8% at the end of 2006). The other, dynamically developing type of municipality financing in 2007 was the issue of municipal bonds, in which transactions OTP Bank took part both as arranger and as underwriter.
The municipality bond portfolio of OTP Bank amounted to HUF 55.8 billion at the end of 2007, representing a 29.2% market share at the end of the year.

Loan and capital market transactions

In 2007, the enlargement of the OTP Group to include new (Ukrainian, Russian, Serbian, and Montenegrin) members following the additions of the previous year presented the Bank with challenges greater than ever before.

Within the framework of its EMTN program launched to raise funds from foreign capital markets, OTP Bank issued a 2-year bond with variable interest rate for EUR 750 million, with 19 bp premium over the 3-month EURIBOR interest rate with a value date of 26 February 2007. Also within the framework of this program and with a value date of 26 February 2007, the Bank issued a fixed-interest subordinated loan capital bond, with a face value of EUR 300 million and with a 100 bp premium over the midswap rate of similar term, maturing in September of 2016.

In 2007, the financing demand on the part of the foreign and Hungarian financial-institution group members grew markedly, and therefore the placement of funds with group members became a lot more intensive. During the year, the Bank entered into 20 new senior and subordinated loan agreements with its foreign subsidiary banks and with Merkantil Bank in a value of more than EUR 850 million.

In order to regularly monitor the short-term and long-term financing needs of the group members, to provide funds within an optimal framework, to co-ordinate the related international payments and to manage them accurately and smoothly, the Bank set up financing companies in Cyprus and Holland in November 2007, as a result of the activities of which the group members can be financed and the use of funds at group level can be optimised.

There was a significant increase in municipal bond issues in 2007. OTP Bank participated in the issue of 51 bonds as arranger, distributor and underwriter. Fifty of these issues were municipality bonds, and one bond was issued by a company owned by a municipality, with the total face value of these issues being approximately HUF 59.3 billion.

The nostro account harmonisation program of the OTP Group was gradually and successfully concluded in 2007, covering nearly all foreign subsidiaries. The consolidation of Treasury account managers has made intra-group payments cheaper and smoother. Within the framework of this program, 33 new nostro accounts were opened and 25 were closed in the group. After the restructuring, the nostro accounts (SSI) used for the settlement of Treasury transactions were fully harmonised, while with regard to trade payments and the settlement of other transactions, in certain justified cases the subsidiaries were allowed to maintain several nostro accounts in the same currency.

International syndication and trade finance

OTP Bank also closed a successful year in respect of its international syndication and special products. The value of new transactions concluded approached HUF 90 billion, with an average portfolio of HUF 141 billion. Under the market circumstances that arose in the second half of 2007, in order to leverage the considerable differences in yields between loan and bond transactions, the Bank made a sizeable – over HUF 16 billion – bond investment, primarily in first-class Russian bank bonds.

The credit market crisis had no direct negative impact on the division's assets; risk costs remained well below the planned level. At the same time, by exploiting the market re-pricing it became possible to replace a portion of the assets in the portfolio with higher-yield instruments while maintaining risk at a stable level, thereby achieving an overall improvement in profitability.

2007 saw the comprehensive launch of international trade financing within OTP Bank. The Bank successfully raised the awareness of its trade financing and forfaiting activities among a high proportion of its customers, forged new relationships and acquired new business partners. An important part of this campaign was the Bank's presence at the various international forums, as well as its induction – as the first and to date the only Hungarian member – into the International Forfaiting Association (IFA). It was largely due to these new business relationships that the portfolio grew in size from HUF 7 billion to HUF 42 billion, while maintaining a high level of profitability.

The Business Operations of Foreign Subsidiaries[4]

The DSK Group

DSK Bank remained one of the market-leading banks in Bulgaria in terms of its balance sheet total. On 31 December 2007 the balance sheet total of the DSK Group according to IFRS was HUF 1,015 billion, of which 64% was accounted for by the HUF 650.3 billion customer deposit portfolio. This portfolio grew by 24.2% on a year-on-year basis. 80% of the deposit portfolio consisted of retail deposits. The gross customer loan portfolio (including SPVs) increased by 43.4% on a year-on-year basis and exceeded HUF 763 billion, representing approximately 75% of the balance sheet total. The share of retail loans in the portfolio was 71%.

The consolidated pre-tax profit of the DSK Group (corrected for SPVs) was HUF 29.2 billion, while its after-tax profit was HUF 26.5 billion, with a 21.2% increase on a year on year basis. The HUF 65.4 billion in interest income realised in 2007 and the nearly HUF 22.0 billion interest expense together resulted in net interest income of nearly HUF 43.4 billion. The commission and fee revenues of the Group grew dynamically, by approximately one-fifth, and as a result, non-interest revenues came in at close to HUF 20.6 billion.

In 2007 DSK's net interest margin to average balance sheet total was 4.64%.

The Group's non-interest expenses amounted to HUF 24.5 billion during the period, up 4.8% over 2006. Within this category, personnel expenses decreased by 9%. The Group's cost-to-income ratio was 39% in 2007. The DSK Group achieved ROAA of 2.83% and ROAE of 24.7% in 2007.

At the end of December 2007, the Bank's market share based on total assets was 13.8%. Its share of retail deposits was 20.7%. The Bank's share of the home loans market was 29.2%, and its share of retail customer loans was 36.5%.

At the end of 2007, the Bank had a total of 789 ATMs, 2,397 POS terminals and 375 branch offices. As at 31 December 2006 the number of employees at DKS Group was 4,023, or 80 persons less than on 31 December 2006.

OTP Banka Slovensko, a. s.

The balance sheet total of OTP Banka Slovensko, a.s. (OBS) was HUF 368.2 billion as at year-end 2007, which represents a 13.2% rise compared to year-end 2006, and which secured it a 2.8% share of the banking market in Slovakia. The Bank's equity rose by 16.3%, to HUF 23.6 billion, in the same period. OBS's after-tax profit for 2007 according to IFRS was HUF 2,601 million, HUF 571 million higher than in the previous year. OBS's ROAA at the end of 2007 was 0.75%, its ROAE was 11.8%, and its cost-to-income ratio was 71.2%.

By the end of 2007 the loan portfolio of OBS increased by 22.3% and reached HUF 232.3

[4] Figures presented in the statements are not consistent with the audited data because they were originated according to controlling methodology. In the course of the presented period, other non interest income elements stemming from provisioning release in connection with loans originated before acquisitions have been deducted from the volume of provisions in the income statement. This type of income was also deducted from the total income, thus cost/income ratio was also adjusted. Fee and commission revenue was stated net, among non-interest revenues.

billion, representing a 4.0% market share. The deposit portfolio increased by 19.3% to HUF 227.1 billion in 2007, giving the Bank a 2.9% market share on 31 December 2007.

In the course of 2007 the number of the Bank's customers increased by 9,000 to 169,000, with retail customers accounting for more than 150,000 and corporate customers for more than 18,000 of this total.

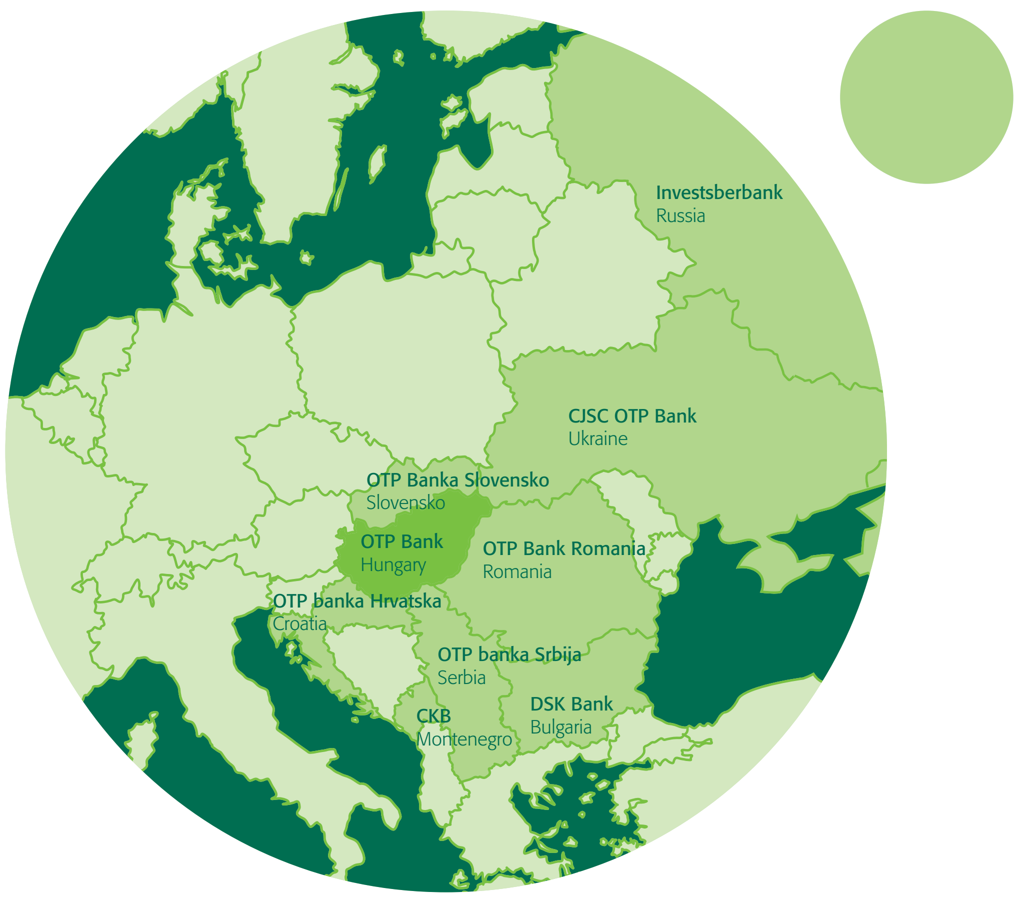
The number of bankcards issued by OBS had reached 107,000 by the end of 2007, which represents a 4.5% increase compared to the end of 2006. The number of retail cards grew by more than 4,000 to 94,000 and the number of corporate cards grew to more than 12,000. The Bank's ATMs numbered 115 at the end of the year, with the number of transactions effected through these ATMs totalling nearly 1.9 million in 2007. The number of proprietary POS terminals at the end of 2007 was 483, and the volume of POS transactions increased by 3.7% over the course of the year.

A credit card was introduced at the end of 2007, of which more than 1,100 had been issued by the end of the year.

The Slovak bank opened 4 new branches during the year, and thus it was serving customers through a total of 90 branches by the end of 2007. The headcount figure of the Bank was 783 employees on 31 December 2007.

OTP Bank Romania S.A.

OTP Bank Romania (OBR) outstripped the average rate of growth on the Romanian market in 2007. On 31 December 2007 its balance sheet total was over HUF 250 billion, which was 29.3% higher than at the end of 2006.



The Bank's market share at the end of 2007 based on balance sheet total was 1.85%. Its equity was HUF 25.1 billion on 31 December 2007. The Bank's gross loans grew by 60.8% in 2007, while customer deposits rose even more, by 72.5%, with the two portfolios thus amounting to HUF 162.9 and HUF 70.7 billion at year-end. In 2007 the Bank assigned loans totalling almost HUF 50 billion to OTP Bank, more than 80% of which were home purchase and mortgage loans. Including the loans assigned to OTP Bank, the Bank increased its market share in retail loans from 1.57% at the end of 2006 to 1.99%, while in respect of corporate loans its market share reached 1.85%. On the housing and mortgage loans market the Bank had a 3.86% share, while in terms of retail deposits its share was 0.72% at the end of 2007. OTP Bank Romania closed the 2007 business year with a loss of nearly HUF 3.0 billion. The number of the Bank's customers grew from 77,000 to 140,000 over the course of 2007 and the number of issued bankcards more than doubled over the previous year, reaching 77,000. The number of retail current accounts managed by the Bank exceeded 125,000 at year-end, while the number of corporate accounts had surpassed 15,000. The Bank continued to expand its sales network, opening 38 new branches in 2007 and operating 104 branches at year-end. The number of the Bank's ATMs also increased significantly in 2007, reaching 100 by the end of the year. The number of employees was 998 persons at the end of 2007, which was 203 more than a year earlier.

OTP banka Hrvatska d.d.

As at 31 December 2007 OBH's consolidated balance sheet total was HUF 422.2 billion, giving the Bank a share of 3.4% in the Croatian market. Gross loans rose by 27.3%, to HUF 251.2 billion, and thus the Bank's market share was 3.3% at the end of the year. Deposits from customers at year-end were HUF 307.5 billion, representing a market share of 4.2%.

At the end of 2007 OTP banka Hrvatska had more than 434,000 customers, for whom it managed over 410,000 retail current accounts and almost 24,000 business accounts. The number of bankcards issued in 2007 dropped by 13.3%, to 323,000, while the number of credit cards rose by approximately 26.3% to reach 37,000.

The Bank expanded its sales network in 2007, while the ongoing program of branch development also continued. Over the course of the year four new branches were inaugurated, and thus by the end of the year OBH operated a total of 100 branches, 119 ATMs and 1,066 POS terminals.

OBH's headcount was 1,016 at the end of 2007. The Croatian subsidiary's after-tax profit in 2007 was HUF 3.6 billion, its ROAA was 0.9% and its ROAE was 9.9%.

Investsberbank

The acquisition of the Russian Investsberbank (ISB) was completed on 30 October 2006 and the Bank was fully consolidated in 2007. As at 31 December 2007 ISB's balance sheet total was HUF 432 billion, of which the gross loan portfolio accounted for 70.5%. Within the HUF 304.4 billion gross loan portfolio corporate loans dropped to 32.5%, while retail loans – predominantly consumer loans (95.7%) – represented 66.9%. Customer deposits accounted for 67.4% of total liabilities, and within this total retail deposits, amounting to HUF 167.4 billion, represented 57.5% and corporate deposits, amounting to HUF 123.8 billion, accounted for 42.5%. At the end of the year the equity of Investsberbank was more than HUF 41.5 billion. In 2007 the Russian subsidiary generated HUF 10.7 billion in pre-tax profit and slightly over HUF 7.6 billion in after-tax profit, with a 66.4% cost-to-income ratio.

The market share of the Bank is not significant in the Russian market, and is above 1% only in terms of consumer loans.

As of the end of 2007 the Bank operated 112 branches and 148 ATMs, and had a staff of 8,368 employees.

CJSC OTP Bank

The annual performance of CJSC OTP Bank was included for the first time in the consolidated financial statements in 2007.
On 31 December 2007 the balance sheet total of the Bank was HUF 624.6 billion, of which 85.0% consisted of receivables from customers and 7.7% were receivables from credit institutions. Compared to the outstanding, 45.1%, growth in customer loans for the year, customer deposits increased by 15.8%, as a result of which they represented 27.9% of the balance sheet total by the end of 2007. The Ukrainian subsidiary generated HUF 19.3 billion in pre-tax profit and HUF 14.0 billion after-tax profit in 2007. The adjusted cost-to-income ratio dropped from 52.4% in 2006 to 45.6%.

On 31 December 2007 the Bank's market share based on total assets was 3.1%, and its share of retail deposits was 1.5%, within which it had a 2.5% share in foreign-currency deposits. The Bank's market share in respect of retail loans was 4.1%.

The Bank increased the number of its branches from 65 to 158 in 2007, and operated a total of 99 ATMs as of 31 December 2007. The number of its employees was 3,500 at the end of 2007.

OTP banka Srbija a.d.

The parent bank merged the three Serbian banks, Niska banka, Zepter banka and Kulska banka, acquired in the previous year, under the name OTP banka Srbija a.d. Novi Sad in 2007.

At the end of 2007, OTP banka Srbija's balance sheet total of HUF 112.2 billion represented a 2.1% market share on the Serbian market. The loan portfolio was HUF 63.3 billion, representing a 2.3% market share. Within loans, the share of corporate loans was 66%. The Bank's HUF 38.1 billion deposit portfolio meant a market share of 1.6% in deposits at the end of 2007.

The Bank made an after-tax profit of HUF 630 million in 2007, with a 90.2% cost-to-income ratio.

In 2007 the Bank introduced numerous new products. Long-term savings products and consumer loans were developed for retail customers, and the Bank also participated in the disbursement of the new housing loans subsidised by the state. Three new loan products were introduced for MSE customers (overdraft, multipurpose Lombard loans) with standardised and rapid credit approval processes. In 2007 the VISA Nova credit card was introduced. The number of products and services offered to large corporate customers expanded to include a number of new elements in 2007 (project finance, cash pooling, forfaiting, etc.).

The number of the Bank's customers exceeded 182,000 at the end of 2007, of which nearly 156,000 were retail customers.

At the end of December the Bank had issued a total of nearly 140,000 bankcards, of which the number of credit cards exceeded 32,000.

In 2007 the number of the Bank's ATMs increased to 171 due to the installation of 148 new machines, while the number of POS terminals stood at 2,455 at the end of the year.

As of the end of the year the Bank had a network of 100 branches, of which 25 had been renovated during the year and a further 8 were still being renovated as of year-end. In 2008 the Bank plans to renovate other branches and open new ones. The Bank employed 1,174 people at the end of 2007.

Crnogorska komercijalna banka a.d. Podgorica

OTP Bank completed the acquisition of its 100% stake in Montenegrin bank Crnogorska komercijalna banka (CKB) in December 2006. The subsidiary was consolidated from the first quarter of 2007.

On 31 December 2007 the Bank's balance sheet total was HUF 260.5 billion, with 70.5% of this consisting of receivables from customers and 21.3% of receivables from credit institutions on the assets side.

Of the gross customer loan portfolio 65.5% consisted of corporate loans, 31.3% of retail loans and 3.3% of municipal loans. Customer deposits amounted to HUF 211.1 billion, nearly half of which, 49.6%, were retail deposits and 44.7% were corporate deposits, with municipality deposits accounting for the remaining 5.7%. Customer deposits made up 81.0% of the balance sheet total and the loan-to-deposit ratio reached 87.0%. The Montenegrin subsidiary realised HUF 2.4 billion in pre-tax profit and HUF 2.3 billion in after-tax profit in 2007. The cost-to-income ratio was 59.8% in 2007, with a 1.14% return on average assets and a 27.4% return on average equity (ROAA). At the end of 2007 the Bank had 34 branches, operated 74 ATMs and was serving more than 268,000 customers. The number of employees was 423 persons as at the end of 2007.